

Perseon Corp
Form 10-Q
July 16, 2015

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

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

For the transition period from _____ to _____

Commission File No. 001-32526

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

Delaware
(State or other jurisdiction of incorporation
or organization)

75-1590407
(I.R.S. Employer Identification No.)

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

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

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Edgar Filing: Perseon Corp - Form 10-Q

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company

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

As of July 15, 2015, there were 4,016,323 shares of the Registrant's common stock, \$0.001 par value per share, outstanding.

PERSEON CORPORATION
FORM 10-Q

FOR THE QUARTER ENDED JUNE 30, 2015

PART I - Financial Information

| | |
|-----------------------------------------------------------------------------------------------|----|
| Item 1. Financial Statements | |
| Condensed Balance Sheets (Unaudited) | 3 |
| Condensed Statements of Comprehensive Loss (Unaudited) | 4 |
| Condensed Statements of Cash Flows (Unaudited) | 5 |
| Notes to Condensed Financial Statements (Unaudited) | 6 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 13 |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk | 22 |
| Item 4. Controls and Procedures | 22 |
| PART II - Other Information | |
| Item 1. Legal Proceedings | 23 |
| Item 1A. Risk Factors | 23 |
| Item 5. Other Information | 23 |
| Item 6. Exhibits | 24 |
| Signatures | 25 |

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

PERSEON CORPORATION
(Formerly BSD Medical Corporation)
Condensed Balance Sheets
(Unaudited)

| ASSETS | June 30, 2015 | December 31, 2014 |
|-------------------------------------------------------------------------------------------------------------------|------------------|-------------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 865,516 | \$ 5,594,578 |
| Accounts receivable, net of allowance for doubtful accounts of \$66,480 and \$140,000, respectively | 643,733 | 275,072 |
| Related party trade accounts receivable | - | 13,471 |
| Inventories, net | 1,079,765 | 1,775,648 |
| Other current assets | 344,451 | 86,583 |
| Total current assets | 2,933,465 | 7,745,352 |
| Property and equipment, net | 1,254,287 | 1,140,871 |
| | \$ 4,187,752 | \$ 8,886,223 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 874,678 | \$ 598,466 |
| Accrued liabilities | 690,456 | 1,105,152 |
| Notes payable, net of discount | 820,924 | - |
| Customer deposits | 19,777 | 41,667 |
| Deferred revenue | - | 54,218 |
| Total current liabilities | 2,405,835 | 1,799,503 |
| 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, 4,018,756 and 3,971,366 shares issued, respectively | 4,019 | 3,971 |
| Additional paid-in capital | 64,053,412 | 63,623,143 |
| Treasury stock, 2,433 shares at cost | (234) | (234) |
| Accumulated deficit | (62,275,280) | (56,540,160) |
| Total stockholders' equity | 1,781,917 | 7,086,720 |
| | \$ 4,187,752 | \$ 8,886,223 |

See accompanying notes to condensed financial statements

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-------------------------------------------------------|--------------------------------|----------------------|------------------------------|----------------------|
| | 2015 | 2014 | 2015 | 2014 |
| Revenues: | | | | |
| Sales | \$ 880,433 | \$ 723,708 | \$ 1,944,527 | \$ 2,166,850 |
| Sales to related parties | - | 368,548 | 11,232 | 381,040 |
| Equipment rental | 72,000 | 112,400 | 153,300 | 192,300 |
| Total revenues | 952,433 | 1,204,656 | 2,109,059 | 2,740,190 |
| Cost of revenues: | | | | |
| Cost of sales | 325,706 | 430,256 | 1,113,811 | 1,277,903 |
| Cost of related party sales | - | 277,811 | 6,668 | 285,775 |
| Cost of equipment rental | - | 2,947 | 1,965 | 5,894 |
| Total cost of revenues | 325,706 | 711,014 | 1,122,444 | 1,569,572 |
| Gross margin | 626,727 | 493,642 | 986,615 | 1,170,618 |
| Operating costs and expenses: | | | | |
| Research and development | 567,930 | 614,395 | 1,064,565 | 1,135,659 |
| Selling, general and administrative | 2,889,795 | 2,027,133 | 5,611,659 | 3,742,414 |
| Total operating costs and expenses | 3,457,725 | 2,641,528 | 6,676,224 | 4,878,073 |
| Loss from operations | (2,830,998) | (2,147,886) | (5,689,609) | (3,707,455) |
| Other income (expense): | | | | |
| Interest income (expense), net | (24,636) | 2,844 | (28,492) | 7,718 |
| Other expense, net | (7,900) | (4,248) | (17,020) | (6,947) |
| Total other income (expense) | (32,536) | (1,404) | (45,512) | 771 |
| Loss before income taxes | (2,863,534) | (2,149,290) | (5,735,121) | (3,706,684) |
| Income tax benefit | - | - | - | - |
| Net loss and comprehensive loss | \$(2,863,534) | \$(2,149,290) | \$(5,735,121) | \$(3,706,684) |
| Net loss per common share: | | | | |
| Basic | \$(0.72) | \$(0.63) | \$(1.44) | \$(1.09) |
| Diluted | \$(0.72) | \$(0.63) | \$(1.44) | \$(1.09) |
| Weighted average number of shares outstanding: | | | | |

Edgar Filing: Perseon Corp - Form 10-Q

| | | | | |
|---------|-----------|-----------|-----------|-----------|
| Basic | 3,997,000 | 3,405,000 | 3,983,000 | 3,405,000 |
| Diluted | 3,997,000 | 3,405,000 | 3,983,000 | 3,405,000 |

