UNIVERSAL COMPRESSION HOLDINGS INC
Form 10-Q
November 03, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

ý **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended September 30, 2005

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 Numbers: 001-15843
333-48279

UNIVERSAL COMPRESSION HOLDINGS, INC.
UNIVERSAL COMPRESSION, INC.

(Exact name of registrants as specified in their charters)

DELAWARE **TEXAS** (States or Other Jurisdictions of	**13-3989167** **74-1282680** (I.R.S. Employer Identification Nos.)

Incorporation or Organization)

4444 BRITTMOORE ROAD	
HOUSTON, TEXAS	**77041**
(Address of Principal Executive Offices)	(Zip Code)

(713) 335-7000

(Registrants telephone number, including area code)

Indicate by check mark whether the registrants (1) have 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 registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.

Yes ý No o

Indicate by check mark whether the registrants are accelerated filers (as defined in Rule 12b-2 of the Exchange Act).

Yes ý No o (Universal Compression Holdings, Inc.)

Yes o No ý (Universal Compression, Inc.)

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

Yes o No ý

UNIVERSAL COMPRESSION, INC. MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION H(1)(a) AND (b) OF FORM 10-Q AND IS THEREFORE FILING THIS FORM 10-Q WITH THE REDUCED DISCLOSURE FORMAT.

As of November 1, 2005, there were 32,252,732 shares of Universal Compression Holdings, Inc. s common stock, $0.01 par value, outstanding and 4,910 shares of Universal Compression, Inc. s common stock, $10.00 par value, outstanding.

PART I. FINANCIAL INFORMATION

ITEM 1. ***Financial Statements***

UNIVERSAL COMPRESSION HOLDINGS, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands)

(unaudited)

	September 30, 2005	March 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 26,979	$ 38,723
Restricted cash	4,801	
Accounts receivable, net of allowance for bad debts of $3,614 and $2,747 as of September 30, 2005 and March 31, 2005, respectively	103,089	116,270
Current portion of notes receivable	101	129
Inventories, net of reserve for obsolescence of $11,823 and $10,981 as of September 30, 2005 and March 31, 2005, respectively	106,242	95,394
Deferred income taxes	6,138	6,138
Other	12,572	13,206
Total current assets	259,922	269,860
Contract compression equipment	1,538,797	1,485,637
Other property	163,625	141,114
Accumulated depreciation and amortization	(351,960)	(300,968)
Net property, plant and equipment	1,350,462	1,325,783
Goodwill	402,881	401,278
Notes receivable	1,090	1,038
Other assets	26,126	24,799
Total assets	$ 2,040,481	$ 2,022,758
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable, trade	$ 44,199	$ 57,942
Accrued liabilities	42,684	37,862
Unearned revenue	31,686	32,201
Accrued interest	5,908	5,619
Current portion of long-term debt and capital lease obligations	25,200	20,400
Total current liabilities	149,677	154,024
Capital lease obligations	305	347
Long-term debt	793,141	837,349
Deferred income taxes	176,051	158,017
Derivative financial instruments used for hedging purposes	5,486	6,283
Other liabilities	7,216	5,066
Total liabilities	1,131,876	1,161,086
Commitments and contingencies (Note 8)		

Stockholders equity:		
Common stock	323	320
Treasury stock	(11)	(11)
Additional paid-in capital	757,903	751,898
Deferred compensation	(6,611)	(7,438)
Accumulated other comprehensive loss	(13,833)	(18,116)
Retained earnings	170,834	135,019
Total stockholders equity	908,605	861,672
Total liabilities and stockholders equity	$ 2,040,481	$ 2,022,758

See accompanying notes to unaudited consolidated financial statements.

