

POSITRON CORP  
Form 10-Q  
November 14, 2013

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2013

Commission file number 000-29449

**POSITRON CORPORATION**

(Exact Name of Registrant as specified in its charter)

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

**530 Oakmont Lane, Westmont, Illinois 60559**  
(Address of Principal Executive Offices) (Zip Code)

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

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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  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 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 company

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

The numbers of shares outstanding of common stock, par value \$0.01 per share outstanding as of November 14, 2013:  
1,452,548,262

**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)

	September 30, 2013 (Unaudited)	December 31, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 197	\$243
Accounts receivable, less allowance for doubtful accounts of \$140 and \$50	213	273
Inventories, less reserve of \$552 and \$457	541	551
Prepaid expenses	35	37
Total current assets	986	1,104
Property and equipment, less accumulated depreciation of \$467 and \$346	1,081	1,170
Intangible assets, less accumulated amortization of \$4 and \$0	357	358
Other assets	54	53
Total assets	\$ 2,478	\$2,685
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable, trade and accrued liabilities	\$ 1,601	\$1,634
Customer deposits	669	746
Unearned revenue	71	58
Notes payable – current portion	1,557	129
Capital lease – current portion	3	-
Convertible debentures, less debt discount of \$449 and \$1,798	2,911	1,562
Embedded conversion derivative liabilities	4,020	3,981
Total current liabilities	10,832	8,110
Notes payable – noncurrent portion	451	560
Capital lease – noncurrent portion	13	-
Contingent earnout payable	205	205
Total liabilities	11,501	8,875
Stockholders' deficit:		
	441	441

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Series A preferred stock: \$1.00 par value; 8% cumulative, convertible, redeemable; 7,900,000 shares authorized; 440,932 shares issued and outstanding.		
Series B preferred stock: \$1.00 par value; convertible, redeemable; 9,000,000 shares authorized; 3,056,487 shares issued and outstanding	2,750	2,750
Series S preferred stock: \$1.00 par value; convertible, redeemable; 100,000 shares authorized; 100,000 shares issued and outstanding	100	100
Series H preferred stock: \$0.01 par value; convertible, redeemable; 10,000,000 shares authorized; 7,500,000 shares issued and outstanding in 2013	75	-
Common stock: \$0.01 par value; 3,000,000,000 shares authorized; 1,452,548,262 shares issued and 1,451,927,262 outstanding	14,208	14,203
Additional paid-in capital	93,565	92,802
Other comprehensive income	-	(143 )
Accumulated deficit	(120,147 )	(116,328)
Treasury stock: 60,156 shares at cost	(15 )	(15 )
Total stockholders' deficit	(9,023 )	(6,190 )
Total liabilities and stockholders' deficit	\$ 2,478	\$ 2,685

See accompanying notes to consolidated financial statements

**POSITRON CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share data)

(Unaudited)

	Three Months Ended		Nine Months Ended	
	September	September	September	September
	30, 2013	30, 2012	30, 2013	30, 2012
Sales:	\$351	\$370	\$1,154	\$2,423
Costs of sales:	230	264	894	1,627
Gross profit	121	106	260	796
Operating expenses:				
General and administrative	610	664	1,622	3,585
Research and development	133	186	468	755
Selling and marketing	114	59	332	202
Total operating expenses	857	909	2,422	4,542
Loss from operations	(736 )	(803 )	(2,162 )	(3,746 )
Other expense				
Interest expense	(492 )	(323 )	(1,476 )	(1,116 )
Derivative gain (loss)	(162 )	(279 )	(39 )	(779 )
Loss on settlement of accounts payable	-	(63 )	-	(63 )
Other expense	-	(100 )	-	(43 )
Loss on disposal of property and equipment	-	-	-	(18 )
Total other expense	(654 )	(765 )	(1,515 )	(2,019 )
Loss before income taxes	(1,390 )	(1,568 )	(3,677 )	(5,765 )
Income taxes	-	-	-	-
Net loss and comprehensive loss	\$(1,390 )	\$(1,568 )	\$(3,677 )	\$(5,765 )
Basic and diluted loss per common share	\$(0.00 )	\$(0.00 )	\$(0.00 )	\$(0.00 )

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Basic and diluted weighted average shares outstanding	1,452,548	1,360,107	1,452,303	1,202,861
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See accompanying notes to consolidated financial statements

**POSITRON CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

(Unaudited)

