

POSITRON CORP
Form 10QSB
August 15, 2005

FORM 10-QSB

JUNE 30, 2005

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

FORM 10-QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2005.

TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _____ TO _____.

Commission file number: 0-24092

Positron Corporation

(Exact name of small business issuer as specified in its charter)

Texas
(State of incorporation)

76-0083622
(IRS Employer Identification No.)

1304 Langham Creek Drive, Suite 300, Houston, Texas 77084
(Address of principal executive offices)

(281) 492-7100
(Issuer's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

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 past 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

As of June 30, 2005, there were 76,325,046 shares of the Registrant's Common Stock, \$.01 par value outstanding.

Transitional Small Business Disclosure Format (check one). Yes No

1

FORM 10-QSB

JUNE 30, 2005

POSITRON CORPORATION**TABLE OF CONTENTS****Form 10-QSB for the quarter ended June 30, 2005**

PART I - FINANCIAL INFORMATION	Page
Item 1. <u>Financial Statements</u>	
<u>Balance Sheet as of June 30, 2005</u>	3
<u>Statements of Operations for the three and six months ended June 30, 2005 and 2004</u>	4
<u>Statements of Cash Flows for the six months ended June 30, 2005 and 2004</u>	5
<u>Selected Notes to Financial Statements</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	10
Item 3. <u>Controls and Procedures</u>	12
<u>PART II - OTHER INFORMATION</u>	12
Item 1. <u>Legal Proceedings</u>	12
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	12
Item 3. <u>Defaults Upon Senior Securities</u>	13
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	13
Item 5. <u>Other Information</u>	13
Item 6. <u>Exhibits</u>	13
<u>Signature Page</u>	14

Table of Contents

FORM 10-QSB

JUNE 30, 2005

PART 1 - FINANCIAL INFORMATION**ITEM 1.****Financial Statements****POSITRON CORPORATION****BALANCE SHEET****June 30, 2005**

(In thousands, except share data)

(Unaudited)

ASSETS

Current assets:

Cash and cash equivalents	\$	368
Inventories		684
Prepaid expenses		76
Other current assets		10

Total current assets		1,138
----------------------	--	-------

Property and equipment, net		126
-----------------------------	--	-----

Other assets		270
--------------	--	-----

Total assets	\$	1,534
--------------	----	-------

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable, trade and accrued liabilities	\$	1,476
Customer deposits		17
Unearned revenue		142
Convertible notes payable to affiliated entity, less discount of \$29		1,304

Total current liabilities		2,939
---------------------------	--	-------

Convertible notes payable to affiliated entity, less discount of \$1,254		146
--------------------------------------------------------------------------	--	-----

Stockholders' equity (deficit):

Series A Preferred Stock: \$1.00 par value; 8% cumulative, convertible, redeemable; 5,450,000 shares authorized; 464,319 shares issued and outstanding		464
Common Stock: \$0.01 par value; 100,000,000 shares authorized; 76,385,202 shares issued and 76,325,046 shares outstanding		764
Additional paid-in capital		57,285
Subscription receivable		(30)
Accumulated deficit		(60,019)
Treasury Stock: 60,156 shares at cost		(15)

Total stockholders' equity (deficit)		(1,551)
--------------------------------------	--	---------

Total liabilities and stockholders' equity	\$	1,534
--------------------------------------------	----	-------

