POSITRON CORP
Form 10-Q/A
August 05, 2008



UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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# FORM 10-Q/A

(Mark One)

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

For the quarterly period ended MARCH 31, 2008

OR

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

For the transition period from to

Commission file number 000-29449

POSITRON CORPORATION

(Exact Name of Small Business Issuer as specified in its charter)

| Texas | 76-0083622 |
|---|---|
| (State or Other Jurisdiction of Incorporation or Organization) | (IRS Employer Identification No.) |
| 1304 Langham Creek Drive, Suite 300, Houston, Texas | 77084 |
| (Address of Principal Executive Offices) | (Zip Code) |

Issuer's Telephone Number, Including Area Code: (281) 492-7100

N/A
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 Q No ¨

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ¨ | Accelerated filer | ¨ |
| Non-accelerated filer | ¨ | Smaller reporting company Q | |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No Q

The numbers of shares outstanding of each of the issuer's classes of common equity, as of May 20, 2008, are as follows:

| Class of Securities | Shares Outstanding |
|---|---|
| Common Stock, $0.01 par value | 116,240,384 |

Transitional Small Business Disclosure Format (check one): Yes ¨ No Q

FORM 10-Q MARCH 31, 2008

POSITRON CORPORATION
FOR THE QUARTER ENDED MARCH 31, 2008
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PART 1 – FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

| | March 31, 2008 (Unaudited) | December 31, 2007 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 184 | $ 192 |
| Accounts receivable | 180 | 222 |
| Inventories | 1,079 | 1,172 |
| Due from affiliates | 362 | 355 |
| Prepaid expenses | 97 | 106 |
| Other current assets | 31 | 24 |
| | | |
| Total current assets | 1,933 | 2,071 |
| | | |
| Investment in Joint Venture | -- | -- |
| Property and equipment, net | 54 | 56 |
| Other assets | 128 | 150 |
| Total assets | $ 2,115 | $ 2,277 |
| | | |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current liabilities: | | |
| Accounts payable, trade and accrued liabilities | $ 2,147 | $ 2,314 |
| Customer deposits | 468 | 397 |
| Unearned revenue | 126 | 90 |
| Due to affiliates | 1,755 | 1,346 |
| | | |
| Total current liabilities | 4,496 | 4,147 |
| | | |
| Obligation under capital lease | -- | 13 |
| Convertible notes payable, less discount of $1,163 and $1,165 | 206 | 135 |
| Deposits of unissued securities | 39 | 375 |
| Derivative liabilities for convertible debentures | 2,201 | 2,550 |
| | | |
| Total liabilities | 6,942 | 7,220 |
| | | |
| Stockholders' deficit: Series A Preferred Stock: $1.00 par value; 8% cumulative, convertible, redeemable; 5,450,000 shares authorized; 457,599 and 464,319 shares issued and outstanding | 458 | 464 |

| | | |
|---|---|---|
| Series B Preferred Stock: $1.00 par value; convertible, redeemable 9,000,000 shares authorized; 6,088,611 shares issued and 5,926,111 outstanding | 6,087 | 5,926 |
| Series G Preferred Stock: $1.00 par value; 8% cumulative, convertible, redeemable; 3,000,000 shares authorized; 111,391 shares outstanding | 29 | 29 |
| Common Stock: $0.01 par value; 800,000,000 shares authorized; 114,490,384, and 102,555,302 shares outstanding | 1,145 | 1,026 |
| Additional paid-in capital | 65,259 | 64,314 |
| Other comprehensive loss | (86) | (82) |
| Accumulated deficit | (77,704) | (76,605) |
| Treasury Stock: 60,156 common shares at cost | (15) | (15) |
| | | |
| Total stockholders' deficit | (4,827) | (4,943) |
| | | |
| Total liabilities and stockholders' deficit | $ 2,115 | $ 2,277 |