	<b>Nine Months Ended</b>	
	<b>September 30, 2013</b>	<b>September 30, 2012</b>
Cash flows from operating activities:		
Net loss	\$(3,677)	\$ (5,765 )
Adjustment to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	123	167
Loss on disposal of property and equipment	-	18
Stock based compensation	88	1,511
Derivative gains	39	779
Common stock issued for services	5	205
Deferred rent	-	77
Accretion of debt discount	1,349	779
Changes in operating assets and liabilities:		
Accounts receivable	60	412
Inventories	10	168
Prepaid expenses and other assets	1	591
Accounts payable, trade and accrued liabilities	(33 )	110
Due from related party	-	62
Customer deposits	(77 )	(656 )
Common stock payable	-	67
Unearned revenue	13	(245 )
Net cash used in operating activities	(2,099)	(1,725 )
Cash flows from investing activities:		
Purchase of property and equipment	(16 )	(71 )
Purchase of MIT, net of cash acquired	-	1
Net cash used in investing activities	(16 )	(70 )
Cash flows from financing activities:		
Borrowings under note payable	-	808
Payments on note payable	(116 )	(840 )
Noninterest bearing advances	2,185	205
Payment of noninterest bearing advances	-	(165 )



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Series H preferred stock issued	-	-
Common stock issued	-	534
Proceeds from convertible debt	-	2,310
Net cash provided by financing activities	2,069	2,852
Net increase (decrease) in cash and cash equivalents	(46 )	1,057
Cash and cash equivalents, beginning of period	243	1
Cash and cash equivalents, end of period	\$197	\$ 1,058
Supplemental cash flow information:		
Interest paid	\$-	\$ 26
Income taxes paid	\$-	\$ -
Non-cash disclosures		
Conversion of Series A preferred stock to common stock	\$-	\$ 16
Conversion of Series B preferred stock to common stock	\$-	\$ 4,771
Conversion of Series G preferred stock to common stock	\$-	\$ 18
Issuance of 17,000,000 common stock owed	\$-	\$ 269
Allocation of Convertible Debentures to warrants and embedded conversion derivative liability	\$-	\$ 2,310
Issuance of common stock, warrants, and convertible debentures for purchase of building from related party	\$-	\$ 500
Conversion of Convertible Debenture to common stock		400
Conversion of embedded derivative liability to paid - in capital	\$-	\$ 366
Property and equipment additions financed	\$-	\$ 50
Equipment under capital lease	\$16	\$ -
Noncash consideration for MIT acquisition (see Note 4)	\$-	\$ 255
Adjustment to shares issued in settlement of debt	\$-	\$ 17
Conversion of advances to series H preferred stock	\$750	\$ -

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, 2012. 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, 2012, 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, 2012), see the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

*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. 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 September 30, 2013 and 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 nine months ended September 30, 2013 and 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 September 30, 2013, 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 nine months ended September 30, 2013 and 2012 was \$0 and \$259,000, respectively. The debt discount attributable to the embedded conversion derivative liability during the nine months ended September 30, 2013 and 2012 was \$0 and \$451,000, respectively. The Company also recorded the accretion of debt discount of \$449,000 and \$737,000 during the nine months ended September 30, 2013 and 2012, respectively. The total debt unaccrued discount at September 30, 2013 was \$449,000, compared to \$1,798,000 at December 31, 2012.

#### *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 September 30, 2013 (in thousands):

	September 30, 2013	Level 1	Level 2	Level 3
Embedded conversion derivative liability	\$4,020	\$-	\$-	\$4,020

The following table reconciles, for the nine months ended September 30, 2013, 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, 2012	\$3,981
Loss on fair value adjustments to embedded conversion derivative liability	39
Balance of embedded conversion derivative liability at September 30, 2013	\$4,020

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 collectability is reasonably assured. The Company obtains 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 \$120,147,000 and a stockholders' deficit of \$9,023,000 at September 30, 2013. The Company will need to increase sales and apply the research and development advancements to achieve profitability in the future. The Company will need to resume and increase sales of PET and radiopharmaceutical systems, services, radiopharmaceuticals and radioisotope sales and apply the research and development advancements to achieve profitability in the future. There can be no assurance that the Company will continue to be successful in selling products.

The Company had cash and cash equivalents of \$197,000 at September 30, 2013. At the same date, the Company had accounts payable and accrued liabilities of \$1,601,000, and a negative working capital of \$9,846,000. 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 4) negotiate extended terms on current debt and 5) 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 expired 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 \$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, net accumulated depreciation of \$201,730	653,567
Patent, net accumulated amortization of \$2,290	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 nine months ended September 30, 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. Inventories

Inventories at September 30, 2013 and December 31, 2012 consisted of the following (in thousands):

	September 30, 2013	December 31, 2012
Finished systems	\$ 81	\$ 310
Raw materials and service parts	1,012	698
Work in progress	-	-
	1,093	1,008
Less: Reserve for obsolete inventory	(552 )	(457 )
	\$ 541	\$ 551

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 September 30, 2013 and December 31, 2012.

