POSITRON CORP
Form 10-Q
August 14, 2013

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

FORM 10-Q

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

For the quarterly period ended June 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 Organization)	(IRS Employer Identification No.)
530 Oakmont Lane, Westmont, Illinois 60559	**(866) 613-7587**
Address of Principal Executive Offices)	Registrant's Telephone Number, Including Area Code

Indicate by check mark whether the registrant (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 definitions of "large accelerated filer, accelerated filer and smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer¨	Accelerated filer¨
Non-accelerated filer¨	Smaller reporting company x

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

Number of shares outstanding of common stock, par value $0.01 per share outstanding as of August 14, 2013: 1,452,548,262

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PART 1 FINANCIAL INFORMATION

ITEM 1. Financial Statements

POSITRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	June 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 370	$ 243
Accounts receivable, less allowance for doubtful accounts of $50	341	273
Inventories, less reserve of $522 and $457	497	551
Prepaid expenses	35	37
Total current assets	1,243	1,104
Property and equipment, less accumulated depreciation of $426 and $346	1,108	1,170
Intangible assets, less accumulated amortization of $3 and $0	357	358
Other assets	54	53
Total assets	$ 2,762	$ 2,685
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable, trade and accrued liabilities	$ 1,596	$ 1,634
Customer deposits	704	746
Unearned revenue	27	58
Notes payable current portion	1,057	129
Capital lease current portion	2	-
Convertible debentures, less debt discount of $899 and $1,798	2,461	1,562
Embedded conversion derivative liabilities	3,858	3,981
Total current liabilities	9,705	8,110
Notes payable noncurrent portion	473	560
Capital lease noncurrent portion	14	-
Contingent earnout payable	205	205
Total liabilities	10,397	8,875
Stockholders' deficit:		
Series A preferred stock: $1.00 par value; 8% cumulative, convertible, redeemable; 7,900,000 shares authorized; 440,932 shares issued and outstanding.	441	441
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	100	100

shares authorized; 100,000 shares issued and outstanding		
Series H preferred stock: $0.01 par value; convertible, redeemable;		
10,000,000 shares	75	-
authorized; 7,500,000 shares issued and outstanding in 2013		
Common stock: $0.01 par value; 3,000,000,000 shares authorized;		
1,452,548,262	14,209	14,203
and 1,451,927,262 shares issued and outstanding		
Additional paid-in capital	93,564	92,802
Other comprehensive income	-	(143)
Accumulated deficit	(118,759)	(116,328)
Treasury stock: 60,156 shares at cost	(15)	(15)
Total stockholders' deficit	(7,635)	(6,190)
Total liabilities and stockholders' deficit	$ 2,762	$ 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		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Sales:	$ 432	$ 1,224	$ 803	$ 2,053
Costs of sales:	418	893	664	1,363
Gross profit	14	331	139	690
Operating expenses:				
General and administrative	446	1,156	1,012	2,921
Research and development	107	256	335	569
Selling and marketing	119	60	218	143
Total operating expenses	672	1,472	1,565	3,633
Loss from operations	(658)	(1,141)	(1,426)	(2,943)
Other income (expense)				
Interest expense	(491)	(506)	(984)	(793)
Derivative gain (loss)	61	376	123	(500)
Other income	-	54	-	57
Loss on disposal of property and equipment	-	(18)	-	(18)
Total other income (expense)	(430)	(94)	(861)	(1,254)
Loss before income taxes	(1,088)	(1,235)	(2,287)	(4,197)
Income taxes	-	-	-	-
Net loss and comprehensive loss	$ (1,088)	$ (1,235)	$ (2,287)	$ (4,197)
Basic and diluted loss per common share	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Basic and diluted weighted average shares outstanding	1,452,425	1,256,915	1,452,177	1,123,374

