NanoString Technologies Inc
Form 10-Q
November 04, 2016

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____ to ____
Commission File: Number 001-35980

NANOSTRING TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	20-0094687
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

530 Fairview Avenue North
Seattle, Washington 98109
(Address of principal executive offices)
(206) 378-6266
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨	Accelerated filer ý
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

As of November 1, 2016 there were 21,004,015 shares of registrant’s common stock outstanding.

NANOSTRING TECHNOLOGIES, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2016
TABLE OF CONTENTS

PART 1. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

NanoString Technologies, Inc.
Condensed Consolidated Balance Sheets
(in thousands, except par value)
(Unaudited)

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$10,468	$21,856
Short-term investments	43,116	27,188
Accounts receivable, net	21,041	19,725
Inventory	11,730	10,138
Prepaid expenses and other	4,385	3,886
Total current assets	90,740	82,793
Restricted cash	143	143
Deferred offering costs	229	181
Property and equipment, net	10,705	9,414
Other assets	440	338
Total assets	$102,257	$92,869
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	$2,127	$3,243
Accrued liabilities	9,917	12,181
Deferred revenue, current portion	16,748	5,261
Deferred rent, current portion	5	—
Lease financing obligations, current portion	92	226
Total current liabilities	28,889	20,911
Deferred revenue, net of current portion	26,752	6,486
Deferred rent and other long-term liabilities	6,192	4,257
Long-term debt and lease financing obligations, net of current portion and debt issuance costs	46,980	41,000
Total liabilities	108,813	72,654
Commitment and contingencies		
Stockholders' equity (deficit):		
Preferred stock, $0.0001 par value, 15,000 shares authorized; none issued	—	—
Common stock, $0.0001 par value, 150,000 shares authorized; 19,928 and 19,570 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	2	2
Additional paid-in capital	251,399	242,693
Accumulated other comprehensive income (loss)	(10)	(29)
Accumulated deficit	(257,947)	(222,451)
Total stockholders' equity (deficit)	(6,556)	20,215
Total liabilities and stockholders' equity (deficit)	$102,257	$92,869

The accompanying notes are an integral part of these condensed consolidated financial statements.

3

Table of Contents

NanoString Technologies, Inc.
Condensed Consolidated Statements of Operations
(in thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue:				
Product and service	$19,167	$13,910	$48,791	$37,240
Collaboration	4,766	1,783	12,466	3,112
Total revenue	23,933	15,693	61,257	40,352
Costs and expenses:				
Cost of product and service revenue	8,075	6,289	21,816	17,500
Research and development	8,717	5,812	24,724	17,526
Selling, general and administrative	15,607	12,036	46,018	38,984
Total costs and expenses	32,399	24,137	92,558	74,010
Loss from operations	(8,466)	(8,444)	(31,301)	(33,658)
Other income (expense):				
Interest income	104	58	266	181
Interest expense	(1,509)	(1,022)	(4,150)	(3,007)
Other income (expense), net	(179)	(59)	(238)	(281)
Total other income (expense), net	(1,584)	(1,023)	(4,122)	(3,107)
Net loss before provision for income tax	(10,050)	(9,467)	(35,423)	(36,765)
Provision for income tax	(38)	—	(73)	—
Net loss	$(10,088)	$(9,467)	(35,496)	(36,765)
Net loss per share - basic and diluted	$(0.51)	$(0.49)	$(1.79)	$(1.95)
Weighted average shares used in computing basic and diluted net loss per share	19,864	19,431	19,779	18,862

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

NanoString Technologies, Inc.
Condensed Consolidated Statements of Comprehensive Loss
(in thousands)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net loss	$(10,088)	$(9,467)	$(35,496)	$(36,765)
Change in unrealized gain or loss on short-term investments	(37)	25	19	39
Comprehensive loss	$(10,125)	$(9,442)	$(35,477)	$(36,726)

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

NanoString Technologies, Inc.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2016	2015
Operating activities		
Net loss	$(35,496)	$(36,765)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,215	1,420
Stock-based compensation expense	6,504	4,749
Amortization of premium on short-term investments	90	287
Interest accrued on long-term debt	115	—
Conversion of accrued interest to long-term debt	993	815
(Gain) loss on sale of property and equipment	(2)	2
Changes in operating assets and liabilities:		
Accounts receivable, net	(1,320)	(467)
Inventory	(2,713)	(6,769)
Prepaid expenses and other	(532)	634
Other assets	(111)	104
Accounts payable	(1,178)	(857)
Accrued liabilities	(1,775)	(3,013)
Deferred revenue	31,755	87
Deferred rent	1,806	1,011
Net cash provided by (used in) operating activities	351	(38,762)
Investing activities		
Purchases of property and equipment	(2,709)	(1,847)
Proceeds from sale of property and equipment	4	20
Proceeds from sale of short-term investments	3,400	3,000
Proceeds from maturity of short-term investments	29,200	46,178
Purchases of short-term investments	(48,600)	(23,150)
Net cash (used in) provided by investing activities	(18,705)	24,201
Financing activities		
Borrowings under long-term debt agreement	5,000	—
Repayment of lease financing obligations	(192)	(203)
Proceeds from sale of common stock, net	—	12,508
Deferred offering costs	(44)	(137)
Proceeds from issuance of common stock for employee stock purchase plan	1,489	1,296
Proceeds from exercise of stock options	714	546
Net cash provided by financing activities	6,967	14,010
Net decrease in cash and cash equivalents	(11,387)	(551)
Effect of exchange rate changes on cash and cash equivalents	(1)	(37)
Cash and cash equivalents		
Beginning of period	21,856	17,223
End of period	$10,468	$16,635

The accompanying notes are an integral part of these condensed consolidated financial statements.

6

Table of Contents

NanoString Technologies, Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Description of Business

NanoString Technologies, Inc. (the "Company") was incorporated in the state of Delaware on June 20, 2003. The Company's headquarters are located in Seattle, Washington. The Company's technology enables direct detection, identification and quantification of individual target molecules in a biological sample by attaching a unique color coded fluorescent reporter to each target molecule of interest. The Company markets its proprietary nCounter Analysis System, consisting of instruments and consumables, including its Prosigna Breast Cancer Assay, to academic, government, biopharmaceutical and clinical laboratory customers.

The Company has incurred losses to date and expects to incur additional losses in the foreseeable future. The Company continues to devote the majority of its resources to the growth of its business in accordance with its business plan. The Company's activities have been financed primarily through the sale of equity securities, incurrence of indebtedness and, to a lesser extent, capital leases and other borrowings.

2. Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements reflect the accounts of the Company and its wholly-owned subsidiaries. The unaudited condensed consolidated balance sheet at December 31, 2015 has been derived from the audited consolidated financial statements at that date but does not include all of the information and disclosures required by generally accepted accounting principles in the United States of America ("U.S. GAAP") for annual financial statements. These unaudited condensed consolidated financial statements and notes should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") and U.S. GAAP for unaudited condensed consolidated financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The accompanying unaudited condensed consolidated financial statements reflect all adjustments consisting of normal recurring adjustments which, in the opinion of management, are necessary for a fair statement of the Company's financial position and results of its operations, as of and for the periods presented.

Unless indicated otherwise, all amounts presented in financial tables are presented in thousands, except for per share and par value amounts.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The results of the Company's operations for the three and nine month periods ended September 30, 2016 are not necessarily indicative of the results to be expected for the full year or for any other period.

Revenue Recognition

The Company recognizes revenue when (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the price to the customer is fixed or determinable and (4) collectability is reasonably

assured. The Company generates the majority of its revenue from the sale of products and services. The Company's products consist of its proprietary nCounter Analysis Systems and related consumables. Services consist of extended warranties and service fees for assay processing. A delivered product or service is considered to be a separate unit of accounting when it has value to the customer on a stand-alone basis. Products or services have value on a stand-alone basis if they are sold separately by any vendor or the customer could resell the delivered product.

Instruments, consumables and in vitro diagnostic kits are considered to be separate units of accounting as they are sold separately and revenue is recognized upon transfer of ownership, which is generally upon shipment. Instrument revenue related to installation and calibration services is recognized when services are rendered by the Company. Such services can also be provided by the Company's distribution partners and other third parties. For instruments sold solely to run Prosigna assays,

Table of Contents

training must be provided prior to instrument revenue recognition. Instrument revenue from leased instruments is recognized ratably over the lease term.

Service revenue is recognized when earned, which is generally upon the rendering of the related services. Service agreements and service fees for assay processing are each considered separate units of accounting as they are sold separately. The Company offers service agreements on its nCounter Analysis Systems for periods ranging from 12 to 36 months after the end of the standard 12-month warranty period. Service agreements are generally separately priced. Revenue from service agreements is deferred and recognized in income on a straight-line basis over the service period.

For arrangements with multiple deliverables, the Company allocates the agreement consideration at the inception of the agreement to the deliverables based upon their relative selling prices. To date, selling prices have been established by reference to vendor specific objective evidence based on stand-alone sales transactions for each deliverable. Vendor specific objective evidence is considered to have been established when a substantial majority of individual sales transactions within the previous 12-month period fall within a reasonably narrow range, which the Company has defined to be plus or minus 15% of the mean sales price of actual stand-alone sales transactions. The Company uses its best estimate of selling price for individual deliverables when vendor specific objective evidence or third-party evidence is unavailable. Allocated revenue is only recognized for each deliverable when the revenue recognition criteria have been met.

The Company enters into collaborative agreements that may generate upfront fees with subsequent milestone payments that may be earned upon completion of development-related milestones. The Company is able to estimate the total cost of services under the arrangements and recognizes collaboration revenue using a proportional performance model. Costs incurred to date compared to total expected costs are used to determine proportional performance, as this is considered to be representative of the delivery of outputs under the arrangements. Revenue recognized at any point in time is limited to cash received and non-contingent amounts contractually due. Changes in estimates of total expected costs are accounted for prospectively as a change in estimate. From period to period, collaboration revenue can fluctuate substantially based on the achievement of development-related milestones.

Recent Accounting Pronouncements

As an “emerging growth company,” the Jumpstart Our Business Startups (“JOBS”) Act allows the Company to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies.

In May 2014, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standards Update (“ASU”) entitled “ASU 2014-09, Revenue from Contracts with Customers.” The standard requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to a customer. This guidance will replace most existing revenue recognition guidance and will become effective for the Company in fiscal year 2018, including interim periods within that reporting period, based on the FASB decision in July 2015 (ASU 2015-14, Revenue from Contracts with Customers - Deferral of the Effective Date) to delay the effective date of the new revenue recognition standard by one year, but providing entities a choice to adopt the standard as of the original effective date. In March 2016, the FASB issued “ASU 2016-08, Principal vs Agent Considerations (Reporting Revenue Gross versus Net)” which clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued “ASU 2016-10, Identifying Performance Obligations and Licensing” which clarifies the implementation guidance on identifying performance obligations and the licensing implementation guidance. In May 2016, the FASB issued “ASU 2016-12, Narrow-Scope Improvements and Practical Expedients” which provides practical expedient for contract modifications and clarification on assessing the collectability criterion, presentation of sales taxes, measurement date for noncash consideration and completed contracts at transition. These standards permit the use of either the retrospective or cumulative effect transition method. The Company has not selected a transition

method and is currently evaluating the impact these standards will have on its consolidated results of operations, financial condition, cash flows, and financial statement disclosures.