## 6. Property and Equipment

Property and equipment at September 30, 2013 and December 31, 2012 consisted of the following (in thousands):

	September 30, 2013	December 31, 2012
Buildings	\$ 500	\$ 500
Furniture and fixtures	88	75
Leasehold improvements	72	72
Computer equipment	62	60
Research equipment	667	667
Machinery and equipment	158	142
	1,547	1,516
Less: Accumulated depreciation	(466 )	(346 )
	\$ 1,081	\$ 1,170

**7. Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities at September 30, 2013 and December 31, 2012 consisted of the following (in thousands):

	September 30, 2013	December 31, 2012
Trade accounts payable	\$ 1,095	\$ 1,127
Accrued royalties	87	87
Accrued interest	246	154
Sales taxes payable	87	78
Accrued compensation	60	80
Other accrued expenses	26	108
<b>Total</b>	<b>\$ 1,601</b>	<b>\$ 1,634</b>

**8. 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 September 30, 2013 and December 31, 2012 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 December 31, 2012 were current deposits of approximately \$77,000.

**9. 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 and nine months ended September 30, 2013 and 2012, 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		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
<b>Numerator</b>				
Basic and diluted loss	\$(1,390 )	\$(1,568 )	\$(3,677 )	\$(5,765 )
<b>Denominator</b>				
Basic and diluted earnings per share - weighted average shares outstanding	1,452,548	1,360,107	1,452,303	1,202,861
Basic and diluted loss per common share	\$(0.00 )	\$(0.00 )	\$(0.00 )	\$(0.00 )

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

	September 30, 2013	September 30, 2012
Convertible Series A preferred stock	441	441
Convertible Series B preferred stock	305,648	305,648
Convertible Series G preferred stock	-	100
Convertible Series S preferred stock	1,000,000	1,000,000
Convertible Series H preferred stock	223,214	-
Stock warrants	237,350	221,350
Convertible debt	1,470,724	635,837
Common stock options	187,600	170,600
Series B preferred stock options	250,000	250,000

## 10. Convertible Debentures

*Convertible Debentures as of September 30, 2013*

During the nine months ended September 30, 2013, the Company recognized \$1,349,000 of interest expense on the Convertible Debentures related to the accretion of debt discount.

	September
	30, 2013
Convertible debentures	\$ 3,360
Debt discount	(449 )
Net convertible debentures	\$ 2,911

## 11. Notes Payable

On January 17, 2012, the Company assumed from MIT a note payable with Los Alamos National Bank (“LANB”) in the amount of \$700,000. On February 10, 2012, MIT refinanced with LANB the principal and accrued interest of this note payable with a promissory note 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 September 30, 2013. The promissory note is guaranteed by the Company and secured by all assets of the Company. Total interest paid on the promissory note was \$28,000 during the nine months ended September 30, 2013. The note’s outstanding amount was \$573,000 at September 30, 2013.

During the nine months ended September 30, 2013, the Company received \$2,185,000 in short term notes from their CEO and CFO to help fund operations. The notes are non-interest bearing. On April 11, 2013, \$750,000 of the notes/advances were converted to preferred shares (see note 15). The total of outstanding notes at September 30, 2013 are \$1,435,000.

Future maturities of the notes payable are as follows:

Debt maturities as of	September 30,
2014	\$ 1,557,000
2015	122,000
2016	122,000
2017	122,000
2018 and thereafter	85,000
Total	2,008,000
Less: current portion	(1,557,000 )
Note payable – noncurrent portion	\$ 451,000

## 12. Notes Payable – Capital Lease

The Company has entered into a capital leases for equipment at interest rates of 7.25%, payable through 2018. The assets and liabilities under the capital leases are recorded at the present value of the minimum lease payments and are depreciated over their estimated useful lives. The gross amount of assets held under capital leases for the nine months September 30, 2013 and December 31, 2012 was \$16,300 and \$0, respectively, with accumulated depreciation of \$780 and \$0, respectively. Depreciation expense for this equipment for the nine months ended September 30, 2013 and December 31, 2012 was \$780 and \$0, respectively.

Future minimum lease payments and the present value of the payments are as follows:

Debt maturities as of	September 30,
2014	\$4,000
2015	4,000
2016	4,000
2017	4,000
2018 and thereafter	3,000
	19,000
Less: amounts representing interest	(3,000 )
Present value	16,000
Less: current portion	(3,000 )



Note payable Capital Lease – noncurrent portion \$ 13,000

### **13. Stockholders' Deficit**

On April 12, 2013, the Company issued 621,000 shares of common stock for consulting services. On the date of the issuance, the common stock had a fair market value of \$0.008 per share. The Company recorded consulting fee expense of \$5,000 for the issuance of the shares.

On April 11, 2013, the Company accepted subscriptions from Patrick G. Rooney, its Chairman and Chief Executive Officer, and Corey N. Conn, its Chief Financial Officer and converted certain advances (see note 17) in the amounts of \$500,000 and \$250,000 respectively for an aggregate investment of \$750,000. In consideration of these subscriptions, the Company issued 7,500,000 shares of its newly created Series H Junior Convertible Preferred Stock, par value \$0.01 per share (the "Series H Preferred Stock"). The Series H Preferred Stock ranks junior to dividends and distributions of the Company's assets upon liquidation to all previously-issued shares of the Company and is not entitled to receive interest or dividends. The Series H Preferred Stock is convertible into shares of the Company's Common Stock at a rate equal to the number of shares of Series H Preferred Stock being converted multiplied by the Original Issuance Price of \$0.10 and divided by seventy percent (70%) of the daily weighted volume average price for the three trading days prior to conversion. The Series H Preferred Stock shall be entitled to two hundred (200) votes per share of Series H Preferred Stock on all matters which holders of Common Stock are entitled to vote.