UNIVERSAL COMPRESSION HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(unaudited)

	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Six Months Ended September 30, 2005	Six Months Ended September 30, 2004
Revenue:				
Domestic contract compression	$ 81,964	$ 73,178	$ 161,636	$ 144,151
International contract compression	31,076	22,872	61,376	45,617
Fabrication	28,193	57,772	84,029	115,135
Aftermarket services	39,895	38,062	81,771	71,854
Total revenue	181,128	191,884	388,812	376,757
Costs and expenses:				
Domestic contract compression direct costs	29,849	26,798	57,625	53,062
International contract compression direct costs	8,087	5,412	15,994	10,324
Fabrication direct costs	24,769	51,772	77,741	105,108
Aftermarket services direct costs	31,782	30,204	64,829	56,817
Depreciation and amortization	26,439	23,123	52,072	45,796
Selling, general and administrative	21,012	18,245	41,450	36,460
Interest expense, net	13,034	16,154	25,494	32,972
Debt extinguishment costs				475
Gain on termination of interest rate swaps				(3,197)
Foreign currency (gain) loss	(610)	882	(1,447)	524
Other (income) loss, net	(524)	(56)	(172)	361
Total costs and expenses	153,838	172,534	333,586	338,702
Income before income taxes	27,290	19,350	55,226	38,055
Income tax expense	9,611	7,160	19,411	14,080
Net income	$ 17,679	$ 12,190	$ 35,815	$ 23,975
Weighted average common and common equivalent shares outstanding:				
Basic	31,902	31,336	31,853	31,291
Diluted	32,836	32,045	32,749	31,981
Earnings per share Basic	$ 0.55	$ 0.39	$ 1.12	$ 0.77
Earnings per share Diluted	$ 0.54	$ 0.38	$ 1.09	$ 0.75

See accompanying notes to unaudited consolidated financial statements.

UNIVERSAL COMPRESSION HOLDINGS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(unaudited)

	Six Months Ended September 30, 2005	2004
Cash flows from operating activities:		
Net income	$ 35,815	$ 23,975
Adjustments to reconcile net income to cash provided by operating activities, net of effect of acquisitions:		
Depreciation and amortization	52,072	45,796
Non-cash gain from interest rate swap settlement		(3,197)
Loss on early extinguishment of debt		475
(Gain) loss on asset sales	(169)	303
Amortization of debt issuance costs	1,151	2,139
Amortization of deferred compensation	938	434
Deferred taxes provision	15,221	8,904
(Increase) decrease in receivables	14,341	(16,199)
Increase in inventories	(10,848)	(474)
Increase (decrease) in accounts payables	(13,743)	4,373
Increase (decrease) in accrued liabilities	5,144	(2,126)
Decrease in unearned revenue	(515)	(8,598)
Increase (decrease) in accrued interest	289	(1,015)
Decrease in other current assets and liabilities, net	1,036	3,514
Other	(913)	(3,604)
Net cash provided by operating activities	99,819	54,700
Cash flows from investing activities:		
Additions to property, plant and equipment	(80,528)	(59,585)
Proceeds from sale of property, plant and equipment	8,276	4,659
Increase in restricted cash	(4,801)	
Cash paid for acquisitions, net of cash acquired		(3,099)
Net cash used in investing activities	(77,053)	(58,025)
Cash flows from financing activities:		
Principal repayments of long-term debt	(40,040)	(99,238)
Borrowings under revolving credit facility		12,000
Debt extinguishment premium and costs		(400)
Interest rate swap settlement		(3,067)
Proceeds from common stock issuance	5,087	2,537
Payments on capital lease agreements	(407)	(1,294)
Net cash used in financing activities	(35,360)	(89,462)
Effect of exchange rate changes on cash and cash equivalents	850	317
Net decrease in cash and cash equivalents	(11,744)	(92,470)
Cash and cash equivalents at beginning of period	38,723	121,189
Cash and cash equivalents at end of period	$ 26,979	$ 28,719

See accompanying notes to unaudited consolidated financial statements.

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Total liabilities	1,131,876	1,161,086
Commitments and contingencies (Note 8)		
Stockholder s equity:		
Common stock	49	49

Additional paid-in capital		744,128		737,293
Accumulated other comprehensive loss		(13,833)		(18,116)
Retained earnings		178,261		142,446
Total stockholder s equity		908,605		861,672
Total liabilities and stockholder s equity	$	2,040,481	$	2,022,758

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UNIVERSAL COMPRESSION, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands)

(unaudited)

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UNIVERSAL COMPRESSION HOLDINGS, INC.