See accompanying notes

3

Table of Contents

FORM 10-QSB

JUNE 30, 2005

POSITRON CORPORATION
STATEMENTS OF OPERATIONS

(In thousands, except per share data)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
Revenues:				
System sales	\$ --	\$ --	\$ --	\$ --
Upgrades	34	--	34	--
Service and component	171	236	350	479
Total revenues	205	236	384	479
Costs of revenues:				
System sales	87	38	176	86
Upgrades	8	--	8	--
Service, warranty and component	75	79	126	149
Total costs of revenues	170	117	310	235
Gross profit	35	119	74	244
Operating expenses:				
Research and development	104	58	260	101
Selling and marketing	213	46	443	85
General and administrative	392	286	708	575
Stock based compensation	3	350	(102)	350
Total operating expenses	712	740	1,309	1,111
Loss from operations	(677)	(621)	(1,235)	(867)
Other income (expense)				
Interest Income	1	--	1	--
Interest expense	(273)	(22)	(353)	(22)
Total other income (expense)	(272)	(22)	(352)	(22)
Net loss	\$ (949)	\$ (643)	\$ (1,587)	\$ (889)
Basic and diluted loss per common share				
	\$ (0.02)	\$ (0.01)	\$ (0.03)	\$ (0.02)
	53,303	53,186	53,286	53,186

Weighted average number of basic and
diluted common shares outstanding

See accompanying notes

4

Table of Contents

FORM 10-QSB

JUNE 30, 2005

POSITRON CORPORATION
STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

	Six Months Ended	
	June 30, 2005	June 30, 2004
Cash flows from operating activities:		
Net loss	\$ (1,587)	\$ (889)
Adjustment to reconcile net loss to net cash used in operating activities		
Depreciation	42	60
Amortization of loan costs, debt discount and beneficial conversion features	233	--
Compensation related to re-pricing of warrants	(102)	350
Changes in operating assets and liabilities:		
Accounts receivable	--	3
Inventory	(63)	(630)
Prepaid expenses	(14)	96
Other current assets	18	1
Field service parts and supplies	(3)	3
Accounts payable and accrued liabilities	83	(92)
Customer deposits	1	563
Unearned revenue	(11)	(27)
Net cash used in operating activities	(1,403)	(562)
Cash flows from investing activities:		
Capital expenditures	(12)	--
Net cash used in investing activities	(12)	--
Cash flows from financing activities:		
Proceeds from notes payable to an affiliated entity	1,650	700
Deferred loan costs	--	(100)
Repayment of capital lease obligation	--	(9)
Net cash provided by financing activities	1,650	591
Net increase in cash and cash equivalents	235	29
Cash and cash equivalents, beginning of period	133	5
Cash and cash equivalents, end of period	\$ 368	\$ 34

See accompanying notes

Table of Contents

FORM 10-QSB

JUNE 30, 2005

POSITRON CORPORATION
SELECTED NOTES TO FINANCIAL STATEMENTS

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-KSB for Positron Corporation (the "Company") for the year ended December 31, 2004. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations 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, 2004, as reported in the Form 10-KSB, have been omitted.

2. **Accounting Policies**

Revenue Recognition

Revenues from POSICAM™ system contracts are recognized when all significant costs have been incurred and the system has been shipped to the customer. The Company also recognizes revenue on bill and hold transactions when the product is completed and is ready to be shipped and the risk of loss is transferred to the customer. In certain cases, at the customers' request, the Company is storing the product for a brief period of time. Revenues from maintenance contracts are recognized over the term of the contract. Service revenues are recognized upon performance of the services.

Reclassifications

Certain prior year amounts have been reclassified to conform with the presentation for the current year. Such reclassifications had no impact on net income or stockholders' equity as previously reported.

3. **Inventories**

Inventories at June 30, 2005 consisted of the following (in thousands):

Raw materials	\$	717
Work in progress		17
Subtotal		734
Less reserve for obsolescence		(50)
Total	\$	684

4. **Other Assets**

Other assets at June 30, 2005 consisted of the following (in thousands):

Field service parts and supplies	\$	218
Deferred loan costs		52

Total	\$	270
-------	----	-----

5. Accounts Payable and Accrued Liabilities

6

Table of Contents

FORM 10-QSB

JUNE 30, 2005

Accounts payable and accrued liabilities at June 30, 2005 consisted of the following (in thousands):

Trade accounts payable	\$	343
Accrued royalties		318
Sales taxes payable		236
Accrued interest		185
Accrued compensation		118
Accrued property taxes		116
Accrued professional fees		80
Insurance premiums payable		40
Accrued warranty costs		40
Total	\$	1,476

6. Convertible Notes Payable to Affiliated Entities

Notes payable to affiliated entities at June 30, 2005 consisted to the following (in thousands):

IMAGIN Diagnostic Centres, Inc., less discount of \$29	\$	1,304
Solaris Opportunity Fund, L.P., less discount of \$1,254		146
Total	\$	1,450

IMAGIN Diagnostic Centres, Inc.

