POSITRON CORP
Form 10QSB
November 14, 2007

FORM 10-QSB SEPTEMBER 30, 2007

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

FORM 10-QSB

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007.

o 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	76-0083622
(State of incorporation)	(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 x No o

As of November 14, 2007, there were 102,553,302 shares of the Registrant’s Common Stock, $.01 par value outstanding.

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

POSITRON CORPORATION

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FORM 10-QSB SEPTEMBER 30, 2007

PART 1 – FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

	September 30, 2007 (Unaudited)	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 74	$ 115
Accounts receivable	149	208
Inventories	1,782	1,476
Due from affiliates	394	2,955
Prepaid expenses	82	115
Other current assets	23	63
Total current assets	2,504	4,932
Investment In Joint Venture	--	23
Property and equipment, net	145	64
Goodwill	2,425	--
Other assets	333	252
Total assets	$ 5,407	$ 5,271
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable, trade and accrued liabilities	$ 2,500	$ 2,627
Customer deposits	472	241
Unearned revenue	144	146
Due to affiliates	743	507
Total current liabilities	3,859	3,521
Obligation under capital lease	--	7
Convertible notes payable, less discount of $1,209 and $1,272	91	28
Deposits of unissued common stock	50	850
Derivative liabilities for convertible debentures	2,392	2,165
Majority interest in loss of consolidated subsidiary	--	(168)
Total liabilities	6,392	6,403
Stockholders' deficit:		
	464	464

Series A Preferred Stock: $1.00 par value; 8% cumulative, convertible, redeemable; 5,450,000 shares authorized; 464,319 shares issued and outstanding		
Series B Preferred Stock: $1.00 par value; convertible, redeemable 9,000,000 shares authorized; 5,876,110.5 shares issued and 5,739,860.5 outstanding	5,876	5,740
Series G Preferred Stock: $1.00 par value; 8% cumulative, convertible, redeemable; 3,000,000 shares authorized; 111,391 and 204,482 shares outstanding	111	204
Common Stock: $0.01 par value; 800,000,000 shares authorized; 102,553,302, and 86,205,202 shares outstanding	1,026	862
Additional paid-in capital	64,178	60,400
Other comprehensive (loss) income	(70)	38
Accumulated deficit	(72,555)	(68,825)
Treasury Stock: 60,156 common shares at cost	(15)	(15)
Total stockholders' deficit	(985)	(1,132)
Total liabilities and stockholders' deficit	$ 5,407	$ 5,271

See accompanying notes

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POSITRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Revenues:				
System sales	$ 236	$ 200	$ 1,665	$ 200
Service and component	334	223	975	687
Total revenues	570	423	2,640	887
Costs of revenues:				
System sales	271	50	1,369	50
Service, warranty and component	178	210	525	538
Total costs of revenues	449	260	1,894	588
Gross profit	121	163	746	299
Operating expenses:				
Research and development	425	162	1,229	422
Selling and marketing	103	37	689	482
General and administrative	833	226	2,215	1,353
Total operating expenses	1,361	425	4,133	2,257
Loss from operations	(1,240)	(262)	(3,387)	(1,958)
Other income (expense)				
Interest Income	1	--	5	--
Interest expense	(64)	(281)	(137)	(851)
Derivative gains (losses)	(216)	73	(228)	(1,815)
Equity in losses of joint ventures	--	(179)	(23)	(297)
Other income	15	--	15	--
Total other income (expense)	(264)	(387)	(368)	(2,963)
Loss before income taxes and majority interest	(1,504)	(649)	(3,755)	(4,921)
Majority interest in loss of subsidiary	--	--	25	--
Loss before income taxes	(1,504)	(649)	(3,730)	(4,921)
Income taxes	--	--	--	--

Net loss	$	(1,504)	$	(649)	$	(3,730)	$	(4,921)
Other comprehensive income								
Foreign currency translation gain (loss)		111		--		(107)		--
Comprehensive loss	$	(1,393)	$	(649)	$	(3,837)	$	(4,921)
Basic and diluted loss per common share	$	(0.02)	$	(0.01)	$	(0.04)	$	(0.06)
Weighted average number of basic and diluted common shares outstanding		97,776		82,056		93,624		80,019

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FORM 10-QSB SEPTEMBER 30, 2007

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

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Cash flows from operating activities:		
Net loss	$ (3,730)	$ (4,921)
Adjustment to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	135	38
Amortization of loan costs, debt discount and beneficial conversion features	119	630
Stock based compensation	309	159
Loss on derivative liabilities	228	1,815
Common stock issued for services	511	361
Equity in losses of joint ventures	23	297
Majority interest in losses of consolidated subsidiary	(25)	--
Gain on foreign currency translation adjustment	(34)	--
Changes in operating assets and liabilities:		
Accounts receivable	57	(51)
Inventory	(77)	2
Prepaid expenses	47	66
Other current assets	66	22
Field service parts and supplies	(48)	5
Accounts payable and accrued liabilities	(317)	78
Customer deposits	174	--
Unearned revenue	(4)	145
Net cash used in operating activities	(2,566)	(1,354)
Cash flows from investing activities:		
Purchase of property and equipment	(44)	(4)
Investment in joint venture	--	(638)
Purchase of intangible assets	(62)	(50)
Net cash used in investing activities	(106)	(692)
Cash flows from financing activities:		
Proceeds from notes payable to an affiliated entities	740	200
Net proceeds from issuance of convertible debentures	--	1,080
Proceeds from private placements	2,268	901
Capital lease payments	(6)	--
Repayments of advances to affiliated entities	103	--
Advance to affiliated entities	(457)	(287)

Net cash provided by financing activities		2,648		1,894
Effect of exchange rate changes on cash and cash equivalents		(17)		--
Net (decrease) in cash and cash equivalents		(41)		(152)
Cash and cash equivalents, beginning of period		115		209
Cash and cash equivalents, end of period	$	74	$	57
Supplemental cash flow information:				
Interest paid	$	--	$	--
Income taxes paid		--		--
Non-cash disclosures				
Issuance of common stock to satisfy severance obligation	$	--	$	25
Convertible debenture discount with corresponding increase to paid in capital for value of warranty	$	--	$	919
Convertible debenture discount with corresponding increase to derivative liabilities for beneficial conversion feature	$	--	$	2,268
Issuance of Series B Preferred Stock to satisfy accrued interest obligation	$	--	$	380
Conversion of debentures to Series B Preferred Stock	$	--	$	2,934
Conversion of Series C Preferred Stock to Series B Preferred Stock	$	--	$	770

See accompanying notes

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POSITRON CORPORATION AND SUBSIDIARIES
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 "Registrant" or the "Company") for the year ended December 31, 2006. 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, 2006, as reported in the Form 10-KSB, have been omitted.

