POSITRON CORP
Form 10KSB
April 13, 2007

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

ANNUAL REPORT
UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006
Commissions file number: 0-24092

Positron Corporation
A Texas Corporation
1304 Langham Creek Drive, Suite 300, Houston, Texas 77084
(281) 492-7100

IRS Employer Identification Number: 76-0083622

Securities registered under Section 12(b) of the Exchange Act: NONE
Securities registered under Section 12(g) of the Exchange Act: COMMON STOCK, $.01 PAR VALUE

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. £

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes S No £

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. £

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

Issuer's revenues for fiscal year ended December 31, 2006: $2,213,000.

Aggregate market value of common stock held by non-affiliates of the Registrant as of April 10, 2007: $6,020,520.

As of April 10, 2007, there were 87,205,202 shares of the Registrant's common stock, $.01 par value outstanding.

Transitional Small Business Disclosure Format (check one): Yes £ No S

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PART I

Item 1. Description of Business

General

Positron Corporation (the "Company") was incorporated in the State of Texas on December 20, 1983, and commenced commercial operations in 1986. The Company designs, manufactures, markets and services advanced medical imaging devices utilizing positron emission tomography ("PET") technology under the trade-name POSICAM™ systems. POSICAM(TM) systems incorporate patented and proprietary software and technology for the diagnosis and treatment of patients in the areas of cardiology, oncology and neurology. Positron Corporation offers unique combination of low cost technology and disease specific software solutions differentiating themselves from all other medical device manufacturers. Unlike other currently available imaging technologies, PET technology permits the measurement of the biological processes of organs and tissues as well as producing anatomical and structural images. POSICAM™ systems, which incorporate patented and proprietary technology, enable physicians to diagnose and treat patients in the areas of cardiology, neurology and oncology. The Food and Drug Administration ("FDA") approved the initial POSICAM™ system for marketing in 1985, and as of December 31, 2005, the Company has sold twenty eight (28) POSICAM™ systems, of which eleven (11) are in leading medical facilities in the United States and six (6) are installed in international medical institutions. The Company has reacquired one system, which is being held in inventory for resale. The Company presently markets its POSICAM™ systems at list prices of up to $1.7 million depending upon the configuration and equipment options of the particular system.

PET technology is an advanced imaging technique, which permits the measurement of the biological processes of organs and tissues, as well as producing anatomical and structural images. Other advanced imaging techniques, such as magnetic resonance imaging ("MRI") and computed tomography ("CT"), produce anatomical and structural images, but do not image or measure biological processes. The ability to measure biological abnormalities in tissues and organs allows physicians to detect disease at an early stage, and provides information, which would otherwise be unavailable, to diagnose and treat disease. The Company believes that PET technology could lower the total cost of diagnosing and tracing certain diseases by providing a means for early diagnosis and reducing expensive, invasive or unnecessary procedures, such as angiograms or biopsies which, in addition to being costly and painful, may not be necessary or appropriate.

Commercialization of PET technology commenced in the mid-1980s and the Company is one of several commercial manufacturers of PET imaging systems in the United States. Although the other manufacturers are substantially larger, the Company believes that its POSICAM™ systems have proprietary operational and performance characteristics, which may provide certain performance advantages over other commercially available PET systems. Such performance advantages include: (i) high count-rate capability and high sensitivity, which result in faster, more accurate imaging; (ii) enhanced ability to use certain types of radiopharmaceuticals, which reduces reliance on a cyclotron and enhances patient throughput; (iii) ability to minimize patient exposure to radiation; and (iv) ability to minimize false positive and false negative diagnoses of disease. The medical imaging industry in which the Company is engaged is, however, subject to rapid and significant technological change. There can be no assurance that the POSICAM™ systems can be upgraded to meet future innovations in the PET industry or that new technologies will not emerge, or existing technologies will not be improved, which would render the Company's products obsolete or non-competitive. See "Item 1. Description of Business – Risks Associated with Business Activities—Substantial Competition and Effects of Technological Change".

The Company's initial focus was the clinical cardiology market, where its POSICAM™ systems have been used to assess the presence and extent of coronary artery disease, such as the effect of arterial blockages and heart damage due to

heart attacks. In 1994 and 1995, the Company made technological advances which allowed it to market its products to the neurological and oncological markets. Neurological applications of POSICAM™ systems include diagnoses of certain brain disorders, such as epileptic seizures, dementia, stroke, Alzheimer's disease, Pick's disease and Parkinson's disease. In oncology, POSICAM™ systems are used in the diagnosis and evaluation of melanoma and tumors of the bone and various organs and tissues such as the brain, lungs, liver, colon, breasts and lymphatic system.

Medical Imaging Industry Overview

Diagnostic imaging allows a physician to assess disease, trauma or dysfunction without the necessity of surgery. The diagnostic imaging industry includes ultrasound, X-ray, MRI, CT, and nuclear medicine (which include PET and Single-Photon Emission Computed Tomography ("SPECT")). MRI technology uses powerful magnetic fields to provide anatomical and structural images of the brain, the spine and other soft tissues, as well as determining the location and size of tumors. CT scans use X-ray beams to obtain anatomical and structural images of bones and organs. Nuclear medicine focuses on providing information about the function and biological processes of organs and tissues through the use of radiopharmaceuticals.

The first prototype PET scanner was developed in the mid 1970s and the first commercial PET scanner was constructed in 1978. Approximately 1,600 dedicated PET systems are currently operational in the United States and approximately 500 additional dedicated PET systems are in commercial use internationally.

PET Technology

The PET imaging process begins with the injection of a radiopharmaceutical (a drug containing a radioactive agent) by a trained medical person into a patient's bloodstream. After being distributed within the patient's body, the injected radiopharmaceutical undergoes a process of radioactive decay, whereby positrons (positively charged electrons) are emitted and subsequently converted along with free electrons into two gamma rays or photons. These paired gamma events are detected by the POSICAM™ systems as coincidence events. The source of the photons is determined and is reconstructed into a color image of the scanned organ utilizing proprietary computer software. Since certain functional processes, such as blood flow, metabolism or other biochemical processes, determine the concentration of the radiopharmaceutical throughout the body, the intensity or color at each point in the PET image directly maps the vitality of the respective function at that point within an organ.

In cardiology, PET imaging is an accurate, non-invasive method of diagnosing or assessing the severity of coronary artery disease. Unlike other imaging technologies, PET technology allows a physician to determine whether blood flow to the heart muscle is normal, thereby identifying narrowed coronary arteries, and whether damaged heart muscle is viable and may benefit from treatment such as bypass surgery or angioplasty. In addition, dynamic and gated imaging can display and measure the ejection fraction and wall motion of the heart.

In neurology, PET imaging is now being used as a surgical planning tool to locate the source of epileptic disturbances in patients with uncontrollable seizures. In other neurological applications, PET is used in the diagnosis of dementia, Alzheimer's disease, Pick's disease and Parkinson's disease, and in the evaluation of stroke severity.

In oncology, PET imaging has historically been used to measure the metabolism of tumor masses after surgery or chemotherapy. Clinical experience has shown that PET is more accurate than CT scans or MRI in determining the effectiveness of chemotherapy and radiotherapy in the treatment of cancer. PET scans are becoming commonly used to assess suspected breast cancer and whether the lymph system has become involved. Whole body PET scans are now routinely performed to survey the body for cancer. This application enables oncologists to see the total picture of all metastases in a patient, thereby allowing them to properly tailor the course of treatment.

The radiopharmaceuticals employed in PET imaging are used by organs in their natural processes, such as blood flow and metabolism, without affecting their normal function, and quickly dissipate from the body. Radiopharmaceuticals used in PET procedures expose patients to a certain amount of radiation, which is measured in units of milliRads. Exposure to radiation can cause damage to living tissue, and the greater the radiation exposure, the greater the potential for damage. Certain PET procedures expose a patient to less radiation than would be associated with

other imaging technologies. A PET cardiac scan, using the radiopharmaceutical Rubidium-82, results in exposure of approximately 96 milliRads, while a neurological PET scan using 18-FDG, results in exposure of approximately 390 milliRads. In contrast, a typical chest X-ray results in exposure of approximately 150 milliRads and a CT scan results in exposure of approximately 500 to 4,000 milliRads, depending on the procedure.

Radiopharmaceuticals used in PET technology can be created using many natural substances including carbon, oxygen, nitrogen and fluorine. The PET procedure to be performed determines the type of radiopharmaceutical used. Radiopharmaceuticals are made ready for use at a clinic, hospital, or commercial nuclear pharmacy by either a cyclotron or generator. Cyclotrons require an initial capital investment of up to $2 million, an additional capital investment for site preparation, and significant annual operating expenses. Generators require an initial capital investment of approximately $60,000, no additional capital investment for site preparation, and monthly operating expenses of approximately $30,000. While POSICAM™ systems have been designed flexibly to be used with both cyclotron and generator-produced radiopharmaceuticals; they have proprietary design features that enhance their ability to use generator-produced radiopharmaceuticals. As a result, clinics or hospitals intending to focus on certain cardiac PET applications can avoid the significant capital and operating expenses associated with a cyclotron.

Marketing Strategy

The Company's initial marketing strategy targeted clinical cardiology based on research conducted at the University of Texas. This research showed the commercial potential of clinical cardiology applications of PET imaging. With the development of the POSICAM™ HZ, POSICAM™ HZL, mPower™ and the Company's upcoming technology from our joint venture partner in China, Positron will present to the market affordable technology that specializes in cardiac imaging. The Company believes that it can capture significant market share by leveraging its strong reputation in the cardiology marketplace with combining physician and patient concentric software applications.

To market its systems, Positron relies on referrals from users of its existing base of installed scanners, trade show exhibits, trade journal advertisements, clinical presentations at professional and industry conferences, and published articles in trade journals. The Company uses both sales personnel and key distributors who have geographic or market expertise. Positron incurs minimal expense for sales until there is a completed sale. Positron continued to broaden its communications with the market in support of sales through its developing distribution network and using the internet and directed mailings. We believe that this approach will be cost effective and allow Positron to compete cost effectively with larger competitors. There is no assurance that the Company's marketing strategy is sufficiently aggressive to compete against larger, better funded competitors.

The POSICAM™ System

At the heart of the POSICAM™ system is its detector assembly, which detects the gammas from positron emissions, and electronic circuits that pinpoint the location of each emission. POSICAM™ systems are easy to use and are neither physically confining nor intimidating to patients. POSICAM™ scans are commonly performed on an outpatient basis.

The Company's POSICAM™ system compares favorably with PET systems produced by other manufacturers based upon count rate and sensitivity. The count-rate and sensitivity of an imaging system determine its ability to detect, register and assimilate the greatest number of meaningful positron emission events in the shortest period of time. The high count-rate capability and sensitivity of the POSICAM™ systems result in good diagnostic accuracy as measured by fewer false positives and false negatives. Further benefits of high count-rate and sensitivity include faster imaging and the ability to use short half-life radiopharmaceuticals, thereby reducing patient exposure to radiation and potentially reducing the capital cost to some purchasers by eliminating the need for a cyclotron for certain cardiac applications.

The detector assembly consists of crystals, which scintillate (emit light) when exposed to gamma photons from positron-electron annihilations, in combination with photomultiplier tubes, which are coupled to the crystals and convert the scintillations into electrical impulses. The Company employs its own patented staggered crystal array design for the POSICAM™ detectors. Unlike competing PET systems, this feature permits the configuration of the detector crystals to collect overlapping slices and more accurately measure the volume of interest by eliminating image sampling gaps. This is important since under-sampling, or gaps in sampling, can contribute to an inaccurate diagnosis. The crystal design also reduces "dead time" - the time interval following the detection and registration of an event during which a subsequent event cannot be detected. The basic unit of identification within each crystal module is small, thereby reducing the probability of multiple hits during a dead period for higher levels of radioactive flux (activity in the patient).

The POSICAM™ system creates a high number of finely spaced image slices. An image slice is a cross-sectional view that is taken at an arbitrary angle to the angle of the organ being scanned, and not necessarily the angle a physician wishes to view. The POSICAM™ computer can then adjust the cross-sectional view to create an image from any desired angle. The high number of finely spaced image slices created by the POSICAM™ system enhances the accuracy

of the interpreted image set.

An integral part of a POSICAM™ system is its proprietary data acquisition microprocessor and its application system software. The Company's software can reconstruct an image in five seconds or less. The Company has expended substantial effort and resources to develop computer software that is user-friendly and clinically oriented. The only personnel needed to perform clinical studies with the POSICAM™ systems are a trained nurse, a trained technician and an overseeing physician for patient management and safety.

POSICAM™ HZ, HZL and mPower™

In addition to the basic POSICAM™ system, the Company offers two advanced versions, the POSICAM™ HZ and the POSICAM™ HZL, which are now being further enhanced to become the mPower™ product line. Oncologists and neurologists require enhanced resolution and a large field of view to detect small tumors and scan large organs, such as the liver. The mPower™ systems employ new detector concepts to satisfy these needs while maintaining the high count rate capability and sensitivity of the basic POSICAM™. In May 1991, the Company received approval from the FDA to market the POSICAM™ HZ, and in May 1993, the Company received a patent for the innovative light guide and detector staggering concepts used in the POSICAM™ HZ and HZL. In July 1993, the Company received FDA approval to market in the United States the POSICAM™ HZL, which has a larger axial field of view than the POSICAM™ HZ, facilitating whole body scanning and the scanning of large organs. In July 2002, the Company received FDA approval to market in the United States the POSICAM™ mPower™ system.

The Company believes that the special features of the POSICAM™ HZL and mPower™ systems enhance their usefulness in oncology and neurology applications. Furthermore, many price sensitive hospitals and health care providers may seek to leverage external resources for the delivery of PET diagnostic services for their patients. To respond to this market need, the Company intends to expand into the mobile PET market, for which the Company has previously received 510(k) approval from the FDA. In addition, the POSICAM™ system has been registered with the State of Texas Department of Health, Bureau of Radiation Control, as a Device suitable for both stationary and mobile use.

Customer Service and Warranty

The Company has three (3) field service engineers in the United States who have primary responsibility for supporting and maintaining the Company's installed equipment base. In addition, the Company has field engineers involved in site planning, customer training, sales of hardware upgrades, sales and administration of service contracts, telephone technical support and customer service.

The Company typically provides a one-year warranty to purchasers of POSICAM™ systems. However, in the past, the Company offered multi-year warranties to facilitate sales of its systems. Following the warranty period, the Company offers purchasers a comprehensive service contract under which the Company provides all parts and labor, system software upgrades and unlimited service calls. The Company offers to provide service to all of its POSICAM™ systems; however at year end 2006, the company had ten (10) service contracts in force and one (1) system under manufacturer's warranty.

The Company's service goal is to maintain maximum system uptime. Success of a clinical site is largely dependent on patient volume during normal working hours and, therefore, equipment uptime and reliability are key factors in this success. Records compiled by the Company show an average uptime of more than 95% for all installed POSICAM™ systems during 2006 and 2005.

Competition

The Company faces competition primarily from three very large commercial manufacturers of PET systems and from other imaging technologies. The Company does not believe that MRI and CT scan imaging represent significant competing technologies, but rather complementary technologies to PET, since PET, MRI and CT scans each provide information not available from the others. However, magnetic resonance angiography ("MRA") is seen by some cardiologists to be competitive with PET myocardial perfusion imaging ("MPI").

The Company's primary competition from commercial manufacturers of PET systems comes from General Electric Medical Systems ("GEMS") a division of General Electric Company ("GE"), Siemens Medical Systems, Inc. ("Siemens) and Philips Medical ("Philips"). GE, Siemens and Philips have substantially greater financial, technological and personnel resources than the Company. See "Item 1. Description of Business—Risk Associated with Business Activities—Substantial Competition and Effects of Technological Change.

GE, Siemens and Philips have introduced a scanner that combines CT scanning and PET in one unit. In collaboration with its joint venture partner, Neusoft Medical Systems, Positron will introduce a PET/CT scanner. High field MRI technology, an advanced version of MRI, is in the development stage, but is a potential competitor to PET in certain neurology and oncology applications. Presently, high field MRI may be useful in performing certain research (non-clinical) applications such as blood flow studies to perform "brain mapping" to localize the portions of the brain associated with individual functions (such as motor activities and vision). However, high field MRI does not have the capability to assess metabolism. The Company cannot presently predict the future competitiveness of high field MRI or CT.

Third-Party Reimbursement

POSICAM™ systems are primarily purchased by medical institutions and clinics, which provide health care services to their patients. Such institutions or patients typically bill or seek reimbursement from various third-party payers such as Medicare, Medicaid, other governmental programs and private insurance carriers for the charges associated with the provided healthcare services. The Company believes that the market success of PET imaging depends largely upon obtaining favorable coverage and reimbursement policies from such programs and carriers.

Medicare/Medicaid reimbursement. Prior to March 1995, Medicare and Medicaid did not provide reimbursement for PET imaging. Decisions as to such policies for major new medical procedures are typically made by the Center for Medicare and Medicaid Services ("CMS") formerly the U.S. Health Care Financing Administration, based in part on recommendations made to it by the Office of Health Technology Assessment ("OHTA"). Historically, OHTA has not completed an evaluation of a procedure unless all of the devices and/or drugs used in the procedure have received approval or clearance for marketing by the FDA. Decisions as to the extent of Medicaid coverage for particular technologies are made separately by the various state Medicaid programs, but such programs tend to follow Medicare national coverage policies. In 1999, CMS approved reimbursement on a trial basis for limited cardiac, oncological, and neurological diagnostic procedures. In December 2000, CMS expanded its coverage in cardiology, oncology and neurology for centers utilizing true PET scanners. In July 2001, CMS further expended its coverage of these procedures and virtually eliminated reimbursement for SPECT imagers performing PET scans. This helped to strengthen the market for "true" PET scanners. In 2001, CMS also implemented its procedures to differentiate hospital based outpatient services from free-standing outpatient services. Under this new program, hospital based PET centers are to be paid less for providing PET services than free-standing centers. Through 2004, CMS has continued to approve additional procedures for reimbursement. Effective January 30, 2005, CMS announced PET coverage for cervical cancer. Although expanding, Medicare and Medicaid reimbursement for PET imaging continues to be restrictive. The Company believes that restrictive reimbursement policies have had a very significant adverse affect on widespread use of PET imaging and have, therefore, adversely affected the Company's business, financial condition, results of operations and cash flows.

In 1995, CMS approved reimbursement for one PET procedure in cardiology. In 1998, four additional procedures in cardiology, oncology and neurology were approved. In February 1999, three additional procedure reimbursements were approved in oncology. In December 2000, six additional procedure reimbursements were approved in oncology, one in cardiology and one in neurology. In 2001, further refinements of the reimbursement policies were introduced with expansion in oncology. Whether CMS will continue to approve additional reimbursable procedures, and whether private insurers will follow CMS's lead are unknown at this time. PET scanner demand in the US increased markedly after the announcement of increasing reimbursement. It is unknown at this time if the increase in demand will be sustained as reimbursement expands.

Private insurer reimbursement. Until the expansion of coverage of CMS, most insurance carriers considered PET imaging to be an investigational procedure and did not reimburse for procedures involving PET imaging. However,

this perspective has begun to change as a result of Medicare's expanding acceptance of reimbursements for certain PET procedures. The Company believes that certain private insurance carriers are expanding coverage as experience is gained with PET imaging procedures. While they may not have broad PET reimbursement policies in place today, those providing some reimbursement for PET scans do so on a case-by-case basis.

Any limitation of Medicare, Medicaid or private payer coverage for PET procedures using the POSICAM™ system will likely have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Manufacturing

Joint Venture with Neusoft Medical Systems Co., Ltd.

On June 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") 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. Positron 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 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.

Sales of Neusoft Positron Medical Systems Co., Ltd. Products

The joint venture will sell products manufactured by the JV Company to both joint venture parties for further resale in the marketplace. After the ramp-up period of the JV Company, each party has rights to and risk obligations for its capacity of products required from the JV Company. The parties intend that the manufacturing capacity of the JV Company will be shared on an equivalent basis to each party's contribution to the registered capital of the JV Company, as measured by the manufacturing work and resources needed by the JV Company for the resulting products.

Under its Joint Venture Contract with Neusoft, the Company has the exclusive right to sell PET system products developed by the JV Company in Canada, the U.S. and Mexico under its registered trademarks, and PET/CT products developed by the JV Company in Canada and under the trademark of "Neusoft Positron." The Company and Neusoft have equal rights to sell PET/CT products developed by the JV Company in the U.S. and Mexico under the trademark of "Neusoft Positron." Neusoft has the exclusive right to sell products developed by the JV Company in China under its registered trademarks. Each of Neusoft and the Company has the right to sell products developed by the JV Company in the countries and regions worldwide with the exception of China, Canada, the U.S. and Mexico where select exclusive rights apply.

While the parties believe that the joint venture will meet their objectives, there can be no assurance that the joint venture will meet such objectives, including the development, production and timely delivery of PET and PET/CT systems.

The Company believes that although manufacturing and select research and development has been outsourced, if necessary, it has the ability to assemble its POSICAM™ scanners in its facility located in Houston, Texas. Scanners are generally produced by assembling parts furnished to the Company by outside suppliers. The Company believes that it can assemble and test a typical POSICAM™ system in two to three months.