See accompanying notes to condensed financial statements

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

| | Six Months Ended June 30, | |
|-----------------------------------------------------------------------------|------------------------------|---------------|
| | 2015 | 2014 |
| Cash flows from operating activities: | | |
| Net loss | \$(5,735,121) | \$(3,706,684) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 54,049 | 63,804 |
| Stock issued for services | 165,864 | 180,000 |
| Stock-based compensation | 264,453 | 420,676 |
| (Gain) loss on disposition of property and equipment | 2,590 | (30) |
| Amortization of debt discount | 8,837 | - |
| Decrease (increase) in: | | |
| Receivables | (355,190) | 463,482 |
| Inventories | 695,883 | 244,702 |
| Other current assets | (257,869) | (35,744) |
| Increase (decrease) in: | | |
| Accounts payable | 276,212 | 336,748 |
| Accrued liabilities | (414,694) | 25,677 |
| Customer deposits | (21,890) | (305,639) |
| Deferred revenue | (54,218) | (299,452) |
| Net cash used in operating activities | (5,371,094) | (2,612,460) |
| Cash flows from investing activities: | | |
| Proceeds from disposition of property and equipment | - | 2,025 |
| Purchase of property and equipment | (170,055) | (49,763) |
| Net cash used in investing activities | (170,055) | (47,738) |
| Cash flows from financing activities: | | |
| Proceeds from sale of common stock | - | 50,067 |
| Payment of stock offering costs | - | (127,548) |
| Proceeds from notes payable, net | 844,581 | 82,465 |
| Payments on notes payable | (32,494) | (32,768) |
| Net cash provided by (used in) financing activities | 812,087 | (27,784) |
| Net decrease in cash and cash equivalents | (4,729,062) | (2,687,982) |
| Cash and cash equivalents, beginning of period | 5,594,578 | 7,423,091 |
| Cash and cash equivalents, end of period | \$865,516 | \$4,735,109 |

See accompanying notes to condensed financial statements

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

Note 1. Basis of Presentation

The interim financial information of Perseon Corporation, formerly BSD Medical Corporation, (the “Company”) as of June 30, 2015 and for the three months and six months ended June 30, 2015 and 2014 is unaudited, and the condensed balance sheet as of December 31, 2014 is derived from our audited financial statements. The accompanying unaudited condensed balance sheets as of June 30, 2015 and December 31, 2014 and the related unaudited condensed statements of operations and of cash flows for the three months and six months ended June 30, 2015 and 2014 have been prepared in accordance with U.S. generally accepted accounting principles for interim financial reporting and pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). The condensed financial statements do not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements. These condensed financial statements should be read in conjunction with the notes thereto, and the financial statements and notes thereto included in our annual report on Form 10-K for the period ended December 31, 2014.

All adjustments (consisting only of normal recurring adjustments) necessary for the fair presentation of our financial position as of June 30, 2015 and December 31, 2014 and our results of operations and our cash flows for the three months and six months ended June 30, 2015 and 2014 have been included. The results of operations for the three months and six months ended June 30, 2015 may not be indicative of the results for our fiscal year ending December 31, 2015.

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

Effective February 17, 2015, Perseon Corporation amended its certificate of incorporation to change its legal corporate name to “Perseon Corporation” from “BSD Medical Corporation.”

Effective June 23, 2015, the Board of Directors (the “Board”) and stockholders of the Company approved an amendment to the Company’s certificate of incorporation to effectuate a reverse stock split of the Company’s common stock at a ratio of 1-for-10. The reverse stock split has been given retroactive effect in the accompanying condensed financial statements. See Note 7. Stockholders’ Equity – Reverse Stock Split.

Note 2. Liquidity

As of June 30, 2015, we had cash and cash equivalents of \$865,516, and total current assets of \$2,933,465. 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 products. 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 MicroThermX products will increase sufficiently to cover our total costs of operations in 2015. We believe additional funding will be required during 2015.

On April 23, 2015 we filed a registration statement on Form S-1 with the SEC, as amended on May 13, 2015, to raise additional capital. No assurance can be given that such offering will be consummated, or if consummated, will raise the maximum amount contemplated thereunder.

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. Sale of Hyperthermia Assets

On April 1, 2015, the Company sold the assets associated with its hyperthermia cancer treatment systems, including among other assets, certain contracts, inventory, intellectual property, and permits (the “Acquired Assets”) pursuant to an Asset Purchase Agreement (the “Purchase Agreement”) with Pyrexar Medical Inc., a Nevada corporation (the “Buyer”). As consideration for the Acquired Assets, the Company received (i) 19.9% of the Series A Preferred Stock of Buyer (the “Preferred Stock”) and (ii) a percentage of the gross revenues the Buyer receives from its future sales of hyperthermia cancer treatment systems. The Buyer also assumed certain liabilities associated with the Acquired Assets.

The Purchase Agreement contains customary representations, warranties and covenants of the Company and the Buyer. Subject to certain limitations, the Company has agreed to indemnify the Buyer for breaches of representations, warranties, covenants and retained liabilities. The Purchase Agreement provided that the parties enter into a short term lease agreement, pursuant to which the Company leased to the Buyer a portion of the Company’s facility at 2188 West 2200 South, Salt Lake City. Base Rent under the lease agreement is set at approximately \$8,055 per month. Following the sale of the facility, this rent will discontinue. See Note 5, Property and Equipment for a description of the sale of the facility.

Each share of Preferred Stock the Company received is convertible into one share of common stock of Buyer subject to adjustment in the event of stock splits, stock dividends and other similar events, and the Company received voting rights equal to those of holders of Buyer’s common stock. The Company is also entitled to cumulative annual dividends of \$0.015 per share commencing April 1, 2016. In the event of certain liquidation events, we are entitled to receive, prior to any distribution to holders of other shares of capital stock of Buyer, a liquidation preference of approximately \$2 million. Buyer is prohibited without the Company’s consent from authorizing, creating or issuing any other equity security having priority over the Preferred Stock.