For the three and nine months ended September 30, 2007, the financial statements include the transactions of Positron Corporation, and Imaging Pet Technologies, Inc. ("IPT"). All Intercompany transactions and balances have been eliminated.

For the three and nine months ended September 30, 2006, the financial statements include only the transactions of Positron Corporation.

2. Accounting Policies

Foreign Currency Translation

For the nine months ended September 30, 2007 the accounts of the Company's subsidiary, IPT, were maintained, and its consolidated financial statements were expressed in Canadian dollars. Such consolidated financial statements were translated into U.S. Dollars (USD) in accordance with Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation." According to the Statement, all assets and liabilities were translated at the exchange rate on the balance sheet date, stockholder's equity are translated at the historical rates and statement of operations items are translated at the weighted average exchange rates. The resulting translation adjustments are reported under other comprehensive income in accordance with SFAS No. 130, "Reporting Comprehensive Income".

Cash Equivalents and Short-term Investments

For the purposes of reporting cash flows, the Company considers highly liquid, temporary cash investments with an original maturity period of three months or less to be cash equivalents. Short-term investments include certificates of deposits, commercial paper and other highly liquid investments that do not meet the criteria of cash equivalents. Cash equivalents and short-term investments are stated at cost plus accrued interest which approximates fair value.

Concentrations of Credit Risk

Cash and accounts receivable are the primary financial instruments that subject the Company to concentrations of credit risk. The Company maintains its cash in banks or other financial institutions selected based upon management's assessment of the bank's financial stability. Cash balances periodically exceed the $100,000 federal depository insurance limit.

Accounts receivable arise primarily from transactions with customers in the medical industry located throughout the world, but concentrated in the United States, Canada and Japan. The Company provides a reserve for accounts where collectibility is uncertain. Collateral is generally not required for credit granted.

Inventory

Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method of inventory valuation.

Property and Equipment

Property and equipment are recorded at cost and depreciated for financial statement purposes using the straight-line method over estimated useful lives of three to seven years, and declining balance methods for IPT's computer software. Gains or losses on dispositions are included in the statement of operations in the period incurred. Maintenance and repairs are charged to expense as incurred.

Revenue Recognition

Revenues from POSICAM™ system contracts, IPT's PulseCDC™ compact digital cardiac camera (sold under the IS2 brand name) and other nuclear imaging devices are recognized when all significant costs have been incurred and the system has been shipped to the customer. Revenues from maintenance contracts are recognized over the term of the contract. Service revenues are recognized upon performance of the services.

Stock-Based Compensation

Effective January 1, 2006 the Company adopted the revision to SFAS 123 ("SFAS 123R"), "Share-Based Payment", that focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions utilizing the modified prospective method. This statement replaces SFAS 123, "Accounting for Stock-Based Compensation", and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees". SFAS 123R requires companies to expense the fair value of employee stock options and similar awards.

Warranty Costs

The Company accrues for the cost of product warranty on POSICAM™ systems, Pulse CDC gamma cameras and other nuclear imaging devices at the time of shipment. Warranty periods generally range up to a maximum of one year but may extend for longer periods. After warranty expiration many customers execute service contracts to cover their systems. Service contract periods vary with some customers on month to month contracts and others on quarterly and annual contracts. Revenue collected in advance of the service period is deferred and recognized over the term of the contract. Service costs under the contracts are expensed as incurred. For the three months ended September 30, 2007 and 2006, service costs charged to expense were $178,000 and $210,000, respectively. For the nine months ended September 30, 2007 and 2006, service costs charged to expense were $525,000 and $538,000 respectively. During the periods presented herein, the Company did not have any Posicam systems under warranty. Warranty expense for Pulse CDC gamma cameras was $53,000 and $74,000 for the three and nine months ended September 30, 2007 and 2006.

Loss Per Common Share

Basic loss per common share is calculated by dividing net income by the weighted average common shares outstanding during the period. Stock options and warrants are not included in the computation of the weighted average number of shares outstanding for dilutive net loss per common share during each of the period presented in the Statement of Operations and Comprehensive Income, as the effect would be antidilutive.

Income Taxes

The Company accounts for income taxes under Statement of Financial Accounting Standards No. 109, “Accounting for Income Taxes”. Under Statement No. 109, the asset and liability method is used in accounting for income taxes. Deferred taxes are recognized for temporary differences between the bases of assets and liabilities for financial statement and income tax purposes. The temporary differences relate primarily to net operating loss carryforwards. A valuation allowance is recorded for deferred tax assets when it is more likely than not that some or all of the deferred tax assets will not be realized through future operations.

In June 2006, the FASB released FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," an interpretation of FASB Statement No. 109 ("FIN 48"). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. A company must determine whether it is "more-likely-than-not" that a tax position will be sustained upon examination, including resolution of any related appeals or litigation procedures, based on the technical merits of the position. Once it is determined that a position meets the more-likely-than-not recognition threshold, the position is measured to determine the amount of benefit to recognize in the financial statements. This interpretation is effective for fiscal years beginning after December 15, 2006. The provisions of FIN 48 were adopted in the first quarter of 2007 and did not have a material effect on the Company's financial statements.

Fair Value of Financial Instruments

The Company includes fair value information in the notes to the financial statements when the fair value of its financial instruments is different from the book value. When the book value approximates fair value, no additional disclosure is made.

New Accounting Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No 157, "Fair Value Measurements". This statement defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosures about fair value measurements. The statement is effective in the fiscal first quarter of 2008 and the Company will adopt the statement at that time. The Company is uncertain as to the effect the impact the statement will have on results of operations, cash flows of financial position.