In May 2013 the Board of Directors, subject to the approval of the shareholders of the Company, authorized an amendment to the Company's Certificate of Incorporation in order to effect a reverse split of the Company's common stock in a ratio of 1 for 100 (the "Reverse Split"), reduce the number of authorized shares of capital stock from 3,020,000,000 to 520,000,000 of which 500,000,000 shares will be common stock and 20,000,000 shares will be preferred stock, each par value \$0.0001 per share and convert the Company to a Delaware corporation.

### **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.

For options issued during 2012, fifty (50) percent of the options vested immediately on the grant date and the remaining fifty (50) percent vested on January 17, 2013. The company recognized compensation expense of \$88,000 during the first quarter of 2013 and recognized \$1,066,000 of expense in 2012.

## **15. Related Party Transactions**

### **2013**

On January 31, 2013, the Company accepted a non-interest bearing \$250,000 advance from its CEO. At the time, the Company issued no shares or warrants in connection with this transaction.

On February 27, 2013, the Company accepted a non-interest bearing \$250,000 advance from its CFO. At the time, the Company issued no shares or warrants in connection with this transaction.

On March 25, 2013, the Company accepted a non-interest bearing \$100,000 advance from its CEO. At the time, the Company issued no shares or warrants in connection with this transaction.

During June 2013, the Company accepted a non-interest bearing \$185,000 advance from its CEO. At the time, the Company issued no shares or warrants in connection with this transaction.

On April 4, 2013, the Company accepted a non-interest bearing \$150,000 advance from its CFO. At the time, the Company issued no shares or warrants in connection with this transaction.

On April 11, 2013, the Company converted certain advances from its CEO and CFO in the amounts of \$ 500,000 and \$ 250,000, respectively, into Series H preferred shares.

On May 22, 2013, the Company accepted a non-interest bearing \$150,000 advance from its CFO. At the time, the Company issued no shares or warrants in connection with this transaction.

On June 21, 2013, the Company accepted a non-interest bearing \$100,000 advance from its CFO. At the time, the Company issued no shares or warrants in connection with this transaction.

On August 16, 2013, the Company accepted a non-interest bearing \$250,000 advance from its CFO. At the time, the Company issued no shares or warrants in connection with this transaction.

On August 26, 2013, the Company accepted a non-interest bearing \$250,000 advance from its CEO. At the time, the Company issued no shares or warrants in connection with this transaction.

## **2012**

On January 12, 2012, the Company acquired a building in Westmont, Illinois, which the Company previously leased from its Chief Executive Officer 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 included 35,000,000 warrants. During the nine months ended September 30, 2013, the Company expensed \$77,000 of deferred rent related to the lease of the building from a related party.

## **16. Commitments**

### *Lease Agreements*

On April 19, 2010, the Company entered into an operating lease agreement with a third party for warehousing and office space in Niagara, New York. The lease expires in May 2014, with an option to renew for an additional three years. Monthly rent is \$1,800. The Company is currently negotiating and extension.

On July 7, 2011, the Company entered into an operating lease with a third party for space for medical device assembly and warehousing at a building in Fishers, Indiana. The Company is required to make payments of \$5,083 each month from December 1, 2011 through November 13, 2013, and \$5,287 from December 1, 2013 through November 30, 2016. The amount of leased space at this location is approximately 9,761 square feet.

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 month to month.

## **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		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Total Sales:				
Medical equipment	\$ 351	\$ 370	\$ 1,154	\$ 2,423
Radiopharmaceuticals	-	-	-	-
Total sales	\$ 351	\$ 370	\$ 1,154	\$ 2,423
Operating loss:				
Medical equipment	\$(541)	\$(768)	\$(1,619)	\$(3,100)
Radiopharmaceuticals	(195)	(35)	(543)	(626)
Unallocated	-	-	-	(20)
Total operating loss	\$(736)	\$(803)	\$(2,162)	\$(3,746)

September 30, 2013    December 31, 2012

Total Assets:		
Medical equipment	\$ 1,596	\$ 1,739
Radiopharmaceuticals	882	945
Unallocated	-	1
Total assets	\$ 2,478	\$ 2,685

## 18. Subsequent Events

Management performed an evaluation of the Company's activity through the date these financial statements were issued to determine if any subsequent was required to be reported. Management of the Company determined the following subsequent was required to be reported:

On November 7, 2013, Patrick G. Rooney, the Company's Chairman and Chief Executive Officer converted previously made advances in the amount of \$250,000 into 2,500,000 shares of Series H Junior Convertible Preferred Stock.