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 | |
|---|---|---|
| | March 31, 2008 | March 31, 2007 |
| Sales | $ 426 | $ 1,201 |
| Costs of sales | 548 | 822 |
| Gross profit (loss) | (122) | 379 |
| Operating expenses: | | |
| Research and development | 285 | 353 |
| Selling and marketing | 38 | 269 |
| General and administrative | 1,041 | 812 |
| Total operating expenses | 1,364 | 1,434 |
| Loss from operations | (1,486) | (1,055) |
| Other income (expense) | | |
| Interest expense | (78) | (33) |
| Derivative gains (losses) | 465 | (34) |
| Equity in losses of joint ventures | -- | (22) |
| Total other income (expense) | 387 | (89) |
| Loss before income taxes and majority interest | (1,099) | (1,144) |
| Majority interest in loss of subsidiary | -- | 25 |
| Loss before income taxes | (1,099) | (1,119) |
| Income taxes | -- | -- |
| Net loss | $ (1,099) | $ (1,119) |
| Other comprehensive income | | |
| Foreign currency translation loss | (4) | (21) |
| Comprehensive loss | $ (1,103) | $ (1,140) |

| | | | | |
|---|---|---|---|---|
| Basic and diluted loss per common share | $ | (0.01) | $ | (0.01) |
| | | | | |
| Weighted average number of basic and diluted common shares outstanding | | 106,428 | | 87,083 |

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

| | Three Months Ended | |
|---|---|---|
| | March 31, 2008 | March 31, 2007 |
| Cash flows from operating activities: | | |
| Net loss | $ (1,099) | $ (1,119) |
| Adjustment to reconcile net loss to net cash used in operating activities | | |
| Depreciation and amortization | 7 | 15 |
| Amortization of loan costs, debt discount and beneficial conversion features | 94 | 18 |
| Stock based compensation | 1 | 103 |
| Gain (loss) on derivative liabilities | (464) | 34 |
| Common stock issued for services | 425 | 90 |
| Equity in losses of joint ventures | -- | 22 |
| Majority interest in losses of consolidated subsidiary | -- | (25) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 39 | (32) |
| Inventory | 56 | 49 |
| Prepaid expenses | 7 | (49) |
| Other current assets | (8) | (3) |
| Accounts payable and accrued liabilities | 83 | (116) |
| Customer deposits | 81 | (115) |
| Unearned revenue | 36 | (28) |
| Net cash used in operating activities | (742) | (1,156) |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (3) | (13) |
| Net cash used in investing activities | (3) | (13) |
| Cash flows from financing activities: | | |
| Proceeds from notes payable to an affiliated entity | 410 | -- |
| Payments of notes payable | -- | (512) |
| Proceeds from private placements | -- | 1,903 |
| Payments for common stock | 50 | -- |
| Payments for preferred stock | 314 | -- |
| Capital lease payments | (18) | (1) |
| Repayments of advances to affiliated entities | 5 | 131 |
| Advance to affiliated entities | (14) | -- |
| Net cash provided by financing activities | 747 | 1,521 |

| | | | | |
|---|---|---|---|---|
| Effect of exchange rate changes on cash and cash equivalents | | (10) | | 5 |
| Net increase (decrease) in cash and cash equivalents | | (8) | | 357 |
| Cash and cash equivalents, beginning of period | | 192 | | 115 |
| Cash and cash equivalents, end of period | $ | 184 | $ | 472 |
| Supplemental cash flow information: | | | | |
| Interest paid | $ | -- | $ | -- |
| Income taxes paid | | -- | | -- |
| Non-cash disclosures | | | | |
| Convertible debenture discount with corresponding increase to paid in capital for value of warrants | $ | 366 | $ | -- |
| Convertible debenture discount with corresponding increase to derivative liabilities for beneficial conversion feature | $ | 285 | $ | -- |
| Conversion of debentures to common stock | $ | 46 | $ | -- |
| Conversion of accrued interest to convertible notes payable | $ | 116 | $ | -- |
| Conversion of Series A Preferred Stock to common stock | $ | 6 | $ | -- |

See accompanying notes

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, 2007. 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, 2007, as reported in the Form 10-KSB, have been omitted.

For the three months ended March 31, 2008 and 2007, the financial statements include the transactions of Positron Corporation, and is wholly-owned subsidiary, Imaging Pet Technologies, Inc. ("IPT"). All Intercompany transactions and balances have been eliminated.

2. Accounting Policies

Foreign Currency Translation

For the three months ended March 31, 2008 and 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.

Impairment of Long-Lived Assets

Periodically, the Company evaluates the carrying value of its plant and equipment, and long-lived assets, which includes patents and other intangible assets, by comparing the anticipated future net cash flows associated with those assets to the related net book value. If an impairment is indicated as a result of such reviews, the Company would remove the impairment based on the fair market value of the assets, using techniques such as projected future discounted cash flows or third party valuations.