3. **Going Concern**

Since inception, the Company has expended substantial resources on research and development. Consequently, the Company has sustained substantial losses. Due to the limited number of systems sold or placed into service each year, revenues have fluctuated significantly from year to year. At September 30, 2007, the Company had an accumulated deficit of $72,555,000 and a stockholder’s deficit of $985,000. The Company will need to increase system sales and apply the research and development advancements to achieve profitability in the future. Through the Company’s joint venture with Neusoft Medical Systems, the Company intends to significantly reduce, overall costs to manufacture and deliver PET systems. In addition, the Company expects increased revenue from its IPT SPECT camera subsidiary to come from new sales campaigns and service division. The Company expects that these developments will have a positive impact on the PET, PET/CT and SPECT device products, sales and service volumes.

The Company had cash and cash equivalents of $74,000 at September 30, 2007. At the same date, the Company had accounts payable and accrued liabilities of $2,500,,000. In addition, debt service and working capital requirements for the upcoming year may reach beyond current cash balances. The Company plans to continue to raise funds as required through equity and debt financings to sustain business operations. These factors raise substantial doubt about the Company's ability to continue as a going concern.

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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 and 3) meet current commitments and fund the continuation of its business operation in the near future.

4. Imaging Pet Technologies – Business Acquisition

The Company and Quantum Molecular Pharmaceuticals Inc., a Canadian radiopharmaceutical corporation ("QMP") acquired all of the operating assets of IS2 Medical Systems Inc., a developer and manufacturer of nuclear imaging devices based in Ottawa, Ontario, Canada ("IS2") through a minority-owned subsidiary of the Company, Imaging PET Technologies, Inc. ("IPT"). The Company and QMP hold 49.9% and 50.1%, respectively, of the total registered capital of IPT. On May 8, 2006, to finalize certain obligations of QMP related to the Quantum Molecular Technologies Joint Venture, the Company agreed to issue 650,000 shares of its Series B Convertible Preferred Stock (the "Series B") to IPT in exchange for a promissory note in the amount of $1,300,000. See, *Quantum Molecular Technologies*, below.

On June 5, 2006, IPT completed the acquisition of IS2 through a series of events which resulted in the net assets of IS2 being transferred to IPT. On April 28, 2006, debenture holders and promissory note holders of IS2 were put on notice that IS2 was in default of its covenants relating to revenue targets. In turn, the debenture/note holders demanded payment. On May 29, 2006, the debentures and notes totaling $1,435,727 were assigned to IPT by the holders in exchange for $1,000,000. The original holders assigned their security agreements to IPT who exercised those agreements immediately and assumed the net assets of IS2. In addition to the net assets, IPT assumed leases and contracts. Employment contracts were established with IPT upon acquisition.

On January 26, 2007, the Company executed and consummated a Securities Purchase Agreement (the "Agreement") with Imagin Diagnostic Centres, Inc. ("IMAGIN"), to acquire 11,523,000 shares of common stock of IPT. The Shares represented the remaining 50.1% of IPT's issued and outstanding common stock. As a result of the acquisition of the Shares, the Company owns 100% of the common stock of IPT. As consideration for the shares, the Company and IMAGIN agreed to cancel a promissory note in the principal amount of $2,400,000 made by IMAGIN subsidiary, QMP and later assigned to IMAGIN. As of the date of the Agreement, the Company had been advised by IMAGIN that it had acquired all of QMP's interest in IPT as well as QMP's other holdings of the Company's related securities.

The acquisition of the remaining 50.1% of IPT on January 26, 2007 was accounted for using the purchase method of accounting. Initially, the excess of the purchase price over the amounts allocated to the assets acquired and liabilities assumed has been recorded as goodwill. Total goodwill recorded for this acquisition was $2,425,000. Under Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), goodwill and certain intangible assets are deemed to have indefinite lives and are no longer amortized, but are reviewed at least annually for impairment. Management will review its intangible assets for impairment during the fourth quarter. Additional fair value adjustments from the acquisition are being reviewed by management.

5. Quantum Molecular Technologies

On December 28, 2005, the Company entered into a Memorandum of Understanding with Imagin Diagnostic Centres, Inc. ("IMAGIN") and Quantum Molecular Pharmaceutical, Inc. ("QMP"), a Canadian company and majority-owned subsidiary of IMAGIN. The Memorandum provided that the parties would form a joint venture to be called Quantum Molecular Technologies JV (the "QMT JV"). Initially, the joint venture would be owned 20%, 29% and 51% by the Company, IMAGIN and QMP, respectively. The Company had the right to increase its interest in the joint venture to a maximum of 51% by the issuance to QMP of up to 150 million shares of the Company's common stock. In consideration for the Company's 20% interest in the joint venture, the Company was obligated to loan to the joint venture sufficient funds, in the form of senior debt, to meet the joint venture's capital requirements as determined by the Company. In turn, IMAGIN and QMP had committed to purchase up to $4 million in preferred equity in the Company.

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On May 8, 2006, the Company amended certain aspects of the QMT JV transaction. Whereas the Company originally held 20% of the interests of the QMT JV, QMP and IMAGIN assigned 100% of their interests to the Company. Additionally, the investment amount QMP and IMAGIN originally committed to in the amount of $4,000,000 was restated to $2,400,000 to reflect the assignment of the QMT JV interests and participation by the Company in the IPT joint venture acquisition and subsequent financing. The $2,400,000 investment was in the form of a promissory note to the Company. In exchange for the assignment of QMT JV interests and the investment, the Company issued 3,450,000 shares of Series B Convertible Preferred Stock.

On April 13, 2006, the QMT JV was incorporated under the name Quantum Molecular Technologies, Inc. ("QMT") and acquired certain intangible assets in the form of capitalized research and development costs from IMAGIN for a note payable in the amount of $368,755. As discussed above, on May 8, 2006 the Company acquired 100% of the IMAGIN and QMP interests in QMT. QMT had limited operating activity during the period between April 13, 2006 and May 8, 2006, as such the Company has consolidated 100% of the operations of QMT from the date of acquisition.