## **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") a nuclear medicine healthcare company specializing in the field of cardiac Positron Emission Tomography (PET) imaging - the gold standard diagnostic test in nuclear cardiology.

Positron's products and services enable healthcare providers to more accurately diagnose disease and improve patient outcomes, while practicing cost effective medicine. Positron is the only company that intends to provide an economical, end-to-end solution for PET myocardial perfusion imaging through complementary product integration of PET imaging systems, radiopharmaceuticals, and radioisotopes.

The Company believes its unique proprietary products, market position and vertically integrated strategy will lead to accelerated adoption and growth of the cardiac PET modality in the U.S. and emerging markets. Through leadership within our field, Positron intends to gain a dominant market position with strong earnings potential, ultimately becoming a sustained, long-term value creator for industry participants and our shareholders.

### **Our Products and Key Components**

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

### **PET Imaging Systems: Support and Service**

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 has further advanced its product portfolio with the addition of Coronary Flow Reserve (CFR) software. The University of Texas Health Science Center at Houston has received FDA approval for the CFR quantification software, to be used with Positron’s Attrius PET scanner. Positron is licensed to distribute and support this software, a clear differentiator in patient diagnosis.

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.



## **Radiopharmaceuticals: Manufacturing, Processing & Distribution**

Positron has negotiated a strategic alliance with Jubilant DraxImage Inc. (JDI), an Sr-82/Rb-82 generator manufacturer, whose generator and related infusion cart are in the final stages of the FDA's approval process. Upon FDA approval, JDI and Positron will market and distribute the first and only alternative to Bracco's Cardiogen-82 generator, which had multiple recalls during the last two years. Positron will supply JDI with Sr-82 for the generator production. Positron intends to couple the generator with the Attriis sales and utilize Positron's current nuclear cardiology network. Initial efforts will be focused on North America. This product is a key element of Positron's strategy to vertically integrate the production and delivery of a complete cardiac imaging solution: isotope (Sr-82), generator (Rb-82), and imaging system (Attriis®).

PosiRx® is a radiopharmaceutical system that automates the elution, preparation and dispensing processes for radiopharmaceutical agents used in molecular imaging. It was created to simplify and control the procedures associated with compounding radiopharmaceuticals. PosiRx® integrates features that increase productivity while decreasing exposure and costs. Additionally, the PosiRx® assists in compliance with all current USP-797 and ALARA exposure control requirements for the production of unit dose radiopharmaceuticals.

PosiRx® is the first system of its kind to offer a complete and comprehensive automated solution, creating a more efficient and economical alternative to the current pharmacy per dose model. PosiRx® is targeted for clinics and hospitals with average to high SPECT imaging and pharmaceutical compounding volumes, in the U.S. and abroad. With PosiRx®, Positron intends to exploit possibilities existing in the SPECT imaging and pharmaceutical markets for both cardiology and oncology.

## **Radioisotopes: Production & Distribution**

Positron, through MIT, has registered its Drug Master File (DMF) for API grade Sr-82 with the FDA. This marks Positron's entrance into the radioisotope market with a high demand product as a precursor for PET radiopharmaceuticals. Positron is the only commercial resource in the U.S. that possesses the practical experience and knowledge in all stages of Sr-82 production and spent generator lifecycle management. Currently, Positron produces API grade strontium-82 from target material received from its foreign collaborators.

## **The Company**

Positron, a pioneer in cardiac PET, is well branded in the field of nuclear cardiology. Founded in 1983, Positron has gained significant traction in the industry based on its imaging technology and strong commitment towards advancing cardiac care. Originally a research & development company, Positron's business strategy has evolved and grown over the past several years. Positron has expanded from a medical imaging device manufacturer to a nuclear healthcare company integrating the key components of the cardiac PET supply chain to provide an end-to-end solution for the market. Led by an experienced management team, Positron intends to become a true business enterprise with strong recurring revenue generating business model scalable to the global marketplace.

The Company believes that our unique products, market position and vertical integration strategy will stabilize and secure the supply chain, significantly reducing costs and industry uncertainties, a substantial advantage, leading to further adoption and growth of the cardiac PET modality.

Positron, through the acquisition of Manhattan Isotope Technology (MIT) in 2012, is the only commercial resource in the U.S. with practical knowledge and experience in all stages of Sr-82 production and generator lifecycle management. Positron seeks to secure both short and long-term supply of radioisotopes used in cardiac PET imaging. Currently, the Company is producing Active Pharmaceutical Ingredient (API) grade Sr-82 at its Lubbock, Texas, facility from strontium received from foreign irradiated source suppliers. The Company intends to further supplement strontium resources by pursuing additional supply agreements with all domestic and foreign irradiated source suppliers, requesting increases in production schedules from third party suppliers, and by recycling expired generators. Securing and delivering a reliable supply of radioisotopes should also increase the demand for Positron's complementary products.