Revenue Recognition

Revenues from POSICAMTM 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

The Company accounts for its share based compensation expense in accordance with SFAS 123 ("SFAS 123R"), "Share-Based Payment", which 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 POSICAMTM 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 March 31, 2008 and 2007, service costs charged to expense were $89,138 and $96,608, respectively. During the three months ended March 31, 2008 and 2007 the Company did not have any Posicam systems under warranty. Warranty expense for Pulse CDC gamma systems sold by IPT was $25,819 and $40,567 for the three months ended March 31, 2008 and 2007, respectively.

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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.

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.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements. SFAS No. 157 provides enhanced guidance for using fair value to measure assets and liabilities. The standard also requires expanded disclosures about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value and the effect of fair value measurements on earnings. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The adoption of Statement No. 157 does not materially impact the Company’s financial statements

New Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141(R), 'Business Combinations - Revised,' that improves the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. To accomplish that, this statement establishes principles and requirements how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree, recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The changes to current practice resulting from the application of SFAS No. 141(R) are effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of SFAS No. 141(R) before December 15, 2008 is prohibited. The Company has not determined the effect, if any, that may result from the adoption of SFAS No. 141(R) on its financial statements.

Management does not believe that any other recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying financial statements.

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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 March 31, 2008, the Company had an accumulated deficit of $77,704,000 and a stockholder's deficit of $4,827,000. 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 $184,000 at March 31, 2008. At the same date, the Company had accounts payable and accrued liabilities of $2,147,000. 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.

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 $2,592,256. 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 using the "fair value" methodology.

Goodwill Impairment

Under FASB Statement No. 142, Goodwill and Other Intangible Assets ("SFAS 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. Other identifiable intangible assets are amortized over their estimated useful lives. SFAS 142 requires that goodwill be tested for impairment annually, utilizing the "fair value" methodology. The Company has adopted December 31st as the date of the annual impairment test for goodwill.

Goodwill impairment is determined using a two-step process. The first step of the goodwill impairment test is used to identify potential impairment by comparing the fair value of a reporting unit with the net book value (of carrying amount), including goodwill. If the fair value of the reporting unit exceeds the carrying amount, goodwill of the reporting unit is considered not impaired and the second step of the impairment test is unnecessary. If the carrying amount of the reporting unit exceeds the fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. Accordingly, the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit. The fair value of the IPT reporting unit was determined using an income approach. Under the income approach, the fair value of a reporting unit is calculated based on the present value of estimated future cash flows. The present value of future cash flows uses our estimates of revenue for the reporting unit, driven by assumed growth rates and estimated costs as well as appropriate discount rates.

In performing the first step of the fiscal 2007 goodwill impairment test, management determined there was an indicator of impairment in the IPT goodwill because the carrying value of the reporting unit exceeded its estimated fair value.

In performing the second step of the goodwill impairment test, the Company allocated the estimated fair values of the IPT reporting unit determined in step one of the impairment test, to the assets and liabilities as if a new acquisition were being accounted for in accordance with SFAS 141.

Determining the fair value of the reporting unit under the first step of the goodwill impairment test and determining the fair value of individual assets and liabilities of a reporting unit under the second step of the goodwill impairment test is judgmental in nature and often involves the use of significant estimates and assumptions. Since the fair value of the IPT reporting unit was derived from projected revenues associated solely with developed technologies, which were identified as intangible assets in the original purchase accounting allocation, the fair value of the reporting unit

was hypothetically all allocated to developed technologies, with no remaining value to assign to goodwill. Based on the Company's annual review of goodwill in 2007, for the year ended December 31, 2007 Company recorded an impairment charge of $2,592,256, for the IPT reporting unit which represented the entire goodwill balance.

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 provides that the parties will 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.

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 interest 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 is 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, convertible into 345,000,000 shares of the Company's common stock to QMP and IMAGIN, pro rata.

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.

On January 26, 2007, IPT acquired all of the outstanding capital stock of QMT from Positron for the purchase price of $2,800,000 in the form of a promissory note. The non-interest bearing promissory note is payable on or before July 1, 2008 and is secured by a pledge of all of the issued and outstanding shares of QMT.

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. The Company will have the right to manufacture and sell any PET products developed by QMT in exchange for royalty payments still to be negotiated.

