Perseon Corp
Form 10-K
March 31, 2015

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

FORM 10-K

(Mark One)

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

For the fiscal year ended

or

[X] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

-

For the Transition Period From September 1, 2014 to December 31, 2014

Commission File Number: 001-32526

PERSEON 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 office)	(Zip Code)

Registrant's telephone number, including area code: (801) 972-5555

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
Common Stock, Par Value $0.001	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes¨ Nox

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 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 ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

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

The aggregate market value of the common stock held by non-affiliates of the registrant as of June 30, 2014 was approximately $26,701,152.

As of March 30, 2015, the registrant had 39,689,209 shares of its common stock, par value $.001, outstanding.

PERSEON MEDICAL CORPORATION
FORM 10-K
For the Four Month Transition Period Ended December 31, 2014

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PART I

ITEM 1. BUSINESS

Forward-Looking Statements

This Transition Report on Form 10-K contains 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 Item 1A, “Risk Factors,” and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” We assume no obligation to revise or update any forward-looking statements for any reason, except as required by law.

Change in Fiscal Year End

We have changed our fiscal year end for financial reporting from August 31 to December 31, effective for the four months ended December 31, 2014. As a result of this change, this Transition Report on Form 10-K is a transition report and includes financial information for the four-month transition period from September 1, 2014 to December 31, 2014. References in this Transition Report on Form 10-K to fiscal year 2014 refer to the period of September 1, 2013 through August 31, 2014 and references to fiscal year 2013 refer to the period of September 1, 2012 through August 31, 2013. Subsequent to this Transition Report on Form 10-K, our reports on Form 10-K will cover the calendar year from January 1 to December 31, with historical periods remaining unchanged.

Overview

Perseon Corporation, formerly BSD Medical Corporation, (the “Company” or “Perseon”) was originally incorporated under the laws of the State of Utah on March 17, 1978. On July 3, 1986 the Company was incorporated in the State of Delaware. In February 2015, we changed the name of the Company to Perseon Corporation. We are a life sciences company that develops, manufactures, markets and services groundbreaking medical systems to treat cancer using heat therapy. Our MicroThermX® microwave ablation system employs precision-guided microwave energy to ablate diseased soft tissue. We have developed extensive intellectual property and distribute our products in the United States, Europe and Asia.

We develop, manufacture, market and service systems to treat cancer and benign diseases using heat therapy delivered using focused microwave and radiofrequency (“RF”) energy. Our business objectives are to commercialize our products for the treatment of cancer and to further expand our products to treat other diseases and medical conditions. Our product line for cancer therapy has been created to offer hospitals and clinics a complete solution for thermal treatment of cancer using microwave/RF systems.

In spite of the advances in cancer treatment technology, the five-year survival rate for all cancers in the United States is only 68%. Our product line includes systems that have been strategically designed to offer a range of thermal treatment systems for the treatment of cancer, including both ablation and hyperthermia treatment systems. Studies have shown that both ablation and hyperthermia treatments kill cancer, but they have different clinical applications.

Our microwave ablation system is used to ablate (destroy) soft tissue with heat alone. Thermal ablation usually refers to heat treatments delivered at temperatures above 55°C for short periods of time. Thermal ablation is used to destroy local tumors using a short intense focus of heat on a specific area.

Historically, our product offerings have also included hyperthermia cancer treatment systems. Although the number of hyperthermia systems sold increased in 2014, due to negative regulatory, economic, reimbursement and other healthcare industry factors, we expect that revenue growth of this product line will be difficult in the future. We have experienced declining hyperthermia revenues from our distributor in Europe, a related party. Although we have entered into distribution agreements for our hyperthermia systems in China, South Korea and Taiwan and anticipate that these distribution agreements may result in hyperthermia sales in the future, certain regulatory approvals are required before we may realize such sales.

As a result, as previously announced, we intend to sell or discontinue our hyperthermia product line early in 2015. We have an interested buyer and a non-binding term sheet for the potential sale of assets related to our hyperthermia product line has been submitted and accepted. Final terms are being negotiated and due diligence efforts are underway. Although we expect to close the transaction on the sale of our hyperthermia assets in the spring of 2015, no assurance can be given that a sale of our hyperthermia assets will be successful.

Commercialization of our systems that are used to treat cancer is our most immediate business objective. Current and future cancer treatment sites for our systems may include cancers of the prostate, breast, head, neck, bladder, cervix, colon/rectum, ovaries, esophagus, liver, kidney, brain, bone, stomach and lung. In addition to these market opportunities, we believe that our technology has application for a number of other medical purposes in addition to cancer.

We have experienced recent growth in our operating revenues from our MicroThermX Microwave Ablation System ("MicroThermX") line of products partially as a result of an exclusive, long-term, multi-million dollar distribution agreement with Terumo Europe NV ("Terumo"), a wholly owned subsidiary of Terumo Corporation, which covers 100 countries in Europe, Western Asia, and Northern Africa, along with increased MicroThermX revenue from other international distributors. In addition, revenues from sales of disposable SynchroWave antennas and fee per use charges for MicroThermX systems have increased in the US market.

We recognize revenues from the sale of our ablation and hyperthermia cancer treatment systems and related parts and accessories (collectively, product sales), the sale of disposable devices used with certain of our systems, training, service support contracts and other miscellaneous revenues. We also recognize revenues from equipment rental, including fee-per-use rental income from our MicroThermX. Information regarding our revenues, assets, and results of our operations is contained in our financial statements and notes thereto and in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations," included in this Transition Report on Form 10-K.

Our current corporate strategy includes the possibility of entering into additional collaborative arrangements with third parties to expand and improve the commercialization of all our products. The April 2013 signing of the master distribution agreement with Terumo for our MicroThermX line of products was a result of this strategy. There can be no assurance that the exploration of strategic alternatives will result in any agreements or transactions, or that, if completed, any agreements or transactions will be successful or on attractive terms. In the first quarter of 2015, we engaged an investment banker to assist the Company in finding and evaluating potential strategic opportunities and possible transactions to buy assets to expand the Company, sell assets of the Company, or partner with other parties in an effort to maximize shareholder value.

Our common stock trades on the NASDAQ Capital Market ("NASDAQ") under the symbol "PRSN."

Our Contributions to Cancer Therapy

In the United States, the chance of developing cancer during a person's lifetime is one in two for men and one in three for women. Cancer is the second most common cause of death in the US, exceeded only by heart disease, accounting for nearly 1 of every 4 deaths. Cancer develops when abnormal cells in a part of the body begin to grow out of control and spread to other parts of the body.

Our cancer treatment systems have been developed to both kill cancer directly with heat and to increase the effectiveness of the primary cancer treatments, which are used in conjunction with the heat therapy. Therapies currently used to treat cancer include radiation therapy, chemotherapy, biological therapy, surgery, ablation and hyperthermia.

Because cancer remains a leading cause of death, the current primary cancer therapies are still inadequate, and there is a need for better treatments. We have engineered systems designed to increase the effectiveness of these cancer treatments through the use of precision-focused energy to selectively heat cancer.

Our Products and Services

We have developed technology and products for thermal ablation and hyperthermia cancer therapy through multiple techniques:

- Thermal ablation ablates (destroys) soft tissues at high temperatures through focused microwave energy.

- Superficial hyperthermia non-invasively treats cancerous tumors located within a few centimeters of the surface of the body, such as melanoma and recurrent breast cancer.

- Internal or interstitial hyperthermia treats tumors in combination with internal radiation therapy by inserting tiny microwave antennas that deliver hyperthermic microwave energy to tumors through the same catheters used to deliver radioactive materials, or "seeds," to tumors for radiation therapy. This technique can be employed in treating prostate cancer, breast cancer, head and neck cancer as well as other cancer sites.

- Deep hyperthermia non-invasively treats tumors located deep within the body.

We intend to sell or discontinue our hyperthermia product line early in 2015. We have attracted an interested buyer, a non-binding term sheet for the potential sale of assets related to our hyperthermia product line has been submitted and accepted, final terms are being negotiated and due diligence efforts are underway. We expect to close the transaction on the sale of our hyperthermia assets in the spring of 2015. No assurance can be given that a sale of our hyperthermia assets will be successful.

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 with cooling circuit, 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, proprietary, synchronous wave alignment technology that was developed by us to provide scalable and more uniform zones of ablation during a single procedure.

The MicroThermX introduced 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 serial 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. Perseon management estimates the soft tissue ablation world market potential exceeds $2.3 billion.

Our Table Top MicroThermX Microwave Ablation System ("T2") is 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.

The U.S. Food and Drug Administration ("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 (Conformité Européenne) 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 countries and have accepted purchase orders for and have shipped both MicroThermX systems and SynchroWave antennas.

Clinicians have used microwave ablation systems to treat patients with cancers of the liver, lung, bone, and kidneys.

We have placed a select number of MicroThermX systems with pivotal, high-profile, interventional oncology opinion leaders in the United States and through our exclusive Eurpoean distributor, Terumo Europe, NV. 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.

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 and increasing regulatory requirements throughout the world are also slowing hospital acquisition of capital equipment at all levels.

In April 2013, we announced an exclusive multi-million dollar master distribution agreement with Terumo Europe NV, a wholly owned subsidiary of Terumo Corporation, for our MicroThermX line of products in 100 countries in Europe, Western Asia and Northern Africa. Terumo Corporation is a global medical device leader with nearly $5 billion in annual sales and operations in over 160 countries. Terumo Europe NV has established itself as a pioneer in the field of interventional oncology. We believe this distribution agreement validates the large market opportunity for MicroThermX ablation products and is expected to drive market adoption for the MicroThermX as a leading ablation therapy system and to drive revenue growth toward profitability.

With the initial success of our relationship with Terumo Europe NV, we will continue our strategy to seek out other master distribution arrangements in other substantial geographic medical device markets.

Domestically, we restructured our sales organization and efforts in 2014 by engaging independent, specialized distributors who sell and distribute medical products to healthcare providers. These specialized distributors typically have established relationships with interventional radiologists and other end users of cancer treatment products. Each of these distributors are overseen, trained and serviced by sales managers who are Perseon employees. We believe that we have now expanded our distributor network and direct sales efforts to cover all large metropolitan areas and states, with sales coverage throughout the entire United States.

In addition to selling our MicroThermX line we also offer a MicroThermX fee-per-use equipment rental program. The fee-per-use program allows 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 profitable equipment rental fees. We continue to aggressively market and sell the rental program throughout the U.S.

We are committed to “personal service” to new users of the microwave ablation technique. We provide all of our customers with extensive hands-on training to ensure success in clinical use of the MicroThermX system. Our representatives are experienced interventional sales representatives with seasoned contacts in the field of interventional oncology. Our senior sales management team includes professionals with a long history in marketing medical devices and equipment worldwide.

Hyperthermia Systems

The Hyperthermia family of products includes the BSD-500, the BSD-2000, the BSD-2000/3D and the BSD-2000/3D/MR. These systems deliver either superficial hyperthermia therapy, which is non-invasive and delivered externally using antennas placed over the tumor, or interstitial hyperthermia therapy, which is delivered

using antennas that are inserted into the tumor, or both, or by applying RF energy to certain cancerous tumors, including those located deep within the body.

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 approved 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.

On November 21, 2011 the Company 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.

We previously had CE Marking for the BSD-2000 family of products, which would allow us to market the BSD-2000 systems in the thirty countries that comprise the EU and the EFTA. However, effective July 22, 2014, the EU's Restriction of Hazardous Substances ("RoHS") regulatory mandate prohibits us from selling our hyperthermia products in the EU under their current configuration. Although our MicroThermX products are in compliance with RoHS requirements, in order to continue to sell hyperthermia systems within the EU after July 22, 2014, we would need to make significant and costly changes to the hyperthermia products to become RoHS compliant. We made the decision that it was not economically justifiable to continue to offer hyperthermia products in the EU, given RoHS requirements. The RoHS regulatory mandate allows us to supply replacement parts for current installations.

CE Marking is also recognized in many countries outside of the EU, which may provide us the ability to market the BSD-2000 family of products to other international markets. We have also obtained regulatory approval for the sale of the BSD-2000 in Taiwan and the People's Republic of China, and are partially through the process of gaining regulatory approval for the sale of hyperthermia products in Korea.

We believe that these regulatory approvals, along with several distribution agreements signed with independent distributors discussed in the "Marketing and Distribution—Hyperthermia Systems" section below, may hold value for potential buyers interested in the hyperthermia product line. For the immediate future, we will continue to focus our efforts on completing the negotiation and sale of the hyperthermia product line. No assurance can be given that a sale of our hyperthermia assets will be successful or on attractive terms.

Marketing and Distribution

MicroThermX. Our U.S. network of direct sales representatives and four domestic specialty distribution firms provide nationwide sales coverage for the MicroThermX line of products.

In addition, in April 2013 we entered into an exclusive, long-term master distribution agreement with Terumo Europe NV in 100 countries in Europe, Western Asia and Northern Africa. We have a Director of International Sales that manages this relationship, as well as agreements with other international specialty distribution firms. Our marketing and distribution strategy for our MicroThermX business includes seeking out and securing additional master distribution arrangements for our MicroThermX line of products in other parts of the world.

Hyperthermia Systems. To support our direct sales and marketing efforts for our hyperthermia systems and products in the United States, we have utilized independent sales representatives supported by our senior management. Our recent plan has been to minimize efforts in the U.S., due to regulatory, economic and reimbursement challenges and to focus on marketing and sales efforts of hyperthermia products through distributors in Asia.

Historically we have recognized revenues derived from sales to Dr. Sennewald Medizintechnik GmbH and its affiliated entities ("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 former directors and a significant stockholder.

Sales of hyperthermia products in the EU have been trending down as a percent of our total sales since fiscal 2011. With the RoHS regulatory mandate, we are prohibited from selling our hyperthermia products in the EU in their current configuration.

Pursuant to an agreement we have with Dalian Orientech Co. LTD ("Orientech"), a privately owned company, Orientech assisted us in obtaining regulatory approval from China's Food and Drug Administration (the "CFDA") for the sale of the BSD-2000 in the People's Republic of China, and acts as our distributor for the sale of the BSD-2000 in that country.

We have an exclusive agreement with Han Beam Technology, Inc. ("Han Beam") for the sale and distribution of our hyperthermia products in South Korea. We are in the process of obtaining regulatory approval for the BSD-2000 in South Korea.

We have approval to market hyperthermia systems in the Russian Federation. The Russian approval does not expire; however, any shipment into Russia also requires a GOST-R Quality Certificate. Our GOST-R Quality Certificate expires July 26, 2015, and would have to be renewed after that date if we continue to ship products into Russia.

We have an agreement with Linden Bioscience Co., Ltd. ("Linden"), a Taiwan Corporation, for the sale and distribution of our hyperthermia products in Taiwan.

The exclusive agreements with Orientech Hanbeam and Linden require annual minimum purchases of BSD-2000 systems in order to maintain their exclusivity.

Third-Party Reimbursement

We view obtaining adequate third-party reimbursement arrangements as essential to achieving commercial acceptance of our hyperthermia and ablation therapy products. Our products are purchased primarily by clinics, hospitals and other medical institutions that bill various third-party payers, such as Medicare, Medicaid, other government programs and private insurance plans, for the health care services provided to their patients using our products. Additionally, managed care organizations and insurance companies directly pay for services provided to their patients.

The Center for Medicare and Medicaid Services ("CMS"), has established billing codes that allow for third-party reimbursement and can be used for or in combination with the delivery of hyperthermia and ablation therapies, depending on the circumstances of the treatment. Appropriate codes apply to billing for certain ablation procedures. Billing codes are available for both institutions and physicians. Even though billing codes have been established, payments must also be approved by and authorized through the various third-party payers, and third-party payers can establish varying reimbursement plans and levels that can affect hyperthermia and ablation reimbursement levels. Obtaining reimbursement in the U.S. can be unpredictable and difficult for hyperthermia. We believe that sales of hyperthermia products in the U.S. face significant reimbursement challenges.

Medical reimbursement rates are unpredictable, and we cannot project the extent to which our business may be affected by future legislative and regulatory developments. There can be no assurance that future health care legislation or regulation will not have a material adverse effect on Perseon's business, financial condition and results of operations, or that reimbursement, existing or in the future, will be adequate for all customers.

Competition

We have presented what we believe are our competitive advantages in the discussion of our products above.

Competitors in the thermal ablation market include RadioTherapeutics, a division of Boston Scientific Corporation, Covidien Ltd., Angiodynamics, Inc., NeuWave Medical, MedWaves Incorporated, and HS Hospital Service S.p.A. Many of these companies have been in the thermal ablation business for several years, are significantly larger organizations, and have greater financial resources than us.

Competition in the medical products industry is intense. We believe that established product lines and cancer therapies, governmental approvals, know-how and reputation in the industry are key competitive factors. Currently, only a few companies besides Perseon have received FDA approval to manufacture and sell hyperthermia therapy systems within the United States, including U.S. Labthermics and Celsion Corporation, and only a few companies besides Perseon are marketing hyperthermia outside the U.S. Celsion has been principally involved with clinical trials related to thermotherapy, hyperthermia and related fields; however, Celsion has announced the transformation of its company from a medical device company to a biopharmaceutical, solely focused on the development of drugs for the treatment of cancer. Several other companies have received IDEs in the United States or other international approvals for certain hyperthermia systems designed to treat both malignant and benign diseases. Additionally, other companies, particularly established companies that currently manufacture and sell other cancer therapy systems, could potentially become competitors (in that they are also engaged in cancer treatment businesses), and they have significantly greater resources than we do. There are other companies providing hyperthermia products in Europe and Asia.

Product Service

We generally provide a 12-month warranty on all our cancer treatment systems and a 90-day limited warranty on individual components. We install and service the systems we sell to domestic customers. In addition, we provide technical training and support to our customers. Subsequent to the applicable warranty period, we offer our domestic customers full or limited service contracts.

Generally, our international distributors install and service our systems sold to foreign customers and are responsible for managing their own warranty programs for their customers, including labor and travel expenses. We provide training, procedures and forms to the distributors providing these types of services. We provide warranties for the replacement and/or repair of parts for 12 months for systems sold internationally through distributors and for 90 days for individual components. Spare parts are generally purchased by the distributors and stored at the distributors' maintenance facilities to allow prompt repair.

Production

We manufacture and test our systems and products at our facilities in Salt Lake City, Utah. Our manufacturing facility is ISO 13485 certified and follows FDA quality systems regulations. Some equipment components we purchase from suppliers are customized to our specifications. Key factors in our manufacturing process are assembly and testing. We purchase component parts and other materials from a variety of suppliers and believe we can acquire materials and parts from multiple sources on a timely basis.

Product Liability Exposure

The manufacturing and marketing of medical devices involves an inherent risk of product liability. We presently carry product liability insurance with coverage limits of $5 million; however, we cannot assure that our product liability insurance will provide adequate coverage against potential claims that might be made against us. No product liability claims are presently pending against us; however, we cannot assure that product liability claims will not be filed in the future or that such claims will not exceed our coverage limits.

Government Regulation

Domestic Regulation of Our Products and Business - Food and Drug Administration

Our research, development and clinical programs, as well as our manufacturing and marketing operations, are subject to extensive regulation in the United States and other countries. Most notably, all of our products sold in the United States are subject to the Federal Food, Drug, and Cosmetic Act (the “FDCA”), as implemented and enforced by the FDA. Certain of our products sold in the United States require FDA clearance to market under Section 510(k) of the FDCA. FDA governs the following activities that we perform or that are performed on our behalf, to ensure that medical products distributed domestically or exported internationally are safe and effective for their intended uses:

- product design, development and manufacture;
- product safety, testing, labeling and storage;
- record keeping procedures;
- product marketing, sales and distribution; and
- post-marketing surveillance, complaint handling, medical device reporting, reporting of deaths, serious injuries or device malfunctions and repair or recall of products.

There are numerous FDA regulatory requirements governing the approval or clearance and marketing of our products. These include:

- product listing and establishment registration, which helps facilitate FDA inspections and other regulatory action;
- Quality System Regulation ("QSR") which requires manufacturers, including third-party manufacturers, to follow stringent design, testing, control, documentation and other quality assurance procedures during all aspects of the manufacturing process;
- labeling regulations and FDA prohibitions against the promotion of products for uncleared, unapproved or off-label use or indication;
- clearance or approval of product modifications that could significantly affect safety or efficacy or that would constitute a major change in intended use of a cleared product;
- approval of product modifications that affect the safety or effectiveness of an approved product;
- medical device reporting regulations, which require that manufacturers comply with FDA requirements to report if their device may have caused or contributed to a death or serious injury, or has malfunctioned in a way that would likely cause or contribute to a death or serious injury if the malfunction of the device or a similar device were to recur;
- post-approval restrictions or conditions, including post-approval study commitments;
- post-market surveillance regulations, which apply when necessary to protect the public health or to provide additional safety and effectiveness data for the device; and
- notices of correction or removal and recall regulations.

We have registered our facility with the FDA as a medical device manufacturer. The FDA has broad post-market and regulatory enforcement powers. We are subject to announced and unannounced inspections by the FDA to determine our compliance with the QSR and other regulations and these inspections may include the manufacturing facilities of our suppliers.

FDA's premarket clearance and approval requirements. Unless an exemption applies, before we can commercially distribute medical devices in the United States, depending on the type of device, we must obtain either prior 510(k) clearance or PMA from the FDA, unless a specific exemption applies. The FDA classifies medical devices into one of

three classes:

- Class I devices, which are subject to only general controls (e.g., labeling, medical devices reporting, and prohibitions against adulteration and misbranding) and, in some cases, to the 510(k) premarket clearance requirements;

- Class II devices, generally requiring 510(k) premarket clearance before they may be commercially marketed in the United States; and

- Class III devices, consisting of devices deemed by the FDA to pose the greatest risk, such as life-sustaining, life-supporting or implantable devices, or devices deemed not substantially equivalent to a predicate device, generally requiring submission of a PMA supported by clinical trial data.

510(k) clearance pathway

When a 510(k) clearance is required, we must submit a premarket notification demonstrating that our proposed device is substantially equivalent to a previously cleared 510(k) device or a device that was in commercial distribution before May 28, 1976 for which the FDA has not yet called for the submission of PMAs. By regulation, the FDA is required to clear or deny a 510(k) premarket notification within 90 days of submission of the application. As a practical matter, clearance may take longer. The FDA may require further information, including clinical data, to make a determination regarding substantial equivalence.

Any modification to a 510(k)-cleared device that would constitute a major change in its intended use, or any change that could significantly affect the safety or effectiveness of the device, requires a new 510(k) clearance and may even, in some circumstances, require a PMA, if the change raises complex or novel scientific issues or the product has a new intended use. The FDA requires every manufacturer to make the determination regarding the need for a new 510(k) submission in the first instance, but the FDA may review any manufacturer's decision. We have modified our devices since they received the FDA clearance. If the FDA were to disagree with any of our determinations that changes did not require a new 510(k), it could require us to cease marketing and distribution and/or recall the modified device until 510(k) clearance or PMA approval is obtained. If the FDA requires us to seek 510(k) clearance or PMA approval for any modifications, we may be required to cease marketing and/or recall the modified device, if already in distribution, until 510(k) clearance or PMA approval is obtained and we could be subject to significant regulatory fines or penalties.

There is no guarantee that the FDA will grant 510(k) clearance or PMA approval of our future products and failure to obtain necessary clearances or approvals for our future products would adversely affect our ability to grow our business. Delays in receipt or failure to receive clearances or approvals, the loss of previously received clearances or approvals, or the failure to comply with existing or future regulatory requirements could reduce our sales, profitability and future growth prospects.

Premarket approval (PMA) pathway

A PMA or an HUD and HDE application must be submitted to the FDA if the device cannot be cleared through the 510(k) process. A PMA must be supported by extensive data, including but not limited to, technical, preclinical, clinical trials, manufacturing and labeling to demonstrate to the FDA's satisfaction the safety and effectiveness of the device for its intended use. During the review period, the FDA will typically request additional information or clarification of the information already provided. Also, an advisory panel of experts from outside the FDA may be convened to review and evaluate the application and provide recommendations to the FDA as to the approvability of the device. The FDA may or may not accept the panel's recommendation. In addition, the FDA will generally conduct a pre-approval inspection of the manufacturing facility or facilities to ensure compliance with the QSRs.

New PMAs or PMA supplements are required for modifications that affect the safety or effectiveness of the device, including, for example, certain types of modifications to the device's indication for use, manufacturing process, labeling and design. PMA supplements often require submission of the same type of information as a PMA, except that the supplement is limited to information needed to support any changes from the device covered by the original PMA and may not require as extensive clinical data or the convening of an advisory panel. There is no guarantee that the FDA will grant PMA approval of our future products and failure to obtain necessary approvals for our future products would adversely affect our ability to grow our business. Delays in receipt or failure to receive approvals, the loss of previously received approvals, or the failure to comply with existing or future regulatory requirements could reduce our sales, profitability and future growth prospects.

Humanitarian Device Exemption (HDE) Pathway

In order for a device to be eligible for an HDE, it must be intended for use in a qualifying target patient population of less than 4,000 patients per year for which there is no other comparable device available to treat the condition. This qualifying target patient population must be approved by the FDA. The FDA’s approval of an HDE to treat that qualifying patient population then requires demonstration that the device is safe for its intended application, that it is potentially effective, and that the probable benefits outweigh the associated risks, which is a lower standard than is applied to a PMA. Within the regulations for an HDE, if a device becomes available through the PMA or 510(k) pathway that addresses the same patient population as the HDE device, the HDE device may need to be withdrawn from the U.S. market. An approved HDE authorizes sales of the device to any hospital after Institutional Review Board review and approval by the hospital. New HDEs or HDE supplements are required for modifications that affect the safety or effectiveness of the device, including, for example, certain types of modifications to the device's indication for use, manufacturing process, labeling and design.