In August 2014, FASB issued “ASU 2014-15, Presentation of Financial Statements – Going Concern.” The standard requires entities to evaluate for each annual and interim reporting period, whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable). The standard will become effective for the Company beginning January 1, 2017.

In July 2015, FASB issued “ASU 2015-11, Inventory – Simplifying the Measurement of Inventory.” The standard requires entities to measure inventory at the lower of cost and net realizable value. The standard will become effective for the

Table of Contents

Company beginning January 1, 2017. The Company does not anticipate adoption of the standard will have a material impact on its consolidated results of operations, financial condition, cash flows, and financial statement disclosures.

In November 2015, FASB issued “ASU 2015-17, Balance Sheet Classification of Deferred Taxes.” The standard requires deferred income tax liabilities and assets be classified as noncurrent in the consolidated balance sheet. The standard will become effective for the Company beginning January 1, 2018. The Company does not anticipate adoption of the standard will have a material impact on its consolidated results of operations, financial condition, cash flows, and financial statement disclosures.

In February 2016, FASB issued “ASU 2016-02, Leases - Recognition and Measurement of Financial Assets and Financial Liabilities.” The standard requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition. The standard requires lessors to classify leases as either sales-type, finance or operating. A sales-type lease occurs if the lessor transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing lease. If the lessor does not convey risks and rewards or control, an operating lease results. The standard will become effective for the Company beginning January 1, 2019. The Company is currently assessing the impact adoption of this standard will have on its consolidated results of operations, financial condition, cash flows, and financial statement disclosures.

In March 2016, FASB issued “ASU 2016-09, Improvements to Employee Share-Based Payment Accounting” which amends Accounting Standard Codification Topic 718, “Compensation – Stock Compensation”. The standard includes provisions intended to simplify various aspects related to the accounting and presentation for stock-based payments in the financial statements, including the income tax effects of stock-based payments, minimum withholding requirements upon award settlement, and the method of calculating forfeitures in the recognition of stock compensation expense. The standard will become effective for the Company beginning January 1, 2018. The Company is currently assessing the impact adoption of this standard will have on its consolidated results of operations, financial condition, cash flows, and financial statement disclosures.

3. Net Loss Per Share

Net loss per share is computed by dividing the net loss by the weighted average number of shares of common stock outstanding. Any outstanding stock options and warrants have not been included in the calculation of the diluted net loss per share because to do so would be anti-dilutive. Accordingly, the numerator and the denominator used in computing both basic and diluted net loss per share for each period are the same.

The following shares underlying outstanding options and warrants were excluded from the computation of basic and diluted net loss per share for the periods presented because their effect would have been anti-dilutive (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Options to purchase common stock	4,752	4,208	4,665	4,025
Restricted stock units	117	15	106	15
Common stock warrants	483	572	524	572

4. Concentration of Risks

Financial instruments that potentially expose the Company to concentrations of credit risk consist principally of cash and cash equivalents, short-term investments and accounts receivable. Cash is invested in accordance with the Company's investment policy, which includes guidelines intended to minimize and diversify credit risk. Most of the Company's investments are not federally insured. The Company has credit risk related to the collectability of its accounts receivable. The Company performs initial and ongoing evaluations of its customers' credit history or financial position and generally extends credit on account without collateral. The Company has not experienced any significant credit losses to date.

The Company had one customer/collaborator that individually represented 11% and 13% of total revenue during the three and nine months ended September 30, 2016, respectively, one customer/collaborator that represented 11% of total revenue during the three months ended September 30, 2015, and no customers that represented more than 10% of total revenue for the nine months ended September 30, 2015. The Company had one customer/collaborator that represented 11% of total accounts

Table of Contents

receivable as of September 30, 2016 and no customers or collaborators that represented more than 10% of total accounts receivable as of December 31, 2015.

The Company is also subject to supply chain risks related to the outsourcing of the manufacturing and production of its instruments to sole suppliers. Although there are a limited number of manufacturers for instruments of this type, the Company believes that other suppliers could provide similar products on comparable terms. Similarly, the Company sources certain raw materials used in the manufacture of consumables from certain sole suppliers. A change in suppliers could cause a delay in manufacturing and a possible loss of sales, which would adversely affect operating results.

5. Short-term Investments

Short-term investments consisted of available-for-sale securities as follows (in thousands):

Type of securities as of September 30, 2016	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Corporate debt securities	$ 29,811	$ 1	$ (17)	$ 29,795
U.S. government-related debt securities	13,315	7	(1)	13,321
Total available-for-sale securities	$ 43,126	$ 8	$ (18)	$ 43,116

Type of securities as of December 31, 2015	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Corporate debt securities	$ 26,116	$ —	$ (28)	$ 26,088
U.S. government-related debt securities	1,101	—	(1)	1,100
Total available-for-sale securities	$ 27,217	$ —	$ (29)	$ 27,188

The fair values of available-for-sale securities by contractual maturity were as follows (in thousands):

	September 30, 2016	December 31, 2015
Maturing in one year or less	$ 33,799	$ 27,188
Maturing in one to three years	9,317	—
Total available-for-sale securities	$ 43,116	$ 27,188

The Company has both the intent and ability to sell its available-for-sale investments maturing greater than one year within 12 months from the balance sheet date and, accordingly, has classified these securities as current in the condensed consolidated balance sheet. The Company has no investments that have been in a continuous unrealized loss position as of September 30, 2016.

The Company invests in securities that are rated investment grade or better. The unrealized losses on investments as of September 30, 2016 and December 31, 2015 were primarily caused by interest rate increases.

The Company reviews the individual securities in its portfolio to determine whether a decline in a security’s fair value below the amortized cost basis is other-than-temporary. The Company determined that as of September 30, 2016, there were no investments in its portfolio that were other-than-temporarily impaired.

6. Fair Value Measurements

The Company establishes the fair value of its assets and liabilities using the price that would be received to sell an asset or paid to transfer a financial liability in an orderly transaction between market participants at the measurement

date. A fair value hierarchy is used to measure fair value. The three levels of the fair value hierarchy are as follows:

Table of Contents

Level 1:	Quoted prices in active markets for identical assets and liabilities.
Level 2:	Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
Level 3:	Valuations derived from valuation techniques in which one or more significant inputs and significant value drivers are unobservable.

The recorded amounts of certain financial instruments, including cash, accounts receivable, prepaid expenses and other, accounts payable and accrued liabilities, approximate fair value due to their relatively short-term maturities. The recorded amount of the Company's long-term debt approximates fair value because the related interest rates approximate rates currently available to the Company.

The Company's available-for-sale securities by level within the fair value hierarchy were as follows (in thousands):

As of September 30, 2016	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market fund	$9,009	$—	$ —	$9,009
Short-term investments:				
Corporate debt securities	—	29,795	—	29,795
U.S. government-related debt securities	—	13,321	—	13,321
Total	$9,009	$43,116	$ —	$52,125

As of December 31, 2015	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market fund	$5,371	$—	$ —	$5,371
Short-term investments:				
Corporate debt securities	—	26,088	—	26,088
U.S. government-related debt securities	—	1,100	—	1,100
Total	$5,371	$27,188	$ —	$32,559

7. Inventory

Inventory consisted of the following as of the date indicated (in thousands):

	September 30, 2016	December 31, 2015
Raw materials	$ 4,999	$ 3,575
Work in process	3,443	2,895
Finished goods	3,288	3,668
	$ 11,730	$ 10,138

8. Long-term Debt and Lease Financing Obligations

In April 2014, the Company entered into a term loan agreement under which it could borrow up to $45.0 million, including an option to defer payment of a portion of the interest that would accrue on the borrowing under the term loan agreement. Upon initial closing, the Company borrowed $20.0 million, and in October 2014, the Company borrowed an additional $10.0 million under the term loan agreement.

In October 2015, the Company amended the term loan agreement to, among other provisions, increase the maximum borrowing capacity to $60.0 million (excluding deferred interest), reduce the applicable interest rate from 12.5% to 12.0%, extend the interest-only period through March 2021, and extend the final maturity to March 2022. Under the

amended agreement, borrowings accrue interest at 12.0% annually, payable quarterly, of which 3.0% can be deferred during the first six years of the term at the Company's option and paid together with the principal at maturity. The Company has elected to exercise the option to defer payment of interest and has recorded $2.5 million of deferred interest through September 30, 2016. In December 2015, the Company borrowed an additional $10.0 million under the terms of the amended agreement. In June 2016, the Company borrowed an additional $5.0 million. At its option, the Company may borrow up to an additional $15.0

Table of Contents

million through December 31, 2016. Total borrowings and deferred interest under the amended term loan agreement were $47.5 million and $41.5 million as of September 30, 2016 and December 31, 2015, respectively.
Under the amended term loan agreement, the Company may pay interest-only for the first seven years of the term and principal payments are due in four equal installments during the eighth year of the term. The Company has the option to prepay the term loan, in whole or part, at any time subject to payment of a redemption fee of up to 4%, which declines 1% annually, with no redemption fee payable if prepayment occurs after the fourth year of the loan. In addition, a facility fee equal to 2.0% of the amount borrowed plus any accrued interest is payable at the end of the term or when the loan is repaid in full. A long-term liability of $1.1 million is being accreted using the effective interest method for the facility fee over the term of loan agreement. Obligations under the term loan agreement are collateralized by substantially all of the Company's assets.

The term loan agreement contains customary conditions to borrowings, events of default and negative covenants, including covenants that could limit the Company's ability to, among other things, incur additional indebtedness, liens or other encumbrances, make dividends or other distributions; buy, sell or transfer assets; engage in any new line of business; and enter into certain transactions with affiliates. The term loan agreement also includes a $2.0 million minimum liquidity covenant and minimum revenue-based financial requirements, specifically $70.0 million for 2016 with annual increases of $15.0 million for each subsequent fiscal year thereafter. If the Company's actual revenue is below the minimum annual revenue requirement for any given year, it may avoid a related default by generating proceeds from an equity or subordinated debt issuance equal to the shortfall between its actual revenue and the minimum revenue requirement. The Company was in compliance with its financial covenants as of September 30, 2016.

Long-term debt and lease financing obligations, consisted of the following (in thousands):

	September 30, 2016	December 31, 2015
Term loans payable	$47,480	$41,487
Lease financing obligations	92	284
Total long-term debt and lease financing obligations	47,572	41,771
Unamortized debt issuance costs	(500)	(545)
Current portion of lease financing obligations	(92)	(226)
Long-term debt and lease financing obligations, net of debt issuance costs and current portion	$46,980	$41,000

Scheduled future principal payments for outstanding debt and lease financing obligations were as follows at September 30, 2016 (in thousands):

Years Ending December 31,	
Remainder of 2016	$34
2017	58
2018	—
2019	—
2020	—
Thereafter	47,480
	$47,572

9. Collaboration Agreements

The Company uses a proportional performance model to recognize collaboration revenue over the Company's performance period for each collaboration agreement. Costs incurred to date compared to total expected costs are used to determine proportional performance, as this is considered to be representative of the delivery of outputs under the arrangement. Revenue recognized at any point in time is limited to cash received and amounts contractually due.

