POSITRON CORP
Form 10-Q
May 21, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended: March 31, 2012

Commission file number 000-24092

POSITRON CORPORATION

(Exact Name of Registrant as specified in its charter)

Texas	76-0083622
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

9715 Kincaid Boulevard, Suit 1000, IN	46038
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code: (317) 576-0183

Indicate by check mark whether the issuer (1) 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 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 x No ¨

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

Large accelerated filer¨ Accelerated filer¨
Non-accelerated filer¨ Smaller reporting companyx

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 numbers of shares outstanding of each of the issuer's classes of common equity, as of May 18, 2012, are as follows:

Class of Securities	Shares Outstanding
Common Stock, $0.01 par value	1,236,288,405

POSITRON CORPORATION

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PART 1 – FINANCIAL INFORMATION

ITEM 1. Financial Statements

POSITRON CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	March 31, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3	$ 1
Accounts receivable, less allowance for doubtful accounts of $50	695	612
Inventories, less reserve of $490	568	741
Prepaid expenses	37	37
Deposits – Attrius® systems	560	560
Total current assets	1,863	1,951
Property and equipment, less accumulated depreciation of $183 and $135	1,354	184
Deferred rent	-	77
Intangible assets	360	-
Other assets	68	96
Total assets	$ 3,645	$ 2,308
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable, trade and accrued liabilities	$ 1,902	$ 1,645
Customer deposits	1,474	1,402
Unearned revenue	57	288
Common stock payable	80	269
Note payable – current portion	85	-
Convertible debenture, less debt discount of $947 and $966	576	334
Embedded conversion derivative liabilities	1,776	1,238
Total current liabilities	5,950	5,176
Note payable – noncurrent portion	620	-
Convertible debenture to related party, net	27	-
Embedded conversion derivative liabilities to related party	403	-
Contingent earn-out payable	205	-

Total liabilities	7,205	5,176
Stockholders' deficit:		
Series A preferred stock: $1.00 par value; 8% cumulative, convertible, redeemable; 7,900,000 shares authorized; 457,599 shares issued and outstanding.	457	457
Series B preferred stock: $1.00 par value; convertible, redeemable; 9,000,000 shares authorized; 5,301,887 and 7,828,822 shares issued and outstanding	4,994	7,521
Series G preferred stock: $1.00 par value; convertible, redeemable; 3,000,000 shares authorized; 19,200 shares issued and outstanding	19	19
Series S preferred stock: $1.00 par value; convertible, redeemable; 100,000 shares authorized; 100,000 shares issued and outstanding	100	100
Common stock: $0.01 par value; 3,000,000,000 and 800,000,000 shares authorized; 1,129,720,855 and 788,327,497 shares issued and outstanding	10,981	7,567
Additional paid-in capital	91,382	89,999
Other comprehensive income	(143)	(143)
Accumulated deficit	(111,335)	(108,373)
Treasury stock: 60,156 shares at cost	(15)	(15)
Total stockholders' deficit	(3,560)	(2,868)
Total liabilities and stockholders' deficit	$ 3,645	$ 2,308

See accompanying notes to consolidated financial statements

POSITRON CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	For The Three Months Ended	
	March 31, 2012	March 31, 2011
Sales:	$ 829	$ 2,871
Costs of sales:	470	2,443
Gross profit	359	428
Operating expenses:		
General and administrative	1,765	506
Research and development	313	334
Selling and marketing	83	323
Total operating expenses	2,161	1,163
Loss from operations	(1,802)	(735)
Other income (expense)		
Interest expense	(287)	-
Derivative losses	(876)	-
Other income	3	-
Total other income (expense)	(1,160)	-
Loss before income taxes	(2,962)	(735)
Income taxes	-	-
Net loss and comprehensive loss	$ (2,962)	$ (735)
Basic and diluted loss per common share	$ (0.00)	$ (0.00)
Basic and diluted weighted average shares outstanding	970,887	784,327

See accompanying notes to consolidated financial statements

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POSITRON CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended	
	March 31, 2012	March 31, 2011
Cash flows from operating activities:		
Net loss	$ (2,962)	$ (735)
Adjustment to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	48	19
Loss on writeoff of leasehold improvements	7	-
Stock based compensation	1,066	-
Derivative losses	876	-
Common stock issued for services	99	-
Preferred stock issued for services	-	12
Deferred rent	77	9
Accretion of debt discount	269	-
Changes in operating assets and liabilities:		
Accounts receivable	(83)	(386)
Inventories	173	(88)
Prepaid expenses	-	(9)
Deposits	-	866
Other assets	29	2
Accounts payable, trade and accrued liabilities	138	31
Customer deposits	72	(1,181)
Common stock payable	80	-
Unearned revenue	(231)	219
Net cash used in operating activities	(342)	(1,241)
Cash flows from investing activities:		
Purchase of property and equipment	(23)	(2)
Purchase of MIT, net of cash acquired	1	-
Net cash used in investing activities	(22)	(2)
Cash flows from financing activities:		
Borrowings under note payable	708	-
Payments on note payable	(703)	-
Noninterest bearing advances	260	

Payment of noninterest bearing advances	(250)	
Common stock issued	351	-
Proceeds from exercise of warrants	-	575
Net cash provided by financing activities	366	575
Effect of exchange rate changes on cash and cash equivalents	-	-
Net increase (decrease) in cash and cash equivalents	2	(668)
Cash and cash equivalents, beginning of period	1	1,141
Cash and cash equivalents, end of period	$ 3	$ 473
Supplemental cash flow information:		
Interest paid	$ -	$ -
Income taxes paid	$ -	$ -
Non-cash disclosures		
Conversion of Series B preferred stock to common stock	$ -	$ 20
Issuance of 17,000,000 common stock owed	$ 269	$ -
Allocation of Convertible Debentures to warrants and embedded conversion derivative liability	$ 250	$ -
Issuance of common stock, warrants, and convertible debentures for purchase of building from related party	$ 500	$ -
Property and equipment additions financed	$ 50	$ -
Noncash consideration for MIT acquisition (see Note 4)	$ 255	$ -

See accompanying notes to consolidated financial statements

POSITRON CORPORATION AND SUBSIDIARIES

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The accompanying unaudited interim financial statements have been prepared in accordance with generally accepted accounting principles and the rules of the U.S. Securities and Exchange Commission, and should be read in conjunction with the audited financial statements and notes thereto contained in the Annual Report on Form 10-K for Positron Corporation (the "Registrant" or the "Company") for the year ended December 31, 2011. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position, results of operations and cash flows for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the financial statements which would substantially duplicate the disclosures contained in the audited financial statements for the most recent fiscal year ended December 31, 2011, as reported in the Form 10-K, have been omitted.