There are several essential components of the Company's POSICAM™ and mPower™ systems which are obtained from limited or sole sources, including bismuth germinate oxide ("BGO") crystals, which detect gamma photons from positron emissions, and photomultiplier tubes, which convert light energy emitted by such crystals into electrical impulses for use in the image reconstruction process. During 2000, the Company qualified a second vendor for BGO crystal assemblies. This has reduced the Company's exposure in this critical component. While the Company attempts to make alternate supply arrangements for photomultiplier tubes and other critical components, in the event that the supply of any of these components is interrupted, there is no assurance that those arrangements can be made and will provide sufficient quantities of components on a timely or uninterrupted basis. Further, there is no assurance that the cost of supplies will not rise significantly or that components from alternate suppliers will continue to meet the Company's needs and quality control requirements.

Research and Development

The Company's POSICAM™ systems are based upon proprietary technology initially developed at the University of Texas Health Science Center ("UTHSC") in Houston, Texas, under a $24 million research program begun in 1979 and funded by UTHSC and The Clayton Foundation for Research ("Clayton Foundation"), a Houston-based, non-profit organization. Since that time, the Company has funded further product development and commercialization of the system. These research and development activities are costly and critical to the Company's ability to develop and maintain improved systems. The Company's research and development expenses were approximately $1,165,000 and $446,000 for the years 2006 and 2005, respectively. The Company's inability to conduct such activities in the future may have a material adverse affect on the Company's business as a whole.

Patent and Royalty Arrangements

The Company acquired the know-how and patent rights for positron imaging from three entities: the Clayton Foundation, K. Lance Gould (formerly a director) and Nizar A. Mullani (also formerly a director.) Pursuant to agreements with each of them, the Company was obligated to pay royalties of up to 4.0% in the aggregate of gross revenues from sales, uses, leases, licensing or rentals of the relevant technology. Royalty obligations amounting to approximately $373,000 were included in liabilities at December 31, 2006.

The Company has several historic domestic and international patents pertaining to positron emission tomography technology and currently maintains one active U.S. patent relating to the unique construction and arrangement of the photo detector module array used in its devices. This was issued in May 1993 and expires in December of 2011.

The Company seeks to protect its trade secrets and proprietary know-how through confidentiality agreements with its consultants. The Company requires each consultant to enter into a confidentiality agreement containing provisions prohibiting the disclosure of confidential information to anyone outside the Company, and requiring disclosure to the Company of any ideas, developments, discoveries or investigations conceived during service as a consultant and the assignment to the Company of patents and proprietary rights to such matters related to the business and technology of the Company.

Backlog

As of December 31, 2006, the Company had no outstanding orders for mPower™ systems.

Product Liability and Insurance

Medical device companies are subject to a risk of product liability and other liability claims in the event that the use of their products results in personal injury claims. The Company has not experienced any product liability claims to date. The Company maintains comprehensive liability insurance coverage for its products and premises exposures with an A++ industry leading insurance carrier.

Employees

As of December 31, 2006, the Company employed ten (10) full-time employees and three (3) consultants: four (4) in engineering, one (1) in customer support, four (4) in manufacturing, four (4) in the executive and administration department. None of the Company's employees are represented by a union.

Risks Associated with Business Activities

History of Losses. To date the Company has been unable to sell POSICAM™ systems in quantities sufficient to be operationally profitable. Consequently, the Company has sustained substantial losses. During the year ended December 31, 2006, the Company had a net loss of approximately $6,586,000, compared to a net loss of $3,806,000 during 2005. At December 31, 2006, the Company had an accumulated deficit of approximately $68,825,000. There can be no assurances that the Company will ever achieve the level of revenues needed to be operationally profitable in the future and if profitability is achieved, that it will be sustained. Due to the sizable sales price of each POSICAM™ system and the limited number of systems that have been sold or placed in service in each fiscal period, the Company's revenues have fluctuated, and may likely continue to fluctuate significantly from quarter to quarter and from year to year. The opinion of the Company's independent auditors for the year ended December 31, 2006 expressed substantial doubt as to the Company's ability to continue as a going concern. The Company will need to increase system sales to become profitable and/or obtain additional capital.

Recruiting and Retention of Qualified Personnel. The Company's success is dependent to a significant degree upon the efforts of its executive officers and key employees. The loss or unavailability of the services of any of its key personnel could have a material adverse effect on the Company. The Company's success is also dependent upon its ability to attract and retain qualified personnel in all areas of its business, particularly management, research and development, sales and marketing and engineering. There can be no assurance that the Company will be able to continue to hire and retain a sufficient number of qualified personnel. If the Company is unable to retain and attract such qualified personnel, its business, operating results and cash flows could be adversely affected.

Working Capital The Company had cash and cash equivalents of $115,000 at December 31, 2006. The Company received $2,478,000 and $2,569,000 in proceeds from financings in 2006 and 2005, respectively. In spite of the proceeds, the Company believes that it is possible that it may continue to experience operating losses and accumulate deficits in the foreseeable future. If we are unable to obtain financing to meet our cash needs we may have to severely limit or cease our business activities or may seek protection from our creditors under the bankruptcy laws.

The Penny Stock Rules May Have an Adverse Effect Upon Liquidity of the Company's Shares

If the shares of the Registrant's common stock are listed on The Nasdaq Stock Market or certain other national securities exchanges and the price thereof is below $5.00, then subsequent purchases of such securities will be subject to the requirements of the penny stock rules absent the availability of another exemption. The SEC has adopted rules that regulate broker-dealer practices in connection with transactions in "penny stocks." Penny stocks generally are equity securities with a price of less than $5.00 (other than securities registered on certain national securities exchanges or quoted on The Nasdaq Stock Market). The penny stock rules require a broker-dealer to deliver a standardized risk disclosure document required by the SEC, to provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, monthly account statements showing the market value of each penny stock held in the customer's account, to make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for a stock that becomes subject to the penny stock rules.

Substantial Competition and Effects of Technological Change. The industry in which the Company is engaged is subject to rapid and significant technological change. There can be no assurance that POSICAM™ systems can be upgraded to meet future innovations in the PET industry or that new technologies will not emerge, or existing technologies will not be improved, which would render the Company's products obsolete or non-competitive. The Company faces competition in the United States PET market primarily from GE, CTI/Siemens and ADAC/Philips,

each of which has significantly greater financial and technical resources and production and marketing capabilities than the Company. In addition, there can be no assurance that other established medical imaging companies, any of which would likely have greater resources than the Company, will not enter the market. The Company also faces competition from other imaging technologies, which are more firmly established and have a greater market acceptance, including SPECT. There can be no assurance that the Company will be able to compete successfully against any of its competitors.

No Assurance of Market Acceptance. The POSICAM™ systems involve new technology that competes with more established diagnostic techniques. The purchase and installation of a PET system involves a significant capital expenditure on the part of the purchaser. A potential purchaser of a PET system must have an available patient base that is large enough to provide the utilization rate needed to justify such capital expenditure. There can be no assurance that PET technology or the Company's POSICAM™ systems will be accepted by the target markets, or that the Company's sales of POSICAM™ systems will increase or that the Company will be profitable.

Patents and Proprietary Technology. The Company holds certain patent and trade secret rights relating to various aspects of its PET technology, which are of material importance to the Company and its future prospects. There can be no assurance, however, that the Company's patents will provide meaningful protection from competitors. Even if a competitor's products were to infringe on patents held by the Company, it would be costly for the Company to enforce its rights, and the efforts at enforcement would divert funds and resources from the Company's operations. Furthermore, there can be no assurance that the Company's products will not infringe on any patents of others.

In addition, the Company requires each of its consultants to enter into a confidentiality agreement designed to assist in protecting the Company's proprietary rights. There can be no assurance that these agreements will provide meaningful protection or adequate remedies for the Company's trade secrets or proprietary know-how in the event of unauthorized use or disclosure of such information, or that others will not independently develop substantially equivalent proprietary information and techniques or otherwise gain access to the Company's trade secrets and proprietary know-how.

Government Regulation. Various aspects of testing, remanufacturing, labeling, selling, distributing and promoting our systems and the radiopharmaceuticals used with them are subject to regulation on the federal level by the FDA and in Texas by the Texas Department of Health and other similar state agencies. In addition, sales of medical devices outside the United States may be subject to foreign regulatory requirements that vary widely from country to country. The FDA regulates medical devices based on their device classification. Positron's device is listed as a Class II medical device, the safety and effectiveness for which are regulated by the use of special controls such as published performance standards. To date, the FDA has not published performance standards for PET systems. If the FDA does publish performance standards for PET systems, there can be no assurance that the standards will not have a potentially adverse effect on our product, including substantial delays in manufacturing or disrupting the Company's marketing activities. Other FDA controls, reporting requirements and regulations also apply to manufacturers of medical devices, including: reporting of adverse events and injuries, and the mandatory compliance with the Quality System Regulations commonly known as Good Manufacturing Practices.

In addition to the regulatory requirements affecting the day-to-day operations of the Company's product, the FDA requires medical device manufacturers to submit pre-market clearance information about their proposed new devices and/or proposed significant changes to their existing device prior to their introduction into the stream of commerce. This process, commonly referred to as a 510(k) Clearance, is an extensive written summary of performance information, comparative information with existing medical devices, product labeling information, safety and effectiveness information, intended use information, and the like. Until the FDA has had the opportunity to thoroughly review and "clear" the submission, commercial distribution of the product is specifically disallowed. Although the FDA is required to respond to all pre-market notifications within ninety days of receiving them, the FDA often takes longer to respond. Once the FDA has cleared the device, it notifies the manufacturer in terms of a "substantial equivalence" letter. The manufacturer may begin marketing the new or modified device when it receives the substantial equivalence letter. If the FDA requires additional information or has specific questions, or if the Company is notified that the device is not "substantially equivalent" to a device that has already been cleared, the Company may not begin to market the device. A non-substantial equivalence determination or request for additional

information of a new or significantly modified product could materially affect the Company's financial results and operations. There can be no assurance that any additional product or enhancement that the Company may develop will be approved by the FDA. Delays in receiving regulatory approval could have a material adverse effect on the Company's business. The Company submitted an application for such a 510(k) clearance on June 18, 2002 and was granted a new 510(k) on July 12, 2002, number K022001.

In addition to complying with federal requirements, the Company is required under Texas state law to register with the State Department of Health with respect to maintaining radiopharmaceuticals on premises for testing, research and development purposes. Positron submitted a new application to the Texas Department of Health for a Radioactive Material License on July 10, 2000 and was granted a Radioactive Material License with an expiration date of July 31, 2007. During a July 2005 Radiation audit, the company was noted for minor violations, which were addressed and corrected. At this time the company is in full compliance with Texas Radiation Codes, however, there is no assurance that violations may not occur in the future which could have a material adverse effect on the Company's operations. In addition, Texas state law requires a safety evaluation of devices that contain radioactive materials. The Company submitted an application for such an evaluation to the Texas Department of Health, Bureau of Radiation Control. As a result, Positron's medical diagnostic scanner has been placed on the Registry of Radioactive Sealed Sources and Devices as of September 20, 2001.

The Company's operations and the operations of PET systems are subject to regulation under federal and state health safety laws, and purchasers and users of PET systems are subject to federal and state laws and regulations regarding the purchase of medical equipment such as PET systems. All laws and regulations, including those specifically applicable to the Company, are subject to change. The Company cannot predict what effect changes in laws and regulations might have on its business. Failure to comply with applicable laws and regulatory requirements could have material adverse effect on the Company's business, financial conditions, results of operations and cash flows.

Further, sales of medical devices outside the country may be subject to foreign regulatory requirements. These requirements vary widely from country to country. There is no assurance that the time and effort required to meet those varying requirements may not adversely affect Positron's ability to distribute its systems in some countries.

Certain Financing Arrangements. In order to sell its POSICAM™ systems, the Company has from time to time found it necessary to participate in ventures with certain customers or otherwise assist customers in their financing arrangements. The venture arrangements have involved lower cash prices for the Company's systems in exchange for interests in the venture. These arrangements expose the Company to the attendant business risks of the ventures. The Company has, in certain instances, sold its systems to financial intermediaries, which have, in turn, leased the system. Such transactions may not give rise to the same economic benefit to the Company as would have occurred had the Company made a direct cash sale at its regular market price on normal sale terms. There can be no assurance that the Company will not find it necessary to enter similar transactions to effect future sales. Moreover, the nature and extent of the Company's interest in such ventures or the existence of remarketing or similar obligations could require the Company to account for such transactions as "financing arrangements" rather than "sales" for financial reporting purposes. Such treatment could have the effect of delaying the recognition of revenue on such transactions and may increase the volatility of the Company's financial results.

Product Liability and Insurance. The use of the Company's products entails risks of product liability. There can be no assurance that product liability claims will not be successfully asserted against the Company. The Company maintains product liability insurance coverage for the POSICAM™ systems in the amount of $1 million per occurrence and an annual aggregate maximum of $2 million. Separate coverage is maintained for the nuclear imaging devices sold by IPT (through IS2) in the amount of $2 million aggregate plus a $1 million excess policy. However, there can be no assurance that the Company will be able to maintain such insurance in the future or, if maintained, that such insurance will be sufficient in amount to cover any successful product liability claims. Any uninsured liability could have a material adverse effect on the Company.

No Dividends. The Company has never paid cash dividends on its common stock and does not intend to pay cash dividends on its common stock in the foreseeable future.

Significant Transactions.

Imaging Pet Technologies

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 capital stock 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 Series B Convertible Preferred Stock (the "Series B"), convertible into 65,000,000 shares of the Company's common stock, 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 the 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, the Company assumed leases and contracts. Employments contracts were established with the Company upon acquisition.

Acquisition of Imagin Interest in IPT

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 approximately a 50.1% of IPT’s issued and outstanding common stock. As a result of the acquisition of the Shares, the Company owns 100% of the common stock of IPT. As consideration for the shares, the Company and IMAGIN agreed to cancel a promissory note in the principal amount of $2,400,000 made by IMAGIN subsidiary, QMP and later assigned to IMAGIN. As of the date of the Agreement, the Company had been advised by IMAGIN that it had acquired all of QMP's interest in IPT as well as QMP's other holdings of the Company's related securities.

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 will be owned 20%, 29% and 51% by the Company, IMAGIN and QMP, respectively. The Company has 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 is 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 have 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. Whereas the Company originally held 20% of the interests of the QMT JV, Quantum and IMAGIN assigned 100% of their interest to the Company. Additionally, the investment amount Quantum 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 Series B Convertible Preferred Stock, convertible into 345,000,000 shares of the Company’s common stock to Quantum and IMAGIN, pro rata.

The joint venture was formed to develop a new generation of PET technologies using concepts and research and development activities conceived and to be implemented by Dr. Irving Weinberg. QMT will continue these development efforts. The Company will have the right to manufacture and sell any PET products developed by the joint venture in exchange for royalty payments still to be negotiated.

Dr. Weinberg has been at the forefront of the evolution of PET, tracing his roots back to the UCLA group that created the PET industry. Later, as a practicing radiologist and entrepreneur, Dr. Weinberg designed and built the first

breast-specific PET scanner, which was able to detect the earliest form of breast cancer better than any other modality.

Secured Convertible Notes Payable

On May 26, 2006, the Company consummated a financing agreement for $2,000,000 (the "Financing") with private investors (the "Investors") in the form of secured convertible debentures in the aggregate amount of $2,000,000, with interest at the rate of 6% and a maturity date of May 23, 2009 (the "Debentures"). 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) trading day period prior to conversion. The "Applicable Percentage" is the equivalent of 50%; provided, however, that the Applicable Percentage shall be increased to (i) 55% in the event that a Registration Statement is filed within thirty days of the closing and (ii) 65% in the event that the Registration Statement becomes effective within one hundred and twenty days from the Closing. The Company has the right to repay principal and interest in cash, if the price of the Company's Common Stock is below $.20 on the last business day of a month. The Company simultaneously issued to the Investors warrants to purchase 30,000,000 shares of Common Stock at an exercise price of $.15 per share (the "Warrants"). The Warrants are exercisable for seven (7) years following the Closing.

The Company agreed to filing a Registration Statement with the Securities and Exchange Commission ("SEC") for the shares of Common Stock underlying the Debentures and Warrants within 30 days from the Closing Date. The Company received the second traunch of the funding when the Registration Statement was filed with the SEC and will receive the third and final traunch of the funding when the Registration Statement is declared effective by the SEC. There are penalty provisions for the Company should the filing not become effective within 120 days of the Closing Date. The Debentures are secured by the Company's assets and intellectual property.

Item 2. Description of Property

The Company is headquartered in Houston, Texas, where it currently leases a 7,963 square foot facility. That facility includes area for system assembly and testing, a computer room for hardware and software product design, and office space. This facility lease is on a month-to-month basis at a monthly rental rate of $4,671 monthly. The Company anticipates that the facility will be sufficient for its 2007 operating activities.

The Company also leases office space in Buffalo, New York on a month-to-month basis at a monthly rental rate of $900. IPT leases a facility in Ottawa, Ontario, Canada under an operating lease that expires on July 31, 2008. Monthly rent for the Ottawa facility is approximately $8,300.

Item 3. Legal Proceedings

None.

Item 4. Submission of Matters to a Vote of Security Holders

On May 18, 2006 at the Company's annual meeting, shareholders holding a majority of the Company's voting stock approved proposals to amend and restate its Articles of Incorporation to increase the number of authorized shares of Common Stock from 100,000,000 to 800,000,000, approve the Positron Corporation Amended and Restated 2005 Stock Incentive Plan and ratified the appointment of Ham, Langston & Brezina, L.L.P. as the Company's independent auditors for the fiscal year ending December 31, 2006.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters

The Company's common stock is currently traded and quoted on the NASDAQ OTC Bulletin Board under the symbol POSC. The Company's common stock was previously traded on the NASDAQ SmallCap Market but was delisted in 1997 because the Company was unable to comply with various financial and compliance requirements for continued inclusion on the NASDAQ SmallCap Market. See "Item 1. Description of Business – Risks Associated with Business Activities."

The following range of the high and low reported closing sales prices for the Company's common stock for each quarter in 2006 and 2005, all as reported on the NASDAQ OTC Bulletin Board. These quotations reflect interdealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

	2006		2005	
	High	Low	High	Low

First Quarter	$ 0.26	$ 0.08	$ 0.16	$ 0.06
Second Quarter	$ 0.17	$ 0.11	$ 0.09	$ 0.05
Third Quarter	$ 0.13	$ 0.07	$ 0.09	$ 0.04
Fourth Quarter	$ 0.12	$ 0.06	$ 0.09	$ 0.05

There were approximately 265 shareholders of record of common stock as of April 10, 2007, including broker-dealers holding shares beneficially owned by their customers.

The Company has never paid cash dividends on its common stock. The Company does not intend to pay cash dividends on its common stock in the foreseeable future. The Series A, B and G Preferred Stock Statements of Designation prohibit the Company from paying any common stock dividends until all required dividends have been paid on the Series A and any outstanding Series B and G Preferred Stock. As of December 31, 2006 and 2005, stated dividends that are undeclared and unpaid on the Series A Preferred Stock totaled $485,000 and $448,000. Stated dividends that are undeclared and unpaid on the Series G Preferred Stock totaled $16,000 as of December 31, 2006. The Company anticipates that such dividends, if and when declared, will be paid in shares of Series A Preferred Stock.

Series G Preferred

In 2006, the Company issued 204,482 Units in a private placement. Each Unit consisted 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.

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 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.

Series B Preferred Stock

On September 30, 2006 the Board of Directors authorized a new series of preferred stock designated Series B Preferred Stock. The number of shares authorized was 9,000,000. Each share of Series B Preferred Stock $1.00 par value is convertible into 100 shares of the Company’s Common Stock. The Series B Preferred Stock is senior to the Company’s Common Stock and junior in priority to the Company’s A 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 December 31, 2006, 5,739,860.5 shares of Series B Preferred Stock were outstanding.

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

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

Stock into 4,000,000 shares of the Company's Common Stock.

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

The Company's equity plan information required by this item is set forth under Item 11 of Part III below.

Item 6.
Management's Discussion and Analysis or Plan of Operation

General

Positron Corporation (the "Company") was incorporated in 1983 and commenced commercial operations during 1986. The Company designs, markets and services its POSICAM™ system advanced medical imaging devices, utilizing positron emission tomography ("PET") technology. Since the commencement of commercial operations, 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.

The Company's joint venture with Neusoft Medical Systems Co., Inc. of Shenyang, Lianoning Province, People's Republic of China ("Neusoft"), named Neusoft Positron Medical Systems Co., Ltd. ("NPMS"), is active in the development and manufacture of Positron Emission Tomography systems (PET), and an integrated X-ray Computed Tomography system (CT) and PET system (PET/CT). These systems utilize the Company's patented and proprietary technology, an imaging technique which assesses the biochemistry, cellular metabolism and physiology of organs and tissues, as well as producing anatomical and structural images. Targeted markets include medical facilities and diagnostic centers located throughout the world. POSICAM™ systems are used by physicians as diagnostic and treatment evaluation tools in the areas of cardiology, neurology and oncology. The Company faces competition principally from three other companies which specialize in advanced medical imaging equipment. To date NPMS has not produced a PET or CT system for sale.