UNIVERSAL COMPRESSION, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2005

1. Basis of Presentation

These notes apply to the unaudited consolidated financial statements of both Universal Compression Holdings, Inc. (Holdings) and Universal Compression, Inc. (Universal). The term Company will be used if a statement is applicable to both Holdings and Universal; the term Holdings will be used if a statement refers only to Universal Compression Holdings, Inc.; and the term Universal will be used if a statement refers to only Universal Compression, Inc. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements presented in the Company s Annual Report on Form 10-K for the year ended March 31, 2005. That report contains a more comprehensive summary of the Company s major accounting policies. In the opinion of management, the accompanying unaudited consolidated financial statements contain all appropriate adjustments, all of which are normally recurring adjustments unless otherwise noted, considered necessary to present fairly the financial position of the Company and its consolidated subsidiaries and the results of operations and cash flows for the respective periods. Operating results for the three-month and six-month periods ended September 30, 2005 are not necessarily indicative of the results that may be expected for the fiscal year ending March 31, 2006.

Earnings per share

Net income per share, basic and diluted, is calculated for Holdings in accordance with Statement of Financial Accounting Standards (SFAS) No. 128, Earnings per Share.

The only potentially dilutive securities issued by Holdings are stock options and unvested restricted stock grants, neither of which would impact the calculation of net income for dilutive earnings per share purposes.

The dilutive effect of stock options and unvested restricted stock grants outstanding for the three and six months ended September 30, 2005 was 934,000 shares and 896,000 shares, respectively. The dilutive effect of stock options and unvested restricted stock grants outstanding for the three and six months ended September 30, 2004, was 709,000 shares and 690,000 shares, respectively. For the three and six months ended September 30, 2005, outstanding stock options of 2,000 and 194,000 shares, respectively, were excluded from the computation of diluted earnings per share as the options exercise prices were greater than the average market price of the common stock for such periods. For the three and six months ended September 30, 2004, outstanding stock options of 367,000 and 368,000 shares, respectively, were excluded from the computation of diluted earnings per share as the options exercise prices were greater than the average market price of the common stock for such periods.

Reclassifications

Certain reclassifications have been made to the prior period amounts to conform to the current period classification.

Stock Options

In electing to follow Accounting Principles Board (APB) No. 25, Accounting for Stock Issued to Employees, for expense recognition purposes, the Company is obligated to provide the expanded disclosures required under SFAS No. 123, Accounting for Stock Based Compensation, and SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of SFAS No. 123, for stock-based compensation granted in 1998 and thereafter. In addition, if materially different from reported results, the Company is obligated to disclose pro forma net income and earnings per share had compensation expense relating to the three months and six months ended September 30, 2005 and September 30, 2004 grants been measured under the fair value recognition provisions of SFAS No. 123.

The following table summarizes results as if the Company had recorded compensation expense under the provisions of SFAS No. 123 for the three months and six months ended September 30, 2005 and 2004 (earnings per share information is for Holdings only) (in thousands, except per share amounts):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2005	2004	2005	2004
Net income, as reported	$ 17,679	$ 12,190	$ 35,815	$ 23,975
Add: Stock-based compensation for restricted stock awards included in reported net income, net of tax	285	146	609	273
Deduct: Stock-based compensation determined under the fair value method, net of tax	(1,033)	(732)	(2,105)	(1,444)
Pro forma net income	$ 16,931	$ 11,604	$ 34,319	$ 22,804
Basic earnings per share:				
As reported	$ 0.55	$ 0.39	$ 1.12	$ 0.77
Pro forma	$ 0.53	$ 0.37	$ 1.08	$ 0.73
Diluted earnings per share:				
As reported	$ 0.54	$ 0.38	$ 1.09	$ 0.75
Pro forma	$ 0.52	$ 0.36	$ 1.05	$ 0.71

2. Recent Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 151, Inventory Costs - an amendment of ARB 43, Chapter 4. SFAS No. 151 provides clarification that abnormal amounts of idle facility expense, freight, handling costs and wasted material be recognized as current period charges. In addition, SFAS No. 151 requires the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The implementation of SFAS No. 151 is not expected to have a material impact on the Company s financial statements.