In preparing the interim unaudited consolidated financial statements, management was required to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures at the financial reporting date and throughout the periods being reported upon. Certain of the estimates result from judgments that can be subjective and complex and consequently actual results may differ from these estimates.

All significant intercompany balances and transactions have been eliminated.

2. Accounting Policies

For a summary of significant accounting policies (which have not changed from December 31, 2011), see the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 as well as the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Intangible assets

The Company has goodwill and identified intangible assets with determinable lives as of March 31, 2012. Identified intangible assets consist of patents acquired in MIT acquisition on January 17, 2012 (see Note 4). The goodwill and patents were fair valued at $346,000 and $14,000 under the purchase accounting with patents being amortized on a straight-line basis over the estimated useful life of 6 years. Amortization expense of identified intangibles is expected to be approximately $2,333 in each of the next six years. As of March 31, 2012, the amortization expense related to the Company's identified intangible assets was immaterial. Goodwill is not amortized under generally accepted accounting principles.

The Company accounts for its goodwill in accordance with the Accounting Standards Codification ("ASC") 350-20, *Intangibles – Goodwill and Other.* Goodwill represents the excess of the fair value of consideration paid over the fair value of identified net assets recognized and represents the future economic benefits arising from assets acquired that could not be individually identified and separately recognized. The Company assesses the carrying amount of goodwill by testing the goodwill for impairment at least annually and whenever events or changes in circumstances or a triggering event indicate that the carrying amount may not be recoverable. If the carrying amount of a reporting unit exceeds its fair value, the Company is required to measure the possible goodwill impairment based upon an allocation of the estimate of fair value of the reporting unit to all of the underlying assets and liabilities of the reporting unit, including any previously unrecognized intangible assets (Step Two Analysis). The excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities ("carrying amount") is the implied fair value of goodwill. An impairment loss is recognized to the extent that a reporting unit's recorded goodwill exceeds the implied fair value of goodwill. There have been no triggering events in the three months ended March 31, 2012 and therefore, no goodwill impairment was recorded.

The Company also reviews its identified intangible assets for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. The Company assesses recoverability by reference to future cash flows from the products underlying these intangible assets. If these estimates change in the future, the Company may be required to record impairment charges for these assets. As of March 31, 2012, no impairment was recorded.

Debt discount

Costs incurred with parties who are providing long-term financing, which generally include the value of warrants or the fair value of an embedded derivative conversion feature, are reflected as a debt discount and are amortized over the life of the related debt. The debt discount attributable to the warrants issued with convertible debentures during the three months ended March 31, 2012 and 2011 was $185,000 and $0, respectively. The debt discount attributable to the embedded conversion derivative liability during the three months ended March 31, 2012 and 2011 was $65,000 and $0, respectively. The Company also recorded the accretion of debt discount of $269,000 and $0 during the three months ended March 31, 2012 and 2011, respectively. The total unaccreted debt discount at March 31, 2012 was $947,000, compared to $966,000 at December 31, 2011.

Fair value of financial instruments

The carrying value of cash and cash equivalents, accounts receivable, prepaids, deposits, accounts payable and accrued liabilities, common stock payable, and unearned revenue, approximate their fair values because of the short-term nature of these instruments. Management believes the Company is not exposed to significant interest or credit risks arising from these financial instruments.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. The Company utilizes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable.

- Level 1 — Quoted prices in active markets for identical assets or liabilities. These are typically obtained from real-time quotes for transactions in active exchange markets involving identical assets.

- Level 2 — Quoted prices for similar assets and liabilities in active markets; quoted prices included for identical or similar assets and liabilities that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets. These are typically obtained from readily-available pricing sources for comparable instruments.

- Level 3 — Unobservable inputs, where there is little or no market activity for the asset or liability. These inputs reflect the reporting entity’s own beliefs about the assumptions that market participants would use in pricing the asset or liability, based on the best information available in the circumstances.

The following table presents the embedded conversion derivative liability, the Company's only financial liability measured and recorded at fair value on the Company's consolidated balance sheets on a recurring basis and their level within the fair value hierarchy as of March 31, 2012 (in thousands):

	March 31, 2012	Level 1	Level 2	Level 3
Embedded conversion derivative liability	$ 2,179	$ -	$ -	$2,179

The following table reconciles, for the three months ended March 31, 2012, the beginning and ending balances for financial instruments that are recognized at fair value in the consolidated financial statements (in thousands):

Balance of embedded conversion derivative liability as of December 31, 2011	$1,238
Fair value of embedded conversion derivative liability at issuance	411
Loss on fair value adjustments to embedded conversion derivative liability	530
Balance of embedded conversion derivative liability at March 31, 2012	$2,179

The fair value of the conversion features are calculated at the time of issuance and the Company records a derivative liability for the calculated value using a Black-Scholes option-pricing model. Changes in the fair value of the derivative liability are recorded in other income (expense) in the consolidated statements of operations. Upon conversion of the convertible debt to stock, the Company reclassifies the related embedded conversion derivative liability to paid in capital. Since the fair value of the embedded conversion derivative liability exceeded the carrying value of the convertible debentures on the issuance date, the convertible debentures were recorded at a full discount. The Company recognizes expense for accretion of the convertible debentures discount over the term of the notes. The Company has considered the provisions of ASC 480, *Distinguishing Liabilities from Equity*, as the conversion feature embedded in each debenture could result in the note principal being converted to a variable number of the Company's common shares.

Revenue Recognition

The Company's revenues are currently derived from the sale of medical equipment products, maintenance contracts and service revenues. Revenues from maintenance contracts are recognized over the term of the contract. Service revenues are recognized upon performance of the services. The Company recognizes revenues from the sale of medical equipment products when earned. Specifically, revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred (or services have been rendered), the price is fixed or determinable, and collectibility is reasonably assured. The Company obains a signed customer acceptance after installation is complete for the sale of its Attrius® systems.

In multiple-element arrangements, revenue is allocated to each element based on their relative selling prices. Relative selling prices are based first on vendor specific objective evidence (VSOE), then on third-party evidence of selling price (TPE) when VSOE does not exist, and then on estimated selling price (ESP) when VSOE and TPE do not exist. Because the Company has neither VSOE nor TPE for its products, the allocation of revenue has been based on the Company's ESPs. The objective of ESP is to determine the price at which the Company would transact a sale if the product was sold on a stand-alone basis. The Company determines ESP by considering the facts and circumstances of the product being sold.

Recent Accounting Pronouncements

Recently issued or adopted accounting pronouncements are not expected to, or did not have, a material impact on our financial position, results of operations or cash flows.