Clinical Trials

Clinical trials are generally required to support a PMA application and are sometimes required for 510(k) clearance and HDE approval. Such trials generally require an investigational device exemption application ("IDE"), approved in advance by the FDA for a specified number of patients and study sites, unless the product is deemed a nonsignificant risk device eligible for more abbreviated IDE requirements. Clinical trials are subject to extensive monitoring, recordkeeping and reporting requirements. Clinical trials must be conducted under the oversight of an institutional review board ("IRB") for the relevant clinical trial sites and must comply with FDA regulations, including but not limited to those relating to good clinical practices. To conduct a clinical trial, we also are required to obtain the patients' informed consent in form and substance that complies with both FDA requirements and state and federal privacy and human subject protection regulations. We, the FDA or the IRB could suspend a clinical trial at any time for various reasons, including a belief that the risks to study subjects outweigh the anticipated benefits. Even if a trial is completed, the results of clinical testing may not adequately demonstrate the safety and efficacy of the device or may otherwise not be sufficient to obtain FDA approval to market the product in the United States.

Pervasive and continuing regulation

After a device is placed on the market, numerous regulatory requirements apply. These include:

- Product listing and establishment registration, which helps facilitate FDA inspections and other regulatory action;
- QSR, which requires manufacturers, including third-party manufacturers, to follow stringent design, testing, control, documentation and other quality assurance procedures during all aspects of the manufacturing process;
- labeling regulations and FDA prohibitions against the promotion of products for uncleared, unapproved or off-label use or indication;
- clearance of product modifications that could significantly affect safety or efficacy or that would constitute a major change in intended use of one of our cleared devices;
- approval of product modifications that affect the safety or effectiveness of one of our approved devices;
- medical device reporting regulations, which require that manufacturers comply with FDA requirements to report if their device may have caused or contributed to a death or serious injury, or has malfunctioned in a way that would likely cause or contribute to a death or serious injury if the malfunction of the device or a similar device were to recur;
- post-approval restrictions or conditions, including post-approval study commitments;
- post-market surveillance regulations, which apply when necessary to protect the public health or to provide additional safety and effectiveness data for the device;
- the FDA's recall authority, whereby it can ask, or under certain conditions order, device manufacturers to recall from the market a product that is in violation of governing laws and regulations;
- regulations pertaining to voluntary recalls; and

- notices of corrections or removals.

Advertising and promotion of medical devices, in addition to being regulated by the FDA, are also regulated by the Federal Trade Commission and by state regulatory and enforcement authorities. Recently, promotional activities for FDA-regulated products of other companies have been the subject of enforcement action brought under healthcare reimbursement laws and consumer protection statutes. In addition, under the federal Lanham Act and similar state laws, competitors and others can initiate litigation relating to advertising claims. In addition, we are required to meet regulatory requirements in countries outside the United States, which can change rapidly with relatively short notice. If the FDA determines that our promotional materials or training constitutes promotion of an unapproved use, it could request that we modify our training or promotional materials or subject us to regulatory or enforcement actions, including the issuance of an untitled letter, a warning letter, injunction, seizure, civil fine or criminal penalties. It is also possible that other federal, state or foreign enforcement authorities might take action if they consider our promotional or training materials to constitute promotion of an unapproved use, which could result in significant fines or penalties under other statutory authorities, such as laws prohibiting false claims for reimbursement. In that event, our reputation could be damaged and adoption of the products would be impaired.

Furthermore, our products could be subject to voluntary recall if we or the FDA determine, for any reason, that our products pose a risk of injury or are otherwise defective. Moreover, the FDA can order a mandatory recall if there is a reasonable probability that our device would cause serious adverse health consequences or death.

The FDA has broad post-market and regulatory enforcement powers. We are subject to unannounced inspections by the FDA to determine our compliance with the QSR and other regulations, and these inspections may include the manufacturing facilities of some of our subcontractors. Failure by us or by our suppliers to comply with applicable regulatory requirements can result in enforcement action by the FDA or other regulatory authorities, which may result in sanctions including, but not limited to:

- untitled letters, warning letters, fines, injunctions, consent decrees and civil penalties;
- unanticipated expenditures to address or defend such actions
- customer notifications for repair, replacement, refunds;
- recall, detention or seizure of our products;
- operating restrictions or partial suspension or total shutdown of production;
- refusing or delaying our requests for 510(k) clearance or premarket approval of new products or modified products;
- operating restrictions;
- withdrawing 510(k) clearances on PMA approvals that have already been granted;
- refusal to grant export approval for our products; or
- criminal prosecution.

If the FDA determines that our promotional materials or training constitutes promotion of an unapproved use, it could request that we modify our training or promotional materials or subject us to regulatory or enforcement actions, including the issuance of an untitled letter, a warning letter, injunction, seizure, civil fine or criminal penalties. It is also possible that other federal, state or foreign enforcement authorities might take action if they consider our

promotional or training materials to constitute promotion of an unapproved use, which could result in significant fines or penalties under other statutory authorities, such as laws prohibiting false claims for reimbursement. In that event, our reputation could be damaged and adoption of the products would be impaired.

The medical devices that we have developed and are developing are subject to extensive, rigorous, and unpredictable regulation by numerous governmental authorities, including the FDA and comparable foreign agencies.

Although our MicroThermX has received FDA marketing clearance as a 510(k) submission, most of our hyperthermia treatment systems, including the BSD-500 and the BSD-2000 and related products, have required or require PMA or an HDE marketing approval from the FDA instead of the simpler 510(k) clearance. Significant product changes for PMA or HDE approved devices must be submitted to the FDA under investigational device exemptions, or IDEs, or under PMA or HDE supplements. As described in the above section entitled “Our Products and Services”, we have obtained a PMA for our BSD-500 system and an HDE for our BSD-2000 system. Significant changes to the MicroThermX may require a new 510(k).

Foreign countries, in which our products are or may be sold, have regulatory requirements that can vary widely from country to country. Sales into the EU, require compliance with the Medical Devices Directive, or MDD, and require us to obtain the necessary certifications to have a CE Mark affixed to our products. All medical devices must be manufactured in accordance with regulations and in compliance with other applicable standards. We have obtained necessary ISO-13485 certification of our quality, development, and manufacturing processes and we have successfully completed the CE Mark testing and Annex II audit.

After certification and CE Marking approval, an EU approved notified body reviews quality and design records annually to maintain certification, including design and manufacturing practices, labeling, record-keeping, and required reporting of adverse experiences. We must maintain compliance with all current and future directives and requirements to maintain ISO certification and to continue to affix the CE Mark, and there can be no assurance that we will continue to maintain compliance with regulatory requirements imposed on us.

The RoHS regulatory mandate prohibits us from selling our hyperthermia products in the EU under their current configuration. Although our MicroThermX products are in compliance with RoHS requirements, in order to continue to sell our hyperthermia systems within the EU we would need to make significant and costly changes to component parts used in our hyperthermia products to become RoHS compliant. We do not believe that it is economically justifiable at this time to continue to offer hyperthermia systems in the EU, given RoHS requirements.

In addition, regulations for the sale of medical devices into the EU are being revised and the revisions will impose stricter requirements on medical device companies, and there can be no assurance that we will continue to maintain compliance with future regulatory requirements.

After we receive FDA approval to market a medical device, we continue to have ongoing responsibilities under the Federal Food, Drug, and Cosmetic Act and FDA regulations. The FDA currently mandates a post-approval study for PMA and HDE approved devices. As a condition of our HDE approval for the BSD-2000, the FDA required Perseon to conduct a post-market registry study, “Deep Hyperthermia and Radiation in the Treatment of Cervical Cancer Patients." Due to challenges enrolling patients and sites in a small population with this rare disease, no patients were enrolled in this initial post-approval study. Because of these challenges, Perseon initiated collaborative discussions with FDA regarding the structure of the study. As a result, the initial post-market study structure has been revised, and we are in current discussions with our clinical sites regarding participation in the revised study. We are still experiencing challenges in enrolling patients and sites and have been unable to obtain participation in the restructured study as of the date of this filing. The status of Perseon's post-approval study is listed as "progress inadequate" on the FDA's website. We have initiated additional discussions with the FDA regarding how best to address these challenges, but there can be no assurance that we will be able to successfully meet our ongoing responsibilities for the post-approval study mandated by the FDA as part of our HDE approval. We have submitted all periodic updates to the FDA as required and in a timely manner.

The FDA also reviews design and manufacturing practices, labeling, record-keeping, and required reporting of adverse experiences. All medical devices must be manufactured in accordance with regulations specified in the FDA Quality System Regulations, or QSR, and in compliance with other applicable standards.

In complying with the FDA, EU, and other country regulations, we must continue to expend time, money and effort in the areas of design control, production, and quality control to ensure full compliance.

The FDA's mandatory Medical Device Reporting regulation requires us to provide information to the FDA on death or serious injuries alleged to have been associated with the use of our products, as well as information on product malfunctions that would likely cause or contribute to a death or serious injury if the malfunctions were to recur. In Europe, the MDD vigilance system regulations require that we, through a representative in Europe, provide information to authorities on death or serious injuries alleged to have been associated with the use of our products, as well as information on product malfunctions that would likely cause or contribute to a death or serious injury if the malfunctions were to recur. Certain regulations are subject to administrative interpretation and we cannot assure that future interpretations made by the FDA or other regulatory bodies, with possible retroactive effect, will not adversely affect us.

International sales are subject to the regulatory and safety requirements of the country into which the sale occurs. There can be no assurance that all of the necessary approvals will be granted on a timely basis or at all. Delays in receipt of or failure to receive such approvals would have a material adverse effect on our financial condition and results of operations. International sales of medical devices are subject to FDA export requirements.

In addition to FDA regulations, certain U.S. health care laws apply when a claim for reimbursement for one of our medical devices is submitted to Medicare, Medicaid, or other federal health care programs. For instance, federal law prohibits the filing of false or improper claims for federal payments. In addition, federal law prohibits the payment of anything of value for the purpose of inducing referrals of business reimbursable under a federal health care program. Other federal laws prohibit physicians from making referrals for certain services and items payable under certain federal programs if the physician has a financial relationship with the entity providing the service or item.

All of these laws are subject to evolving interpretations. If the federal government were to conclude that we are not in compliance with any of these health care laws, we could be subject to substantial criminal and civil penalties, and could be excluded from participation as a supplier to beneficiaries in federal health care programs.

The Federal Communications Commission, or FCC, regulates the frequencies of microwave and radio frequency emissions from medical and other types of equipment to prevent interference with commercial and governmental communications networks. The BSD-500 fixed frequency systems and applicators and the MicroThermX ablation system and applicators emit 915 MHz, which is approved by the FCC for medical applications. Accordingly, these systems do not require shielding to prevent interference with communications. Our BSD-2000 deep hyperthermia variable-frequency generators and applicators require electromagnetic shielding.

Patents, Licenses, and Other Rights

Because of the substantial length of time and expense associated with bringing new products through development and regulatory approval to the marketplace, the medical device industry places considerable importance on obtaining patent and trade secret protection for new technologies, products and processes. Our policy is to file patent applications to protect significant technology, inventions and product improvements. We currently own eight non-expired patents in the United States related to certain components or technology of our ablation and hyperthermia systems. We currently have one patent license from Duke University. Eleven new U.S. patent applications have been published in the United States, and one foreign patent is issued and others are pending. A total of 29 U.S. patents have been issued to Perseon. We believe that our patents represent the early pioneering and dominant patents in this field.

In July 1979, we entered into an exclusive worldwide license for a unique temperature probe (sensor) called the Bowman Probe. The Bowman Probe is considered to be the “gold standard” in temperature monitoring devices for hyperthermia. The license will remain in effect as long as the technology does not become publicly known as a result of actions taken by the licensor. We pay royalties based upon our sales of the Bowman Probe. The license agreement was amended and renewed in August 2000 and is currently in effect.

On July 31, 2007, Perseon obtained an exclusive sub-license to a patent owned by Duke University using phased array technology for the treatment of primary breast cancer on terms that included hyperthermia equipment upgrades and payment of some prior patent costs.

On July 1, 2001, we acquired the rights to all FDA approvals and the rights to manufacture all cancer products formerly owned by Clinitherm Corp. These products are related to the hyperthermia therapy delivered by our BSD-500 systems and our enhancements to such systems involve incorporating some of the Clinitherm rights we acquired into such systems. This involved only a one-time cash payment with no continuing costs.

We cannot assure that the patents presently issued to us will be of significant value to us in the future or will be held valid upon judicial review. Successful litigation against these patents by a competitor would have a material adverse effect upon our business, financial condition and results of operations. We believe that we possess significant proprietary know-how in our hardware and software capabilities. However, we cannot assure that others will not develop, acquire or patent technologies similar to ours or that such secrecy will not be breached.

Research and Development

Research and development expenses for the four month transition period ended December 31, 2014 and for the fiscal years ended August 31, 2014 and 2013 were $627,769, $2,229,043 and $2,281,854, respectively. Through the end of 2014, we have continued our efforts to enhance and improve our ablation products, sustain and fill current order requirements for our hyperthermia products, and to focus our product development, technology and engineering resources on the following:

- development of SynchroWave short tip antenna used to deliver smaller, spherical ablation zones;
- incorporating new requirements into the design and manufacturing processes;
- designing and testing of new advanced cooled disposable microwave ablation antennas;
- supporting MicroThermX regulatory requirements;
- adaptation of our BSD-2000/3D/MR to both Siemens and GE MR configurations;
- sustaining engineering for our BSD-500 and BSD-2000 systems where necessary to maintain ongoing manufacturability;
- supporting product approvals for US and non-US governments;
- research and development projects not publicly disclosed.

Technological changes play an important part in the advancement of our industry. We intend to continue to devote substantial sums to research and development. Research and development efforts inherently involve costs, risks and uncertainties that could adversely affect our projections, outlook and operating results.

Seasonality

Our operations are generally not subject to seasonal fluctuations.

Segment Information and Sales Concentrations

We consider our operations to comprise one business segment. All of our operating assets are located in the United States.

At times, in past fiscal years, we have derived a significant portion of our revenues from sales to Medizintechnik, which has been a significant distributor of our products in Europe, and which is owned by Dr. Gerhard W. Sennewald, one of our former directors and a significant shareholder. However, with the exception of one BSD-2000 unit Medizintechnik purchased from us in 2014, we have experienced declining sales to this related party. For the four month transition period ended December 31, 2014, we had sales to Medizintechnik of $463,423, or 42% of our total revenues. This was comprised mostly of revenue recognized on the completion and shipment of one hyperthermia system that was ordered in early 2013. For the year ended August 31, 2014 we had sales of $419,549, or 8% of our total sales, from the sale of hyperthermia systems and various component parts sold to Medizintechnik. Management believes the terms of these transactions with Medizintechnik were arm’s length and fair to the Company.

A significant portion of our revenues are derived from sales to foreign customers. During the four month transition period ended December 31, 2014, and fiscal years ended August 31, 2014 and 2013, export sales totaled $630,857, $3,381,563 and $1,470,619, or approximately 56%, 63% and 40% of total sales, respectively. During the four month transition period ended December 31, 2014 we had sales to two foreign customers representing 42% and 11% of total revenues. For the fiscal year ended August 31, 2014, these two customers each represented 23% of total revenues. During the year ended August 31, 2013, we had sales to one foreign customer totaling 30% of total revenues.

During the four month transition period ended December 31, 2014 and the fiscal years ended August 31, 2014 and 2013, domestic sales totaled $485,051, $1,946,790 and $2,202,673, or approximately 44%, 37% and 60% of total revenues, respectively. In the four month transition period ended December 31, 2014 and the fiscal year ended August 31, 2014, no single domestic customer accounted for more than 10% of total revenues.

Backlog

As of December 31, 2014, we had a sales backlog of $347,500.

Employees

As of December 31, 2014, we had 49 employees; 47 of whom were full-time employees. None of our employees are covered by a collective bargaining agreement. We consider our relations with our employees to be satisfactory. We depend upon a limited number of key management, manufacturing, and technical personnel. Our future success will depend in part on our ability to retain these highly qualified employees.

Available Information

We file annual, quarterly and current reports, and other reports and documents with the Securities and Exchange Commission (the "SEC"). The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room, 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that website is http://www.sec.gov.

The Company's Internet address is http://www.bsdmedical.com. We make available on or through our investor link on our website, free of charge, our Annual Reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports as soon as reasonably practicable after this material is electronically filed or furnished to the SEC.

ITEM 1A. RISK FACTORS

Our future operating results are highly uncertain. Before deciding to invest in Perseon or to maintain or increase your investment, you should carefully consider the risks described below, in addition to the other information contained in this Transition Report on Form 10-K. If any of these risks actually occur, our business, financial condition or results of operations could be seriously harmed. In that event, the market price for our common stock could decline and you may lose all or part of your investment. Although we have attempted to list the factors of which we are currently aware that may have an impact on its operations, there may be other factors of which we are currently unaware or to which we do not assign sufficient significance, and the following list should not be considered comprehensive.

We have a history of significant operating losses and such losses may continue in the future.

Since our inception in 1978, our expenses have substantially exceeded our revenue, resulting in continuing losses and an accumulated deficit of $56,540,160 as of December 31, 2014. We reported net losses of $3,768,390 for the four month transition period ended December 31, 2014, and $7,142,832 and $8,251,691 for the fiscal years ended August 31, 2014 and 2013, respectively.

We may continue to incur operating losses in the future as we continue to incur costs to develop our products, protect our intellectual property and expand our sales and marketing activities. To become profitable we will need to increase significantly the revenues we receive from sales of our MicroThermX line of products to improve our profitability on a quarterly or annual basis. We have been unable to do this in the past and we may be unable to do so in the future, and therefore may never achieve profitability.

We have obtained FDA 510(k) clearance to market our MicroThermX Microwave Ablation System, and have experienced early success in sales of the MicroThermX family of products. You cannot be assured that our efforts to commercialize the MicroThermX will be successful or that we will attain expected revenue levels.

In August 2010, the FDA granted us a 510(k) clearance to market our MicroThermX Microwave Ablation System for ablation of soft tissue, authorizing the commercial sale of the MicroThermX in the United States. We have experienced growth in revenues from our MicroThermX family of products. Our MicroThermX products represent a major part of our business plan moving forward and introduce into our product line an innovative, high-end disposable that is used in each ablation treatment and which we believe will provide a significant ongoing revenue stream.

Political and economic uncertainty in the healthcare industry due to government healthcare reform and the continuing worldwide economic turndown has made hospital acquisitions of capital equipment difficult at all levels. With hospital capital budgeting, committee review and other approvals, the sales cycle for the MicroThermX may extend to well over six months. To accelerate revenues from the MicroThermX line of products, we have a program that allows hospitals to purchase disposable SynchroWave antennas and pay a fee-per-use rental for the treatment of patients using the MicroThermX products. We expanded the equipment rental program throughout the U.S., contracting with specialty medical products distributors and hiring direct sales representatives in key major metropolitan areas who provide “personal service” to new users of the microwave ablation technique. These are experienced interventional sales representatives with established contacts and relationships in the field of interventional oncology. We have experienced early success with these sales programs and increasing revenues; however, you cannot be assured that we will attain expected revenue levels from the MicroThermX line of products. If these efforts are not successful, our business will be adversely affected.

Our profitability will be driven in large part by international sales of our MicroThermX family of products; therefore, we are dependent on our ability to successfully establish our international sales distribution channels.

With our United States direct sales network in place for our MicroThermX family of products, we are placing significant emphasis on Europe and other international markets. International sales of our MicroThermX family of products will depend on our ability to successfully establish sales distribution channels in Europe and other international markets. We believe that the distribution agreement with Terumo Europe NV will drive market adoption of the MicroThermX product line. However, this agreement in in its early stages and the ultimate success of the Terumo relationship is yet to be determined. We also expect to reach distribution agreements with additional international distribution firms. If these efforts are not successful, our business will be adversely affected.

Our current strategy includes the possibility of entering into additional collaborative arrangements with third parties to expand and improve the commercialization of all our products; however, there can be no assurance that such strategic alternatives will result in any successful agreements or transactions.

As demonstrated by our April 2013 signing of the master distribution agreement with Terumo Europe NV for our MicroThermX line of products, our current strategy includes the possibility of entering into additional collaborative arrangements with third parties to expand and improve the commercialization of all our products. There can be no assurance that the exploration of strategic alternatives will result in any agreements or transactions, or that, if completed, any agreements or transactions will be successful or on attractive terms.

We intend to sell or discontinue our hyperthermia product line early in 2015; there can be no assurance that a sale of our hyperthermia assets will be successful or on attractive terms.

Historically, our product offerings have included hyperthermia cancer treatment systems. We have previously announced that we intend to sell or discontinue our hyperthermia product line early in 2015. Our current strategy is to seek out, identify opportunities and, if possible, secure a transaction or transactions relating to our hyperthermia assets. We have attracted an interested buyer, a non-binding term sheet for the potential sale of assets related to our hyperthermia product line has been submitted and accepted, final terms are being negotiated and due diligence efforts are underway. Although we expect to close the transaction on the sale of our hyperthermia assets in the spring of 2015, no assurance can be given that a sale of our hyperthermia assets will be successful or on attractive terms.

At times, a significant portion of our revenues have been from sales of our hyperthermia products; if we sell or discontinue our hyperthermia product line, our revenues from the sale of hyperthermia systems and related component parts and services will cease.

At times, a significant portion of our sales 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. We have experienced increasing revenues from our MicroThermX line of products, but have been unable to sustain or grow revenues from our hyperthermia systems. We intend to sell or discontinue our hyperthermia product line early in 2015. If we sell or discontinue our hyperthermia product line, our revenues from the sale of hyperthermia systems and related component parts and services will cease.

Adverse worldwide economic conditions have made it difficult for our customers to obtain approval for the purchase of and funding for our hyperthermia systems.

Our hyperthermia cancer treatment systems represent capital equipment purchases for our customers. Adverse worldwide economic conditions have made it difficult for our customers to obtain approval for the purchase of and funding for our systems. This has contributed to a lack of growth in the worldwide sales of our hyperthermia systems and to a slower than anticipated introduction into the market place of our MicroThermX line of products. To the extent that adverse economic conditions continue, we believe our sales of cancer treatment systems will continue to be negatively impacted.

A significant portion of our revenues is from foreign countries.

A significant portion of our revenues are derived from sales to foreign customers. Export sales were $630,857 for the four month transition period ended December 31, 2014, and were $3,381,563 and $1,470,619 for the fiscal years ended August 31, 2014 and 2013, respectively. During the four month transition period ended December 31, 2014, export sales to Germany and Belgium combined were 53% of total sales. For the fiscal year ended August 31, 2014, export sales to Taiwan and Belgium combined were approximately 46% of total sales. During the fiscal year ended

August 31, 2013, export sales to Belgium and Germany were approximately 33% of total sales.

To the extent that we are unable to maintain or increase the level of our revenues derived from foreign customers, the results of our operations could be negatively impacted.

Sales of our products could be significantly reduced if government, private health insurers and other third-party payers do not provide sufficient coverage or reimbursement.

Our success in selling our products will depend in large part on the extent to which reimbursement for the costs of our products and related treatments are available from government health agencies, private health insurers and other third-party payers. Despite the existence of general reimbursement policies, local medical review policies may differ for public and private insurance payers, which may cause payment to be refused for some hyperthermia treatments. Private payers also may refuse to pay for hyperthermia treatments.

Medical reimbursement rates are unpredictable and we cannot predict the extent to which our business may be affected by future legislative and regulatory developments. Future health care legislation or regulation may limit our business or impose additional delays and costs on our business and third-party reimbursement may not be adequate to cover our costs associated with producing and selling our products.

Cancer therapy is subject to rapid technological change and therapies that are more effective than ours could render our technology obsolete.

The treatment of cancer is currently subject to extensive research and development. Many cancer therapies are being researched and our products may be rendered obsolete by existing therapies and as a result of therapy innovations by others. If our products are rendered obsolete, our revenue will decline, we may never achieve profitability, and we may not be able to continue in business.

Additionally, other companies, particularly established companies that currently manufacture and sell other cancer therapy systems, could potentially become competitors (in that they are also engaged in the cancer treatment business), and they have significantly greater resources than we do.

We may face significant uncertainty in the industry due to government healthcare reform.

Political, economic and regulatory influences are subjecting the healthcare industry to fundamental changes. We anticipate that the current and future administration, Congress and certain state legislatures will continue to review and assess alternative healthcare delivery systems and payment methods with an objective of ultimately reducing healthcare costs and expanding access. Public debate of these issues will likely continue in the future. The uncertainties regarding the ultimate features of reform initiatives and their enactment and implementation may have an adverse effect on our customers' purchasing decisions regarding our products and services. At this time, we cannot predict whether healthcare reform proposals will be successfully implemented or adopted or what impact they may have on our business.

We are subject to government regulations that can delay our ability to sell our products and cause us to incur substantial expenses.

Our research and development efforts, pre-clinical tests and clinical trials, and the manufacturing, marketing, distribution and labeling of our products are subject to extensive regulation by the FDA and comparable international agencies. The process of obtaining FDA and other required regulatory approvals throughout the world is lengthy and expensive and our financial resources are limited. The FDA and other comparable agencies outside the U.S. are currently implementing and considering a number of reforms in its regulatory processes, which may make the approval process longer and more cumbersome for medical devices and increase the costs required to maintain those approvals.

Obtaining marketing approval from the FDA and other comparable agencies outside the U.S. is necessary for us to commercially market our systems in the United States. Obtaining and maintaining approvals is a lengthy and expensive process. We may not be able to obtain these approvals on a timely basis, if at all, and such failure could significantly harm our business prospects.

After a product is approved for commercial distribution by the FDA and other comparable agencies outside the U.S., we have ongoing responsibilities under applicable regulations, which may include regulation of our manufacturing facilities and processes, labeling and record-keeping, and reporting of adverse experiences and other information. Failure to comply with these ongoing requirements could result in problems with our approvals outside the U.S. In the U.S., failure to comply could result in the FDA imposing operating restrictions on us, enjoining or restraining certain violations, or imposing civil or criminal penalties on us.