Two former directors of the Company, Dr. Gerhard W. Sennewald and Douglas P. Boyd have a financial interest in Buyer and both are also members of Buyer’s board of directors. In light of the Company’s relationship with Buyer, the Company received a fairness opinion from Houlihan Valuation Advisors that the consideration it received for the Acquired Assets is fair to the Company from a financial perspective. See “Shareholder Claim” below.

Note 4. Inventories

Inventories consisted of the following:

| | June 30, 2015 | December 31, 2014 |
|--------------------------------|------------------|----------------------|
| Parts and supplies | \$ 368,768 | \$ 1,004,164 |
| Work-in-process | 477,393 | 951,519 |
| Finished goods | 279,075 | 569,965 |
| Reserve for obsolete inventory | (45,471) | (750,000) |
| Inventories, net | \$ 1,079,765 | \$ 1,775,648 |

Note 5. Property and Equipment

Property and equipment consisted of the following:

| | June 30, 2015 | December 31, 2014 |
|-------------------------------|------------------|----------------------|
| Equipment | \$ 801,883 | \$ 1,503,845 |
| Furniture and fixtures | 62,832 | 303,226 |
| Building (held for sale) | 956,000 | 956,000 |
| Land (held for sale) | 244,000 | 244,000 |
| Rental equipment | - | 58,940 |
| | 2,064,715 | 3,066,011 |
| Less equipment impairment | - | (85,000) |
| Less accumulated depreciation | (810,428) | (1,840,140) |
| Property and equipment, net | \$ 1,254,287 | \$ 1,140,871 |

On May 15, 2015 the Company entered into a commercial real estate purchase contract wherein it agreed to sell its primary headquarters and manufacturing facilities located in Salt Lake City, Utah. Per the terms of the contract the closing date of the sale will take place in early August 2015. The sale will result in proceeds to the Company of approximately \$975,000 after commissions and closing costs. The Company will be required to pay off the \$750,000 principal balance plus accrued interest and early payment penalty on the promissory note from the sale proceeds. After paying off the promissory note, the net proceeds from the sale of the facilities will be approximately \$200,000.

Following the closing date, the purchaser of the facilities will lease the building back to the Company rent free through October 23, 2015. The Company has also entered into a sub-lease agreement to rent new facilities in Salt Lake City and plans to take occupancy of the leased facilities in October 2015. This sub-lease agreement provides for the Company to lease approximately 10,057 square feet of space that will house our office, production and research operations. The term of this sub-lease is through December 31, 2019, and requires monthly payments for base rent in the first year of \$16,762, with a provision for escalation of 3% per year for subsequent years.

Note 6. Notes Payable

Included in notes payable at June 30, 2015 is a promissory note with an asset lender dated February 24, 2015 with a principal balance 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% are required, with the principal due on February 24, 2016. The note is recorded net of discount of \$17,675 at June 30, 2015, which consists of debt issuance costs deferred and amortized over the life of the loan.

Also included in notes payable at June 30, 2015 is an unsecured finance agreement note with a principal balance of \$88,599, payable in monthly installments of \$11,277, including interest at 4.85%, through February 2016.

Note 7. Stockholders' Equity

The Company has 10,000,000 authorized shares of \$.001 par value preferred stock. As of June 30, 2015 and December 31, 2014, there were no shares of preferred stock outstanding. The Company also has 80,000,000

authorized shares of \$.001 par value common stock. At June 30, 2015, the Company had 4,016,323 shares outstanding.

Reverse Stock Split

We held a special meeting of stockholders on May 12, 2015 to approve an amendment to the Company's Amended and Restated Certificate of Incorporation to effectuate a reverse split of its issued and outstanding shares of common stock at a ratio of between 1-for-6 and 1-for-12, inclusive, which ratio was to be selected at the sole discretion of the Board of Directors of the Company at any whole number in the above range, with any fractional shares that would otherwise be issued as a result of the reverse split being rounded up to the nearest whole share (the "Reverse Stock Split"); provided, that the Board of Directors could abandon the Reverse Stock Split in its sole discretion.

Over 76% of the outstanding shares voted, and the stockholders voted to approve the amendment, with the results of the voting as follows:

| FOR | AGAINST | ABSTAIN | BROKER NON-VOTES |
|------------|-----------|---------|---------------------|
| 24,026,870 | 6,006,589 | 151,847 | — |

Effective June 23, 2015, the Board of Directors determined to set the reverse stock split ratio at 1-for-10. The Reverse Stock Split has been given retroactive effect in the accompanying condensed financial statements.

Shelf Registration Statement

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

Warrants

A summary of the outstanding warrants issued in prior stock offerings as of June 30, 2015, and changes during the six months then ended, is as follows:

| | Shares | Weighted- Average Exercise Price | Weighted- Average Remaining Contract Term (Years) |
|----------------------------------|---------|-------------------------------------------|------------------------------------------------------------------|
| Outstanding at December 31, 2014 | 985,736 | \$ 21.14 | |
| Issued | - | - | |
| Exercised | - | - | |
| Forfeited or expired | - | - | |
| Outstanding as of June 30, 2015 | 985,736 | \$ 21.14 | 3.19 |
| Exercisable as of June 30, 2015 | 985,736 | \$ 21.14 | 3.19 |

Note 8. Net Loss Per Common Share

The computation of basic earnings per common share is based on the weighted average number of shares outstanding during each period. The computation of diluted earnings per common share is based on the weighted average number of shares outstanding during the period plus the weighted average common stock equivalents which would arise from the exercise of stock options and warrants outstanding using the treasury stock method and the average market price per share during the period. Common stock equivalents are not included in the diluted loss per share calculation when their effect is anti-dilutive.