Using concepts and research and development activities conceived and to be implemented by Dr. Irving Weinberg, QMT is developing certain next generation technologies including PET-enabled surgical tools and solid-state photo detector technology, which have implications in both molecular imaging and PET and which could have further application in the military and aerospace segments. The first solid-state detector technology patent has been filed by QMT.

On January 26, 2007 IPT acquired all of the outstanding capital stock of the Company's wholly-owned subsidiary, QMT.

6. <u>Inventories</u>

Inventories at September 30, 2007 and December 31, 2006 consisted of the following (in thousands):

	September 30, 2007	Dec. 31, 2006
Raw materials	$ 1,354	$ 949
Work in process	478	577
Subtotal	1,832	1,526
Less reserve for obsolescence	(50)	(50)
Total	$ 1,782	$ 1,476

7. <u>Due from affiliates</u>

Due from affiliates at September 30, 2007 and December 31, 2006 consisted of the following (in thousands):

	September 30, 2007	Dec. 31, 2006
Imagin Diagnostic Centres, Inc.	$ 3	$ 2,592
Imagin Nuclear Partners, Inc.	316	185
Neusoft Positron Medical Systems Co., Ltd.	75	178
	$ 394	$ 2,955

8. Investment in Joint Ventures

Neusoft Positron Medical Systems Co. Ltd.

On September 30, 2005 the Company entered into a Joint Venture Contract with Neusoft Medical Systems Co., Inc. of Shenyang, Lianoning Province, People's Republic of China ("Neusoft"). Pursuant to the Joint Venture Contract the parties formed a jointly-owned company, Neusoft Positron Medical Systems Co., Ltd. (the "JV Company"), to engage in the manufacturing of PET and CT/PET medical imaging equipment. The JV Company received its business license and was organized in September 2005.

The Company and Neusoft are active in researching, developing, manufacturing, marketing and/or selling Positron Emission Tomography ("PET") technology and both parties seek to mutually benefit from each other's strengths, and intend to cooperate in the research, development and manufacturing of PET technology. The purpose and scope of the JV Company's technology business is to research, develop and manufacture Positron Emission Tomography systems (PET), and an integrated X-ray Computed Tomography system (CT) and PET system (PET/CT), and to otherwise provide relevant technical consultation and services.

The parties to the joint venture contributed an aggregate of US $2,000,000 in capital contributions. Neusoft's aggregate contribution to the capital of the JV Company is 67.5% of the total registered capital of the Company, or US$ 1,350,000, and was made in cash. The Company's aggregate contribution to the capital of the JV Company is 32.5% of the total registered capital of the Company, or US$ 650,000, of which US$ 250,000 was made in cash, and US$ 400,000 was made in the form of a technology license. The Company has transferred to the JV Company certain of its PET technology, while Neusoft made available to the JV Company certain CT technology for the development and production of an integrated PET/CT system. The parties will share the profits, losses and risks of the JV Company in proportion to and, in the event of losses, to the extent of their respective contributions to the registered capital of the JV Company.

CONDENSED FINANCIAL STATEMENTS FOR THE JV COMPANY

NEUSOFT POSITRON MEDICAL SYSTEMS CO., LTD.
CONDENSED BALANCE SHEET
SEPTEMBER 30, 2007 AND DECEMBER 31, 2006
(In thousands)

	September 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 29	$ 220
Other current assets	471	504
Total current assets	500	724
Intangibles and capital assets	626	653
Total assets	$ 1,126	$ 1,377

Current liabilities:				
Accounts payable and other current liabilities		454		(55)
Total current liabilities		454		(55)
Capital		672		1,432
Total liabilities and capital	$	1,126	$	1,377

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NEUSOFT POSITRON MEDICAL SYSTEMS CO., LTD.
CONDENSED STATEMENT OF OPERATIONS
NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006
(in thousands)

	2007	2006
Revenue	$ --	$ --
Expense		
General and administrative expense	816	406
Total expense	816	406
Net loss	$ (816)	$ (406)

9. <u>Property and Equipment</u>

Property and equipment at September 30, 2007 and December 31, 2006 consisted of the following (in thousands):

	September 30, 2007	Dec. 31, 2006
Furniture and fixtures	$ 220	$ 130
Computers and peripherals	222	74
Machinery and equipment	188	26
Subtotal	610	230
Less: accumulated depreciation	(485)	(166)
Total	$ 145	$ 64

10. <u>Other Assets</u>

Other assets at September 30, 2007 and December 31, 2006 consisted of the following (in thousands):

	2007	2006
Field service parts and supplies	$ 66	$ 17
Intangible assets	144	57
Deferred loan costs	123	178
Total	$ 333	$ 252

11. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at September 30, 2007 and December 31, 2006 consisted of the following (in thousands):

	2007	2006
Trade accounts payable	$ 1,564	$ 1,431
Accrued royalties	379	373
Accrued interest	118	44
Sales taxes payable	102	260
Accrued compensation	154	249
Accrued property taxes	36	65
Accrued professional fees	35	92
Accrued warranty costs	112	113
Total	$ 2,500	$ 2,627

12. Series B Preferred Stock

On September 30, 2006 the Board of Directors authorized a new series of preferred stock designated Series B Preferred Stock. The number of shares authorized was 9,000,000. Each share of Series B Preferred Stock $1.00 par value is convertible into 100 shares of the Company's Common Stock. The Series B Preferred Stock is senior to the Company's Common Stock and junior in priority to the Company's A, C, and G Preferred Stock in liquidation. Holders of the Series B Preferred Stock are entitled to 100 votes per share on all matters requiring shareholder vote. While Series B Preferred Stock is outstanding no Common Stock dividends may be paid or declared by the Company. The Series B Preferred Stock may be redeemed in whole or in part, at the option of the Company, at any time at a price of $1.00 per share. As of September 30, 2007, 5,876,110.5 shares of Series B Preferred Stock were outstanding.

Conversion of Notes Payable to Series B Preferred Stock

In 2006, the Company converted all outstanding convertible notes payable and accrued interest due to affiliated entities to Series B Preferred Stock. Following is a description of each conversion:

The Company and IMAGIN converted principal and interest of $1,164,192 outstanding upon the Series E Convertible Promissory Notes and principal and interest of $877,669 of Convertible Secured Notes into 690,930.5 shares of Series B Preferred Stock.