All of these laws are subject to evolving interpretations. If the federal government were to conclude that we are not in compliance with any of these health care laws, we could be subject to substantial criminal and civil penalties, and could be excluded from participation as a supplier to beneficiaries in federal health care programs.

We are also subject to ongoing compliance and review requirements with our ISO-13485 and CE Mark certifications. The European Commission ("EC"), the executive body of the EU, drafts regulations that are then accepted or rejected by the European Council. Once a regulation has been accepted, it becomes a directive. We must remain current with both new directives and amendments to existing directives. The EC has recently implemented a number of significant changes in the regulations that govern medical devices, and the European Council has approved these changes. These changes make obtaining and maintaining required regulatory approvals more expensive and time consuming. The EC also recommended additional significant changes in the regulations that govern medical devices, which could increase the regulatory costs and risk for marketing products in the EU. If we fail to comply with these ongoing requirements marketing of our products could be restricted.

On January 2, 2013, following a protracted period of public comment, the EU issued RoHS, which restricts the use of certain hazardous substances used in electrical equipment and mandated all medical devices sold in the EU meet RoHS compliance requirements on or before July 22, 2014. Medical devices subject to RoHS must have technical testing and accompanying documents, a declaration of conformity and CE marking affixed to the product to be deemed compliant. Noncompliant medical devices are prohibited for sale in the EU community after July 22, 2014.

The Company's MicroThermX products are in compliance with RoHS requirements; however the Company's hyperthermia products contain some of the substances defined as hazardous by RoHS standards. This presents a challenge for us inasmuch as there is currently no RoHS information available from vendors of the non-compliant parts and we are not aware of alternative replacement parts that are available or readily identifiable. In order to continue to sell the hyperthermia systems within the EU we believe we would need to make significant changes in the component parts used in the hyperthermia systems. We currently do not intend to make the significant and costly changes to component parts used in its hyperthermia products that would be necessary to become RoHS compliant. Because of this, our sales of new hyperthermia systems in the EU have ceased, which will impact our results of operations.

U.S. Regulatory – FDA

If we fail to maintain regulatory approvals and clearances, or are unable to obtain, or experience significant delays in obtaining, FDA clearances or approvals for our future products or product enhancements, our ability to commercially distribute and market these products could suffer.

Our products are subject to rigorous regulation by the FDA and numerous other federal, state and foreign governmental authorities. The process of obtaining regulatory clearances or approvals to market a medical device can be costly and time consuming, and we may not be able to obtain these clearances or approvals on a timely basis, if at all. In particular, the FDA permits commercial distribution of a new medical device only after the device has received clearance under Section 510(k) of the Federal Food, Drug and Cosmetic Act, or is the subject of an approved PMA unless the device is specifically exempt from those requirements. In addition, certain devices can be distributed under an HDE, rather than a PMA.

The FDA will clear marketing of a lower risk medical device through the 510(k) process if the manufacturer demonstrates that the new product is substantially equivalent to other 510(k)-cleared products. High risk devices deemed to pose the greatest risk, such as life-sustaining, life-supporting, or implantable devices, or devices not deemed substantially equivalent to a previously cleared device, require the approval of a PMA. The PMA process is more costly, lengthy and uncertain than the 510(k) clearance process. A PMA application must be supported by

extensive data, including, but not limited to, technical, preclinical, clinical trial, manufacturing and labeling data, to demonstrate to the FDA’s satisfaction the safety and efficacy of the device for its intended use.

In order for a device to be eligible for an HDE, it must be intended for use in a qualifying target patient population of less than 4,000 patients per year for which there is no other comparable device available to treat the condition. This qualifying target patient population must be approved by the FDA. The FDA's approval of an HDE to treat that qualifying patient population then requires demonstration that the device is safe for its intended application, that it is potentially effective, and that the probable benefits outweigh the associated risks, which is a lower standard than is applied to a PMA. Within the regulations for an HDE, if a device becomes available through the PMA process that addresses the same patient population as the HDE device, the HDE device may need to be withdrawn from the U.S. market. An approved HDE authorizes sales of the device to any hospital after Institutional Review Board review and approval by the hospital.

Our currently commercialized MicroThermX Microwave Ablation System have been cleared through the 510(k) process. Our BSD-500 is the subject of an approved PMA application. Our BSD-2000 System is the subject of an approved HDE. Our HDE for the BSD-2000 could be withdrawn by FDA if the target patient population exceeds 4000 patients in a given year or if a competitive device receives PMA approval that addresses the same patient population as the BSD-2000.

Our failure to comply with U.S. federal, state and foreign governmental regulations could lead to the issuance of warning letters or untitled letters, the imposition of injunctions, suspensions or loss of regulatory clearance or approvals, product recalls, termination of distribution, product seizures or civil penalties. In the most extreme cases, criminal sanctions or closure of our manufacturing facility are possible.

Modifications to our products may require new regulatory clearances or approvals or may require us to recall or cease marketing our products until clearances or approvals are obtained.

Modifications to our products may require new regulatory approvals or clearances, including 510(k) clearances, premarket approvals, or HDE approvals, or require us to recall or cease marketing the modified devices until these clearances or approvals are obtained. The FDA requires device manufacturers to initially make and document a determination of whether or not a modification requires a new approval, supplement or clearance. A manufacturer may determine that a modification could not significantly affect safety or efficacy and does not represent a major change in its intended use, so that no new 510(k) clearance is necessary. However, the FDA can review a manufacturer's decision and may disagree. The FDA may also on its own initiative determine that a new clearance or approval is required. We have made modifications to our products in the past and may make additional modifications in the future that we believe do not or will not require additional clearances or approvals. If the FDA disagrees and requires new clearances or approvals for the modifications, we may be required to recall and to stop marketing our products as modified, which could require us to redesign our products and harm our operating results. In these circumstances, we may be subject to significant enforcement actions.

If a manufacturer determines that a modification to an FDA-cleared device could significantly affect its safety or efficacy, or would constitute a major change in its intended use, then the manufacturer must file for a new 510(k) clearance or possibly a premarket approval application. For PMA approved products, any change that affects the safety or effectiveness of the device requires the approval of PMA Supplement. Depending on the type of change, there are different PMA Supplements ranging from 30-Day Notices to full 180-Day Supplements. Where we determine that modifications to our products require a new 510(k) clearance, premarket approval, or HDE application, we may not be able to obtain those additional clearances or approvals for the modifications or additional indications in a timely manner, or at all. Obtaining clearances and approvals can be a time consuming process, and delays in obtaining required future clearances or approvals would adversely affect our ability to introduce new or enhanced products in a timely manner, which in turn would harm our future growth.

There is no guarantee that the FDA will grant 510(k) clearance or PMA approval of our future products and failure to obtain necessary clearances or approvals for our future products would adversely affect our ability to grow our business.

Some of our new products may require FDA clearance of a 510(k). Other products may require the approval of a PMA. In addition some of our new products may require clinical trials to support regulatory approval and we may not successfully complete these clinical trials. The FDA may not approve or clear these products for the indications that are necessary or desirable for successful commercialization. Indeed, the FDA may refuse our requests for 510(k) clearance or premarket approval of new products. Failure to receive clearance or approval for our new products would have an adverse effect on our ability to expand our business.

Clinical trials necessary to support a PMA application will be expensive and will require the enrollment of large numbers of patients, and suitable patients may be difficult to identify and recruit. Delays or failures in our clinical trials will prevent us from commercializing any modified or new products and will adversely affect our business, operating results and prospects.

Initiating and completing clinical trials necessary to support a future PMA application or to obtain additional safety and efficacy data beyond that typically required for a 510(k) clearance will be time consuming and expensive and the outcome uncertain. Moreover, the results of early clinical trials are not necessarily predictive of future results, and any product we advance into clinical trials may not have favorable results in later clinical trials.

Clinical trials conducted in the United States, generally require an IDE approved in advance by the FDA for a specified number of patients and study sites, unless the product is deemed a nonsignificant risk device eligible for more abbreviated IDE requirements. Clinical trials are subject to extensive monitoring, recordkeeping and reporting requirements. Clinical trials must be conducted under the oversight of an IRB for the relevant clinical trial sites and must comply with FDA regulations, including but not limited to those relating to good clinical practices. To conduct a clinical trial, we also are required to obtain the patients' informed consent that complies with FDA requirements, state and federal privacy regulations and human subject protection regulations.

Conducting successful clinical studies will require the enrollment of large numbers of patients, and suitable patients may be difficult to identify and recruit. Patient enrollment in clinical trials and completion of patient participation and follow-up depends on many factors, including the size of the patient population, the nature of the trial protocol, the attractiveness of, or the discomforts and risks associated with, the treatments received by enrolled subjects, the availability of appropriate clinical trial investigators, support staff, and proximity of patients to clinical sites and able to comply with the eligibility and exclusion criteria for participation in the clinical trial and patient compliance. For example, patients may be discouraged from enrolling in our clinical trials if the trial protocol requires them to undergo extensive post-treatment procedures or follow-up to assess the safety and effectiveness of our products or if they determine that the treatments received under the trial protocols are not attractive or involve unacceptable risks or discomforts. Patients may also not participate in our clinical trials if they choose to participate in contemporaneous clinical trials of competitive products. In addition, patients participating in clinical trials may die before completion of the trial or suffer adverse medical events unrelated to investigational products.

Development of sufficient and appropriate clinical protocols to demonstrate safety and efficacy are required and we may not adequately develop such protocols to support clearance and approval. Further, the FDA may require us to submit data on a greater number of patients than we originally anticipated and/or for a longer follow-up period or change the data collection requirements or data analysis applicable to our clinical trials. Delays in patient enrollment or failure of patients to continue to participate in a clinical trial may cause an increase in costs and delays in the approval and attempted commercialization of our products or result in the failure of the clinical trial. In addition, despite considerable time and expense invested in our clinical trials, FDA may not consider our data adequate to demonstrate safety and efficacy. Such increased costs and delays or failures could adversely affect our business, operating results and prospects.

Perseon is currently sponsoring an IDE-approved clinical study of the BSD-2000 hyperthermia system, "Hyperthermia Combined with Radiotherapy for the Treatment of Locally Advanced, Persistent, or Recurrent Deep Tumors of the Pelvis; i.e., Cervical, Prostate, Rectal, and Bladder." The Phase II study is designed to enroll subjects who have advanced, persistent, or recurrent deep tumors of the pelvis and thus have already failed other standard therapy or would not be considered candidates for other standard therapy.

Our facility and our clinical investigational sites operate under procedures that govern the conduct and management of FDA-regulated clinical studies under 21 CFR Parts 50 and 812, and Good Clinical Practices. FDA may conduct

Bioresearch Monitoring (BIMO) inspections of us and/or our clinical sites to assess compliance with 21 CFR Parts 50 and 812, our procedures, and the clinical protocol. If the FDA were to find that we or our clinical investigators are not operating in compliance with applicable regulations, we could be subject to the above FDA enforcement action as well as refusal to accept all or part of our data in support our 510(k) or PMA and/or we may need to conduct additional studies.

We, the FDA or the IRB could suspend a clinical trial at any time for various reasons, including a belief that the risks to study subjects outweigh the anticipated benefits. Additionally, we may decide at any time, for business or other reasons, to terminate a study. Even if a trial is completed, the results of clinical testing may not adequately demonstrate the safety and efficacy of the device or may otherwise not be sufficient to obtain FDA clearance or approval to market the product in the United States. Following completion of a study, we would need to collect, analyze and present the data in an appropriate submission to the FDA, either a 510(k) premarket notification or a PMA. Even if a study is completed and submitted to the FDA, the results of our clinical testing may not demonstrate the safety and efficacy of the device, or may be equivocal or otherwise not be sufficient to obtain approval of our product.

If the third parties on which we rely to conduct our clinical trials and to assist us with pre-clinical development do not perform as contractually required or expected, we may not be able to obtain regulatory approval for or commercialize our products.

We do not have the ability to independently conduct our pre-clinical and clinical trials for our products and we must rely on third parties, such as contract research organizations, medical institutions, clinical investigators and contract laboratories to conduct such trials. If these third parties do not successfully carry out their contractual duties or regulatory obligations or meet expected deadlines, if these third parties need to be replaced, or if the quality or accuracy of the data they obtain is compromised due to the failure to adhere to our clinical protocols or regulatory requirements or for other reasons, our pre-clinical development activities or clinical trials may be extended, delayed, suspended or terminated, and we may not be able to obtain regulatory approval for, or successfully commercialize, our products on a timely basis, if at all, and our business, operating results and prospects may be adversely affected. Furthermore, our third-party clinical trial investigators may be delayed in conducting our clinical trials for reasons outside of their control.

The results of our clinical trials may not support our product candidate claims or may result in the discovery of adverse side effects.

Even if our clinical trials are completed as planned, we cannot be certain that their results will support our product candidate claims or that the FDA or foreign authorities will agree with our conclusions regarding them. Success in pre-clinical studies and early clinical trials does not ensure that later clinical trials will be successful, and we cannot be sure that the later trials will replicate the results of prior trials and pre-clinical studies. The clinical trial process may fail to demonstrate that our product candidates are safe and effective for the proposed indicated uses, which could cause us to abandon a product candidate and may delay development of others. Any delay or termination of our clinical trials will delay the filing of our product submissions and, ultimately, our ability to commercialize our product candidates and generate revenues. It is also possible that patients enrolled in clinical trials will experience adverse side effects that are not currently part of the product candidate’s profile.

With respect to our marketed products, if we or our suppliers fail to comply with ongoing FDA or other foreign regulatory authority requirements, or if we experience unanticipated problems with our products, these products could be subject to restrictions or withdrawal from the market.

Any product for which we obtain clearance or approval, and the manufacturing processes, reporting requirements, post-approval clinical data and promotional activities for such product, will be subject to continued regulatory review, oversight and periodic inspections by the FDA. In particular, we and our suppliers are required to comply with FDA’s Quality System Regulations or QSR for the manufacture of our products and other regulations which cover the methods and documentation of the design, testing, production, control, quality assurance, labeling, packaging, storage and shipping of any product for which we obtain clearance or approval. The FDA enforces the QSR and other regulations through periodic inspections. Our facility in Salt Lake City, Utah, is regularly inspected by the FDA. The

most recent FDA inspection was conducted in December 2012. There were no deficiencies noted by the FDA as a result of this inspection and no Form 483 was issued.

The failure by us or one of our suppliers to comply with applicable statutes and regulations administered by the FDA or the failure to timely and adequately respond to any adverse inspectional observations or product safety issues could result in, among other things, any of the following enforcement actions:

- untitled letters, warning letters, fines, injunctions, consent decrees and civil penalties;
- unanticipated expenditures to address or defend such actions
- customer notifications for repair, replacement, refunds;
- recall, detention or seizure of our products;
- operating restrictions or partial suspension or total shutdown of production;
- refusing or delaying our requests for 510(k) clearance or premarket approval of new products or modified products;
- operating restrictions;
- withdrawing 510(k) clearances or HDE or PMA approvals that have already been granted;
- refusal to grant export approval for our products; or
- criminal prosecution.

If any of these actions were to occur it would harm our reputation and cause our product sales and profitability to suffer and may prevent us from generating revenue. Furthermore, our key component suppliers may not currently be or may not continue to be in compliance with all applicable regulatory requirements which could result in our failure to produce our products on a timely basis and in the required quantities, if at all.

Even if regulatory clearance or approval of a product is granted, such clearance or approval may be subject to limitations on the intended uses for which the product may be marketed and reduce our potential to successfully commercialize the product and generate revenue from the product. If the FDA determines that our promotional materials, labeling, training or other marketing or educational activities constitute promotion of an unapproved use, it could request that we cease or modify our training or promotional materials or subject us to regulatory enforcement actions. It is also possible that other federal, state or foreign enforcement authorities might take action if they consider our training or other promotional materials to constitute promotion of an unapproved use, which could result in significant fines or penalties under other statutory authorities, such as laws prohibiting false claims for reimbursement.

In addition, we may be required to conduct costly post-market testing and surveillance to monitor the safety or effectiveness of our products, and we must comply with medical device reporting requirements, including the reporting of adverse events and malfunctions related to our products. Later discovery of previously unknown problems with our products, including unanticipated adverse events or adverse events of unanticipated severity or frequency, manufacturing problems, or failure to comply with regulatory requirements such as QSR, may result in changes to labeling, restrictions on such products or manufacturing processes, withdrawal of the products from the market, voluntary or mandatory recalls, a requirement to repair, replace or refund the cost of any medical device we manufacture or distribute, fines, suspension of regulatory approvals, product seizures, injunctions or the imposition of civil or criminal penalties which would adversely affect our business, operating results and prospects.

For most products that receive PMA or HDE approval, the FDA imposes post-market study requirements as a condition of approval. As a condition of our HDE approval for the BSD-2000 hyperthermia system, the FDA required Perseon to conduct a post-market registry study, “Deep Hyperthermia and Radiation in the Treatment of Cervical Cancer Patients.” Due to challenges enrolling patients and sites in a small population with this rare disease, no patients were enrolled in this initial post-approval registry study. Because of these challenges, Perseon initiated collaborative discussions with FDA regarding the structure of the study. As a result, the initial post-market study structure has been revised, and we are in current discussions with our clinical sites regarding participation in the revised study. Perseon is still experiencing challenges in enrolling patients and sites and plans to initiate additional discussions with FDA regarding how best to address these challenges. The status of Perseon's post-approval study is listed as "progress inadequate" on the FDA's website. We plan to initiate additional discussions with the FDA regarding how best to address these challenges, but there can be no assurance that we will be able to successfully meet our Company's ongoing responsibilities for the post-approval study mandated by the FDA as part of our HDE approval. We have submitted all periodic updates to FDA as required and in a timely manner.

Our products may in the future be subject to product recalls that could harm our reputation, business and financial results.

The FDA and similar foreign governmental authorities have the authority to require the recall of commercialized products in the event of material deficiencies or defects in design or manufacture. In the case of the FDA, the authority to require a recall must be based on an FDA finding that there is a reasonable probability that the device would cause serious injury or death. Manufacturers may, under their own initiative, recall a product if any material deficiency in a device is found. A government-mandated or voluntary recall by us or one of our distributors could occur as a result of component failures, manufacturing errors, design or labeling defects or other deficiencies and issues. Recalls of any of our products would divert managerial and financial resources and have an adverse effect on our financial condition and results of operations. The FDA requires that certain classifications of recalls be reported to FDA within 10 working days after the recall is initiated. Companies are required to maintain certain records of recalls, even if they are not reportable to the FDA. We may initiate voluntary recalls involving our products in the future that we determine do not require notification of the FDA. If the FDA disagrees with our determinations, they could require us to report those actions as recalls. A future recall announcement could harm our reputation with customers and negatively affect our sales. In addition, the FDA could take enforcement action for failing to report the recalls when they were conducted.

If our products cause or contribute to a death or a serious injury, or malfunction in certain ways, we will be subject to medical device reporting regulations, which require reports to be submitted to the FDA and can result in voluntary corrective actions or FDA enforcement actions.

Under the FDA medical device reporting regulations, medical device manufacturers are required to report to the FDA information that a device has or may have caused or contributed to a death or serious injury or has malfunctioned in a way that would likely cause or contribute to death or serious injury if the malfunction of the device or one of our similar devices were to recur. If we fail to report these events to the FDA within the required timeframes, or at all, FDA could take enforcement action against us. Any such adverse event involving our products also could result in future voluntary corrective actions, such as recalls or customer notifications, or agency action, such as inspection or enforcement action. Any corrective action, whether voluntary or involuntary, as well as defending ourselves in a lawsuit, will require the dedication of our time and capital, distract management from operating our business, and may harm our reputation and financial results.

We may be subject to fines, penalties or injunctions if we are determined to be promoting the use of our products for unapproved or "off-label" uses.

Our promotional materials and training methods for physicians must comply with FDA and other applicable laws and regulations. We believe that the specific surgical procedures for which our 510(k)-cleared products are marketed fall within the scope of the surgical applications that have been cleared by the FDA and that our PMA approved products are marketed in accordance with their approved labeling. However, the FDA could disagree and require us to stop promoting our products for those specific procedures until we obtain FDA clearance or approval for them. In addition, if the FDA determines that our promotional materials or training constitutes promotion of an unapproved use, it could request that we modify our training or promotional materials or subject us to regulatory or enforcement actions, including the issuance of an untitled letter, a warning letter, injunction, seizure, civil fine and criminal penalties. It is also possible that other federal, state or foreign enforcement authorities might take action if they consider our promotional or training materials to constitute promotion of an unapproved use, which could result in significant fines or penalties under other statutory authorities, such as laws prohibiting false claims for reimbursement. In that event, our reputation could be damaged and adoption of the products would be impaired.

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Legislative or Regulatory reforms may adversely affect our ability to sell our products profitably.

From time to time, legislation is drafted and introduced in Congress that could significantly change the statutory provisions governing the clearance or approval, manufacture and marketing of a medical device. In addition, FDA regulations and guidance are often revised or reinterpreted by the agency in ways that may significantly affect our business and our products. It is impossible to predict whether legislative changes will be enacted or FDA regulations, guidance or interpretations changed, and what the impact of such changes, if any, may be. For example, the FDA may change its clearance and approval policies, adopt additional regulations or revise existing regulations, or take other actions that may prevent or delay approval or clearance of our products under development or impact our ability to modify our currently approved or cleared products on a timely basis. For example, in 2011, the FDA announced a Plan of Action to modernize and improve the FDA's premarket review of medical devices, and has implemented, and continues to implement, reforms intended to streamline the premarket review process. In addition, as part of the Food and Drug Administration Safety and Innovation Act of 2012, Congress enacted several reforms entitled the Medical Device Regulatory Improvements and additional miscellaneous provisions which will further affect medical device regulation both pre- and post-approval. Any change in the laws or regulations that govern the clearance and approval processes relating to our current and future products could make it more difficult and costly to obtain clearance or approval for new products, or to produce, market and distribute existing products.

We depend on adequate protection of our patent and other intellectual property rights to stay competitive.

We rely on patents, trade secrets, trademarks, copyrights, know-how, license agreements and contractual provisions to establish and protect our intellectual property rights. Our success will substantially depend on our ability to protect our intellectual property rights and maintain rights granted to us through license agreements. Our intellectual property rights may only afford us limited protection and may not adequately protect our rights or remedies to gain or keep any advantages we may have over our competitors, which could reduce our ability to be competitive and generate sales and profitability.

In the past, we have participated in substantial litigation regarding our patent and other intellectual property rights in the medical device industry. We have previously filed lawsuits for patent infringement against three of our competitors and subsequently settled all three of those lawsuits. Additional litigation against other parties may be necessary in the future to enforce our intellectual property rights, to protect our patents and trade secrets, and to determine the validity and scope of our proprietary rights. This litigation may require more financial resources than are available to us. We cannot guarantee that we will be able to successfully protect our rights in litigation. Failure to successfully protect our rights in litigation could reduce our ability to be competitive and generate sales and profitability.

A product liability settlement could exceed our ability to pay.

The manufacturing and marketing of medical devices involves an inherent risk of product liability. We presently carry product liability insurance with coverage limits of $5 million. Our product liability insurance does not cover intended injury, injury or damage resulting from the intoxication of any person, payment of workers' compensation benefits, injury of our own employee, injury or damage due to war, damage to property that we own, damage to our work, loss of use of property, patent infringements, pollution claims, interest payments, depreciation of property, or injury or damage resulting from asbestos inhalation. We are responsible to pay the first $10,000 resulting from any claim up to a maximum of $50,000 in one year. We cannot assure that our product liability insurance will provide adequate coverage against potential claims that might be made against us. If we were to be subject to a claim in excess of our coverage or to a claim not covered by our insurance and the claim succeeded, we would be required to pay the claim from our limited resources, which would reduce our limited capital resources and liquidity and reduce capital we could otherwise use to obtain approvals for and market our products. In addition, liability or alleged

liability could harm our business by diverting the attention and resources of our management and by damaging our reputation.

We are dependent upon key personnel, some of whom would be difficult to replace.

Our success will be largely dependent upon the efforts of Clinton E. Carnell Jr, our Chief Executive Officer, William S. Barth, our Chief Financial Officer, Benjamin Beckham, our Vice President of Global Sales, Jennifer R. Hoglin, our Vice President of Global Marketing, Todd H. Turnlund, our Vice President of Research and Development, and other key employees. We do not maintain key-person insurance on any of these employees. Our future success also will depend in large part upon our ability to identify, attract and retain other highly qualified managerial, technical and sales and marketing personnel. Competition for these individuals is intense. The loss of the services of any of our key personnel, the inability to identify, attract or retain qualified personnel in the future or delays in hiring qualified personnel could make it more difficult for us to manage our business and meet key objectives such as the sale of our products and the introduction of new products.

The market for our stock is limited and our stock price may be volatile.

The market for our common stock has been limited due to low trading volume and the small number of brokerage firms acting as market makers. Because of the limitations of our market and volatility of the market price of our stock, investors may face difficulties in selling shares at attractive prices when they want to. The average daily trading volume for our stock has varied significantly from week to week and from month to month, and the trading volume often varies widely from day to day. The following factors could impact the market for our stock and cause further volatility in our stock price:

- announcements of new technological innovations;
- FDA and other regulatory developments and changes;
- changes in third-party reimbursements;
- developments concerning proprietary rights;
- third parties receiving FDA approval for competing products; and
- market conditions generally for medical and technology stocks.

If the closing bid price of our stock continues to remain below $1.00 per share, our common stock may be subject to delisting from the NASDAQ Stock Market.

Shares of our common stock are listed on the NASDAQ Capital Market ("Nasdaq") under the symbol "PRSN". We are required to comply with Nasdaq's listing standards in order to maintain the listing of our common stock on the exchange. Nasdaq has the authority pursuant to Nasdaq Rule 5550(a)(2) to delist our common stock if, during any period of 30 consecutive trading days, the closing bid price falls below a minimum bid price of $1.00 per share.