Positron's business strategy is to gain a dominant market share through the vertical integration of such key components: imaging technologies, clinical services, radiopharmaceutical and radioisotope processing, production, and distribution. Positron creates market efficiencies by integrating these critical components. Positron intends to maximize market share by offering cost-effective, value added solutions to end-users that meet the current and future nuclear cardiology market demands.

## **PET vs. SPECT**

There are two main imaging modalities utilized in nuclear cardiology: Single Photon Emission Computed Tomography, or SPECT, and Positron Emission Tomography, or PET.

In myocardial perfusion imaging, PET has been proven to be superior in sensitivity and specificity when compared to SPECT, the more commonly utilized modality. Cardiac PET scans, with Rb-82 Chloride or Nitrogen-13 Ammonia (N-13), result in a lower patient radiation exposure and is capable of performing superior quantitative measurements such as coronary flow reserve. Cardiac PET imaging has been shown to provide a 50% reduction in invasive coronary arteriography and coronary artery bypass grafting, leading to a 30% costs savings and improved clinical outcomes, when compared to SPECT (M.E. Merhige, M.D., et al. Journal Nuclear Medicine 2007; 48: 1069-1076).

The cardiac PET equipment market is much smaller than SPECT, but has seen significant annual growth of 30% during the last decade. According to Bracco Diagnostics, there were approximately 160 dedicated cardiac PET & PET/CT scanners performing nuclear cardiology within the U.S. in 2010, a tenfold increase since 2006.

## **Barriers to entry**

For many years, one of the major constraints for adoption of this modality had been the high cost of PET and PET/CT scanners. Many practices and hospitals could not justify the cost of a new system for cardiac studies. In 2010, Positron received FDA clearance to market and distribute its dedicated PET system, which is optimized for nuclear cardiology. The Attrius is the only new, cost effective, dedicated PET system available on the market. Other system manufacturers (GE, Philips, Siemens) offer PET/CT cameras, which have a 200%-300% higher purchase price; PET/CT systems also possess attributes that may affect the accuracy of a perfusion study, leading to false positives.

Another more recent issue that has slowed the growth of nuclear cardiology is the shortage of the key drugs utilized in both SPECT (Mo-99/Tc-99m) and PET imaging (Sr-82/Rb-82).

The Sr-82 isotope decays to produce the Rb-82 tracer utilized in cardiac PET studies. Rb-82 is the most commonly used cardiac PET tracer in the United States. The FDA approved Rb-82 in 1989 for use in the detection of coronary artery disease and the Health Care Financing Administration approved reimbursement for Rb-82, PET MPI, in 1995 as a first line test in symptomatic patients. Rubidium is uniformly available through generator production in the U.S. and is used in conjunction with an automatic infusion system.

The recent explosive growth of cardiac PET imaging has driven a significant increase in the use of Sr-82/Rb-82 generators which has begun to outpace supply. Until recently, the U.S. Department of Energy had been the only entity in the United States capable of providing this material. In August of 2012, MIT submitted its DMF with the FDA and has begun production of API grade strontium-82.

Due to the growing demand and limited supply, the industry suffered a Sr-82 shortage in January 2011, effecting supply of Rb-82 generators. The same year Bracco Diagnostics Inc., the sole market supplier of the Rb-82 generator, underwent a voluntary recall of generators, further stunting industry sales and growth. Since then, Bracco Diagnostics has been supporting only existing clients and there was no availability of Rb-82 generators for new customers.

Positron is acutely focused on production of Sr-82. Positron possesses certain resources and technical advantages, unique to MIT, which will increase current and future strontium supply. Positron anticipates the cardiac PET market to rebound in Q1 2014, beginning with Bracco's ability to now accept new generator customers, and with accelerated expansion upon market entry of the DraxImage's generator, once FDA approved.

## **Our Market**

According to the U.S. Department of Health and Human Services, there are more than 22,000 cardiovascular disease specialists in the U.S., and their number will increase to 31,000 by 2020. This is the target market for our products and services, as well as hospitals in the United States that performs or could perform nuclear cardiac procedures and want to automate the delivery of radiopharmaceuticals. By adding complimentary products, we are able to offer customers value added solutions which include low cost molecular imaging devices, maintenance service, disease specific software, radiopharmaceutical unit doses drawing devices, and, potentially, radiopharmaceuticals agents for Cardiac Nuclear Medicine.

Cardiac Nuclear medicine helps in the diagnosis, management and prevention of cardiovascular disease (CVD) in patients. Radiopharmaceuticals are injected into a patient to provide the most accurate, non-invasive test for identifying narrowed coronary arteries, mild cholesterol build-up or diffuse coronary vascular disease, conditions that are responsible for almost all heart attacks.

Cardiovascular disease is the leading cause of death in the United States and constitutes 17% of overall national health expenditures (Forecasting the Future of Cardiovascular Disease in the United States, American Heart Association, 2011). Direct CVD costs are projected to increase from \$273 Billion, in 2010, to \$818 Billion, in 2030; with indirect costs, due to lost productivity, expected to rise from \$172 Billion to \$276 Billion by 2030.