In June 2006, 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 Quantum held 49.9% and 50.1%, respectively, of the total registered capital of IPT. However, in January 2007, the Company acquired Quantum's interest in IPT in exchange for preferred stock and the extinguishment of a note payable due the Company from QMP.

IS2 develops, builds and services gamma cameras that offer clinical users high quality performance specifications in the industry. IS2's signature product is its PulseCDC™ compact digital cardiac camera. Over 150 cameras have been sold, primarily in Canada.

On December 28, 2005, the Company entered into a Memorandum of Understanding with Imagin Diagnostic Centres, Inc. ("IMAGIN") and QMP. The Memorandum provided for the parties to form a joint venture to be called Quantum Molecular Technologies JV (the "QMT JV"). Initially, the joint venture was owned 20%, 29% and 51% by the Company, IMAGIN and QMP, respectively. On May 8, 2006, the Company amended certain aspects of the QMT JV. Whereas the Company originally held 20% of the interests of the QMT JV, Quantum and IMAGIN assigned 100% of their interest to the Company in exchange for the preferred stock of the Company. On April 13, 2006, the QMT JV 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.

Using concepts and research and development activities conceived and to be implemented by Dr. Irving Weinberg, an exclusive consultant to QMP, 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.

Results of Operations

Consolidated results of operations for the year ending December 31, 2006 include; full year operations of Positron; the operations of Positron's wholly-owned subsidiary, IPT, for the period October 1 – December 31, 2006; and the operations of Positron's wholly-owned subsidiary, QMT, from April 13 – December 31, 2006.

Revenues **-** The Company generated sales of systems in 2006 of $1,268,000 including approximately $850,000 of sales of IS2 gamma cameras. Positron system sales include two refurbished PET systems. The Company did not generate any revenue from system sales in 2005. Service and upgrade revenue in 2006 was $945,000, an increase of 24% or $183,000 over revenues of $762,000 in 2005. Sales of parts and materials to NPMS accounted for $180,000 of the increase.

Costs of Revenues - Costs of revenues increased by $135,000 to $1,423,000 during the year ended December 31, 2006 from $1,288,000 in the prior year. Costs of system sales were $689,000 in 2006. The Company incurred service revenue costs of $721,000 and $621,000 in 2006 and 2005, respectively. The16% increase over the prior year is due in part to the warranty expiration of one system which was then moved to a service contract In addition, the Company experienced several problems with one particular machine which resulted in significant services costs. In 2005 the Company expensed $656,000 of excess inventory and field service parts as it ceased manufacturing activities at its Houston facility.

Operating Expenses **-** The Company's operating expenses increased $2,077,000 to $4,603,000 for the year ended December 31, 2006 from $2,526,000 in 2005.

Selling, general and administrative expenses increased $500,000 to $2,639,000 from $2,139,000 in the prior year. The acquisition of IPT is the primary reason for the increase. IPT's selling, general and administrative expenses in 2006 were $401,000. Positron's selling, general and administrative costs were $2,104,000, a decrease of 1.6% from the prior year. Positron recorded expenses of $471,000 related to shares of its common stock that were issued for services performed, the majority of which was issued to firms promoting Positron common stock to the market place. Positron's selling, general and administrative salary expense decreased to $383,000 in 2006 from $778,000 in 2005. The decrease is a result of overall cost reduction efforts on the part of Positron's management.

Research and development expenses increased $719,000 to $1,165,000 from $446,000 in the prior year. IPT's research and developments costs were $166,000 and QMT's were $418,000. IPT continues improvement and development of the IS2 gamma cameras. 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. Positron's research and development costs increased 30% to $581,000 in 2006 from $446,000 in 2005. The increase is due primarily to costs associated with the NPMS joint venture and related costs of manufacturing modernization at the Company's Houston facility.

Operating expenses in 2006 include a charge for impairment of the intangible asset recorded upon the acquisition of QMT. The impaired asset acquired consisted of capitalized patent and research and development costs. The Company wrote off the entire asset totaling $369,000.

Stock based compensation expense for the year ended December 31, 2006 was $430,000 and resulted primarily from the immediate vesting of 6,000,000 of the 11,500,000 options granted on November 16, 2006 to officers and directors of the Company, and stock based compensation expense related to 7,500,000 options issued in December of 2005 by the Company to Joseph Oliverio, Positron's President and Chief Executive Officer. Of Mr. Oliverio's options, 2,000,000 vested immediately, 2,000,000 vested in December 2006 and 3,500,000 vest in December 2007. The 2006

compensation also includes expense for the vesting of outstanding options granted to employees prior to 2005. For the year ended December 31, 2005 the Company reversed expense related to stock based compensation by $59,000. The reversal resulted from the application of the variable accounting rules to the re-pricing of certain warrants and options, which preceded the application of FASB 123(R).

***Other Income (Expenses)* -**.Interest expense of $860,000 for the year ended December 31, 2006 is a decrease from $985,000 in interest expense during 2005, but only includes nine months of interest on all convertible debentures to affiliated entities including IMAGIN, PAC, Solaris and Quantum. The debentures were all converted to shares of the Company's Series B Preferred Stock in September 2006. The Company also issued $1,500,000 of new convertible secured debentures in 2006. Interest expense in 2006 includes amortization of loan costs, debt discounts and beneficial conversion features of the new convertible debenture. The Company also recorded derivative losses of $1,784,000 resulting from embedded derivatives with the issuance of convertible debentures. For the year ended December 31, 2006 the Company recorded equity in the losses of joint ventures, IPT and NPMS, of $373,000. NPMS did not have any operating activity during 2005.

***Income Taxes* –** There is no provision for income taxes due to ongoing operating losses. As of December 31, 2006, we had net operating loss carryforwards of approximately $18,000,000 for Federal reporting purposes. These amounts expire at various times through 2026. See Note 14 to the Notes to the Consolidated Financial Statements. The Company has provided a full valuation allowance against the net deferred tax assets at December 31, 2006 and 2005.

***Extraordinary Gain* –** The Company recorded an extraordinary gain on the acquisition of IS2 by IPT. The extraordinary gain is the excess of the net assets acquired over the purchase price paid for IS2. The extraordinary gain recognized for the year ended December 31, 2006 was $241,000.

***Net Operating Loss* -** For the year ended December 31, 2006, the Company had a net loss of $6,586,000, or $0.08 per share, of which $5,657,000 was from domestic operations and $929,000 was generated in Canada, compared to a net loss of $3,806,000, or $0.06 per share, for the year ended December 31, 2005. The increase is due to increases in research and development and selling and general and administrative costs primarily from the acquisition of IS2, and derivative losses from the issuance of convertible debentures. Increase in net loss per share in 2006 was offset in part by a significant increase in the weighted average number of shares outstanding of 81,508,000 in 2006 as compared to 65,044,000 in 2005.

Liquidity and Capital Reserves

Since its inception the Company has been unable to sell POSICAM™ systems in quantities sufficient to be operationally profitable. Consequently, the Company has sustained substantial losses. At December 31, 2006, the Company had an accumulated deficit of $68,825,000. Due to the sizable prices of the Company's systems and the limited number of systems sold or placed in service each year, the Company's revenues have fluctuated significantly year to year.

At December 31, 2006, the Company had cash and cash equivalents of $115,000 compared to $209,000 at December 31, 2005. The Company received $2,478,000 and $2,569,000 in 2006 and 2005 respectively, in equity and debt financings. In spite of the funding, the Company believes that it is possible that it may continue to experience operating losses and accumulate deficits in the foreseeable future. If the Company is unable to obtain financing to meet our cash needs we may have to severely limit or cease our business activities or may seek protection from our creditors under the bankruptcy laws.

The opinion of the Company's independent auditor for the year ended December 31, 2006, expressed substantial doubt as to the Company's ability to continue as a going concern. The Company will need to increase system sales to become profitable and/or obtain additional capital.

Related Party Transactions

IMAGIN Transaction

Financing Agreements dated May 21, 2004

On May 26, 2004 and June 17, 2004, the Company sold two separate secured convertible promissory notes under a Note Purchase Agreement dated May 21, 2004, to IMAGIN in the principal amounts of $400,000 and $300,000, respectively. Interest accrued on the outstanding principal at the rate of ten percent (10%) per annum and was payable annually to the extent of positive cash flow on the anniversary dates of these notes. The principal and any unpaid interest were due on the earlier to occur of May 21, 2006 or when declared due and payable by IMAGIN upon occurrence of an event of default. The notes were initially convertible into new shares of Series C Preferred Stock that, in turn was convertible into an aggregate of 35,000,000 shares of the Company's common stock. These notes were collateralized by all of the assets of the Company. On October 21, 2005, $770,000 in principal and accrued and unpaid interest were converted into 770,000 shares of Series C Preferred Stock. These shares of Series C Preferred Stock were subsequently assigned by IMAGIN to Positron Acquisition Corp. In a second stage of the May 2004 financing IMAGIN agreed to purchase additional secured convertible promissory notes in the aggregate principal amount of $1,300,000. These notes were to be purchased over a six and a half month period, commencing July 15, 2004 and were due and payable on May 21, 2006. These notes were initially convertible into new shares of Series D Preferred Stock that, in turn is convertible into an aggregate of 52,000,000 shares of the Company's common stock. As of June 30, 2005, principal of $1,208,500 had been advanced related to these notes. On June 30, 2005, IMAGIN converted $575,000 of these promissory notes into shares of Series D Preferred Stock that, in turn were converted into 23,000,000 shares of the Company's common stock. This conversion reduced the principal owed under these promissory notes from $1,208,500 to $633,500. The remaining $633,500 of principal convertible notes plus notes for $63,350 in accrued interest was assigned by IMAGIN to Positron Acquisition Corp, a wholly-owned subsidiary of Imagin Molecular Corporation, an affiliate of the Company.

In September 2006 the convertible instruments discussed above were converted to shares of Positron Corporation Series B Preferred Stock. See discussion below.

Financing Agreements dated August 8, 2005

On August 8, 2005, the Company sold to IMAGIN 10% secured convertible promissory notes under a Note Purchase Agreement, dated the same date, in the aggregate principal amount of $400,000. As of September 30, 2005, IMAGIN has purchased $400,000 of these notes. These notes are due and payable on August 7, 2008. These notes are convertible into an aggregate of 20,000,000 shares of the Company's common stock.

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

In September 2006 the convertible instruments discussed above were converted to shares of Positron Corporation Series B Preferred Stock. See discussion below.

Financing Agreements dated October 31, 2005

On October 31, 2005, the Company sold to IMAGIN 10% secured convertible promissory notes under a Note Purchase Agreement, dated the same date, in the aggregate principal amount of $400,000. As of January 2006,

IMAGIN has purchased $400,000 of these notes. These notes are due and payable on October 31, 2008. These notes are convertible into an aggregate of 20,000,000 shares of the Company's common stock.

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

In September 2006 the convertible instruments discussed above were converted to shares of Positron Corporation Series B Preferred Stock. See discussion below.

Transactions with Solaris Opportunity Fund, L.P.

Financing Agreements dated February 28, 2005

On February 28, 2005, the Company entered into a series of agreements with Solaris pursuant to which Solaris agreed to purchase an aggregate of $1,000,000 face amount of the Company's 10% secured convertible promissory notes. As of September 30, 2005, Solaris had purchased all $1,000,000 of these notes. These notes are due and payable on March 6, 2007. The notes were initially convertible into new shares of Series E Preferred Stock that, in turn are convertible into an aggregate of 22,000,000 shares of the Company's common stock. Pursuant to the terms of the agreements, the Company granted to Solaris a security interest in all of its assets to secure payment of the convertible promissory notes. The security interest is subordinate to the security interest previously granted in the same collateral to IMAGIN.

During 2006 Solaris sold the $1,000,000 principal amount of these notes to IMAGIN.

In September 2006 the convertible instruments discussed above were converted to shares of Positron Corporation Series B Preferred Stock. See discussion below

Financing Agreements dated June 27, 2005

On June 27, 2005, the Company entered into a series of agreements with Solaris pursuant to which Solaris agreed to purchase an aggregate of $400,000 face amount of the Company's 10% secured convertible promissory notes. As of September 30, 2005, Solaris had purchased all $400,000 of these notes. These notes were due and payable on March 6, 2007. The notes are initially convertible into new shares of Series F Preferred Stock that, in turn are convertible into an aggregate of 20,000,000 shares of the Company's common stock. Pursuant to the terms of the agreements, the Company granted to Solaris a security interest in all of its assets to secure payment of the convertible promissory notes. The security interest is subordinate to the security interest previously granted in the same collateral to IMAGIN and Solaris.

During 2006 Solaris sold the principal amount of these notes to Quantum Molecular Pharmaceuticals, Inc. ("QMP").

In September 2006 the convertible instruments discussed above were converted to shares of Positron Corporation Series B Preferred Stock. See discussion below

Conversion To Series B Preferred Stock

On September 30, 2006 the Board of Directors authorized a new series of preferred stock designated Series B Preferred Stock. The number of shares authorized was 9,000,000. Each share of Series B Preferred Stock $1.00 par value is convertible into 100 shares of the Company's Common Stock. The Series B Preferred Stock is senior to the Company's Common Stock and junior in priority to the Company's A 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 December 31, 2006, 5,739,860.5 shares of Series B Preferred Stock were outstanding.

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

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

The Company and QMP converted principal and interest of $453,144 outstanding upon the Series F Secured Convertible Promissory Notes into 226,572 shares of Series B Preferred Stock.

Acquisition of IMAGIN Interest in IPT

On January 26, 2007, the Company executed and consummated a Securities Purchase Agreement (the "Agreement") with IMAGIN, to acquire 11,523,000 shares of common stock of IPT. The Shares represented approximately a 50.1% of IPT's issued and outstanding common stock. As a result of the acquisition of the Shares, the Company owns 100% of the common stock of IPT. As consideration for the shares, the Company and IMAGIN agreed to cancel a promissory note in the principal amount of $2,400,000 made by IMAGIN subsidiary, Quantum 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.

Immediately following the acquisition of the Shares, IPT acquired all of the outstanding capital stock of the Company's wholly-owned subsidiary, QMT. The purchase price of the acquisition was $2,800,000, in the form of a promissory note made in favor of the Company, payable on or before July 1, 2008, and secured by a pledge of all of the issued and outstanding shares of QMT

New Accounting Pronouncements

In June 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections," which will require entities that voluntarily make a change in accounting principle to apply that change retroactively to prior periods' financial statements unless this would be impracticable. SFAS No. 154supersedes Accounting Principles Board Opinion No. 20, "Accounting Changes"("APB No. 20"), which previously required that most voluntary changes in accounting principle be recognized by including in the current period's net income the cumulative effect of changing to the new accounting principle. SFAS No. 154 also makes a distinction between "retrospective application" of an accounting principle and the "restatement" of financial statements to reflect the correction of an error. Another significant change in practice under SFA No. 154 will be that if an entity changes its method of depreciation, amortization, or depletion for long-lived, non-financial assets, the change must be accounted for as a change in accounting principle. SFAS No. 154 applies to accounting changes and error corrections that are made in fiscal years beginning after December 15, 2005. The provisions of SFAS No. 154 did not impact the Company's consolidated financial statements.

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

Critical Accounting Policies

In response to the Securities and Exchange Commission's Release No. 33-8040, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies," we have identified critical accounting policies based upon the significance of the accounting policy to our overall financial statement presentation, as well as the complexity of the accounting policy and our use of estimates and subjective assessments. We have concluded our critical accounting

policies are as follows:

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.

Revenue Recognition

Revenues from POSICAM™ system contracts 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.

Information Regarding and Factors Affecting Forward Looking Statements

The Company is including the following cautionary statement in this Annual Report on Form 10-KSB to make applicable and take advantage of the safe harbor provision of the Private Securities Litigation Reform Act of 1995 for 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, management's examination of historical operating trends, data contained in the Company's records and other data available from third parties, but there can be no assurance that management's expectations, beliefs or projections will result or be achieved or accomplished. In addition to other factors and matters discussed elsewhere herein, the following are important factors that, in the view of the Company, could cause actual results to differ materially from those discussed in the forward looking statements: the ability of the Company to attain widespread market acceptance of its POSICAM™ systems; the ability of the Company to obtain acceptable forms and amounts of financing to fund future operations; demand for the Company's services; and competitive factors. The Company disclaims any obligation to update any forward looking statements to reflect events or circumstances after the date hereof.

Item 7. Financial Statements

The required Financial Statements and the notes thereto are contained in a separate section of this report beginning with the page following the signature page.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

On May 30, 2006, Ham, Langston & Brezina, L.L.P. ("HLB"), the Registrant's accountants informed the Registrant that they were resigning as the Registrant's certifying independent accountants.

HLB's audit report on the financial statements for the year ended December 31, 2005 contained no adverse opinion or disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope, or accounting principles but was qualified on a going concern basis.

During the Registrant's two most recent fiscal years and any subsequent interim period preceding the resignation of HLB, there were no disagreements with HLB on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements if not resolved to the satisfaction of HLB, would have caused HLB to make reference to the subject matter of the disagreements in connection with its report.

During the Registrant's two most recent fiscal years and any subsequent interim period preceding the resignation of HLB, there have been no reportable events of the type required to be disclosed by Item 304(a)(1)(v) of Regulation S-K

On July 10, 2006, Positron Corporation (the "Registrant") engaged Frank L. Sassetti & Co. to be its independent registered public accounting firm. The Registrant's engagement of Frank L. Sassetti & Co. was approved by the Registrant's Board of Directors.

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Item 8A. Controls and Procedures

As of December 31, 2006, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chairman of the Board and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and Rule 15d-15(e)). Based upon that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective at a reasonable level in timely alerting them to material information relating to the Company that is required to be included in the Company's periodic filings with the Securities and Exchange Commission. 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 has materially affected or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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

Item 8B. Other Information

On March 26, 2007, the Registrant formed Homeland Radiation Detection Systems, Inc., a Texas corporation ("HRDS") as a wholly-owned subsidiary. HRDS has filed a provisional patent for production of a device that is capable of detecting illicit radioactive sources at a distance which the Company intends to develop and market for homeland security applications.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act

The following table sets forth: (1) names and ages of all persons who presently are and who have been selected as directors of the Registrant; (2) all positions and offices with the Registrant held by each such person; (3) any period during which he or she has served a such:

Name	Age	Position with the Company
Patrick G. Rooney	44	Chairman of the Board – Elected 2004
Joseph G. Oliverio	37	President and Director – Elected 2006
Corey N. Conn	45	Chief Financial Officer
Timothy M. Gabel	37	Vice President of Operations
Sachio Okamura	55	Director – Elected 2001
Dr. Anthony (Tony) C. Nicholls	58	Director – Elected 2005
J. David Wilson	49	Director – Elected 2006 – Resigned 2006

Directors are elected annually and serve until the next annual meeting and until his successor has been elected and qualified, or until his earlier death, resignation or removal.

Patrick G. Rooney. Mr. Rooney has served as Chairman of the Company since July 26, 2004. Since March 2003, Mr. Rooney has been the Managing Director of Solaris Opportunity Fund L.P., an investing/trading hedge fund. Through years 1985-2000, Patrick G. Rooney and/or Rooney Trading was a member of The Chicago Board of Options Exchange, The Chicago Board of Trade and The Chicago Mercantile Exchange. In September 1998 through March 2003, Mr. Rooney was the Managing Director of Digital Age Ventures, Ltd., a venture capital investment company. Mr. Rooney attended Wagner College of New York from 1980 through 1984.

Joseph G. Oliverio. Mr. Oliverio has served as President of the Company since December 27, 2005. Mr. Oliverio also serves as the Chief Executive Officer of Imagin Molecular Corporation, a publicly-owned Delaware corporation, and affiliate of the Registrant. Mr. Oliverio has also joined the Board of Directors of Neusoft-Positron Medical Systems Co., Ltd., a joint venture with Neusoft Medical Systems of China that will manufacture the Company's PET and PET/CT products. Prior to becoming President of the Company, Mr. Oliverio was the Chief Operating Officer of Michael E. Merhige, M.D., LLC, a well known coronary disease reversal and prevention center. Mr. Oliverio earned an MBA from the University of Phoenix and a BS in Nuclear Medicine Technology from State University of New York at Buffalo, and is a certified nuclear medicine technologist. Mr. Oliverio has performed more than 13,000 combined heart and cancer PET scans using Positron devices and brings to the Company a valuable combination of business, clinical and technical skill sets. Mr. Oliverio has been involved with the Company in various capacities since 1995. Mr. Oliverio has also joined the Board of Directors of Neusoft-Positron Medical Systems Co., Ltd., a joint venture with Neusoft Medical Systems of China that will manufacture the Company's PET and PET/CT products. Mr. Oliverio earned an MBA from the University of Phoenix and a BS in Nuclear Medicine Technology from State University of New York at Buffalo, and is a certified nuclear medicine technologist.