Changes in estimates of total expected costs are accounted for prospectively as a change in estimate. All amounts received or due are classified as collaboration revenue as they are earned.

Table of Contents

Celgene Corporation

In March 2014, the Company entered into a collaboration agreement with Celgene Corporation ("Celgene") to develop, seek regulatory approval for, and commercialize a companion diagnostic assay for use in screening patients with Diffuse Large B-Cell Lymphoma. The Company is eligible to receive payments totaling up to $45.0 million, of which $5.8 million was received as an upfront payment upon delivery of certain information to Celgene, $17.0 million is for potential success-based development and regulatory milestones, and the remainder is for potential commercial payments in the event sales of the test do not exceed certain pre-specified minimum annual revenue during the first three years following regulatory approval. In October 2015, the parties amended the collaboration agreement to include additional countries to conduct clinical trials and in return the Company received an upfront payment of $1.6 million in December 2015.

The Company will retain all commercial rights to the diagnostic test developed under this collaboration, subject to certain backup rights granted to Celgene to commercialize the diagnostic test in a particular country if the Company elects to cease distribution or elects not to distribute the diagnostic in such country. Assuming success in the clinical trial process, and subject to regulatory approval, the Company will market and sell the diagnostic assay.

The Company achieved and was paid for milestones totaling $6.0 million during 2014. The process of successfully developing a product candidate, obtaining regulatory approval and ultimately commercializing a product candidate is highly uncertain and the attainment of any additional milestones is therefore uncertain and difficult to predict. In addition, certain milestones are outside the Company's control and are dependent on the performance of Celgene and the outcome of a clinical trial and related regulatory processes. Accordingly, the Company is not able to reasonably estimate when, if at all, any additional milestone payments may be payable to the Company by Celgene.

The Company recognized collaboration revenue related to the Celgene agreement of $0.6 million and $0.2 million for the three months ended September 30, 2016 and 2015, respectively, and $2.3 million and $1.2 million for the nine months ended September 30, 2016 and 2015, respectively. At September 30, 2016, the Company had recorded $6.1 million of deferred revenue related to the Celgene collaboration, of which $1.8 million is estimated to be recognizable as revenue within one year.

Merck & Co., Inc.

In May 2015, the Company entered into a clinical research collaboration agreement with Merck Sharp & Dohme Corp., a subsidiary of Merck & Co., Inc. ("Merck"), to develop an assay intended to optimize immune-related gene expression signatures and evaluate the potential to predict benefit from Merck's anti-PD-1therapy, KEYTRUDA. Under the terms of the collaboration agreement, the Company was eligible to receive up to $4.0 million, of which $2.0 million was received as an upfront payment in July 2015 and $1.9 million was received as development payments during 2015. In February 2016, the Company expanded its collaboration with Merck by entering into a new development collaboration agreement to clinically develop and commercialize a novel diagnostic test, based on an optimized gene expression signature, to predict response to KEYTRUDA in multiple tumor types. Under the terms of the new collaboration agreement, the Company received $12.0 million upfront as a technology access fee, will receive additional development funding, and is eligible to receive up to $12.0 million of near-term preclinical milestone payments, of which $8.5 million was achieved and received during the nine months ended September 30, 2016, and other potential downstream regulatory milestone payments.

The Company recognized collaboration revenue of $2.2 million and $6.1 million related to the Merck agreement for the three and nine months ended September 30, 2016, respectively, and $1.6 million and $1.8 million for the three and nine months ended September 30, 2015, respectively. As of September 30, 2016, the Company had recorded $22.4 million of deferred revenue related to the Merck collaboration, $7.7 million of which is estimated to be recognized as

revenue within one year.

Medivation, Inc. and Astellas Pharma, Inc.
In January 2016, the Company entered into a collaboration agreement with Medivation, Inc. ("Medivation") and Astellas Pharma Inc. (“Astellas”) to pursue the translation of a novel gene expression signature algorithm discovered by Medivation into a companion diagnostic assay using the nCounter Analysis System. Under the terms of the collaboration agreement, the Company will modify its PAM50-based Prosigna Breast Cancer Assay for potential use as a companion diagnostic test for XTANDI (enzalutamide) for triple negative breast cancer. XTANDI is currently approved by the U.S. Food and Drug Administration for the treatment of metastatic castration-resistant prostate cancer.

Table of Contents

The modified Prosigna test will be based upon data from a Phase 2 trial conducted by Medivation and Astellas that evaluated enzalutamide in patients with triple negative breast cancer. Under the terms of the collaboration agreement, the Company will be responsible for developing and validating the diagnostic test and, if the parties thereafter determine to proceed, will also be responsible for seeking regulatory approval for and commercializing the test. During 2016, the Company received $6.0 million upfront for technology access, $6.0 million in pre-clinical milestones, and is eligible to receive up to $10.0 million in development funding over the term of the agreement, in addition to other potential downstream milestone payments.

The Company recognized collaboration revenue of $1.5 million and $3.6 million related to the Medivation/Astellas agreement for the three and nine months ended September 30, 2016, respectively, and none for the three and nine months ended September 30, 2015. As of September 30, 2016, the Company had recorded $10.8 million of deferred revenue related to the Medivation/Astellas collaboration, $4.1 million of which is estimated to be recognized as revenue within one year.

10. Commitments and Contingencies

From time to time, the Company may become involved in litigation relating to claims arising from the ordinary course of business. Management believes that there are no claims or actions pending against the Company currently, the ultimate disposition of which would have a material adverse effect on the Company's consolidated results of operation, financial condition or cash flows.

11. Information about Geographic Areas

The Company operates as a single reportable segment and enables customers to perform both research and clinical testing on its nCounter Analysis Systems. The Company has one sales force that sells these systems to both research and clinical testing labs, and its nCounter Elements reagents can be used for both research and diagnostic testing. In addition, the Company's Prosigna Breast Cancer Assay is marketed to clinical laboratories. The Company has also entered into collaboration agreements with Celgene, Merck and Medivation and Astellas.

The following table of total revenue is based on the geographic location of the Company's customers, distributors and collaborators. For sales to distributors, their geographic location may be different from the geographic locations of the ultimate end user. Americas consists of the United States, Canada, Mexico and South America; and Asia Pacific includes Japan, China, South Korea, Singapore, Malaysia and Australia. Total revenue by geography was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Americas	$16,784	$10,929	$43,188	$26,584
Europe & Middle East	4,934	3,400	12,667	9,355
Asia Pacific	2,215	1,364	5,402	4,413
Total revenue	$23,933	$15,693	$61,257	$40,352

Total revenue in the United States was $16.2 million and $9.6 million for the three months ended September 30, 2016 and 2015, respectively, and $41.5 million and $24.5 million for the nine months ended September 30, 2016 and 2015, respectively.

The Company's assets are primarily located in the United States and not allocated to any specific geographic region. Substantially all of the Company's long-lived assets are located in the United States.

12. Subsequent Event

In October 2016, the Company sold 1,062,330 shares of its common stock through the "at the market" equity offering program under its sales agreement with Cowen & Company ("Cowen") for total gross proceeds of $21.2 million. The net proceeds from the sale of the shares, after deducting Cowen's commission and other expenses of the offering, were approximately $20.4 million. After completion of this sale, approximately $5.8 million of the Company's common stock remained available for sale under the "at the market" equity offering program.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Special Note Regarding Forward-Looking Information

This Quarterly Report on Form 10-Q contains forward-looking statements that are based on our management's beliefs and assumptions and on information currently available. This section should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included in Part I, Item 1 of this report. The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

Forward-looking statements are identified by words such as "believe," "anticipate," "expect," "intend," "plan," "will," "may," and other similar expressions. You should read these statements carefully because they discuss future expectations, contain projections of future results of operations or financial condition, or state other "forward-looking" information. These statements relate to our future plans, objectives, expectations, intentions and financial performance and the assumptions that underlie these statements. These forward-looking statements include, but are not limited to:

- our expectations regarding our future operating results and capital needs, including our expectations regarding instrument, consumable and total revenue, operating expenses and operating and net loss;
- the implementation of our business model, strategic plans for our business and future product development plans;
- the regulatory regime and our ability to secure regulatory clearance or approval or reimbursement for the clinical use of our products, domestically and internationally;
- our ability to successfully commercialize Prosigna, our first in vitro diagnostic product;
- our ability to realize the potential payments set forth in our collaboration agreements;
- our strategic relationships, including with patent holders of our technologies, manufacturers and distributors of our products, collaboration partners and third parties who conduct our clinical studies;
- our intellectual property position;
- our expectations regarding the market size and growth potential for our business; and
- our ability to sustain and manage growth, including our ability to expand our customer base, develop new products, enter new markets and hire and retain key personnel.

These forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in this report in Part II, Item 1A — "Risk Factors," and elsewhere in this report. These statements, like all statements in this report, speak only as of their date, and we undertake no obligation to update or revise these statements in light of future developments. In this report, "we," "our," "us," "NanoString," and "the Company" refer to NanoString Technologies, Inc. and its subsidiaries.

Overview

We develop, manufacture and sell robust, intuitive products that unlock scientifically valuable and clinically actionable biologic information from minute amounts of tissue. Our nCounter Analysis Systems directly profile hundreds of molecules simultaneously using a novel barcoding technology that is powerful enough for use in research, yet simple enough for use in clinical laboratories worldwide. We market instruments and related consumables to researchers in academic, government, and biopharmaceutical laboratories for use in understanding fundamental biology and the molecular basis of disease and to clinical laboratories and medical centers for diagnostic use. As of September 30, 2016, we have an installed base of approximately 450 systems, which our customers have used to

publish over 1,300 peer-reviewed papers. As researchers using our systems discover new biologic insights to improve clinical decision-making, these discoveries can be translated and validated as diagnostic tests, either using our nCounter Elements reagents or, in certain situations, by developing in vitro diagnostic assays. For example, our first molecular diagnostic product is the Prosigna Breast Cancer Assay, or Prosigna, which provides an assessment of a patient's risk of recurrence for breast cancer. In addition, we are collaborating with several biopharmaceutical companies to develop companion diagnostics, in vitro diagnostic tests to be used to identify which patients are most likely to respond to a particular drug therapy.

Table of Contents

We derive a substantial majority of our revenue from the sale of our products to life science researchers, which consist of our nCounter instruments and related proprietary consumables, which we call CodeSets, nCounter Elements reagents and Master Kits. After buying an nCounter Analysis System, research customers purchase consumables from us for use in their experiments. Our instruments are designed to work only with our consumable products. Accordingly, as the installed base of our instruments grows, we expect recurring revenue from consumable sales to become an increasingly important driver of our operating results. We also derive revenue from processing fees related to proof-of-principle studies we conduct for potential customers and extended service contracts for our nCounter Analysis Systems. Additionally, we generate revenue through development collaborations.

We use third-party contract manufacturers to produce the instruments comprising our nCounter Analysis Systems. We manufacture consumables at our Seattle, Washington facility. This operating model is designed to be capital efficient and to scale efficiently as our product volumes grow. We focus a substantial portion of our resources on developing new technologies, products and solutions. We sell our products through our own sales force in the United States, Canada, Singapore, Israel and certain European countries. We sell through distributors in other parts of the world.