6. Inventories

Inventories at March 31, 2008 and December 31, 2007 consisted of the following (in thousands):

| | March 31, 2008 | Dec. 31, 2007 |
|---|---|---|
| Raw materials and service parts | $ 1,287 | $ 1,004 |
| Work in progress | 185 | 379 |

| | | | | |
|---|---|---|---|---|
| | | 1,472 | | 1,383 |
| Less: Reserve for obsolete inventory | | (393) | | (211) |
| Total | $ | 1,079 | $ | 1,172 |

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7. Due from affiliates

Due from affiliates at March 31, 2008 and December 31, 2007 consisted of the following (in thousands):

| | March 31, 2008 | Dec. 31, 2007 |
|---|---|---|
| Imagin Diagnostic Centres, Inc. | $ 10 | $ 11 |
| Imagin Nuclear Partners, Inc. | 313 | 320 |
| Neusoft Positron Medical Systems Co., Ltd. | 39 | 24 |
| | $ 362 | $ 355 |

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. For the three months ended March 31, 2008 and 2007, the JV Company had net losses of $292,000 and $382,000, respectively. For the three months ended March 31, 2007, the Company recorded losses related to its investment of $22,000. At March 31, 2008, the Company’s investment in NPMS was zero. The Company’s share of NPMS losses in excess of its investment approximates $420,000 as of March 31, 2008.

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9. Property and Equipment

Property and equipment at March 31, 2008 and December 31, 2007 consisted of the following (in thousands):

| | March 31, 2008 | Dec. 31, 2007 |
|---|---|---|
| Furniture and fixtures | $ 130 | $ 130 |
| Computers and peripherals | 91 | 89 |
| Machinery and equipment | 28 | 32 |
| Subtotal | 249 | 251 |
| Less: accumulated depreciation | (195) | (195) |
| Total | $ 54 | $ 56 |

10. Other Assets

Other assets at March 31, 2008 and December 31, 2007 consisted of the following (in thousands):

| | 2008 | 2007 |
|---|---|---|
| Intangible assets | 42 | 45 |
| Deferred loan costs | 86 | 105 |
| | | |
| Total | $ 128 | $ 150 |

11. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at March 31, 2008 and December 31, 2007 consisted of the following (in thousands):

| | 2008 | 2007 |
|---|---|---|
| Trade accounts payable | $ 1,544 | $ 1,529 |
| Accrued royalties | 229 | 311 |
| Accrued interest | 24 | 139 |
| Sales taxes payable | 103 | 103 |
| Accrued compensation | 93 | 63 |
| Accrued property taxes | 47 | 45 |
| Accrued professional fees | 57 | 25 |
| Accrued warranty costs | 50 | 84 |
| Other | -- | 15 |
| | | |
| Total | $ 2,147 | $ 2,314 |

12. 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. The Registration Statement filed to register common stock issuable upon conversion of the Debentures had yet to be declared effective. Accordingly, the Company has not received the third traunch of funding from the Investors. 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 Scholes 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.

On January 4, 2008 the Investors converted debentures in the amount of $40,986 into 872,052 shares of the Company's common stock at a price of $0.047 per share. Additionally, on March 6, 2008, the Investors converted debentures in the amount of $5,500 into 250,000 shares of common stock at a price of $0.022 per share. The conversions resulted in a reduction of $41,512 to the unamortized debt discount.

At March 31, 2008, the beneficial conversion features had an estimated fair value of $1,916,535. In valuing the beneficial conversion features at March 31, 2008, the Company used the closing price of its common stock of $0.055, risk free rate of return of 2.125%; dividend yield of 0%; the conversion price as defined in the debt agreement; remaining term to maturity; and a volatility factor of 121%. For the three months ended March 31, 2008 and 2007, the Company had derivative gains (losses) from the beneficial conversion features in the Convertible Debentures of $633,000 and ($34,000), 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 Scholes 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 Notes using the effective interest method.

Accrued Interest Converted To Notes

On January 31, 2008, the Investors converted accrued interest of $115,900 related to the Debentures into three Callable Secured Convertible Notes (the "Notes") with interest at the rate of 2% annually. The Notes 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%.

At the date of issuance, the beneficial conversion features had an estimated initial fair value of $284,589, of which $115,900 was recorded as a discount to the debt and $168,689 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 Scholes Valuation Method based on the fair value of the Company's common stock of $0.065; risk free rate of return of 2.125%; dividend yield of 0%; the conversion price as defined in the debt agreement; 3 year term to maturity; and a volatility factor of 237%. The debt discount is being amortized over the term of the Convertible Debentures using the effective interest method.