Corey N. Conn. Mr. Conn was appointed by the Board of Directors to serve as Chief Financial Officer in 2005. Mr. Conn also serves as the Chief Financial Officer of Imagin Molecular Corporation, a publicly-owned Delaware corporation, and affiliate of the Registrant. Mr. Conn was Vice President of Business Development at iXL, an e-business and e-transformations services provider from 1995 - 1999 and also served as Managing Director of Virtual Partnerships, LLC, a business development and business strategy consulting firm from 1999 - 2004. Mr. Conn served as a member of the Board of Directors of Uniloc, Inc., from April 2000 to July 2002. Mr. Conn received a Bachelor's Degree in Business Administration from Bradley University

Timothy M. Gabel has served at the Vice President of Operations for Positron Corporation since March of 2006. Prior hereto and from 1996, Mr. Gabel specialized in international business, international technical project management, product research and development, lean manufacturing implementation, and product design with the automotive components supplier, Delphi Corporation. His experience includes technology transfer, and joint venture partnership development with companies in China, Japan, Mexico and Europe. Mr. Gabel holds four U.S. patents, and earned his Bachelor's of Science in Mechanical Engineering from the State University of New York at Buffalo.

Sachio Okamura. Mr. Okamura has served as a director since his appointment to the Board of the Company on April 1, 2001. Mr. Okamura has performed bio-medical consulting services for Okamura Associates, Inc. from 1993 through the present date. These consulting services have included regulatory, distribution, licensing, joint venture, investment, merger and acquisition activities involving businesses in the United States and Japan. Mr. Okamura was in charge of bio-medical business development for various offices of Mitsubishi Corporation from 1978 through 1993. Mr. Okamura received a BS in Biochemistry in 1975 from the University of California, Davis and a Master of International Business from the American Graduate School of International Management in 1978.

Dr. Anthony (Tony) C. Nicholls. Dr. Nicholls was nominated for election to the Board of Directors by the vote of the Board of Directors. Dr. Nicholls is currently CEO of L3Technology Ltd in England, a company formed to commercialize patented medical technology developed in UK government research laboratories. Additionally, he is Chairman of the Alpha Omega Hospital Management Trust Ltd (London, UK) which undertakes the construction and management of cancer treatment "Centres of Excellence" and a Director of European Diagnostics plc (London UK) a company developing products for patient point-of-care testing. Until 2002, Dr Nicholls was Chairman and CEO of FAS Medical Ltd, a company primarily involved in the management of central venous catheterization complications. Prior to working with FAS Medical Ltd., Dr. Nicholls was the Head of Microbiology and Immunology at the Midhurst Medical Research Institute in the UK. Dr. Nicholls is a graduate of the University of Birmingham School of Medical Sciences and has a Ph.D. in Immunology.

J. David Wilson. Mr. Wilson was appointed as the Company's Chief Executive Officer on October 27, 2005 and resigned in April 2006. He is a cancer survivor, dedicated PET and radiopharmaceutical executive, and founder, Chief Executive Officer and President of Quantum Molecular Pharmaceutical, Inc. From 2003 through 2005, Mr. Wilson founded and served as President of CI Pharma Inc., a radiopharmaceutical company formed to cater to a new vertical market for cancer staging and diagnosis drugs. From 2002 to 2003, Mr. Wilson founded and served as the Vice President of Sales of Careimaging Corp., a nuclear medicine imaging company that brought Positron Emission Tomography for private clinical cancer diagnosis and staging to Ontario, Canada. Mr. Wilson received a BA in Economics from York University in 1981.

Item 10. Executive Compensation

Summary Compensation Table

The following Summary Compensation Table shows certain compensation information for each of the Named Executive Officers. Compensation data is shown for the years ended December 31, 2006, 2005 and 2004. This information includes the dollar value of base salaries, bonus awards, the number of stock options granted, and certain other compensation, if any, whether paid or deferred.

		Annual Compensation			Long-Term Compensation Awards			
Name and Principal Position	Year	Salary (a)	Bonus	Other Annual Compensation	Restricted Stock Awards	Options/ SARs	LTIP Payouts	All Other Compensation
Patrick G. Rooney	2006	--	--	--	--	5,000,000	--	$ 110,000
Chairman of the Board	2005	--	--	--	--	--	--	$ 10,000
Joseph G. Oliverio	2006	$ 135,000	--	--	--	--	--	--
President	2005	--	--	--	--	7,500,000	--	--
J. David Wilson	2006	--	--	--	--	--	--	--
Chief Executive Officer	2005	--	--	--	--	--	--	--
Corey N. Conn	2006	$ 96,000	--	--	--	4,000,000	--	--
Chief Financial Officer	2005	$ 25,000						
Timothy M. Gabel	2006	$ 74,000				1,500,000		
Vice President of Operations								
Gary H. Brooks (b)	2006	--	--	--	--	--	--	--
President, CEO, CFO	2005	$ 190,000	--	--	--	--	--	$ 111,500
and Secretary	2004	$ 223,000	--	--	--	500,000	--	$ 1,900
Griffith L. Miller II (c)	2006	$ 55,000	--	--	--	--	--	--
President, COO and CFO	2005	$ 105,000	--	--	--	--	--	--
	2004	$ 94,000	--	--	--	--	--	--
David S. Yeh (d)	2006	--	--	--	--	--	--	--
Executive V.P. Sales &	2005	$ 130,000	--	--	--	--	--	--

Marketing	2004	$	119,000

(a) Amounts shown include cash compensation earned with respect to the year shown above.
(b) Compensation for Mr. Brooks in 2005 includes regular compensation of $167,000 and $23,000 of vacation pay through September 29, 2005. All other compensation for Mr. Brooks includes an $111,500 severance obligation.
(c) Mr. Miller resigned in August 2006. Compensation for Mr. Miller in 2005 includes regular compensation of $97,500 and $7,500 of vacation pay.
(d) Mr. Yeh served as an officer of the Company from July 2004 through July 2005.

Employment Agreements

The Company has an employment agreement with Joseph G. Oliverio, President of the Company. Mr. Oliverio receives a base salary of $150,000. Mr. Oliverio has an option grant exercisable for 7,500,000 shares of Common Stock at an exercise price of $0.05 per share. On the date of grant of the option 2,000,000 shares vested, with an additional 2,000,000 shares vesting on December 27, 2006 and the remainder vesting on December 27, 2007. Mr. Oliverio is entitled to 6 months severance upon a termination "without cause".

Option Grants in Last Fiscal Year

During 2006, the Company issued 11,575,000 stock options to officers and directors, 75,000 of which were issued in accordance with the Company's Non-Employee Director Stock Option Plan and 11,500,000 in accordance with the Amended and Restated 2005 Stock Incentive Plan.

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Equity Compensation Plan Information

The following table summarizes share and exercise information about the Company's equity compensation plans as of December 31, 2006.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities included in 1st column)
All Equity Compensation Plans Approved by Security Holders	19,500,000	$0.06	26,814,000 (1)

(1) Includes 3,275,000 shares available for issuance under the 1999 Stock Option Plan, 225,000 shares available for issuance under the 1999 Non-Employee Directors' Plan, 684,000 shares available for issuance under the 1999 Stock Bonus Incentive Plan, 500,000 shares available under the 1999 Employee Stock Purchase Plan, 21,000,000 shares available under the 2005 Amended and Restated Stock Incentive Plan and 1,130,000 available under the 2006 Stock Incentive Plan.

SUMMARY OF EQUITY COMPENSATION PLANS

Equity-Based Compensation

Key Employee Incentive Compensation.

The Company has an incentive compensation plan for certain key employees and it's Chairman. The incentive compensation plan provides for annual bonus payments based upon achievement of certain corporate objectives as determined by the Company's Compensation Committee, subject to the approval of the Board of Directors. During 2006, the Company did not pay any bonus pursuant to the incentive compensation plan.

1999 Employee Stock Option Plan

Positron's Board administers the 1999 Employee Stock Option Plan ("1999 Plan"), which was adopted by the Board effective June 15, 1999. The 1999 Plan provides for the grant of options to officers, employees (including employee directors) and consultants. The administrator is authorized to determine the terms of each option granted under the plan, including the number of shares, exercise price, term and exercisability. Options granted under the plan may be

incentive stock options or nonqualified stock options. The exercise price of incentive stock options may not be less than 100% of the fair market value of the Common Stock as of the date of grant (110% of the fair market value in the case of an optionee who owns more than 10% of the total combined voting power of all classes of the Company's capital stock). Options may not be exercised more than ten years after the date of grant (five years in the case of 10% shareholders). Upon termination of employment for any reason other than death or disability, each option may be exercised for a period of 90 days, to the extent it is exercisable on the date of termination. In the case of a termination due to death or disability, an option will remain exercisable for a period of one year, to the extent it is exercisable on the date of termination. The Board has authorized up to an aggregate of 4,000,000 shares of Common Stock for issuance under the 1999 Plan. As of December 31, 2006, 225,000 options are outstanding, of which 152,396 are vested.

Non-Employee Directors' Stock Option Plan

The 1999 Non-Employee Directors' Stock Option Plan ("Directors' Plan") provides for the automatic grant of an option to purchase 25,000 shares of Common Stock to non-employee directors upon their election or appointment to the Board, and subsequent annual grants also in the amount of 25,000 shares of Common Stock. The exercise price of the options is 85% of the fair market value of the Common Stock on the date of grant. The Directors' Plan is administered by the Board. Options granted under the Directors' Plan become exercisable in one of two ways: either in four equal annual installments, commencing on the first anniversary of the date of grant, or immediately but subject to the Company's right to repurchase, which repurchase right lapses in four equal annual installments, commencing on the first anniversary of the date of grant. To the extent that an option is not exercisable on the date that a director ceases to be a director of the Company, the unexercisable portion terminates. The Board has authorized up to an aggregate of 500,000 shares of Common Stock for issuance under the Directors' Plan. As of December 31, 2006, 250,000 fully vested options remain outstanding under the Directors' Plan.

1999 Stock Bonus Incentive Plan

In October 1999, the Board adopted an Employee Stock Bonus Incentive Plan, which provides for the grant of bonus shares to any Company employee or consultant to recognize exceptional service and performance beyond the service recognized by the employee's salary or consultant's fee. The Board has authorized up to an aggregate of 1,000,000 shares of Common Stock for issuance as bonus awards under the Stock Bonus Plan. The Stock Bonus Plan is currently administered by the Board. Each grant of bonus shares is in an amount determined by the Board, up to a maximum of the participant's salary. The shares become exercisable according to a schedule to be established by the Board at the time of grant. As of December 31, 2006, 316,000 shares of Common Stock have been granted under the 1999 Stock Bonus Incentive Plan.

1999 Employee Stock Purchase Plan

The Company's 1999 Employee Stock Purchase Plan ("Purchase Plan") was adopted by the Board of Directors and approved by the shareholders in 1999. A total of 500,000 shares of Common Stock have been reserved for issuance under the Purchase Plan, none of which has yet been issued. The Purchase Plan permits eligible employees to purchase Common Stock at a discount through payroll deductions during offering periods of up to 27 months. Offering periods generally will begin on the first trading day of a calendar quarter. The initial offering period began on January 1, 2000. The price at which stock is purchased under the Purchase Plan will be equal to 85% of the fair market value of Common Stock on the first or last day of the offering period, whichever is lower. No shares have been issued under the Purchase Plan at December 31, 2006.

Amended and Restated 2005 Stock Incentive Plan

Positron's Board administers the Amended and Restated 2005 Stock Incentive Plan ("2005 Plan"), which was adopted by the Board effective November 18, 2005. The 2005 Plan provides for the grant of options and stock to directors, officers, employees and consultants. The administrator is authorized to determine the terms of each award granted under the plan, including the number of shares, exercise price, term and exercisability. Options granted under the plan may be incentive stock options or nonqualified stock options. The exercise price of incentive stock options may not be less than 100% of the fair market value of the Common Stock as of the date of grant (110% of the fair market value in the case of an optionee who owns more than 10% of the total combined voting power of all classes of the Company's capital stock). Options may not be exercised more than ten years after the date of grant (five years in the case of 10% shareholders). Upon termination of employment for any reason other than death or disability, each option may be exercised for a period of 90 days; to the extent it is exercisable on the date of termination. In the case of a

termination due to death or disability, an option will remain exercisable for a period of one year; to the extent it is exercisable on the date of termination. A total of 40,000,000 shares of Common Stock have been authorized for issuance under the 2005 Plan. As of December 31, 2006, a total of 19,000,000 options have been granted under the 2005 Plan, none of which have been exercised, and of which 10,000,000 are fully vested.

2006 Stock Incentive Plan

Positron's Board administers the 2006 Stock Incentive Plan ("2006 Plan"), which was adopted by the Board effective April 10, 2006. The 2006 Plan provides for the direct issuance of stock and grants of nonqualified stock options to directors, officers, employees and consultants. The administrator is authorized to determine the terms of each award granted under the plan, including the number of shares, exercise price, term and exercisability. Stock and options may be granted for services rendered or to be rendered. Options may not be exercised more than ten years after the date of grant. Upon termination of employment for any reason other than death or disability, each option may be exercised for a period of 90 days, to the extent it is exercisable on the date of termination. In the case of a termination due to death or disability, an option will remain exercisable for a period of one year, to the extent it is exercisable on the date of termination. A total of 5,000,000 shares of Common Stock have been authorized for issuance under the 2006 Plan. As of December 31, 2006, 3,870,000 shares had been issued to consultants under the 2006 Plan.

401(k) Savings Plan

The Company has a 401(k) Retirement Plan and Trust (the "401(k) Plan") which became effective as of January 1, 1989. Employees of the Company who have completed one-quarter year of service and have attained age 21 are eligible to participate in the 401(k) Plan. Subject to certain statutory limitations, a participant may elect to have his or her compensation reduced by up to 20% and have the Company contribute such amounts to the 401(k) Plan on his or her behalf ("Deferral Contributions"). The Company makes contributions in an amount equal to 25% of the participant's Deferral Contributions up to 6% of his/her compensation ("Employer Contributions"). Additionally, the Company may make such additional contributions, as it shall determine each year in its discretion. All Deferral and Employer Contributions made on behalf of a participant are allocated to his/her individual accounts and such participant is permitted to direct the investment of such accounts.

A participant is fully vested in the current value of that portion of his/her accounts attributable to Deferral Contributions. A participant's interest in that portion of his/her accounts attributable to Employer Contributions is generally fully vested after five years of employment. Distributions under the 401(k) Plan are made upon termination of employment, retirement, disability and death. In addition, participants may make withdrawals in the event of severe hardship or after the participant attains age fifty-nine and one-half. The 401(k) Plan is intended to qualify under Section 401 of the Internal Revenue Code of 1986, so that contributions made under the 401(k) Plan, and income earned on contributions, are not taxable to participants until withdrawal from the 401(k) Plan.

The Company did not make any contributions to the 401(k) Plan on behalf of employees in the year ended December 31, 2006.

Policy with Respect to $1 Million Deduction Limit

It is the Company's policy, where practical, to avail itself of all proper deductions under the Internal Revenue Code. Amendments to the Internal Revenue in 1993, limit, in certain circumstances, the deductibility of compensation in excess of $1 million paid to each of the five highest paid executives in one year. The total compensation of the executive officers did not exceed this deduction limitation in fiscal year 2006 or 2005.

Compensation of Directors

Directors who are also employees of the Company receive no fees for services provided in that capacity, but are reimbursed for out-of-pocket expenses incurred in connection with attendance at meetings of the Board of Directors and its committees.

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Non-Employee Director Compensation

Beginning January 22, 1999 through current date, non-employee directors were not separately compensated for their services on the Board although they continued to be reimbursed for their reasonable expenses associated with attending board and committee meetings.

Historically, each non-employee director was eligible to receive an initial option to purchase 25,000 shares of Common Stock under the Company's 1999 Non-Employee Directors' Stock Option Plan upon their election or appointment to the Board. The exercise price is equal to 85% of the fair market value of the Common Stock on the date of grant. In addition, so long as the Plan is in effect and there are shares available for grant, each director in service on January 1 of each year (provided the director has served continuously for at least the preceding 30 days) is eligible to receive an option to purchase 25,000 shares of Common Stock at an exercise price equal to 85% of the fair market value of the Common Stock on the date of grant. Initial options as well as annual options granted under the Plan are subject to one or two schedules, either vesting over four years or vesting fully on the date of grant. In the latter event, the Common Stock acquired upon exercise of such options are subject to a right of repurchase in favor of the Company which lapses in four equal annual installments, beginning on the first anniversary of the date of grant. The Company anticipates, subject to shareholder approval, that future grants to non-employee directors may be made under the 2005 Stock Incentive Plan with exercise prices for such grants equal to 100% of the fair market value of the Common Stock on the date of grant.

Item 11. Security Ownership of Directors, Officers and Certain Beneficial Owners

The following tables, based in part upon information supplied by officers, directors and principal shareholders, set forth certain information regarding the beneficial ownership of the Company's voting securities by (i) all those known by the Company to be beneficial owners of more than 5% of the Company's voting securities; (ii) each director (iii) the Company's Chief Executive Officer and the four other highest paid executive officers (the "Named Executive Officers"); and (iv) the directors and executive officers as a group.

Security Ownership of Certain Beneficial Owners[a]

Name and Address of Beneficial Owner	Number of Shares of Common Stock	% of Outstanding Common Stock[b][c]
IMAGIN Diagnostic Centres, Inc.	460,299,250(d)	69.6%
Positron Acquisition Corp.	80,261,800(e)	12.1%
Imaging Pet Technologies, Inc.	65,000,000(f)	9.8%

(a) Security ownership information for beneficial owners is taken from statements filed with the Securities and Exchange Commission pursuant to Sections 13(d), 13(g) and 16(a) and/or information made known to the Company.

(b) Based on 87,205,202 shares of Common Stock outstanding on April 10, 2007.

(c) The percentage of outstanding Common Stock assumes full conversion Convertible Series A and B Preferred Stock into Common Stock and is based on the Company's outstanding shares of Common Stock as of April 10 , 2007.

(d) Includes 18,974,000 shares owned directly, shares issuable upon full conversion of 4,367,503 shares of Series B Preferred Stock into Common Stock, and 4,575,000 shares that may be acquired pursuant to warrants that are or will become exercisable within 60 days of April 10, 2007. The address for IMAGIN is 5160 Yonge Street, Suite 300, Toronto, Ontario, M2N 6L9.

(e) Includes 8,026,000 shares owned directly and shares issuable upon full conversion of 722,358 shares of Series B Preferred Stock into Common Stock. The address for Positron Acquisition Corp. is 104 W. Chestnut Street #315, Hinsdale, Illinois 60521.

(f) Represents shares issuable upon full conversion of 650,000 shares of Series B Preferred Stock into Common Stock. The address for Imaging Pet Technologies, Inc. is 5160 Yonge Street, Suite 300, Toronto, Ontario, M2N 6L9.

Security Ownership of Directors, Director Nominees and Executive Officers

Title of Class	Name of Beneficial Owner	Beneficial Ownership (aa) (cc)	Percent of Class (bb)
Common	Joseph G. Oliverio	4,000,000 (dd)	4.4%
Common	Sachio Okamura	650,000 (ee)	*
Common	Patrick G. Rooney	2,575,000 (ff)	2.9%
Common	Dr. Anthony C. Nicholls	550,000 (gg)	*
Common	Corey N. Conn	2,000,000 (hh)	2.2%
Common	Timothy M. Gabel	1,500,000 (ii)	1.7%
Common	All Directors and Executive Officers as a Group	11,275,000	11.4%

* Does not exceed 1% of the referenced class of securities.

(aa) Ownership is direct unless indicated otherwise.

(bb) Calculation based on 87,205,202 shares of Common Stock outstanding as of April 10, 2007 plus stock options that are or will become exercisable within 60 days of April 10, 2007.

(cc) The percentage of outstanding Common Stock assumes full conversion of the 10% secured convertible notes into Common Stock and is based on the Company's outstanding shares of Common Stock as of April 10, 2007.

(dd) Includes 4,000,000 shares that may be acquired by Mr. Oliverio pursuant to stock options that are or will become exercisable within 60 days of April 10, 2007.

(ee) Includes 650,000 shares that may be acquired by Mr. Okamura pursuant to stock options that are or will become exercisable within 60 days of April 10, 2007

(ff) Includes 2,575,000 shares that may be acquired by Mr. Rooney pursuant to stock options that are or will become exercisable within 60 days of April 10, 2007.

(gg) Includes 550,000 shares that may be acquired by Mr. Nicholls pursuant to options that are or will be exercisable within 60 days of April 10, 2007.

(hh) Includes 2,000,000 shares that may be acquired by Mr. Conn pursuant to stock options that are or will become exercisable within 60 days of April 10, 2007.

(ii) Includes 1,500,000 shares that may be acquired by Mr. Gabel pursuant to stock options that are or will become exercisable within 60 days of April 10, 2007.

Item 12. Certain Relationships and Related Transactions

Imaging PET Technologies, Inc.

On June 5, 2006, the Company and Quantum Molecular Pharmaceuticals Inc., a Canadian radiopharmaceutical corporation ("Quantum") 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"). Initially, the Company and Quantum hold 49.9% and 50.1%, respectively, of the total outstanding capital stock of IPT. The Company acquired the remaining 50.1% of the capital stock of IPT from Imagin Diagnostic Centers, Inc., which had acquired the shares from Quantum, in exchange for the cancellation of a promissory note in the amount of $2,400,000 Imagin had made in favor of the Company.