On May 26, 2004 and June 17, 2004, the Company sold two separate secured convertible promissory notes under a Note Purchase Agreement dated May 21, 2004, to IMAGIN Diagnostic Centres, Inc. ("IMAGIN") in the principal amounts of \$400,000 and \$300,000, respectively. Interest is charged on the outstanding principal at the rate of ten percent (10%) per annum and is payable annually to the extent of positive cash flow on the anniversary dates of these notes. The principal and any unpaid interest must be paid on the earlier to occur of May 21, 2006 or when declared due and payable by IMAGIN upon occurrence of an event of default. The notes are initially convertible into new shares of Series C Preferred Stock that, in turn are convertible into an aggregate of 35,000,000 shares of the Company's common stock. These notes are collateralized by all of the assets of the Company. As of June 30, 2005, principal of \$700,000 has been advanced and remains outstanding related to these notes. Full convertibility of the shares of Series C Preferred Stock into common stock will require an amendment to the Company's Articles of Incorporation which must be approved by the shareholders. The Company has agreed to seek such approval.

In a second stage of the financing IMAGIN agreed to purchase additional secured convertible promissory notes in the aggregate principal amount of \$1,300,000. These notes were to be purchased over a six and a half month period, commencing July 15, 2004. These notes are due and payable on May 21, 2006. These notes are initially convertible into new shares of Series D Preferred Stock that, in turn is convertible into an aggregate of 52,000,000 shares of the Company's common stock. As of June 30, 2005, principal of \$1,208,500 has been advanced related to these notes. On June 30, 2005, IMAGIN converted \$575,000 of these promissory notes into shares of Series D Preferred Stock that, in turn were converted into 23,000,000 shares of the Company's common stock. This conversion reduced the principal owed under these promissory notes from \$1,208,500 to \$633,500. Full convertibility of the shares of Series D Preferred Stock into common stock will require an amendment to the Company's Articles of Incorporation which must be approved by the shareholders. The Company has agreed to seek such approval.

The agreements with IMAGIN provided for a \$200,000 transaction fee payable to IMAGIN upon completion of the financing. Under terms of these agreements, this fee obligation was to be reduced by an amount equal to \$0.02 multiplied by the number of warrants issued to IMAGIN. The agreements with IMAGIN also provided for the issuance of new warrants for the purchase of 4,575,000 shares of common stock, which resulted in a \$91,500 decrease in this fee obligation to \$108,500. This fee obligation is included in the principal of the notes payable to IMAGIN at June 30, 2005. The Company allocated the proceeds received from this convertible debt with detachable warrants using the relative fair value of the individual elements at the time of issuance. The notes payable to IMAGIN contain an unamortized discount balance of approximately \$29,000 at June 30, 2005. The discount of the debt is to be amortized over the term of the notes payable.

Table of Contents

FORM 10-QSB

JUNE 30, 2005

Patrick G. Rooney, Chairman of the Board of the Company is the son of Patrick Rooney, Director of Corporate Development of IMAGIN Diagnostic Centres, Inc. Patrick G. Rooney and John E. McConnaughy, Jr. were appointed to the Board of Directors of the Company in connection with the financing with IMAGIN.

Solaris Opportunity Fund, L.P.