On August 8, 2014, we received a letter from the staff of Nasdaq notifying us that, for the previous 30 consecutive business days, the bid price for our common stock had closed below the minimum $1.00 per share requirement for continued listing on Nasdaq under Nasdaq Listing Rule 5550(a)(2). In accordance with Nasdaq Listing Rule 5810(c)(3)(A), we have been provided a second period of 180 calendar days, or until August 4, 2015, to regain compliance. If at any time before August 4, 2015, the bid price of our common stock closes at $1.00 per share or more for a minimum of ten consecutive business days, the Staff will provide us with written confirmation of compliance and the matter will be closed.

We are actively monitoring the bid price of our common stock and will consider any and all options available to us to achieve compliance. To the extent that we are unable to resolve the listing deficiency, there is a risk that our common stock may be delisted from Nasdaq and would likely trade only on the over-the-counter market (the "OTC"). If our common stock were to trade on the OTC, selling our common stock could be more difficult because smaller quantities of shares would likely be bought and sold, transactions could be delayed, and security analysts' coverage may be reduced. In addition, in the event our common stock is delisted, broker-dealers transacting in our common stock would be subject to certain additional regulatory burdens, which may discourage them from effecting transactions in our common stock, thus further limiting the liquidity of our common stock and potentially resulting in lower prices and larger spreads in the bid and ask prices for our common stock.

Current and former directors and executive officers own a substantial number of shares of our capital stock, which could discourage or prevent a takeover, even if an acquisition would be beneficial to our stockholders.

Current and former directors and executive officers own approximately 18% of our outstanding voting power. Accordingly, these stockholders, individually and as a group, may be able to influence the outcome of stockholder votes involving the election of directors, the adoption or amendment of provisions in our certificate of incorporation and bylaws and the approval of certain mergers or other similar transactions, such as a sale of substantially all of our assets. Such control by existing stockholders could have the effect of delaying, deferring or preventing a change in control of our company.

Future sales of shares of our securities could negatively affect our stock price.

Future sales of shares of our securities could negatively affect the market price of our common stock. In July 2014 we completed a $5.2 million registered direct placement of our stock under our current universal shelf registration. Prior to the July 2014 offering we completed five offerings utilizing a universal shelf registration statement during calendar years 2010 and 2013. Sales of substantial amounts of shares of our common stock or other securities could lower the market price of our common stock and impair our ability to raise capital.

Anti-takeover provisions in our certificate of incorporation may have a possible negative effect on our stock price.

Certain provisions of our certificate of incorporation and bylaws may make it more difficult for a third party to acquire, or discourage a third party from attempting to acquire, control of us. We have in place several anti-takeover measures that could discourage or prevent a takeover, even if an acquisition would be beneficial to our stockholders. The increased difficulties faced by a third party who wishes to acquire us could adversely affect our stock price.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We own our office, production and research facilities located in Salt Lake City, Utah. The complete headquarters and production facility occupies approximately 20,000 square feet. The building is currently in good condition, is owned by us and is currently for sale. We are currently looking for a facility that will better suit our business needs. We believe that we carry adequate insurance on the property.

ITEM 3. LEGAL PROCEEDINGS

We are subject to various complaints, allegations and threats of lawsuit in the ordinary course of business. We do not believe that any of the current complaints or allegations has merit, nor will have a material impact on our business or financial condition. However, complaints, allegations and threats of lawsuits are deemed serious, divert resources and could result in the payment of substantial damages. Legal counsel for Perseon received a demand letter dated October 3, 2014 and a draft complaint from a single shareholder's legal counsel who threatened a direct, derivative and securities class action suit against Perseon, as well as all current and certain former directors and officers. The unfiled draft complaint alleges that from November 2010 through October 2014, BSD issued various press releases and public statements which omitted certain material facts related to BSD's revenue and sales, thereby misrepresenting the true financial condition of BSD. In particular, the draft complaint alleges that BSD's press releases "tout[ed] impressive revenue figures and purported sales" when "in reality BSD was floundering and unable to

cover its operating costs, including significant executive compensation." The unfiled draft complaint also alleges that BSD "chose to issue additional securities at below-market prices in an effort to fund operating expenses," rather than "raise capital through debt transactions or other methods," and that three offerings cited in the draft complaint resulted in "the dilution of existing shareholder positions." Our Board of Directors has engaged outside legal counsel specializing in securities matters and litigation to conduct an independent investigation of this draft complaint and its allegations. Upon completion of their investigation by special legal counsel, we expect findings and recommendations will be presented to the Board of Directors for its consideration..

There are no other known material legal proceedings pending against or being taken by us.

ITEM 4. MINE SAFETY DISCLOSURES

This item is not applicable to the Company.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common shares trade on the NASDAQ under the symbol “PRSN”. The following table sets forth the high and low sales prices, as provided by NASDAQ for the quarters in fiscal years ended August 31, 2013 and 2014 and the transition period ended December 31, 2014. The amounts reflect inter-dealer prices, without retail mark-up, markdown or commission, and may not represent actual transactions.

Quarter Ended:	High	Low
November 30, 2012	$ 2.41	$ 1.15
February 28, 2013	2.05	1.32
May 31, 2013	1.87	0.97
August 31, 2013	1.70	1.20
November 30, 2013	1.78	1.18
February 28, 2014	1.45	1.03
May 31, 2014	1.66	.95
August 31, 2014	1.19	.55
November 30, 2014	.67	.35
Transition Period Ended:		
December 31, 2014	.48	.28

As of December 31, 2014, there were 464 holders of record of our common stock. We have not paid any cash dividends on our common stock since our inception, and we currently plan to retain our future earnings, if any, to fund the growth of our business.

On March 27, 2015, the last reported sales price of our common stock on NASDAQ was $0.37 per share.

Repurchases of Equity Securities

None.

Recent Sales of Unregistered Securities

None.

Performance Graph

The following graph shows a comparison of the five-year cumulative total return for our common stock, the S&P 500 Index, and the S&P Health Care Equipment Index, assuming an investment of $100 on December 31, 2009. The cumulative return of the Company was computed by dividing the difference between the price of our common stock at the end and the beginning of the measurement period (December 31, 2009 to December 31, 2014) by the price of our common stock at the beginning of the measurement period.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other parts of this Transition Report on Form 10-K 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 and the Item 1A "Risk Factors" above. The following discussion should be read in conjunction with our financial statements and notes thereto included in Item 8 of this Form 10-K. We assume no obligation to revise or update any forward-looking statements for any reason, except as required by law.

Perseon Corporation, formerly BSD Medical Corporation, (the "Company") was incorporated in the State of Delaware on July 3, 1986. In February 2015, we changed the name of the Company to Perseon Corporation. We are a life sciences company that develops, manufactures, markets and services groundbreaking medical systems to treat cancer using heat therapy. Our MicroThermX® microwave ablation system employs precision-guided microwave energy to ablate diseased soft tissue. We have developed extensive intellectual property and distribute our products in the United States, Europe and Asia. In early 2015, we are executing on our previously announced plan to either sell the assets related to hyperthermia products or discontinue manufacturing and selling hyperthermia systems. This will allow us to more effectively follow our strategic plan of exclusively focusing on our highest return opportunity – the high-growth microwave ablation market.

In connection with our plans to either sell or divest the assets related to the hyperthermia product line, we analyzed the carrying value and estimated net realizable value of inventory and other assets related to the hyperthermia product line as of December 31, 2014. As a result of this analysis, as of December 31, 2014, we recorded an impairment charge of $805,000 for inventory, equipment, and other assets related to the hyperthermia product line. As of December 31, 2014, we also accrued $50,000 for legal and other costs that we estimate will be incurred in connection with the sale or divestiture.

We have changed our fiscal year end for financial reporting from August 31 to December 31, effective for the four months ended December 31, 2014. The financial information for the four months ended December 31, 2013 provided in this report for comparative purposes is unaudited. All adjustments (consisting only of normal recurring adjustments) necessary for the fair presentation of our results of operations and our cash flows for the four months ended December 31, 2013 have been included. The results of operations for the four months ended December 31, 2014 may not be indicative of the results for our fiscal year ending December 31, 2015.

As of December 31, 2014, we had a sales backlog of $ 347,500.

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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 microwave ablation 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. In addition, our revenues in the future will not be comparable to prior periods as a result of our sale or discontinuance of the hyperthermia product line. 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 disposable devices used with certain of our systems, training, service support contracts and other miscellaneous revenues. We also recognize revenues from equipment rental, including fee-per-use rental income from our MicroThermX.

Our revenues consisted of the following:

	Four Months Ended December 31,		Years Ended August 31,	
	2014	2013	2014	2013
System sales – Hyperthermia	$ 440,000	$ 428,650	$ 2,203,650	$ 816,700
System sales - MicroThermX	30,875	558,250	775,875	1,118,126
Disposable devices	409,787	501,565	1,608,481	1,109,750
Equipment rental	125,900	95,200	364,600	298,600
Service contracts and other	109,346	100,597	375,747	330,116
Total	$ 1,115,908	$ 1,684,262	$ 5,328,353	$ 3,673,292

Revenues reported in the above table for disposable devices and equipment rental is mainly MicroThermX related.

Total revenues in the four months ended December 31, 2014 decreased $568,354, or 34% compared to total revenues in the four months ended December 31, 2013. This decrease in revenues resulted primarily from a decrease in MicroThermX systems sales. System sales in the four months ended December 31, 2013 included significant up-front stocking orders from Terumo for MicroThermX systems as we initially engaged them as our European distributor for MicroThermX products. Sales of MicroThermX disposable devices during the four months ended December 31, 2014 also decreased from sales of disposable devices during the four months ended December 31, 2013, again largely due to significant initial stocking orders from Terumo in the 2013 four month period. We experienced modest increases in service call revenue and revenues from rental of MicroThermX systems on a fee per use basis.

Total revenues in the fiscal year ended August 31, 2014 increased $1,655,061, or 45%, compared to total revenues in the fiscal year ended August 31, 2013. The growth in revenue during the fiscal year ended August 31, 2014 resulted primarily from the shipment of several BSD-2000 units that were in backlog as of August 31, 2013, along with higher revenues from disposable SynchroWave antennas and from our fee-per-use rental program for MicroThermX generators. These higher revenues were partially offset by lower revenues from sales of MicroThermX generators.

Historically, our revenues have fluctuated significantly from period to period because our sales were 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. However, we have been unable to sustain an increase in the number of hyperthermia systems sold due to various factors, including: non-acceptance by cancer-treating physicians of hyperthermia therapy; inadequate reimbursement rates from third-party payers; and significant uncertainty in the U.S. healthcare industry due to recent governmental healthcare reform. As discussed above, we are executing on our previously announced plan to either sell the assets related to hyperthermia products or discontinue manufacturing and selling hyperthermia systems. This will allow us to more effectively follow our strategic plan of exclusively focusing on our highest return opportunity – the high-growth microwave ablation market.

At times, we have derived a significant portion of our revenues from sales to related parties. All of our related party revenue results from the sale of hyperthermia systems and related component parts and services to Medizintechnik GmbH and its affiliated entity – BSD BioSystems Design, S.A. (“Medizintechnik”). Dr. Sennewald, a former director and one of our significant stockholders, is a stockholder, executive officer and a director of Medizintechnik. We derived $463,423, or approximately 42% of our total revenues in the four months ended December 31, 2014, compared to $16,686, or approximately 1% of our total revenues in the four months ended December 31, 2013 from sales to Medizintechnik. We derived $419,549, or approximately 8% of our total revenues in the year ended August 31, 2014, compared to sales of $99,896, or 3% of our total revenues in the year ended August 31, 2013. The increased sales to Medizintechnik in the 2014 periods resulted from revenues from the sale of one hyperthermia system that was recognized as revenue over a period of time due to the terms of the sale. Although sales to non-related parties decreased in the four month period ended December 31, 2014 compared to the four month period ended December 31, 2013, the growth in our revenues on an annual basis has come primarily from non-related parties.

The following tables summarize the sources of our revenues:

Non-Related Parties	Four Months Ended December 31, 2014	Four Months Ended December 31, 2013	Years Ended August 31, 2014	Years Ended August 31, 2013
System sales – Hyperthermia	$ -	$ 428,650	$ 1,843,650	$ 766,700
System sales – MicroThermX	30,875	558,250	775,875	1,118,126
Consumable devices	406,555	491,515	1,572,455	1,087,100
Equipment rental	125,900	95,200	364,600	298,600
Service contracts	73,001	76,777	303,109	259,550
Other	16,154	17,184	49,115	43,320
Total	$ 652,485	$ 1,667,576	$ 4,908,804	$ 3,573,396

Related Parties	Four Months Ended December 31, 2014	Four Months Ended December 31, 2013	Years Ended August 31, 2014	Years Ended August 31, 2013
System sales – Hyperthermia	$ 440,000	$ -	$ 360,000	$ 50,000
Consumable devices	3,232	10,050	36,026	22,650
Other	20,191	6,636	23,523	27,246
Total	$ 463,423	$ 16,686	$ 419,549	$ 99,896

Gross Margin

Our gross margin and gross margin percentage has fluctuated from period to period depending on the mix of revenues reported for the period and the type and configuration of the hyperthermia systems sold during the period. Our total gross margin was $520,399, or 47% of total sales, for the four months ended December 31, 2014 and $877,645, or 52% of total sales, for the four months ended December 31, 2013. Our total gross margin was $2,439,488, or 46% of total sales, for the fiscal year ended August 31, 2014 and $1,411,843, or 38% of total sales, for the comparable 2013 fiscal year. The decrease in gross margin and gross margin percentage for the four months ended December 31, 2014 compared to the four months ended December 31, 2013, resulted primarily from the lower level of sales in the 2014 period. The increase in gross margin and gross margin percentage in the fiscal year ended August 31, 2014 compared to fiscal year ended August 31, 2013 resulted primarily from increasing sales of MicroThermX consumable devices and equipment rental, and higher sales of higher margin hyperthermia products in the 2014 period. In addition, as sales volume increases, we believe we more fully absorb certain fixed operating costs that are included in cost of sales, thus increasing our gross profit percentage.

Cost of Sales

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. Cost of sales as a percentage of sales will fluctuate from period to period depending on the mix of sales for the period. Total cost of sales for the four months ended December 31, 2014 was $595,509 compared to $806,617 for the four months ended December 31, 2013, a decrease of $211,108, or approximately 26%. This decrease resulted from decreased sales volumes during the four months ended December 31, 2014, as further discussed above. Total cost of sales for the fiscal year ended August 31, 2014 was $2,888,865 compared to $2,261,449 for the comparable 2013 fiscal year, an increase of $627,416, or approximately 28%. This increase resulted from the increased sales volume of both hyperthermia and MicroThermX products in the fiscal year ended August 31, 2014 compared to the fiscal year ended August 31, 2013, as further discussed above.

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. Our research and development expenses decreased in the four months ended December 31, 2014 compared to the four months ended December 31, 2013 and remained relatively constant in the fiscal year ended August 31, 2014 compared to the fiscal year ended August 31, 2013. Research and development expenses were $627,769 for the four months ended December 31, 2014 compared to $701,549 for the four months ended December 31, 2013, a decrease of $73,780, or approximately 11%. Research and development expenses were $2,229,043 for the fiscal year ended August 31, 2014 compared to $2,281,854, for the fiscal year ended August 31, 2013, a decrease of $52,811, or approximately 2%

Selling, General and Administrative Expenses – Selling, general and administrative expenses were $2,819,205 for the four months ended December 31, 2014 compared to $2,237,057 for the four months ended December 31, 2013, an increase of $582,148, or approximately 26%. This increase resulted primarily from our accrual of severance expenses related to the departure of certain of our management. Selling, general and administrative expenses were $7,308,643 for the fiscal year ended August 31, 2014 compared to $7,403,273 in the fiscal year ended August 31, 2013, a decrease of $94,630, or approximately 1%. While these total expenses were relatively constant from year to year, as we continue to roll out the MicroThermX product line and the support of its global distribution network, we believe that the level of our selling, general and administrative expenses will increase over the levels reported for the four months ended December 31, 2014, if sales volumes increase in 2015.

Impairment of Assets –In 2014, our Board of Directors determined that it is in the best interest of Perseon shareholders to divest our assets related to the hyperthermia product line In connection with our plans to either sell or divest the assets related to the hyperthermia product line, we analyzed the carrying value and estimated net realizable value of inventory and other assets related to the hyperthermia product line as of December 31, 2014. As a result of this analysis, during the four months ended December 31, 2014, we recorded an impairment charge of $805,000 for inventory, equipment, and other assets related to the hyperthermia product line. These impairment expenses are the result of our assessment of the decrease in estimated realizable value associated with assets related to the hyperthermia product line. The inventory reserve was also increased by $50,000 in the corresponding year ended August 31, 2014, to recognize a portion of the devaluation of inventory related to the hyperthermia product line.

Income Tax Provision – No provision for income taxes was recorded for the four months ended December 31, 2014 and 2013. For the years ended August 31, 2014 and 2013, we recorded an income tax provision of $2,000 and $1,938, respectively. Due to our operating losses, our income tax provision is primarily related to state income taxes and is currently immaterial to our business.

Liquidity and Capital Resources

From inception through December 31, 2014, we have generated an accumulated deficit of $56,548,160 since our operating revenues have been insufficient to cover our operating expenses. We have financed our operations primarily through the sale of our common stock. As of December 31, 2014, we had cash and cash equivalents of $5,594,578, comprised primarily of money market funds and savings accounts. We will require additional capital to fund our operations.

As of December 31, 2014, we had current liabilities totaling $1,799,503, comprised of accounts payable, accrued liabilities, customer deposits and deferred revenue incurred in the normal course of our business. As of December 31, 2014, we had no long-term liabilities.

Stock Offerings

Shelf Registration Statements

On October 1, 2009, a universal shelf registration statement was declared effective by the SEC for the issuance of common stock, preferred stock, warrants, senior debt, subordinated debt and units up to an aggregate amount of $50.0 million (the "2009 Shelf Registration Statement"). We completed four stock offerings utilizing the 2009 Shelf Registration Statement during calendar year 2010, and we received total net proceeds of approximately $19.2 million, including proceeds from the exercise of warrants issued in the stock offerings.

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 (the "2012 Shelf Registration Statement"). On October 11, 2012, the 2012 Shelf Registration Statement was declared effective by the SEC. We have completed two stock offerings utilizing the 2012 Shelf Registration Statement, from April 2013 through December 31, 2014, and we received total net proceeds of approximately $9 million from these offerings, as more fully described below. 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 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 "April 2013 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 April 2013 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 April 2013 Offering, not to exceed the lesser of (i) $35,000 or (ii) 8% of the gross proceeds of the April 2013 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 April 2013 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 became exercisable six months and one day following the closing date of the April 2013 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 April 2013 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 April 2013 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 April 2013 Offering on April 12, 2013 and received net proceeds of approximately $4.6 million, after deducting placement agent fees and the offering expenses borne by us.

The April 2013 Offering was completed using the 2012 Shelf Registration Statement on Form S-3, pursuant to a prospectus supplement filed with the SEC.

May 2014 Offering

On May 9, 2014, we entered into an At-the-Market Issuance Sales Agreement (the "ATM Agreement") with MLV & Co. LLC ("MLV"). Under this sales agreement, we could issue and sell from time to time, up to $8,000,000 of common stock. These shares are registered under the 2012 Shelf Registration Statement filed with the SEC. MLV would act as sales agent, using commercially reasonable efforts consistent with its normal trading and sales practices. The Agreement provided that our common shares would be sold at market prices prevailing at the time of the sale of our common stock, at no discount to market and no warrants attached. We were not obligated to make any sales under the sales agreement. We paid MLV a commission rate of 3.0% of the gross proceeds from the sale of common stock sold through MLV as sales agent under the sales agreement, reimbursed MLV for certain expenses incurred in connection with entering into the sales agreement, and provided MLV with customary indemnification rights. We filed the full terms and text of the sales agreement on a Current Report on Form 8-K on May 9, 2014. Through June 22, 2014, we sold 46,622 shares of common stock at an average price per share of $1.074, for gross proceeds of $50,068. The ATM Agreement was terminated on June 22, 2014.

June 2014 Offering

On June 25, 2014, we entered into a securities purchase agreement (the “June Offering”) with certain institutional investors in which we agreed to sell, pursuant to a securities purchase agreement (the “Purchase Agreement”), an aggregate of 5,500,000 shares of its common stock and warrants to purchase a total of 4,400,000 shares of our common stock to such investors for aggregate gross proceeds of approximately $5.2 million, and net proceeds of approximately $4.7 million, after deducting placement agency fees and other costs associated with the transaction. 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 0.8 shares of common stock. The purchase price was $0.95 per fixed combination. The warrants will become exercisable six months and one day following the closing date of the June Offering and will remain exercisable for five years thereafter at an exercise price of $1.10 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 4.99% of our common stock. The warrants are contingently puttable at the option of the holders upon the occurrence of a fundamental transaction (as defined in the warrant agreements). We believe that all of the fundamental transactions are within our sole control, and that the probability of any fundamental transaction occurring and the put being exercised are both remote.

Under the Purchase Agreement, we agreed with each of the purchasers that, subject to certain exceptions we will not, within the 75 days following the closing of the June Offering 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 for a period of four years from the date of the Purchase Agreement, we will not effect or enter into an agreement to effect 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

- eententer into any agreement (including, without limitation, an equity line of credit) whereby we may sell securities at a future determined price.

We also agreed to indemnify each of the purchasers against certain losses resulting from its breach of any of its representations, warranties, or covenants under agreements with each of the purchasers, as well as under certain other circumstances described in the Purchase Agreement. The transaction closed on July 1, 2014 and the net proceeds were transferred to us.

Cash Flows from Operating, Investing and Financing Activities

During the four months ended December 31, 2014, we used net cash of $2,467,242 in operating activities, primarily as a result of our net loss of $3,768,390, decreased by non-cash expenses of $1,124,951, including depreciation and amortization, stock-based compensation, loss on disposition of assets and impairment of assets. Net cash used in operating activities also included increases in receivables of $33,334 and inventories of $46,459 and decreases in customer deposits of $114 and deferred revenue of $41,825, partially offset by a decrease in other current assets of $59,736, and increases in accounts payable of $49,569 and accrued liabilities of $188,624.

During the four months ended December 31, 2013, we used net cash of $2,006,107 in operating activities, primarily as a result of our net loss of $2,106,641, decreased by non-cash expenses of $374,531, including depreciation and amortization and stock-based compensation. Net cash used in operating activities also included an increase in inventories of $328,517 and decreases in accounts payable of $57,272, accrued liabilities of $84,323 and deferred revenue of $46,237, partially offset by decreases in receivables of $95,124 and other current assets of $51,881, and an increase in customer deposits of $95,347.

During the year ended August 31, 2014, we used net cash of $5,916,395 in operating activities, primarily as a result of our net loss of $7,142,832, decreased by non-cash expenses of $1,200,422, including depreciation and amortization, stock-based compensation, stock issued for services and gain on disposition of property and equipment. Net cash used in operating activities also included decreases in customer deposits of $275,699 and deferred revenue of $687,665, partially offset by decreases in receivables of $548,961, inventories of $66,581, other current assets of $53,709, and increases in accounts payable of $27,480 and accrued liabilities of $292,648.

During the year ended August 31, 2013, we used net cash of $6,200,055 in operating activities, primarily as a result of our net loss of $8,251,691, decreased by non-cash expenses of $1,446,966, including depreciation and amortization, stock-based compensation and stock issued for services. Net cash used in operating activities also included increases in receivables of $601,326, inventories of $41,813, and other current assets of $79,959, partially offset by increases in accounts payable of $325,663, accrued liabilities of $149,182, customer deposits of $292,500, and deferred revenue of $560,423.

Net cash used in investing activities, resulting from the purchase of property and equipment, was $35,317 and $21,330 for the four months ended December 31, 2014 and 2013, respectively. Net cash used in investing activities, resulting from the purchase of property and equipment, was $73,574 and $35,362 for the years ended August 31, 2014 and 2013, respectively.

Net cash used in financing activities comprised of payments on note payable was $33,279 for the four months ended December 31, 2014. We had no net cash provided by or used in financing activities for the four months ended December 31, 2013. Net cash provided by financing activities was $4,669,857 for the year ended August 31, 2014, comprised of net proceeds of $4,636,579 from the sale of common stock and $74,052 of proceeds from short term financing of an insurance policy, and payments on the short term financing of $40,774. Net cash provided by financing activities for the year ended August 31, 2013 was $4,583,437, comprised of net proceeds from the sale of common stock.

We do not believe that our current cash and cash equivalents will be sufficient to fund our operations at their current levels for the next twelve months. We will need to obtain additional financing. We believe that we will be able to raise sufficient capital, to fund our operations, and on terms that are acceptable to us. However, due to the unpredictability of global financial markets, there can be no assurance that we will be successful in raising additional funds through the sale of debt or equity securities on terms acceptable to us. If we raise equity capital, our stockholders will be diluted. Insufficient funds would likely require us to reduce costs, which would negatively affect our research and development programs, our efforts to expand our marketing and sales presence, the ability to hire and retain qualified personnel, as well as other operational aspects of the Company.

As of December 31, 2014, we had no significant commitments for the purchase of property and equipment.

We had no material off- balance sheet arrangements as of December 31, 2014.

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 product sales 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 disposable 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 review our inventory levels and usage, paying particular attention to slower-moving items. If projected sales do not materialize or if our 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 limited 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 Receivable: We maintain an allowance for doubtful accounts receivable 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 adopted during the four months ended December 31, 2014 that had a material impact on our financial statements.

In May 2014, FASB issued ASU 2014-09 Revenue from Contracts with Customers. The amendments in ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605 Revenue Recognition and most industry-specific guidance, and creates a Topic 606 Revenue from Contracts with Customers.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. We have not yet determined how our financial statements will be affected by the adoption of ASU 2014-09.