The Company and Positron Acquisition Corp. converted principal and interest of $818,066 outstanding upon the Series D Secured Convertible Promissory Notes and 770,000 shares of Series C Preferred Stock into 762,358 shares of Series B Preferred Stock. Positron Acquisition Corp. subsequently converted 40,000 shares of Series B Preferred Stock into 4,000,000 shares of the Company's Common Stock.

The Company and QMP converted principal and interest of $453,144 outstanding upon the Series F Secured Convertible Promissory Notes into 226,572 shares of Series B Preferred Stock. The Company has been advised by IMAGIN that it had acquired all of QMP's interest in the securities of the Company.

Series B issued to IPT investors

On August 15, 2007, the Registrant consummated an exchange with holders of the Class A Preferred Shares (the "Class A Shares") of the Registrant's wholly-owned subsidiary, Imaging PET Technologies, Inc., an Ontario corporation ("IPT"). The Registrant issued 136,250 shares of its Series B Convertible Redeemable Preferred Stock, par value $1.00 per share (the "Series B"), and IPT exchanged 650,000 shares of its previously issued shares of Series B, to holders of IPT's Class A Shares (the "Class A Holders"). The Class A Holders had previously subscribed for the Class A Preferred Shares in an offering pursuant to the exemptions under the Canadian securities law.

13. Secured Convertible Notes Payable

Pursuant to the terms of a Security Agreement and a Registration Rights Agreement (the "Agreements") dated May 23, 2006, the Company agreed to issue to private investors (the "Investors") callable secured convertible notes (the "Debentures") in the amount of $2,000,000, with interest at the rate of 6% annually. The Debentures are convertible into shares of the Company's Common Stock at the product of the "Applicable Percentage" and the average of the lowest three (3) trading prices for the common stock during the twenty (20) day period prior to conversion. Applicable Percentage is 50%; provided, however that the percentage shall be increased to (i) 55% in the event that a Registration Statement is filed within thirty days of the closing of the transaction and (ii) 65% in the event the Registration Statement becomes effective within one hundred and twenty days of the closing of the transaction. The Company filed a Registration Statement on June 20, 2006. The Company may repay principal and interest in cash in the event that the price of the Company's Common Stock is below $0.20 on the last business day of a month. Pursuant to the terms of the Agreements, the Company issued to the Investors warrants to purchase 30,000,000 shares of Common Stock at an exercise price of $0.15 per share. These warrants are exercisable seven (7) years from the closing of the transaction.

On May 23, 2006 the Company issued Debentures in the amount of $700,000 with a maturity date of May 23, 2009. On June 21, 2006 the Company issued Debentures in the amount of $600,000 with a maturity date of June 21, 2009. Pursuant to the terms of the Agreements, the Company shall issue Debentures and receive the third traunch in the amount of $700,000 when the Registration Statement is declared effective by the Securities and Exchange Commission. On August 8, 2007 the Company filed a Form SB-2 Registration Statement to register common stock issuable upon conversion of the Debentures. Legal and other fees incurred in conjunction with the Debentures issued on May 23, 2006 and June 21, 2006 were $130,000 and $90,000, respectively and are being amortized over the maturity periods of the Debentures.

At the date of issuance, the beneficial conversion features had an estimated initial fair value of $2,268,000, of which $381,000 was recorded as a discount to the debt and $1,887,000 was immediately charged to derivative losses and recorded as a liability on the consolidated balance sheet. The estimated fair value of the beneficial conversion features was determined using the Black Sholes Valuation Method based on the fair value of the Company's common stock of $0.125; risk free rate of return of 5.125%; dividend yield of 0%; the conversion price as defined in the debt agreement; 3 year term to maturity; and a volatility factor of 168%. The debt discount is being amortized over the term of the Convertible Debentures using the effective interest method.

At September 30, 2007, the beneficial conversion features had an estimated fair value of $2,392,000. In valuing the beneficial conversion features at September 30, 2007, the Company used the closing price of its common stock of $0.07, risk free rate of return of 4.0%; dividend yield of 0%; the conversion price as defined in the debt agreement; remaining term to maturity; and a volatility factor of 226%. For the three and nine months ended September 30, 2007, the Company had derivative losses from the beneficial conversion features in the Convertible Debentures of $216,000 and $228,000, respectively.

At the date of issuance, the warrants issued with the Convertible Debentures had an estimated initial fair value of $919,000 which was recorded as a discount to the debt. The warrants were valued using the Black Sholes Valuation Method based on the fair value of the Company's common stock of $0.125; an exercise price of $0.15; a 7 year term; risk free rate of return of 5.125%; dividend yield of 0%;and a volatility factor of 168%. The discount, which was recorded as an increase to additional paid-in capital, is being amortized over the term of the Convertible Debentures using the effective interest method.

14. Series G Preferred Stock

In 2006, the Company issued 204,482 Units in a private placement. Each Unit consists of one share of a new series of preferred stock designated Series G Preferred Stock and a warrant exercisable for 50 shares of common stock (the "Units"). The purchase price was $5.50 per Unit, with $5.00 of the Unit purchase price allocated to the purchase of the share of Series G Preferred Stock and $0.50 allocated to the purchase of the warrant, for a total offering amount of $1,124,650. The net proceeds of the private placement were approximately $1,096,000.

The Company has designated 3,000,000 shares of preferred stock as Series G Preferred Stock $1.00 par value. Each share of Series G Preferred Stock is convertible into 100 shares of common stock. Eight percent dividends accrue on the Series G Preferred Stock and may be paid in cash or in Common Stock in the Company's discretion. The Series G Preferred Stock is senior to the Company's common stock and junior in priority to the Registrant's Series A, C, D, E and F Preferred Stock in liquidation. Except as required by law and in the case of various actions affecting the rights of the Series G Preferred Stock, holders of the Series G Preferred Stock are not entitled to vote on matters requiring shareholder vote. While the Series G Preferred Stock is outstanding or any dividends thereon remain unpaid, no common stock dividends may be paid or declared by the Company. The Series G Preferred Stock may be redeemed in whole or in part, at the option of the Company, at any time at a price of $5.00 per share plus any undeclared and/or unpaid dividends to the date of redemption.