### **Market Potential**

The cardiac PET industry has an indisputable need for a stable, efficient and economical environment. Through Positron's leadership and vision to integrate each key segment of the cardiac PET supply chain, the Company will stimulate growth and increase capacity to meet the needs of the global cardiac PET market. Positron intends to become the premier product, services, and solutions provider in the nuclear cardiology industry.

As the cardiac PET industry experienced another challenging year the Company continued to aggressively pursue its strategy toward aggregating and integrating the key components critical in securing the cardiac value chain. Positron is dedicated to lowering the barriers that have been constricting, or could later constrict, the progress of medical advancements in cardiac PET. Through our efforts to supplement the supply of key radioisotopes and our ability to offer innovative products and services, management has methodically positioned Positron to become the industry's only end-to-end solutions provider. PET is the future of nuclear cardiology.

We believe that Positron is the only company with the critical components to vertically integrate the fragmented "single source supplier environment" that exists in the cardiac PET market today and that these initiatives are intended to drive the Company towards consistent profitability and cash flow.

### **Results of Operations**

#### **Comparison of the Results of Operations for the Three Months ended September 30, 2013 and 2012**

The Company experienced a net loss of \$1,389,000 for the three months ended September 30, 2013 compared to a net loss of \$1,568,000 for the three months ended September 30, 2012. The increase in the loss in the current nine month period as compared to the same period last year is attributed primarily to a increase in general and administrative expenses due to stock-based compensation , which was partially offset by a reduction in derivative gains.

**Revenues** - Revenues for the three months ended September 30, 2013 were \$351,000 as compared to \$370,000 for the three months ended September 30, 2012. There were no systems sold during the three months ended September 30, 2013 and 2012. Service and parts revenue was \$351,000 and \$370,000 for the three months ended September 30, 2013 and 2012, respectively. Sales of PET systems during the three months ended September 30, 2013 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 September 30, 2013 and 2012 was \$121,000 and \$106,000, respectively. Costs were lower during the three months ended September 30, 2013 due to the majority of revenues being service income.

**Operating Expenses** - Operating expenses for the three months ended September 30, 2013 were \$857,000 compared to \$909,000 for the three months ended September 30, 2012.

The Company recorded \$133,000 in research and development costs during the three months ended September 30, 2013, compared to \$186,000 for the three months ended September 30, 2012. Research and development costs for the three months ended September 30, 2013 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 September 30, 2013 and 2012 were \$114,000 and \$59,000, respectively and were lower in 2012 due to the Company's efforts to limit expenditures. Sales and marketing expenses for the three months ended September 30, 2013 and 2012 are mostly comprised of salaries and consulting fees.

General and administrative expenses during the three months ended September 30, 2013 were \$610,000 as compared to \$664,000 for the three months ended September 30, 2012.

**Other Income (Expenses)** - Interest expense was \$492,000 for the three months ended September 30, 2013 and includes the \$449,000 for the accretion of the convertible debentures discount and \$43,000 for interest payable on the debt. Interest expense was \$324,000 for the three months ended September 30, 2012 and includes the \$286,000 for the accretion of the convertible debentures discount and \$38,000 for interest payable on the debt.

During the three months ended September 30, 2013 and 2012 the Company recorded derivate losses of \$162,000 and \$279,000, respectively, in connection with the embedded conversion derivative liabilities related to convertible debt.

### **Comparison of the Results of Operations for the Nine Months ended September 30, 2013 and 2012**

The Company experienced a net loss of \$3,677,000 for the nine months ended September 30, 2013 compared to a net loss of \$5,765,000 for the nine months ended September 30, 2012. The increase in the loss in the current nine month period as compared to the same period last year is attributed primarily to a increase in general and administrative expenses due to stock-based compensation and changes in derivative gains/losses.

**Revenues** - Revenues for the nine months ended September 30, 2013 were \$1,154,000 as compared to \$2,423,000 for the nine months ended September 30, 2012. Systems sold during the nine months ended September 30, 2013 were \$0 while system sales for the same period in 2012 were \$1,177,000. Service and parts revenue was \$1,154,000 and \$1,246,000 for the nine months ended September 30, 2013 and 2012, respectively. Sales of PET systems during the nine months ended September 30, 2013 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 nine months ended September 30, 2013 and 2012 was \$260,000 and \$796,000, respectively. Costs were lower during the nine months ended September 30, 2013 due to the majority of revenues being service income.

**Operating Expenses** - Operating expenses for the nine months ended September 30, 2013 were \$2,422,000 compared to \$4,542,000 for the nine months ended September 30, 2012.

The Company recorded \$468,000 in research and development costs during the nine months ended September 30, 2013, compared to \$755,000 for the nine months ended September 30, 2012. Research and development costs for the nine months ended September 30, 2013 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 expenses for the nine months ended September 30, 2013 and 2012 were \$332,000 and \$202,000, respectively and were lower in 2012 due to the Company's efforts to limit expenditures. Sales and marketing expenses for the nine months ended September 30, 2013 and 2012 are mostly comprised of salaries and consulting fees.