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 Transition Report on Form 10-K 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 ability to successfully execute our plan to either sell the assets related to hyperthermia products or discontinue manufacturing and selling hyperthermia systems;
- our belief that the distribution agreement with Terumo Europe NV will help drive market adoption of the MicroThermX;
- our expectations that the SynchroWave antennas 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 the future;
- our belief that the level of our operating expenses, including selling, general and administrative expenses, will increase;
- 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 we will be able to raise additional capital to fund our operations.

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 this Transition Report 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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our cash and cash equivalents consist primarily of money market funds and savings accounts, which are investment grade securities. These accounts bear variable interest rates that are adjusted to market conditions and changes in financial market conditions and in market rates will affect interest income earned on these funds. We do not believe, however, that the interest income earned on our money market funds and savings accounts is material to the results of our operations. Further, we do not believe that we are currently exposed to changes in financial market conditions that expose our money market funds and savings accounts to material changes in the market value of their principal.

We do have significant sales to foreign customers and are therefore subject to the effects changes in foreign currency exchange rates may have on demand for our products and services. We currently do not utilize derivative instruments to offset the exposure to changes in foreign currency exchange rates. To minimize foreign exchange risk, our export sales are transacted in United States dollars.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Financial Statements of the Company called for by this item are contained in a separate section of this report. See "Index to Financial Statements" on Page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in reports filed under the Securities Exchange Act of 1934 (the "Act") is recorded, processed, summarized and reported within the specified time periods and accumulated and communicated to management, including our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Accounting Officer), as appropriate, to allow timely decisions regarding required disclosure.

Management, under the supervision and with the participation of our Chief Executive Officer (Principal Executive Officer) and Chief Financial Officer (Principal Accounting Officer), evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) promulgated under the Act), as of December, 2014. Based on that evaluation, management concluded that our disclosure controls and procedures were effective as of December 31, 2014.

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Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting of the Company. Management's intent is to design this system 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 in the United States of America ("GAAP").

Our internal control over financial reporting includes those policies and procedures that:

1. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

2. provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

3. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

A material weakness is a significant deficiency, or combination of significant deficiencies, in internal controls over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. Management performed an assessment of the effectiveness of the Company's internal control over financial reporting as of August 31, 2014, utilizing the criteria described in the "Internal Control — Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The objective of this assessment was to determine whether our internal control over financial reporting was effective as of such date. In its assessment of the effectiveness of internal control over financial reporting as of August 31, 2014, management concluded that our internal control over financial reporting is effective.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as such item is defined in Rule 13a-15(f) under the Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal controls will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or

deterioration in the degree of compliance with associated policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

DIRECTORS

The names of directors, their ages and their respective business backgrounds are set forth below as of March 6, 2015.

Name	Position(s) With the Company	Age	Director Since
Timothy C. McQuay	Independent Director and Chairman of the Board	63	2008
Clinton E. Carnell Jr.	President, Chief Executive Officer and Director	45	2014
Harold R. Wolcott	Director	68	2009
Michael Nobel, Ph.D.	Independent Director	75	1998
Steven G. Stewart	Independent Director and Financial Expert	66	2006
Dr. Damian E. Dupuy	Independent Director	53	2011

BUSINESS EXPERIENCE AND QUALIFICATIONS OF NOMINEES FOR ELECTION TO THE BOARD OF DIRECTORS

Timothy C. McQuay has served as a director of Perseon since February 2008 and currently serves as Chairman of the Board of Directors. He is a Managing Director – Investment Banking with Noble Financial Capital Markets. Prior to joining Noble Financial Capital Markets in November 2011, Mr. McQuay was a Managing Director – Investment Banking with B Riley & Co. Prior to joining B Riley in September 2008, Mr. McQuay served for ten years as Managing Director – Investment Banking with A. G. Edwards & Sons, Inc., where he specialized in Healthcare, including medical technology, biotechnology and specialty pharmaceuticals. He currently serves as a member of the Board of Directors of Superior Industries International, Inc. Mr. McQuay holds an AB in Economics from Princeton University and an MBA from UCLA. Mr. McQuay’s qualifications to serve on the Board include, among others, his extensive business and financial experience, his public company board and investment banking experience, his knowledge of Perseon, and his service as a director of Perseon since 2008.

Clinton E. Carnell Jr. was appointed a director of Perseon by unanimous written consent of our Board of Directors in November 2014. At that time, we also named Mr. Carnell as our President and Chief Executive Officer. Most recently, he served as an advisor to Covidien plc, a publicly traded global health care leader, in the role of 'Executive in Residence.' From 2011 to 2014, Mr. Carnell served as Chairman, Chief Executive Officer and President of MyoScience, Inc., a commercial-stage medical device company which developed technology to target nerves for the treatment of pain, muscle disorders, aesthetic and other medical conditions. From 2005 to 2011 Mr. Carnell was the Chief Operating Officer of Solta Medical, Inc., a publicly held medical aesthetics company where he had responsibility for the Thermage and Fraxel Brands, led the integration of three strategic acquisitions and played a key role in Solta’s IPO in 2006. During the period from 2002 to 2005 he was Vice President of Sales for the US Surgical Division of Bausch & Lomb Prior to 2002, Mr. Carnell held management positions with healthcare companies including Gambro Healthcare, Johnson & Johnson and Charleston Renal Care, LLC. Mr. Carnell’s qualifications to serve on the Board include, among others, his extensive business, operations and sales experience, and his

management and executive experience at publicly held medical device companies.

Harold R. Wolcott has served as a director of Perseon since April 2009. Mr. Wolcott also served as President of Perseon from April 2009 until his successor was appointed in November 2014. Mr. Wolcott has 45 years of experience managing and growing newly-formed venture capital financed corporations as well as multi-million dollar medical device businesses with international operations. He has a wide range of experience in the areas of product research, product engineering, manufacturing and plant management, as well as expertise in all aspects of sales and marketing, acquisition/integration, and the sale of medical device businesses. Prior to joining Perseon, Mr. Wolcott served from 2006 through 2009 as President and Chief Operating Officer, and later, as Director of Dimicron Inc., a development stage medical company utilizing synthetic diamond for orthopedic applications. From 2001 until 2005, Mr. Wolcott served as Chief Operating Officer and Director of Rubicon Medical, Inc., a company focusing on proprietary technology in embolic protection for interventional cardiology and interventional neurology. Mr. Wolcott's qualifications to serve on the Board include, among others, his extensive executive and operational management experience in the medical device business, his public company board experience, his knowledge of Perseon, and his service as President and a director of Perseon from April 2009 through November 2014.

Michael Nobel, Ph.D., has served as a director of Perseon since January 1998. Dr. Nobel participated in the introduction of magnetic resonance imaging as European Vice President of Fonar Corp. He is founder and trustee of the Nobel Sustainable Trust Foundation. From 1991 to 2007, Dr. Nobel served as the Executive Chairman of the MRAB Group, a company providing diagnostic imaging services to Sweden. From August 2005 until June 2008, Dr. Nobel served as a director of WorldSpace Corp. He has also been a consultant to Unesco in Paris and the United Nations Social Affairs Division in Geneva. Today, Dr. Nobel is chairman or board member of several international companies in medical diagnostics, treatment and information systems. He is a guest professor at the Seisa University in Japan. In December 2012 Dr. Nobel was appointed a director of CytoDyn Inc. a public company traded on the OTCQB market. Dr. Nobel's qualifications to serve on the Board include, among others, his extensive business and financial experience, his knowledge of Perseon, and his public company experience as a director of Perseon since 1998.

Steven G. Stewart has served as a director of Perseon since 2006. From July 1998 through June 2013, Mr. Stewart served in several management positions at Headwaters, Inc. (a New York Stock Exchange company), including Director of Financial Affairs, Treasurer and as the Chief Financial Officer for approximately ten years before retiring on July 1, 2013. Prior to joining Headwaters, Mr. Stewart served as a business assurance partner for PricewaterhouseCoopers LLP (formerly Coopers & Lybrand LLP), and as an audit partner with Ernst & Young (formerly Arthur Young), including service as the Salt Lake City office Director of High Technology and Entrepreneurial Services. Mr. Stewart's qualifications to serve on the Board include, among others, his extensive business and financial experience, his experience as an executive finance officer of a public company, his knowledge of Perseon, and his public company experience both at Headwaters and as a director of Perseon since 2006.

Damian E. Dupuy, MD, was appointed a Director in April 2011. Dr. Dupuy has been a Professor of Diagnostic Imaging at the Warren Alpert Medical School of Brown University since 2005, and has served as Director, Tumor Ablation, at Rhode Island Hospital in Providence, RI since 2001. Dr. Dupuy, a fellow of the American College of Radiology, is a pioneer in the growing field of image guided tumor ablation, whereby various types of thermal devices destroy tumors by direct placement through the skin under image guidance. Dr. Dupuy is internationally known for his pioneering clinical work in treating cancer patients who suffer from tumors of the lung, liver, kidney, head and neck, pelvis, adrenal and skeleton. Dr. Dupuy has led two National Cancer Institute multi-center trials and currently is the Interventional Oncology Symposium Chair of the Radiological Society of North America. Dr. Dupuy, who is a graduate of the University of Massachusetts, Amherst, and the University of Massachusetts Medical School, has published widely on a variety of specialized medical issues and is the recipient of numerous post-graduate honors and awards, including an American College of Radiology Imaging Network Publications Merit Award in 2010. Dr. Dupuy's qualifications to serve on the Board include, among others, his extensive medical and business experience, his knowledge of Perseon, and public company experience as a director of Perseon since April 2011.

COMPOSITION OF THE BOARD OF DIRECTORS

Our Board of Directors currently consists of six directors. Directors are elected at each annual meeting of stockholders to serve until the next annual meeting of stockholders or until their successors are duly elected and qualified. There are no family relationships among any of our directors, officers or key employees.

BOARD LEADERSHIP STRUCTURE

The Board does not have a policy regarding the separation of the roles of Chief Executive Officer and Chairman of the Board as the Board believes it is in our best interests to make that determination based upon our position and direction, and the membership of the Board. The Board has determined at this time that our Chairman should be an Independent Director rather than the Chief Executive Officer.

CODE OF ETHICS

We have adopted a Code of Ethics that applies to all of our directors, officers and employees. Our Code of Ethics is available on our website (www.bsdmedical.com) on our corporate governance page of the investor section of our website. We intend to post amendments to or waivers from our Code of Ethics (to the extent applicable to our chief executive officer, principal financial officer, or principal accounting officer) on our website.

AFFIRMATIVE DETERMINATIONS REGARDING DIRECTOR INDEPENDENCE

The Board of Directors has determined each of the following directors to be an “independent director” as such term is defined in the NASDAQ Stock Market Listing Standards: Timothy C. McQuay, Michael Nobel, Steven G. Stewart, and Damian E. Dupuy.

In this Proxy Statement, these four directors are referred to individually as an “Independent Director” and collectively as the “Independent Directors.”

MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors held five meetings in the four month transition period ended December 31, 2014, and met six times during fiscal year 2014. No director attended fewer than 75% of the meetings of the Board or any of the Board committees of which a director was a member. In addition, on one occasion during the four month transition period ended December 31, 2014, and on one occasion during fiscal year 2014, the Board of Directors took action by unanimous written consents in lieu of a board meeting. Although we do not have a formal policy regarding attendance by directors at our annual meeting, we encourage directors to attend and all but one director attended the last annual meeting.

The Board of Directors has formed an audit committee, a corporate governance and nominating committee and a compensation committee. Copies of the charters of these committees are available on the corporate governance page of the investor section of our website (www.bsdmedical.com).

The Audit Committee. The Audit Committee, which held one meeting in the four month transition period ended December 31, 2014, and four meetings during the fiscal year ended August 31, 2014, is responsible for reviewing and monitoring our financial statements and internal accounting procedures, recommending the selection of independent auditors by the Board, evaluating the scope of the annual audit, reviewing audit results, consulting with management and our independent auditor prior to presentation of financial statements to stockholders and, as appropriate, initiating inquiries into aspects of our internal accounting controls and financial affairs. The Board of Directors has adopted a written audit committee charter.

The members of the Audit Committee are Messrs. Stewart, Nobel and McQuay. Mr. Stewart is currently serving as the audit committee chairman and financial expert (Audit Committee Financial Expert). All members of the Audit Committee are Independent Directors.

The Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee, who held one meeting in the four month transition period ended December 31, 2014 and one meeting during the fiscal year ended August 31, 2014, is responsible for identifying qualified individuals to become Board members, determining the composition of the Board and its committees, monitoring and assessing Board effectiveness, and developing and implementing our corporate governance guidelines. Additionally, the Corporate Governance and Nominating Committee recommends director nominees to our Board of Directors for the Board's approval. The Board of Directors has adopted a written corporate governance and nominating committee charter.

The members of the Corporate Governance and Nominating Committee are Messrs. Stewart, Nobel, McQuay and Dupuy. All members of the Corporate Governance and Nominating Committee are Independent Directors. Mr. McQuay is currently serving as the Corporate Governance and Nominating Committee chairman.

The Board of Directors does not have an express policy with regard to the consideration of any director candidates since the Board believes that its Corporate Governance and Nominating Committee can adequately evaluate nominees on a case-by-case basis. The Board has not previously received any recommendations for director candidates from stockholders, and has not adopted a formal process for considering director candidates who may be recommended by stockholders. However, the Company's policy is to give due consideration to any and all such candidates, and in evaluating director nominees, the Corporate Governance and Nominating Committee considers the appropriate size of the Board, the needs of the Company, the skills and experience of its directors, and a candidate's familiarity with our industry. Although the Company does not have a formal diversity policy relating to the identification and evaluation of nominees for director, the Corporate Governance and Nominating Committee considers many criteria in identifying and selecting nominees, and in the future may establish additional minimum criteria for nominees. A stockholder may submit a recommendation for director candidates to us at our corporate offices, to the attention of Clint Carnell. We do not pay fees to any third parties to assist us in identifying potential nominees.

The Compensation Committee. The members of the Compensation Committee are Messrs. Stewart, Nobel, and McQuay. Mr. Boyd, who resigned as director in January 2015, was serving as the Compensation Committee chairman. A replacement has not yet been appointed. All members of the Compensation Committee are Independent Directors. Our Compensation Committee held one meeting in the four month transition period ended December 31, 2014, and met one time during the fiscal year ended August 31, 2014. The Board of Directors has adopted a written compensation committee charter. The Compensation Committee has responsibility for establishing and monitoring our executive compensation programs, and for making decisions regarding the compensation of our Named Executive Officers (as defined below). The agenda for meetings of the Compensation Committee is determined by the Chairman of the Compensation Committee. The Compensation Committee sets the compensation package of the Named Executive Officers and their annual bonus. We have adopted our Third Amended and Restated 1998 Stock Incentive Plan which allows the Board of Directors to delegate to the CEO the authority to designate individuals to receive awards under the Plan and to designate the number and type of awards to be granted to the individuals so designated. The Board did not delegate this authority to the CEO during the four month transition period ended December 31,2014. For a further description of the Compensation Committee's role, see "Executive Compensation" below.

BOARD ROLE IN RISK OVERSIGHT

Our Board of Directors is responsible for overseeing our management of risk. The Board strives to effectively oversee our enterprise-wide risk management in a way that balances managing risks while enhancing the long-term value for the benefit of the stockholders. The Board of Directors understands that its focus on effective risk oversight is critical to setting our tone and culture towards effective risk management. To administer its oversight function, the Board seeks to understand our risk philosophy by having discussions with management to establish a mutual understanding of our overall appetite for risk. Our Board of Directors maintains an active dialogue with management about existing risk management processes and how management identifies, assesses, and manages our most significant risk exposures. Our Board expects frequent updates from management about our most significant risks so as to enable it to evaluate whether management is responding appropriately.

Our Board relies on each of its committees to help oversee the risk management responsibilities relating to the functions performed by such committees. Our Audit Committee periodically discusses with management our major financial risk exposures and the steps management has taken to monitor and control such exposures, including our risk assessment and risk management policies. Our Compensation Committee helps the Board to identify our exposure to

any risks potentially created by our compensation programs and practices. Our Corporate Governance and Nominating Committee oversees risks relating to our corporate compliance programs and assists the Board and management in promoting an organizational culture that encourages commitment to ethical conduct and a commitment to compliance with the law. Each of these committees is required to make regular reports of its actions and any recommendations to the Board, including recommendations to assist the Board with its overall risk oversight function.

COMMUNICATIONS WITH DIRECTORS

We have not adopted a formal process for stockholder communications with the Board. We believe it is appropriate to not have a formal process for stockholder communications with the Board, because historically we have received such stockholder communications very infrequently. Nevertheless, we have tried to ensure that the views of stockholders are heard by the Board or individual directors, as applicable, and that appropriate responses are provided to stockholders in a timely manner. We believe our responsiveness to stockholder communications to the Board has been good. A stockholder may submit any communication with directors to us at our corporate offices, to the attention of Clinton E. Carnell Jr.

EXECUTIVE OFFICERS

The names of our executive officers, their ages, and their respective business backgrounds are set forth below as of March 6, 2015. For information regarding Clinton E. Carnell Jr.'s background, please see his biographical description above under "Directors". There are no family relationships among any of our directors, officers or key employees.

Name	Age	Position
Clinton E. Carnell Jr.	45	President, Chief Executive Officer and Director
William S. Barth	64	Chief Financial Officer and Secretary
Benjamin Beckham	49	Vice President of Global Sales
Jennifer R. Hoglin	45	Vice President of Global Marketing
Todd H. Turnlund	48	Vice President of Research & Development

William S. Barth commenced his employment with us on December 10, 2012, and assumed the duties of Chief Financial Officer and Corporate Secretary effective January 1, 2013. Mr. Barth has an extensive history as chief financial officer for both publicly and privately held companies in the medical device and biotechnology industries. From May 2011 until December 10, 2012, he has served as an independent corporate financial and strategic planning consultant. From June 2008 to May 2011, he served as Sr. Vice President and Chief Financial Officer for Emphusion, LLC, a private-equity-owned Contract Research Organization (CRO) providing data management and bio-statistical analysis services for new drug and medical device development. From January 2001 through April 2008, Mr. Barth was VP of Finance and CFO for NWT Inc. /Tandem Labs (Tandem), a privately owned CRO, providing advanced bio-analytical services in support of new drug development. Mr. Barth was instrumental in the successful merger of Tandem with Laboratory Corporation of America in February 2008. During the 20 years prior to his experience with Tandem, he served as CFO for 6 medical device companies, two of which were publicly owned. During this time he played critical roles in completing several equity, debt and merger transactions. Mr. Barth began his career in finance while serving as a staff accountant with Deloitte & Touche, an international accounting and consulting firm.

Ben Beckham was appointed as Vice President of North American Sales for Perseon Corporation effective February 16, 2015 and was recently named Vice President of Global Sales. Mr. Beckham is an accomplished and performance-driven life sciences executive with over 20 years of experience in medical sales management and marketing. Prior to joining Perseon, Mr. Beckham was Vice President of Sales, Americas for Solta Medical, a medical aesthetics company acquired by Valeant Pharmaceuticals International, Inc. in 2014. At Solta, he was responsible for all commercial activity throughout North and South America. Prior to Solta, Mr. Beckham served as

Vice President, Sales and Marketing for Lifecore Biomedical, a leader in tissue biologics, dental implants and implantable grafting products. He has also held various sales leadership positions with companies such as Interpore International and GE Medical Systems.

Jennifer R. Hoglin joined the Company as Vice President of Global Marketing on February 17, 2015. Ms. Hoglin is an executive marketing professional with 20 years of experience in product, brand, and business development experience in primarily life sciences as well as multiple other industries. Ms. Hoglin's career spans key leadership roles in go-to-market and commercialization strategy and development, most recently as Vice President of Marketing at Catheter Connections Inc., a manufacturer of infection control products. Formerly as Senior Director of Global Marketing at Edwards Lifesciences, she led integral marketing efforts involving product portfolio development and global professional education teams, programs, and tactics. Earlier she managed strategic marketing for Myriad Genetics Laboratories' Preventive Care Business, and she has held various positions with CR Bard and 3M. Ms. Hoglin holds an MBA from Washington University, St. Louis, MO and a BA from The Colorado College, Colorado Springs, CO.

Todd H. Turnlund was appointed Vice President of Research and Development (R&D) at Perseon in January 2015 after serving as the Vice President of Engineering since January 2010. Mr. Turnlund has over 25 years of medical device experience with both medical device startups and Fortune 500 companies. Since 2000 prior to joining Perseon, Mr. Turnlund served in various R&D management positions including Vice President of R&D at Precision Vascular Systems, Director of R&D at Boston Scientific, an independent engineering consultant, and Director of R&D at C.R. Bard. Mr. Turnlund has a Mechanical Engineering Degree from the University of California at Santa Barbara and an MBA from Santa Clara University.

ITEM 11. EXECUTIVE COMPENSATION

DIRECTOR COMPENSATION 2014

Our Fourth Amended and Restated 1998 Director Stock Plan ("Director Stock Plan") provides an annual retainer ("Annual Retainer") in the amount of $60,000 to each non-employee director other than the Audit Committee Financial Expert, who is to receive $65,000. Of the Annual Retainer, $30,000 is to be paid in cash to each such director, other than the Audit Committee Financial Expert, who is to receive $35,000 in cash (the "Cash Payment"). The Cash Payment is payable in equal installments on May 1 and November 1 of each year in which each non-employee director continues to serve as a member of the Board. Each non-employee director is to receive the balance of the Annual Retainer in the form of shares of common stock (the "Common Stock Payment"). The portion of the annual retainer that is paid in common stock will be determined by reference to the fair market value of our common stock on the date of issuance. The fair market value of the common stock will be determined by reference to the closing price, as reported by the NASDAQ Stock Market, of the common stock on May 1 of each year, the payment date of the Common Stock Payment.

DIRECTOR COMPENSATION TABLE

The table below summarizes the compensation paid by the Company to, or earned by, our non-employee directors for the four month transition period ended December 31, 2014.

Name (1) (a)	Fees Earned or Paid in Cash ($) (b)	Stock Awards ($)(2) (c)	Option Awards ($)(3) (d)	All Other Compensation ($) (g)	Total ($) (h)
Douglas P. Boyd	15,000	-	-	-	60,000
Damian E. Dupuy	15,000	-	-	- (4)	78,360
Timothy C. McQuay	15,000	-	-	-	60,000

Michael Nobel	15,000	-	-	-	60,000
Gerhard W. Sennewald	15,000	-	-	-	60,000
Steven G. Stewart	17,500	-	-	-	65,000

(1) Harold R. Wolcott served as a director in fiscal year 2014, but is omitted from the Director Compensation Table because of his status as a Named Executive Officer in the fiscal year ended August 31, 2014. No additional remuneration was paid to Mr. Wolcott for his service as a director.

(2) As partial compensation for services as a director, each non-employee director is issued fully vested shares of common stock in May of each year, and is accounted for in accordance with FASB Accounting Standards Codification ("ASC") Topic 718.

(3) There were no stock options granted to the non-employee directors during the four month transition period ended December 31, 2014. As of December 31, 2014, each non-employee director had outstanding options for the following number of shares of Common Stock: Douglas P. Boyd, 115,000 shares; Timothy C. McQuay 47,457 shares; Michael Nobel, 135,000 shares; Gerhard W. Sennewald, 90,000 shares; and Steven G. Stewart, 106,368 shares.

(4) Since 2007, Dr. Dupuy has served as a consultant to the Company. During the four month transition period ended December 31, 2014, no fees were paid to Dr. Dupuy under such consulting arrangement.

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

The following discussion and analysis provides information regarding our executive compensation objectives and principles, procedures, practices and decisions, and is provided to help give perspective to the numbers and narratives that follow in the tables in this section. This discussion will focus on our objectives, principles, practices and decisions with regards to the compensation of Clinton E. Carnell Jr., President and Chief Executive Officer, Harold R. Wolcott, former President and Chief Executive Officer, and William S. Barth, Chief Financial Officer and Secretary, our named executive officers ("Named Executive Officers") for the four month transition period ended December 31, 2014.

Executive Compensation Objectives and Principles

The overall objective of our executive compensation program is to help create long-term value for our stockholders by attracting and retaining talented executives, rewarding superior operating and financial performance, and aligning the long-term interests of our executives with those of our stockholders. Accordingly, our executive compensation program incorporates the following principles:

- Compensation should be based upon individual job responsibility, demonstrated leadership ability, management experience, individual performance, and Company performance.
- Compensation should reflect the fair market value of the services received. We believe that a fair and competitive pay package is essential to attract and retain talented executives in key positions.
- Compensation should reward executives for long-term strategic management and enhancement of stockholder value.
- Compensation should reward performance and promote a performance oriented environment.

Executive Compensation Procedures

We believe that compensation paid to our executive officers should be closely aligned with our performance and the performance of each individual executive officer on both a short-term and a long-term basis, should be based upon the value each executive officer provides to us, and should be designed to assist us in attracting and retaining the best possible executive talent, which we believe is critical to our long-term success. To attain our executive compensation objectives and implement the underlying compensation principles, we follow the procedures described below.

Role of the Compensation Committee. The Compensation Committee has responsibility for establishing and monitoring our executive compensation programs and for making decisions regarding the compensation of our Named Executive Officers. The agenda for meetings of the Compensation Committee is determined by the Chairman of the Compensation Committee. The Compensation Committee sets the compensation package and annual bonus of the Named Executive Officers. Our Chief Executive Officer recommends items to be considered by the Compensation Committee from time to time, including the compensation package for the other Named Executive Officers; and participates in meetings in which the compensation package of the other Named Executive Officers is discussed.

The Compensation Committee relies on its judgment in making compensation decisions after reviewing our performance and evaluating our executives' leadership abilities and responsibilities with our Company and their current compensation arrangements. The Compensation Committee assessment process is designed to be flexible so as to better respond to the evolving business environment and individual circumstances.