Our total revenue has increased to $61.3 million for the nine months ended September 30, 2016 from $40.4 million for the first nine months of 2015. Historically, we have generated a substantial majority of our revenue from sales to customers in North America; however, we expect sales in other regions to increase over time. We have never been profitable and had net losses of $35.5 million and $36.8 million for the nine months ended September 30, 2016 and 2015, respectively, and as of September 30, 2016 our accumulated deficit was $257.9 million.

In January 2016, we entered into a collaboration with Medivation, Inc. and Astellas Pharma Inc. to pursue the translation of a novel gene expression signature algorithm discovered by Medivation into a companion diagnostic assay using the nCounter Analysis System. Under the terms of the collaboration agreement, we will modify our PAM50-based Prosigna Breast Cancer Assay for potential use as a companion diagnostic test for XTANDI (enzalutamide) for triple negative breast cancer. We will be responsible for developing and validating the diagnostic test and, if the parties thereafter determine to proceed, we will also be responsible for seeking regulatory approval for and commercializing the test. We received a $6.0 million upfront payment for technology access, $6.0 million of near-term preclinical milestone payments, and are eligible to receive up to $10.0 million in development funding over the term of the agreement, in addition to other potential downstream milestone payments.

In February 2016, we expanded our collaboration with Merck by entering into a new development collaboration agreement to clinically develop and commercialize a novel diagnostic test, based on an optimized gene expression signature, to predict response to KEYTRUDA in multiple tumor types. Under the terms of the new collaboration agreement, we received a $12.0 million upfront technology access fee and will receive additional development funding, and are eligible to receive up to $12.0 million of near-term preclinical milestone payments, of which $8.5 million was achieved and received during the nine months ended September 30, 2016, and other potential downstream regulatory milestone payments.

Results of Operations

Revenue

Our product revenue consists of sales of our nCounter Analysis Systems and related consumables, including Prosigna in vitro diagnostic kits. Service revenue consists of fees associated with extended service agreements and conducting proof-of-principle studies. Our customer base is primarily composed of academic institutions, government laboratories, biopharmaceutical companies and clinical laboratories that perform analyses or testing using our nCounter Analysis Systems and purchase related consumables. Collaboration revenue is derived primarily from our collaborations with Celgene, Merck and Medivation and Astellas.

The following table reflects total revenue by geography based on the geographic location of our customers, distributors and collaborators. For sales to distributors, their geographic location may be different from the geographic locations of the ultimate end user. Americas consists of the United States, Canada, Mexico and South America; and Asia Pacific includes Japan, China, South Korea, Singapore, Malaysia and Australia.

Table of Contents

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
	(In thousands)			(In thousands)		
Americas	$16,784	$10,929	54 %	$43,188	$26,584	62 %
Europe & Middle East	4,934	3,400	45	12,667	9,355	35
Asia Pacific	2,215	1,364	62	5,402	4,413	22
Total	$23,933	$15,693	53	$61,257	$40,352	52

The following table reflects the breakdown of revenue.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
	(In thousands)			(In thousands)		
Product revenue:						
Instruments	$6,898	$4,256	62 %	$16,744	$13,026	29 %
Consumables	10,303	8,352	23	26,579	20,699	28
In vitro diagnostic kits	1,147	662	73	3,142	1,635	92
Total product revenue	18,348	13,270	38	46,465	35,360	31
Service revenue	819	640	28	2,326	1,880	24
Total product and service revenue	19,167	13,910	38	48,791	37,240	31
Collaboration revenue	4,766	1,783	167	12,466	3,112	301
Total revenue	$23,933	$15,693	53	$61,257	$40,352	52

The growth in instrument revenue was driven by an increase in the number of instruments sold for both the three and nine months ended September 30, 2016 as compared to the same period in 2015. For the three and nine months ended September 30, 2016, the increase in instrument revenue was partially offset by the lower selling price of the new nCounter SPRINT Profiler system, which was anticipated. Approximately half of the systems sold during the three and nine months ended September 30, 2016 were SPRINT Profilers, consistent with our expectations. The increase in consumables revenue for both the three and nine month periods was driven by growth in our installed base of instruments. Revenue from in vitro diagnostic kits increased for both the three and nine month periods as sales of Prosigna kits continued to grow as more laboratories have adopted the test and coverage by third-party payers has increased since we launched the product in late 2013. The increase in service revenue for both the three and nine month periods was primarily related to an increase in the number of instruments covered by service agreements. The increase in collaboration revenue for both the three and nine month periods was primarily due to the impact of our new collaborations with Merck and Medivation and Astellas, and the achievement of $14.5 million of milestones during the nine months ended September 30, 2016, a proportional amount of which was reflected as collaboration revenue over the same period.

Cost of Product and Service Revenue; Gross Profit; and Gross Margin

Cost of product and service revenue consists primarily of costs incurred in the production process, including costs of purchasing instruments from third-party contract manufacturers, consumable component materials and assembly labor and overhead, installation, warranty, service and packaging and delivery costs. In addition, cost of product and service revenue includes royalty costs for licensed technologies included in our products, provisions for slow-moving and obsolete inventory and stock-based compensation expense. We provide a one-year warranty on each nCounter

Analysis System sold and establish a reserve for warranty repairs based on historical warranty repair costs incurred.

Table of Contents

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
	(Dollars in thousands)			(Dollars In thousands)		
Cost of product and service revenue	$8,075	$6,289	28 %	$21,816	$17,500	25 %
Product and service gross profit	$11,092	$7,621	46	$26,975	$19,740	37
Product and service gross margin	58 %	55 %		55 %	53 %	

The increase in cost of product and service revenue for the three and nine months ended September 30, 2016 was related to the overall increased volume of products and services sold. The increase in gross margin on product and service revenue for the three-month period was primarily due to improved gross margin on consumable revenue resulting from efficiencies of scale and a favorable mix of consumable products sold during the quarter, in addition to a reduced technology royalty rate across all products. For the nine-month period, the same factors contributed to the improvement in gross margin, but to a lesser extent. Costs related to collaboration revenue are included in research and development expense.

Research and Development Expense

Research and development expenses consist primarily of salaries and benefits, occupancy, laboratory supplies, engineering services, consulting fees, costs associated with licensing molecular diagnostics rights and clinical study expenses (including the cost of tissue samples) to support the regulatory approval or clearance of diagnostic products. We have made substantial investments in research and development since our inception. Our research and development efforts have focused primarily on the tasks required to enhance our technologies and to support development and commercialization of new and existing products and applications. We believe that our continued investment in research and development is essential to our long-term competitive position and expect these expenses to continue to increase in future periods.

Given the relatively small size of our research and development staff and the limited number of active projects at any given time, we have found that, to date, it has been effective for us to manage our research and development activities on a departmental basis. Accordingly, we do not require employees to report their time by project, nor do we allocate our research and development costs to individual projects, other than for collaborations. Research and development expense by functional area was as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
	(In thousands)			(In thousands)		
Core nCounter platform technology	$2,807	$1,496	88 %	$7,126	$4,894	46 %
Manufacturing process development	651	421	55	1,900	1,313	45
Life sciences products and applications	1,504	1,157	30	4,623	3,561	30
Diagnostic product development	1,750	946	85	4,765	2,604	83
Clinical, regulatory and medical affairs	1,043	1,109	(6)	3,510	3,409	3
Facility allocation	962	683	41	2,800	1,745	60
Total	$8,717	$5,812	50	$24,724	$17,526	41

The increase in research and development expense for the three and nine months ended September 30, 2016 was primarily attributable to increased personnel-related expenses and supply costs supporting the advancement of our biopharma diagnostic collaborations and technology and product development activities, including 3D Biology, digital immunohistochemistry (IHC) and Hyb & Seq sequencing chemistry. In addition, facility costs increased due to expansion of our leased space for research and development activities. These increases were partially offset by decreases in engineering and consulting costs largely for the development of our nCounter SPRINT Profiler in 2015, as well as clinical trial costs related to Prosigna development activities.

Table of Contents

Selling, General and Administrative Expense

Selling, general and administrative expense consists primarily of costs for our sales and marketing, finance, legal, human resources, information technology, business development and general management functions, as well as professional services, such as legal, consulting and accounting services. We expect selling, general and administrative expense to increase in future periods as the number of sales, technical support and marketing and administrative personnel grows as we continue to introduce new products, broaden our customer base and grow our business. Also, legal, accounting and compliance costs are expected to continue to increase as our business grows.

Selling, general and administrative expense was as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
	(In thousands)			(In thousands)		
Selling, general and administrative expense	$15,607	$12,036	30 %	$46,018	$38,984	18 %

The increase in selling, general and administration expense for the three and nine months ended September 30, 2016 was primarily attributable to personnel-related costs, an increase in legal and other professional fees, and increased state and local gross receipts-based taxes related to amounts received under our collaboration agreements.

Other Income (Expense)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	% Change	2016	2015	% Change
	(In thousands)			(In thousands)		
Interest income	$104	$58	79 %	$266	$181	47 %
Interest expense	(1,509)	(1,022)	48	(4,150)	(3,007)	38
Other income (expense), net	(179)	(59)	203	(238)	(281)	(15)
Total other income (expense), net	$(1,584)	$(1,023)	55	$(4,122)	$(3,107)	33

For the three and nine months ended September 30, 2016, interest expense increased primarily due to an increase in outstanding long-term debt borrowings, from $31.2 million as of September 30, 2015 to $47.5 million as of September 30, 2016.

Liquidity and Capital Resources

As of September 30, 2016, we had cash, cash equivalents and short-term investments totaling $53.6 million. We believe our existing cash, cash equivalents and short-term investments, together with additional funding available to us under our existing term loan agreement, will be sufficient to meet our working capital and capital expenditure needs for at least the next 12 months. However, we may need to raise additional capital to expand the commercialization of our products, fund our operations and further our research and development activities. Our future funding requirements will depend on many factors, including: the nature and timing of any additional companion diagnostic development collaborations we may establish; market acceptance of our products; the cost and timing of establishing additional sales, marketing and distribution capabilities; the cost of our research and development activities; the cost and timing of regulatory clearances or approvals; the effect of competing technological and market developments; and the extent to which we acquire or invest in businesses, products and technologies, although we currently have no commitments or agreements relating to any of these types of transactions.

If we require additional funds in the future, we may not be able to obtain such funds on acceptable terms, or at all. If we raise additional funds by issuing equity or equity-linked securities, our stockholders may experience dilution. Debt financing, if available, may involve covenants restricting our operations or our ability to incur additional debt. Any debt or additional equity financing that we raise may contain terms that are not favorable to us or our stockholders. If we raise additional funds through collaboration and licensing arrangements with third parties, it may be necessary to relinquish some rights to our technologies or our products, or grant licenses on terms that are not favorable to us. If we are unable to raise adequate funds, we may have to liquidate some or all of our assets, or delay, reduce the scope of or eliminate some or all of our development programs. If we do not have, or are not able to obtain, sufficient funds, we may have to delay development or

Table of Contents

commercialization of our products or license to third parties the rights to commercialize products or technologies that we would otherwise seek to commercialize. We also may have to reduce marketing, customer support or other resources devoted to our products or cease operations.