In December 2004, the FASB issued SFAS No. 123R, Share-Based Payment. This statement is a revision to SFAS No. 123 and supercedes APB Opinion No. 25. This statement requires that the compensation cost relating to share-based payment transactions be recognized in the financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. This statement will be effective for the Company beginning in fiscal year 2007. See Note 1 for the pro forma impact that the adoption of SFAS No. 123R would have on the Company s results of operations.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29, to address the measurement of exchanges of nonmonetary assets. SFAS No. 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. This statement was adopted by the Company beginning July 1, 2005. The adoption of this statement had no impact on the Company s previously issued financial statements and is not expected to have a material impact on future financial statements.

In December 2004, the FASB issued FASB Staff Position (FSP) No. 109-1, Application of FASB Statement No. 109, Accounting for Income Taxes, concerning the Tax Deduction on Qualified Production Activities provided for by the American Jobs Creation Act of 2004. The American Jobs Creation Act provides for a tax deduction from income of qualified domestic production activities. FSP No. 109-1 provides for the treatment of the deduction as a special deduction as described in SFAS No. 109. Based upon the Company s analysis of FSP No. 109-1, the Company does not expect to benefit from this special deduction for several more years and as such, this deduction will have no effect on existing deferred tax assets or liabilities.

In December 2004, the FASB issued FSP No. 109-2, Accounting and Disclosure Guidance for the Foreign Repatriation Provision within the American Jobs Creation Act of 2004, which provides guidance under SFAS No. 109 with respect to recording the potential impact of the repatriation provisions of the Act on a company s income tax expense and deferred tax liability. FSP No. 109-2 states that a company is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS No. 109. The Company has no current plans to repatriate foreign earnings under the provisions in the Act. Any such repatriation under the Act must occur by December 31, 2005. Accordingly, the Company s financial statements are not expected to be impacted by FSP No. 109-2.

In March 2005, the FASB issued FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143. This statement clarifies that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation when incurred, if the liability s fair value can be reasonably estimated. The provisions of FIN 47 are effective January 1, 2006. The Company does not expect the adoption of this Interpretation will have a material effect on its financial statements.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3. SFAS No. 154 requires retrospective application to prior periods financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The implementation of SFAS No. 154 is not expected to have a material impact on the Company s financial statements.

3. Inventories, Net

Inventories, net consisted of the following (in thousands):

	September 30, 2005	
		The PosiRx™ was developed as the first system of its kind to offer a complete and comprehensive automated solution for the preparation and dispensing of radiopharmaceuticals.

The PosiRx™ system was introduced in March of 2011 to the American Pharmacist Association Annual Meeting & Exposition and in April 2011 at the American College of Cardiology Annual Conference. The Company has a co-development agreement to develop and custom manufacture automated nuclear pharmacy equipment that functions with Covidien radiopharmaceutical products. The PosiRx™ system has successfully completed testing of key criteria required for validation at the New Mexico Center for Isotopes in Medicine at the University of New Mexico (“UNM”). In addition to the “beta” unit that was tested at UNM, initial, commercial systems have been fully constructed and tested at the Positron facilities in Fisher’s Indiana.

Three pilot systems are currently scheduled to be installed with leading nuclear cardiology luminaries and a nuclear pharmacy outside the U.S. To better meet market demand, Positron intends to implement two different revenue models: 1) lease and service PosiRx systems to practices/hospitals handling their own radiopharmaceutical consumables, and 2) sell radiopharmaceutical consumables directly to practices/hospitals through PosiRx systems installed there.

Positron made significant advancements on a proprietary automated quality control module for the PosiRx system, including patent filing for a proprietary method of testing Tc-99m compounds for radiochemical purity. The module is currently in beta prototype testing and is expected to be available by the end of 2011.

RADIOPHARMACEUTICAL MANUFACTURING

Positron has the capacity to manufacture both radioactive and non-radioactive pharmaceutical products and devices at its manufacturing and research and development facility in Crown Point, Indiana. While the Company intends to focus on unique, small batch, radioactive products, the facility also allows for the production of products requiring 510k's, aNDA's, NDA's and IND's, as well as, certified compounding products for pharmacy use. This facility is a research and development foundation for Positron's further expansion into the radiopharmaceutical manufacturing market, a key strategy for the Positron's business objectives.