At our 2015 annual meeting of stockholders, over 76% of the votes cast were in favor of our executive compensation program. When designing our executive compensation program, the Compensation Committee considered, among other things, the 2015 voting results and other feedback we received from our stockholders and determined not to make any significant changes to the design of our executive compensation program.

Role of Compensation Consultant. We have not engaged a compensation consultant since 2006.

Elements of Compensation

Our executive compensation objectives and principles are implemented through the use of the following elements of compensation, each discussed more fully below:

- Base Salary
- Annual Incentive Bonuses
- Stock-Based Compensation
- Other Benefits

Base Salary. The Compensation Committee approved the salaries of all our executive officers for the four month transition period ended December 31, 2014 and the fiscal year ended August 31, 2014. Base salaries are offered to ensure that our executive officers receive an ongoing level of compensation. Salary decisions concerning these officers were based upon a variety of considerations consistent with the compensation philosophy stated above. First, salaries were competitively set relative to both other companies in the medical products industry and other comparable companies. In determining the salaries for our executives in the fiscal year ended August 31, 2014, the Compensation Committee considered the compensation of some of the public companies in the biotechnology industry. The Compensation Committee considered each officer's level of responsibility and individual performance, including an assessment of the person's overall value to the Company. In addition, internal equity among employees was factored into the decision. Finally, the Compensation Committee considered our financial performance and our ability to absorb any increases in salaries.

Annual Incentive Bonuses. Annual incentive bonuses are designed to reward extraordinary performance by our executives. For four month transition period ended December 31, 2014, and for the fiscal years ended August 31, 2014 and 2013, the Compensation Committee did not precisely define the parameters of a bonus program for the Named Executive Officers, and no bonuses were awarded to the Named Executive Officers.

Stock-Based Compensation. Each Named Executive Officer is eligible to participate in the Stock Incentive Plan, which provides for the granting of stock options, stock appreciation rights, performance awards, other stock-based awards, and cash-based awards to selected employees, non-employees and directors. Stock-based compensation is designed to more closely align the interests of management with those of our stockholders. Historically, we have issued options pursuant to this incentive plan, and typically these options vest ratably over a term of up to 5 years as determined by the Compensation Committee. Recent stock option grants vest over 3 years. We do not have any policies for allocating compensation between long-term and currently paid out compensation or between cash and non-cash compensation or among different forms of non-cash compensation. Although we do not have any formal policy for determining the amount of stock options or the timing of our stock option grants, we have historically granted stock options to high-performing employees (i) in recognition of their individual achievements and

contributions to our company, and (ii) in anticipation of their future service and achievements. No stock options were granted to Mr. Wolcott or Mr. Barth during the four month transition period ended December 31, 2014, or for the year ended August 31, 2014. In connection with his appointment as President and CEO of Perseon Corporation, we granted Mr. Carnell a non-statutory stock option to purchase 1,400,000 shares of our common stock that vests in three equal installments on the anniversary dates of his employment, has a ten year term, and an exercise price of $0.46 per share.

Other Benefits. Our Named Executive Officers receive the same benefits that are available to all other full time employees, including the payment of health, dental, life and disability insurance premiums.

Deductibility of Executive Compensation

Internal Revenue Service ("IRS") Code Section 162(m) limits the amount that we may deduct for compensation paid to our principal executive officer and to each of our three most highly compensated officers (other than our principal financial officer) to $1.0 million per person, unless certain exemption requirements are met. Exemptions to this deductibility limit may be made for various forms of performance-based compensation. In the past, annual salary and bonus compensation to our executive officers has not exceeded $1.0 million per person, so the compensation has been deductible. In addition to salary and bonus compensation, upon the exercise of stock options that are not treated as incentive stock options, the excess of the current market price over the option price, or option spread, is treated as compensation and accordingly, in any year, such exercise may cause an officer's total compensation to exceed $1.0 million. Under certain regulations, option spread compensation from options that meet certain requirements will not be subject to the $1.0 million cap on deductibility. While the Compensation Committee cannot predict how the deductibility limit may impact our compensation program in future years, the Compensation Committee currently anticipates that it will generally maintain an approach to executive compensation that strongly links pay to performance.

The Compensation Committee reviews and considers the deductibility of executive compensation under Section 162(m) of the IRS Code. In certain situations, the Compensation Committee may approve compensation that will not meet the requirements of IRS Code Section 162(m) in order to ensure competitive levels of total compensation for its executive officers.

Material Issues Relating to Compensation for the Fiscal Year Ended August 31, 2014

On April 29, 2014, we announced that our President and Chief Executive Officer, Mr. Harold R. Wolcott, would relinquish his positions as President and Chief Executive Officer upon our hiring of a new President and Chief Executive Officer. Mr. Wolcott agreed to continue to serve on our Board of Directors and on the search committee responsible for finding our next Chief Executive Officer.

On April 28, 2014, we entered into a letter agreement with Mr. Wolcott, pursuant to which Mr. Wolcott would receive severance benefits that supersede the severance benefits Mr. Wolcott was previously entitled to receive under his employment agreement. Pursuant to the letter agreement, if Mr. Wolcott ceased to serve as our President and Chief Executive Officer for any reason (other than for cause), we would pay to Mr. Wolcott an amount equal to his current base salary, and the vesting of his equity awards would immediately vest and become exercisable. Notwithstanding the foregoing, if Mr. Wolcott voluntarily terminated his service with us without good reason before the first to occur of (1) the expiration of six months from the date of the letter agreement, or (2) the selection of a new Chief Executive Officer, then we would not be obligated to pay the severance benefits described in this paragraph. A copy of the letter agreement is attached as Exhibit 10.1 to the BSD Medical Corporation Form 8-K filed April 29, 2014.

On November 10, 2014, we named Clinton E. Carnell Jr. as President and Chief Executive Officer. In connection with his appointment, Mr. Carnell agreed on an annual base salary of $350,000, and an annual bonus of $150,000 for the first and second years of employment. We also granted a non-statutory stock option to Mr. Carnell to purchase 1,400,000 shares of our common stock that vests in three equal installments on the anniversary dates of his employment, has a ten year term, and an exercise price of $0.46 per share.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed the foregoing Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K, and discussed the Compensation Discussion and Analysis with the Company's management. Based on such review and discussions with management, the Compensation Committee recommended

to the Board that the foregoing Compensation Discussion and Analysis be included in this Proxy Statement.

COMPENSATION COMMITTEE

Steven G. Stewart
Michael Nobel
Timothy C. McQuay

Summary Compensation Table

The table below summarizes the total compensation paid to or earned by each of the Named Executive Officers for services in all capacities to the Company and its affiliates for the four month transition period ended December 31, 2014, and for fiscal years ended August 31, 2014 and 2013. References to the years in the table below represent the fiscal years ended August 31 of such year:

Name and Principal Position (a)	Year (b)	Salary (c)	Bonus (d)	Option Awards (e)	All Other Compensation (i)		Total (j)
Clinton E. Carnell Jr President	4 months ended Dec 31, 2014	$ 40,385	$ -	$ -	$ -	(1)	$ 40,385
Harold R. Wolcott Former President	4 months ended Dec 31, 2014	$ 69,279	$ -	$ -	$ 39,448	(2)	$ 108,727
2014		275,000	-	-	13,449	(2)	288,449
2013		257,019	-	99,000	13,449		369,468
William S. Barth Chief Financial Officer	4 months ended Dec 31, 2014	$ 66,667	$ -	$ -	$ 12,185	(3)	$ 78,852
2014		200,000	-	-	12,340	(3)	212,340
2013		146,153	-	170,000	1,755		317,908

(1) We did not make any benefits payments to, or on behalf of Mr. Carnell in the four month transition period ended December 31, 2014.

(2) These amounts consist of: severance payments of $31,731, consulting payments of $4,168, medical insurance reimbursement of $3,014, life insurance premiums of $42, dental insurance premiums of $121, disability insurance premiums of $372 paid by us in the four month transition period ended December 31, 2014; and medical insurance reimbursement of $9,794, life insurance premiums of $122, dental insurance premiums of $483, disability insurance premiums of $2,050, and holiday payment of $1,000 paid by us in the fiscal year ended August 31, 2014.

(3) These amounts consist of: medical insurance reimbursement of $10,308, life insurance premiums of $55, dental insurance premiums of $161, disability insurance premiums of $661, and holiday payment of $1,000 paid by us in the four month transition period ended December 31, 2014; and

medical insurance reimbursement of $8,708, life insurance premiums of $166, dental insurance premiums of $483, disability insurance premiums of $1,983, and holiday payment of $1,000 paid by us in the fiscal year ended August 31, 2014.

Grants of Plan-Based Awards

There were no plan-based awards granted to the Company's Named Executive Officers in the four month transition period ended December 31, 2014, or in the fiscal year ended August 31, 2014.

Employment Agreements

On November 10, 2014, we named Clinton E. Carnell Jr. as President and Chief Executive Officer. We also appointed Mr. Carnell to the Board of Directors . Mr. Carnell succeeds Harold (Butch) R. Wolcott, who announced in April 2014 his intent to step down as President and Chief Executive Officer upon the hiring of a successor. Effective November 10, 2014 we entered into an employment agreement with Mr. Carnell, a copy of which was filed with our Report on Form 10-Q dated January 14, 2015.

In connection with his appointment, we entered into an offer letter agreement with Mr. Carnell providing for at-will employment for an indefinite term, an annual base salary of $350,000, an annual bonus of $150,000 for the first year of employment, and a bonus of $150,000, or a pro rata portion thereof, for the second year of employment. If we complete and close an equity offering in fiscal 2015 that generates at least $5 million in net proceeds, then we will engage a compensation consulting firm to conduct a study of compensation of chief executive officer's in companies comparable to us, which study shall then be used to negotiate Mr. Carnell's overall compensation after December 31, 2015. If we do not complete and close such an equity offering during 2015, then we will engage a compensation consulting firm in 2016 to negotiate Mr. Carnell's salary after December, 2016. The offer letter also provides that Mr. Carnell is eligible to participate in the employee benefit programs generally available to our executives.

In connection with Mr. Carnell's appointment, on November 10, 2014, we issued an inducement equity award outside our Stock Incentive Plan in accordance with the NASDAQ inducement grant exception found in NASDAQ Listing Rule 5635(c)(4). The grant is a non-statutory stock option to purchase 1,400,000 shares of our common stock. The grant was made as a component of Mr. Carnell's employment compensation. The inducement grant was approved by the Compensation Committee of the Board of Directors, and was made as an inducement material to Mr. Carnell's acceptance of employment. The stock option granted to Mr. Carnell has an exercise price of $0.46 per share, equal to the closing price of our common stock on November 10, 2014. The stock option has a ten year term and vests in three equal installments beginning with the first anniversary date on November 10, 2015.

There are no arrangements or understandings between Mr. Carnell and any other persons pursuant to which he was selected as President and Chief Executive Officer or appointed to the Board. There are also no family relationships between Mr. Carnell and any of our directors or executive officers.

On April 28, 2014, we entered into a letter agreement with our President and Chief Executive Officer, Mr. Harold R. Wolcott, to relinquish his positions as President and Chief Executive Officer upon our hiring of a new President and Chief Executive Officer. Mr. Wolcott agreed to continue to serve on our Board of Directors and on the search committee responsible for finding our next Chief Executive Officer.

With the hiring of a new President and Chief Executive Officer effective November 10, 2014, and under the terms of the April 28, 2014 letter agreement and the May 22, 2013 employment agreement (together, the "Wolcott Agreements") by and between Mr. Wolcott and the Company, we now are providing severance benefits to Mr. Wolcott. These severance benefits include payments to Mr. Wolcott, over six months, of an amount equal to one year of his base salary at the time of termination, and immediate vesting of all options and incentive awards granted to Mr. Wolcott. The employment agreement also provides that, upon Mr. Wolcott's termination, we agree to indemnify him for expenses associated with defending certain claims made against him as a result of his positions with the Company, and directors' and officers' liability insurance coverage for a period of six years following his termination. These agreements also contain a confidentiality agreement, a one-year non-competition and non-solicitation agreement and a claw back provision that enables us to claw back any incentive-based compensation or other compensation from Mr. Wolcott if required by any law, government regulation, stock exchange listing requirement, or Company policy adopted as required by such law, government regulation, or stock exchange listing requirement.

On November 7, 2014 we signed an agreement ("Consulting Agreement"), effective November 10, 2014, to engage Mr. Wolcott as an independent contractor to provide consulting. These services will consist generally of transition services, development and maintenance of strategic business relationships, advice concerning product lines and personnel, and our general business efforts, as directed by our Chief Executive Officer and our Chairman of the Board of Directors. The term of the Consulting Agreement is for 24 months beginning November 10, 2014, with a provision to renew for an additional 12 month period unless either party cancels. We will pay a retainer fee of $2,500 per month for up to 20 hours per month of time expended by Mr. Wolcott, and $125 per hour for documented hours in excess of 20 hours per month. We will also reimburse Mr. Wolcott for actual, reasonable and documented out-of-pocket expenses incurred in connection with providing services to us. Under this Consulting Agreement, stock options that have been granted to Mr. Wolcott will continue to vest and be exercisable, until 90 days after the expiration of the Consulting Agreement. Mr. Wolcott will be allowed, at no cost to him, to receive benefits for the term of this Consulting Agreement, under our present employee benefit plans, to the extent permitted by the terms of such plans

On September 16, 2014, we entered into an employment agreement with Mr. Barth (the "Barth Agreement"). The Barth Agreement memorializes the parties' agreement with respect to Mr. Barth's continued employment as our Chief Financial Officer.

The Barth Agreement provides that Mr. Barth's base salary shall be $200,000, which base salary will be reviewed at least annually by the Compensation Committee of the Board of Directors, and the Board may increase (but not decrease) the base salary. In addition to the base salary, Mr. Barth is entitled to participate in any annual incentive bonus programs and employee benefit plans adopted or maintained by the Company. Mr. Barth is also eligible to participate in our Stock Incentive Plan.

We also agree to indemnify Mr. Barth for expenses associated with defending certain claims made against him as a result of his positions with the Company. We also agreed to purchase directors' and officers' liability insurance providing coverage to Mr. Barth during the term of the Barth Agreement and for a period of six years following the termination of the Barth Agreement.

Under the Barth Agreement, if Mr. Barth is terminated by us other than for cause or if Mr. Barth resigns for good reason and if Mr. Barth complies with certain requirements, we must pay him an amount equal to his base salary for one year and he shall be entitled to receive all applicable employee benefits for one year following termination. If the Barth Agreement is terminated for cause, Mr. Barth shall receive only the portion of his base salary that is due to him through the effective date of his termination. If the Barth Agreement is terminated by reason of Mr. Barth's death, his estate shall receive his salary through the end of the month in which he died plus all employee benefits due to him through the end of such month.

If a Change in Control (as defined in the Barth Agreement) occurs with respect to the Company, and during the six months immediately following the Change of Control, (i) we terminate Mr. Barth without cause; (ii) Mr. Barth terminates his employment with good reason; or (iii) Mr. Barth terminates but also agrees to continue serving as Chief Financial Officer for the longer of (a) six months and (b) until a new Chief Financial Officer is appointed, then in addition to the Severance Payment, all options or incentive awards granted to Mr. Barth will immediately vest and become exercisable for a period of 180 days following the termination.

The Barth Agreement also contains a confidentiality agreement, a one-year non-competition and non-solicitation agreement and a claw back provision that enables us to claw back any incentive-based compensation or other compensation from Mr. Barth if required by any law, government regulation, stock exchange listing requirement, or Company policy adopted as required by such law, government regulation, or stock exchange listing requirement.

Outstanding Equity Awards as of December 31, 2014

The following table provides information on the holdings of Company stock options by the Named Executive Officers at the end of the four month period ended December 31, 2014.

Name (a)	Number of Securities Underlying Unexercised Options Exercisable (#) (b)	Number of Securities Underlying Unexercised Options Unexercisable (#) (c)	Option Exercise Price ($) (e)	Option Expiration Date (f)
Clinton E. Carnell Jr.	-	1,400,000 (1)	0.46	11/10/2024
Harold R. Wolcott	585,760	-	1.70	04/10/2019
Harold R. Wolcott	150,000	-	4.66	02/02/2021
Harold R. Wolcott	150,000	-	1.20	05/22/2023
William S. Barth	66,667	66,667 (1)	1.59	12/10/2022

(1) Options vest in equal annual installments (33.3% each year) on the anniversary of the grant date.

Option Exercises and Stock Vested for the Four Month Period Ended December 31, 2014

The Named Executive Officers did not exercise any stock options during the four month period ended December 31, 2014.

Payments Upon Termination

The information below describes and quantifies certain payments or benefits that are, or would be payable to Named Executive Officers under employment agreements and our existing plans and programs in the event that either Named Executive Officer terminates employment us. These benefits are in addition to benefits generally available to all of our salaried employees in connection with a termination of employment such as disability and life insurance benefits, the value of employee-paid group health plan continuation coverage under COBRA, to the extent permitted by such plans, and accrued vacation pay.

As discussed above under “Employment Agreements,” the Wolcott Agreements define the terms of certain severance payments and benefits that are due to Mr. Wolcott upon the termination of his employment with us. Mr. Wolcott relinquished his position of President and Chief Executive Officer effective November 10, 2014, upon the hiring of Mr. Clinton E. Carnell Jr. Mr. Wolcott agreed to continue to serve on our Board of Directors.

Under the provisions of the Wolcott Agreements, Mr. Wolcott will be provided a severance payment over six months, totaling $275,000, which equates to one year of his base salary at the time of termination. Under the terms of the Wolcott Agreements, all options and incentive awards granted to Mr. Wolcott immediately vested upon his termination, and he is entitled to receive all applicable employee benefits that are allowable under the respective benefit plans.

Under the terms of the Consulting Agreement discussed in “Employment Agreements” above, we will pay a $2,500 per month retainer fee to Mr. Wolcott for a period of 24 months, beginning November 10, 2014, for Mr. Wolcott to

provide up to 20 hours per month of consulting services. We also pay Mr. Wolcott $125 per hour for documented hours in excess of 20 hours per month, in addition to actual, reasonable and documented out-of-pocket expenses incurred in connection with providing services to us.

The information below describes the compensation that would be payable under Mr. Carnell's and Mr. Barth's employment agreements if their employment had been terminated on December 31, 2014, given their compensation and benefit levels as of such date, and if applicable, based on our closing stock price on that date.

	Carnell Termination ($)	Carnell Termination and Change of Control Stock Option Vesting Acceleration ($)	Barth Termination ($)	Barth Termination and Change of Control Stock Option Vesting Acceleration ($)
Severance Payment (1) (2)	350,000	350,000	200,000	200,000
Continuance of Benefits (3)	12,500	12,500	11,340	11,340
Deemed Exercise and Sale of Stock Option Shares (4)	-	-	-	-
Total	287,449	287,449	211,340	211,340

(1) Mr. Carnell's employment agreement provides for severance pay equal to Mr. Carnell's current annual salary.
(2) Mr. Barth's employment agreement provides for severance pay equal to Mr. Barth's current annual salary
(3) Estimated cost to Perseon of applicable employee benefits for one year following termination (including medical insurance) provided for under employment agreements.
(4) The deemed value received for the exercise and sale of in-the-money stock options is $0, based on the closing stock price of our common stock of $0.36 as of December 31, 2014.

On September 16, 2014, we entered into an employment agreement with Mr. Barth (the "Barth Agreement") that provides that, if Mr. Barth is terminated by us other than for cause, or if Mr. Barth resigns for good reason and if Mr. Barth complies with certain requirements, we are obligated to pay him in one lump sum payment within thirty days following the effective date of the termination an amount equal to his base salary for one year (the "Severance Payment") and he shall be entitled to receive all applicable employee benefits for one year following termination. If the Barth Agreement is terminated for cause, Mr. Barth shall receive only the portion of his base salary that is due to him through the effective date of his termination. If the Barth Agreement is terminated by reason of Mr. Barth's death, his estate shall receive his salary through the end of the month in which he died plus all employee benefits due to him through the end of such month.

If a Change in Control (as defined in the Barth Agreement) occurs with respect to Perseon, and during the six months immediately following the Change of Control, (i) we terminate Mr. Barth without cause; (ii) Mr. Barth terminates his employment with good reason; or (iii) Mr. Barth terminates the Barth Agreement but also agrees to continue serving as Chief Financial Officer for the longer of (a) six months and (b) until a new Chief Financial Officer is appointed, then in addition to the Severance Payment, all options or incentive awards granted to Mr. Barth will immediately vest and become exercisable for a period of 180 days following the termination.

The Barth Agreement also contains a confidentiality agreement, and a one-year non-competition and non-solicitation agreement. The Barth Agreement contains a claw back provision that enables us to claw back any incentive-based compensation or other compensation from Mr. Barth if required by any law, government regulation, stock exchange listing requirement, or Company policy adopted as required by such law, government regulation, or stock exchange listing requirement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information known to us with respect to beneficial ownership of our common stock as of March 6, 2015 for (i) each director, (ii) each holder of 5.0% or greater of our common stock, (iii) our Named Executive Officers, and (iv) all executive officers and directors as a group. Beneficial ownership is determined in accordance with the rules of the Commission, and generally includes voting or investment power with respect to securities. Shares subject to options that are exercisable within 60 days following March 6, 2015 are deemed to be outstanding and beneficially owned by the optionee or group of optionees for the purpose of computing share and percentage ownership of that optionee or group of optionees, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person. Except as indicated by footnote, the persons named in the table have sole voting and investment power with respect to all shares of common stock shown beneficially owned by them. The inclusion of any shares as beneficially owned does not constitute an admission of beneficial ownership of those shares. The percentage calculation of beneficial ownership is based on 39,689,209 shares of common stock outstanding as of March 6, 2015. Except as otherwise noted, the address of each person listed on the following table is 2188 West 2200 South, Salt Lake City, Utah 84119.

Name of Beneficial Owner	Common Stock Beneficially Owned		
	Shares	Percent	
5% of Greater Stockholders			
Dr. Gerhard W. Sennewald(1)	6,483,226	16.3	%
Officers and Directors			
Dr. Michael Nobel(2)	469,545	1.2	%
Steven G. Stewart(3)	246,368	*	
Timothy C. McQuay(4)	180,836	*	
Damian E. Dupuy, MD	69,330	*	
Harold R. Wolcott(5)	898,260	2.2	%
William S. Barth(6)	153,333	*	
Clinton E. Carnell Jr. (7)	-	-	
All Executive Officers and Directors as a Group (10 persons)(8)	2,244,089	5.4	%

* Less than 1%

(1)	Includes 90,000 shares subject to stock options that are currently exercisable or exercisable within 60 days after March 6, 2015. Dr. Sennewald resigned as a director on February 4, 2015
(2)	Includes 115,000 shares subject to stock options that are currently exercisable or exercisable within 60 days after March 6, 2015.
(3)	Includes 106,368 shares subject to stock options that are currently exercisable or exercisable within 60 days after March 6, 2015.
(4)	Includes 47,457 shares subject to stock options that are currently exercisable or exercisable within 60 days after March 6, 2015.
(5)	Includes 885,760 shares subject to stock options that are currently exercisable or exercisable within 60 days after March 6, 2015. Mr. Wolcott resigned his positions as President and Chief Executive Officer effective November 10, 2014.
(6)	Includes 133,333 shares subject to stock options that are currently exercisable or exercisable within 60 days after March 6, 2015.
(7)	Mr. Carnell was appointed Chief Executive Officer and President, effective November 10, 2014.
(8)	Includes 1,509,585 shares subject to stock options that are currently exercisable or exercisable within 60 days after March 6, 2015.

EQUITY COMPENSATION PLAN INFORMATION

The following table summarizes our equity compensation plans as of December 31, 2014.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders (1)	3,873,586	$ 2.92	1,969,130
Equity compensation plans not approved by security holders (2)	1,400,000	$ 0.46	-
Total	5,273,586	$ 2.23	1,969,130

(1) A total of 8,087,300 shares of common stock have been reserved for issuance under the plans. To date, a total of 2,216,561 options have been exercised under the plans.
(2) An inducement grant was made to Clinton E. Carnell Jr. on November 10, 2014.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and officers and persons who own more than 10% of a registered class of our equity securities to file with the Commission initial reports of ownership and reports of changes in ownership of our equity securities. Officers, directors, and greater than 10% stockholders are required to furnish us with copies of all Section 16(a) forms they file. Based solely on review of the copies of such forms received by us, or written representations from certain reporting persons, we believe that during the four month period ended December 31, 2014 all reporting persons complied with all applicable filing requirements

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED PERSON TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Since September 1, 2012, there has not been, nor is there any proposed transaction in which we were or will be a party or in which we were or will be a participant, involving an amount that exceeded or will exceed $120,000 or one percent of the average of our total assets at year end for the last two completed fiscal years, and in which any director, executive officer, beneficial owner of more than 5% of any class of our voting securities, or any member of the immediate family of any of the foregoing persons had or will have a direct or indirect material interest, other than the transactions which are described below.

Dr. Sennewald Medizintechnik GmbH. Perseon supplies hyperthermia therapy systems and related component parts to Dr. Sennewald Medizintechnik GmbH and its affiliate BSD BioSystems Design, S.A. (“Medizintechnik”) located in Munich, Germany, which is a significant distributor of Perseon’s products in Europe. Medizintechnik purchases equipment, which it installs, and component parts to service the Perseon hyperthermia therapy systems that Medizintechnik sells to its customers in Europe. For the four month transition period ended December 31, 2014 and the fiscal years ended August 31, 2014 and 2013, Perseon had revenue of $463,423, $419,549 and $99,896, respectively, from the sale of systems and various component parts sold to Medizintechnik. As of December 31, 2014, August 31, 2014 and 2013, accounts receivable from Medizintechnik were $13,471, $8,322 and $24,201, respectively . Perseon received $320,000 from Medizintechnik in the four month period ending December 31, 2014 for partial payment of a BSD-2000 shipped and installed.