Financing Agreements dated February 28, 2005

On February 28, 2005, the Company entered into a series of agreements with Solaris Opportunity Fund, L.P. (“Solaris”) pursuant to which Solaris agreed to purchase an aggregate of \$1,000,000 face amount of the Company’s 10% secured convertible promissory notes. As of June 30, 2005, Solaris has purchased \$1,000,000 of these notes. These notes are due and payable on March 6, 2007. The notes are initially convertible into new shares of Series E Preferred Stock that, in turn are convertible into an aggregate of 22,000,000 shares of the Company’s common stock. As of June 30, 2005, full convertibility of the shares of Series E Preferred Stock into common stock will require an amendment to the Company’s Articles of Incorporation which must be approved by the shareholders. The Company has agreed to seek such approval.

In accordance with generally accepted accounting principles in the event the conversion price is less than the Company’s stock price at the date of the agreement, the difference is considered to be a beneficial conversion feature and is amortized over the period from the date of issuance to the stated maturity date. On February 28, 2005, enough common shares were available to facilitate the conversion of substantially all of the debt into common stock. The fair value of the related Series E Preferred Stock at the commitment date of \$2,200,000 less the \$1,000,000 in loan proceeds, results in an intrinsic value of \$1,200,000 for the beneficial conversion feature. However, the beneficial conversion feature is limited to the \$1,000,000 proceeds of the debt.

Pursuant to the terms of the agreements, the Company granted to Solaris a security interest in all of its assets to secure payment of the convertible promissory notes. The security interest is subordinate to the security interest previously granted in the same collateral to IMAGIN.

Financing Agreements dated June 27, 2005

On June 27, 2005, the Company entered into a series of agreements with Solaris pursuant to which Solaris agreed to purchase an aggregate of \$400,000 face amount of the Company’s 10% secured convertible promissory notes. As of June 30, 2005, Solaris has purchased \$400,000 of these notes. These notes are due and payable on March 6, 2007. The notes are initially convertible into new shares of Series F Preferred Stock that, in turn are convertible into an aggregate of 20,000,000 shares of the Company’s common stock. As of June 30, 2005, full convertibility of the shares of Series F Preferred Stock into common stock will require an amendment to the Company’s Articles of Incorporation, which must be approved by the shareholders. The Company has agreed to seek such approval.

In accordance with generally accepted accounting principles in the event the conversion price is less than the Company’s stock price at the date of the agreement, the difference is considered to be a beneficial conversion feature and is amortized over the period from the date of issuance to the stated maturity date. On June 27, 2005, enough common shares were available to facilitate the conversion of all of the debt into common stock. The fair value of the related Series F Preferred Stock at the commitment date of \$1,600,000 less the \$400,000 in loan proceeds, results in an intrinsic value of \$1,200,000 for the beneficial conversion feature. However, the beneficial conversion feature is limited to the \$400,000 proceeds of the debt.

Table of Contents

FORM 10-QSB

JUNE 30, 2005

Pursuant to the terms of the agreements, the Company granted to Solaris a security interest in all of its assets to secure payment of the convertible promissory notes. The security interest is subordinate to the security interest previously granted in the same collateral to IMAGIN and Solaris.

Patrick G. Rooney, Chairman of the Board of the Company, is the general partner of Solaris.

7. **Stockholders' Equity**

Stockholders converted 45,900 shares of Series A Preferred Stock into 199,243 shares of common stock in the six month period ended June 30, 2005.

8. **Earnings Per Share**

Basic earnings per common share are 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 assume 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 six month periods ended June 30, 2004 and 2005 since it would have resulted in an antidilutive effect.

The following table sets forth the computation of basic and diluted earnings per share.

	Three Months Ended		Six Months Ended	
	June 30, 2005	June 30, 2004	June 30, 2005	June 30, 2004
	(In Thousands, except per share data)			
Numerator				
Basic and diluted loss	\$ (949)	\$ (643)	\$ (1,587)	\$ (889)
Denominator				
Basic and diluted earnings per share - weighted average shares outstanding	53,303	53,186	53,286	53,186
Basic and diluted loss per common share	\$ (0.02)	\$ (0.01)	\$ (0.03)	\$ (0.02)

9. **Litigation**

Please refer to our Quarterly Report on Form 10-QSB for the fiscal quarter ended March 31, 2005, filed on May 16, 2005, which discloses claims which have been filed against the Company. There have been no material developments with respect to these claims since the previously filed Quarterly Report.