On April 11, 2007, 93,091 shares of Series G Preferred were converted into 9,309,100 shares of Positron common stock. As of September 30, 2007, 111,391 shares of Series G Preferred Stock remained outstanding.

15. 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 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 month periods ended September 30, 2007 and 2006 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		Nine Months Ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
	(In Thousands, except per share data)			
Numerator				
Basic and diluted loss	$ (1,504)	$ (649)	$ (3,730)	$ (4,921)
Denominator				
Basic and diluted earnings per share-weighted average shares outstanding	97,776	82,056	93,624	80,019
Basic and diluted loss per common share	$ (0.02)	$ (0.01)	$ (0.04)	$ (0.06)

Anti-dilutive securities not included in net loss per share calculation) as of September 30, 2007 and 2006 (in thousands):

	2007	2006
Convertible Series A Preferred Stock	464	464
Convertible Series B Preferred Stock	587,611	573,986
Convertible Series G Preferred Stock	11,139	20,448
Stock Warrants	58,374	58,374
Stock Options	19,500	8,000
	677,088	661,272

16. <u>Stock Based Compensation</u>

Total stock-based compensation expense related to currently outstanding options was approximately $309,000 and $159,000 for the nine months ended September 30, 2007 and 2006, respectively. For the three month period ending September 30, 2007, stock-based compensation expense was $103,000. During the three month period ending September 30, 2006, the application variable accounting rules resulted in the reversal of stock based compensation of $61,000.

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.

The Company issued 6,958,000 and 2,870,000 shares of common stock to consultants under its stock incentive plans during the nine months ended September 30, 2007 and 2006, respectively, and 5,520,000 and 870,000 during the three month periods ending September 30, 2007 and 2006, respectively. Accordingly the Company recorded consulting expense equal to the fair market value of the shares issued of $510,600 and $360,900 during the nine months ended

September 30, 2007 and 2006, respectively, and $376,800 and $68,900 during the three months ended September 30, 2007 and 2006, respectively. Stock based compensation is included in general and administrative expenses in the consolidated statement of operations.

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17. Stockholders' Equity

On January 12, 2007, the Company issued a total of 1,000,000 shares of its common stock, par value $0.01 to a consultants for services performed. The shares were valued at $0.09 per share.

On April 11, 2007 holders of the Company's Series G Preferred Stock converted 93,091 shares into 9,309,100 shares of common stock, par value $0.01. As of September 30, 2007 111,391 shares of Series G Preferred Shares were outstanding.

On April 23, 2007, the Company issued a total of 438,000 shares of common stock, par value $0.01, to two consultants for services performed. The shares were valued at $0.10 per share.

On September 18, 2007, the Company issued 5,000,000 shares of common stock, par value $0.01, to a consultants for services performed. The shares were valued at $0.07 per share.

On September 27, 2007, the Company issued 500,000 shares of common stock, par value $0.01, to a consultants for services performed. The shares were valued at $0.06 per share.

18. Related Party Transactions

In September 2006, the Company sold Imagin Nuclear Partners ("INP"), a wholly-owned subsidiary of Imagin Molecular Corporation, a publicly owned Delaware corporation and affiliate of the Company, a refurbished HZL Pet Imaging machine. The sales price of the machine was $200,000. For the three and nine months ended September 30, 2007 the Company billed approximately $11,000 under a maintenance contract for the machine. As of September 30, 2007 INP owes the Company $254,253.

As of September 30, 2007 the Company has a receivable in the amount of $62,174 from Neusoft Positron Medical Systems Co. Ltd., for parts and materials purchased on behalf of the joint venture.

During the three and nine months ended September 30, 2007, the Company received cash advances from Imagin Molecular Corporation ("Imagin"), a related party. As of September 30, 2007 a total of $740,000 is owed by Positron to Imagin. The outstanding balance is reflected as a current liability on the balance sheet under the heading "Due to affiliates".

19. Segment Information and Major Customers

The Company has operations in the United States and Canada. Selected financial data by geographic area was as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2007	September 30, 2006	September 30,2007	September 30, 2006
	(In Thousands, except per share data)			
United States				
Revenues	$ 237	$ 423	$ 675	$ 887
Operating expenses	771	425	1,899	2,257
Net loss	(946)	(649)	(1,992)	(4,921)

Canada				
Revenues	$ 333	$ --	$ 1,965	$ --
Operating expenses	590	--	2,234	--
Net loss	(558)	--	(1,738)	--

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The Company believes that all of its material operations are conducted in the servicing and sales of medical imaging devices and it currently reports as a single segment.

During the nine months ended September 30, 2007, the Company had a limited number of customers as follows:

Number of customers	70
Customers accounting for more than 10% of revenues	1
Percent of revenues derived from largest customer	15%
Percent of revenues derived from second largest customer	26%

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-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.

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.

Positron Corporation (the “Company”) was incorporated in 1983 and commenced commercial operations during 1986. The Company designs, markets and services its POSICAM™ system advanced medical imaging devices, utilizing positron emission tomography (“PET”) technology, and through its wholly-owned subsidiary IPT markets the IS2 PulseCDC™ compact digital cardiac camera. Since the commencement of commercial operations and prior to the acquisition of IPT in 2006, revenues have been generated primarily from the sale and service contract revenues derived from the Company’s POSICAM™ system, 11 of which are currently in operation in certain medical facilities in the United States and 6 are operating in international medical institutions. The Company has never been able to sell its POSICAM™ systems in sufficient quantities to achieve operating profitability. For this reason, in 2005 the Company entered into a joint venture with Neusoft Medical Systems Co., Inc. of Shenyang, Lianoning Province, People's Republic of China. Through the joint venture the Company believes it can modernize and upgrade its technology and lower production costs of its systems.

Neusoft Positron Medical Systems Co. Ltd.