Advance from Related Party

During the year ended December 31, 2007, the Company received non-interest bearing advances from its affiliate, Imagin Molecular Corporation, ("IMGM") totaling $1,346,000. Positron's President and Director, Joseph Oliverio and its Chief Financial Officer and Director, Corey Conn are both officers and directors of IMGM.

On April 10, 2008, the Company and its affiliate, IMGM, formalized the advances of $1,346,000 from IMGM in the form of a promissory note bearing interest at 8% per annum, due on December 31, 2008 ( the "Note"). The Note is secured by a pledge of 100,000,000 shares of Positron's common stock, par value $0.001, (the "Pledged Shares") in accordance with a Stock Pledge Agreement (the "Pledge"). Upon a default of the Note or the Pledge, IMGM may sell the Pledged Shares to repay any and all amounts due under the Note.

During the three months ended March 31, 2008, IMGM advanced an additional $370,000 to the Company. The Company and IMGM have yet to finalize the terms of the advances. At March 31, 2008 the total amount owed to IMGM was $1,716,000.

13. Preferred Stock

Series A Preferred

In February, March and May of 1996, the Company issued 3,075,318 shares of Series A 8% Cumulative Convertible Redeemable Preferred Stock $1.00 par value ("Series A Preferred Stock") and Redeemable common stock Purchase Warrants to purchase 1,537,696 shares of the Company's Common Stock. The net proceeds of the private placement were approximately $2,972,000. Subject to adjustment based on issuance of shares at less than fair market value, each share of the Series A Preferred Stock was initially convertible into one share of common stock.

Each Redeemable common stock Purchase Warrant is exercisable at a price of $2.00 per share of common stock. Eight percent (8%) dividends on the Series A Preferred Stock may be paid in cash or in Series A Preferred Stock at the discretion of the Company. The Series A Preferred Stock is senior to the Company's common stock in liquidation. Holders of the Series A Preferred stock may vote on an as if converted basis on any matter requiring shareholder vote. While the Series A Preferred Stock is outstanding or any dividends thereon remain unpaid, no common stock dividends may be paid or declared by the Company. The Series A Preferred Stock may be redeemed in whole or in part, at the option of the Company, at any time subsequent to March 1998 at a price of $1.46 per share plus any undeclared and/or unpaid dividends to the date of redemption. Redemption requires at least 30 days advanced notice and notice may only be given if the Company's common stock has closed above $2.00 per share for the twenty consecutive trading days prior to the notice.

On March 6, 2008 a shareholder converted 6,720 shares of Series A Preferred Stock plus accrued interest into 16,922 shares of the Company's common stock, par value $0.01 per share. The fair market value of the common stock on the date of conversion was $0.05 per share. At March 31, 2008 there were 457,599 shares of Series A Preferred Stock were outstanding.

Series B Preferred

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 March 31, 2008 6,088,611 shares of Series B Preferred Stock were outstanding.

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.

During the three months ended March 31, 2008, the Company issued 162,500 shares of its Series B Preferred Stock in a private placement to investors for $650,000. For every two shares of Series B Preferred purchased, the Company

issued a warrant exercisable for 100 shares of common stock at an exercise price of $0.10 per shares. The warrants were valued using the Black Scholes Valuation Method based on the fair value of the Company's common stock of $0.06; an exercise price of $0.10; a 2 year term; risk free rate of return of 2.125%; dividend yield of 0%;and a volatility factor of 181%. The fair value of the warrants of $365,517 was recorded as an increase to Additional paid-in capital – stock warrants.

Series G Preferred

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 March 31, 2008, 111,391 shares of Series G Preferred Stock remained outstanding.

14. 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 March 31, 2008 and 2007 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 | | | |
|---|---|---|---|---|
| | March 31, 2008 | | March 30, 2007 | |
| Basic and diluted loss | $ | (1,099) | $ | (1,119) |
| | | | | |
| Denominator | | | | |
| Basic and diluted earnings per share-weighted average shares outstanding | | 106,428 | | 87,083 |
| | | | | |
| Basic and diluted loss per common share | $ | (0.01) | $ | (0.01) |

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Anti-dilutive securities not included in net loss per share calculation) as of March 31, 2008 and 2007 (in thousands):

| | 2008 | 2007 |
|---|---|---|
| Convertible Series A Preferred Stock | 458 | 464 |
| Convertible Series B Preferred Stock | 608,861 | 573.986 |
| Convertible Series G Preferred Stock | 11,139 | 20,448 |
| Stock Warrants | 65,749 | 58,124 |
| Stock Options | 19,425 | 19,425 |
| | 705,632 | 672,447 |

15. Stock Based Compensation

Total stock-based compensation expense related to currently outstanding options was approximately $1,000 and $103,000 for the three months ended March 31, 2008 and 2007, respectively.