10.

Stock Based Compensation

In connection with the May 2004 transaction with IMAGIN, the Company re-priced various options and warrants to employees that are subject to the variable accounting rules. The market price of the Company's common stock decreased \$0.03 from \$0.12 at December 31, 2004 to \$0.09 at June 30, 2005. Due to the decline in price, application of the variable accounting rules resulted in the reversal of stock based compensation by \$102,000 in the six months ended June 30, 2005.

9

Table of Contents

FORM 10-QSB

JUNE 30, 2005

11. **Subsequent Events**

On August 8, 2005, the Company sold to IMAGIN Diagnostic Centres, Inc. 10% secured convertible promissory notes under a Note Purchase Agreement, dated the same date, in the aggregate principal amount of \$400,000. These notes are convertible into an aggregate of 20,000,000 shares of the Company's common stock. Full convertibility of the notes into shares of common stock will require an amendment to the Company's Articles of Incorporation which must be approved by the shareholders. The Company has agreed to seek such approval.

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

We are including the following cautionary statement in this Quarterly Report on Form 10-QSB 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.

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

Comparison of the Results of Operations for the Three Months ended June 30, 2005 and 2004

We experienced a loss of \$949,000 for the three months ended June 30, 2005 compared to a loss of \$643,000 for the same quarter in 2004. The larger loss in 2005 resulted primarily from increases in costs related to personnel and interest, offset by decreases in stock based compensation.

We generated no revenues from sales of systems in the three months ended June 30, 2005 and 2004. We earned revenues of \$34,000 from upgrades of systems in the second quarter of 2005 compared to no revenues from system upgrades in the same period in 2004. Our service revenues decreased \$65,000 to \$171,000 in the three months ended June 30, 2005 from \$236,000 in the same period in 2004. Service revenues in the three month period ended June 30, 2004 included the recognition of \$50,000 in revenue relating to support provided to GE Medical Systems in conjunction with the sale of our Cardiac PET Software.

We generated gross profits of \$35,000 during the three months ended June 30, 2005 compared to profits of \$119,000 for the same three months in 2004. Revenues of \$50,000 relating to services provided to GE Medical Systems were included in gross profits in the quarter ended June 30, 2004. Expense associated with manufacturing labor and overhead increased \$49,000 to \$87,000 in the quarter ended June 30, 2005 from \$38,000 in the same period in 2004. This \$49,000 increase resulted primarily from the capitalization of \$61,000 of manufacturing cost into inventory in 2004.

Table of Contents

FORM 10-QSB

JUNE 30, 2005

Our operating expenses decreased \$28,000 to \$712,000 for the three months ended June 30, 2005 from \$740,000 for the same period in 2004. Research and development expenses increased \$46,000 to \$104,000 from \$58,000 as a result of increased personnel costs. Sales and marketing expenses also increased \$167,000 to \$213,000 from \$46,000 as a result of increased personnel costs. General and administrative expenses increased \$106,000 to \$392,000 in the quarter ended June 30, 2005 from \$286,000 in the same period in 2004. This increase in general and administrative expenses primarily resulted from increased legal fees expensed in 2005. We recorded stock based compensation of \$350,000 in the quarter ended June 30, 2004 relating to the application of the variable accounting rules to the re-pricing of warrants and options.

We recognized interest expense of \$273,000 in the second quarter of 2005 compared to \$22,000 of interest expense in the same period in 2004. Interest expense in the second quarter of 2005 relates to the notes payable to IMAGIN Diagnostic Centres, Inc. and Solaris Opportunity Fund, L.P. and includes \$201,000 in amortization of loan costs, debt discounts and beneficial conversion features.