3. Going Concern

Since inception, the Company has expended substantial resources on research and development and sustained losses. Due to the limited number of systems sold or placed into service each year, revenues have fluctuated significantly from year to year and have not been sufficient to be operationally profitable. The Company had an accumulated deficit of $111,335,000 and a stockholders' deficit of $3,560,000 at March 31, 2012. The Company will need to increase sales and apply the research and development advancements to achieve profitability in the future. The Company expects to experience a significant increase in sales of the Attrius® Positron Emission Tomography ("PET") system and additional service agreements; it also expects recurring revenue from the sale of radiopharmaceuticals through PosiRx™, its automated radiopharmaceutical system and sales of radiopharmaceuticals manufactured at its Crown Point facility. The Company expects that these developments will have a positive impact on revenue and net margins.

The Company had cash and cash equivalents of $3,000 at March 31, 2012. At the same date, the Company had accounts payable and accrued liabilities of $1,902,000 at March 31, 2012. Working capital requirements for the upcoming year will reach beyond our current cash balances. The Company plans to continue to raise funds as required through equity and debt financing to sustain business operations. These factors raise substantial doubt about the Company's ability to continue as a going concern.

There can be no assurance that the Company will be successful in implementing its business plan and ultimately achieving operational profitability. The Company's long-term viability as a going concern is dependent on its ability to 1) achieve adequate profitability and cash flows from operations to sustain its operations, 2) control costs and expand revenues from existing or new business 3) meet current commitments and fund the continuation of its business operation in the near future and 4) raise additional funds through debt and/or equity financings.

4. Acquisition of MIT

On January 17, 2012, the Company acquired Manhattan Isotope Technology LLC ("MIT") upon consummation of a Membership Interest Purchase Agreement (the "Agreement") with MIT and the interest-holders of MIT, whereby the Company acquired all of the issued and outstanding membership interests from the holders in exchange for: (i) the assumption of the liabilities of MIT; (ii) cash advances; (iii) earn-out payments equal to twenty percent (20%) of "Net Income" as defined in the Agreement; (iv) 5,000,000 common shares of Positron stock; and (v) entry into employment agreements with MIT's employees.

In accordance with the transaction, the Company acquired the assets related to MIT's business of refurbishing spent strontium-82/rubidium-82 and other radioisotope generators, recycling strontium-82 and other radioisotopes from generators, processing of strontium-82 and other radioisotopes, providing expertise in production of radioisotopes and radioisotopes services, including cash, equipment, leasehold improvements, patent, certain supply and distribution and other vendor contracts, goodwill and assumed liabilities including trade payables, accruals and a note payable with a commercial bank. The parties made customary representations, warranties and indemnities in the Agreement that are typical and consistent for a transaction of this size and scope.

The Company has included the financial results of MIT in the consolidated financial statements from the date of acquisition. MIT is included in the Radiopharmaceuticals operating segment.

The Company incurred acquisition costs of approximately $13,000 in 2011 and $12,000 in 2012.

The following table summarizes the consideration transferred to acquire MIT at the acquisition date:

Fair Value of Consideration Transferred:

Common stock of Company	$50,000
Contingent consideration	$205,297
Total	$255,297

The total purchase price for the MIT acquisition was allocated to the net tangible and intangible assets based upon their fair values as of January 17, 2012 as set forth below. The excess of the purchase price over the net assets was recorded as goodwill. The following table summarizes the fair values of the assets and liabilities assumed at the acquisition date.

Cash	$829
Equipment and leasehold improvements	653,567
Patent	14,000
Trade and other payables	(59,282)
Note payable	(700,000)
Net liabilities assumed	$(90,886)
Goodwill	$346,183

The Company identified intangible assets associated with patents and assigned the fair value of $14,000. The useful life associated with patents was 6 years.

The acquisition of MIT includes a contingent consideration arrangement that requires cash payments to the previous members equal to 20% of “Net Income” as defined in the Agreement through December 31, 2018. The range of the undiscounted amounts the Company could owe under this arrangement is between $0 and $3,000,000. The fair value of the contingent consideration on the acquisition date of approximately $205,000 was estimated based on the present value of projected payments which were based on projected net income through 2018. These calculations and projections are based on significant inputs not observable in the market, which ASC 820 refers to as Level 3 inputs. Key assumptions include a discount rate of 25 percent as well as an increasing level of revenues and expenses based on probability factors at the acquisition date.

The unaudited pro forma summary for the three months ended March 31, 2012, as if the business combination had occurred on January 1, 2012 is not materially different from total sales, loss from operations, net loss, and net loss per common share presented in the Company’s consolidated statements of operations above.

5. Deposits - Attrius® systems

At March 31, 2012 and December 31, 2011, the Company had $560,000 (three Attrius® systems) in deposits paid to our joint venture partner, Neusoft Positron Medical Systems Co., Ltd., ("Neusoft") for Attrius® systems for which the Company has sales contracts.

6. Inventories

Inventories at March 31, 2012 and December 31, 2011 consisted of the following (in thousands):

	March 31, 2012	December 31, 2011
Finished systems	$ 385	$ 385
Raw materials and service parts	673	756
Work in progress	-	90
	1,058	1,231
Less: Reserve for obsolete inventory	(490)	(490)
	$ 568	$ 741

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method of inventory valuation. The Company evaluated the reserve as of March 31, 2012 and December 31, 2011.

7. Property and equipment

Property and equipment at March 31, 2012 and December 31, 2011 consisted of the following (in thousands):

	March 31, 2012	December 31, 2011
Buildings	$ 500	$ -
Furniture and fixtures	46	27
Leasehold improvements	82	19
Computer equipment	57	59
Research equipment	638	-
Machinery and equipment	214	214
	1,537	319
Less: Accumulated depreciation	(183)	(135)

	$ 1,354	$ 184

8. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at March 31, 2012 and December 31, 2011 consisted of the following (in thousands):

	March 31, 2012	December 31, 2011
Trade accounts payable	$ 1,422	$ 1,307
Accrued royalties	87	87
Accrued interest	80	51
Sales taxes payable	70	66
Accrued compensation	29	13
Accrued professional fees	15	15
Other accrued expenses	199	106
Total	$ 1,902	$ 1,645

9. Customer Deposits

Customer deposits represent amounts paid to the Company by customers for devices in advance of manufacturing completion and/or shipment of the device to the customer. Deposit amounts may vary depending on the contract. Included in customer deposits at March 31, 2012 and December 31, 2011 were deposits of approximately $669,000 from a customer that had placed an order in 2007 for five Nuclear Pharm-Assist™ systems. As of the date of this report, there can be no assurance that this customer will fulfill its order for these devices.