No stock options or warrants are included in the computation of diluted weighted average number of shares for the three months and six months ended June 30, 2015 and 2014 because the effect would be anti-dilutive. As of June 30, 2015, we had outstanding options and warrants to purchase a total of 1,545,562 shares of our common stock that could have a future dilutive effect on the calculation of earnings per share.

Note 9. Related Party Transactions

At times, we have derived a portion of our revenues from sales of hyperthermia products. A significant portion of those sales of hyperthermia products have been to a related party. As described in Note 3, Sales of Hyperthermia Assets, we sold all assets related to hyperthermia on April 1, 2015. As a result, we will not recognize revenue from hyperthermia products subsequent to April 1, 2015. During the three months ended June 30, 2015 and 2014, we had sales of \$0 and \$368,548, respectively, to entities controlled by a significant stockholder and former member of the Board of Directors, representing 0 and 31% of total revenues for each respective three-month period. During the six months ended June 30, 2015 and 2014, we had sales of \$11,232 and \$381,040, respectively, to these related parties, representing approximately 1% and 14% of total revenues, respectively.

As of June 30, 2015 and December 31, 2014, receivables included \$0 and \$13,471, respectively, from these related parties.

Note 10. Stock-Based Compensation

Our Third Amended and Restated 1998 Stock Incentive Plan (“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 633,730 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 3,000 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 175,000 shares to be granted.

As of June 30, 2015, we had approximately 102,890 shares of common stock reserved for future issuance under these stock incentive plans. Also, in connection with our appointment of a Chief Executive Officer in November 2014, we issued an inducement equity award in the form of a non-statutory stock option to purchase 140,000 shares of the Company’s stock. This grant was outside the Company’s stock incentive plans, and was in accordance with the NASDAQ inducement grant exception found in NASDAQ Listing Rule 5635(c)(4).

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.

Edgar Filing: Perseon Corp - Form 10-Q

The stock-based compensation expense has been allocated to the various categories of operating costs and expenses in a manner similar to the allocation of payroll expense as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-------------------------------------|--------------------------------|-------------------|------------------------------|-------------------|
| | 2015 | 2014 | 2015 | 2014 |
| Cost of sales | \$ 6,856 | \$ 15,312 | \$ 13,713 | \$ 30,624 |
| Research and development | 12,711 | 45,641 | 27,454 | 91,282 |
| Selling, general and administrative | 109,183 | 153,210 | 223,286 | 298,770 |
| Total | \$ 128,750 | \$ 214,163 | \$ 264,453 | \$ 420,676 |

During the six months ended June 30, 2015, we granted employees a total of 108,500 stock options at a weighted average exercise price of \$3.41 per share, with one third vesting each year for the next three years. The estimated weighted average grant date fair value per share of these stock options was \$1.62, and our weighted average assumptions used in the Black-Scholes valuation model to determine this estimated fair value were as follows:

| | | |
|-------------------------|-------|-------|
| Expected volatility | 62.08 | % |
| Expected dividends | 0 | % |
| Expected term | 7.24 | years |
| Risk-free interest rate | 1.87 | % |

Unrecognized stock-based compensation expense expected to be recognized over the estimated weighted-average amortization period of 2.02 years is approximately \$883,000 as of June 30, 2015.

A summary of the time-based stock option awards as of June 30, 2015, and changes during the six months then ended, is as follows:

| | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contract Term (Years) | Aggregate Intrinsic Value |
|-------------------------------------|----------------|---------------------------------------|--------------------------------------------------------------|---------------------------------|
| Outstanding at December 31, 2014 | 513,193 | \$ 22.46 | 7.03 | |
| Granted | 108,500 | 3.41 | | |
| Exercised | - | - | | |
| Forfeited or expired | (61,867) | 29.99 | | |
| Outstanding at June 30, 2015 | 559,826 | \$ 17.94 | 6.69 | \$ - |
| Exercisable at June 30, 2015 | 267,726 | \$ 31.57 | 3.78 | \$ - |

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value, based on our closing stock price of \$1.85 as of June 30, 2015, 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 11. Supplemental Cash Flow Information

We paid no amounts for income taxes during the six months ended June 30, 2015 and 2014.

We paid \$23,113 and \$882 for interest during the six months ended June 30, 2015 and 2014, respectively.

During the six months ended June 30, 2015 and 2014, we had no non-cash financing and investing activities.

Note 12. Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. Under this new standard, debt issuance costs reported on our balance sheet are shown as a direct deduction from the related debt liability rather than as an asset. This ASU is effective January 1, 2016, with early adoption permitted. Retrospective application to prior periods is required. We adopted the ASU effective January 1, 2015, with the only impact being the classification of certain amounts within our balance sheet and no impact on our results of operations. Prior periods were not impacted by the adoption of the ASU.

Note 13. Legal Matters

As previously disclosed, legal counsel for Perseon received a demand letter dated October 3, 2014 and a draft complaint from a single shareholder. The draft complaint alleged that the Company (and certain current and former officers and directors) had issued false or misleading press releases, and that the Company had improperly raised capital in ways that diluted existing shareholders.

The Company's Board of Directors engaged special legal counsel experienced in securities matters and litigation to assist the Board of Directors in conducting an independent investigation of these allegations. The independent investigation has been completed. Based on the investigation, the Board of Directors determined that there has been no misconduct by the Company or the named defendants.