Conversion of Notes Payable to Series B Preferred Stock

In 2006, the Company converted all outstanding convertible notes and outstanding shares of preferred stock with its three largest affiliated creditors into shares of Series B Convertible Preferred Stock. The Company and Imagin Diagnostic Centres, Inc converted principal and interest of $1,164,192 outstanding upon the Series E Convertible Promissory Notes and principal and interest of $877,669 of Convertible Secured Notes into 690,930.5 shares of Series B Preferred Stock. The Company and Positron Acquisition Corp. converted principal and interest of $818,066 outstanding upon the Series D Secured Convertible Promissory Notes and 770,000 shares of Series C Preferred Stock into 762,358 shares of Series B Preferred Stock. Positron Acquisition Corp. subsequently converted 40,000 shares of Series B Preferred Stock into 4,000,000 shares of the Company's Common Stock. The Company and Quantum Molecular Pharmaceuticals, Inc. converted principal and interest of $453,144 outstanding upon the Series F Secured Convertible Promissory Notes into 226,572 shares of Series B Preferred Stock.

Item 13. Exhibits

3.1	Articles of Incorporation of the Registrant (incorporated herein by reference to Exhibit 3.1 to the Company's Registration Statement on Form SB-2 (File No. 33-68722)).
3.2	By-laws of the Registrant, as amended (incorporated herein by reference to Exhibit 3.2 to the Company's Registration Statement on Form SB-2 (File No. 33-68722)).
4.1	Specimen Stock Certificate (incorporated herein by reference to Exhibit 4.1 of the Company's Annual Report on Form 10-KSB for the year ended December 31, 1994).

4.2	Statement of Designation Establishing Series A 8% Cumulative Convertible Redeemable Preferred Stock of Positron Corporation, dated February 28, 1996 (incorporated herein by reference to Exhibit 4.3 of the Company's Annual Report on Form 10-KSB for the year ended December 31, 1995).
4.3	Warrant Agreement dated as of June 15, 1999 between Positron Corporation and Gary Brooks (incorporated herein by reference to Exhibit 4.9 to the Company's Registration Statement on Form SB-2 (File No. 333-30316)).
4.4	Stock Purchase Warrant dated as of June 15, 1999 issued by Positron Corporation to Gary H. Brooks (incorporated herein by reference to Exhibit 4.10 to the Company's Registration Statement on Form SB-2 (File No. 333-30316)).
4.5	Warrant Agreement dated as of June 15, 1999 between Positron Corporation and S. Lewis Meyer (incorporated herein by reference to Exhibit 4.11 to the Company's Registration Statement on Form SB-2 (File No. 333-30316)).
4.6	Stock Purchase Warrant dated as of June 15, 1999 issued by Positron Corporation to S. Lewis Meyer (incorporated herein by reference to Exhibit 4.12 to the Company's Registration Statement on Form SB-2 (File No. 333-30316)).
4.7	Statement of Designation Establishing Series C Preferred Stock of Positron Corporation dated May 21, 2004 (incorporated by reference to Exhibit 4.1 to the Company's Report on Form 8-K dated May 21, 2004)
4.8	Statement of Designation Establishing Series D Preferred Stock of Positron Corporation dated May 21, 2004 (incorporated by reference to Exhibit 4.2 to the Company's Report on Form 8-K dated May 21, 2004)
4.9	Statement of Designation Establishing Series E Preferred Stock of Positron Corporation dated February 28, 2005 (incorporated by reference to Exhibit 4.18 to the Company's Annual Report on Form 10-KSB dated April 19, 2005)
4.10	Statement of Designation Establishing Series F Preferred Stock of Positron Corporation (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated June 27, 2005).
10.1	Lease Agreement dated as of July 1, 1991, by and between Lincoln National Pension Insurance Company and Positron Corporation (incorporated herein by reference to Exhibit 10.1 to the Company's Registration Statement on Form SB-2 (File No. 33-68722)).
10.2	Agreement dated as of March 1, 1993, by and between Positron Corporation and Oxford Instruments (UK) Limited (incorporated herein by reference to Exhibit 10.2 to the Company's Registration Statement on Form SB-2 (File No. 33-68722)).
10.3	International Distribution Agreement dated as of November 1, 1992, by and between Positron Corporation and Batec International, Inc. (incorporated herein by reference to Exhibit 10.3 to the Company's Registration Statement on Form SB-2 (File No. 33-68722)).
10.4 †	1994 Incentive and Nonstatutory Option Plan (incorporated herein by reference to Exhibit A to Company's Proxy Statement dated May 2, 1994).†

10.5	Amended and Restated 1987 Stock Option Plan (incorporated herein by reference to Exhibit 10.5 to the Company's Registration Statement on Form SB-2 (File No. 33-68722)).†
10.6	Retirement Plan and Trust (incorporated herein by reference to Exhibit 10.6 to the Company's Registration Statement on Form SB-2 (File No. 33-68722)).†

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10.7	Amended and Restated License Agreement dated as of June 30, 1987, by and among The Clayton Foundation for Research, Positron Corporation, K. Lance Gould, M.D., and Nizar A. Mullani (incorporated herein by reference to Exhibit 10.7 to the Company's Registration Statement on Form SB-2 (File No. 33-68722)).
10.8	Clarification Agreement to Exhibit 10.7 (incorporated herein by reference to Exhibit 10.8 to the Company's Registration Statement on Form SB-2 (File No. 33-68722)).
10.9	Royalty Assignment dated as of December 22, 1988, by and between K. Lance Gould and Positron Corporation (incorporated herein by reference to Exhibit 10.10 to the Company's Registration Statement on Form SB-2 (File No. 33-68722)).
10.10	Royalty Assignment dated as of December 22, 1988, by and between Nizar A. Mullani and Positron Corporation (incorporated herein by reference to Exhibit 10.11 to the Company's Registration Statement on Form SB-2 (File No. 33-68722)).
10.11	Royalty Assignment dated as of December 22, 1988, by and between The Clayton Foundation and Positron Corporation (incorporated herein by reference to Exhibit 10.12 to the Company's Registration Statement on Form SB-2 (File No. 33-68722)).
10.12	Consulting Agreement dated as of January 15, 1993, by and between Positron Corporation and K. Lance Gould, M.D. (incorporated herein by reference to Exhibit 10.24 to the Company's Registration Statement on Form SB-2 (File No. 33-68722)).
10.13	Consulting Agreement dated February 23, 1995, effective December 15, 1994, by and between Positron Corporation and F. David Rollo, M.D. Ph.D., FACNP.
10.14	Consulting Agreement dated as of January 15, 1993, by and between Positron Corporation and Nizar A. Mullani (incorporated herein by reference to Exhibit 10.31 to the Company's Registration Statement on Form SB-2 (File No. 33-68722)).
10.15	Consulting Agreement dated as of November 12, 1993, by and between Positron Corporation and OmniMed Corporation (incorporated herein by reference to Exhibit 10.35 to the Company's Registration Statement on Form SB-2 (File No. 33-68722)).
10.16	Contract No. 1318 dated as of December 30, 1991, by and between Positron Corporation and The University of Texas Health Science Center at Houston (incorporated herein by reference to Exhibit 10.39 to the Company's Registration Statement on Form SB-2 (File No. 33-68722)).
10.17	Letter Agreement dated July 30, 1993 between Positron Corporation and Howard Baker (incorporated herein by reference to Exhibit 10.52 to the Company's Registration Statement on Form SB-2 (File No. 33-68722)).
10.18	Technology Transfer Agreement dated as of September 17, 1990, by and between Positron Corporation and Clayton Foundation for Research (incorporated herein by reference to Exhibit 10.54 to the Company's Registration Statement on Form SB-2 (File No. 33-68722)).
10.19	Form of Amended and Restated Registration Rights Agreement dated as of November 3, 1993, by and among Positron and the other signatories thereto (1993 Private Placement) (incorporated herein

by reference to Exhibit 10.73 to the Company's Registration Statement on Form SB-2 (File No. 33-68722).

10.20 Registration Rights Agreement dated as of July 31, 1993, by and among Positron and the other signatories thereto (other than the 1993 Private Placement) (incorporated herein by reference to Exhibit 10.74 to the Company's Registration Statement on Form SB-2 (File No. 33-68722)).

10.21 Software Licenses dated as of March 1, 1993, by and between Positron Corporation and Oxford Instruments (UK) Limited (incorporated herein by reference to Exhibit 10.81 to the Company's Registration Statement on Form SB-2 (File No. 33-68722)).

10.22 Distribution Agreement dated as of June 1, 1993, by and between Positron Corporation and Elscint, Ltd. (incorporated herein by reference to Exhibit 10.82 to the Company's Registration Statement on Form SB-2 (File No. 33-68722)).

10.23 First Amendment to Amended and Restated Registration Rights Agreement, dated as of November 19, 1993, by and among Positron Corporation and the other signatories thereto (incorporated herein by reference to Exhibit 10.91 to the Company's Registration Statement on Form SB-2 (File No. 33-68722)).

10.24 Agreement made and entered into as of October 31, 1993, by and between Positron Corporation and Nizar A. Mullani (incorporated herein by reference to Exhibit 10.97 to the Company's Registration Statement on Form SB-2 (File No. 33-68722)).

10.25 Agreement made and entered into as of October 31, 1993, by and between Positron Corporation and K. Lance Gould (incorporated herein by reference to Exhibit 10.98 to the Company's Registration Statement on Form SB-2 (File No. 33-68722)).

10.26 Agreement made and entered into as of November 15, 1993, by and between Positron Corporation and Nizar A. Mullani (incorporated herein by reference to Exhibit 10.100 to the Company's Registration Statement on Form SB-2 (File No. 33-68722)).

10.27 Agreement made and entered into as of November 15, 1993, by and between Positron Corporation and K. Lance Gould (incorporated herein by reference to Exhibit 10.101 to the Company's Registration Statement on Form SB-2 (File No. 33-68722)).

10.28 First Amendment made and entered as of January 25, 1994, by and between Emory University d/b/a Crawford Long Hospital and Positron Corporation (incorporated herein by reference to Exhibit 10.102 of the Company's Annual Report on Form 10-KSB for the year ended December 31, 1993).

10.29 Acquisition Agreement between General Electric Company and Positron Corporation dated July 15, 1996 (incorporated by reference to Exhibit 10.56 to the Company's Report on Form 10-KSB for the year ended December 31, 1996).

10.30 Sales and Marketing Agreement With Beijing Chang Feng Medical (incorporated by reference to Exhibit 10.58 to the Company's Report on Form 10-KSB/A for the year ended December 31, 1996).

10.31 Stock Purchase Agreement between Positron Corporation and Imatron, Inc. (incorporated hereby by reference to Annex A to the Company's Proxy Statement dated December 18, 1998).

10.32 Agreement and Release dated as of November 30, 1999 by and among Positron Corporation, K. Lance Gould and University of Texas Medical Center (incorporated herein by reference to Exhibit 10.62 to the Company's Registration Statement on Form SB-2 (File No. 333-30316)).

10.33 1999 Stock Option Plan (incorporated herein by reference to Exhibit 10.63 to the Company's Registration Statement on Form SB-2 (File No. 333-30316)).†

10.34	1999 Non-Employee Directors' Stock Option Plan (incorporated herein by reference to Exhibit 10.64 to the Company's Registration Statement on Form SB-2 (File No. 333-30316)).†
10.35	1999 Stock Bonus Incentive Plan (incorporated herein by reference to Exhibit 10.65 to the Company's Registration Statement on Form SB-2 (File No. 333-30316)).†

10.36	1999 Employee Stock Purchase Plan (incorporated herein by reference to Exhibit 10.66 to the Company's Registration Statement on Form SB-2 (File No. 333-30316)).†
10.37	Stock Purchase Warrant dated September 1, 1999 issued by Positron to S. Okamura and Associates, Inc. (incorporated herein by reference to Exhibit 10.67 to the Company's Registration Statement on Form SB-2 (File No. 333-30316)).
10.38	Stock Purchase Warrant dated August 18, 1999 issued by Positron to Morris Holdings Ltd. (incorporated herein by reference to Exhibit 10.68 to the Company's Registration Statement on Form SB-2 (File No. 333-30316)).
10.39	Stock Purchase Warrant dated January 20, 2000 issued by Positron to Vistula Finance Limited (incorporated herein by reference to Exhibit 10.69 to the Company's Registration Statement on Form SB-2 (File No. 333-30316)).
10.40	Loan Agreement with Imatron Inc dated June 29, 2001 (incorporation herein by reference to the Company’s Report on Form 8-K dated July 12, 2001)
10.41	Technology Purchase Agreement, dated as of June 29, 2003, by and between General Electric Company and Positron Corporation (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 14, 2003)
10.42	Software License Agreement, dated as of June 29, 2003, by and between General Electric Company and Positron Corporation (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on July 14, 2003)
10.43	Agreement for Services, dated as of June 29, 2003, by and between General Electric Company and Positron Corporation (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on July 14, 2003)
10.44	Note Purchase Agreement dated May 21, 2004 between Positron and IMAGIN Diagnostic Centres, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Report on Form 8-K dated May 21, 2004)
10.45	Secured Convertible Promissory Note dated May 21, 2004 in the principal amount of $400,000 (incorporated by reference to Exhibit 10.2 to the Company's Report on Form 8-K dated May 21, 2004)
10.46	Form Secured Convertible Promissory Note in the principal amount of $300,000 (incorporated by reference to Exhibit 10.3 to the Company's Report on Form 8-K dated May 21, 2004)
10.47	Security Agreement dated May 21, 2004 between Positron and IMAGIN Diagnostic Centres, Inc. (entered into in connection with Note Purchase Agreement) (incorporated by reference to Exhibit 10.4 to the Company's Report on Form 8-K dated May 21, 2004)
10.48	Loan Agreement dated May 21, 2004 between Positron and IMAGIN Diagnostic Centres, Inc. (incorporated by reference to Exhibit 10.5 to the Company's Report on Form 8-K dated May 21, 2004)
10.49	

	Security Agreement dated May 21, 2004 between Positron and IMAGIN Diagnostic Centres, Inc. (entered into in connection with Loan Agreement) (incorporated by reference to Exhibit 10.7 to the Company's Report on Form 8-K dated May 21, 2004)
10.50	Voting Agreement dated May 21, 2004 between Positron and IMAGIN Diagnostic Centres, Inc. (incorporated by reference to Exhibit 10.8 to the Company's Report on Form 8-K dated May 21, 2004)
10.51	Registration Rights Agreement dated May 21, 2004 between Positron and IMAGIN Diagnostic Centres, Inc. (incorporated by reference to Exhibit 10.9 to the Company's Report on Form 8-K dated May 21, 2004)

10.52	Note Purchase Agreement dated February 28, 2005 between Positron and Solaris Opportunity Fund, L.P. (incorporated by reference to Exhibit 10.83 to the Company's Annual Report on Form 10-KSB/A for the fiscal year ended December 31, 2005)
10.53	Secured Convertible Promissory Note dated March 7, 2005 in the principal amount of $200,000 in favor of Solaris Opportunity Fund, L.P. (incorporated by reference to Exhibit 10.84 to the Company's Annual Report on Form 10-KSB/A for the fiscal year ended December 31, 2005)
10.54	Security Agreement dated February 28, 2005 between Positron and Solaris Opportunity Fund, L.P. (incorporated by reference to Exhibit 10.85 to the Company's Annual Report on Form 10-KSB/A for the fiscal year ended December 31, 2005)
10.55	Registration Rights Agreement dated February 28, 2005 between Positron and Solaris Opportunity Fund, L.P. (incorporated by reference to Exhibit 10.86 to the Company's Annual Report on Form 10-KSB/A for the fiscal year ended December 31, 2005)
10.56	Warrant Purchase Agreement by and among Positron Corporation, Carlos Sao Paulo, Sofia Salema Garcao, Maria Madalena Pimental and José Maria Salema Garção dated May 12, 2005 (incorporated by reference to Exhibit 10.1 to the Company's Report on Form 8-K dated May 12, 2005)
10.57	Note Purchase Agreement dated June 27, 2005 between Positron and Solaris Opportunity Fund, L.P. (incorporated by reference to Exhibit 10.1 to the Company's Report on Form 8-K dated June 27, 2005)
10.58	Form Secured Convertible Promissory Note (incorporated by reference to Exhibit 10.2 to the Company's Report on Form 8-K dated June 27, 2005)
10.59	Security Agreement dated June 27, 2005 between Positron and Solaris Opportunity Fund, L.P. (incorporated by reference to Exhibit 10.3 to the Company's Report on Form 8-K dated June 27, 2005)
10.60	Registration Rights Agreement dated June 27, 2005 between Positron and Solaris Opportunity Fund, L.P. (incorporated by reference to Exhibit 10.4 to the Company's Report on Form 8-K dated June 27, 2005)
10.61	Note Purchase Agreement dated August 8, 2005 between Positron and IMAGIN Diagnostic Centres, Inc. (incorporated by reference to Exhibit 10.1 to the Company's Report on Form 8-K dated August 8, 2005)
10.62	Form Secured Convertible Promissory Note (incorporated by reference to Exhibit 10.2 to the Company's Report on Form 8-K dated August 8, 2005)
10.63	Registration Rights Agreement dated August 8, 2005 between Positron and IMAGIN Diagnostic Centres, Inc. (incorporated by reference to Exhibit 10.3 to the Company's Report on Form 8-K dated August 8, 2005)
10.64	Agreement between Gary H. Brooks and Positron Corporation dated September 29, 2005 (incorporated by reference to Exhibit 10.1 of the Company's Report on Form 8-K dated September 29, 2005)
10.65	

	Note Purchase Agreement dated October 31, 2005 between Positron and IMAGIN Diagnostic Centres, Inc. (incorporated by reference to Exhibit 10.1 of the Company's Report on Form 8-K dated October 31, 2005)
10.66	Form Secured Convertible Promissory Note (incorporated by reference to Exhibit 10.2 of the Company's Report on Form 8-K dated October 31, 2005)
10.67	Registration Rights Agreement dated October 31, 2005 between Positron and IMAGIN Diagnostic Centres, Inc. (incorporated by reference to Exhibit 10.3 of the Company's Report on Form 8-K dated October 31, 2005)

10.68	Joint Venture Contract dated July 30, 2005 between Positron Corporation and Neusoft Medical Systems Co., Ltd. (incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2005)
10.69	Technologies Contribution Agreement dated July 30, 2005 between Positron Corporation and Neusoft Positron Medical Systems Co., Ltd. (incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2005)
10.70	Software Sub-License Agreement dated September 6, 2005 between Positron Corporation and Neusoft Positron Medical Systems Co., Ltd. (incorporated by reference to Exhibit 10.3 of the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2005)
10.71	Trademark License Agreement dated July 30, 2005 between Positron Corporation and Neusoft Positron Medical Systems Co., Ltd. (incorporated by reference to Exhibit 10.4 of the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2005)
10.72	Corporate Name License Agreement dated July 30, 2005 between Positron Corporation and Neusoft Positron Medical Systems Co., Ltd. (incorporated by reference to Exhibit 10.5 of the Company's Quarterly Report on Form 10-QSB for the quarter ended September 30, 2005)
10.73	Employment Agreement dated December 27, 2005 between Positron Corporation and Joseph G. Oliverio (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on March 9, 2006)†
10.74	Joseph G. Oliverio Stock Option Agreement (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on March 9, 2006)†
10.75	Joseph G. Oliverio Notice of Grant of Stock Option (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed on March 9, 2006)†
10.76	Amended and Restated 2005 Stock Incentive Plan (incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K filed on March 9, 2006)†
10.77	2005 Stock Incentive Plan - Form Notice of Grant of Stock Option (incorporated by reference to Exhibit 10.5 of the Company's Current Report on Form 8-K filed on March 9, 2006)†
10.78	2005 Stock Incentive Plan - Form Stock Option Agreement (incorporated by reference to Exhibit 10.6 of the Company's Current Report on Form 8-K filed on March 9, 2006)†
10.79*	Memorandum of Understanding between Quantum Molecular Pharmaceutical, Inc., Imagin Diagnostic Centres, Inc. and Positron Corporation dated December 28, 2005.
10.80	2006 Stock Incentive Plan (incorporated by reference to the Company's Current Report on Form 8-K filed on , 2006)
10.81	Statement of Designation Establishing Series G Preferred Stock of Positron Corporation (incorporated by reference to the Company's Current Report on Form 8-K filed on March 9, 2006.)
10.82	Form of Series G Unit Subscription Agreement (incorporated by reference to the Company's Current Report on Form 8-K filed on March 9, 2006).

10.83	Form of Common Stock Purchase Warrant (incorporated by reference to the Company's Current Report on Form 8-K filed on March 9, 2006).
10.84	Securities Purchase Agreement dated May 23, 2006 (incorporated by reference to Exhibit 10.6 of the Company's Current Report on Form 8-K filed on June 1, 2006).