Also, included in customer deposits at March 31, 2012 are $805,000 deposits on three Attrius® systems sale orders and two used machines. At December 31, 2011, customer deposits included $733,000 of deposits on two Attrius® systems sale orders and two used machines.

10. Loss Per Share

Basic loss per common share is based on the weighted average number of common shares outstanding in each period and earnings adjusted for preferred stock dividend requirements. Diluted earnings per common share assumes that any dilutive convertible preferred shares outstanding at the beginning of each period were converted at those dates, with related interest, preferred stock dividend requirements and outstanding common shares adjusted accordingly. It also assumes that outstanding common shares were increased by shares issuable upon exercise of those stock options and warrants for which market price exceeds exercise price, less shares which could have been purchased by the Company with related proceeds. The convertible preferred stock and outstanding stock options and warrants were not included in the computation of diluted earnings per common share for the three months ended March 31, 2012 and 2011, respectively since it would have resulted in an antidilutive effect.

The following table sets forth the computation of basic and diluted loss per share (in thousands, except per share data):

	Three Months Ended	
	March 31, 2012	March 31, 2011
Numerator		
Basic and diluted loss	$(2,962)	$ (735)
Denominator		
Basic and diluted earnings per share - weighted average shares outstanding	970,887	784,327
Basic and diluted loss per common share	$(0.00)	$ (0.00)

Anti-dilutive securities (based on conversions to common shares) not included in net loss per share calculation (in thousands):

	March 31, 2012	March 31, 2011
Convertible Series A preferred stock	457	457
Convertible Series B preferred stock	5,302	6,906
Convertible Series G preferred stock	19	19
Convertible Series S preferred stock	100	100
Stock warrants	190,550	193,283
Convertible debt	153,035	-
Common stock options	177,600	-
Series B preferred stock options	250,000	250,000

11. Convertible Debentures

Convertible Debentures due to Purchase of Building

On January 12, 2012, the Company acquired a building in Westmont, Illinois, which the Company previously leased from a related party for corporate and administrative offices (see Note 15). As a part of the price consideration, the Company issued the related party a convertible debenture of $250,000, which shall be due on December 31, 2013 and bear interest at 8% per year payable quarterly in cash. In addition, the Company issued 25,000,000 warrants ("Warrants"), which entitle the related party to purchase shares of the Company's common stock, par value $0.01 per share, at an exercise price of $0.01 per share and expiring on December 31, 2013. The related party is entitled to convert the accrued interest and principal of the Convertible Debentures into common stock of the Company at a conversion price equal to 55% of the lowest daily volume weighted average price for the three trading days preceding conversion.

Initial Accounting

Under the initial accounting, the Company separated the Convertible Debentures instrument into component parts of the Convertible Debt, the $0.01 Warrants and the embedded conversion derivative liability. The Company estimated the fair value of each component as of the date of the issuance. The fair value of the embedded conversion derivative liability exceeded the purchase price of the building from the Convertible Debt less the allocation of the purchase price of the building to the $0.01 Warrants, which resulted in a debt discount of $250,000. The debt is accreted to interest expense over the life of the Convertible Debt.

The following is a summary of the building debt from the issuance of the Convertible Debt and the initial accounting of the issuance (in thousands):

Building debt from convertible debt issuance	$250
Allocation of building debt to $0.01 warrants	(185)
Allocation of building debt to embedded conversion derivative liability	(65)
Total	$-

Convertible debentures as of March 31, 2012

During the three months ended March 31, 2012, the Company recognized $269,000 of interest expense on the Convertible Debentures still outstanding as of March 31, 2012 (in thousands).

	March 31, 2012	March 31, 2011
Convertible debentures	$ 1,577	$ —
Debt discount	(974)	—
Total convertible debentures	$ 603	$ —

12. Note Payable

On January 17, 2012, in connection with the Company acquisition of MIT, the Company assumed a note payable in favor of Los Alamos National Bank (“LANB”) in the principal amount of $700,000. On February 10, 2012, MIT enter into a modified note with LANB to consolidate principal and accrued interest of the original note into a new promissory note in the amount of $708,000, maturing on April 1, 2019. The monthly payment to LANB on the promissory note is $10,000, with the interest rate of 5.5% at March 31, 2012. The promissory note is guaranteed by MIT and secured by all assets of the Company. Total interest paid on the promissory note was $7,000 during the three months ended March 31, 2012. The note’s outstanding amount was $705,000 at March 31, 2012

Future maturities of the note payable are as follows:

Debt maturities as of March 31,	
2013	$85,000
2014	90,000
2015	95,000
2016	101,000
2017 and thereafter	334,000
Total	705,000
Less: current portion	(85,000)
Note payable – noncurrent portion	$620,000

13. Stockholders' Deficit

2012

On January 4, 2012, the Company increased the number of the Company's authorized shares of capital stock from 810,000,000 shares to 3,020,000,000 of which 3,000,000,000 shares will be common stock par value $0.01 per share and 20,000,000 shares will be preferred stock par value $1.00 per share.

During the three months ended March 31, 2012, investors converted 2,526,935 Series B shares into 252,693,358 shares of common stock.

During the three months ended March 31, 2012, investors purchased 43,100,000 shares of common stock for $0.01 per share ($431,000), of which 35,100,000 shares were issued, and 8,000,000 shares are payable as of March 31, 2012. The Company also issued 43,100,000 warrants exercisable at $0.01 until December 31, 2013 to these investors, and extended 58,250,000 warrants which were previously to expire on March 31, 2012 to December 31, 2013 to these investors.

During the three months ended March 31, 2012, the Company issued investors 17,000,000 shares of common stock which were payable at December 31, 2012.

During the three months ended March 31, 2012, the Company issued MIT 5,000,000 shares of common stock in connection with the purchase of MIT, which were valued at fair market value on the date of issuance ($0.01 per

share).

During the three months ended March 31, 2012, the Company issued a related party 25,000,000 shares of common stock in connection with the purchase of a building which were valued at fair market value on the date of issuance ($0.01 per share). The Company also issued 25,000,000 warrants exercisable at $0.01 until December 31, 2013 to this related party.

During January 2012, the Company issued 1,800,000 shares of common stock for consulting services. On the dates of the issuances, the common stock had a fair market value of $0.01 per share. The Company recorded consulting fee expense of $18,000 for the issuance of the shares.

During March 2012, the Company issued 4,800,000 shares of common stock for consulting services. On the dates of the issuances, the common stock had a fair market value of approximately $0.017 per share. The Company recorded consulting fee expense of $81,000 for the issuance of the shares.