On April 27, 2015 this shareholder filed a formal complaint in the U.S. District Court for the District of Delaware. The complaint alleges that from November 2010 through October 2014, Perseon issued various press releases and public statements, which omitted certain material facts related to Perseon's revenue and sales, thereby misrepresenting the true financial condition of Perseon. In particular, the complaint alleges that Perseon's press releases "tout[ed] impressive revenue figures and purported sales" when "in reality Perseon was floundering and unable to cover its operating costs, including significant executive compensation." The complaint also alleges that Perseon "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 complaint resulted in "the dilution of existing shareholder positions."

On June 30, 2015, we filed in the U.S. District Court for the District of Delaware, a formal motion to dismiss all claims in the Complaint.

Perseon believes that the claims in this lawsuit are without merit and will continue to vigorously defend this action.

Note 14. Subsequent Events

We have previously disclosed that we are out of compliance with NASDAQ Listing Rule 5550(a)(2), a failure to maintain a minimum bid price of \$1.00 over the previous 30 consecutive business days. On July 8, 2015, NASDAQ notified the Company that it has regained compliance with the Listing Rules of The Nasdaq Stock Market, and that this matter is now closed.

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

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

Overview

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 develop, manufacture, market and service systems to treat cancer and benign diseases using heat therapy delivered using focused microwave energy. Our business objectives are to continue 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 solution for thermal treatment of cancer. We have developed extensive intellectual property and distribute our products in the United States, Europe and Asia.

As part of our previously announced corporate realignment and re-branding which included our new corporate name, Perseon, we plan to focus our efforts on our flagship product, MicroThermX®, ("MicroThermX") ablation system that employs precision-guided energy to ablate soft tissue. Other actions taken during the first six months of 2015 included replacing a majority of our senior management team and approximately half of our board of directors to provide proven leadership in similar situations.

Historically, our product offerings have included hyperthermia cancer treatment systems. On April 1, 2015, we sold the assets associated with our hyperthermia cancer treatment systems, including among other assets, certain contracts, inventory, intellectual property, and permits (the "Hyperthermia Assets") pursuant to an Asset Purchase Agreement (the "Hyperthermia Purchase Agreement") with Pyrexar Medical Inc. ("Pyrexar"). As consideration for the Hyperthermia Assets, we received (i) 19.9% of the Series A Preferred Stock of Pyrexar and (ii) a percentage of the gross revenues Pyrexar receives from its future sales of hyperthermia cancer treatment systems. Pyrexar also assumed certain liabilities associated with the Hyperthermia Assets. With the sale of the Hyperthermia Assets we will focus our resources on expanding and commercializing our ablation product line.

Our thermal ablation product line includes systems that have been strategically designed to offer minimally invasive thermal energy therapy for treating tumors, particularly cancerous tumors. Studies have shown that ablation therapy effectively addresses and even kills certain cancerous tumors on a minimally invasive basis. 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.

Current and future cancer treatment sites for our systems may include cancers of the prostate, breast, head, neck, bladder, uterus, 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 treating cancer.

We recognize revenues from the sale of our ablation cancer treatment systems and related parts and accessories (collectively, product sales). We also recognize revenues from equipment rental, including fee-per-use rental income from our MicroThermX systems. Information regarding our revenues, assets, and results of our operations is contained in our financial statements and notes thereto.

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. 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 also changed our fiscal year end for financial reporting from August 31, to December 31, effective for the four months ended December 31, 2014.

Reverse Stock Split

Effective June 23, 2015, our Board of Directors and the stockholders of the Company approved an amendment to our certificate of incorporation to effectuate a reverse stock split of the Company's common stock at a ratio of 1-for-10. The reverse stock split has been given retroactive effect in the accompanying condensed financial statements. See Note 7 to our condensed financial statements.

Results of Operations

Fluctuation in Operating Results

Our results of operations have fluctuated in the past and may fluctuate in the future from year to year as well as from quarter to quarter. Revenue may fluctuate as a result of factors relating to the demand and market acceptance for our ablation 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 of the hyperthermia product line. Since May 2013, a significant part of our MicroThermX product's revenue has come from sales into Europe, to our distribution partner, Terumo. Because Terumo has expressed an interest in modifying the terms of their exclusive distribution agreement for our MicroThermX products, we are currently negotiating with Terumo to modify the agreement. Both Terumo and the Company are interested in extending the duration and purchase requirements of the contract. We cannot yet determine the total impact this may have on our future sales. Operating expenses may fluctuate as a result of the timing of sales and marketing activities, research and development, and selling, 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 treatment systems and related parts and accessories (collectively, system sales), the sale of disposable devices used with 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 systems.

The table below summarizes the sources of our revenues, with the top section “MicroThermX products” showing revenue for the product line currently offered by the Company. Following the April 1, 2015 sale of all assets related to hyperthermia products, we will no longer recognize revenue from hyperthermia products. Our revenues consisted of the following:

| | Three Months Ended | | Six Months Ended | |
|----------------------------------|--------------------|---------------------|---------------------|---------------------|
| | June 30, | | June 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| MicroThermX products | | | | |
| Systems - | | | | |
| MicroThermX | \$ 70,875 | \$ - | \$ 289,000 | \$ 257,625 |
| Disposable devices - | | | | |
| MicroThermX | 807,775 | 335,085 | 1,225,296 | 758,717 |
| Equipment rental - | | | | |
| MicroThermX | 72,000 | 102,500 | 143,400 | 172,500 |
| Other – MicroThermX | 1,783 | 582 | 3,303 | 3,704 |
| Total MicroThermX revenue | \$ 952,433 | \$ 438,167 | \$ 1,660,999 | \$ 1,192,546 |
| Hyperthermia revenue | - | 766,489 | 448,060 | 1,547,644 |
| Total revenue | \$ 952,433 | \$ 1,204,656 | \$ 2,109,059 | \$ 2,740,190 |

Total revenues from MicroThermX products were \$952,433 for the second quarter ended June 30, 2015, compared to \$438,167 for the three months ended June 30, 2014, an increase of 117%. Total revenues from MicroThermX products were \$1,660,999 for the six month period ended June 30, 2015, compared to \$1,192,546 for the six months ended June 30, 2014, an increase of 39%. Growth in revenue for both comparative periods resulted from higher sales of both MicroThermX systems and disposable devices.