Comparison of the Results of Operations for the Six Months ended June 30, 2005 and 2004

We experienced a loss of \$1,587,000 for the six months ended June 30, 2005 compared to a loss of \$889,000 for the same period in 2004. The larger loss in 2005 resulted primarily from increases in costs related to personnel and interest, offset by decreases in stock based compensation.

We generated no revenues from sales of systems in the six months ended June 30, 2005 and 2004. We earned revenues of \$34,000 from upgrades of systems in the first six months of 2005 compared to no revenues from system upgrades in the same period in 2004. Our service revenues decreased \$129,000 to \$350,000 in the six months ended June 30, 2005 from \$479,000 in the same period in 2004. Service revenues in the six month period ended June 30, 2004 included the recognition of \$100,000 in revenue relating to support provided to GE Medical Systems in conjunction with the sale of our Cardiac PET Software.

We generated gross profits of \$74,000 during the six months ended June 30, 2005 compared to \$244,000 for the same period in 2004. Revenues of \$100,000 relating to services provided to GE Medical Systems were included in gross profits in the six months ended June 30, 2004. Expense associated with manufacturing labor and overhead increased \$90,000 to \$176,000 in the six month period ended June 30, 2005 from \$86,000 in the same period in 2004. This \$90,000 increase resulted primarily from the capitalization of \$61,000 of manufacturing cost into inventory in 2004.

Our operating expenses increased \$198,000 to \$1,309,000 for the six months ended June 30, 2005 from \$1,111,000 for the same period in 2004. Research and development expenses increased \$159,000 to \$260,000 from \$101,000 as a result of increased personnel costs. Sales and marketing expenses also increased \$358,000 to \$443,000 from \$85,000 as a result of increased personnel costs. General and administrative expenses increased \$133,000 to \$708,000 in the six month period ended June 30, 2005 from \$575,000 in the same period in 2004. This increase in general and administrative expenses primarily resulted from increased legal fees expensed in 2005. We recorded stock based compensation of \$350,000 in the six months ended June 30, 2004 relating to the application of the variable accounting rules to the re-pricing of warrants and options. We reversed \$102,000 of stock based compensation in the first six months of 2005.

We recognized interest expense of \$353,000 in the second first six months of 2005 compared to \$22,000 of interest expense in the same period in 2004. Interest expense in the first six months of 2005 relates to the notes payable to IMAGIN Diagnostic Centres, Inc. and Solaris Opportunity Fund, L.P. and includes \$233,000 in amortization of loan costs, debt discounts and beneficial conversion features.

Financial Condition

We had cash and cash equivalents of \$368,000 on June 30, 2005. On the same date, we had accounts payable and accrued liabilities outstanding of \$1,476,000. We did not sell any imaging systems in the six-month period ended June 30, 2005. In order to resolve our liquidity problems, we must sell imaging systems or seek alternative sources of debt or equity funding. However, there is no assurance that we will be successful in selling new systems or securing additional debt or equity funds.

Since inception, we have been unable to sell our POSICAM™ systems in quantities sufficient to be operationally profitable. Consequently, we have sustained substantial losses. Due to the sizable selling prices of our systems and the limited number of systems sold or placed into service each year, revenues have fluctuated significantly from year to year. We have an accumulated deficit of \$60,019,000 at June 30, 2005. The Company will need to increase system sales to achieve profitability in the future.

Table of Contents

FORM 10-QSB

JUNE 30, 2005

These events raise doubt as to our ability to continue as a going concern. The report of our independent public accountants, which accompanied our financial statements for the year ended December 31, 2004, was qualified with respect to that risk. If we are unable to obtain debt or equity financing to meet our cash needs we may have to severely limit or cease our business activities or may seek protection from our creditors under the bankruptcy laws.

New Accounting Pronouncements

Please refer to the Annual Report Form 10-KSB for the year ended December 31, 2004 for disclosures regarding the Company's treatment of new accounting pronouncements.