10.85	Callable Secured Convertible Note in favor of AJW Offshore, Ltd dated May 23, 2006 (incorporated by reference to the Company's Current Report on Form 8-K filed on June 1, 2006).
10.86	Callable Secured Convertible Note in favor of AJW Partners, LLC dated May 23, 2006 (incorporated by reference to the Company's Current Report on Form 8-K filed on June 1, 2006).
10.87	Stock Purchase Warrant in favor of AJW Qualified Partners, LLC (incorporated by reference to the Company's Current Report on Form 8-K filed on June1, 2006).
10.88	Stock Purchase Warrant in favor of AJW Offshore, Ltd. (incorporated by reference to the Company's Current Report on Form 8-K filed on June 1, 2006).
10.89	Stock Purchase Warrant in favor of New Millennium Capital Partners, II (incorporated by reference to the Company's Current Report on Form 8-K filed on June 1, 2006).
10.90	Registration Rights Agreement dated May 23, 2006 (incorporated by reference to the Company's Current Report on Form 8-K filed on June 1, 2006).
10.91	Security Agreement dated May 23, 2006 (incorporated by reference to the Company's Current Report on Form 8-K filed on June 1, 2006).
10.92	Intellectual property Security Agreement.(incorporated by reference to the Company's Current Report on Form 8-K filed on June 1, 2006)
10.93	Securities Purchase Agreement dated January 26, 2007 (incorporated by reference to the Company's Current Report on Form 8-K filed on January 31, 2006).
10.94	Purchase Agreement dated January 26, 2007 (incorporated by reference to the Company's Current Report on Form 8-K filed on January 31, 2006.
10.95	Non-Negotiable Promissory Note dated January 26, 2007 (incorporated by reference to the Company's Current Report on Form 8-K filed on January 31, 2006.
10.96	Collateral Pledge Agreement dated January 26, 2007 (incorporated by reference to the Company's Current Report on Form 8-K filed on January 31, 2006.
14.1	Code of Business Conduct and Ethics (incorporated by reference to Exhibit 14.1 to the Company’s Report on Annual Form 10-KSB dated March 30, 2005).
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

† Management contract or compensatory plan or arrangement identified pursuant to Item 13(a).

* Filed herewith

Furnished herewith

Item 14. Principal Accountant Fees and Services

On May 30, 2006, Ham, Langston & Brezina, L.L.P. (“HLB”), the Registrant’s accountants informed the Registrant that they were resigning as the Registrant’s certifying independent accountants.

On July 10, 2006, Positron Corporation (the "Registrant") engaged Frank L. Sassetti & Co. to be its independent registered public accounting firm. The Registrant's engagement of Frank L. Sassetti & Co. was approved by the Registrant's Board of Directors.

The following table shows the fees billed to the Company for the audits and other services provided by Frank L. Sassetti & Co. and Ham, Langston & Brezina, L.L.P. for fiscal 2006 and 2005.

	Fiscal 2006	Fiscal 2005
Audit fees (1)	$ 25,511	$ 45,319
Audit-related fees	--	--
Tax fees (2)	--	$ 3,500
All other fees	--	--

1) Audit fees represent fees for professional services provided in connection with the audit of our financial statements and review of our quarterly financial statements and audit services provided in connection with other statutory or regulatory filings.

2) For fiscal 2005 tax fees principally included tax compliance fees of $3,500.

All audit related services, tax services and other services are and were pre-approved by the Company's Board of Directors, which concluded that the provision of such services by Frank L. Sassetti & Co. and Ham, Langston & Brezina, L.L.P. was compatible with the maintenance of that firm's independence in the conduct of its auditing functions.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

POSITRON CORPORATION

Date: April 10, 2007

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

POWER OF ATTORNEY

Each person whose signature appears below hereby constitutes and appoints Patrick G. Rooney, his attorney-in-fact, with the power of substitution, for him in any and all capacities, to sign any amendments to this Report on Form 10-KSB, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting to said attorney-in-fact, or his substitute or substitutes, the power and authority to perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

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

April 10, 2007

/s/ Joseph G. Oliverio
Joseph G. Oliverio
President
(principal executive officer)

April 10, 2007

/s/ Corey N. Conn
Corey N. Conn
Chief Financial Officer
(principal accounting officer)

April 10, 2007

/s/ Sachio Okamura
Sachio Okamura

April 10, 2007

Director

/s/ Dr. Anthony C. Nicholls April 10, 2007
Dr. Anthony c. Nicholls
Director

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POSITRON CORPORATION AND SUBSIDIARIES

FINANCIAL STATEMENTS
WITH REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
for the years ended December 31, 2006 and 2005

FINANCIAL STATEMENTS
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Frank L. Sassetti & Co.
Certified Public Accountants

The Board of Directors
Positron Corporation

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the accompanying balance sheet of Positron Corporation as of December 31, 2006, and the related statements of operations and comprehensive income, stockholders' equity, and cash flows for the year ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Positron Corporation as of December 31, 2006, and the results of its operations and its cash flows for the year ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has a significant accumulated deficit which raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainly.

/s/ Frank L. Sassetti & Co.

March 26, 2007
Oak Park, Illinois

6611 W. North Avenue * Oak Park, Illinois 60302 * Phone (708) 386-1433 * Fax (708) 386-0139

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Positron Corporation

We have audited the accompanying balance sheet of Positron Corporation as of December 31, 2005 and the related statement of operations, changes in stockholders' deficit and cash flows for each of the two years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Positron Corporation as of December 31, 2005, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered recurring losses from operations and low inventory turnover. These factors raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Ham, Langston & Brezina, L.L.P.

Houston, Texas
March 30, 2006

POSITRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
December 31, 2006 and 2005
(In thousands, except share data)

ASSETS	2006	2005
Current assets:		
Cash and cash equivalents	$ 115	$ 209
Accounts receivable	208	--
Inventories	1,476	202
Due from affiliates	2,955	--
Prepaid expenses	115	66
Other current assets	63	21
Total current assets	4,932	498
Investment in Joint Venture	23	230
Property and equipment, net	64	120
Other assets	252	57
Total assets	$ 5,271	$ 905
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable, trade and accrued liabilities	$ 2,627	$ 1,694
Customer deposits	241	15
Unearned revenue	146	66
Due to affiliates	507	--
Convertible notes payable to affiliated entity, less discount of $6	--	627
Total current liabilities	3,521	2,402
Obligation under capital lease	7	--
Convertible notes payable to affiliated entities, less discount of$884	--	1,216
Convertible notes payable, less discount of $1,272	28	--
Deposits for unissued preferred stock	850	195
Derivative liabilities for convertible debentures	2,165	--
Majority interest in income of consolidated subsidiary	(168)	--
Total liabilities	6,403	3,813
Stockholders' deficit:		
	464	464

Series A Preferred Stock: $1.00 par value; 8% cumulative, convertible, redeemable; 5,450,000 shares authorized; 464,319 shares issued and outstanding.		
Series B Preferred Stock: $1.00 par value; convertible, redeemable; 9,000,000 shares authorized; 5,739,860.5 shares issued and outstanding in 2006	5,740	--
Series C Preferred Stock: $1.00 par value; 6% cumulative, convertible, redeemable; 840,000 shares authorized; 770,000 shares issued and outstanding in 2005	--	770
Series G Preferred Stock: $1.00 par value; 8% cumulative, convertible, redeemable; 3,000,000 shares authorized; 204,482 shares issued and outstanding in 2006	204	--
Common stock: $0.01 par value; 800,000,000 shares authorized; 86,205,202 and 77,775,046 shares outstanding.	862	778
Additional paid-in capital	60,400	57,364
Other comprehensive income	38	--
Subscription receivable	--	(30)
Accumulated deficit	(68,825)	(62,239)
Treasury Stock: 60,156 shares at cost	(15)	(15)
Total stockholders' deficit	(1,132)	(2,908)
Total liabilities and stockholders' deficit	$ 5,271	$ 905

See notes to financial statements

POSITRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
For the years ended December 31, 2006 and 2005
(In thousands, except per share data)

	2006	2005
Revenue:		
System sales	1,268	--
System upgrades	180	37
Service and components	765	725
Total revenue	2,213	762
Costs of revenues:		
System sales	689	--
System upgrades	13	11
Service, warranty and components	721	621
Write-off of inventory and field service parts	--	656
Total costs of revenues	1,423	1,288
Gross (loss) profit	790	(526)
Selling, general and administrative	2,639	2,139
Research and development	1,165	446
Impairment of intangible asset	369	--
Stock based compensation	430	(59)
Total operating expenses	4,603	2,526
Loss from operations	(3,813)	(3052)
Other income (expenses):		
Interest expense	(860)	(985)
Interest income	--	1
Equity in losses of unconsolidated subsidiaries	(373)	(20)
Derivative losses	(1,784)	
Other income	--	250
	(3,017)	(754)
Loss before income taxes, majority interest and extraordinary gain	(6,830)	(3,806)
Majority interest in loss of consolidated subsidiary	3	--
Loss before income taxes and extraordinary gain	(6,827)	(3,806)
Income taxes	--	--

Loss before extraordinary gain	(6,827)	(3,806)
Extraordinary gain on acquisition of business	241	--
Net loss	$ (6,586)	$ (3,806)
Other comprehensive income		
Foreign currency translation gain	38	--
Comprehensive income	$ (6,548)	$ (3,806)
Basic and diluted loss per common share	$ (0.08)	$ (0.06)
Basic and diluted weighted average shares outstanding	81,508	65,044

See notes to financial statements

POSITRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
For the year ended December 31, 2005
(In thousands, except share data)

	Series A Preferred Stock		Series B Preferred Stock		Series C Preferred Stock		Series G Preferred Stock		Common Stock	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
Balance December 31, 2004	510,219	$ 510	--	$ --	--	$ --	--	$ --	53,245,959	$ 532
Net loss	--	--	--	--	--	--	--	--	--	--
Compensation related to repricing of warrants and options	--	--	--	--	--	--	--	--	--	--
Compensation related to Issuance options	--	--	--	--	--	--	--	--	--	--
Conversion of debt to equity	--	--	--	--	770,000	770	--	--	24,250,000	243
Conversion of preferred stock Into common stock	(45,900)	(46)	--	--	--	--	--	--	139,243	1
Issuance of common stock For services	--	--	--	--	--	--	--	--	200,000	2
Beneficial conversion feature of Convertible debt	--	--	--	--	--	--	--	--	--	--
Loan discount	--	--	--	--	--	--	--	--	--	--
Balance December 31, 2005	464,319	$ 464	--	--	770,000	$ 770	--	--	77,835,202	$ 778

POSITRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
For the year ended December 31, 2005
(In thousands, except share data)
(Continued)

	Additional Paid-in Capital	Subscription Receivable	Other Comprehensive Income	Accumulated Deficit	Treasury Stock	Total
Balance December 31, 2004	$ 55,547	$ (30)	$ --	$ (58,433)	$ (15)	$ (1,889)
Net loss	--	--	--	(3,806)	--	(3,806)
Compensation related to repricing of warrants and options	(95)	--	--	--	--	(95)
Compensation related to Issuance options	20	--	--	--	--	20
Conversion of debt to equity	344	--	--	--	--	1,357
Conversion of preferred stock Into common stock	45	--	--	--	--	--
Issuance of common stock For services	14	--	--	--	--	16
Beneficial conversion feature of Convertible debt	1,425	--	--	--	--	1,425
Loan discount	64	--	--	--	--	64
Balance December 31, 2005	$ 57,364	$ (30)	--	$ (62,239)	$ (15)	$ (2,908)

POSITRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
For the year ended December 31, 2006
(In thousands, except share data)

	Series A Preferred Stock		Series B Preferred Stock		Series C Preferred Stock		Series G Preferred Stock		Common Stock	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
Balance December 31, 2005	464,319	$ 464	--	$ --	770,000	$ 770	--	$ --	77,835,202	$ 778
Net loss	--	--	--	--	--	--	--	--	--	--
Exercise of options	--	--	--	--	--	--	--	--	500,000	5
Compensation related to Issuance options	--	--	--	--	--	--	--	--	--	--
Conversion of debt Series C Preferred to new series of Preferred stock	--	--	1,679,861	1,680	(770,000)	(770)	--	--	--	--
Conversion of preferred stock Into common stock	--	--	(40,000)	(40)	--	--	--	--	4,000,000	40
Issuance of preferred stock through Private placement net of total Offering costs of 28,975	--	--	--	--	--	--	204,482	204	--	--
Issuance of common stock For services	--	--	--	--	--	--	--	--	3,870,000	39

Issuance of preferred stock for Acquisition of subsidiary	--	--	4,100,000	4,100	--	--	--	--	--	--
Loan discount	--	--	--	--	--	--	--	--	--	--
Change in foreign currency Translation gain	--	--	--	--	--	--	--	--	--	--
Cancelled subscriptions	--	--	--	--	--	--	--	--	--	--
Balance December 31, 2006	464,319	$ 464	5,732,861	$ 5,740	--	--	204,482	$ 204	86,205,202	$ 862

POSITRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
For the year ended December 31, 2006
(In thousands, except share data)
(Continued)

	Additional Paid-in Capital	Subscription Receivable	Other Comprehensive Income	Accumulated Deficit	Treasury Stock	Total
Balance December 31, 2005	$ 57,364	$ (30)	$ --	$ (62,239)	$ (15)	$ (2,908)
Net loss	--	--	--	(6,586)	--	(6,586)
Exercise of options	20	--	--	--	--	25
Compensation related to Issuance options	430	--	--	--	--	430
Conversion of debt Series C Preferred to new series of Preferred stock	2,074	--	--	--	--	2,984
Conversion of preferred stock Into common stock	--	--	--	--	--	--
Issuance of preferred stock Through private placement Net of total offering Costs of 28,975	891	--	--	--	--	1,095
Issuance of common stock For services	432	--	--	--	--	471
Issuance of preferred stock for Acquisition of subsidiary	(1,700)	--	--	--	--	2,400
Loan discount	919	--	--	--	--	919
Change in foreign currency Translation gain	--	--	38	--	--	38
Cancelled subscriptions	(30)	30	--	--	--	--
Balance December 31, 2006	$ 60,400	--	$ 38	$ (68,825)	$ (15)	$ (1,132)

POSITRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2006 and 2005
(In thousands)

	2006	2005
Cash flows from operating activities:		
Net loss	$ (6,586)	$ (3,806)
Adjustments to reconcile net loss to net cash used in operating activities		
Derivative losses	1,784	--
Compensation related to re-pricing of warrants and options	--	(95)
Compensation related to issuance of options	430	20
Depreciation expense	49	71
Amortization of intangible assets	8	--
Gain on disposal of assets	(53)	--
Write-off of inventory and field service parts	--	656
Issuance of common stock for services	471	16
Equity in losses of joint venture	373	20
Amortization of loan costs, debt discount and beneficial conversion feature	644	691
Majority interest in income of consolidated subsidiary	(3)	--
Extraordinary gain on acquisition of business	(241)	--
Impairment of intangible asset	369	--
Changes in operating assets and liabilities:		
Accounts receivable	(7)	--
Inventories	528	(103)
Prepaid expenses	49	(4)
Other current assets	235	7
Field service parts	27	36
Accounts payable and accrued liabilities	187	371
Customer deposits	43	(1)
Unearned revenue	80	(87)
Net cash used in operating activities	(1,613)	(2,208)
Cash flows from investing activities:		
Investment in subsidiary, net of cash received	(534)	(250)
Purchase of property and equipment	(18)	(35)
Proceeds from disposal of assets	77	--
Purchase of intangible assets	(434)	--
Net cash used in investing activities	(909)	(285)
Cash flows from financing activities:		
Proceeds from issuance of Series G Preferred Stock	901	194
Proceeds from issuance of convertible securities	1,080	--
Proceeds from notes payable to affiliated entities	200	2,375

Advance to affiliate	(39)	--
Repayment of capital lease obligation	(3)	--
Proceeds from private placement	297	--
Net cash provided by financing activities	2,436	2,569
Effect of exchange rate changes on cash and cash equivalents	(8)	--
Net (decrease) increase in cash and cash equivalents	(94)	76
Cash and cash equivalents, beginning of year	209	133
Cash and cash equivalents, end of year	$ 115	$ 209
Supplemental cash flow information:		
Interest paid	--	--
Income taxes paid	--	--
Non-cash disclosures		
Issuance of common stock to satisfy severance obligation	$ 25	--
Convertible debenture discount with corresponding increase to paid in capital for value of warrants	$ 919	--
Convertible debenture discount with corresponding increase to derivative liabilities for beneficial conversion feature	$ 2,268	--
Issuance of Series B Preferred Stock to satisfy accrued interest obligation	$ 380	--
Conversion of debentures to Series B Preferred Stock	$ 2,934	--
Conversion of Series C Preferred Stock to Series B Preferred Stock	$ 770	--

See notes to financial statements

POSITRON CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

Positron Corporation (the "Company") was incorporated on December 20, 1983 in the state of Texas and commenced commercial operations during 1986. The Company designs, markets and services its POSICAM™ system advanced medical imaging devices, utilizing positron emission tomography ("PET") technology, and has the ability to participate in manufacturing through its' joint venture with Neusoft Medical Systems Co., LTD. These systems utilize the Company's patented and proprietary technology, an imaging technique which assesses the biochemistry, cellular metabolism and physiology of organs and tissues, as well as producing anatomical and structural images. Targeted markets include medical facilities and diagnostic centers located throughout the world. POSICAM™ systems are used by physicians as diagnostic and treatment evaluation tools in the areas of cardiology, neurology and oncology. The Company faces competition principally from three other companies which specialize in advanced medical imaging equipment.

On June 5, 2006, the Company, through a minority-owned subsidiary of the Company, Imaging PET Technologies, Inc. ("IPT"), 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"). Initially, the Company and QMP held 49.9% and 50.1%, respectively, of the total outstanding capital stock of IPT. On January 26, 2007, the Company acquired the remaining 50.1% of the capital stock of IPT from Imagin Diagnostic Centers, Inc. ("IMAGIN"), which had acquired the shares from QMP, in exchange for the cancellation of a promissory note in the amount of $2,400,000 IMAGIN had made in favor of the Company.

In applying the requirements of Financial Accounting Standards Board No. 46, as revised, ("FIN 46(R)), upon IPT's acquisition of IS2, the Company considered several facts in determining whether the operations of IPT warrant consolidation under the guidelines of FIN 46(R). These facts and the Companies accounting treatment of the operations of the variable interest entity are discussed below.

During the initial months following the acquisition, IS2 continued to operate under its existing pre-acquisition management while QMP and the Company formulated operational plans for their joint venture and more specifically IS2. At this point, the Company did not deem itself to be the primary beneficiary as defined by FIN 46(R) and therefore accounted for its investment in IPT under the equity method by recording its proportionate share of IPT's losses as a reduction of its investment. The equity method was applied consistently from the date of acquisition through September 30, 2006.

During the fourth quarter of 2006 Positron's management significantly increased their involvement in the operations of IPT and IS2 after the termination of IS2's Chief Executive Officer. Additionally, the Company began funding its operations and those of its wholly-owned subsidiary, Quantum Molecular Technologies, Inc., with the assets of IPT through loans and cash advances. Finally, in January 2007 Positron acquired QMP's entire interest in IPT, giving it 100% ownership. Due to the increase in management control by Positron over IPT and the subsequent acquisition of QMP's interest, reconsideration has been given to Positron's relationship with IPT under the guidance of FIN 46(R), and the Company believes itself to be the primary beneficiary of the variable interest entity. As such, IPT's results of

operations for the period October 1 to December 31, 2006 and its balance sheet at December 31, 2006 are consolidated in the Company's financial statements presented herein.

Principles of Consolidation

For the year ended December 31, 2006, the financial statements include the transactions of Positron Corporation, Imaging Pet Technologies, Inc. from October 1, 2006 and Quantum Molecular Technologies, from its date of Incorporation of April 13, 2006. From the date of acquisition of June 5, 2006 through September 30, 2006, the transactions of IPT were accounted for by the Company under the equity method with the Company recording its proportionate share of IPT's losses as expense in the period incurred. All Intercompany transactions and balances have been eliminated.

For the year ended December 31, 2005, the financial statements include only the transactions of Positron Corporation.

Basis of Presentation and Use of Estimates

These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Such principles require 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Affiliated Entities

Affiliated entities of Positron include companies with common significant shareholders, joint venture companies, joint venture partners and companies with common management or control. Such companies include Imagin Diagnostic Centres, Inc. ("IMAGIN"), Quantum Molecular Pharmaceuticals, Inc. ("QMP"), Imagin Molecular Corporation ("IMGM"), Solaris Opportunity Fund ("Solaris"), Neusoft Positron Medical Systems Co., Ltd. ("NPMS"), Positron Acquisition Corporation ("PAC") and Imagin Nuclear Partners ("INP"). PAC and INP are wholly-owned subsidiaries of IMGM.

Foreign Currency Translation

As of December 31, 2006 the accounts of the Company's subsidiaries, IPT and QMT were maintained, and their 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 receivables 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 POSICAM™ system contracts 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.

Advertising

Indirect-response advertising costs are charged to operations the first time the advertising takes place. The cost of direct-response advertising is not significant. Advertising expenses for 2006 and 2005 were $92,000 and $128,000, respectively.

Research and Development Expenses

All costs related to research and development costs are charged to expense as incurred.