Dr. Gerhard W. Sennewald, one of Perseon's former directors and a significant stockholders, is the President and Chief Executive Officer of Medizintechnik and its sole stockholder. Management believes the terms of the transactions with Medizintechnik and BSD BioSystems Design, S.A. were arms-length and fair to us.

We do not have a formal written process for reviewing related person transactions. We expect that the Audit Committee will review for potential conflict of interest situations, on an ongoing basis, any future proposed transaction, or series of transactions, with related persons, and either approve or disapprove each reviewed transaction or series of related transactions with related persons.

AFFIRMATIVE DETERMINATIONS REGARDING DIRECTOR INDEPENDENCE

The Board of Directors has determined each of the following directors to be an "independent director" as such term is defined in the NASDAQ Stock Market Listing Standards: Timothy C. McQuay, Michael Nobel, Steven G. Stewart, and Damian E. Dupuy. These four directors are referred to individually as an "Independent Director" and collectively as the "Independent Directors."

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Stockholders have ratified the selection of Tanner LLC as our independent registered public accountants for 2015. Tanner LLC audited the Company's financial statements for the four month period ended December 31, 2014, and for the fiscal years ended August 31, 2014 and 2013.
`
The Board or Audit Committee, in their discretion, may direct the appointment of a different independent registered public accounting firm at any time during the year we determine that such change would be in our best interest and the best interest of our stockholders.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table presents fees for professional services rendered by Tanner LLC for the audit of our annual financial statements for the four month period ended December 31, 2014, and for the fiscal years ended August 31, 2014 and 2013, and fees billed for other services rendered by Tanner LLC during those periods.

	Four Months Ended December 31, 2014	Fiscal Year Ended August 31, 2014	Fiscal Year Ended August 31, 2013
Audit Fees (1)	$ 55,000	$ 94,100	$ 83,700
Audit Related Fees (2)	-	16,500	10,800
Tax Fees (3)	14,250	13,900	14,300
All Other Fees	-	-	-
Total	$ 69,250	$ 124,500	$ 108,800

(1) Audit Fees consist of fees billed for the audit of our annual financial statements included in Form 10-K and services in connection with our various statutory and regulatory filings. Audit fees also include fees related to the reviews of interim financial information included in Forms 10-Q.

(2) Audit Related Fees consist of fees billed for consent or comfort letter procedures performed in conjunction with the filing of registration statements or completing financial transactions during the respective fiscal periods.

(3) Tax Fees consist of fees for the preparation of federal and state income tax returns.

PRE-APPROVAL POLICIES

The Audit Committee pre-approved all audit, audit-related and non-audit services performed by our independent auditors and subsequently reviewed the actual fees and expenses paid to Tanner LLC. The Audit Committee has determined that the fees paid to Tanner LLC for services are compatible with maintaining Tanner LLC's independence as our auditors.

AUDIT COMMITTEE REPORT

The Audit Committee has reviewed and discussed our audited financial statements with our management and has discussed with Tanner LLC the matters required to be discussed by Statements of Auditing Standards No. 16, as amended (AICPA, Professional Standards, Vol. 1. AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T.

The Audit Committee has received the written disclosures and the letter from Tanner LLC required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accountant's communications with the Audit Committee concerning independence, and has discussed with Tanner LLC its independence from us.

Based on its review, the Audit Committee recommended to the Board of Directors that the audited financial statements for the four month period ended December 31, 2014 be included in our Transition Report on Form 10-K for the four month period ended December 31, 2014, which was filed on March 27, 2015.

Submitted by:

Steven G. Stewart
Michael Nobel
Timothy C. McQuay

Members of the Audit Committee

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements

The Index to Financial Statements on page F-1 is incorporated herein by reference as the list of financial statements required as part of this report.

(2) Financial Statement Schedules

Financial statement schedules have been omitted because they are not required or are not applicable, or because the required information is shown in the financial statements or notes thereto.

(3) Exhibits

The following exhibits are filed as part of this report or incorporated herein by reference as indicated:

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of BSD Medical Corporation. Incorporated by reference to Exhibit 3.1 of the BSD Medical Corporation Annual Report Form 10-KSB, filed December 1, 2003.
3.2	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of BSD Medical Corporation. Incorporated by reference to Exhibit 3.1 to the BSD Medical Corporation Form 8-K, filed February 7, 2011.
3.3	By-Laws. Incorporated by reference to Exhibit 3.2 of the BSD Medical Corporation Registration Statement on Form S-1, filed October 16, 1986.
3.4	Amendment to Bylaws of BSD Medical Corporation. Incorporated by reference to Exhibit 3.1 of Current Report on Form 8-K filed January 4, 2008.
4.1	Form of Common Stock Purchase Warrant. Incorporated by reference to Exhibit 4.1 to the BSD Medical Corporation Form 8-K, filed June 26, 2014.
4.2	Specimen Common Stock Certificate. Incorporated by reference to Exhibit 4 of the BSD Medical Corporation Registration Statement on Form S-1, filed October 16, 1986.
4.3	Form of Common Stock Purchase Warrant. Incorporated by reference to Exhibit 4.1 to the BSD Medical Corporation Form 8-K, filed February 11, 2010.
4.4	Form of Common Stock Purchase Warrant. Incorporated by reference to Exhibit 4.1 to the BSD Medical Corporation Form 8-K, filed May 3, 2010.
4.5	

	Form of Common Stock Purchase Warrant. Incorporated by reference to Exhibit 4.1 to the BSD Medical Corporation Form 8-K, filed August 19, 2010.
4.6	Form of Common Stock Purchase Warrant. Incorporated by reference to Exhibit 4.1 to the BSD Medical Corporation Form 8-K, filed November 15, 2010.
4.7	Form of Common Stock Purchase Warrant. Incorporated by reference to Exhibit 4.1 to the BSD Medical Corporation Form 8-K, filed April 9, 2013.

10.1*	Letter Agreement, dated April 28, 2014, between the Company and Harold R. Wolcott. Incorporated by reference to Exhibit 10.1 to the BSD Medical Corporation Form 8-K, filed April 29, 2014.
10.2	At-the-Market Issuance Sales Agreement between BSD Medical Corporation and MLV & Co. LLC, dated May 9, 2014. Incorporated by reference to Exhibit 10.1 to the BSD Medical Corporation Form 8-K, filed May 9, 2014.
10.3	Termination of At-the-Market Issuance Sales Agreement, dated June 22, 2014, by and between BSD Medical Corporation and MLV & Co. LLC. Incorporated by reference to Exhibit 10.1 to the BSD Medical Corporation Form 8-K, filed June 23, 2014.
10.4	Settlement Agreement, dated as of June 20, 2014, by and between BSD Medical Corporation and Cranshire Capital Master Fund, Ltd. Incorporated by reference to Exhibit 10.1 to the BSD Medical Corporation Form 8-K, filed June 23, 2014.
10.5	Securities Purchase Agreement, dated as of June 25, 2014, by and among the Company and each of the purchasers identified on the signature pages thereto. Incorporated by reference to Exhibit 10.1 to the BSD Medical Corporation Form 8-K, filed June 26, 2014.
10.6*	Employment Agreement, dated September 16, 2014, between the Company and William S. Barth. Incorporated by reference to Exhibit 10.1 to the BSD Medical Corporation Form 8-K, filed September 19, 2014.
10.7*	Consulting Agreement, dated November 7, 2014, by and between BSD Medical Corporation and Harold R. Wolcott. Incorporated by reference to Exhibit 10.7 to the BSD Medical Corporation Form 10-K, filed November 13, 2014.
10.8*	Stock Option Grant by Company to Clinton E. Carnell Jr., dated November 10, 2014. Incorporated by reference to Exhibit 10.8 to the BSD Medical Corporation Form 10-K, filed November 13, 2014.
10.9*	BSD Medical Corporation Fourth Amended and Restated 1998 Director Stock Plan. Incorporated by reference to Appendix A of the BSD Medical Corporation Schedule 14A, filed December 28, 2009.
10.10*	BSD Medical Corporation Third Amended and Restated 1998 Stock Incentive Plan. Incorporated by reference to Appendix B of the BSD Medical Corporation Schedule 14A, filed December 28, 2009.
10.11*	BSD Medical Corporation Form of Employee Stock Option Grant. Incorporated by reference to Exhibit 10.7 to BSD Medical Corporation's Annual Report on Form 10-K filed November 14, 2008.
10.12*	BSD Medical Corporation Form of Director Stock Option Grant. Incorporated by reference to Exhibit 10.8 to BSD Medical Corporation's Annual Report on Form 10-K filed November 14, 2008.

10.13*	Employment Agreement dated November 2, 1988 between BSD Medical Corporation and Paul F. Turner. Incorporated by reference to Exhibit 10.8 to BSD Medical Corporation's Registration Statement on Form SB-2 filed January 27, 2004.
10.14*	Employment Agreement dated May 22, 2013 by and between BSD Medical Corporation and Harold R. Wolcott. Incorporated by reference to Exhibit 10.1 to the BSD Medical Corporation's Form 8-K filed May 29, 2013.
10.15	Exclusive Distribution Agreement by and between Sennewald/Medizintechnik GmbH dated May 13, 2009. Incorporated by reference to Exhibit 10.1 to BSD Medical Corporation's Quarterly Report on Form 10-Q filed on July 10, 2009.
10.16	Securities Purchase Agreement, dated as of April 9, 2013, by and between the Company and each of the purchasers identified on the signature pages thereto. Incorporated by reference to Exhibit 10.1 to the BSD Medical Corporation Form 8-K, filed April 9, 2013.

10.17*	Employment Agreement with effective date of November 10, 2014 between the Company and Clinton E. Carnell Jr. Incorporated by reference to Exhibit 10.1 to the BSD Medical Corporation's Form 10-Q filed January 14, 2015.
10.18*	Employment Agreement with effective date of February 16, 2015 between the Company and Benjamin Beckham.
10.19*	Employment Agreement with effective date February 16, 2015 between the Company and Todd H. Turnlund.
10.20*	Employment Agreement with effective date February 17, 2015 between the Company and Jen Hoglin.
10.21	Promissory Note dated February 24, 2015
21.1	Subsidiaries of the Registrant
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of Chief Executive Officer of Perseon pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer of Perseon pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer attached pursuant to Section 906 of the Sarbanes- Oxley Act of 2002.
32.2	Certification of the Principal Financial Officer of Perseon 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

* Exhibits marked with an asterisk (*) are management contracts or compensatory plans or arrangements.

** 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.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

PERSEON CORPORATION

Date: March 30 , 2015 By: /s/ Clinton E. Carnell Jr. .
Clinton E. Carnell Jr.
President, Chief Executive Officer and Member of the Board of Directors
(principal executive officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: March 30 , 2015 By: /s/ Clinton E. Carnell Jr. .
Clinton E. Carnell Jr.
President, Chief Executive Officer and Member of the Board of Directors
(principal executive officer)

Date: March 30 , 2015 By /s/ William S. Barth .
William S. Barth
Chief Financial Officer (principal financial and accounting officer)

Date: March 30 , 2015 By: /s/ Timothy C. McQuay .
Timothy C. McQuay
Chairman of the Board of Directors

Date: March 30 , 2015 By /s/ Harold R. Wolcott .
Harold R. Wolcott
Member of the Board of Directors

Date: March 30 , 2015 By: /s/ Steven G. Stewart
Steven G. Stewart
Member of the Board of Directors

Date: March 30 , 2015 By: /s/ Michael Nobel .
Dr. Michael Nobel
Member of the Board of Directors

Date: March 30 , 2015 By: /s/ Damian E. Dupuy .
Dr. Damian E. Dupuy
Member of the Board of Directors

PERSEON CORPORATION
(Formerly BSD Medical Corporation)
Index to Financial Statements

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
of Perseon Corporation

We have audited the accompanying balance sheets of Perseon Corporation (the Company) as of December 31, 2014, August 31, 2014 and August 31, 2013, and the related statements of comprehensive loss, stockholders' equity and cash flows for the four month period ended December 31, 2014 and for the years ended August 31, 2014 and 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of internal control over financial reporting as of December 31, 2014. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Perseon Corporation as of December 31, 2014 and August 31, 2014 and 2013, and the results of its operations and its cash flows for the four month period ended December 31, 2014 and for the years ended August 31, 2014 and 2013, in conformity with U.S. generally accepted accounting principles.

/s/ TANNER LLC

Salt Lake City, Utah
March 30 , 2015

PERSEON CORPORATION
(Formerly BSD Medical Corporation)
Balance Sheets

ASSETS	December 31, 2014	August 31, 2014	August 31, 2013
Current assets:			
Cash and cash equivalents	$5,594,578	$8,130,416	$9,450,528
Accounts receivable, net of allowance for doubtful accounts of $20,000	275,072	366,887	899,969
Related party trade accounts receivable, net	13,471	8,322	24,201
Inventories, net	1,775,648	2,329,189	2,445,770
Other current assets	86,583	146,319	200,028
Total current assets	7,745,352	10,981,133	13,020,496
Property and equipment, net	1,140,871	1,267,661	1,319,880
	$8,886,223	$12,248,794	$14,340,376
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$598,466	$548,897	$521,417
Accrued liabilities	1,105,152	866,528	573,880
Note payable	-	33,279	-
Customer deposits	41,667	41,781	317,480
Deferred revenue – current portion	54,218	96,043	730,593
Total current liabilities	1,799,503	1,586,528	2,143,370
Deferred revenue – net of current portion	-	-	53,115
Total liabilities	1,799,503	1,586,528	2,196,485
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, 39,713,540, 39,713,540 and 34,006,202 shares issued, respectively	39,714	39,714	34,007
Additional paid-in capital	63,587,400	63,394,556	57,739,056
Treasury stock, 24,331 shares at cost	(234)	(234)	(234)
Accumulated deficit	(56,540,160)	(52,771,770)	(45,628,938)
Total stockholders' equity	7,086,720	10,662,266	12,143,891
	$8,886,223	$12,248,794	$14,340,376

See accompanying notes to financial statements

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PERSEON CORPORATION
(Formerly BSD Medical Corporation)
Statements of Comprehensive Loss

	Four Months Ended December 31,		Years Ended August 31,	
	2014	2013 (Unaudited)	2014	2013
Revenues:				
Sales	$526,585	$1,572,376	$4,544,204	$3,274,796
Sales to related parties	463,423	16,686	419,549	99,896
Equipment rental	125,900	95,200	364,600	298,600
Total revenues	1,115,908	1,684,262	5,328,353	3,673,292
Cost of revenues:				
Cost of sales	334,455	795,034	2,563,921	2,161,967
Cost of related party sales	257,125	7,654	313,156	87,694
Cost of equipment rental	3,929	3,929	11,788	11,788
Total cost of revenues	595,509	806,617	2,888,865	2,261,449
Gross margin	520,399	877,645	2,439,488	1,411,843
Operating costs and expenses:				
Research and development	627,769	701,549	2,229,043	2,281,854
Selling, general and administrative	2,819,205	2,237,057	7,308,643	7,403,273
Impairment of inventory and other assets	805,000	50,000	50,000	-
Total operating costs and expenses	4,251,974	2,988,606	9,587,686	9,685,127
Loss from operations	(3,731,575)	(2,110,961)	(7,148,198)	(8,273,284)
Other income (expense):				
Interest income	5,672	8,167	22,491	32,225
Other income (expense)	(42,487)	(3,847)	(15,125)	(8,694)
Total other income (expense)	(36,815)	4,320	7,366	23,531
Loss before income taxes	(3,768,390)	(2,106,641)	(7,140,832)	(8,249,753)
Income tax provision	-	-	(2,000)	(1,938)
Net loss and comprehensive loss	$(3,768,390)	$(2,106,641)	$(7,142,832)	$(8,251,691)
Net loss per common share:				
Basic	$(0.09)	$(0.06)	$(0.20)	$(0.26)
Diluted	$(0.09)	$(0.06)	$(0.20)	$(0.26)
Weighted average number of shares outstanding:				
Basic	39,689,000	34,006,000	34,967,000	31,414,000
Diluted	39,689,000	34,006,000	34,967,000	31,414,000

See accompanying notes to financial statements

PERSEON CORPORATION
(Formerly BSD Medical Corporation)
Statements of Stockholders' Equity
Years Ended August 31, 2014 and 2013 and Four Months Ended December 31, 2014

	Common Stock		Additional Paid-in	Treasury Stock		Accumulated	
	Shares	Amount	Capital	Shares	Amount	Deficit	Total
Balance, September 1, 2012	29,777,522	$29,778	$51,845,035	24,331	$(234)	$(37,377,247)	$14,497,332
Common stock issued for:							
Services	163,638	164	179,838	-	-	-	180,002
Cash, net of offering costs of $416,565	4,065,042	4,065	4,579,372	-	-	-	4,583,437
Stock-based compensation	-	-	1,134,811	-	-	-	1,1,34,811
Net loss	-	-	-	-	-	(8,251,691)	(8,251,691)
Balance, August 31, 2013	34,006,202	34,007	57,739,056	24,331	(234)	(45,628,938)	12,143,891
Common stock issued for:							
Services	160,716	161	179,839	-	-	-	180,000
Cash, net of offering costs of $638,488	5,546,622	5,546	4,631,033	-	-	-	4,636,579
Stock-based compensation	-	-	844,628	-	-	-	844,628
Net loss	-	-	-	-	-	(7,142,832)	(7,142,832)
Balance, August 31, 2014	39,713,540	39,714	63,394,556	24,331	(234)	(52,771,770)	10,662,266
Stock-based compensation	-	-	192,844	-	-	-	192,844
Net loss	-	-	-	-	-	(3,768,390)	(3,768,390)
Balance, December 31, 2014	39,713,540	$39,714	$63,587,400	24,331	$(234)	$(56,540,160)	$7,086,720

See accompanying notes to financial statements

PERSEON CORPORATION
(Formerly BSD Medical Corporation)
Statements of Cash Flows

	Four Months Ended December 31,		Years Ended August 31,	
	2014	2013 (Unaudited)	2014	2013
Cash flows from operating activities:				
Net loss	$(3,768,390)	$(2,106,641)	$(7,142,832)	$(8,251,691)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	43,280	40,364	125,824	132,153
Stock issued for services	-	-	180,000	180,002
Stock-based compensation	192,844	284,167	844,628	1,134,811
Loss (gain) on disposition of assets	33,827	-	(30)	-
Impairment of inventory and other assets	805,000	50,000	50,000	
Decrease (increase) in:				
Receivables	(33,334)	95,124	548,961	(601,326)
Inventories	(46,459)	(328,517)	66,581	(41,813)
Other current assets	59,736	51,881	53,709	(79,959)
Increase (decrease) in:				
Accounts payable	49,569	(57,272)	27,480	325,663
Accrued liabilities	238,624	(84,323)	292,648	149,182
Customer deposits	(114)	95,347	(275,699)	292,500
Deferred revenue	(41,825)	(46,237)	(687,665)	560,423
Net cash used in operating activities	(2,467,242)	(2,006,107)	(5,916,395)	(6,200,055)
Cash flows from investing activities:				
Purchase of property and equipment	(35,317)	(21,330)	(75,599)	(35,362)
Proceeds from disposition of assets	-	-	2,025	-
Net cash (used in) investing activities	(35,317)	(21,330)	(73,574)	(35,362)
Cash flows from financing activities:				
Net proceeds from the sale of common stock	-	-	4,636,579	4,583,437
Proceeds from note payable	-	-	74,052	-
Payments on note payable	(33,279)	-	(40,774)	-
Net cash provided by financing activities	(33,279)	-	4,669,857	4,583,437
Net increase (decrease) in cash and cash equivalents	(2,535,838)	(2,027,437)	(1,320,112)	(1,651,980)
Cash and cash equivalents, beginning of period	8,130,416	9,450,528	9,450,528	11,102,508
Cash and cash equivalents, end of period	$5,594,578	$7,423,091	$8,130,416	$9,450,528

See accompanying notes to financial statements

PERSEON CORPORATION
(Formerly BSD Medical Corporation)
Notes to Financial Statements

Note 1: Organization and Significant Accounting Policies

Organization and Business – Perseon Corporation, formerly BSD Medical Corporation, (the "Company") was incorporated in the State of Delaware on July 3, 1986. In February 2015, we changed the name of the Company to Perseon Corporation. We are a life sciences company that develops, manufactures, markets and services groundbreaking medical systems to treat cancer using heat therapy. Our MicroThermX® microwave ablation system employs precision-guided microwave energy to ablate diseased soft tissue. We have developed extensive intellectual property and distribute our products in the United States, Europe and Asia.

Financial Reporting Period – We have changed our fiscal year end for financial reporting from August 31 to December 31, effective for the four months ended December 31, 2014. The financial information for the four months ended December 31, 2013 provided for comparative purposes is unaudited. All adjustments (consisting only of normal recurring adjustments) necessary for the fair presentation of our results of operations and our cash flows for the four months ended December 31, 2013 have been included. The results of operations for the four months ended December 31, 2014 may not be indicative of the results for our fiscal year ending December 31, 2015.

Cash and Cash Equivalents – Cash and cash equivalents consist of cash and investments with original maturities to the Company of three months or less. As of December 31, 2014 and August 31, 2014, we had $25,000 in a restricted bank account.

Accounts Receivable – Trade accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management estimates an allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Trade accounts receivable are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received. Interest is not charged on trade receivables that are outstanding beyond their due date.

Inventories – Parts and supplies inventories are stated at the lower of cost or market. Cost is determined using the average cost method. Work-in-process and finished goods are stated at the lower of the accumulated manufacturing costs or market. We maintain a reserve for obsolete inventories to reduce excess and obsolete inventories to their estimated net realizable value. The reserve was $750,000 as of December 31, 2014, $150,000 as of August 31, 2014, and $100,000 as of August 31, 2013.

Property and Equipment – Property and equipment are stated at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the following estimated useful lives of the assets.

Equipment	2 – 5 years
Rental equipment	5 years
Furniture and fixtures	5 years
Building improvements	15 years
Building	40 years

Expenditures for maintenance and repairs are expensed when incurred and betterments are capitalized. Gains and losses on sales of property and equipment are reflected in operations.

The cost and accumulated depreciation of property and equipment sold or otherwise retired are removed from the accounts and any related gain or loss on disposition is reflected in net income or loss for the period.

Patents – Patent costs are expensed as incurred.

Warranty Reserve – We provide limited warranties to our customers for products sold. Estimated future warranty obligations are accrued each period. As of December 31, 2014, August 31, 2014 and August 31, 2013, the accrued warranty reserve was $65,102, $75,728 and $50,968, respectively. During the four months ended December 31, 2014, total warranty expense was $13,410. During the fiscal years ended August 31, 2014 and 2013, total warranty expense was $41,471 and $80,276, respectively.

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 tax 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.

Income (Loss) Per Common Share – The computation of basic income (loss) per common share is based on the weighted average number of shares outstanding during each year.

The computation of diluted earnings per common share is based on the weighted average number of shares outstanding during the year, plus the common stock equivalents that 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 year. Common stock equivalents are not included in the diluted loss per share calculation when their effect is anti-dilutive. Options and warrants to purchase 14,989,224 shares of common stock at prices ranging from $0.44 to $7.95 were excluded from the calculation of diluted earnings per share for the four months ended December 31, 2014 because their effect was anti-dilutive. Options and warrants to purchase 13,720,225 and 9,669,878 shares of common stock at prices ranging from $0.99 to $7.95 were excluded from the calculation of diluted earnings per share for the years ended August 31, 2014 and 2013, respectively, because their effect was anti-dilutive.

Since we had no dilutive effect of stock options and warrants for the four months ended December 31, 2014 and 2013 and the years ended August 31, 2014 and 2013, our basic weighted average number of common shares outstanding is the same as our diluted weighted average number of common shares outstanding.

Stock-Based Compensation - Stock-based compensation 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 is allocated to the various categories of operating costs and expenses in a manner similar to the allocation of payroll expense.

Revenue Recognition – We recognize revenue from the sale of medical systems, disposable devices related to the systems, parts, and accessories, and equipment rental, training, and service support contracts. Our revenues consisted of the following:

	Four Months Ended December 31,		Years Ended August 31,	
	2014	2013	2014	2013
Product sales	$ 470,875	$ 986,900	$ 3,019,525	$ 1,934,826
Disposable devices	409,787	501,565	1,568,481	1,109,750
	109,346	100,597	375,747	330,116

Service contracts and other				
Equipment rental	125,900	95,200	364,600	298,600
Total	$ 1,115,908	$ 1,684,262	$ 5,328,353	$ 3,673,292

Revenue from product sales is recognized when a purchase order has been received, the cancer treatment 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 disposable 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 that have not been shipped.

Concentration of Credit Risk – Financial instruments that potentially subject us to concentration of credit risk consists primarily of trade receivables. In the normal course of business, we provide credit terms to our customers. Accordingly, we perform ongoing credit evaluations of our customers and maintain allowances for possible losses.

We have cash in the bank and short-term investments that exceed federally insured limits. We have not experienced any losses in such accounts.

Advertising and Promotion – Advertising and promotion costs, which are principally included in sales expenses, are expensed as incurred. Advertising and promotion expense was $56,504 for the four months ended December 31, 2014, and $206,099 and $205,442 for the years ended August 31, 2014 and 2013, respectively.

Shipping and Handling – We bill our customers for shipping and handling charges, which are included in net sales. The cost of corresponding shipping and handling expense is reported in cost of sales.

Use of Estimates in the Preparation of Financial Statements – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that

affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comprehensive Loss – Comprehensive loss is the same as net loss for all years presented.

Note 2: Liquidity

As of December 31, 2014, we had cash and cash equivalents of $5,594,578, and total current assets of $7,745,352. We do not believe these resources will be sufficient to fully execute our current strategy through at least December 31, 2015. Our current strategy involves significant efforts to expand sales of our MicroThermX product. To become profitable we will need to significantly increase the revenues we receive from sales of our MicroThermX products. We do not expect that sales of the MicroThermX products will increase sufficiently to cover our total costs of operations in 2015. We believe additional funding will be required during 2015.