Sources and Uses of Funds

Since inception, we have financed our operations primarily through the sale of equity securities and, to a lesser extent, from borrowings. We generated cash from operations for the nine months ended September 30, 2016 as a result of receipts under our collaboration agreements. However, the timing and amount of such receipts in the future are unpredictable and therefore we expect to require cash to fund our operations for at least the next several years.

In May 2015, we entered into a sales agreement with a sales agent to sell shares of our common stock through an “at the market” equity offering program for up to $40.0 million in total sales proceeds. Under the sales agreement, we sold 960,400 shares during 2015 for net proceeds of $12.5 million. In October 2016, we sold 1,062,330 shares for net proceeds of approximately $20.4 million. The sales agreement allows us to set the parameters for the sale of shares, including the number of shares to be issued, the time period during which sales may be made, limits on the number of shares that may be sold in any one trading day and any minimum price below which sales may not be made. Following the October 2016 issuance, approximately $5.8 million of common stock is available to be sold under the “at the market” equity offering program. We cannot guarantee that we will be able to sell the remaining available shares under the sales agreement under favorable market conditions.

In April 2014, we entered into a term loan agreement under which we may borrow up to $45.0 million, including an option to defer payment of a portion of the interest that would accrue on the borrowing under the term loan agreement. Upon initial closing, we borrowed $20.0 million and in October 2014, we borrowed an additional $10.0 million under the term loan agreement.

In October 2015, we amended our term loan agreement to, among other provisions, increase the maximum borrowing capacity to $60.0 million (excluding accrued interest), reduce the applicable interest rate from 12.5% to 12.0%, extend the interest-only period through March 2021, and extend the final maturity to March 2022. Under the amended agreement, borrowings accrue interest at 12.0% annually, payable quarterly, of which 3.0% can be deferred during the first six years of the term at our option and paid together with the principal at maturity. We have elected to exercise the option to defer a portion of the interest and we have recorded $2.5 million of deferred interest through September 30, 2016. In December 2015, we borrowed an additional $10 million under the terms of the amended agreement and in June 2016, we borrowed an additional $5 million. At our option, we may borrow up to an additional $15 million through December 31, 2016. Total borrowings under the amended term loan agreement were $47.5 million as of September 30, 2016.

Under the amended term loan agreement, we may pay interest-only for the first seven years of the term and principal payments are due in four equal installments during the eighth year of the term. We have the option to prepay the term loan, in whole or part, at any time subject to payment of a redemption fee of up to 4%, which declines 1% annually, with no redemption fee payable if prepayment occurs after the fourth year of the loan. In addition, a facility fee equal to 2.0% of the amount borrowed plus any deferred interest is payable at the end of the term or when the loan is repaid in full. A long-term liability of $1.1 million is being accreted using the effective interest method for the facility fee over the term of the loan agreement. Obligations under the term loan agreement are collateralized by substantially all of our assets.

The term loan agreement contains customary conditions to borrowings, events of default and negative covenants, including covenants that could limit our ability to, among other things, incur additional indebtedness, liens or other encumbrances, make dividends or other distributions; buy, sell or transfer assets; engage in any new line of business; and enter into certain transactions with affiliates. The term loan agreement also includes a $2.0 million minimum liquidity covenant and minimum revenue-based financial requirements, specifically $70.0 million for 2016 with annual increases of $15 million for each subsequent fiscal year thereafter. If our actual revenue are below the minimum annual revenue requirement for any given year, we may avoid a related default by generating proceeds from

an equity or subordinated debt issuance equal to the shortfall between our actual revenue and the minimum revenue requirement. We were in compliance with our covenants as of September 30, 2016.

Our principal use of cash is funding our operations, and other working capital requirements. Over the past several years, our revenue has increased significantly from year to year and, as a result, our cash flows from customer collections have increased. However, our operating expenses have also increased as we have invested in growing our existing research business and in developing Prosigna and preparing it for commercialization. Through December 31, 2015, our cash used in operating activities increased from previous years. For the nine months ended September 30, 2016, we generated operating cash from receipts under our collaboration agreements, however, the timing and amount of such receipts in the future are unpredictable

Table of Contents

and therefore we expect to require cash to fund our operations. Our operating cash requirements may increase in the future as we (1) increase sales and marketing activities to expand the installed base of our nCounter Analysis Systems among research customers and clinical laboratories and continue to promote consumable usage, including Prosigna, (2) commercialize, and conduct studies to expand the clinical utility of Prosigna and develop new diagnostic tests and (3) develop new applications, chemistry and instruments for our nCounter platform, and we cannot be certain our revenue will grow sufficiently to offset our operating expense increases.

Historical Cash Flow Trends

The following table shows a summary of our cash flows for the periods indicated (in thousands):

	Nine Months Ended September 30,	
	2016	2015
Cash provided by (used in) operating activities	$351	$(38,762)
Cash (used in) provided by investing activities	(18,705)	24,201
Cash provided by financing activities	6,967	14,010

Operating Cash Flows

We derive operating cash flows from cash collected from the sale of our products and services and from collaborations. These cash flows received are generally outweighed by our use of cash for operating expenses to support the growth of our business. As a result, we have historically experienced negative cash flows from operating activities as we have expanded our business in the United States and other markets and this will likely continue for the foreseeable future.

For the nine months ended September 30, 2016, we had net cash provided by operating activities due primarily to $40.2 million in payments received from our collaborators, Merck and Medivation and Astellas. Net cash provided by operating activities consisted of our net loss of $35.5 million, which was more than offset by $25.9 million of changes in our operating assets and liabilities and $9.9 million of net non-cash items, such as stock-based compensation, depreciation and amortization, deferred interest converted to principal for the term loan, and amortization of premium on short-term investments.

Net cash used in operating activities for the nine months ended September 30, 2015 largely consisted of our net loss of $36.8 million and $9.3 million of changes in our operating assets and liabilities. These uses were partially offset by $7.3 million of net non-cash items, such as depreciation and amortization, amortization of premium on short-term investments, deferred interest converted to principal for the term loan and stock-based compensation.

Investing Cash Flows

Our most significant investing activities for the nine months ended September 30, 2016 and 2015 were related to the purchase and sale of short-term investments. Because we manage our cash balances and usage based on the total of our cash, cash equivalents and short-term investments, we do not consider cash flows solely related to our short-term investments to be important to an understanding of our liquidity and capital resources.

In the nine months ended September 30, 2016 and 2015, we purchased $2.7 million and $1.8 million, respectively, of property and equipment required to support the growth and expansion of our operations.

Financing Cash Flows

Historically, we have funded our operations through the issuance of equity securities and the incurrence of indebtedness.

Net cash provided by financing activities for the nine months ended September 30, 2016 consisted of proceeds of $5.0 million under the amended term loan agreement, Employee Stock Purchase Plan proceeds of $1.5 million and $0.7 million of proceeds from the exercise of stock options. These proceeds were partially offset by the repayment of lease financing obligations of $0.2 million.

Net cash provided by financing activities for the nine months ended September 30, 2015 consisted of net proceeds of $12.5 million from the sale of our common stock, Employee Stock Purchase Plan proceeds of $1.3 million and $0.5 million of

Table of Contents

	2010	2009
Current assets:		
Cash and cash equivalents	$1,141	$165
Accounts receivable, net of allowance for doubtful accounts of $- and $16	514	74
Inventories	622	615
Due from affiliates	-	69
Prepaid expenses	28	-
Deposits – Attrius® systems	2,484	-
Total current assets	4,789	923
Property and equipment, net	251	56
Deferred rent	111	-
Other assets	22	9
Total assets	$5,173	$988
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable, trade and accrued liabilities	$803	$3,200
Customer deposits	4,203	669
Notes payable	-	575
Convertible notes payable		

	-	1,323
Unearned revenue	253	51
Due to affiliates	-	25
Derivative liabilities for convertible debentures	-	2,104
Total current liabilities	5,259	7,947
Stockholders’ deficit:		
Series A Preferred Stock: $1.00 par value; 8% cumulative, convertible, redeemable; 5,450,000 shares authorized; 457,599 issued and outstanding.	457	457
Series B Preferred Stock: $1.00 par value; convertible, redeemable; 9,000,000 shares authorized; 6,668,444 and 6,729,421 shares outstanding	6,361	6,413
Series G Preferred Stock: $1.00 par value; convertible, redeemable; 3,000,000 shares authorized; 19,200 and 62,391 shares outstanding	19	62
Series S Preferred Stock: $1.00 par value; convertible, redeemable; 100,000 shares authorized; 100,000 shares issued and outstanding	100	100
Common stock: $0.01 par value; 800,000,000 shares authorized; 782,727,497 and 391,023,773 shares outstanding.	7,511	3,910
Additional paid-in capital	88,126	73,568
Other comprehensive income	(143)	(125)
Receivable for exercise of warrants	(250)	-
Accumulated deficit	(102,252)	(91,329)
Treasury Stock: 60,156 shares at cost	(15)	(15)
Total stockholders’ deficit	(86)	(6,959)
Total liabilities and stockholders’ deficit	$5,173	$988

See notes to financial statements.

POSITRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
For the years ended December 31, 2010 and 2009
(In thousands, except per share data)

	2010	2009
Sales	$ 4,623	$ 1,446
Costs of sales	4,564	1,319
Gross profit	59	127
Selling, general and administrative	12,131	4,608
Research and development	1,276	178
Selling and marketing	1,096	170
Total operating expenses	14,503	4,956
Loss from operations	(14,444)	(4,829)
Other income (expenses):		
Interest expense	(43)	(1,416)
Derivative gains	2,104	499
Other	1,460	(3)
	3,521	(920)
Loss before income taxes	(10,923)	(5,749)
Income taxes	-	-
Net loss	$ (10,923)	$ (5,749)
Other comprehensive loss:		
Foreign currency translation loss	(18)	(81)
Comprehensive loss	$ (10,941)	$ (5,830)
Basic and diluted loss per common share	$ (0.02)	$ (0.02)
Basic and diluted weighted average shares outstanding	713,463	239,033

See notes to financial statements.

POSITRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT
For the years ended December 31, 2010 and 2009
(In thousands, except share data)

	Series A Preferred Stock		Series B Preferred Stock		Series S Preferred Stock		Series G Preferred Stock		Common Stock	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
December 31, 2008	457,599	$457	6,214,861	$6,215	100,000	$100	111,391	$29	160,240,384	$1,602
Net loss	-	-	-	-	-	-	-	-	-	-
Stock based compensation	-	-	-	-	-	-	-	-	-	-
Conversion of Series B to common stock	-	-	(1,294,582)	(1,295)	-	-	-	-	129,458,200	1,295
Issuance of common stock for cash	-	-	-	-	-	-	-	-	70,521,049	705
Issuance of common stock for services	-	-	-	-	-	-	-	-	25,474,140	255
Issuance of common stock for debt settlement	-	-	-	-	-	-	-	-	400,000	4
Stock options exercised									30,000	-
Issuance of Series B and warrants for cash	-	-	1,626,282	1,310	-	-	-	-	-	-
Issuance of Series B for services	-	-	89,860	90	-	-	-	-	-	-
Issuance of Series B for	-	-	93,000	93	-	-	-	-	-	-

settlement of notes payable										
Conversion of Series G to common stock and paid in capital reclassification	-	-	-	-	-	-	(49,000)	33	4,900,000	49
Change in foreign currency translation gain	-	-	-	-	-	-	-	-	-	-
Balance December 31, 2009	457,599	$457	6,729,421	$6,413	100,000	$100	62,391	$62	391,023,773	$3,910

	Series A Preferred Stock		Series B Preferred Stock		Series S Preferred Stock		Series G Preferred Stock		Common Stock	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Am
Net loss	-	-	-	-	-	-	-	-	-	-
Stock based compensation	-	-	-	-	-	-	-	-	-	-
Conversion of Series B to common stock	-	-	(1,345,611)	(1,337)	-	-	-	-	133,686,000	1,
Issuance of common stock for cash	-	-	-	-	-	-	-	-	92,892,624	92
Issuance of common stock for services	-	-	-	-	-	-	-	-	53,725,000	53
Exercise of Series B options	-	-	26,190	26	-	-	-	-	-	-
Exercise of warrants			141,667	142	-		- -		- 98,581,000	67
Issuance of Series B for cash	-	-	425,000	425	-	-	-	-	-	-
Issuance of Series B for services	-	-	291,777	292	-	-	-	-	-	-
Series B issued for post-acquisiton payment	-	-	400,000	400	-	-	-	-	-	-
Issuance of common stock for note payable									8,500,000	85
Conversion of Series G to common stock	-	-	-	-	-	-	(43,191)	(43)	4,319,100	43
Receivable from warrants exercise	-	-	-	-	-	-	-	-	-	-
Change in foreign currency translation	-	-	-	-	-	-	-	-	-	-
Balance December 31, 2010	457,599	$457	6,668,444	$6,361	100,000	$100	19,200	$19	782,727,497	$7,

POSITRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT
For the years ended December 31, 2010 and 2009
(In thousands, except share data)
(Continued)

	Additional Paid-In Capital	Receivable for exercise of warrants -	Other Comprehensive Income	Accumulated Deficit	Treasury Stock Shares	Amount	Total
Balance December 31, 2008	$70,686		$ (44)	$ (85,580)	60,156	$(15)	$(6,550)
Net loss	-	-	-	(5,749)	-	-	(5,749)
Stock based compensation	258	-	-	-	-	-	258
Conversion of Series B to common stock	-	-	-	-	-	-	-
Issuance of common stock for cash	1,228	-	-	-	-	-	1,933
Issuance of common stock for services	1,093	-	-	-	-	-	1,348
Issuance of common stock for debt settlement	4	-	-	-	-	-	8
Stock options exercised	1	-					1
Issuance of Series B and warrants for cash	389	-	-	-	-	-	1,699
Issuance of Series B for services	-	-	-	-	-	-	90

Issuance of Series B for settlement of notes payable	(9)	-	-	-	-	-	84
Conversion of Series G to common stock and paid in capital reclassification	(82)	-	-	-	-	-	-
Change in foreign currency Translation loss	-	-	(81)	-	-	-	(81)
Balance December 31, 2009	$73,568	-	$ (125)	$ (91,329)	60,156	$(15)	$(6,959)

	Additional Paid-In Capital	Receivable for exercise of warrants	Other Comprehensive Income	Accumulated Deficit	Treasury Stock Shares	Amount	Total
Net loss	-	-	-	(10,923	-	-	(10,923
Stock based compensation	2,500	-	-	-	-	-	2,500
Conversion of Series B to common stock	-	-	-	-	-	-	-
Issuance of common stock for cash	3,084	-	-	-	-	-	4,012
Issuance of common stock for services	5,808	-	-	-	-	-	6,346
Exercise of Series B	(26)	-	-	-	-	-	-
Exercise of warrants	873	-	-	-	-	-	1,685
Issuance of Series B for cash	1,575	-	-	-	-	-	2,000
Issuance of Series B for services	149	-	-	-	-	-	441
Issuance of Common Stock for Note Payable	595	-					680
Series B issued for post-acquisition payment	-	-	-	-	-	-	400
Conversion of Series G to common stock	-	-	-	-	-	-	-
Receivable from warrants exercise	-	(250)	-	-	-	-	(250)

Change in foreign currency Translation loss	-	-	(18)	-	-	-	(18)	
Balance December 31, 2010	$ 88,126	(250)	$ (143)	$ (102,252)	60,156	$ (15)	$ (86)	

See notes to financial statements.

POSITRON CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2010 and 2009
(In thousands)

	2010	2009
Cash flows from operating activities:		
Net loss	$(10,923)	$(5,749)
Adjustments to reconcile net loss to net cash used in operating activities		
Derivative gains	(2,104)	(499)
Inventory reserve	269	-
Depreciation and amortization	43	14
Stock based compensation	2,500	258
Issuance of common stock for services	6,346	1,347
Preferred stock issued for services	441	90
Amortization of loan costs, debt discount and beneficial conversion feature	-	751
Preferred issued for post-acquisition contingent payment	400	-
Forgiveness of interest	(367)	-
Settlement of accounts payable	(986)	-
Forgiveness of accrued compensation	(103)	-
Changes in operating assets and liabilities:		
Accounts receivable	(440)	175
Inventories	(276)	172
Prepaid expenses	(28)	-
Deferred rent	(111)	-
Other current assets	-	(1)
Deposits	(2,484)	-
Other assets	(13)	
Accounts payable and accrued liabilities	(587)	372
Customer deposits	3,534	401
Unearned revenue	202	(676)
Net cash used in operating activities	(4,687)	(3,345)
Cash flows from investing activities:		
Purchase of property and equipment	(238)	(21)
Net cash used in provided by investing activities	(238)	(21)
Cash flows from financing activities:		
Payment of notes payable	(1,000)	-
Proceeds from exercise of warrants	1,435	-
Proceeds from notes payable	-	35
Payment of notes payable to related party	-	(48)
Advance from related party	(575)	-
Advance to affiliated entities	44	-
Common stock issued	4,012	1,933
Preferred stock issued	2,000	1,699
Deposit for unissued securities	-	(100)

Net cash provided by financing activities	5,916	3,519
Effect of exchange rate changes on cash and cash equivalents	(15)	5
Net increase in cash and cash equivalents	976	158
Cash and cash equivalents, beginning of year	165	7
Cash and cash equivalents, end of year	$1,141	$165
Supplemental cash flow information:		
Interest paid	$-	$-
Income taxes paid	$-	$-
Non-cash disclosures		
Payment of convertible notes payable and accrued interest with common stock	$680	$9
Conversion of Series B Preferred Stock to common stock	$1,337	$1,295
Conversion of Series G Preferred to Common Stock	$43	$49
Warrant receivable for issuance of preferred shares	$250	$-

See notes to financial statements

POSITRON CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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 in 1986. Positron Corporation operations include Molecular Imaging Devices, Automated Radiopharmaceutical Systems and Radiopharmaceuticals. The Molecular Imaging Devices portion of the business provides Positron Emission Tomography (PET) scanners and Single Photon Emission Computed Tomography (SPECT) cameras. The Automated Radiopharmaceutical System portion of the business offers the world's first robotic system for the preparation and dispensing of radiopharmaceuticals that provides unit dose radiopharmaceutical agents used in molecular imaging. The Radiopharmaceutical manufacturing protion of the business enables the Company to manufacture radiopharmaceuticals and radiochemicals at its cGMP facility. The Company's objective is to generate revenue by offering inexpensive molecular imaging devices, disease specific software, radiopharmaceutical preparation and dispensing, and radiopharmaceutical agents for nuclear medicine primarily in the field of cardiac nuclear medicine. The Company develops and manufactures its PET scanner through its' joint venture Neusoft Positron Medical Systems Co in Shenyang China. The PET system named Attrius® will 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. The Company's systems are used by physicians as diagnostic and treatment evaluation tools in the areas of cardiology, neurology and oncology. The Company develops and manufactures its automated radiopharmaceutiocal system at its headquarters in Fishers Indiana. This system named PosiRx™ will utilize the Company's patented and proprietary technology for the automates the elution, preparation and dispensing processes for radiopharmaceutical agents used in molecular imaging. It was created to simplify and control the procedures associated with compounding radiopharmaceuticals. PosiRx™ integrates features that increase productivity while decreasing exposure and costs. Our system provides molecular imaging departments with 24/7 unit dose accessibility, combined with the reliability of an on-site supply. Additionally, PosiRx™ assists in compliance with all current USP-797 requirements for the production of unit dose radiopharmaceuticals. Targeted markets include medical facilities, diagnostic centers and nuclear pharmay's located throughout the world. The Company also owns and operates a cGMP ready (current good manufacturing practices) facility in Crown Point, Indiana for the manufacturing of both radioactive and non-radioactive pharmaceutical products.

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. In October 2008, the Company closed the IPT facility in Canada. At December 31, 2010 and 2009, IPT continued to operate as a separate legal and accounting entity.

On June 5, 2008, the Company, and its wholly-owned subsidiary Positron Pharmaceuticals Company, a Nevada corporation ("Positron Pharmaceuticals"), executed and consummated a Stock Purchase Agreement to acquire all of the issued and outstanding stock (the "Acquisition") of Dose Shield Corporation, an Indiana corporation ("Dose Shield"). See Note 3.

Principles of Consolidation

For the years ended December 31, 2010 and 2009, the financial statements include the transactions of Positron Corporation and its wholly-owned subsidiaries. All intercompany transactions have been eliminated.

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 and their affiliation, as defined by FASB Codification Topic 850 are as follows:

Imagin Diagnostic Centres, Inc. owns or controls common and /or preferred shares of the Company and its CEO is a family member of the CEO. There were no transactions with this entity during 2010 or 2009.

Solaris Opportunity Fund owns or controls common and preferred shares of the Company and its managing member is the CEO of the Company. There were no transactions with this entity during 2010.

Imagin Molecular Corporation and its wholly-owned subsidiary Imagin Nuclear Partners had common officers and shareholders with the Company through June 3, 2010.

The Company has a 1% ownership interest in the joint venture Neusoft Positron Medical Systems ("Neusoft"). Both the Company and the joint venture's other partner, Neusoft Medical Systems purchase PET systems at a wholesale transfer price from Neusoft. The Company maintains one of five board seats on Neusoft's board. The Company currently accounts for its investment in Neusoft on the cost method and has no recorded value as of December 31, 2010 or 2009 based on prior losses of the Company.

Foreign Currency Translation

All assets and liabilities of IPT are translated from Canadian to United States dollars at period-end rates of exchange, while the statement of income is translated at the average exchange rates during the period. Accumulated translation adjustments are shown in equity under “Other comprehensive loss.”

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.

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 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 and Canada. The Company provides a reserve for accounts where collectability is uncertain. Collateral is generally not required for credit granted.

The Company outsources production of PET systems to a single contract manudfacturer, our joint venture partner.

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.
Management assesses the recoverability and establishes reserves of the various inventory components on a quarterly basis and is based on the estimated net realizable values of respective finished, in process and raw material inventories.

Property and Equipment

Property and equipment are recorded at cost and depreciated for financial statement purposes using the straight-line and declining balance methods 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 long-lived 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 record the impairment based on the fair market value of the assets, using techniques such as projected future discounted cash flows or third party valuations.