2011

During the three months ended March 31, 2011, investors exercised warrants on preferred stock for which the Company received $325,000 in cash proceeds and issued 130,000 shares of Series B preferred stock. In addition, the Company received $250,000 in cash proceeds for warrants and issued 125,000 shares of Series B preferred stock.

On February 15, 2011, the Company issued 3,000 shares of Series B preferred stock to an unrelated party for consulting services. On the date of issuance, the common stock had a fair market value of $0.04 per share. The Company recorded consulting fee expense of $12,000 for the issuance of the shares.

14. Stock Options

For all of the Company's stock-based compensation plans, the fair value of each grant was estimated at the date of grant using the Black-Scholes option-pricing model. Black-Scholes utilizes assumptions related to volatility, the risk-free interest rate, the dividend yield (which is assumed to be zero, as the Company has not paid cash dividends to date and does not currently expect to pay cash dividends) and the expected term of the option. Expected volatilities utilized in the model are based mainly on the historical volatility of the Company's stock price over a period commensurate with the expected life of the share option as well as other factors. The risk-free interest rate is derived from the zero-coupon U.S. government issues with a remaining term equal to the expected life at the time of grant.

On January 17, 2012, the Company granted certain employees options to purchase 177,600,000 shares of common stock at an exercise price of $0.01 per share. Fifty percent of the options vested immediately and the remaining fifty percent vest on January 17, 2013. The options expire on January 17, 2015. During the three months ended March 31, 2012, the Company recorded compensation expense of $1,066,000 for these stock options. The Company will record an additional $706,000 for these stock options, of which $667,000 will be recorded during the remainder of 2012 and $39,000 will be recorded in January 2013. At March 31, 2012, the remaining weighted average contractual term of these options is 2.8 years. The intrinsic value of these options on the grant date was $187,600 as the closing stock price on the grant date was $0.011. Fair market value using the Black-Scholes option-pricing model was determined using the following assumptions:

Expected life (years)	1.75
Risk free rate of return	0.75%
Dividend yield	0
Expected volatility	218 %

15. Related Party Transactions

At March 31, 2012, the Company has recorded deposits totaling $560,000 to Neusoft for three machines. At March 31, 2012, the Company also has a $250,000 receivable from Neusoft for certain excess freight charges owed, and has $218,000 payable to Neusoft for the purchase of an Attrius® PET system.

The Company repaid $20,000 (owed at December 31, 2011) to its Chief Executive Officer during the three months ended March 31, 2012.

On January 12, 2012, the Company acquired a building in Westmont, Illinois, which the Company previously leased from a related party for corporate and administrative offices since 2010. The Company issued the related party 25,000,000 shares of common stock, which were valued at approximately $250,000 and a convertible debenture of

$250,000, which shall be due on December 31, 2013 and bear interest at 8% per year payable quarterly in cash. In addition, the Company issued 35,000,000 warrants ("Warrants"), which entitle the related party to purchase shares of the Company's common stock, par value $0.01 per share, at an exercise price of $0.01 per share and expiring on December 31, 2013. The related party is entitled to convert the accrued interest and principal of the Convertible Debentures into common stock of the Company at a conversion price equal to 55% of the lowest daily volume weighted average price for the three trading days preceding conversion. At December 31, 2011, the Company had $77,000 of deferred rent related to this building recorded as an asset in the financial statements, which was expensed during the three months ended March 31, 2012.

During the three months ended March 31, 2012, the Company expensed $77,000 of deferred rent related to the lease of the building from a related party.

During the three months ended March 31, 2011, the Company recognized cost of revenues of approximately $1,888,000 related to the purchase of Attrius® PET systems from Neusoft, the Company's joint venture. At March 31, 2011, the Company has recorded deposits totaling $1,618,000 to Neusoft. At March 31, 2011, the Company also has $206,000 receivable from Neusoft.

During the three months ended March 31, 2011, the Company expensed $9,000 of deferred rent related to the lease of the building from a related party.

16. Commitments

On December 5, 2011, MIT entered into an operating lease with a third party for space for warehousing at a building in Lubbock, Texas. The Company will be required to make payments of $1,475 each month from December 1, 2011 through December 1, 2012.

On February 9, 2012, MIT entered into a financing agreement with a third party for certain lab research equipment, which was delivered on March 15, 2012. The Company was required to make the first payment of $22,862 upon signing the agreement and a monthly payment of $12,856 thereafter for the next five months.

17. Segment Disclosures

We have aggregated our operations into two reportable segments based upon product lines, manufacturing processes, marketing and management of our businesses: medical equipment and radiopharmaceuticals. Our business segments operate in the nuclear medicine industry. The Company's medical equipment segment is currently generating all revenues and the majority of all expenses as the radiopharmaceuticals segment is still in the development phase.

We evaluate a segment's performance based primarily upon operating income before corporate expenses.

Corporate assets consist primarily of cash but also include plant and equipment associated with our headquarters. These items (and income and expenses related to these items) are not allocated to the segments. Unallocated income/expenses include interest income, interest expense, debt extinguishment and refinancing costs and other (expense) income and certain expenses which are not considered related to either segment, but are instead considered general corporate expenses.

The following table represents sales, operating loss and total assets attributable to these business segments for the periods indicated (in thousands):

	Three Months Ended March 31, 2012	March 31, 2011
Total Sales:		
Medical equipment	$ 829	$ 2,871
Radiopharmaceuticals	-	-

Total sales	$ 829	$ 2,871
Operating loss:		
Medical equipment	$ (1,494)	$ (624)
Radiopharmaceuticals	(328)	(74)
Unallocated	(20)	(37)
Total operating loss	$ (1,802)	$ (735)

	March 31, 2012	March 31, 2011
Total assets:		
Medical equipment	$ 2,948	3,559
Radiopharmaceuticals	694	27
Unallocated	3	508
Total assets	$ 3,645	$ 4,094

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18. Subsequent Events:

Management has evaluated all events that occurred after the balance sheet date through the date when these financial statements were issued to determine if they must be reported. Management of the Company has determined that there were reportable subsequent events to be disclosed as follows:

On April 10, 2012, the following stock transactions occurred:

The Company issued 28,571,428 shares of common stock, par value $0.01 per shares ("Common Stock") to a third party upon conversion of $200,000 convertible note. The Company issued another 11,111,111 shares of its Common Stock to a third party upon conversion of $100,000 convertible note.

Investors converted 634,000 shares of Series B Convertible Preferred Stock into 63,400,000 shares of Common Stock.

The Company accepted subscriptions in the amount of $28,000 and issued 2,800,000 shares of Common Stock. The Company also issued 2,800,000 warrants to these investors to purchase Common Stock of the Company, which will expire on December 31, 2013.