If we are unable to raise sufficient additional funds in 2015, we will need to significantly reduce our expenses, and evaluate other business arrangements, including collaborative arrangements, partnerships, or sale of assets, to allow continued operations. Significantly reducing our expenses would negatively affect our efforts to expand our marketing and sales presence, our research and development programs, and our ability to hire and retain qualified personnel.

Note 3: Detail of Certain Balance Sheet Accounts

Details of certain balance sheet accounts are as follows:

	December 31, 2014	August 31, 2014	August 31, 2013
Accounts receivable:			
Trade receivables – non-related party	$ 293,182	$ 364,170	$ 890,985
Other receivables	1,890	22,717	28,984
Allowance for doubtful accounts	(20,000)	(20,000)	(20,000)
	$ 275,072	$ 366,887	$ 899,969
Inventories:			
Parts and supplies	$ 1,004,164	$ 1,369,960	$ 1,353,614
Work-in-process	951,519	880,751	990,668
Finished goods	569,965	228,478	201,488
Reserve for obsolete inventories	(750,000)	(150,000)	(100,000)
	$ 1,775,648	$ 2,329,189	$ 2,445,770
Accrued liabilities:			
Warranty reserve	$ 65,102	$ 75,728	$ 50,968
Training and installation reserve	2,038	4,716	5,528
Accrued taxes payable	50,462	59,745	44,677
Payroll, commissions, legal and other	987,550	726,339	472,707
	$ 1,105,152	$ 866,528	$ 573,880

Note 4: Property and Equipment

Property and equipment consist of the following:

	December 31, 2014	August 31, 2014	2013
Equipment	$ 1,503,845	$ 1,468,528	$ 1,401,811
Rental equipment	58,940	58,940	58,940
Furniture and fixtures	303,226	303,226	300,061
Building improvements	-	54,736	54,736
Building (held for sale)	956,000	956,000	956,000
Land (held for sale)	244,000	244,000	244,000
	3,066,011	3,085,430	3,015,548
Less equipment impairment	(85,000)	-	-
Less accumulated depreciation	(1,840,140)	(1,817,769)	(1,695,668)
	$ 1,140,871	$ 1,267,661	$ 1,319,880

Depreciation expense totaled $43,280 for the four months ended December 31, 2014 and totaled $125,824 and $128,121 for the years ended August 31, 2014 and 2013, respectively.

Note 5: Impairment

In 2014, our Board of Directors determined that it is in the best interest of Perseon shareholders to divest of our assets related to the hyperthermia product line In connection with our plans to either sell or divest the assets related to the hyperthermia product line, we analyzed the carrying value and estimated net realizable value of inventory and other assets related to the hyperthermia product line as of December 31, 2014. As a result of this analysis, during the four months ended December 31, 2014, we recorded an impairment charge of $805,000 for inventory, equipment, and other assets related to the hyperthermia product line. These impairment expenses are the result of our assessment of the decrease in the estimated realizable value associated with assets related to the hyperthermia product line. The inventory reserve was also increased by $50,000 in the corresponding year ended August 31, 2014, to recognize a portion of the devaluation of inventory related to the hyperthermia product line.

Note 6: Patents

Patent costs are expense as incurred. In prior years we had certain patents recorded net of accumulated amortization. The patents were being amortized on a straight-line basis over their estimated legal life, up to a period of 17 years. Amortization expense was $0 for the four months ended December 31, 2014, and was $0 and $4,032 for the years ended August 31, 2014 and 2013, respectively.

Note 7: Stockholders' Equity

The Company has 10,000,000 authorized shares of $.001 par value preferred stock. As of December 31, 2014, August 31, 2014 and 2013, 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 Statements

On October 1, 2009, a universal shelf registration statement was declared effective by the SEC for the issuance of common stock, preferred stock, warrants, senior debt, subordinated debt and units up to an aggregate amount of $50.0 million (the “2009 Shelf Registration Statement”). We completed four stock offerings utilizing the universal shelf registration statement during calendar year 2010, and we received total net proceeds of approximately $19.2 million, including proceeds from the exercise of warrants issued in the stock offerings.

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 (the "2012 Shelf Registration Statement"). On October 11, 2012, the 2012 Shelf Registration Statement was declared effective by the SEC. We have completed two stock offerings utilizing the 2012 Shelf Registration Statement from April 2013 through December 31, 2014, and we received total net proceeds of approximately $9.0 million from these offerings, as more fully described below. 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 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 "April 2013 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 April 2013 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 April 2013 Offering, not to exceed the lesser of (i) $35,000 or (ii) 8% of the gross proceeds of the April 2013 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 April 2013 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 became exercisable six months and one day following the closing date of the April 2013 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 April 2013 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:

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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 April 2013 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 April 2013 Offering on April 12, 2013 and received net proceeds of approximately $4.6 million, after deducting placement agent fees and the offering expenses borne by us.

The April 2013 Offering was completed using the 2012 Shelf Registration Statement, pursuant to a prospectus supplement filed with the SEC.

May 2014 Offering

On May 9, 2014, the Company entered into an At-the-Market Issuance Sales Agreement (the "ATM Agreement") with MLV & Co. LLC ("MLV"). Under this sales agreement, we could issue and sell from time to time, up to $8,000,000 of common stock. These shares are registered under the 2012 Shelf Registration Statement . MLV would act as sales agent, using commercially reasonable efforts consistent with its normal trading and sales practices. The Agreement provided that our common shares would be sold at market prices prevailing at the time of the sale of our common stock, at no discount to market and no warrants attached. We were not obligated to make any sales under the sales agreement. We paid MLV a commission rate of 3.0% of the gross proceeds from the sale of common stock sold through MLV as sales agent under the sales agreement, reimbursed MLV for certain expenses incurred in connection with entering into the sales agreement, and provided MLV with customary indemnification rights. The full terms and text of the sales agreement was filed by the Company on a Current Report on Form 8-K on May 9, 2014. Through June 22, 2014, the Company sold 46,622 shares of common stock at an average price per share of $1.074, for gross proceeds of $50,068. The ATM Agreement was terminated on June 22, 2014.

June 2014 Offering

On June 25, 2014, the Company and certain institutional investors entered into a securities purchase agreement (the "June Offering") in which the Company agreed to sell, pursuant to a securities purchase agreement (the "Purchase Agreement"), an aggregate of 5,500,000 shares of its common stock and warrants to purchase a total of 4,400,000 shares of its common stock to such investors for aggregate gross proceeds of approximately $5.2 million, and net proceeds of approximately $4.7 million, after deducting placement agency fees and other costs associated with the transaction. 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 0.8 shares of common stock. The purchase price was $0.95 per fixed combination. The warrants will become exercisable six months and one day following the closing date of the June Offering and will remain exercisable for five years thereafter at an exercise price of $1.10 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 4.99% of the Company's common stock. The warrants are contingently puttable at the option of the holders upon the occurrence of a fundamental transaction (as defined in the warrant agreements). The Company considers that all of the fundamental transactions are within the Company's sole control, and that the probability of any fundamental transaction occurring and the put being exercised are both remote.

Under the Purchase Agreement, the Company has agreed with each of the purchasers that, subject to certain exceptions, it will not, within the 75 days following the closing of the June Offering enter into any agreement to issue or announce the issuance or proposed issuance of any securities. The Company also agreed with each of the purchasers that for a period of four years from the date of the Purchase Agreement, the Company will not affect or enter into an agreement to affect a "Variable Rate Transaction," which means a transaction in which it:

- issues or sells 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 common stock of the Company 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 the business of the Company or the market for the Company's common stock, other than pursuant to a customary "weighted average" anti-dilution provision; or

- enters into any agreement (including, without limitation, an equity line of credit) whereby the Company may sell securities at a future determined price.

The Company has also agreed to indemnify each of the purchasers against certain losses resulting from its breach of any of its representations, warranties, or covenants under agreements with each of the purchasers, as well as under certain other circumstances described in the Purchase Agreement. The transaction closed on July 1, 2014 and the net proceeds were transferred to the Company.

Warrants

A summary of the outstanding warrants issued in our stock offerings as of December 31, 2014 and August 31, 2014 and changes during the four months ended December 31, 2014 and the year ended August 31, 2014 is as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contract Term (Years)
Outstanding as of August 31, 2013	5,457,305	$ 2.93	-
Granted	4,400,000	1.10	-
Exercised	-	-	-
Forfeited or expired	-	-	-
Outstanding as of August 31, 2014	9,857,305	$ 2.11	4.02
Granted	-	-	-
Exercised	-	-	-
Forfeited or expired	-	-	-
Outstanding as of December 31, 2014	9,857,305	$ 2.11	3.69
Exercisable as of December 31, 2014	5,457,305	$ 2.93	2.62

Note 8: Deferred Revenue

We have entered into certain service contracts and other agreements for which we have received payment in advance. We recognize these revenues over the life of the agreements.

As of December 31, 2014, August 31, 2014 and August 31, 2013, we had deferred revenue of $54,218, $96,043 and $783,708, respectively.

Note 9: Major Customers and Foreign Sales

During the four months ended December 31, 2014, we had sales to two foreign customers totaling 41.53% and 11.30% of total revenues. During the year ended August 31, 2014, we had sales to two foreign customers totaling 23.46% and 22.92% of total revenues. During the year ended August 31, 2013, we had sales to one customer totaling 30.36% of total revenues.

Export sales were $630,857 in the four months ended December 31, 2014, and $3,381,563 and $1,470,619 in the years ended August 31 2014 and 2013, respectively.

During the four months ended December 31, 2014, export sales to Germany and Belgium combined were approximately 53%. During fiscal year 2014, export sales to Taiwan and Belgium combined were approximately 46% of total sales. During fiscal year 2013, export sales to Belgium and Germany combined were approximately 30%.

As of December 31, 2014, the highest account receivable due from one customer was 36% of total accounts receivable. As of August 31, 2014, the highest account receivable due from one customer was approximately 68% of total accounts receivable. As of August 31, 2013, the highest account receivable due from one customer was approximately 72% of total accounts receivable.

Note 10: Related Party Transactions

We had sales of $463,423 during the four months ended December 31, 2014, and $419,549 and $99,896 during the years ended August 31, 2014 and 2013, respectively, to entities controlled by a significant stockholder and member of the Board of Directors. These related party transactions represent approximately 42%, 8% and 3% of total sales for each respective period.

As of December 31, 2014, August 31, 2014 and August 31, 2013, receivables include $13,471, $8,322 and $24,201, respectively, from these related parties.

Note 11: Income Taxes

The income tax provision of $2,000 and $1,938 for the years ended August 31, 2014 and 2013, respectively, is comprised of a current provision for state income taxes.

The income tax (provision) benefit differs from the amount computed at federal statutory rates as follows:

	Four Months Ended December 31, 2014	Years Ended August 31, 2014	2013
Income tax benefit at federal statutory rate	$ 1,281,000	$ 2,428,000	$ 2,805,000
Stock-based compensation	(66,000)	(287,000)	(335,000)
State income taxes, net of federal benefit	124,000	236,000	272,000
Research and development credit	33,000	99,000	106,000
Valuation allowance	(1,360,000)	(2,480,000)	(2,905,000)
Other	(12,000)	2,000	55,062
	$ -	$ (2,000)	$ (1,938)

Deferred tax assets (liabilities) are comprised of the following:

	December 31,	August 31,

	2014	2014	2013
Current Asset:			
Accruals and reserves	$ 73,000	$ 62,000	$ 26,000
Deferred revenue	18,000	33,000	266,000
Inventories	298,000	90,000	68,000
Valuation allowance	(389,000)	(185,000)	(360,000)
	$ -	$ -	$ -
Long-Term Asset (Liability):			
Deferred compensation	$ 601,000	$ 601,000	$ 601,000
Research and development and other tax credits	1,929,000	1,896,000	1,804,000
Net operating loss carryforwards - federal	12,951,000	13,938,000	11,380,000
Net operating loss carryforwards - state	2,079,000	-	-
Depreciation and amortization	39,000	8,000	3,000
Valuation allowance	(17,599,000)	(16,443,000)	(13,788,000)
	$ -	$ -	$ -

The ultimate realization of the deferred tax assets is dependent, in part, upon the tax laws in effect, our future earnings, and other events. As of December 31, 2014, we recorded a valuation allowance of $389,000 against current deferred tax assets, and a valuation allowance of $17,599,000 against net long-term deferred tax assets. The increase in the valuation allowance for the four months ended December 31, 2014 relates primarily to our operating losses. In recording the valuation allowance, we were unable to conclude that it is more likely than not that our deferred tax assets will be realized.

In addition to the deferred tax assets listed above, the Company has unrecorded tax benefits of approximately $2,600,000 attributable to the difference between the amount of the financial statement expense and the allowable tax deduction associated with stock-based compensation. As a result of net operating loss carryforwards, the Company was not able to recognize the excess tax benefits of share-based compensation deductions because the deductions did not reduce income tax payable. Although not recognized for financial reporting purposes, this unrecorded tax benefit is available to reduce future income and is incorporated into the disclosed amounts of the Company's net operating loss carryforwards, discussed below. If subsequently realized, the benefit will be recorded to contributed capital.

As of December 31, 2014, we had a net operating loss carryforward available to offset future taxable income of approximately $40,701,000, which will begin to expire in 2029. If substantial changes in the Company's ownership should occur, there would be an annual limitation of the amount of the net operating loss carryforward which could be utilized.

We perform a review of our material tax positions in accordance with recognition and measurement standards established by authoritative accounting literature, which requires a company to determine whether it is more likely than not that a tax position will be sustained upon examination based upon the technical merits of the position. If the more-likely-than-not threshold is met, a company must measure the tax position to determine the amount to recognize in the financial statements. Based upon our review and evaluation, during the four months ended December 31, 2014 and 2013 and the years ended August 31, 2014 and 2013, we concluded the Company had no unrecognized tax benefit that would affect its effective tax rate if recognized.

We classify any interest and penalties arising from the underpayment of income taxes in our statements of comprehensive loss in other income (expense). As of December 31, 2014, August 31, 2014 and August 31, 2013, we had no accrued interest or penalties related to uncertain tax positions.

We file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. U.S. federal income tax returns from the year ended August 31, 2011 through the period ended December 31, 2014 are subject to examination.

Note 12: Stock-Based Compensation

Our Third Amended and Restated 1998 Stock Incentive Plan (the "Plan") authorizes the granting of incentive stock options to certain key employees and non-employees who provide services to the Company. The Plan, as amended, provides for the granting of options for an aggregate of 6,337,300 shares. The options vest subject to management's discretion.

Effective February 4, 2009, our Fourth Amended and Restated 1998 Directors Stock Plan (the "Director Plan") provides an annual retainer of $60,000 to each non-employee director with the exception of the Audit Committee Chairman who is to receive $65,000. The cash portion of the compensation of $30,000 ($35,000 for the Audit Committee Chairman) is paid 50% twice each year, with $30,000 of compensation paid in common stock of the Company once each year. Prior to February 4, 2009, the Director Plan granted each non-employee outside director 30,000 options each year at an exercise price equal to the fair market value of the common stock at the date the option was granted. The options vest according to a set schedule over a five-year period and expire upon the director's termination, or after ten years from the date of grant. The Director Plan, as amended, allows for an aggregate of 1,750,000 shares to be granted.

Stock-based compensation cost 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 as follows:

	Four Months Ended December 31, 2014	Years Ended August 31, 2014	2013
Cost of sales	$ 11,776	$ 61,427	$ 67,119
Research and development	32,349	183,371	212,569
Selling, general and administrative	148,719	599,830	855,123
Total	$ 192,844	$ 844,628	$ 1,134,811

During the four months ended December 31, 2014, we granted a total of 1,450,000 stock options to employees with exercise prices ranging from $0.44 to $0.51 per share and with one third vesting each year for the next three years. The weighted average estimated grant-date fair value per share of these stock options was $0.22, and our assumptions used in the Black-Scholes valuation model to determine this estimated fair value are shown below:

Expected volatility	62.96%
Expected dividends	0.00%
Expected term	7.24 Years
Risk-free interest rate	2.07%

The expected volatility rate was estimated based on the historical volatility of our common stock. The expected term was estimated based on historical experience of stock option exercise and forfeitures. The risk-free interest rate is the rate provided by the U.S. Treasury for Daily Treasury Yield Curve Rates commonly referred to as "Constant Maturity Treasury" rate in effect at the time of grant with a remaining term equal to the expected option term.

Unrecognized stock-based compensation expense expected to be recognized over an estimated weighted-average amortization period of 1.15 years is approximately $1,078,000 as of December 31, 2014.

A summary of the time-based stock option awards as of as of December 31, 2014 and August 31, 2014 and changes during the four months ended December 31, 2014 and the year ended August 31, 2014 is as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contract Term (Years)	Aggregate Intrinsic Value
Outstanding as of September 1, 2013	4,212,573	$ 2.85		
Granted	127,000	1.19		
Exercised	-	-		
Forfeited or expired	(476,653)	2.18		
Outstanding as of August 31, 2014	3,862,920	2.88	6.32	$ -
Granted	1,450,000	0.46		
Exercised	-	-		
Forfeited or expired	(181,001)	1.54		
Outstanding as of December 31, 2014	5,131,919	$ 2.25	7.03	$ -
Exercisable as of December 31, 23014	2,953,586	$ 3.30	5.31	$ -

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on the Company's closing stock price of $0.36 as of December 31, 2014, 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 13: Supplemental Cash Flow Information

We paid no amount for interest during the four months ended December 31, 2014 and the years ended August 31, 2014 and 2013. We paid no amount for income taxes during the four months ended December 31, 2014. During the years ended August 31, 2014 and 2013 we paid $2,000 and $1,938 for income taxes.

We had no non-cash financing and investing activities during the four months ended December 31, 2014 and the years ended August 31, 2014 and 2013.

Note 14: Commitments and Contingencies

Employment Agreement - CEO

On January 9, 2015, we entered into an Employment Agreement ("CEO Agreement") with Clinton E. Carnell Jr., our President and Chief Executive Officer ("CEO"). The CEO Agreement confirms the appointment as President and CEO, and service as a member of the Company's Board of Directors, and sets the CEO's annual base salary at $350,000, with a review at least annually by the Compensation Committee of the Board of Directors. The CEO Agreement provides for an annual bonus of $150,000 for the first year of employment, and a bonus of $150,000, or a pro rata portion thereof, for the second year of employment. If the Company completes and closes in fiscal year 2015 an equity offering that generates to the Company at least $5.0 million in net proceeds, then the Company will engage a compensation consulting firm to conduct a study of compensation of CEO's in companies comparable to the Company, which study shall then be used to negotiate Mr. Carnell's overall compensation after December 31, 2015. If the Company does not complete and close such an equity offering in 2015, then the Company shall engage a

compensation consulting firm in 2016 to negotiate Mr. Carnell's salary after December 31, 2016. The CEO Agreement also provides an award of a nonqualified stock option to purchase 1,400,000 shares of common stock at a price per share of $0.46, the closing price of the Company's common stock on November 10, 2014, the date the option was granted. The options will vest at one-third each year on the anniversaries of the grant. Under the CEO Agreement the CEO is entitled to participate in all employee benefit plans, practices and programs maintained by the Company for its employees. Additional provisions of the CEO Agreement include indemnification for expenses associated with defending certain claims made against the CEO as a result of his position with the Company, and directors' and officers' liability insurance providing coverage during the term of the CEO Agreement and for a period of six years following the termination of the CEO Agreement. The CEO Agreement also provides that if he is terminated by the Company other than for cause, or if he resigns for good reason and complies with certain requirements, the Company is obligated to pay him an amount equal to his base salary (the "CEO Severance Payment") and provide employee benefits for two years following termination. If the CEO Agreement is terminated for cause, he shall receive only the portion of his base salary that is due to him through the effective date of his termination. If the CEO Agreement is terminated by reason of his death, his estate shall receive his salary through the end of the month in which he died plus all employee benefits due to him through the end of such month. If a Change in Control (as defined in the CEO Agreement) occurs with respect to the Company, and during the six months immediately following the Change of Control, (i) the Company terminates him without cause; or (ii) he terminates his employment with good reason, then in addition to the CEO Severance Payment, all options or incentive awards granted to him will immediately vest and become exercisable for a period of 180 days following the termination. The CEO Agreement also contains a confidentiality agreement, and a one-year non-competition and non-solicitation agreement. The CEO Agreement contains a claw back provision that enables the Company to claw back any incentive-based compensation or other compensation from him if required by any law, government regulation, stock exchange listing requirement, or Company policy adopted as required by such law, government regulation, or stock exchange listing requirement.

The Company's former President and CEO, Mr. Harold R. Wolcott, relinquished his positions as President and CEO upon the Company's hiring of its new President and CEO. Mr. Wolcott will continue to serve on the Company's board of directors. On April 28, 2014, the Company entered into a letter agreement with Mr. Wolcott, pursuant to which Mr. Wolcott will receive severance benefits that supersede the severance benefits Mr. Wolcott was previously entitled to receive under his employment agreement. Pursuant to the letter agreement, upon Mr. Wolcott ceasing to serve as President and CEO of the Company for any reason (other than for cause), the Company will pay to Mr. Wolcott an amount equal to his current base salary, and the vesting of his equity awards will immediately vest and become exercisable. On November 10, 2014, the Company entered into a consulting agreement with Mr. Wolcott, who resigned as President and CEO effective November 10, 2014.

Employment Agreement – CFO

On September 16, 2014, the Company entered into an employment agreement (the "CFO Agreement") with its Chief Financial Officer ("CFO"). The CFO Agreement provides that his base salary shall be $200,000, to be reviewed at least annually by the Compensation Committee of the Board of Directors. The CFO Agreement provides that the CFO is entitled to participate in any annual incentive bonus programs, employee benefit plans adopted or maintained by the Company, and the Company's Stock Incentive Plan. Additional provisions of the CFO Agreement include indemnification for expenses associated with defending certain claims made against the CFO as a result of his position with the Company, and directors' and officers' liability insurance providing coverage during the term of the CFO Agreement and for a period of six years following the termination of the CFO Agreement. If the CFO is terminated by the Company other than for cause, or resigns for good reason, and complies with certain requirements, the Company is obligated to pay him an amount equal to his base salary (the "CFO Severance Payment") and provide employee benefits for one year following termination. If the CFO Agreement is terminated for cause, he shall receive only the portion of his base salary that is due to him through the effective date of his termination. If the CFO Agreement is terminated by reason of his death, his estate shall receive his salary through the end of the month in which he died plus all employee benefits due to him through the end of such month. If a Change in Control (as defined in the CFO Agreement) occurs with respect to the Company, and during the six months immediately following the Change of Control, (i) the Company terminates him without cause; (ii) he terminates his employment with good reason; or (iii) he terminates the CFO Agreement but also agrees to continue serving as CFO for the longer of (a) six months and (b) until a new CFO is appointed, then in addition to the CFO Severance Payment, all options or incentive awards granted to him will immediately vest and become exercisable for a period of 180 days following the termination. The CFO Agreement also contains a confidentiality agreement, and a one-year non-competition and non-solicitation agreement. The CFO Agreement contains a claw back provision that enables the Company to claw back any incentive-based compensation or other compensation from him if required by any law, government regulation, stock exchange listing requirement, or Company policy adopted as required by such law, government regulation, or stock exchange listing requirement.

Employment Agreement – CTO

On December 19, 2014, the Company terminated, without cause, the employment of its Chief Technical Officer ("CTO"). Under the terms of an employment agreement dated November 2, 1988, the Company is obligated to provide severance pay for a one-year period, which pay includes an extension of all rights, privileges and benefits as an employee (including medical insurance). The one-year severance pay shall be equal to the CTO's average annual salary for the 12-month period immediately prior to the termination. The terms of the employment agreement also require us to pay the CTO for accrued, unused vacation at the time of termination, and include a non-competition covenant prohibiting him from competing with us for one year following his termination. We may continue the non-competition period for up to four additional years by notifying the CTO in writing and by continuing the severance payments for the additional years during which the non-competition period is extended.

Note 15: Recent Accounting Pronouncements

No new accounting pronouncements were adopted during the four months ended December 31, 2014 that had a material impact on our financial statements.

In May 2014, FASB issued ASU 2014-09 Revenue from Contracts with Customers. The amendments in ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g., insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605 Revenue Recognition and most industry-specific guidance, and creates a Topic 606 Revenue from Contracts with Customers.

The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. We have not yet determined how our financial statements will be affected by the adoption of ASU 2014-09.

Note 16: Subsequent Events

On January 15, 2015, the Company entered into an employment agreement with its Clinton E. Carnell, Jr., to serve as President and Chief Executive Officer.

Effective February 16, 2015, the Company entered into an employment agreement with Benjamin Beckham to serve as Vice President of North American Sales.

Effective February 16, 2015, the Company entered into an employment agreement with Todd Turnlund to serve as Vice President of Research and Development.

Effective February 17, 2015, the Company entered into an employment agreement with Jen Hoglin to serve as Vice President of Global Marketing.

Effective February 20, 2015, Perseon Corporation amended its certificate of incorporation to change its legal corporate name to “Perseon Corporation” from “BSD Medical Corporation.” The name change was effected pursuant to Section 242 of the Delaware General Corporation Law (the “DGCL”). Under the DGCL, the amendment to the Company’s certificate of incorporation to effect the name change did not require stockholder approval.

On February 24, 2015, the Company executed a promissory note with an asset lender, in the amount of $750,000. The note is secured by the Company’s headquarters and manufacturing facility. During the one year term of the note, monthly payments of interest only at Prime Rate plus 6.0% are required, with the principal due on February 24, 2016.

The Company has evaluated other events occurring after the date of our accompanying balance sheets through the date of the filing of this Transition Report on Form 10-K. No other material subsequent events requiring adjustment to our accompanying financial statements were identified.