Income Taxes

Income taxes are accounted for under the liability method. Deferred income taxes are provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. Deferred taxes are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or the entire deferred tax asset will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of the enactment. We recognize tax benefits when we believe the benefit is more likely than not to be sustained upon review from the relevant authorities. We recognize penalties and interest expense related to unrecognized tax benefits in income tax expense.

Revenue Recognition

The Company's revenues are currently derived from the sale of medical equipment products, maintenance contracts and service revenues. Revenues from maintenance contracts are recognized over the term of the contract. Service revenues are recognized upon performance of the services. The Company recognizes revenues from the sale of medical equipment products when earned. Specifically, revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred (or services have been rendered), the price is fixed or determinable, and collectibility is reasonably assured. The Company obains a signed customer acceptance after installation is complete for the sale of its Attrius® PET systems.

In September 2009, the Financial Accounting Standards Board ("FASB") amended the accounting standards related to revenue recognition for arrangements with multiple deliverables and arrangements that include software elements ("new accounting principles"). The new accounting principles permit prospective or retrospective adoption, and the Company elected prospective adoption at the beginning of the third quarter of 2010.

Subsequent to the adoption of the new revenue accounting principles, for multiple-element arrangements entered into on or after July 1, 2010, revenue was allocated to each element based on their relative selling prices. Relative selling prices are based first on vendor specific objective evidence (VSOE), then on third-party evidence of selling price (TPE) when VSOE does not exist, and then on estimated selling price (ESP) when VSOE and TPE do not exist.

Because the Company has neither VSOE nor TPE for its products, the allocation of revenue has been based on the Company's ESPs. The objective of ESP is to determine the price at which the Company would transact a sale if the product was sold on a stand-alone basis. The Company determines ESP by considering the facts and circumstances of the product being sold.

Prior to July 1, 2010, revenues from system contracts and other nuclear imaging devices were recognized when all significant costs have been incurred and the system has been shipped to the customer and in certain cases after installation is complete. Revenues from maintenance contracts were recognized over the term of the contract. Service revenues were 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 2010 and 2009 were $133,338 and $81,000, respectively.

Research and Development Expenses

All costs related to research and development costs are charged to expense as incurred and include salaries and benefits, supplies and consulting expenses.

Stock Based Compensation

We recognize compensation expense for share-based awards using the fair value of the option at the time of the grant and amortizing the fair value over the estimated service period on the straight-line attribute method.

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 periods 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.

Recent Accounting Pronouncements

In October 2009, the FASB issued a new accounting standard which amends guidance on accounting for revenue arrangements involving the delivery of more than one element of goods and/or services. The standard amends the criteria for separating consideration in multiple-deliverable arrangements and establishes a selling price hierarchy for determining the selling price of a deliverable. The amendments will eliminate the residual method of allocation and require that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. The standard also significantly expands the disclosures related to a vendor's multiple-deliverable arrangement. The standard is effective on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Alternatively, adoption may be on a retrospective basis, and early application is permitted. The Company adopted this standard on July 1, 2010.

In April 2010, the FASB issued new accounting guidance to provide clarification on the classification of a share-based payment award as either equity or a liability. Under ASC 718, Compensation-Stock Compensation, a share-based payment award that contains a condition that is not a market, performance, or service condition is required to be classified as a liability. The amendments clarify that a share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, such an award should not be classified as a liability if it otherwise qualifies as equity. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. Earlier application is

permitted. The Company is evaluating the impact of this standard on our consolidated financial statements.

In May 2010, the FASB issued new guidance on the use of the milestone method of recognizing revenue for research and development arrangements under which consideration to be received by the vendor is contingent upon the achievement of certain milestones. The update provides guidance on the criteria that should be met for determining whether the milestone method of revenue recognition is appropriate. A vendor can recognize consideration in its entirety as revenue in the period in which the milestone is achieved only if the milestone meets all criteria to be considered substantive. Additional disclosures describing the consideration arrangement and the entity's accounting policy for recognition of such milestone payments are also required. The new guidance is effective for fiscal years, and interim periods within such fiscal years, beginning on or after June 15, 2010, with early adoption permitted. The guidance may be applied prospectively to milestones achieved during the period of adoption or retrospectively for all prior periods. The Company is evaluating the impact of this standard on our consolidated financial statements.

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

2. Going Concern Consideration

Since inception, the Company has expended substantial resources on research and development. Consequently, we have sustained substantial losses. Due to the limited number of systems sold or placed into service each year, revenues have fluctuated significantly from year to year and has not sold quantities that are sufficient to be operationally profitable. The Company had an accumulated deficit of $102,252,000 and a stockholders' deficit of $86,000 at December 31, 2010. The Company will need to increase system sales and apply the research and development advancements to achieve profitability in the future. We expect to experience an increase in sales with the 2010 launch of Attrius® Cardiac PET system and through sales from of radiopharmaceutical delivery systems and recurring revenue from delivery of radiopharmaceuticals. Through the Company's joint venture with Neusoft Medical Systems, PET system material cost of goods and labor costs will be significantly lower than previous models. The Company expects that these developments will have a positive impact on the sales and service volumes and increased net margins. However, there is no assurance that the Company will be successful in selling new systems.

During 2010, the Company utilized proceeds of $7,447,000 from issuance of equity securities to fund operating activities during the year ended December 31, 2010. The Company had cash and cash equivalents of $1,141,000 at December 31, 2010. At the same date, the Company had accounts payable and accrued liabilities of $803,000. Working capital requirements for the upcoming year may reach beyond our 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 3) meet current commitments and fund the continuation of its business operation in the near future and 4) raise additional funds through debt and/or equity financings.

3. Positron Pharmaceuticals – Dose Shield Acquisition

On June 5, 2008, the Company, and its wholly-owned subsidiary Positron Pharmaceuticals Company, a Nevada corporation ("Positron Pharmaceuticals"), executed and consummated a Stock Purchase Agreement to acquire all of the issued and outstanding stock (the "Acquisition") of Dose Shield Corporation, an Illinois corporation ("Dose Shield"). The purchase price of the Acquisition consisted of: 80,000,000 shares of the Registrant's common stock, par value $0.01 per share (the "Common Stock"), deliverable in two equal tranches, the first 40,000,000 shares at the closing, the second contingent upon verification by an independent third party that Dose Shield's Cardio-Assist device is deemed in commercially reasonable working order and is ready for resale not later than December 31, 2009; (ii) cash in the amount of $600,000, $60,000 paid at the closing and the balance due on December 31, 2008, which was extended for one year with interest at the rate of 8%; earn out payments through December 31, 2009 equal to the lesser of (x) 50% of the net revenue generated from sales of Pharm-Assist equipment, including receivables, or (y) $600,000. In addition, the Company is obligated to pay royalties equal to 1.5% of net revenues generated from all future sales of all Dose Shield equipment sold by Positron Pharmaceuticals following the Closing. Future royalty obligations would be expensed to operations as incurred. The Company made the final cash payment of $540,000 on May 4, 2010. Pursuant to the terms of the acquisition the Company also issued 400,000 shares of Series B Preferred shares (which are convertible into 40,000,000 shares of common stock) during 2010, and recorded $400,000 of expense in connection with the issuance of these shares.

53

The assets acquired and liabilities assumed included accounts receivable and deferred revenues from sales contracts that were executed by Dose Shield's majority shareholder NukeMed Corporation. NukeMed, acting as Dose Shield's sales and marketing agent, entered into several sales agreements for Nuclear Pharm -Assist™ systems. The agreements and all obligations were assigned to Positron Pharmaceuticals Company in the Acquisition. The Nuclear Pharm-Assist™ system is designed to support the staff of nuclear medicine departments and nuclear pharmacies. The Nuclear Pharm -Assist™ compounds kits, fills vials and syringes, assays vials and syringes and dispenses vial and syringes in a shielded container. The unique design reduces worker radiation exposure and repetitive motion injuries. The shielding is integrated into the design and is considered standard.

In addition, John Zehner, Dose Shield's former principal shareholder and executive officer executed a three year employment agreement with the Registrant to serve as president of Positron Pharmaceuticals. John Zehner resigned during 2010.

During the year ended December 31, 2009, the Company, pursuant to the terms of the Stock Purchase Agreement the Company recorded $69,000 of accrued commissions which represents 50% of net revenue generated from sales of all Pharm-Assist equipment and royalty expense royalty on sales of equipment acquired from Dose Shield totalling $2,100. These amounts were paid in 2010, and no further expenses were incurred by the Company pursuant to the Stock Purchase Agreement in 2010.

4. Deposits – Attrius® systems

At December 31, 2010, the Company had $2,484,000 in purchase orders paid to our joint venture partner, Neusoft Positron Medical Systems Co., Ltd., ("Neusoft") for Attrius® systems for which the Company has sales contracts on ten Attrius® systems.

The amounts the Company pays our joint venture partner to manufacture Attrius® systems varies depending on the specifications of the machine. We pay our joint venture partner 30% of the agreed upon price upon order placement and 70% of the agreed upon price at shipment of the Attrius® system.

Revenue from sales of of Attrius® Cardiac PET systems are recognized on a gross basis because the sale of the Attrius® product meets the various requirements identified in Topic 605-45-45, including:

1) The Company is the primarily obligor in the arrangement. All sales agreements are between the Company and the buyer and the Company is responsible for delivery and performance of the machines.
2) The Company has full responsibility for any returned products from customers and has general inventory risk.
3) The Company has complete authority over establishing the price of the individual units of our sales agreements and has full credit risk with regards to collection.
4) All machines are installed and serviced by the Company.
5) All machines acquired from our joint venture partner are sold FOB shipping point.

5. Inventories

Inventories at December 31, 2010 and 2009 consisted of the following (in thousands):

	2010	2009
Finished systems	$ 120	$ 120
Raw materials and service parts	379	388
Work in progress	490	205
	989	713

Less: Reserve for obsolete inventory	(367)	(98)
	$ 622	$ 615

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 PET/CT 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. NPMS , has developed the PET imaging system to accommodate the growing need by cardiologists for competitively priced, high quality molecular imaging devices in today’s challenging economy. The Attrius® Cardiac PET system is manufactured by NPMS and sold by the Company.

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 initially represented 32.5% of the total registered capital of the Company, or US$ 650,000, of which US$ 250,000 was made in cash, and US$ 400,000 was made in the form of a technology license. The Company has transferred to the JV Company certain of its PET technology, while Neusoft made available to the JV Company certain CT technology for the development and production of an integrated PET/CT system. Initially, the Company accounted for its investment in NPMS under the equity method of accounting and shared 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. During 2007 the Company’s investment was written down to zero as a result of losses in NPMS. The Company’s ownership of the JV Company was diluted to 10% as a result of additional cash contributions by Neusoft in 2008. The Company’s ownership in NPMS was further diltuted to 1% in 2009. Therefore the equity method of accounting is no longer applicable.