Critical Accounting Policies

Revenue Recognition

Revenues from POSICAM™ system contracts are recognized when all significant costs have been incurred and the system has been shipped to the customer. The Company also recognizes revenue on bill and hold transactions when the product is completed and is ready to be shipped and the risk of loss is transferred to the customer. In certain cases, at the customers' request, the Company is storing the product for a brief period of time. Revenues from maintenance contracts are recognized over the term of the contract. Service revenues are recognized upon performance of the services.

ITEM 3 - CONTROLS AND PROCEDURES

As of June 30, 2005, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and Rule 15d-15(e)). Based upon that evaluation, the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective at a reasonable level. There has been no change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected or is reasonably likely to materially affect, the Company's internal control over financial reporting.

The Company's management, including the Chief Financial Officer, do not expect that the Company's disclosure controls or internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met due to numerous factors, ranging from errors to conscious acts of an individual, or individuals acting together. In addition, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in a cost-effective control system, misstatements due to error and/or fraud may occur and not be detected.

PART II OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

Please refer to our Quarterly Report on Form 10-QSB for the fiscal quarter ended March 31, 2005, filed on May 16, 2005, which discloses claims which have been filed against the Company. There have been no material developments with respect to these claims since the previously filed Quarterly Report.

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

Series F Preferred Stock

12

Table of Contents

FORM 10-QSB

JUNE 30, 2005

The Board of Directors created, out of the 10,000,000 shares of preferred stock authorized in Article Four of the Articles of Incorporation, a series of 600,000 shares of preferred stock, par value \$1.00 per share, designated as Series F Preferred Stock. Each share of Series F Preferred Stock is convertible into shares of common stock.

Recent Sales of Unregistered Securities

On June 27, 2005, the Company sold to Solaris Opportunity Fund, L.P. a 10% secured convertible promissory note under a Note Purchase Agreement dated June 27, 2005, in the principal amount of \$400,000. These notes are convertible into shares of Series F Preferred Stock that, in turn, are convertible at the option of the holder into an aggregate 20,000,000 shares of the Company's common stock.

The sales of securities described above were exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 4(2) of the Securities Act of 1933, since the issuance constituted a sale not involving a public offering.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5 - OTHER INFORMATION

None

ITEM 6 - EXHIBITS

Exhibit	Description of the Exhibit
3.1	Articles of Incorporation of the Registrant (incorporated herein by reference to Exhibit 3.1 to the Company's Registration Statement on Form SB-2 (File No. 33-68722)).
3.2	By-laws of the Registrant, as amended (incorporated herein by reference to Exhibit 3.2 to the Company's Registration Statement on Form SB-2 (File No. 33-68722)).
4.1	Statement of Designation Establishing Series F Preferred Stock of Positron Corporation (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K (File No. 000-24092)).
10.1	Note Purchase Agreement dated June 27, 2005 between Positron and Solaris Opportunity Fund, L.P. (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 000-24092)).
10.2	

Edgar Filing: POSITRON CORP - Form 10QSB

Form Secured Convertible Promissory Note (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 000-24092)).

10.3 Security Agreement dated June 27, 2005 between Positron and Solaris Opportunity Fund, L.P. (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K (File No. 000-24092)).

10.4 Registration Rights Agreement dated June 27, 2005 between Positron and Solaris Opportunity Fund, L.P. (incorporated herein by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K (File No. 000-24092)).

Table of Contents

FORM 10-QSB

JUNE 30, 2005

31.1 Chief Executive Officer and Chief Financial Officer Certification of Periodic Financial Report Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*

32.1 Chief Executive Officer and 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.#

* Filed herewith

Furnished herewith

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
(Registrant)

Date: August 12, 2005

/s/ Gary H. Brooks
Gary H. Brooks
CEO & CFO

EXHIBIT INDEX

Exhibit	Description of the Exhibit
<u>31.1</u>	Chief Executive Officer and Chief Financial Officer Certification of Periodic Financial Report Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
<u>32.1</u>	Chief Executive Officer and 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.#

* Filed herewith

Furnished herewith