The Company issued 2,208,750 shares of Common Stock of the Company for services.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company is including the following cautionary statement in this Quarterly Report on Form 10-Q to make applicable and utilize the safe harbor provision of the Private Securities Litigation Reform Act of 1995 regarding any forward-looking statements made by, or on behalf of, the Company. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements, which are other than statements of historical facts. Certain statements contained herein are forward-looking statements and, accordingly, involve risks and uncertainties, which could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

The Company's expectations, beliefs and projections are expressed in good faith and are believed by the Company to have a reasonable basis, including without limitations, examination of historical operating trends, data contained in records and other data available from third parties, but there can be no assurance that the Company's expectations, beliefs or projections will result, or be achieved, or be accomplished

Overview

Positron Corporation (the "Company" or "Positron") is a leading molecular imaging company providing innovative nuclear medicine technologies and services that are reshaping the field of nuclear cardiology. Through proprietary PET imaging systems and radiopharmaceutical solutions, Positron enables healthcare providers to more accurately diagnose disease, improve patient outcomes while practicing cost effective medicine. Positron has gained significant traction in a diverse industry and continues their strong commitment to excellence and advancing cardiac imaging solutions.

General

The Company offers a range of products and services for nuclear imaging community that are discussed below.

Attrius®

Attrius® is the only FDA approved dedicated PET scanner optimized for cardiac imaging. Attrius® was named the "Most Innovative Device of 2010" by the renowned business research and consulting firm Frost & Sullivan. The Attrius® provides a robust, cardiac specific imaging software package designed to ensure effortless interpretation for today's most challenging clinical cases for nuclear cardiologists. Heart disease specific software includes the ability to monitor therapy, coronary artery overlay display, and open architecture for new protocol development and customization and motion correction software. The Attrius® is targeted for cardiac clinics and is designed to meet the performance, budget and space needs of the most demanding cardiologists.

Positron achieved significant advancements on the Company's new state-of-the-art coronary flow reserve (CFR) software, developed in collaboration with the University of Texas. Positron expects to offer this software in conjunction with the Attrius® starting Q2 2012. The CFR software, a clear differentiator and advantage for Positron, was developed by a leading cardiologist and industry luminary Dr. K. Lance Gould and is considered to be a key driver in the upcoming growth in cardiac PET.

PosiRx™

Tc-99m accounts for 82 percent of all diagnostic radiopharmaceutical injections each year (Arlington Medical Resources, Inc., The Imaging Market Guides – United States Edition, 2008). A current distribution model of Tc-99m is based on centralized radio pharmacies which provides scheduled deliveries of unit doses of radiopharmaceuticals to their clients located in a 70-75 miles range.

PosiRx™ is a system that automates the elution, preparation, and dispensing processes for radiopharmaceutical agents used in SPECT molecular imaging with Tc-99m. It eliminates the need for scheduled deliveries of unit doses from centralized radiopharmacies. A nuclear cardiology facility equipped with the PosiRx™ has 24/7 unit dose accessibility and reliability of an on-site supply. A self-contained device, the PosiRx™ is compliant with all regulations that involve compounding and dispensing sterile injectables. Positron's proprietary automated quality control module for the PosiRx system includes a patent pending method of testing Tc-99m compounds for radiochemical purity. PosiRx™ is targeted for cardiac clinics and hospitals with a high volume flow of imaging patients. Positron's PosiRx has completed validation testing at the University of New Mexico and is being marketed to leading nuclear cardiology luminaries and nuclear pharmacies. To best serve market demand, Positron intends to offer different revenue models: 1) rent/sell and service PosiRx systems to practices/hospitals handling their own radiopharmaceutical consumables, and 2) sell radiopharmaceutical consumables directly to practices/hospitals through installed PosiRx systems.

PosiStar™

Positron offers a comprehensive world-class clinical, technical, and service customer care plan, through its PosiStar™ customer care services. PosiStar™ includes: 24/7 clinical and service support; uptime guarantees; remote access diagnostic/maintenance; physician interpretation training; billing training; nurse training; post-install physician over-reads; ICANL approval assistance; 6 months evaluation/assessment; industry luminary collaboration, etc. PosiStar™ is a fee-based service typically for three to five years.

Radiopharmaceutical Manufacturing

The Company plans to focus on small batch, radioactive PET products. Positron commenced production of Indium Oxine at its cGMP (current Good Manufacturing Practices) ready facility in Indiana and intends to file a New Drug Application ("NDA") for FDA approval to market and sell directly to physicians. Positron has initial customers for radiochemical grade Indium. Positron is entering into the Indium market as it projects increased demand in an underserved market and as a precursor for its PET radiopharmaceuticals initiatives.

The Company accelerated development of a proprietary Rb-82 generator and its associated infusion cart with prototypes currently in the testing phase. This product is a key element of Positron's strategy to vertically integrate the production and delivery of a complete cardiac imaging solution: isotope (Sr82), generator (Rb82), and imaging system (Attrius®).

Isotopes production - 70MeV Cyclotron

Positron Corporation has engaged in an ambitious plan to build and operate a high energy cyclotron facility to be used primarily for production of medical isotopes for PET diagnostic imaging and radiotherapy. The proposed facility will be equipped with a 70MeV cyclotron and be unique in that it will be capable of producing isotopes that are either not available or have very limited availability from other commercial sources in the United States and the world. Positron intends to couple the cyclotron with a material processing facility, isotope target manufacturing, drug manufacturing and Positron's expanding equipment-manufacturing operations.

The primary isotope to be produced is Sr82 that is currently in short supply in the world and is produced in the U.S. only by the DOE National Laboratories. It is the policy of the DOE to not compete with private industry, and therefore the DOE may be compelled via petition to withdraw from the market when the materials are reasonably available commercially.

Sr82 is used as a parent isotope for production of Rb82 in Sr82/Rb82 generators for PET myocardial perfusion imaging. Positron is currently developing its own generator and intends to buy all Sr82 produced by the facility to supply its cardiac PET client base. The production of Rb82 would allow Positron to have a complete integrated value chain that includes radioisotope production, generator distribution, unit dose delivery of the radiopharmaceutical and sale of the PET imaging equipment.

The cost of the project, including equipment, building, land, working capital and contingencies, is approximately $64 million. Positron executed an agreement with IBA Molecular, of Belgium, to manufacture a 70 MeV cyclotron and contracted American Structurepoint Inc. to design the first facility. The facility will be located in the city of Noblesville, Indiana, concurrent with the relocation of Positron’s corporate headquarters and manufacturing. The facility will take approximately 3.5 years to build. The Company expects to begin operations in 2015.