General and administrative expenses during the nine months ended September 30, 2013 were \$1,622,000 as compared to \$3,585,000 for the nine months ended September 30, 2012. During the nine months ended September 30, 2012, the Company recorded \$1,494,000 in stock based compensation, compared to \$88,000 in 2013.



**Other Income (Expenses)** - Interest expense was \$1,476,000 for the nine months ended September 30, 2013 and includes the \$1,349,000 for the accretion of the convertible debentures discount and \$127,000 for interest payable on the debt. Interest expense was \$1,116,000 for the nine months ended September 30, 2012 and includes the \$1,024,000 for the accretion of the convertible debentures discount and \$92,000 for interest payable on the debt.

During the nine months ended September 30, 2013 and 2012, the Company also recorded derivate losses of \$39,000 and \$779,000, respectively, in connection with the embedded conversion derivative liabilities related to convertible debt.

### **Liquidity and Capital Resources**

At September 30, 2013, the Company had current assets of \$986,000 and current liabilities of \$10,832,000 compared to December 31, 2012 when the Company had current assets of \$1,104,000 and current liabilities of \$8,110,000. Total assets at September 30, 2013 were \$2,478,000 compared to \$2,685,000 at December 31, 2012. Total liabilities were \$11,501,000 and \$8,875,000 at September 30, 2013 and December 31, 2012, respectively.

Cash and cash equivalents at September 30, 2013 were \$197,000 compared to \$243,000 at December 31, 2012. Accounts receivable was \$213,000 at September 30, 2013 compared to \$273,000 at December 31, 2012.

Current liabilities include accounts payable and accrued expenses of \$1,601,000 at September 30, 2013.

Net cash used in operating activities was \$2,099,000 and \$1,725,000 for the nine months ended September 30, 2013 and 2012, respectively

Net cash used in investing activities was \$16,000 and \$70,000 for the nine months ended September 30, 2013 and 2012, respectively.

Net cash provided by financing activities was \$2,069,000 and \$2,852,000 for the nine months ended September 30, 2013 and 2012, respectively.

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 from its officers and directors 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 or that if its able to do so, that such financing will be on terms favorable to the Company.

The report of the Company's independent public accountants, which accompanied the financial statements for the year ended December 31, 2012, was qualified with respect to the ability of the Company to continue as a going concern. 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 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, 2012, the Company's chief executive and financial officer has determined that there is a material weakness in our disclosure controls and procedures.

The material weakness in our disclosure control procedures are is 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**

There have not been any changes in the Company's internal control over financial reporting during the quarter ended September 30, 2013 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**

On June 8, 2012, the owner of the radiopharmaceutical manufacturing facility the Company formerly leased in Crown Point, Indiana commenced an action to recover the use of the premises and the remaining rent due under the lease. On November 14, 2012, the owner was awarded a judgment against the Company in the amount of \$85,525.98 plus interest at the rate of 8%. The Company and the owner agreed to monthly payments in the minimum amount of \$5,000 until the judgment is paid in its entirety.

From time to time, we are a party to legal proceedings arising in the ordinary course of business. We are not currently a party to any other legal proceedings that we believe could have a material adverse effect on financial condition or results of operations.

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

None.

### **ITEM 3 – DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4 – MINE SAFETY DISCLOSURES**

Not Applicable.

### **ITEM 5 – OTHER INFORMATION**

On November 7, 2013, Patrick G. Rooney, the Company's Chairman and Chief Executive Officer, converted previously made advances in the amount of \$250,000 into 2,500,000 shares of Series H Junior Convertible Preferred Stock (the "Series H Preferred Stock"). The Series H Preferred Stock is convertible into shares of the Company's common stock at a rate equal to the number of shares of Series H Preferred Stock being converted multiplied by \$0.10 and divided by 70% of the daily weighted volume average price for the three trading days prior to conversion. The Series H Preferred Stock is entitled to two hundred votes per share of Series H Preferred Stock on all matters which holders of common stock are entitled to vote.

On November 12, 2013, the Company appointed Joseph G. Oliverio its Chief Technical Officer and Executive Director of PET and Director as the Company's President, effective immediately. Mr. Oliverio will continue in his other capacities with the Company.

Also effective November 12, 2013, Charles S. Conroy resigned as the Company's Chief Operating Officer and Executive Director of Sales and Marketing. Mr. Conroy will continue with the Company in a Business Development capacity.

## ITEM 6 – EXHIBITS

### 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.

**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: November 14, 2013 /s/ Patrick G. Rooney  
Patrick G. Rooney  
Chief Executive Officer,, Chairman of the Board  
(principal executive officer)

Date: November 14, 2013 /s/ Corey N. Conn  
Corey N. Conn  
Chief Financial Officer  
(principal accounting officer)