Positron expects initial revenue from the sale of indium 111In Oxyquinoline (Indium Oxine), an approved generic radiopharmaceutical widely used for the radio-labeling of blood cells. Positron will initially produce and market a radiochemical grade of Indium Oxine and will increase its radiopharmaceutical product offerings as the Company expands into additional markets. Positron filed an amendment to its existing NRC license to allow this site to manufacture and ship radiochemical products to customers. Approval of this amendment is expected in the fourth quarter of 2011.

Isotopes manufacturing

Positron has been working on execution of a business plan to build and operate a high energy cyclotron facility to be used primarily for production of medical isotopes for diagnostic imaging and radiotherapy. The proposed facility will be equipped with a 70MeV cyclotron and be unique in that it is capable of producing isotopes that are not available or have very limited availability from other commercial sources in the United States. Positron intends to couple a cyclotron with a material processing facility, isotope target manufacturing, drug manufacturing and Positron's expanding equipment-manufacturing operations.

The project is planned to be implemented through a wholly owned subsidiary, Positron Isotopes Corporation. Positron executed an agreement with IBA Molecular, of Belgium, to manufacture a 70 MeV cyclotron and contracted American Structurepoint Inc. to design the first facility. The facility will be located in the city of Noblesville, Indiana, concurrent with the relocation of Positron's corporate headquarters and manufacturing.

On July 12, 2011, the Noblesville City Council approved to provide Positron with $6.7 million in economic incentives through the issuance of long-term Economic Development Tax Increment Revenue Bonds. On September 6, 2011, the Indiana Economic Development Corporation awarded $38 million of tax-exempt Midwestern Disaster Area Bonds to Positron Corporation.

The major isotope to be produced is Sr-82 that is currently in short supply in the world and produced in the U.S. only by the DOE national laboratories. The isotope is used as a parent isotope for production of Rb-82 in Sr-82/Rb-82 generators for PET myocardial perfusion imaging. This would allow Positron to have a complete integrated value chain that includes radioisotope production, generator distribution, unit dose delivery of the radiopharmaceutical and sale of the PET imaging equipment (Attrius®).

Results of Operations

Comparison of the Results of Operations for the Three Months ended September 30, 2011 and 2010

The Company experienced a net loss of $1,453,000 for the three months ended September 30, 2011 compared to a net income of $265,000 for the three months ended September 30, 2010. The decrease in the net income for the current three month period as compared to the same period last year is attributed primarily to the other income recognized during the three months ended September 30, 2010 (the forgiveness of accounts payable and the gain related to the retirement of the derivative liability) which did not occur in 2011.

Revenues - Revenues for the three months ended September 30, 2011 were $482,000 as compared to $1,013,000 for the three months ended September 30, 2010. Systems sold during the three months ended September 30, 2011 were $0 while system sales for the same period in 2010 were $823,000. The sales of PET scanners have been negatively affected by the shortage of Sr-82 and the recall of Sr/Rb generators by Bracco Diagnostics. Service revenue was $482,000 and $190,000 for the three months ended September 30, 2011 and 2010, respectively. The increase in service revenues was largely due to the recognition of $175,000 of warranty related revenue during the three months ended September 30, 2011, compared to $0 for the comparable period in 2010.

Gross Margin - Gross margin for the three months ended September 30, 2011 and 2010 was $(19,000) and $(113,000), respectively. During the three months ended September 30, 2011, and 2010 the Company recognized $175,000 and $0 of revenue related to warranty on the sale of equipment which occurred prior to September 30, 2011.

Operating Expenses - Operating expenses for the three months ended September 30, 2011 were $1,081,000 compared to $2,521,000 for the three months ended September 30, 2010.

Research and development costs for the three months ended September 30, 2011 were $401,000 compared to $417,000 for the three months ended September 30, 2010. Research and development costs include payroll, contract labor and consulting fees for the development of the PosiRx™, automated radiopharmaceutical system. A portion of the costs include radiopharmaceutical research and development activity at the Company's Crown Point, Indiana facility.