The Company’s joint venture with Neusoft Medical Systems Co., Inc. of Shenyang, Lianoning Province, People's Republic of China ("Neusoft"), named Neusoft Positron Medical Systems Co., Ltd. ("NPMS"), is active in the development and manufacture of Positron Emission Tomography systems (PET), and an integrated X-ray Computed Tomography system (CT) and PET system (PET/CT). These systems utilize the Company’s patented and proprietary technology, an imaging technique which assesses the biochemistry, cellular metabolism and physiology of organs and tissues, as well as producing anatomical and structural images. Targeted markets include medical facilities and diagnostic centers located throughout the world. POSICAM™ systems are used by physicians as diagnostic and treatment evaluation tools in the areas of cardiology, neurology and oncology. The Company faces competition principally from three other companies which specialize in advanced medical imaging equipment. To date NPMS has not produced a PET or CT system for sale. NPMS will be required to make a submission to the United States Food and Drug Administration for approval of its system modernization to the POSICAM™ systems. The Company anticipates that the submission will be made late in 2007 or early in 2008. FDA review time for similar submissions is typically four months.

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Imaging Pet Technologies – Business Acquisition

On January 26, 2007, the Company executed and consummated a Securities Purchase Agreement (the "Agreement") with Imagin Diagnostic Centres, Inc. ("IMAGIN"), to acquire 11,523,000 shares of common stock of Imaging Pet Technologies, Inc. ("IPT"). The Shares represented approximately a 50.1% of IPT's issued and outstanding common stock. As a result of the acquisition of the Shares, the Company owns 100% of the common stock of IPT. As consideration for the shares, the Company and IMAGIN agreed to cancel a promissory note in the principal amount of $2,400,000 made by IMAGIN subsidiary, QMP and later assigned to IMAGIN. As of the date of the Agreement, the Company had been advised by IMAGIN that it had acquired all of QMP's interest in IPT as well as QMP's other holdings of the Company's related securities.

Results of Operations

The consolidated results of operations for the three and nine month periods ended September 30, 2007 included the results of Positron Corporation and its wholly-owned subsidiary Imaging Pet Technologies ("IPT") and IPT's wholly-owned subsidiary Quantum Molecular Technologies ("QMT"). Results of operations for the three and nine month periods ended September 30, 2006 include results of only Positron Corporation. The Company acquired a 49.9% interest in IPT in May 2006 and the remaining 50.1% in January 2007. For the three and nine month periods ended September 30, 2006, the Company accounted for its investment in IPT under the equity method of accounting and thus did not consolidate IPT's results of operations for those periods.

Comparison of the Results of Operations for the Three Months ended September 30, 2007 and 2006

The Company experienced a net loss of $1,504,000 for the three months ended September 30, 2007 compared to a loss of $649,000 for the same quarter in 2006. The significant increase in the loss is due primarily to the addition of the IPT results to the consolidated operations. The net loss of IPT for the three months ended September 30, 2007 was $558,000.

Revenues - Revenues from the sales of IPT's gamma cameras were $236,000 for the three months ended September 30, 2007. For the three months ended September 30, 2006 the Company recorded system sales of $200,000 which represented the sale of a refurbished HZL Positron Emission Tomography ("PET") Imaging System to Imagin Nuclear Partners, a related party. Service revenue for the quarter was $334,000 as compared to $223,000 for the same period in 2006. The increase of nearly 50% is due in large part to service revenue from IPT. Service revenue for Positron Corporation alone was $236,000 for the three months ended September 30, 2007 compared to $223,000 for the same period in 2006.

Gross profit for the three months ended September 30, 2007 and 2006, was $121,000 and $163,000, respectively. Cost of sales related to systems was $271,000 for the three months ended September 30, 2007 compared to $50,000 for the same period in 2006. Costs of service and component sales for the three months ended September 30, 2007 decreased by $32,000 to $178,000 as compared to $210,000 for the same period in 2006.

Operating Expenses **-** Operating expenses increased $936,000 to $1,361,000 for the three months ended September 30, 2007 from $425,000 for the same period in 2006. The addition of IPT's operating expenses account for $590,000 of the increase. Significant increases in stock based compensation including common stock issued for services also contributed to the higher expense total in 2007.

Research and development costs for the three months ended September 30, 2007 were $425,000 compared to $162,000 for the three months ended September 30, 2006. For the three months ended September 30, 2007, IPT incurred $51,000 in research costs related to improvements and developments of gamma cameras while QMT had research expense of $225,000. QMT is developing certain next generation technologies including PET-enabled surgical tools and solid-state photo detector technology, which may have implications in both molecular imaging and PET and which could have further application in the military and aerospace segments. Positron's research and development costs of $149,000 were mostly costs associated with the NPMS joint venture and related costs of manufacturing modernization at the Company's Houston facility.

Sales and marketing expense for the three months ended September 30, 2007 increased to $103,000 from $37,000 for the same period in 2006. IPT's sales and marketing expenses of $161,000 account for most of the overall increase. Positron Corporations sales and marketing expenses were only $8,200 for the three months ended September 30, 2007. The Company has significantly reduced sales and marketing costs since no further manufacturing of PET systems is being done at the Houston facility. Manufacturing and modernization efforts are currently taking place in conjunction with the NPMS joint venture.

General and administrative expenses during the three months ended September 30, 2007 were $833,000 as compared $226,000 during the same period in 2006. The addition of IPT's general and administrative expenses account for $154,000 of the increase. Stock based compensation relating to stock options increased by $194,000 during the three months ended September 30, 2007 as compared to the same period in 2006. The Company also recorded consulting fees by issuing common stock for services performed in the amount of $376,800 for the three months ended September 30, 2007 as compared to $68,900 for the same period in 2006.

***Other Income (Expenses)* -** Interest expense of $64,000 for the three months ended September 30, 2007 was a decrease from $281,000 in interest expense during the same period in 2006, which was primarily interest on convertible debentures to affiliated entities. The debentures were all converted to shares of the Company's Series B Preferred Stock in September 2006. The Company also recorded derivative losses of $216,000 during the second quarter of 2007 as compared to a derivative gain of $73,000 for the same period in 2006. For the three months ended September 30, 2006, the Company recorded equity in the losses of joint ventures including NPMS and IPT of $179,000. No loss was recorded during the three months ended September 30, 2007 as the results of IPT are now consolidated and the investment in NPMS had been written down to zero under the equity method of accounting during the first quarter of 2007.