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 8,500,000 and 1,000,000 shares of common stock to consultants under its stock incentive plans during the three months ended March 31, 2008 and 2007, respectively. Accordingly the Company recorded consulting expense equal to the fair market value of the shares issued of $425,000 and $90,000 during the three months ended March 31, 2008 and 2007, respectively.

16. 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 | |
|---|---|---|
| | March 31, 2008 | March 31, 2007 |
| United States | | |
| Revenues | $ 203 | $ 226 |
| Operating expenses | 980 | 596 |
| Net loss | (546) | (571) |
| | | |
| Canada | | |
| Revenues | $ 223 | $ 975 |
| Operating expenses | 384 | 838 |
| Net loss | (553) | (548) |

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 three months ended March 31, 2008, the Company had a limited number of customers as follows:

| | |
|---|---|
| Number of customers | 40 |
| Customers accounting for more than 10% of revenues | 1 |
| Percent of revenues derived from largest customer | 36% |

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

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

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

Positron Corporation (the “Company”) was incorporated in 1983 and commenced commercial operations during 1986. The Company designs, markets and services its POSICAMTM system advanced medical imaging devices, utilizing positron emission tomography (“PET”) technology, and through its wholly-owned subsidiary IPT markets the IS2 PulseCDCTM 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. POSICAMTM 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 POSICAMTM systems. The Company anticipates that the submission will be made late in 2008. FDA review time for similar submissions is typically four months.

Results of Operations

The consolidated results of operations for the three month periods ended March 31, 2008 and March 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"). The Company acquired a 49.9% interest in IPT in May 2006 and the remaining 50.1% in January 2007.

Comparison of the Results of Operations for the Three Months ended March 31, 2008 and 2007

The Company experienced a net loss of $1,099,000 for the three months ended March 31, 2008 compared to a loss of $1,119,000 for the same quarter in 2007. Although revenues decreased significantly for the three months ended March 31, 2008 compared to the same period in 2007, the net loss was comparable due to a significant derivative gain included in other income.

Revenues - Revenues for the three months ended March 31, 2008 were $426,000 as compared to $1,201,000 for the three months ended March 31, 2007. The significant decrease is due primarily to a drop in sales of IPT gamma cameras. The Company sold six (6) camera totaling $875,000 during the three months ended March 31, 2007 while for the same period in 2008, only one camera was sold with revenue recorded at $155,000. The decrease in unit sales is attributed to the late 2007 change in the Company's sales and marketing efforts from a third party distribution model to an internal sales force and the time required to ramp up its efforts. Service revenue for the three months ended March 31, 2008 and 2007 totaled $271,000 and $326,000, respectively. The 17% drop is explained in large part by the non-renewal of service contracts by three of the Company's customers. Those customers are now billed for time and materials on a per call basis.

The Company recorded gross loss for the three months ended March 31, 2008 of $122,000 and recorded gross profit of $379,000 for the same period in 2007. The current loss is due to the decrease in system revenues and the fact that fixed overhead was absorbed by the sale of only a single machine.

Operating Expenses - Operating expenses for the three months ended March 31, 2008 were $1,364,000 compared to$1,434,000 for the three months ended March 31, 2007.

Research and development costs for the three months ended March 31, 2008 were $285,000 compared to $353,000 for the three months ended March 30, 2007. For the three months ended March 31, 2008, IPT's wholly-owned subsidiary, QMT, had research expenses of $11,000 compared to $175,000 during the three months ended March 31, 2007. Research have decreased upon the successful completion of the Company's Phase I development of its solid state photo detector with Kotura, Inc. 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.

Sales and marketing expense for the three months ended March 31, 2008 decreased to $38,000 from $269,000 for the same period in 2007. IPT's sales and marketing expenses were $19,000 and $260,000 for the three months ended March 31, 2008 and 2007, respectively. The Company has significantly reduced sales and marketing costs at IPT by shifting costs to the parent company, Positron, as the Company integrates its sales and marketing efforts as one medical imaging company in preparation of the late 2008 availability of its PET device.