Including sales of ‘hyperthermia products’ that are no longer offered by the Company, total revenues were \$952,433 for the three months ended June 30, 2015, compared to total revenues of \$1,204,656 for the three months ended June 30, 2014. Total revenues for the six months ended June 30, 2015 were \$2,109,059, compared to \$2,740,190 for the six months ended June 30, 2014. The decreases in revenue were directly attributable to lower, or no, hyperthermia sales in the 2015 periods, following the April 1, 2015 sale of the assets related to that product.

At times, we have derived a significant portion of our revenues from hyperthermia sales to related parties. With the sale of our hyperthermia product line, these related party sales are expected to terminate. All of our related party revenue resulted from the sale of hyperthermia systems and related component parts and services to Dr. Sennewald Medizintechnik GmbH or its affiliate BSD BioSystems Design, S.A. (“Medizintechnik”). Dr. Sennewald, one of our significant stockholders and a former director, is a stockholder, executive officer and a director of Medizintechnik. We derived \$0 and \$368,548 in the three months ended June 30, 2015 and 2014, respectively, from hyperthermia sales to related parties. We derived \$11,232 and \$381,040 in the six months ended June 30, 2015 and 2014, respectively, from hyperthermia sales to related parties, or approximately 1% and 14% of total revenues, respectively.

The following tables summarize the sources of our revenues from non-related and related parties for the three months and six months ended June 30, 2015 and 2014:

| Non-Related Parties | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---------------------------------------------------|--------------------------------|-------------------|------------------------------|---------------------|
| | 2015 | 2014 | 2015 | 2014 |
| MicroThermX products | | | | |
| Systems – MicroThermX | \$ 70,875 | \$ - | \$ 289,000 | \$ 257,625 |
| Disposable devices – MicroThermX | 797,825 | 335,085 | 1,225,296 | 758,717 |
| Equipment rental – MicroThermX | 72,000 | 102,500 | 143,400 | 172,500 |
| Other – MicroThermX | 11,733 | 582 | 3,303 | 3,704 |
| Total MicroThermX revenue | \$ 952,433 | \$ 438,167 | \$ 1,660,999 | \$ 1,192,546 |
| Hyperthermia revenue | - | 397,941 | 436,828 | 1,166,604 |
| Total revenue from non-related parties | \$ 952,433 | \$ 836,108 | \$ 2,097,827 | \$ 2,359,150 |
| | | | | |
| Related Parties | Three Months Ended June 30, | | Six Months Ended June 30, | |
| | 2015 | 2014 | 2015 | 2014 |
| Hyperthermia revenue | \$ - | \$ 368,548 | \$ 11,232 | \$ 381,040 |

Cost of Revenues

Cost of sales includes raw materials, labor and allocated overhead costs. We calculate and report cost of sales separately for both non-related and related party sales, which are sales to Medizintechnik. Cost of sales as a percentage of sales in the past has fluctuated widely from period to period depending on the mix of sales for the period and the type and configuration of hyperthermia systems sold, if any, during the period. Total cost of revenues for the three months ended June 30, 2015 was \$325,706 compared to \$711,014 for the three months ended June 30, 2014, a decrease of \$385,308, or approximately 54%. Total cost of revenues for the six months ended June 30, 2015 was \$1,122,444 compared to \$1,569,572 for the six months ended June 30, 2014, a decrease of \$447,128, or approximately 28%. These decreases resulted primarily from the decrease in system sales, but included higher than expected costs of production on hyperthermia systems completed and sold in the three month period ended March 31, 2015.

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, if any, during the period. Our total gross margin was \$626,727, or approximately 66% of total revenues, for the three months ended June 30, 2015, and \$493,642, or approximately 41%, for the three months ended June 30, 2014. Our total gross margin was \$986,615, or approximately 47% of total revenues, for the six months ended June 30, 2015, and \$1,170,618, or

approximately 43%, for the six months ended June 30, 2014. The increase in gross margin percentage in the three months and six months ended June 30, 2015 compared to the three months and six months ended June 30, 2014 resulted primarily from the discontinuance of hyperthermia sales as of April 1, 2015. Hyperthermia products have historically had lower margins than our MicroThermX products, and with their declining sales, we have been able to generate higher gross margins. With costs on these hyperthermia systems sometimes being higher than the selling prices, a negative gross margin on sales of hyperthermia systems resulted in the quarter ended March 31, 2015. Also, at lower production volumes, we are less able to fully absorb certain fixed operating costs that are included in cost of sales, thus decreasing our gross profit percentage. Higher gross margins are expected in the future, following our April 1, 2015 sale of all assets related to the hyperthermia product line, and if sales volume of MicroThermX product increases. This is evidenced in our 66% total gross margin for the three months ended June 30, 2015, our first quarter that did not include sales of hyperthermia products.

Operating Costs and Expenses

Research and Development Expenses – Research and development expenses include expenditures for new product development and development of enhancements to existing products. Research and development expenses for the three months ended June 30, 2015 were \$567,930 compared to \$614,395 for the three months ended June 30, 2014, a decrease of \$46,465 or approximately 8%. Research and development expenses for the six months ended June 30, 2015 were \$1,064,565 compared to \$1,135,659 for the six months ended June 30, 2014, a decrease of \$71,094 or approximately 6%.