Comparison of the Results of Operations for the Nine Months ended September 30, 2007 and 2006

For the nine months ended September 30, 2007, the Company had a net loss of $3,730,000 compared to a net loss of $4,921,000 for the same quarter in 2006. Contributing to the significantly greater loss for the nine month period in 2006 was a loss from derivative liabilities of $1,815,000, higher interest expense and equity in losses of joint ventures.

Revenues - Revenues from the sales of IPT's gamma cameras were $1,665,000 for the nine months ended September 30, 2007. The Company did not consolidate IPT's accounts for the same period in 2006. Service revenues for the current nine month period were $975,000 as compared to $687,000 for the same period in 2006. The increase of 42% is due in large part to service revenue from IPT. Service revenue for Positron Corporation was $675,000 and $687,000 for the nine months ended September 30, 2007 and 2006, respectively.

Gross profit for the nine months ended September 30, 2007 and 2006, was $746,000 and $299,000, respectively. The increase in gross profits results from the sales and service from IPT gamma cameras. Gross margins were at 28% and 33% for the nine months ended September 30, 2007 and 2006, respectively. Margins on IPT system sales are lower than service revenue margins which accounts for the overall decrease.

Operating Expenses **-** Operating expenses increased $1,876,000 to $4,133,000 for the nine months ended September 30, 2007 from $2,257,000 for the same period in 2006. The addition of IPT's operating expenses account for majority of the increase. Significant increases in stock based compensation including common stock issued for services also contributed to the higher expense total in 2007.

Research and development costs for the nine months ended September 30, 2007 were $1,229,000 compared to $422,000 for the nine months ended September 30, 2006. IPT incurred $263,000 in research costs related to improvements and developments of gamma cameras while QMT had research expense of $557,000. Positron's research and development costs of $409,000 were mostly costs associated with the NPMS joint venture and related costs of manufacturing modernization at the Company's Houston facility.

Sales and marketing expense for the nine months ended September 30, 2007 increased to $689,000 from $482,000 for the same period in 2006. The increase in sales and marketing expenses results from the addition of IPT's expenses of $557,000 during the period. Positron Corporation in Houston, significantly reduced sales and marketing costs since manufacturing of PET systems is currently not being done at that facility. For the nine months ended September 30, 2007 Positron Corporation incurred $132,000 in sales and marketing expenses.

General and administrative expenses increased $862,000 to $2,215,000 for the nine months ended September 30, 2007 from $1,353,000 for the nine months ended September 30, 2006. The addition of IPT's general and administrative expenses account for $857,000 of the increase. Stock based compensation relating to stock options increased by $150,000 during the nine months ended September 30, 2007 as compared to the same period in 2006. The higher stock based compensation expense results from the issuance of 11,500,000 stock options to officers and directors in November 2006. The Company also recorded consulting fees by issuing common stock for services performed in the amount of $510,600 for the nine months ended September 30, 2007 as compared to $360,900 for the same period in 2006.

Other Income (Expenses) **-** Interest expense of $137,000 for the nine months ended September 30, 2007 was a significant decrease from $851,000 in interest expense during the same period in 2006, which was primarily interest on convertible debentures to affiliated entities. The debentures were all converted to shares of the Company's Series B Preferred Stock in September 2006. The Company also recorded derivative losses of $228,000 during the nine months ended September 30, 2007 as compared to derivative losses of $1,815,000 for the same period in 2006, when the related convertible debentures were issued. For the nine months ended September 30, 2007 and 2006 the Company recorded equity in the losses of joint ventures including NPMS and IPT of $23,000 and $297,000, respectively. The results of IPT are now consolidated and the investment in NPMS had been written down to zero under the equity method of accounting during the first quarter of 2007.

Financial Condition

The Company had cash and cash equivalents of $74,000 on September 30, 2007. On the same date, accounts payable and accrued liabilities outstanding totaled $2,500,000. The Company sold $1,665,000 of gamma cameras through IPT but did not sell any PET imaging systems during the nine month period ended September 30, 2007. Increased camera sales, sales of imaging systems and/or additional debt or equity financings will be necessary to resolve the Company's liquidity issues and allow it to continue to operate as a going concern. However, there is no assurance that the Company will be successful in selling new systems or securing additional debt or equity financing.

Since inception, the Company has expended substantial resources on research and development. Consequently, we have sustained substantial losses. Due to the limited number of systems sold or placed into service each year, revenues have fluctuated significantly from year to year. The Company had an accumulated deficit of $72,555,000 at September 30, 2007. The Company will need to increase system sales and apply the research and development advancements to achieve profitability in the future. Through the Company’s joint venture with Neusoft Medical Systems, PET system material cost of goods and labor costs will be significantly lower. In addition, the Company expects increased revenue from its IPT SPECT camera subsidiary to come from new sales campaigns and the service division. The Company expects that these developments will have a positive impact on the PET, PET/CT and SPECT device products, sales & service volumes and increased net margins.

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The Company's current financial condition raises doubt as to its ability to continue as a going concern. The report of the Company's independent public accountants, which accompanied the financial statements for the year ended December 31, 2006, was qualified with respect to that risk. If the Company is unable to obtain debt or equity financing to meet its cash needs it may have to severely limit or cease business activities or may seek protection from creditors under the bankruptcy laws.

ITEM 3 – CONTROLS AND PROCEDURES

As of September 30, 2007, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chairman of the Board and 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 Chairman of the Board and 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 Chairman of the Board and 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

From time to time the Company may be involved in various legal actions in the normal course of business for which the Company maintains insurance. The Company is currently not aware of any material litigation affecting the Company.

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

None

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5 – OTHER INFORMATION

ITEM 6 – EXHIBITS

(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.

SIGNATURES

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

POSITRON CORPORATION

Date: November 14, 2007

/s/ Patrick G. Rooney
Patrick G. Rooney
Chairman of the Board

Date: November 14, 2007

/s/ Corey N. Conn
Corey N. Conn
Chief Financial Officer