Sales and marketing expense for the three months ended September 30, 2011 and 2010 were $221,000 and $343,000, respectively. Sales and marketing expenses for the three months ended September 30, 2011 include salaries and commissions of approximately $133,000, advertising expense of $17,000 and trade show expenses of $41,000. Sales and marketing expenses for the three months ended September 30, 2010 includes salaries and commissions of approximately $175,000, advertising expense of $68,000 and trade show expenses of $45,000.

General and administrative expenses during the three months ended September 30, 2011 were $459,000 as compared to $1,761,000 for the three months ended September 30, 2010. During the three months ended September 30, 2011, these expenses consisted principally of $123,000 of payroll expense, $101,000 of consulting expense, and $95,000 of legal and professional fees. General and administrative expenses during the three months ended September 30, 2010 principally consisted of stock based compensation totaling 1,255,000, $147,000 of consulting expense, $175,000 of legal and professional fees and $116,000 of payroll expense.

Other Income (Expenses) - Interest expense was $123,000 for the three months ended September 30, 2011 and includes $108,000 for the accretion of the convertible debentures discount, and $15,000 for interest payable on the convertible debentures. The Company also recognized derivative losses of $230,000 on the embedded conversion derivative liabilities during the three months ended September 30, 2011.

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During the three months ended September 30, 2010, the Company recorded a $2,104,000 gain for the retirement of the derivative obligation related to the conversion feature on the convertible debentures which was settled in full and $824,000 on the forgiveness of accounts payable pursuant to settlements reached with various vendors related to the closed Canadian facility.

Comparison of the Results of Operations for the Nine Months ended September 30, 2011 and 2010

The Company experienced a net loss of $5,023,000 for the nine months ended September 30, 2011 compared to a net loss of $9,364,000 for the nine months ended September 30, 2010. The decrease in the current nine month period as compared to the same period last year is attributed primarily to stock based compensation charges during the nine months ended September 30, 2010, partially offset by changes in other income (expense).

Revenues - Revenues for the nine months ended September 30, 2011 were $6,374,000 as compared to $2,414,000 for the nine months ended September 30, 2010. PET systems sold during the nine months ended September 30, 2011 were $5,486,000 compared to $1,762,000 for the same period in 2010, accounting for the significant increase in revenues.

Gross Margin - Gross margin for the nine months ended September 30, 2011 and 2010 was $341,000 and $273,000, respectively. During the nine months ended September 30, 2011 and 2010, the Company deferred $460,000 and $297,000, respectfully, of revenue related to warranty on the sale of equipment which will be recognized into revenue over 12 months, which is the warranty term provided for by the Company. In addition, during the nine months ended September 30, 2011 and 2010, the Company recognized $391,000 and $51,000, respectfully, of revenue related to warranty on the sale of equipment which occurred prior to September 30. Gross margin for the nine months ended September 30, 2011 was positively impacted from recording a $250,000 receivable for certain excess freight charges owed from Neusoft.

Operating Expenses - Operating expenses for the nine months ended September 30, 2011 were $3,741,000 compared to $13,153,000 for the nine months ended September 30, 2010.

Research and development costs for the nine months ended September 30, 2011 were $1,062,000 compared to $881,000 for the nine months ended September 30, 2010. Research and development costs for the nine months ended September 30, 2011 included mostly payroll, contract labor and consulting fees for the development of the PosiRx™, automated radiopharmaceutical system. A portion of the costs include radiopharmaceutical research and development activity at the Company's Crown Point, Indiana facility.

Sales and marketing expense for the nine months ended September 30, 2011 and 2010 were $888,000 and $779,000, respectively. Sales and marketing expenses for the nine months ended September 30, 2011 include salaries and commissions of approximately $446,000, advertising expense of $110,000 and trade show expenses of $217,000. Sales and marketing expenses for the nine months ended September 30, 2010 include salaries and commissions of approximately $387,000, advertising expense of $128,000 and trade show expenses of $127,000.