Selling, General and Administrative Expenses – In the current three months and six months ended June 30, 2015, the Company incurred significant non-recurring expenses related to restructuring, reorganization, rebranding, shareholder litigation (see note 13), and pursuing potential merger and acquisition opportunities. These non-recurring expenses totaled approximately \$375,000 and \$835,000 for the three and six month periods ended June 30, 2015. Including these non-recurring expenses, total selling, general and administrative expenses were \$2,889,795 for the three months ended June 30, 2015 compared to \$2,027,133 for the three months ended June 30, 2014, an increase of \$862,662, or approximately 43%. Total selling, general and administrative expenses were \$5,611,659 for the six months ended June 30, 2015 compared to \$3,742,414 for the six months ended June 30, 2014, an increase of \$1,869,245, or approximately 50%. Excluding non-recurring expenses, we increased spending over prior periods as we execute on critical strategic initiatives including, but not limited to, clinical studies, new sales and marketing programs, and business development efforts reflecting a higher level of activity to drive higher sales of MicroThermX products.

Other Income (Expense)

During the three months and six months ended June 30, 2015 and 2014, other income (expense) was not material to our operations.

Liquidity and Capital Resources

From inception through June 30, 2015, we have generated an accumulated deficit of \$62,275,280 where 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 June 30, 2015, we had cash and cash equivalents of \$865,516, comprised primarily of money market funds and savings accounts. We will require additional capital to fund our operations.

As of June 30, 2015, we had current liabilities totaling \$2,405,835, comprised of accounts payable, accrued liabilities, short-term notes payable, and customer deposits. As of June 30, 2015, we had no long-term liabilities.

As of June 30, 2015, our total stockholders' equity was \$1,781,917. This is below the \$2,500,000 standard required by NASDAQ for continued listing on the NASDAQ Capital Market. Although we have not received a notification from NASDAQ of non-compliance, we have filed a registration statement (see "S-1 Registration Statement", below) to raise additional capital to fund future operations.

On May 15, 2015 the Company entered into a commercial real estate purchase contract wherein it agreed to sell its primary headquarters and manufacturing facilities located in Salt Lake City, Utah. Per the terms of the contract the closing date of the sale will take place in early August, 2015. The sale will result in proceeds to the Company of approximately \$975,000 after commissions and closing costs. The Company will be required to pay off the \$750,000 principal balance plus accrued interest and early payment penalty on the promissory note from the sale proceeds. After paying off the promissory note the net proceeds from the sale of the facilities will be approximately \$200,000.

Following the closing date, the purchaser of the facilities will lease the building back to the Company rent free through October 23, 2015. The Company has entered into a lease agreement to rent new facilities in Salt Lake City and plans to take occupancy of the leased facilities in October 2015.

Short-Term Notes Payable

Included in notes payable at March 31, 2015 is a promissory note with an asset lender dated February 24, 2015 with a principal balance 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% are required, with the principal due on February 24, 2016. The note is recorded net of discount of \$17,675 at June 30, 2015, which consists of debt issuance costs deferred and amortized over the life of the loan.

Also included in notes payable at June 30, 2015 is an unsecured finance agreement note with a principal balance of \$88,599, payable in monthly installments of \$11,277, including interest at 4.85%, through February 2016.

Shelf Registration Statement

On September 28, 2012, we filed a universal shelf registration statement with the SEC for the issuance of common stock, preferred stock, warrants, senior debt, subordinated debt and units up to an aggregate amount of \$50.0 million (the "2012 Shelf Registration Statement"). On October 11, 2012, the universal 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 March 31, 2015, and we received total net proceeds of approximately \$9 million from these offerings. In the future, 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.

S-1 Registration Statement

On April 23, 2015 we filed a registration statement on Form S-1 with the SEC, as amended on May 13, 2015, to raise additional capital. No assurance can be given that such offering will be consummated, or if consummated, will raise the maximum amount contemplated thereunder.

Cash Flows from Operating, Investing and Financing Activities

Edgar Filing: Perseon Corp - Form 10-Q

During the six months ended June 30, 2015, we used net cash of \$5,371,094 in operating activities, as a result of our net loss of \$5,735,121, increases in receivables of \$355,190 and other current assets of \$257,869, and decreases in accrued liabilities of \$414,694, customer deposits of \$21,890 and deferred revenue of \$54,218, partially offset by non-cash expenses totaling \$495,793, decrease in inventories of \$695,883 and increase in accounts payable of \$276,212.

During the six months ended June 30, 2014, we used net cash of \$2,612,460 in operating activities, as a result of our net loss of \$3,706,684, non-cash gain of \$30, increase in other assets of \$35,744, and decreases in customer deposits of \$305,639 and deferred revenue of \$299,452, partially offset by non-cash expenses totaling \$664,480, decreases in receivables of \$463,482 and inventories of \$244,702, and increases in accounts payable of \$336,748 and accrued liabilities of \$25,677.

Net cash used in investing activities for the six months ended June 30, 2015 was \$170,055, resulting from the purchase of property and equipment. Net cash used in investing activities for the six months ended June 30, 2014 was \$47,738, comprised of the purchase of property and equipment of \$49,763, partially offset by proceeds from the disposition of property and equipment of \$2,025.

Net cash provided by financing activities for the six months ended June 30, 2015 was \$812,087, comprised of net proceeds from notes payable of \$844,581, partially offset by payment of notes payable of \$32,494. Net cash used in financing activities for the six months ended June 30, 2014 was \$27,784, comprised of payment of stock offering costs of \$127,548 and payments on notes payable of \$32,768, partially offset by proceeds from the sale of common stock of \$50,067 and net proceeds from notes payable of \$82,465.