See accompanying notes to consolidated financial statements

POSITRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30, 2013	June 30, 2012
Cash flows from operating activities:		
Net loss	$ (2,287)	$ (4,197)
Adjustment to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	80	107
Loss on disposal of property and equipment	-	18
Stock based compensation	88	1,288
Derivative losses	(123)	500
Common stock issued for services	5	142
Deferred rent	-	77
Accretion of debt discount	899	737
Changes in operating assets and liabilities:		
Accounts receivable	(68)	391
Inventories	54	168
Prepaid expenses and other assets	1	589
Accounts payable, trade and accrued liabilities	(38)	326
Customer deposits	(42)	(656)
Common stock payable	-	20
Unearned revenue	(31)	(221)
Net cash used in operating activities	(1,462)	(711)
Cash flows from investing activities:		
Purchase of property and equipment	(18)	(71)
Purchase of MIT, net of cash acquired	-	1
Net cash used in investing activities	(18)	(70)
Cash flows from financing activities:		
Borrowings under note payable	-	708
Borrowings under capital lease	16	-
Payments on note payable	(94)	(719)
Noninterest bearing advances	935	330
Payment of noninterest bearing advances	-	(240)
Series H preferred stock issued	750	-
Common stock issued	-	514
Proceeds from convertible debt	-	200
Net cash provided by financing activities	1,607	793
Net increase in cash and cash equivalents	127	12
Cash and cash equivalents, beginning of period	243	1

Cash and cash equivalents, end of period	$	370	$	13
Supplemental cash flow information:				
Interest paid	$	-	$	17
Income taxes paid	$	-	$	-
Non-cash disclosures				
Conversion of Series A preferred stock to common stock	$	-	$	17
Conversion of Series B preferred stock to common stock	$	-	$	3,584
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	$	-	$	450
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

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 period ending June 30, 2013. 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 June 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 six months ended June 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 June 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 six months ended June 30, 2013 and 2012 was $0 and $279,000, respectively. The debt discount attributable to the embedded conversion derivative liability during the six months ended June 30, 2013 and 2012 was $0 and $321,000, respectively. The Company also recorded the accretion of debt discount of $899,000 and $737,000 during the six months ended June 30, 2013 and 2012, respectively. The total debt unaccreted discount at June 30, 2013 was $899,000, 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 June 30, 2013 (in thousands):

	June 30, 2013	Level 1	Level 2	Level 3
Embedded conversion derivative liability	$ 3,858	$ -	$ -	$ 3,858

The following table reconciles, for the six months ended June 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
Gain on fair value adjustments to embedded conversion derivative liability	(123)
Balance of embedded conversion derivative liability at June 30, 2013	$3,858

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 $118,759,000 and a stockholders' deficit of $7,635,000 at June 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, radipharmaceuticals 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 $370,000 at June 30, 2013. At the same date, the Company had accounts payable and accrued liabilities of $1,596,000, and a negative working capital of $8,462,000.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 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 $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 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.

7. Inventories

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

	June 30, 2013	December 31, 2012
Finished systems	$ 81	$ 310
Raw materials and service parts	938	698
Work in progress	-	-
	1,019	1,008
Less: Reserve for obsolete inventory	(522)	(457)
	$ 497	$ 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 June 30, 2013 and December 31, 2012.

8. Property and Equipment

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

	June 30, 2013	December 31, 2012
Buildings	$ 500	$ 500
Furniture and fixtures	75	75
Leasehold improvements	72	72
Computer equipment	62	60
Research equipment	667	667
Machinery and equipment	158	142
	1,534	1,516
Less: Accumulated depreciation	(426)	(346)
	$ 1,108	$ 1,170

9. Accounts Payable and Accrued Liabilities

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

	June 30, 2013	December 31, 2012
Trade accounts payable	$ 1,081	$ 1,127
Accrued royalties	87	87
Accrued interest	213	154
Sales taxes payable	85	78
Accrued compensation	91	80
Other accrued expenses	39	108
Total	$ 1,596	$ 1,634

10. 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 June 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 June 30, 2013and December 31, 2012 were current deposits of approximately $35,000 and $77,000, respectively.