General and administrative expenses during the nine months ended September 30, 2011 were $1,791,000 as compared to $11,493,000 for the nine months ended September 30, 2010. The significant decrease is attributable to lower stock based compensation in 2011. During the nine months ended September 30, 2011, general and administrative expense largely consisted of $449,000 of payroll expenses, $440,000 of stock compensation, $237,000 of consulting fees, and $227,000 of legal and professional fees. During the nine months ended September 30, 2010, the Company granted 2,500,000 Series B Preferred Stock options to employees and recorded stock based compensation expense $2,500,000 related to the issuance of the options. Additionally, the Company issued preferred and common stock for services and for post-acquisition payment and recorded stock compensation of $7,125,000 during the nine months ended

September 30, 2010. Also, the Company recorded approximately $318,000 of payroll expenses and $282,000 of legal and professional fees during the nine months ended September 30, 2010.

Other Income (Expenses) - Interest expense was $900,000 for the nine months ended September 30, 2011 and includes the $700,000 for the accretion of convertible debentures upon conversion to Series B Preferred stock as well as $173,000 for the accretion of the convertible debentures discount, and $27,000 for interest payable on the convertible debentures. The Company also recognized derivative losses of $723,000 on the embedded conversion derivative liability during the nine months ended September 30, 2011.

During the nine months ended September 30, 2010, the Company recorded a $2,104,000 gain for the retirement of the derivative obligation related to the conversion feature on the convertible debentures and $1,088,000 on the forgiveness of accounts payable and accrued liabilities pursuant to settlements reached with various vendors related to the closed Canadian facility. Other income also includes $367,000 of accrued interest forgiven pursuant to a settlement agreement reached with the holder secured convertible notes for which the Company was in default. These notes were satisfied in July 2010.

Liquidity and Capital Resources

At September 30, 2011, the Company had current assets of $2,838,000 and current liabilities of $3,683,000 compared to December 31, 2010 when the Company had current assets and current liabilities of $4,789,000 and $5,259,000 respectively. Total assets at September 30, 2011 were $3,155,000 compared to $5,173,000 at December 31, 2010. Total liabilities were $5,123,000 and $5,259,000 at September 30, 2011 and December 31, 2010, respectively.

Cash and cash equivalents at September 30, 2011 were $194,000 compared to $1,141,000 at December 31, 2010. Accounts receivable was $1,215,000 at September 30, 2011 compared to $514,000 at December 31, 2010.

Current liabilities include accounts payable and accrued expenses of $1,434,000. Customer deposits of $1,952,000 include $1,283,000 of deposits for three Attrius® PET systems, two used machines and approximately $669,000 from a customer that had placed an order for five Nuclear Pharm-Assist™ systems.

Net cash used in operating activities was $3,484,000 and $4,675,000 for the nine months ended September 30, 2011 and 2010, respectively.

Net cash used in investing activities were $8,000 and $196,000 for the nine months ended September 30, 2011 and 2010, respectively.

Net cash provided by financing activities was $2,545,000 and $5,611,000 for the nine months ended September 30, 2011 and 2010, respectively.

The Company's ability to achieve its objectives is dependent on its ability to sustain and enhance its revenue stream and to continue to raise funds through loans, credit and the private placement of restricted securities until such time as the Company achieves profitability. To date, management has been successful in raising cash on an as-needed basis for the continued operations of the Company. There is no guarantee that management will be able to continue to raise needed cash in this fashion.

The report of the Company’s independent public accountants, which accompanied the financial statements for the year ended December 31, 2010, was qualified with respect to the ability of the Company to continue as a going concern. If the Company is unable to obtain debt or equity financing to meet its ongoing cash needs, it may have to limit or disregard portions of its business plans

The Company has no material commitments for capital expenditures at this time. The Company has no “off balance sheet” source of liquidity arrangements.

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required for smaller reporting companies.

ITEM 4 – CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Based upon an evaluation of the effectiveness of disclosure controls and procedures, our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Exchange Act) were not effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the rules and forms of the SEC and is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. As reported in our Annual Report on Form 10-K for the year ended December 31, 2010, the Company's chief executive and financial officer has determined that there are material weaknesses in our disclosure controls and procedures.