In July 2011, Noblesville City Council approved to provide Positron with $6.7 million in economic incentives through the issuance of long-term Economic Development Tax Increment Revenue Bonds. In September 2011, the Indiana Economic Development Corporation awarded $38 million of tax-exempt Midwestern Disaster Area Bonds to Positron Corporation.

The Company plans to execute the project through its wholly owned subsidiary, Positron Isotopes Corporation, and will be funded with proceeds from debt and equity which the Company intends to raise.

Manhattan Isotope Technology LLC

In January 2012, Positron acquired Manhattan Isotope Technology LLC ("MIT"). Founded in 2009 by former Los Alamos National Laboratories (LANL) scientists, MIT personnel were at the core of the DOE team that provided the majority of the world's Sr-82 supply over the past 15 years and also developed the patented technology for recycling Sr82 from expired Sr82/Rb82 generators. This patented recycle production method was exclusively licensed to MIT from the DOE via Los Alamos National Laboratory in 2010.

MIT is the only commercial resource in the United States with practical knowledge and experience in all stages of strontium-82 production. Its current facility in Lubbock, Texas, has the capacity to provide critical services necessary for the refurbishment of spent strontium-82/rubidium-82 generators and the recycling of strontium-82 using patented methods. Over the past five years the explosive growth of PET imaging has driven a significant increase in the Sr82/Rb82 generator demand, creating an environment whereby the Sr82 demand has begun to outpace supply. MIT intends to focus on increasing the Active Pharmaceutical Ingredient (API) Sr82 supply through the recycling of Sr82 from spent generators and production of Sr82 from foreign suppliers.

MIT, with the support of Positron, has executed a Memorandum of Understanding with the ARRONAX Cyclotron Facility in Nantes, France. ARRONAX is one of only a small number of global accelerator facilities which possess the requisite proton beam characteristics for strontium-82 production. MIT and ARRONAX will collaborate on production of strontium-82 and other medical radionuclides, such as germanium-68. The collaboration of ARRONAX and MIT will expand the global supply of Sr-82, a supply that is very limited and in great demand by the medical community.

In February 2012, Sr82 samples arrived from ARRONAX at the Lubbock, Texas processing facility for validation testing and the Company expects the filing of MIT's Drug Master File with the US FDA to be done in the 2nd quarter of 2012. Currently, the only supplier of API grade strontium-82 in the United States is the US Department of Energy

Results of Operations

Comparison of the Results of Operations for the Three Months ended March 31, 2012 and 2011

The Company experienced a net loss of $2,962,000 for the three months ended March 31, 2012 compared to a net loss of $735,000 for the three months ended March 31, 2011. The increase in the current three month period as compared to the same period last year is attributed primarily to lower PET systems sales and increased general and

administrative expenses due to stock-based compensation and derivative losses.

Revenues - Revenues for the three months ended March 31, 2012 were $829,000 as compared to $2,871,000 for the three months ended March 31, 2011. Systems sold during the three months ended March 31, 2012 were $353,000 while system sales for the same period in 2011 were $2,623,000. Service revenue was $451,000 and $248,000 for the three months ended March 31, 2012 and 2011, respectively. Sales of PET systems during the three months ended March 31, 2012 have been negatively impacted by shortage of Sr-82/Rb-82 generators supplied to cardiac imaging facilities by Bracco Diagnostics due to cyclotron maintenance and limited production capacity of the isotope Sr-82.

Gross Margin - Gross margin for the three months ended March 31, 2012 and 2011 was $359,000 and $428,000, respectively. Costs were lower during the three months ended March 31, 2012 due to the mix of sales.

Operating Expenses - Operating expenses for the three months ended March 31, 2012 were $2,161,000 compared to $1,163,000 for the three months ended March 31, 2011.

Research and development costs for the three months ended March 31, 2012 were relatively flat compared to the last year. The Company recorded $313,000 in research and development costs during the three months ended March 31, 2012, compared to $334,000 for the three months ended March 31, 2011. Research and development costs for the three months ended March 31, 2012 included mostly payroll, contract labor and consulting fees for Attrius® software and the PosiRx™ development. In addition, the Company has research and development costs related to the radiopharmaceutical facility to prepare it for regulatory approvals and production. The Company intends to continue to support research and development in software, radiopharmaceutical products and automated devices.

Sales and marketing expense for the three months ended March 31, 2012 and 2011 were $83,000 and $323,000, respectively and were lower in 2012 due to the Company’s efforts to limit expenditures. Sales and marketing expenses for the three months ended March 31, 2012 are mostly comprised of salaries and consulting fees of $66,000. Sales and marketing expenses for the three months ended March 31, 2011 include salaries and commissions of approximately $158,000, advertising expense of $49,000 and trade show expenses of $75,000.

General and administrative expenses during the three months ended March 31, 2012 were $1,765,000 as compared to $506,000 for the three months ended March 31, 2011. The $1,259,000 increase over the prior year was primarily due to stock-based compensation of $1,049,000 and general and administrative expenses of $207,000 related to MIT, the Company’s wholly-owned subsidiary acquired in January 2012. The Company did not have these types of expenses during the three months ended March 31, 2011.

***Other Income (Expenses)* -** Interest expense was $287,000 for the three months ended March 31, 2012 and includes the $241,000 for the accretion of the convertible debentures discount and $46,000 for interest payable on the debt. Interest expense was $0 for the three months ended March 31, 2011.

During the three months ended March 31, 2012, the Company also recorded derivate losses of $876,000 in connection with the embedded conversion derivative liabilities related to convertible debt. The Company did not have this expense during the three months ended March 31, 2011.

Liquidity and Capital Resources

At March 31, 2012, the Company had current assets of $1,863,000 and current liabilities of $5,950,000 compared to December 31, 2011 when the Company had current assets and current liabilities of $1,951,000 and $5,176,000, respectively. Total assets at March 31, 2012 were $3,645,000 compared to $2,308,000 at December 31, 2011. Total liabilities were $7,205,000 and $5,176,000 at March 31, 2012 and December 31, 2011, respectively.

Cash and cash equivalents at March 31, 2012 were $3,000 compared to $1,000 at December 31, 2011. Accounts receivable was $695,000 at March 31, 2012 compared to $612,000 at December 31, 2011.

Current liabilities include accounts payable and accrued expenses of $1,902,000. Customer deposits of $1,474,000 include $805,000 of deposits for three Attrius® PET systems and two used machines and approximately $669,000 from a customer that had placed an order for five Nuclear Pharm-Assist™ systems.

Net cash used in operating activities was $342,000 and $1,241,000 for the three months ended March 31, 2012 and 2011, respectively. The decrease over the prior year was primarily due to stock-based compensation, derivative losses, and accretion of debt discount recorded during the three months ended March 31, 2012 (none were recorded last year during the same period), partially offset by increased net loss.