We do not believe that our current cash and cash equivalents will be sufficient to fund our operations for the next twelve months and that we will be required to raise additional capital. In April 2015, we filed a registration statement on Form S-1, as amended on May 13, 2015, for review by the SEC, in anticipation of offering company securities for sale.

We cannot be certain that any financing will be available when needed or will be available on terms acceptable to us. If we raise equity capital, our stockholders will be diluted. Insufficient funds may require us to delay, scale back or eliminate some or all of our programs designed to facilitate the commercial introduction of our systems or entry into new markets.

As of June 30, 2015, we had no significant commitments for the purchase of property and equipment.

We had no material off balance sheet arrangements as of June 30, 2015.

Critical Accounting Policies

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

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

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

Debt Issuance Costs: We defer debt issuance costs and amortize them to expense over the term of the related notes payable. Notes payable are recorded net of unamortized debt issuance costs in our condensed balance sheets.

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

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. Under this new standard, debt issuance costs reported on our balance sheet are shown as a direct deduction from the related debt liability rather than as an asset. This ASU is effective January 1, 2016, with early adoption permitted. Retrospective application to prior periods is required. We adopted the ASU effective January 1, 2015, with the only impact being the classification of certain amounts within our balance sheet and no impact on our results of operations. Prior periods were not impacted by the adoption of the ASU.

FORWARD-LOOKING STATEMENTS

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

- our belief about the market opportunities for our products;
- our anticipated financial performance and business plan;
- our expectations that we will reach agreements with additional international distribution firms;
- our belief that the level of our operating expenses, including selling, general and administrative expenses, will increase;
- our belief that we will have higher gross margins in the future;
- 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 our Transition Report on Form 10-K for the period ended December 31, 2014 and our other filings with the SEC. We also wish to advise readers not to place any undue reliance on the forward-looking statements contained in this report, which reflect our beliefs and expectations only as of the date of this report. We assume no obligation to update or revise these forward-looking statements to reflect new events or circumstances or any changes in our beliefs or expectations, other than as required by law.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There are no material changes to our market risk as described in our Transition Report on Form 10-K for the period ended December 31, 2014.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures.

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

Changes in internal controls over financial reporting.

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

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

See Note 13 to the Company's Notes to Condensed Financial Statements for a description of material pending legal proceedings to which the Company is subject.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the risk factors reported in our Transition Report on Form 10-K for the period ended December 31, 2014.

If our stockholders' equity continues to remain below \$2.5 million, 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(b)(1) to delist our common stock if our stockholders' equity falls below \$2.5 million. As of June 30, 2015, our stockholders' equity is \$1.8 million, which is below the minimum requirement. While we have not yet received notice from Nasdaq that we no longer meet the stockholders' equity rule, we expect to receive such notice.

We are actively monitoring our stockholders' equity 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.

Item 5. Other Information

On May 15, 2015 the Company entered into a commercial real estate purchase contract with the World Mission Society Church of God, wherein it agreed to sell its primary headquarters and manufacturing facilities located at 2188 West 2200 South, in Salt Lake City, Utah. Per the terms of the contract the closing date of the sale will take place in early August, 2015. The sale will result in proceeds to the Company of approximately \$975,000 after commissions and closing costs. The Company will be required to pay off the \$750,000 principal balance plus accrued interest and early payment penalty on the promissory note from the sale proceeds. After paying off the promissory note the net proceeds from the sale of the facilities will be approximately \$200,000. Following the closing date, the purchaser of the facilities will lease the building back to the Company rent free through October 23, 2015.

Item 6. Exhibits

The following exhibits are filed as part of this report:

| Exhibit No. | Description of Exhibit |
|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1 | Second Certificate of Amendment to Amended and Restated Certificate of Incorporation of BSD Medical Corporation. Incorporated by reference to Exhibit 3.1 to the Perseon Corporation Form 8-K, filed February 24, 2015. |
| 3.2 | Third Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Perseon Corporation. Incorporated by reference to Exhibit 3.1 of the Perseon Corporation Form 8-K, filed June 22, 2015. |
| 10.22 | Asset Purchase Agreement dated April 1, 2015 by and among Perseon Corporation and Pyrexar Medical, Inc. Incorporated by reference to Exhibit 10.1 to the Perseon Corporation Form 8-K, filed April 1, 2015. |
| 10.23 | Short Term Lease between Perseon Corporation and Pyrexar Medical, Inc. Incorporated by reference to Exhibit 10.2 to the Perseon Corporation Form 8-K, filed April 1, 2015. |
| 10.24 | Sublease Agreement dated May 14, 2015 between the Company and EnergySolutions, LLC. |
| 10.25 | Commercial Real Estate Purchase Contract dated May 15, 2015 between the Company and the World Mission Society Church of God. |
| 32.1 | Certification of Principal Executive Officer Required Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Principal Accounting Officer Required Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS** | XBRL Instance Document |
| 101.SCH** | XBRL Taxonomy Extension Schema |
| 101.CAL** | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF** | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB** | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE** | XBRL Taxonomy Extension Presentation Linkbase |

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

expressly set forth by specific reference in such filing or document.

SIGNATURES

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

PERSEON CORPORATION

Date: July 15, 2015 /s/ Clinton E. Carnell Jr.
Clinton E. Carnell Jr.
Chief Executive Officer (Principal Executive Officer)

Date: July 15, 2015 /s/ William S. Barth
William S. Barth
Chief Financial Officer (Principal Accounting Officer)