The material weaknesses in our disclosure control procedures are as follows:

1 Lack of formal policies and procedures necessary to adequately review significant accounting transactions. The Company utilizes a third party independent accounting contractor for the preparation of its financial statements. Although the financial statements and footnotes are reviewed by our management, we do not have a formal policy to review significant accounting transactions and the accounting treatment of such transactions. The third party independent contractor is not involved in the day to day operations of the Company and may not be provided information from management on a timely basis to allow for adequate reporting/consideration of certain transactions.

2. Audit Committee and Financial Expert. The Company does not have a formal audit committee with a financial expert, and thus the Company lacks the board oversight role within the financial reporting process.

During 2011, the Company and its third party consultant, which prepares the financial statements, implemented formal procedures whereby significant accounting transactions and the accounting treatment of such transactions is discussed and documented monthly. The Company anticipates this will allow for the adequate reporting/consideration of complex accounting issues and will remediate the related material weakness.

The Company intends to form an Audit Committee that will establish policies and procedures that will provide the Board of Directors a formal review process that will among other things, assure that management controls and procedures are in place and being maintained consistently. The Company anticipates that this action will remediate the related material weakness.

Changes in Internal Control over Financial Reporting

As reported in our Annual Report on Form 10-K for the year ended December 31, 2010, management is aware that there is a significant deficiency and a material weakness in our internal control over financial reporting and therefore has concluded that the Company’s internal controls over financial reporting were not effective as of December 31, 2010. 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. The material weakness relates to a lack of formal policies and procedures necessary to adequately review significant accounting transactions.

During 2011, the Company and its third party consultant, which prepares the financial statements, implemented formal procedures whereby significant accounting transactions and the accounting treatment of such transactions is discussed and documented monthly. The Company anticipates this will allow for the adequate reporting/consideration of complex accounting issues and will remediate the related material weakness.

There have not been any other changes in the Company's internal control over financial reporting during the quarter ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1 – LEGAL PROCEEDINGS

None.

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

During the nine months ended September 30, 2011, investors exercised warrants on preferred stock for which the Company received $595,000 in cash proceeds and issued 130,000 shares of Series B preferred stock. In addition, the Company received $250,000 in cash proceeds for warrants and issued 125,000 shares of Series B preferred stock, which were exercised at December 31, 2010, and recorded as receivable from warrants exercise at December 31, 2010.

On July 15, 2011, the Company issued 500,000 shares of common stock to an unrelated party for consulting services.

On August 2, 2011, the Company issued 3,000 shares of Series B stock to an unrelated party for consulting services.

The securities described above were offered and sold in reliance upon exemptions from registration pursuant to Section 4(2) under the Securities Act and Rule 506 of Regulation D promulgated thereunder. The agreements executed in connection with this sale contain representations to support the Registrant's reasonable belief that the Investor had access to information concerning the Registrant's operations and financial condition, the Investor acquired the securities for their own account and not with a view to the distribution thereof in the absence of an effective registration statement or an applicable exemption from registration, and that the Investor are sophisticated within the meaning of Section 4(2) of the Securities Act and are "accredited investors" (as defined by Rule 501 under the Securities Act). In addition, the issuances did not involve any public offering; the Registrant made no solicitation in connection with the sale other than communications with the Investor; the Registrant obtained representations from the Investor regarding their investment intent, experience and sophistication; and the Investor either received or had access to adequate information about the Registrant in order to make an informed investment decision.

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 – (REMOVED AND RESERVED)

ITEM 5 – OTHER INFORMATION

None.

ITEM 6 – EXHIBITS

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.
10.1	Interactive Data Files*

This exhibit is furnished herewith, but not deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section. Such certifications will not be deemed to be incorporated by reference in any filing under the Securities Act or the Exchange Act, except to the extent that we explicitly incorporate them by reference.

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 11, 2011	/s/ Patrick G. Rooney Patrick G. Rooney Chief Executive Officer,, Chairman of the Board (principal executive officer)
Date: November 11, 2011	/s/ Corey N. Conn Corey N. Conn Chief Financial Officer (principal accounting officer)

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