11. 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 six months ended June 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		Six Months Ended	
	June 30 , 2013	June 30 , 2012	June 30 , 2013	June 30 , 2012
Numerator				
Basic and diluted loss	$ (1,088)	$ (1,235)	$ (2,287)	$ (3,570)
Denominator				
Basic and diluted earnings per share - weighted average shares outstanding	1,452,177	1,256,915	1,452,177	1,123,374
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):

	June 30, 2013	June 30, 2012
Convertible Series A preferred stock	441	441
Convertible Series B preferred stock	305,649	424,532
Convertible Series G preferred stock	-	100
Convertible Series S preferred stock	1,000,000	1,000,000
Convertible Series H preferred stock	142,857	-
Stock warrants	267,350	208,850
Convertible debt	850,115	258,601
Common stock options	190,600	177,600
Series B preferred stock options	250,000	250,000

12. Convertible Debentures

Convertible Debentures as of June 30, 2013

During the six months ended June 30, 2013, the Company recognized $899,000 of interest expense on the Convertible Debentures related to the accretion of debt discount.

	June 30, 2013
Convertible debentures	$ 3,360
Debt discount	(899)
Net convertible debentures	$ (2,461)

13. 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 June 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 $19,000 during the six months ended June 30, 2013. The note's outstanding amount was $595,000 at June 30, 2013.

During the six months ended June 30, 2013, the Company received $935,000 in short term notes and advances from its CEO and CFO to help fund operations. The notes are non-interest bearing and are included in current maturities.

Future maturities of the notes payable are as follows:

Debt maturities as of	June 30,	
2014	$	1,057,000
2015		122,000
2016		122,000
2017		122,000
2018 and thereafter		107,000
Total		1,530,000
Less: current portion		(1,057,000)
Note payable noncurrent portion	$	473,000

14. Notes Payable Capital Lease

The Company has entered into a capital lease for equipment at an 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 six months June 30, 2013 and December 31, 2012 was $16,300 and $0, respectively, with accumulated depreciation of $390 and $0, respectively. Depreciation expense for this equipment for the six months ended June 30, 2013 and December 31, 2012 was $390 and $0, respectively.

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

Debt maturities as of	June 30,	
2014	$	4,000
2015		4,000
2016		4,000
2017		4,000
2018		3,000
		19,000
Less: amounts representing interest		(3,000)
Present value		16,000
Less: current portion		(2,000)
Note payable Capital Lease noncurrent portion	$	14,000

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15. 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.

16. 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 with the remaining fifty (50) percent vesting 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.

17. Related Party Transactions

2013

During the first quarter of 2013, the Company's CEO and CFO provided non-interest bearing advances to the Company in the amounts of $350,000 and $250,000, respectively.

During the second quarter of 2013, the Company's CEO and CFO provided non-interest bearing advances to the Company in the amounts of $835,000 and $250,000, respectively.

On April 11, 2013, the Company converted certain advances form its CEO and CFO in the amounts of $500,000 and $250,000, respectively, into Series H preferred shares (see note 15).

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 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.

18. 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.

19. 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		Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Total Sales:				
Medical equipment	$ 432	$ 1,224	$ 803	$ 2,053
Radiopharmaceuticals	-	-	-	-
Total sales	$ 412	$ 1,224	$ 803	$ 2,053
Operating loss:				
Medical equipment	$ (466)	$ (878)	$ (1,078)	$ (2,332)
Radiopharmaceuticals	(160)	(263)	(348)	(591)
Unallocated	-	-	-	(20)
Total operating loss	$ (626)	$ (1,141)	$ (1,426)	$ (2,943)

	June 30, 2013	December 31, 2012
Total Assets:		
Medical equipment	$ 1,868	$ 1,739
Radiopharmaceuticals	894	945
Unallocated	-	1
Total assets	$ 2,762	$ 2,685

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 specializes in the business of cardiac PET and is the first and only company developing a vertically integrated supply chain solution; combining imaging technology, radiopharmaceuticals and radioisotopes to offer cardiologists the most comprehensive solution in nuclear cardiology. Our products and services enable healthcare providers to more accurately diagnose cardiac disease and improve patient outcomes while practicing cost effective medicine.