Stock Based Compensation

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R), "*Share-Based Payment,*" a revision of SFAS Statement No. 123. The Company adopted SFAS 123(R) effective January 1, 2006, using the modified prospective application method, and beginning with the first quarter of 2006, the Company measures all employee share-based compensation awards using a fair value based method and record share-based compensation expense in its financial statements if the requisite service to earn the award is provided..

The adoption of SFAS No. 123(R) did not affect the Company's net cash flow, but it did have a negative impact on its results of operations. In accordance with SFAS 123(R), the Company recognizes the expense attributable to stock awards that are granted or vest in periods ending subsequent to December 31, 2005 in the statements of operations.

For the year ended December 31, 2005, the Company elected to apply the intrinsic value-based method to account for employee stock option awards under the provisions of Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and to provide disclosures based on the fair value in the Notes to the Consolidated Financial statements as permitted by SFAS No. 123. Under the intrinsic value method , compensation expense, if any, is recognized for the difference between the exercise price of the option and the fair value of the underlying common stock as of a measurement date.

As described above, prior to January 1, 2006 the Company used the intrinsic value method to measure compensation expense associated with grants of stock options to employees. Under SFAS 123, compensation cost is measured at the grant date based on the fair value of the awards and is recognized over the service period, which is usually the vesting period. The fair value of options granted during 2005 was estimated on the date of grant using the Black Scholes option-pricing model with the following assumptions used to calculate fair value:

Expected life (years)	5
Risk free rate of return	4.5%
Dividend yield	0
Expected volatility	133%

Pro-forma net loss and net loss per share is as follows:

		2005
Net loss as reported		$ (3,806)
Add:	Stock-based employee compensation expense included in reported net loss	(59)
Deduct:	Stock-based employee compensation expense determined under fair value based method for all awards	(110)
Pro-Forma net loss		$ (3,975)
Loss per share		
	Basic and diluted as reported	$ (0.06)
	Basic and diluted pro-forma	$ (0.06)

Warranty Costs

The Company accrues for the cost of product warranty on POSICAM™ systems 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. Actual results could differ from the amounts estimated.

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.

Fair Value of Financial Instruments

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

New Accounting Pronouncement

In June 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections," which will require entities that voluntarily make a change in accounting principle to apply that change retroactively to prior periods' financial statements unless this would be impracticable. SFAS No. 154supersedes Accounting Principles Board Opinion No. 20, "Accounting Changes"("APB No. 20"), which previously required that most voluntary changes in accounting principle be recognized by including in the current period's net income the cumulative effect of changing to the new accounting principle. SFAS No. 154 also makes a distinction between "retrospective application" of an

accounting principle and the "restatement" of financial statements to reflect the correction of an error. Another significant change in practice under SFA No. 154 will be that if an entity changes its method of depreciation, amortization, or depletion for long-lived, non-financial assets, the change must be accounted for as a change in accounting principle. SFAS No. 154 applies to accounting changes and error corrections that are made in fiscal years beginning after December 15, 2005. The provisions of SFAS No. 154 did not impact the Company's consolidated financial statements

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

2. Going Concern Consideration

Since its inception the Company has been unable to sell POSICAM™ systems in quantities sufficient to be operationally profitable. Consequently, the Company has sustained substantial losses. At December 31, 2006, the Company had an accumulated deficit of $68,825,000 and a stockholders' deficit of $1,132,000. Due to the sizable prices of the Company's systems and the limited number of systems sold or placed in service each year, the Company's revenues have fluctuated significantly year to year.

The Company utilized proceeds of $1,080,000 from notes payable and $1,095,000 from issuance of Series G Preferred to acquire the assets of IPT and to fund operating activities. The Company had cash and cash equivalents of $115,000 at December 31, 2006. At the same date, the Company had accounts payable and accrued liabilities of $2,627,000. 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 financing 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.

3. 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 Series B Convertible Preferred Stock (the "Series B"), convertible into 65,000,000 shares of the Company's common stock, 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, the Company assumed leases and contracts. Employments contracts were established with the Company upon acquisition.

The net assets acquired include the following (in thousands):		
Cash and equivalents	$	605
Accounts receivable		65
Investment tax credits		340
Prepaid expenses		51
Inventories		1,319
Property and equipment		105
Deferred patent costs		74
Accounts payable and accrued liabilities		(754)
Customer deposits		(364)
Capital lease obligations		(14)
Net value of assets acquired		1,427
Purchase Price		1,000
Excess of net assets acquired over purchase price	$	427
The excess of the net assets acquired over the purchase price was allocated as follows:		
Write-down of property and equipment	$	105
Write-down of deferred patent costs		74
Extraordinary gain on before currency translation adjustment		241
Effect of currency translation		7
	$	427

Acquisition of IMAGIN Interest in IPT

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 approximately a 50.1% of IPT’s issued and outstanding common stock. As a result of the acquisition of the Shares, the Company owns 100% of the common stock of IPT. As consideration for the shares, the Company and IMAGIN agreed to cancel a promissory note in the principal amount of $2,400,000 made by IMAGIN subsidiary, QMP and later assigned to IMAGIN. As of the date of the Agreement, the Company had been advised by IMAGIN that it had acquired all of QMP’s interest in IPT as well as QMP's other holdings of the Company's related securities.

4. 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.

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.

5. Inventories

Inventories at December 31, 2006 and 2005 consisted of the following (in thousands):

	2006	2005
Raw materials	$ 949	$ 235
Work in progress	577	17
Subtotal	1,526	252
Less reserve for obsolescence	(50)	(50)
Total	$ 1,476	$ 202

The Company expensed $522,000 of excess inventory as it ceased manufacturing activities at its Houston facility in 2005.

6. Investment in Joint Venture

On June 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 "NPMS"), to engage in the manufacturing of PET and CT/PET medical imaging equipment. NPMS 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 NPMS'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 $2,000,000 in capital contributions. Neusoft's aggregate contribution to the capital of NPMS is 67.5% of the total registered capital of the Company, or US$ 1,350,000, and was made in cash. The Company's aggregate contribution to the capital of NPMS 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. Positron has transferred to NPMS certain of its PET technology, while Neusoft made available to NPMS certain CT technology for the development and production of an integrated PET/CT system. The parties share the profits, losses and risks of NPMS in proportion to and, in the event of losses, to the extent of their respective contributions to the registered capital of NPMS.

Following are the condensed financial statements of Neusoft Positron Medical Systems Co., Ltd. for the years ended December 31, 2006 and 2005.

NEUSOFT POSITRON MEDICAL SYSTEMS CO., LTD.
CONDENSED BALANCE SHEETS
DECEMBER 31, 2006
(In thousands)

	2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 220	$ 1,295
Other current assets	504	4
Total current assets	724	1,299
Intangibles and other assets	653	646
Total assets	$ 1,377	$ 1,945
Current liabilities:		
Other current liabilities	(55)	3
Total current liabilities	(55)	3
Capital	1,432	1,942
Total liabilities and capital	$ 1,377	$ 1,945

NEUSOFT POSITRON MEDICAL SYSTEMS CO., LTD.
CONDENSED STATEMENTS OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2006 AND 2005
(in thousands)

	2006	2005
Revenue	$ --	$ --
Expense		
General and administrative expense	575	61
Total expense	575	61
Net loss	$ (575)	$ (61)

7. **Property and Equipment**

Property and equipment at December 31, 2006 and 2005 consisted of the following (in thousands):

	2006	2005
Furniture and fixtures	$ 130	$ 161
Computers and peripherals	74	318
Machinery and equipment	26	134
Subtotal	230	613
Less accumulated depreciation	(166)	(493)
Total	$ 64	$ 120

8. Other Assets

Other assets at December 31, 2006 and 2005 consisted of the following (in thousands):

	2006	2005
Field service parts and supplies	$ 17	$ 45
Intangible assets	57	--
Deferred loan costs	178	12
Total	$ 252	$ 57

The Company expensed $134,000 of excess field service parts and supplies in 2005.

9. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at December 31, 2006 and 2005 consisted of the following (in thousands):

	2006	2005
Trade accounts payable	$ 1,431	$ 441
Accrued royalties	373	352
Accrued interest	44	260
Sales taxes payable	260	236
Accrued compensation	249	159
Accrued property taxes	65	113
Accrued professional fees	92	80
Insurance premiums payable	--	43
Accrued warranty costs	113	10
Total	$ 2,627	$ 1,694

Accrued compensation includes severance payments payable to the Company's former Chief Executive Officer, Gary H. Brooks. Mr. Brooks resigned effective September 29, 2005. In connection with his resignation, the Company agreed to make severance payments to Mr. Brooks of $18,583.33 per month for a period of six months, and to extend the expiration date of options held by Mr. Brooks through September 30, 2006, and warrants held by Mr. Brooks until the later of (i) October 31, 2007 for 7,000,000 warrants and June 2009 for 500,000 warrants, and (ii) the date on which a registration statement filed with the Securities Exchange Commission permitting a sale of the shares underlying such warrants shall have become effective and shall have remained effective for a period of six months. Unpaid severance obligations at December 31, 2006 and 2005 total approximately $ 55,000 and $ 97,000, respectively. In March 2007, the Company fully paid all severance amounts owed to Mr. Brooks

10. Convertible Notes Payable to Affiliated Entities

Notes payable to affiliated entities at December 31, 2006 and 2005 consisted of the following (in thousands):

	2006	2005
IMAGIN Diagnostic Centres, Inc., less discount of $610	$ --	$ 1,723

Solaris Opportunity Fund, L.P., less discount of $280	--	120
Total	$ --	$ 1,843

IMAGIN Diagnostic Centres, Inc.

Financing Agreements dated May 21, 2004

On May 26, 2004 and June 17, 2004, the Company sold two separate secured convertible promissory notes under a Note Purchase Agreement dated May 21, 2004, to IMAGIN Diagnostic Centres, Inc. ("IMAGIN") in the principal amounts of $400,000 and $300,000, respectively. Interest is charged on the outstanding principal at the rate of ten percent (10%) per annum and is payable annually to the extent of positive cash flow on the anniversary dates of these notes. The principal and any unpaid interest were to be paid on the earlier to occur of May 21, 2006 or when declared due and payable by IMAGIN upon occurrence of an event of default. The notes were initially convertible into new shares of Series C Preferred Stock that, in turn are convertible into an aggregate of 35,000,000 shares of the Company's common stock. These notes were collateralized by all of the assets of the Company. Principal of $700,000 has been advanced related to these notes. An additional $70,000 in accrued interest on these notes was converted to loan principal on May 21, 2005. On October 21, 2005, IMAGIN converted loan principal of $770,000 on promissory notes into 770,000 shares of Series C Preferred Stock. On March 17, 2006, IMAGIN Diagnostic Centres, Inc. assigned to Positron Acquisition Corp. its interest in 770,000 shares of the Company's Series C Preferred Stock, 4,026,000 shares of the Company's common stock and the Company's secured convertible notes in the aggregate principal amount of $696,850, which are convertible into 696,850 shares of the Company's Series D Preferred Stock and in turn are convertible into 27,874,000 shares of the Company's common stock. Positron Acquisition Corporation is a wholly-owned subsidiary of Imagin Molecular Corporation, Inc. ("IMGM"), an affiliate of the Company through common ownership. IMAGIN is a significant shareholder of both the Company and IMGM.

In a second stage of the financing IMAGIN agreed to purchase additional secured convertible promissory notes in the aggregate principal amount of $1,300,000. These notes were to be purchased over a six and a half month period, commencing July 15, 2004. These notes were due and payable on May 21, 2006. These notes were initially convertible into new shares of Series D Preferred Stock that, in turn was convertible into an aggregate of 52,000,000 shares of the Company's common stock. As of June 30, 2005, principal of $1,208,500 had been advanced related to these notes. On June 30, 2005, IMAGIN converted $575,000 of these promissory notes into shares of Series D Preferred Stock that, in turn were converted into 23,000,000 shares of the Company's common stock. This conversion reduced the principal owed under these promissory notes from $1,208,500 to $633,500.

As a result of these financing agreements, several agreements were also reached involving option and warrants contracts for the purchase of common stock of the Company.

- The Company agreed to exchange 917,068 outstanding options currently held by its employees for new options that are exercisable for the purchase of common stock at a price of $0.02 per share. The new options issued to the employees are subject to four year vesting in equal monthly installments. This re-pricing will require the Company to apply the variable accounting rules established in Interpretation No. 44 of the Financial Accounting Standards Board ("FIN 44") to these options and record changes in compensation based upon movements in the stock price. The Company recognized $13,000 and $10,100 in compensation related to the re-pricing of options in 2004 and 2005, respectively, in accordance with the variable accounting rules established in FIN 44. The market value of the Company's common stock increased to $0.09 per share at December 31, 2005, resulting in an intrinsic value of $0.07 per share.
- The Company agreed to re-price the outstanding warrants currently held by its President & CEO for the purchase of 3,500,000 shares of common stock at $0.02 per share. The Company recognized $350,000 in compensation expense in 2004 and reversed $105,000 in compensation expense in 2005, in accordance with the variable accounting rules established in FIN 44. The market value of the Company's common stock increased to $0.09 per share at December 31, 2005, resulting in an intrinsic value of $0.07 per share. The Company agreed to issue a new

warrant to its President & CEO for the purchase of 4,000,000 shares of common stock at $0.02 per share. The Company agreed to re-price outstanding warrants for the purchase of 9,150,000 shares of common stock. These warrants have been surrendered and new warrants will be issued to the same third party holders for the purchase of 4,575,000 shares of common stock at $0.02 per share. New warrants for the purchase of 4,575,000 shares of common stock at $0.02 per share (the remaining half of the surrendered warrants) will also be issued to IMAGIN.

Financing Agreements dated August 8, 2005

On August 8, 2005, the Company sold to IMAGIN 10% secured convertible promissory notes under a Note Purchase Agreement, dated the same date, in the aggregate principal amount of $400,000. As of December 31, 2005, IMAGIN has purchased $400,000 of these notes. These notes are due and payable on August 7, 2008. These notes are convertible into an aggregate of 20,000,000 shares of the Company's common stock.

In accordance with generally accepted accounting principals in the event the conversion price is less than the Company's stock price at the date of the agreement, the difference is considered to be a beneficial conversion feature and is amortized over the period from the date of issuance to the stated maturity date. The fair value of the common stock at the commitment date of $1,200,000 less the $400,000 in loan proceeds, results in intrinsic value of $800,000 for the beneficial conversion feature. However, the beneficial conversion feature is limited to the $400,000 proceeds of the debt. Due to the fact that there were not enough common shares available to facilitate the conversion of the debt into common stock on August 8, 2005, no beneficial conversion feature was recorded for this transaction.

Financing Agreements dated October 31, 2005

On October 31, 2005, the Company sold to IMAGIN 10% secured convertible promissory notes under a Note Purchase Agreement, dated the same date, in the aggregate principal amount of $400,000. As of December 31, 2005, IMAGIN has purchased $300,000 of these notes. In January 2006, the Company received the final $100,000 for the purchase of the notes. These notes are due and payable on October 31, 2008. These notes are convertible into an aggregate of 20,000,000 shares of the Company's common stock. Full convertibility of the notes into shares of common stock will require an amendment to the Company's Articles of Incorporation which must be approved by the shareholders.

In accordance with generally accepted accounting principals in the event the conversion price is less than the Company's stock price at the date of the agreement, the difference is considered to be a beneficial conversion feature and is amortized over the period from the date of issuance to the stated maturity date. The fair value of the common stock at the commitment date of $1,800,000 less the $300,000 in loan proceeds, results in intrinsic value of $1,500,000 for the beneficial conversion feature. However, the beneficial conversion feature is limited to the $300,000 of the debt. Due to the fact that there were not enough common shares available to facilitate the conversion of the debt into common stock on October 31, 2005, no beneficial conversion feature was recorded for this transaction.

Solaris Opportunity Fund, L.P.

Financing Agreements dated February 28, 2005

On February 28, 2005, the Company entered into a series of agreements with a related party, Solaris Opportunity Fund ("Solaris") pursuant to which Solaris agreed to purchase an aggregate of $1,000,000 face amount of the Company's 10% secured convertible promissory notes. As of December 31, 2005, Solaris has purchased $1,000,000 of these notes. These notes are due and payable on March 6, 2007. The notes were initially convertible into new shares of Series E Preferred Stock that, in turn are convertible into an aggregate of 22,000,000 shares of the Company's common stock

In accordance with generally accepted accounting principles in the event the conversion price is less than the Company's stock price at the date of the agreement, the difference is considered to be a beneficial conversion feature and is amortized over the period from the date of issuance to the stated maturity date. On February 28, 2005, enough

common shares were available to facilitate the conversion of substantially all of the debt into common stock. The fair value of the related Series E Preferred Stock at the commitment date of $2,200,000 less the $1,000,000 in loan proceeds, results in an intrinsic value of $1,200,000 for the beneficial conversion feature. However, the beneficial conversion feature is limited to the $1,000,000 proceeds of the debt. The balance of the unamortized discount was approximately $604,000 at December 31, 2005. During 2006 this convertible note payable was sold to IMAGIN.

Financing Agreements dated June 27, 2005

On June 27, 2005, the Company entered into a series of agreements with Solaris pursuant to which Solaris agreed to purchase an aggregate of $400,000 face amount of the Company's 10% secured convertible promissory notes. As of December 31, 2005, Solaris has purchased $400,000 of these notes. These notes are due and payable on March 6, 2007. The notes are initially convertible into new shares of Series F Preferred Stock that, in turn are convertible into an aggregate of 20,000,000 shares of the Company's common stock.

In accordance with generally accepted accounting principles in the event the conversion price is less than the Company's stock price at the date of the agreement, the difference is considered to be a beneficial conversion feature and is amortized over the period from the date of issuance to the stated maturity date. On June 27, 2005, enough common shares were available to facilitate the conversion of all of the debt into common stock. The fair value of the related Series F Preferred Stock at the commitment date of $1,600,000 less the $400,000 in loan proceeds, results in an intrinsic value of $1,200,000 for the beneficial conversion feature. However, the beneficial conversion feature is limited to the $400,000 proceeds of the debt. The balance of the unamortized discount was approximately $280,000 at December 31, 2005. During 2006 this convertible note payable was sold to QMP.

Conversion of Notes Payable to Series B Preferred Stock

In 2006, the Company converted all outstanding convertible notes payable and accrued interest due to affiliated entities to Series B Preferred Stock (see note 13). Following is a description of each conversion:

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

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

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

11. 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 as 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. 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.

As a result of the beneficial conversion features contained in the Convertible Debentures, the derivatives embedded in the Debentures have been classified as derivative liabilities. Fair value of the embedded derivatives is determined using the Black Sholes Valuation Method. The combined liabilities recorded for the year ended December 31, 2006 totaled $2,164,400. Of such amount, $380,600 was recorded as debt discount and is being amortized over the term of the Debentures and $1,783,400 was charged to loss on derivative obligations. The Company recorded a gain on derivative obligations of $73,000 for the three months ended December 31, 2006. Additionally, the Company recorded a discount of $919,400 against the Convertible Debentures for the fair market value of the warrants issued. The discount, which was recorded as an increase to additional paid-in capital, is being amortized to interest expense over the term of the Debentures, utilizing the effective interest method.

12. Options and Warrants

Options

1999 Employee Stock Option Plan

Effective June 15, 1999, the shareholders of the Company adopted the 1999 Stock Option Plan (the “1999 Plan”) and terminated the 1994 Stock Option Plan, effective October 6, 1999. The 1994 Plan provided for the grant of options to officers, directors, key employees and consultants of the Company. The 1999 Plan provides for the grant of options to officers, employees (including employee directors) and consultants. The 1999 Plan is administered by the Board of Directors. The administrator is authorized to determine the terms of each option granted under the plan, including the number of shares, exercise price, term and exercisability. Options granted under the plan may be incentive stock options or nonqualified stock options. The exercise price of incentive stock options may not be less than 100% of the fair market value of the common stock as of the date of grant (110% of the fair market value in the case an optionee owns more than 10% of the total combined voting power of all classes of Positron capital stock). Options may not be exercised more than ten years after the date of grant (five years in the case of 10% stockholders). The Board has authorized 4,000,000 shares of Common Stock for issuance under the 1999 Plan. As of December 31, 2006, 225,000 options are outstanding, of which 152,396 are vested.

Non-Employee Directors’ Stock Option Plan

Effective October 6, 1999, the shareholders of the Company approved the 1999 Non-Employee Directors’ Stock Option Plan (the “Directors’ Plan”) which provides for the automatic grant of an option to purchase 25,000 shares of common stock to non-employee directors upon their election or appointment to the Board, and subsequent annual grants also in the amount of 25,000 shares of common stock. The exercise price of the options is 85% of the fair market value of the common stock on the date of grant. The Directors’ Plan is administered by the Board. Options granted under the Directors’ Plan become exercisable in one of two ways: either in four equal annual installments, commencing on the first anniversary of the date of grant, or immediately but subject to the Company’s right to repurchase, which repurchase right lapses in four equal annual installments, commencing on the first anniversary of the date of grant. To the extent that an option is not exercisable on the date that a director ceases to be a director of

the Company, the unexercisable portion terminates. The Board has authorized 500,000 shares of Common Stock for issuance under the 1999 Plan. As of December 31, 2006, 250,000 fully vested options remain outstanding under the Directors' Plan.