Net cash used in investing activities were $22,000 and $2,000 for the three months ended March 31, 2012 and 2011, respectively. The increase over the prior year was primarily due to higher purchases of property and equipment.

Net cash provided by financing activities was $366,000 and $575,000 for the three months ended March 31, 2012 and 2011, respectively. During the three months ended March 31, 2012, the Company recorded $351,000 related to

common stock issuance, compared to $575,000 recorded last year for proceeds from exercise of warrants.

The Company's ability to achieve its objectives is dependent on its ability to sustain and enhance its revenue stream and to continue to raise funds through loans, credit and the private placement of restricted securities until such time as the Company achieves profitability. To date, management has been successful in raising cash on an as-needed basis for the continued operations of the Company. There is no guarantee that management will be able to continue to raise needed cash in this fashion.

The report of the Company’s independent public accountants, which accompanied the financial statements for the year ended December 31, 2011, was qualified with respect to the ability of the Company to continue as a going concern. Although the Company’s financial conditions have improved significantly, the Company is not yet profitable or cash-positive. If the Company is unable to obtain debt or equity financing to meet its ongoing cash needs, it may have to limit or disregard portions of its business plans

The Company has no material commitments for capital expenditures at this time. The Company has no “off balance sheet” source of liquidity arrangements.

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required for smaller reporting companies.

ITEM 4 – CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Based upon an evaluation of the effectiveness of disclosure controls and procedures, our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Exchange Act) were not effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the rules and forms of the SEC and is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. As reported in our Annual Report on Form 10-K for the year ended December 31, 2011, the Company's chief executive and financial officer has determined that there are material weaknesses in our disclosure controls and procedures.

The material weakness in our disclosure control procedures is as follows:

Audit Committee and Financial Expert. The Company does not have a formal audit committee with a financial expert, and thus the Company lacks the board oversight role within the financial reporting process.

The Company intends to form an Audit Committee that will establish policies and procedures that will provide the Board of Directors a formal review process that will among other things, assure that management controls and procedures are in place and being maintained consistently. The Company anticipates that this action will remediate the related material weakness.

Changes in Internal Control over Financial Reporting

As reported in our Annual Report on Form 10-K for the year ended December 31, 2011, management is aware that there is a significant deficiency and a material weakness in our internal control over financial reporting and therefore has concluded that the Company's internal controls over financial reporting were not effective as of December 31, 2011. The significant deficiency relates to a lack of segregation of duties due to the small number of employees involvement with general administrative and financial matters. The material weakness relates to a lack of formal policies and procedures necessary to adequately review significant accounting transactions.

During 2011, the Company and its third party consultant, which prepares the financial statements, implemented formal procedures whereby significant accounting transactions and the accounting treatment of such transactions is discussed and documented monthly. The Company anticipates this will allow for the adequate reporting/consideration of complex accounting issues and will remediate the related material weakness.

There have not been any other changes in the Company's internal control over financial reporting during the quarter ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1 – LEGAL PROCEEDINGS

None.

ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On January 4, 2012, the Company increased the number of the Company's authorized shares of capital stock from 810,000,000 shares to 3,020,000,000 of which 3,000,000,000 shares will be common stock par value $0.01 per share ("Common Stock") and 20,000,000 shares will be preferred stock par value $1.00 per share ("Preferred Stock").

On January 19, 2012, the Company converted 1,923,223 shares of Series B Convertible Preferred Stock into 192,322,258 shares of Common Stock. Also on January 19, 2012, the Company accepted subscriptions in the amount of $50,000 and issued 8,000,000 shares of Common Stock. Additionally, the Company issued 30,000,000 warrants to Investors to purchase Common Stock of the Company, which will expire on December 31, 2013. Furthermore, on January 19, 2012, the Company issued 5,000,000 shares in connection with the acquisition of MIT and 76,261 shares of Common Stock were issued for royalties. On January 19, 2012, the Company issued 25,000,000 and a convertible debenture due on December 31, 2013, with interest at the rate of 8%, to a related party as the purchase price for the office space previously leased by the Company.

On March 1, 2012, the Company converted 603,711 shares of Series B Convertible Preferred Stock into 60,371,100 shares of Common Stock. Also on March 1, 2012, the Company issued 3,000,000 shares of Common Stock to a vendor for services rendered.

On March 14, 2012, the Company accepted subscriptions in the amount of $30,000 and issued 3,500,000 shares of Common Stock. The Company also issued 3,500,000 warrants to an Investor to purchase Common Stock of the Company, which will expire on December 31, 2013. Also on March 14, 2012, the Company issued 1,200,000 shares of Common Stock to an employee for services.

The securities described above were offered and sold in reliance upon exemptions from registration pursuant to Section 4(2) under the Securities Act and Rule 506 of Regulation D promulgated thereunder. The agreements

executed in connection with this sale contain representations to support the Registrant's reasonable belief that the Investor had access to information concerning the Registrant's operations and financial condition, the Investor acquired the securities for their own account and not with a view to the distribution thereof in the absence of an effective registration statement or an applicable exemption from registration, and that the Investor are sophisticated within the meaning of Section 4(2) of the Securities Act and are "accredited investors" (as defined by Rule 501 under the Securities Act). In addition, the issuances did not involve any public offering; the Registrant made no solicitation in connection with the sale other than communications with the Investor; the Registrant obtained representations from the Investor regarding their investment intent, experience and sophistication; and the Investor either received or had access to adequate information about the Registrant in order to make an informed investment decision.

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 – MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5 – OTHER INFORMATION

None.

ITEM 6 – EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibit index

Exhibit	Description of the Exhibit
31.1	Chairman of the Board Certification of Periodic Financial Report Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Chief Financial Officer Certification of Periodic Financial Report Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Chairman of the Board Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Chief Financial Officer Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

(b) Reports on Form 8-K. During the fiscal quarter ended March 31, 2012, the Company filed the following Current Reports on Form 8-K:

1. On January 20, 2012, the Registrant filed a Current Report on Form 8-K disclosing its acquisition of Manhattan Isotope Technology LLC (“MIT”) upon consummation of a Membership Interest Purchase Agreement.

2. On January 23, 2012, the Registrant filed a Current Report on Form 8-K disclosing its Business Outline providing certain information on the Registrant’s business and products.

SIGNATURES

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

POSITRON CORPORATION

Date: May 21, 2012	/s/ Patrick G. Rooney Patrick G. Rooney Chief Executive Officer,, Chairman of the Board (principal executive officer)
Date: May 21, 2012	/s/ Corey N. Conn Corey N. Conn Chief Financial Officer (principal accounting officer)