Positron is the only company that will provide an economical, end-to-end solution for PET myocardial perfusion imaging. 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. Positron has focused exclusively on supporting the cardiac PET field for more than 30 years and is now facilitating the stabilization, security and growth of the industry. 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), and Sr-82/Rb-82 generator manufacturer, whose generator and related infusion cart are reported to be in the final stages of the FDA's approval process. Upon FDA approval, JDI and Positron will market and distribute what we believe to be the first and only alternative to Bracco's Cardiogen-82 generator, a device 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 Attrius 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 (Attrius®).

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.

In our pursuit of securing isotopes for North American consumption and increasing the global radioisotope supply, Positron plans to build and operate the world's largest commercial high energy/high current cyclotron (70MeV) within the U.S. The proposed facility will 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 Sr-82, that is currently in short supply in the world and is produced in the U.S. only by the Department of Energy ("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.

The cost of the project, including equipment, building, land, working capital and contingencies, is approximately $60 million. Positron executed an agreement with IBA Molecular, of Belgium, to manufacture a 70 MeV cyclotron. The facility may be located in the city of Gary, Indiana. The facility will take approximately 3.5 years to build. The Company expects to begin operations in 2017. Positron has received an offer of $30 Million in economic incentives from the City of Gary, Indiana towards the development of Positron's 70 MeV cyclotron project.

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. There can be no assurance that the Company will be able to raise the funds required to complete the cyclotron project or that if it does so, that such funds will be raised on terms that are favorable to the Company.

Major developments and milestones achieved by Positron Corporation during 2013 include:

Positron and iThemba LABS enters into Radioisotope Supply Agreement
Positron radioisotope processing facility is a FDA registered facility.
Positron continues to secure supply agreements with all available foreign and domestic strontium-82 suppliers.
Positron introduces next generation PosiRx Pharmacy Automation System.
Positron retains investment banking firm Covington Associates to lead financing of 70 MeV cyclotron project.

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 has 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. Positron seeks to secure a long-term North America supply of medical radioisotopes for cardiac PET imaging by building and operating the world's largest commercial high-energy/high-current cyclotron (70MeV) within the U.S. This 70 MeV cyclotron will be at the heart of providing a reliable, dependable, and indigenous supply of radioisotopes, stabilizing and building confidence in the PET market and nuclear medicine community overall. 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.

Over the past five years the explosive growth of cardiac PET imaging has driven a significant increase in the use of Sr-82/Rb-82 generators. The increasing demand for Sr-82 is beginning 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.

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 late 2013, 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.

70 MeV Cyclotron Project

Pursuing a strategy of complementary product integration, through its wholly owned subsidiary, Positron Isotopes Corporation, Positron seeks to build and operate a high-energy cyclotron facility used primarily for the production of medical diagnostic imaging and radiotherapy isotopes. The proposed 70MeV cyclotron is unique and capable of producing isotopes that are not available, or have very limited availability, from other commercial sources in the United States.

The major isotope to be produced is Sr-82, which is currently in short supply worldwide and is produced in the U.S. only by the U.S. Department of Energy (DOE) National Laboratories in Los Alamos, New Mexico and Brookhaven, New York. Sr-82 is the parent isotope used in the production of Rb-82 generators for PET myocardial perfusion imaging. Positron will have an access to a Rb-82 generator through a proprietary relationship with a major manufacturer or its own Rb-82 generator and intends to utilize all Sr-82 produced by the facility to supply its cardiac PET client base. This allows Positron to have a complete, integrated, supply chain. Positron's captive customer base of

Attrius® owners and the existing robust PET users require a constant supply of radiopharmaceuticals manufactured from the Sr-82 radioisotope, giving us a significant advantage against any potential commercial competition.