1999 Stock Bonus Incentive Plan

In October 1999 the Board adopted an Employee Stock Bonus Incentive Plan (the “Stock Bonus Plan”), effective November 1, 1999. The Stock Bonus Plan provides for the grant of bonus shares to any Positron employee or consultant to recognize exceptional service and performance beyond the service recognized by the employee’s salary or consultant’s fee. The Board has authorized up to an aggregate of 1,000,000 shares of common stock for issuance as bonus awards under the Stock Bonus Plan. The Stock Bonus Plan is currently administered by the Board. Each grant of bonus shares is in an amount determined by the Board, up to a maximum of the participant’s salary. The shares become exercisable according to a schedule to be established by the Board at the time of grant. A total of 316,000 shares have been issued under the Stock Bonus Plan at December 31, 2006.

1999 Employee Stock Purchase Plan

The shareholders of the Company approved the 1999 Employee Stock Purchase Plan (the “Purchase Plan”) in October 1999. A total of 500,000 shares of common stock have been reserved for issuance under the Purchase Plan, none of which has yet been issued. The Purchase Plan permits eligible employees to purchase common stock at a discount through payroll deductions during offering periods of up to 27 months. Offering periods generally will begin on the first trading day of a calendar quarter. The initial offering period began on January 1, 2000. The price at which stock is purchased under the Purchase Plan will be equal to 85% of the fair market value of common stock on the first or last day of the offering period, whichever is lower. No shares have been issued under the Purchase Plan at December 31, 2006.

Amended and Restated 2005 Stock Incentive Plan

Positron's Board administers the Amended and Restated 2005 Stock Incentive Plan ("2005 Plan"), which was adopted by the Board effective November 18, 2005 and approved by the shareholders at the 2006 Annual Meeting. The 2005 Plan provides for the grant of options and stock to directors, officers, employees and consultants. The administrator is authorized to determine the terms of each award granted under the plan, including the number of shares, exercise price, term and exercisability. Options granted under the plan may be incentive stock options or nonqualified stock options. The exercise price of incentive stock options may not be less than 100% of the fair market value of the Common Stock as of the date of grant (110% of the fair market value in the case of an optionee who owns more than 10% of the total combined voting power of all classes of the Company's capital stock). Options may not be exercised more than ten years after the date of grant (five years in the case of 10% shareholders). Upon termination of employment for any reason other than death or disability, each option may be exercised for a period of 90 days, to the extent it is exercisable on the date of termination. In the case of a termination due to death or disability, an option will remain exercisable for a period of one year, to the extent it is exercisable on the date of termination. A total of 40,000,000 shares of Common Stock have been authorized for issuance under the 2005 Plan. As of December 31, 2006, a total of 19,000,000 options have been granted under the 2005 Plan, none of which have been exercised, and of which 10,000,000 are fully vested.

2006 Stock Incentive Plan

On April 10, 2006, the Company's Board of Directors adopted a 2006 Stock Incentive Plan ("2006 Plan"). The 2006 Plan is administered by the Board and provides for the direct issuance of stock and grants of nonqualified stock options to directors, officers, employees and consultants. The administrator is authorized to determine the terms of each award granted under the plan, including the number of shares, exercise price, term and exercisability. Stock and options may be granted for services rendered or to be rendered. A total of 5,000,000 shares of common stock have been authorized for issuance under the 2006 Plan. The Company issued 3,870,000 shares of common stock to consultants under the 2006 Plan. Accordingly the Company recorded consulting expense equal to the fair market value of the shares issued of $470,900 for the year ended December 31, 2006.

A summary of stock option activity is as follows:

	Shares Issuable Under Outstanding Options	Price Range or Weighted Average Exercise Price
Balance at December 31, 2004	1,722,272	$ 0.32
Granted	7,625,000	$ 0.03 - $0.12
Forfeited	(597,272)	$ 0.02 - $4.13
Balance at December 31, 2005	8,750,000	$ 0.05
Granted	11,575,000	$ 0.05 - $0.06
Forfeited	(325,000)	$ 0.01 - $2.63
Exercised	(500,000)	$ 0.05
Balance at December 31, 2006	19,500,000	$ 0.06

Following is a summary of stock options outstanding at December 31, 2006 and 2005.

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Shares	Weighted Average Remaining Term (in Years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$ 0.020	75,000	3.63	$ 0.02	48,438	$ 0.02
$ 0.050	7,500,000	4.00	$ 0.05	4,000,000	$ 0.05
$ 0.060	11,500,000	4.00	$ 0.06	6,000,000	$ 0.06

$	0.111	25,000	4.25	$	0.11	25,000	$ 0.11
$	0.077	25,000	5.00	$	0.08	25,000	$ 0.08
$	0.010 - $0.050	175,000	7.06	$	0.04	128,958	$ 0.02
$	0.034 - $0.119	50,000	7.25	$	0.09	50,000	$ 0.09
$	0.102	50,000	8.00	$	0.10	50,000	$ 0.10
$	0.043	25,000	8.67	$	0.04	25,000	$ 0.04
$	0.09	75,000	9.00	$	0.09	75,000	$ 0.09
Balance at 12/31/2006		19,500,000		$	0.06	10,427,396	$ 0.06
Balance at 12/31/2005		8,750,000		$	0.05	3,050,625	$ 0.05

The Company recognized $10,100 in compensation related to the re-pricing of options in 2005

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. Fair market value using the Black-Scholes option-pricing model for the year ended December 31, 2006 was determined using the following assumptions:

Expected life (years)	3-10
Risk free rate of return	4.65%-4.75%
Dividend yield	0
Expected volatility	230%

Warrants

A summary of warrant activity is as follows:

	Number of Shares	Exercise Price	Weighted Average Exercise Price
Balance at December 31, 2004	18,150,000	$ 0.05 - $2.40	$ 0.23
Issues and expirations in 2005	--	--	--
Balance at December 31, 2005	18,150,000		$ 0.23
New warrants issued with Series G Preferred Stock	10,224,100	$ 0.10	$ 0.10
New warrants issued with secured convertible debentures	30,000,000	$ 0.15	$ 0.15
Balance at December 31, 2006	58,374,100		$ 0.12

All outstanding warrants are currently exercisable. A summary of outstanding stock warrants at December 31, 2006 follows:

Number of Common Stock Equivalents	Expiration Date	Remaining Contractual Life (Years)	Exercise Price
3,825,000	(a)	--	$ 0.02
250,000	January 2007	0.1	$ 2.40
500,000	October 2007	0.8	$ 0.02
1,250,000	March 2008	1.3	$ 0.25
10,224,000	April 2008	1.3	$ 0.10
3,750,000	June 2009	2.5	$ 0.02
8,575,000	May 2010	3.4	$ 0.02
30,000,000	May 2013	6.4	$ 0.15
58,374,100			

(a) Warrants expire on the date on which a registration statement filed with the Securities Exchange Commission permitting a sale of the shares issuable upon exercise of the warrant shall have become effective and shall have remained effective for a period of six months.

13. Preferred Stock

The Company's Articles of Incorporation authorize the Board of Directors to issue 10,000,000 shares of preferred stock from time to time in one or more series. The Board subsequently authorized an additional 9,000,000 shares designated as Series B Preferred Stock. The Board of Directors is authorized to determine, prior to issuing any such series of preferred stock and without any vote or action by the shareholders, the rights, preferences, privileges and restrictions of the shares of such series, including dividend rights, voting rights, terms of redemption, the provisions of any purchase, retirement or sinking fund to be provided for the shares of any series, conversion and exchange rights, the preferences upon any distribution of the assets of the Company, including in the event of voluntary or involuntary liquidation, dissolution or winding up of the Company, and the preferences and relative rights among each series of preferred stock.

Series A Preferred Stock

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.

As of December 31, 2006 and 2005, stated dividends that are undeclared and unpaid on the Series A Preferred Stock total approximately $485,000 and $448,000. The Company anticipates that such dividends, if and when declared, will be paid in shares of Series A Preferred Stock.

Series B Preferred Stock

On September 30, 2006 the Board of Directors authorized a new series of preferred stock designated Series B Preferred Stock. The number of shares authorized was 9,000,000. Each share of Series B Preferred Stock $1.00 par value is convertible into 100 shares of the Company's Common Stock. The Series B Preferred Stock is senior to the Company's Common Stock and junior in priority to the Company's A, C, D, E 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 December 31, 2006, 5,739,860.5 shares of Series B Preferred Stock were outstanding.

Series C Preferred Stock

The Company has designated 840,000 shares as Series C 6% Cumulative Convertible Redeemable Preferred Stock $1.00 par value ("Series C Preferred Stock"). Each share of the Series C Preferred Stock is convertible into 50 shares of Common Stock. Six percent dividends accrue on the Series C Preferred Stock and may be paid in cash or in Common Stock depending on the Company's operating cash flow. The Series C Preferred Stock is senior to the Company's Common Stock and junior in priority to the Company's Series A Preferred Stock in liquidation. Holders of the Series C Preferred Stock are entitled to 130 votes per share on any matter requiring shareholder vote. While the Series C Preferred Stock is outstanding or any dividends thereon remain unpaid, no Common Stock dividends may be paid or declared by the Company. The Series C 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 plus any undeclared and/or unpaid dividends to the date of redemption.

On October 21, 2005, IMAGIN converted loan principal of $770,000 on promissory notes into 770,000 shares of Series C Preferred Stock $1.00 par value ("Series C Preferred Stock").

On September 30, 2006, the Company and Positron Acquisition Corp. converted principal and interest of $818,066 outstanding upon the Series D Secured Convertible Promissory Notes and 770,000 shares of Series C Preferred Stock into 762,358 shares of Series B Preferred Stock. Positron Acquisition Corp. subsequently converted 40,000 shares of Series B Preferred Stock into 4,000,000 shares of the Company's Common Stock.

As of December 31, 2006 there were no outstanding shares of Series C Preferred Stock.

Series D Preferred Stock

The Company has designated 1,560,000 shares of preferred stock as 6% Cumulative Convertible Redeemable Series D Preferred Stock $1.00 par value. Each share of the Series D Preferred Stock is convertible into 40 shares of Common Stock. Six percent dividends accrue on the Series D Preferred Stock and may be paid in cash or in Common Stock depending on the Company's operating cash flow. The Series D Preferred Stock is senior to the Company's Common Stock and junior in priority to the Company's Series A and C Preferred Stock in liquidation. Except as required by law and in the case of various actions affecting the rights of the Series D Preferred Stock, holders of the Series D Preferred Stock are not entitled to vote on matters requiring shareholder vote. While the Series D Preferred Stock is outstanding or any dividends thereon remain unpaid, no Common Stock dividends may be paid or declared by the Company. The Series D 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 plus any undeclared and/or unpaid dividends to the date of redemption. The Company has issued 10% secured convertible promissory notes in the principal amount of $696,850, which remain outstanding and are convertible into 696,850 shares of Series D Preferred Stock.

On September 30, 2006, the Company and Positron Acquisition Corp. converted principal and interest of $818,066 outstanding upon the Series D Secured Convertible Promissory Notes and 770,000 shares of Series C Preferred Stock into 762,358 shares of Series B Preferred Stock. Positron Acquisition Corp. subsequently converted 40,000 shares of Series B Preferred Stock into 4,000,000 shares of the Company's Common Stock.

As of December 31, 2006 there were no outstanding shares of Series D Preferred Stock.

Series E Preferred Stock

The Company has designated 1,200,000 shares of preferred stock as 6% Cumulative Convertible Redeemable Series E Preferred Stock $1.00 par value. Each share of the Series E Preferred Stock is convertible into 22 shares of Common Stock. Six percent dividends accrue on the Series E Preferred Stock and may be paid in cash or in Common Stock depending on the Company's operating cash flow. The Series E Preferred Stock is senior to the Company's Common Stock and junior in priority to the Company's Series A, C and D Preferred Stock in liquidation. Except as required by law and in the case of various actions affecting the rights of the Series E Preferred Stock, holders of the Series E Preferred Stock are not entitled to vote on matters requiring shareholder vote. While the Series E Preferred Stock is outstanding or any dividends thereon remain unpaid, no Common Stock dividends may be paid or declared by the Company. The Series E 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 plus any undeclared and/or unpaid dividends to the date of redemption. The Company has issued 10% secured convertible promissory notes in the principal amount of $1,000,000, which are convertible into 1,000,000 shares of Series E Preferred Stock.

On September 30, 2006, the Company and IMAGIN converted principal and interest of $1,164,192 outstanding upon the Series E Convertible Promissory Notes and principal and interest of $877,669 of Convertible Secured Notes into 690,930.5 shares of Series B Preferred Stock.

As of December 31, 2006 there were no outstanding shares of Series E Preferred Stock.

Series F Preferred Stock

The Company has designated 600,000 shares of preferred stock as Series F Preferred Stock $1.00 par value. Each share of the Series F Preferred Stock is convertible into 50 shares of Common Stock. Six percent dividends accrue on the Series F Preferred Stock and may be paid in cash or in Common Stock depending on the Company's operating cash flow. The Series F Preferred Stock is senior to the Company's Common Stock and junior in priority to the Company's Series A, C, D and E Preferred Stock in liquidation. Except as required by law and in the case of various actions affecting the rights of the Series F Preferred Stock, holders of the Series F Preferred Stock are not entitled to vote on matters requiring shareholder vote. While the Series F Preferred Stock is outstanding or any dividends thereon remain unpaid, no Common Stock dividends may be paid or declared by the Company. The Series F 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 plus any undeclared and/or unpaid dividends to the date of redemption. The Company has issued 10% secured convertible promissory notes in the principal amount of $400,000, which are convertible into 400,000 shares of Series F Preferred Stock.

On September 30, 2006, the Company and QMP converted principal and interest of $453,144 outstanding upon the Series F Secured Convertible Promissory Notes into 226,572 shares of Series B Preferred Stock.

As of December 31, 2006 there were no outstanding shares of Series F Preferred Stock.

Series G Preferred Stock

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

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

As of December 31, 2006, stated dividends that are undeclared and unpaid on the Series G Preferred Stock total approximately $16,000.

14. **Income Taxes**

The Company has incurred losses since its inception and, therefore, has not been subject to federal income taxes. As of December 31, 2006, the Company had net operating loss ("NOL") carryforwards for income tax purposes of approximately $18,000,000, which expire in 2007 through 2026. Under the provisions of Section 382 of the Internal Revenue Code the greater than 50% ownership changes that occurred in the Company in connection with the Imatron Transaction and in connection with the private placement of the Company's common stock limited the Company's ability to utilize its NOL carryforward to reduce future taxable income and related tax liabilities.

The composition of deferred tax assets and the related tax effects at December 31, 2006 are as follows (in thousands):

	2006	2005
Deferred tax assets:		
Net operating losses:		
Domestic	$ 5,835	$ 4,980
Foreign	196	--
Stock option compensation	172	--
Accrued liabilities and reserves	198	251
Inventory basis difference	68	95
	6,469	5,326
Valuation allowance	(6,469)	(5,326)
Total deferred tax assets	$ --	$ --

The difference between the income tax benefit in the accompanying statement of operations and the amount that would result if the U.S. Federal statutory rate of 34% were applied to pre-tax loss is as follows (amounts in thousands):

	2006		2005	
	Amount	**%**	**Amount**	**%**
Benefit for income tax at federal statutory rate	$ 2,321	34.0	$ 1,294	34.0
Expenses not deductible for tax purposes	(901)	(13.2)	(325)	(8.5)
Statutory rate difference - foreign subsidiary	(203)	(3.0)	--	--
Other	(74)	(1.1)	--	--
Change in valuation allowance	(1,143)	(16.7)	(969)	(25.5)
	$ --	--	$ --	--

15. 401(k) Plan

The Positron Corporation 401(k) Plan and Trust (the “Plan”) covers all of the Company’s employees who are United States citizens, at least 21 years of age and have completed at least one quarter of service with the Company. Pursuant to the Plan, employees may elect to reduce their current compensation by up to the statutorily prescribed annual limit and have the amount of such reduction contributed to the Plan. The Plan provides for the Company to make contributions in an amount equal to 25 percent of the participant’s deferral contributions, up to 6 percent of the employee’s compensation, as defined in the Plan agreement. The Company made no contributions in 2006 and 2005. The Board of Directors of the Company may authorize additional discretionary contributions; however, no such contributions were by the Company in 2006 or 2005.

16. Related Party Transactions

Affiliated Companies

In September 2006, the Company sold a refurbished HZL PET Imaging machine to Imagin Nuclear Partners ("INP"), a wholly-owned subsidiary of Imagin Molecular Corporation, an affiliate of the Company. The sales price of the machine was $200,000. The Company also billed $18,000 for time and expense related to installation. As of December 31, 2006 INP owes the Company $185,385.

In 2006 sales to NPMS approximated $180,000. As of December 31, 2006 the Company has a receivable in the amount of $179,053 due from NPMS, for parts and materials purchased on behalf of the joint venture.

Key Employee Incentive Compensation

The Company has an incentive compensation plan for certain key employees and it's Chairman. The incentive compensation plan provides for annual bonus payments based upon achievement of certain corporate objectives as determined by the Company's compensation committee, subject to the approval of the board of directors. During 2006 the Company did not pay any bonus pursuant to the incentive compensation plan.

17. Commitments and Contingencies

Employment Agreement

Effective December 27, 2005, the Company entered into an employment agreement with Joseph G. Oliverio, President of the Company. Under the Agreement, Mr. Oliverio receives an initial base salary of $100,000 per annum which increases to $150,000 per annum on March 1, 2006. Mr. Oliverio also received an option grant exercisable for 7,500,000 shares of Common Stock at an exercise price of $0.05 per share. On the date of grant of the option 2,000,000 shares vested, with an additional 2,000,000 shares vesting on December 27, 2006 and the remainder on December 27, 2007. Mr. Oliverio is entitled to six months severance upon a termination "without cause".

Royalty Agreements

The Company acquired the know-how and patent rights for Positron Imaging from three entities: the Clayton Foundation, K. Lance Gould (formerly a director) and Nizar A. Mullani (also formerly a director.) Pursuant to agreements with each of them, the Company was obligated to pay royalties of up to 4.0% in the aggregate of gross revenues from sales, uses, leases, licensing or rentals of the relevant technology. Royalty obligations amounting to approximately $373,000 and $352,000 were included in liabilities at December 31, 2006 and 2005, respectively.

Lease Agreements

The Company operates in leased facilities under three separate operating leases, two of which are on a month-to-month basis and a third, for the IS2 facility in Canada, expires July 31, 2008. The rental rate for the month-to-month leased facilities was $5,600. Monthly rental charges for the IS2 facility were $8,300. The cost of leasing the Company's operating facility amounted to approximately $125,000 and $56,000 in 2006 and 2005, respectively.

At December 31, 2006, approximate future minimum rental payments under operating leases are as follows:

2007	$	97,480
2008		58,745
	$	156,225

Litigation

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.

18. **Loss Per Share**

The following information details the computation of basic and diluted loss per share:

	Year Ended December 31, (In thousands, except for per share data)	
	2006	2005
Numerator:		
Basic and diluted net loss:	$ (6,586)	$ (3,806)
Denominator:		
Denominator for basic earnings per share-weighted average shares	81,508	65,044
Effect of dilutive securities		
Convertible Series A Preferred Stock	--	--
Stock Warrants	--	--
Stock Options	--	--
Denominator for diluted earnings per share-adjusted weighted Average shares and assumed conversions	81,508	65,044
Basic and diluted loss per common share	$ (0.08)	$ (0.06)

All common stock equivalents in the years ended December 31, 2006 and 2005 were excluded from the above calculation as their effect was anti-dilutive.

19. Segment Information and Major Customers

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

	2006	**2005**
United States:		
Revenues	$ 1,295	$ 762
Operating expenses	3,114	2,526
Net loss	(5,657)	(3,806)
Canada:		
Revenues	$ 918	--
Operating expenses	1,489	--
Net loss	(929)	--

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 years ended December 31, 2006 and 2005 the Company had a limited number of customers as follows:

	2006	**2005**
Number of customers	18	8

Customers accounting for more than 10% of revenues	--	5
Percent of revenues derived from largest customer	9%	28%
Percent of revenues derived from second largest customer	8%	15%

20. Subsequent Events

Acquisition of IMAGIN Interest in IPT

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

Immediately following the acquisition of the Shares, IPT acquired all of the outstanding capital stock of the Company's wholly-owned subsidiary, QMT. The purchase price of the acquisition was $2,800,000, in the form of a promissory note made in favor of the Company, payable on or before July 1, 2008, and secured by a pledge of all of the issued and outstanding shares of QMT.

Newly Formed Subsidiary

On March 26, 2007, the Company formed Homeland Radiation Detection Systems, Inc., a Texas corporation and wholly-owned subsidiary ("HRDS") HRDS has filed a provisional patent for production of a device that is capable of detecting illicit radioactive sources at a distance which the Company intends to develop and market for homeland security applications.

Severance Obligation

In March 2007, the Company paid Gary Brooks, the Company's former Chief Executive Officer, $58,325 as full settlement of the Company's severance obligation to Mr. Brooks pursuant to the severance agreement dated September 29, 2005. The Company has no further amounts due to Mr. Brooks under the severance agreement.

EXHIBITS

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#

* Filed herewith

\# Furnished herewith