General and administrative expenses during the three months ended March 31, 2008 were $1,041,000 as compared $812,000 during the same period in 2007. The Company also recorded consulting fees by issuing common stock for services performed in the amount of $425,000 for the three months ended March 31, 2008 as compared to $90,000 for the three months ended March 31, 2007.

Other Income (Expenses) - Interest expense of $78,000 for the three months ended March 31, 2008 was an increase of $45,000 over interest expense recorded during the same period in 2007. The increase related to the amortization of debt discount for the convertible debentures. Interest expense related to the debt discount was $71,000 in the first quarter of 2008 compared to $14,000 for the same quarter in 2007. The Company also recorded derivative gains of $465,000 for the three months ended March 31, 2008 and derivative losses of $34,000 for the three months ended March 31, 2007. Derivative gains, which relate to beneficial conversion features in convertible debentures, resulted from changes in variables used to calculate fair market value using the Black Scholes Model. Reduction in both the Company's stock price and the volatility of the stock price yielded a significantly lower fair market value of the conversion features thus reducing the derivative liability. For the three months ended March 30, 2007, the Company recorded equity in the losses of joint ventures including NPMS of $22,000. No loss was recorded during the three months ended March 31, 2008 as the investment in NPMS had been written down to zero under the equity method of accounting during the first quarter of 2007.

Liquidity and Capital Reserves

At March 31, 2008, the Company had current assets of $1,933,000 and current liabilities of $4,496,000 compared to December 31, 2007 when the Company had current assets and current liabilities of $2,071,000 and $4,147,000, respectively. The increase in current liabilities over December 31, 2007 is due to additional funds of $370,000 advanced to the Company by Imagin Molecular Corporation ("IMGM"), a related party. In addition to these funds, the Company owes IMGM $1,346,000 from advance made during the year ended December 31, 2007. The Company and IMGM executed a note payable for $1,346,000 on April 10, 2008, which accrues interest at 8% and is due on December 31, 2008.

Cash and cash equivalents at March 31, 2008 were $184,000 and accounts receivable were $180,000.

Net cash used in operating activities was $742,000 and $1,156,000 for the three months ended March 31, 2008 and 2007, respectively. The decrease is attributable in large part to decreases in both research and development and selling expenses at IPT.

Net cash provided by financing activities were $747,000 and $1,903,000 for the three months ended March 31, 2008 and 2007, respectively. During the three months ended March 31, 2007 the Company raised $1,903,000 from a private placement of its Series B Preferred Shares and paid $512,000 to Imagin Diagnostic Centres, a related party, for amounts advanced to Quantum Molecular Technologies. During the three months ended March 31, 2008 the Company issued Series B Preferred Shares for $650,000, of which $336,000 was received in 2007 while $314,000 was received during the first quarter of 2008. The Company also issued common stock to unrelated investors for $50,000.

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 $77,704,000 at March 31, 2008. 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.

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, 2007, 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 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a result of its operations in Canada and the Peoples Republic of China, the Company is exposed to various market risks, including changes in interest rates. Market risk is the potential loss arising from adverse changes in market rates and prices, such as interest rates and foreign currency exchange rates. The Company does not anticipate that these risks will adversely affect the Company's operations. Accordingly, the Company does not enter into derivatives or other financial instruments for trading or speculative purposes. The Company also has not entered into financial instruments to manage and reduce the impact of changes in interest rates and foreign currency exchange rates, although we may enter into such transactions in the future.

## ITEM 4 – CONTROLS AND PROCEDURES

### Evaluation of Disclosure Controls and Procedures

Based upon an evaluation of the effectiveness of disclosure controls and procedures, our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Exchange Act) were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the rules and forms of the SEC and is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

### Changes in Internal Control over Financial Reporting

As reported in our Annual Report on Form 10-KSB for the year ended December 31, 2007, management is aware that there is a significant deficiency in our internal control over financial reporting. The significant deficiency relates to a lack of segregation of duties due to the small number of employees involvement with general administrative and financial matters. However, management believes that compensating controls are in place to mitigate the risks associated with the lack of segregation of duties. Compensating controls include outsourcing certain financial functions to an independent contractor. Management concluded that internal controls over financial reporting were effective as of December 31, 2007.

There have not been any changes in the Company's internal control over financial reporting during the quarter ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

There have been no changes in the Company's internal controls over financial reporting that occurred during the Company's most recent fiscal quarter, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

## 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

### 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. |

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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: July 30, 2008

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

Date: July 30, 2008

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