A key point in determining the competitive landscape of U.S. Sr-82 production is the policy of the DOE to not compete with the private sector. While the DOE produces a majority of Sr-82 in the world, once Sr-82 is reasonably available commercially, the DOE can be compelled to withdraw from the market. Positron intends to couple the cyclotron with facilities for material processing, isotope target manufacturing, radiopharmaceutical manufacturing and equipment manufacturing operations; this facility, which may be located in Gary, Indiana, will also host Positron's corporate headquarters.

With the recent growth of cardiac PET imaging, the supply of isotopes is quickly moving towards capacity within the next one-three years. Annual demand for medical imaging products, produced by a high-energy cyclotron, are currently estimated at over $20 million and is expected to reach $30-35 million over the next few years, with continued growth estimated at 25-30% per year thereafter.

The DOE lists many isotopes for medical treatment or diagnostics that are in short supply, some of which can be produced in a high-energy commercial accelerator. Moving from R&D to clinical trials and then to commercial use, these isotopes will further expand the market. Additionally, using secondary targets, a high-energy cyclotron can also produce low-energy isotopes, in conjunction with, the production of high-energy isotopes, generating additional revenue. Positron Corporation can be a key market maker in all these segments and can enter the market, essentially, without competition. The revenue potential and diversity inherent in this project is considerable.

The cost of the project, including equipment, building, land, working capital and contingencies, is approximately $65 million with itemized costs detailed in the business plan. The facility is expected to be located in the city of Gary, Indiana, concurrent with the relocation of Positron's corporate headquarters and manufacturing facilities. Positron has accepted a proposal from Gary, Indiana for $30 million in economic incentives through the issuance of long-term Economic Development Tax Increment Revenue Bonds ("TIF Bonds") and New Market Tax Credits ("NMTC").

Total amount of funding Positron seeks is $65 million; $30 million in corporate debt financing, $15 million in TIF bonds financing, $10 million in NMTC equity investment (approximate net proceeds) and $10 million in equity financing. The availability of Industrial Revenue Bonds exists, if necessary.

Our Market

According to the U.S. Department of Health and Human Services, there are more than 22,000 cardiovascular diseases 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.

Although the cardiac PET industry experienced its most challenging year ever, it enabled the Company 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 June 31, 2013 and 2012

The Company experienced a net loss of $1,088,000 for the three months ended June 30, 2013 compared to a net loss of $1,235,000 for the three months ended June 30, 2012. The decrease in the loss in the current three month period as compared to the same period last year is attributed primarily to a decrease 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 June 30, 2013 were $432,000 as compared to $1,224,000 for the three months ended June 30, 2012. Systems sold during the three months ended June 30, 2013 were $0 while system sales for the same period in 2012 were $667,000. Service and parts revenue was $432,000 and $557,000 for the three months ended June 30, 2013 and 2012, respectively. Sales of PET systems during the three months ended June 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 June 30, 2013 and 2012 was $14,000 and $331,000, respectively. Costs were lower during the three months ended June 30, 2013 due to the majority of revenues being service income.

Operating Expenses **-** Operating expenses for the three months ended June 30, 2013 were $672,000 compared to $1,472,000 for the three months ended June 30, 2012.

The Company recorded $107,000 in research and development costs during the three months ended June 30, 2013, compared to $256,000 for the three months ended June 30, 2012. Research and development costs for the three months ended June 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 June 30, 2013 and 2012 were $119,000 and $60,000, respectively and were lower in 2012 due to the Company's efforts to limit expenditures. Sales and marketing expenses for the three months ended June 30, 2013 and 2012 are mostly comprised of salaries and consulting fees.

General and administrative expenses during the three months ended June 30, 2013 were $446,000 as compared to $1,156,000 for the three months ended June 30, 2012. During the three months ended June 30, 2012, the Company recorded $222,000 in stock based compensation, compared to $0 in 2013.

***Other Income (Expenses)* -** Interest expense was $491,000 for the three months ended June 30, 2013 and includes the $449,000 for the accretion of the convertible debentures discount and $42,000 for interest payable on the debt. Interest expense was $506,000 for the three months ended June 30, 2012 and includes the $468,000 for the accretion of the convertible debentures discount and $38,000 for interest payable on the debt.

