POSITRON CORP
Form 10-Q
May 17, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(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, 2013

Commission file number 000-29449

POSITRON CORPORATION

(Exact Name of Registrant as specified in its charter)

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

530 Oakmont Lane, Westmont, Illinois 60559 **(866) 613-7587**
(Address of Principal Executive Offices) (Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

Number of shares outstanding of common stock, par value $0.01 per share outstanding as of May 17, 2013: 1,452,548,262

POSITRON CORPORATION

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PART 1 – FINANCIAL INFORMATION

ITEM 1. Financial Statements

POSITRON CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	March 31, 2013 (Unaudited)	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 40	$ 243
Accounts receivable, less allowance for doubtful accounts of $50	292	273
Inventories, less reserve of $457	641	551
Prepaid expenses	35	37
Total current assets	1,008	1,104
Property and equipment, less accumulated depreciation of $393 and $346	1,124	1,170
Intangible assets	358	358
Other assets	53	53
Total assets	$ 2,543	$ 2,685
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable, trade and accrued liabilities	$ 1,682	$ 1,634
Customer deposits	746	746
Unearned revenue	54	58
Notes payable – current portion	690	129
Convertible debenture, less debt discount of $1,348 and $1,798	2,012	1,562
Embedded conversion derivative liabilities	3,920	3,981
Total current liabilities	9,104	8,110
Notes payable – noncurrent portion	537	560
Contingent earnout payable	205	205
Total liabilities	9,846	8,875
Stockholders' deficit:		
Series A preferred stock: $1.00 par value; 8% cumulative, convertible, redeemable; 7,900,000 shares authorized; 440,932 shares issued and outstanding.	441	441

Series B preferred stock: $1.00 par value; convertible, redeemable; 9,000,000 shares authorized; 3,056,487 shares issued and outstanding	2,750	2,750
Series S preferred stock: $1.00 par value; convertible, redeemable; 100,000 shares authorized; 100,000 shares issued and outstanding	100	100
Common stock: $0.01 par value; 3,000,000,000 shares authorized; 1,451,927,262 shares issued and outstanding	14,203	14,203
Additional paid-in capital	92,890	92,802
Other comprehensive income	(143)	(143)
Accumulated deficit	(117,529)	(116,328)
Treasury stock: 60,156 shares at cost	(15)	(15)
Total stockholders’ deficit	(7,303)	(6,190)
Total liabilities and stockholders’ deficit	$ 2,543	$ 2,685

See accompanying notes to consolidated financial statements

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POSITRON CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	For The Three Months Ended March 31, 2013	March 31, 2012
Sales:	$371	$829
Costs of sales:	246	470
Gross profit	125	359
Operating expenses:		
General and administrative	567	1,765
Research and development	228	313
Selling and marketing	99	83
Total operating expenses	894	2,161
Loss from operations	(769)	(1,802)
Other income (expense)		
Interest expense	(493)	(287)
Derivative gain (loss)	61	(876)
Other income	-	3
Total other income (expense)	(432)	(1,160)
Loss before income taxes	(1,201)	(2,962)
Income taxes	-	-
Net loss and comprehensive loss	$(1,201)	$(2,962)
Basic and diluted loss per common share	$(0.00)	$(0.00)

Basic and diluted weighted average shares outstanding	1,451,927	970,887

See accompanying notes to consolidated financial statements

POSITRON CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended	
	March 31, 2013	March 31, 2012
Cash flows from operating activities:		
Net loss	$(1,201)	$(2,962)
Adjustment to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	47	48
Loss on writeoff of leasehold improvements	-	7
Stock based compensation	88	1,066
Derivative losses	(61)	876
Common stock issued for services	-	99
Deferred rent	-	77
Accretion of debt discount	450	269
Changes in operating assets and liabilities:		
Accounts receivable	(19)	(83)
Inventories	(90)	173
Prepaid expenses and other assets	2	29
Accounts payable, trade and accrued liabilities	48	138
Customer deposits	-	72
Common stock payable	-	80
Unearned revenue	(4)	(231)
Net cash used in operating activities	(740)	(342)
Cash flows from investing activities:		
Purchase of property and equipment	(1)	(23)
Purchase of MIT, net of cash acquired	-	1
Net cash used in investing activities	(1)	(22)
Cash flows from financing activities:		
Borrowings under note payable	-	708
Payments on note payable	(62)	(703)
Noninterest bearing advances	600	260
Payment of noninterest bearing advances	-	(250)
Common stock issued	-	351