During the three months ended June 30, 2013 and 2012, the Company also recorded derivate gains of $61,000 and $376,000, respectively, in connection with the embedded conversion derivative liabilities related to convertible debt.

Comparison of the Results of Operations for the Six Months ended June 31, 2013 and 2012

The Company experienced a net loss of $2,287,000 for the six months ended June 30, 2013 compared to a net loss of $4,197,000 for the six months ended June 30, 2012. The decrease in the loss in the current six month period as compared to the same period last year is attributed primarily to a decrease in general and administrative expenses due to stock-based compensation and changes in derivative gains/losses.

Revenues - Revenues for the six months ended June 30, 2013 were $803,000 as compared to $2,053,000 for the six months ended June 30, 2012. Systems sold during the six months ended June 30, 2013 were $0 while system sales for the same period in 2012 were $1,177,000. Service and parts revenue was $803,000 and $876,000 for the six months ended June 30, 2013 and 2012, respectively. Sales of PET systems during the six months ended June 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 six months ended June 30, 2013 and 2012 was $139,000 and $690,000, respectively. Costs were lower during the six months ended June 30, 2013 due to the majority of revenues being service income.

Operating Expenses **-** Operating expenses for the six months ended June 30, 2013 were $1,565,000 compared to $3,633,000 for the six months ended June 30, 2012.

The Company recorded $335,000 in research and development costs during the six months ended June 30, 2013, compared to $569,000 for the six months ended June 30, 2012. Research and development costs for the six months ended June 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 six months ended June 30, 2013 and 2012 were $218,000 and $143,000, respectively and were lower in 2012 due to the Company's efforts to limit expenditures. Sales and marketing expenses for the six months ended June 30, 2013 and 2012 are mostly comprised of salaries and consulting fees.

General and administrative expenses during the six months ended June 30, 2013 were $1,012,000 as compared to $2,921,000 for the six months ended June 30, 2012. During the six months ended June 30, 2012, the Company recorded $1,288,000 in stock based compensation, compared to $88,000 in 2013.

Other Income (Expenses)**-** Interest expense was $984,000 for the six months ended June 30, 2013 and includes the $899,000 for the accretion of the convertible debentures discount and $85,000 for interest payable on the debt. Interest expense was $793,000 for the six months ended June 30, 2012 and includes the $737,000 for the accretion of the convertible debentures discount and $56,000 for interest payable on the debt.

During the six months ended June 30, 2013 and 2012, the Company also recorded derivate gains of $123,000 and losses of $500,000, respectively, in connection with the embedded conversion derivative liabilities related to convertible debt.

Liquidity and Capital Resources

At June 30, 2013, the Company had current assets of $1,243,000 and current liabilities of $9,705,000 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 June 30, 2013 were $2,762,000 compared to $2,685,000 at December 31, 2012. Total liabilities were

$10,397,000 and $8,875,000 at June 30, 2013 and December 31, 2012, respectively.

Cash and cash equivalents at June 30, 2013 were $370,000 compared to $243,000 at December 31, 2012. Accounts receivable was $341,000 at June 30, 2013 compared to $273,000 at December 31, 2012.

Current liabilities include accounts payable and accrued expenses of $1,596,000 at June 30, 2013.

Net cash used in operating activities was $1,462,000 and $711,000 for the six months ended June 30, 2013 and 2012, respectively

Net cash used in investing activities was $18,000 and $70,000 for the six months ended June 30, 2013 and 2012, respectively.

Net cash provided by financing activities was $1,607,000 and $793,000 for the six months ended June 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 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, 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 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.

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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 June 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

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 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 votes per share of Series H Preferred Stock on all matters which holders of Common Stock are entitled to vote.

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

Not applicable.

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 June 30, 2013, the Company filed the following Current Reports on Form 8-K:

None.

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: August 14, 2013

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

Date : August 14, 2013

/s/ *Corey N. Conn*
Name: Corey N. Conn
Title: Chief Financial Officer
(principal accounting officer)