Net cash provided by financing activities	538	366
Net increase (decrease) in cash and cash equivalents	(203)	2
Cash and cash equivalents, beginning of period	243	1
Cash and cash equivalents, end of period	$40	$3
Supplemental cash flow information:		
Non-cash disclosures		
Issuance of 17,000,000 common stock owed	$-	$269
Allocation of Convertible Debentures to warrants and embedded conversion derivative liability	$-	$250
Issuance of common stock, warrants, and convertible debentures for purchase of building from related party	$-	$500
Property and equipment additions financed	$-	$50
Noncash consideration for MIT acquisition (see Note 4)	$-	$255

See accompanying notes to consolidated financial statements

POSITRON CORPORATION AND SUBSIDIARIES

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The accompanying unaudited interim financial statements have been prepared in accordance with generally accepted accounting principles and the rules of the U.S. Securities and Exchange Commission, and should be read in conjunction with the audited financial statements and notes thereto contained in the Annual Report on Form 10-K for Positron Corporation (the “Registrant” or the “Company”) for the year ended December 31, 2012. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position, results of operations and cash flows for the interim periods presented have been reflected herein. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the financial statements which would substantially duplicate the disclosures contained in the audited financial statements for the most recent fiscal year ended December 31, 2012, as reported in the Form 10-K, have been omitted.

In preparing the interim unaudited consolidated financial statements, management was required to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures at the financial reporting date and throughout the periods being reported upon. Certain of the estimates result from judgments that can be subjective and complex and consequently actual results may differ from these estimates.

All significant intercompany balances and transactions have been eliminated.

2. Significant Accounting Policies

For a summary of significant accounting policies (which have not changed from December 31, 2012), see the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amount of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Intangible Assets

The Company has goodwill and identified intangible assets with determinable lives. Identified intangible assets consist of patents acquired in MIT acquisition on January 17, 2012 (see Note 4). The goodwill and patents were assessed a fair value of $346,000 and $14,000 under the purchase accounting with patents being amortized on a straight-line basis over the estimated useful life of 6 years. Amortization expense of identified intangibles is expected to be approximately $2,333 in each of the next six years. As of March 31, 2013 and 2012, the amortization expense related to the Company's identified intangible assets was immaterial. Goodwill is not amortized under generally accepted accounting principles.

The Company accounts for its goodwill in accordance with the Accounting Standards Codification ("ASC") 350-20, *Intangibles – Goodwill and Other.* Goodwill represents the excess of the fair value of consideration paid over the fair value of identified net assets recognized and represents the future economic benefits arising from assets acquired that could not be individually identified and separately recognized. The Company assesses the carrying amount of goodwill by testing the goodwill for impairment at least annually and whenever events or changes in circumstances or a triggering event indicate that the carrying amount may not be recoverable. If the carrying amount of a reporting unit exceeds its fair value, the Company is required to measure the possible goodwill impairment based upon an allocation of the estimate of fair value of the reporting unit to all of the underlying assets and liabilities of the reporting unit, including any previously unrecognized intangible assets (Step Two Analysis). The excess of the fair value of a reporting unit over the amounts assigned to its assets and liabilities ("carrying amount") is the implied fair value of goodwill. An impairment loss is recognized to the extent that a reporting unit's recorded goodwill exceeds the implied fair value of goodwill. There have been no triggering events in the three months ended March 31, 2013 and 2012 and therefore, no goodwill impairment was recorded.

The Company also reviews its identified intangible assets for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. The Company assesses recoverability by reference to future cash flows from the products underlying these intangible assets. If these estimates change in the future, the Company may be required to record impairment charges for these assets. As of March 31, 2013, no impairment was recorded.

Debt Discount

Costs incurred with parties who are providing long-term financing, which generally include the value of warrants or the fair value of an embedded derivative conversion feature, are reflected as a debt discount and are amortized over the life of the related debt. The debt discount attributable to the warrants issued with convertible debentures during the three months ended March 31, 2013 and 2012 was $0 and $185,000, respectively. The debt discount attributable to the embedded conversion derivative liability during the three months ended March 31, 2