7 Property and Equipment

Property and equipment at December 31, 2010 and 2009 consisted of the following (in thousands):

	2010	2009
Furniture and fixtures	$ 21	$ 5
Leasehold improvements	19	26
Computer equipment	55	20
Machinery and equipment	214	20
	309	71
Less: Accumulated depreciation	(58)	(15)
	$ 251	$ 56

8. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at December 31, 2010 and 2009 consisted of the following (in thousands):

	2010	2009
Trade accounts payable	$ 452	$ 1,734
Accrued royalties	87	235

Accrued interest	-	724
Sales taxes payable including interest and penalty	9	183
Accrued compensation	42	214
Accrued property taxes	1	37
Accrued professional fees	33	2
Other accrued expenses	179	-
Accrued commissions	-	71
Total	$ 803	$ 3,200

9.Customer Deposits

Customer deposits represent amounts paid to the Company by customers for devices in advance of manufacturing completion and/or shipment of the device to the customer. Deposit amounts may vary depending on the contract. Included in customer deposit at December 31, 2010 were deposits of approximately $669,000 from a customer that had placed an order in 2007 for five Nuclear Pharm-Assist™ systems. As of the date of this report, there can be no assurance that this customer will fulfill its order for these devices.

Also, included in customer deposits at December 31, 2010, are $3,534,000 deposits on ten Attrius® Cardiac PET systems sales orders. During 2010, the Company obtained fifteen (15) signed contracts for Attrius® Cardiac PET systems, of which five (5) were delivered and installed for customers during 2010 and ten (10) will be delivered when complete.

Our customer sales contracts require our customers to pay the Company 30% upon signing the contract, 60% upon notification to ship, and the remaining 10% after customer acceptance.

10. Secured Convertible Notes Payable

Pursuant to the terms of a Securities Purchase Agreement, 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. On May 23, 2006, the Company issued the Investors 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. The remaining $700,000 of Debentures were not issued. The convertible debentures were convertible into the common stock of the Company in accordance with the Agreements. The Company also issued to the private 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. At December 31, 2009, the carrying amount of these convertible debentures was $1,323,000 plus accrued interest of approximately $724,000.

On July 28, 2010, the Company entered into a Settlement Agreement and Mutual Release with the Investors whereby the Company and the Investors settled any and all claims against each other and all obligations under the Debentures were satisfied in exchange for the payment of $1,000,000 in cash and the issuance of 8,500,000 shares of Common Stock at a fair market value of $680,000 both of which were paid in July 2010. The Company recorded a $367,000 gain on settlement in connection with the Settlement Agreement and Mutual Release. Also, upon settlement of the Debentures, the Company reduced the entire amount of the $2,104,000 derivative liability and recognized a derivative gain in other income.

11. Stock Options and Warrants

Options

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, 2009, a total of 24,450,000 options have been granted under the 2005 Plan, none of which have been exercised, and of which 24,450,000 were fully vested. At December 31, 2010, there are no common stock options outstanding. Effective January 2010, the 2005 Plan has been terminated, no further options will be granted.

2008 Stock Incentive Plan

Positron's Board of Directors (the “Board”) administers the 2008 Stock Incentive Plan ("2008 Plan"), which was adopted by the Board effective July 28, 2008. The purpose of the 2008 Plan is to advance the interests of the Company’s stockholders by enhancing the Company’s ability to attract, retain and motivate persons who are expected to make important contributions to the Company and by providing such persons with equity ownership opportunities and performance-based incentives that are intended to better align their interests with those of the Company’s stockholders. The 2008 Plan provides for the direct issuance of Awards including stock options, restricted stock awards and unrestricted stock awards. All of the Company’s employees, officers and directors (including persons who have entered into an agreement with the Company under which they will be employed by the Company in the future), as well as all of the Company’s consultants and advisors that are natural persons, are eligible to the awards under the 2008 Plan. 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 6,000,000 shares of Common Stock have been authorized for issuance under the 2008 Plan. . As of December 31, 2010, all shares had been issued under the 2008 Plan.

2009 Stock Incentive Plan

Positron's Board of Directors (the “Board”) administers the 2009 Stock Incentive Plan ("2009 Plan"), which was adopted by the Board effective September 22, 2009. The purpose of the 2009 Plan is to advance the interests of the Company’s stockholders by enhancing the Company’s ability to attract, retain and motivate persons who are expected to make important contributions to the Company and by providing such persons with equity ownership opportunities and performance-based incentives that are intended to better align their interests with those of the Company’s stockholders. The 2009 Plan provides for the direct issuance of Awards including stock options, restricted stock awards and unrestricted stock awards. All of the Company’s employees, officers and directors (including persons who have entered into an agreement with the Company under which they will be employed by the Company in the future), as well as all of the Company’s consultants and advisors that are natural persons, are eligible to the awards under the 2009 Plan. 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 10,000,000 shares of Common Stock have been authorized for issuance under the 2009 Plan. As of December 31, 2010, 5,000,000 shares had been issued under the 2009 Plan.

2010 Equity Incentive Plan

Positron's Board of Directors (the “Board”) administers the 2010 Equity Incentive Plan ("2010 Plan"), which was adopted by the Board effective March 25, 2010. The purpose of the 2010 Plan is to advance the interests of the Company’s stockholders by enhancing the Company’s ability to attract, retain and motivate persons who are expected to make important contributions to the Company and by providing such persons with equity ownership opportunities and performance-based incentives that are intended to better align their interests with those of the Company’s stockholders. The 2010 Plan provides for the direct issuance of Awards including stock options, restricted stock awards and unrestricted stock awards. All of the Company’s employees, officers and directors (including persons who have entered into an agreement with the Company under which they will be employed by the Company in the future), as well as all of the Company’s consultants and advisors that are natural persons, are eligible to the awards under the 2010 Plan. 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 50,000,000 shares of Common Stock have been authorized for issuance under the 2010 Plan. As of December 31, 2010, 40,000,000 shares had been issued under the 2010 Plan.

57

A summary of common stock option activity is as follows:

	Shares Issuable Under Outstanding Options	Price Range or Weighted Average Exercise Price
Balance at December 31, 2008	19,425,000	$ 0.06
Granted	7,250,000	$ 0.05-0.085
Forfeited	-	-
Exercised	(30,000)	$ .02
Balance at December 31, 2009	26,645,000	$ 0.06
Granted	-	-
Expired/forfeited	(26,645,000)	$ .02-.119
Exercised	-	-
Balance at December 31, 2010	-	$ -

Following is a summary of common stock options outstanding at December 31, 2010 and 2009.

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Shares	Weighted Average Remaining Term (in Years)	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Balance at 12/31/2010	-	-	$ -	-	$ -
Balance at 12/31/2009	26,645,000	1.73	$ 0.06	26,645,000	$ 0.06

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.

During the year ended December 31, 2009, the Company granted 7,250,000 common stock options to employees and consultants with exercise prices ranging between $0.05 and $0.085 per share. For the year ended December 31, 2009, the Company recorded compensation expense of $256,926 related to common stock option grants. Fair market value using the Black-Scholes option-pricing model for the year ended December 31, 2009 was determined using the following assumptions:

Expected life (years)	5
Risk free rate of return	2.125%
Dividend yield	0
Expected volatility	327%

In January 2010 the Company granted certain employees options to purchase 2,500,000 shares of Series B Preferred stock at an exercise price of $1.00 per share (the “Preferred Options”.) The options vest immediately and have a term of four years. Accordingly, in January 2010 the Company recorded compensation expense of $2,500,000 for the Preferred Option grants. Fair market value using the Black-Scholes option-pricing model was determined using the following assumptions:

Expected life (years)	4
Risk free rate of return	2.5%
Dividend yield	0
Expected volatility	378%

Warrants

In March 2010, the Company received proceeds of $249,975 from the sale of 10,000,000 shares of common stock. In connection with the sale of common stock, the Company issued 15,000,000 warrants for the purchase of a share of common stock at an exercise price of $0.03 per share exercisable until March 31, 2012. The warrants were valued using the Black-Scholes option pricing model with the following assumptions: stock price on the measurement date of $0.04-$0.05; expected volatility of 262%; and discount rate of 0.97-1.04% . The proceeds were allocated as follows:

Common stock	$111,468
Warrants	138,507
Total proceeds	$249,975

In April 2010, the Company received proceeds of $2,314,888 from the sale of 89,075,004 shares of common stock. In connection with the sale of common stock, the Company issued 107,416,671 warrants for the purchase of a share of common stock at an exercise price of $0.03 per share exercisable until March 31, 2012. The warrants were valued using the Black-Scholes option pricing model with the following assumptions: stock price on the measurement date of $0.04-$0.26; expected volatility of 279%; and discount rate of 0.98-1.08% . The proceeds were allocated as follows:

Common stock	$1,090,641
Warrants	1,224,247
Total proceeds	$2,314,888

In May 2010, the Company received proceeds of $929,975 from the sale of 32,333,334 shares of common stock. In connection with the sale of common stock, the Company issued 32,333,334 warrants for the purchase of a share of common stock at an exercise price of $0.03 per share exercisable until March 31, 2012. The warrants were valued using the Black-Scholes option pricing model with the following assumptions: stock price on the measurement date of $0.12-$0.20; expected volatility of 285%; and discount rate of 0.81-1.00% . The proceeds were allocated as follows:

Common stock	$481,014
Warrants	448,961
Total proceeds	$929,975

During the year ended December 31, 2009, the Company issued 29,500,000 shares of common stock to unrelated investors for cash of $710,000. In connection with certain common shares issued, the Company issued warrants to purchase four shares of Series B Preferred stock for $2, each share of Series B is convertible into 100 shares of common stock wirh a December 31, 2010 expiration date. The warrants were valued using the Black Scholes Valuation Method. The fair value of the warrants of $39,264 has been recorded as additional paid in capital. Additionally, in connection with certain common shares issued, the Company issued warrants to purchase 22,000,000 shares of common stock at an exercise price of $0.02 per share. The warrants were valued using the Black Scholes Valuation Method. The fair value of these warrants on the issue date was approximately $900,000.

During the year ended December 31, 2009, the Company issued 1,332,000 shares of Series B Preferred Stock to unrelated investors for cash of $1,449,000. In connection with certain preferred shares issued, the Company issued 825,000 warrants to purchase shares of Series B Preferred stock at an exercise price of $2.00 per share. Each share of Series B is convertible into 100 shares of common stock. The warrants expired in on December 31, 2010. The warrants were valued using the Black Scholes Valuation Method. The fair value of the warrants of $372,779 has been recorded as additional paid in capital.

A summary of warrant activity based on common stock equivalents is as follows:

	Number of Shares	Exercise Price	Weighted Average Exercise Price
Balance at December 31, 2008	60,587,500		$ 0.10
Warrants expired	(5,625,000)	$ 0.10-0.25	$ 0.05
Warrants issued with Series B Preferred stock in private placement	135,500,000	$ 0.02	$ 0.02
Balance at December 31, 2009	190,462,500		.05
Warrants exercised	(115,366,700)	0.02-0.03	
Warrants expired	(41,512,467)	$ 0.02-0.10	$
Warrants issued with common and Series B Preferred stock in private placement	162,250,005	$ 0.03	$ 0.03
Balance at December 31, 2010	195,833,338	$ 0.02-0.15	$ 0.06

All outstanding warrants are currently exercisable. A summary of outstanding common stock warrants at December 31, 2010 follows:

Number of Common Stock Equivalents	Expiration Date	Remaining Contractual Life (Years)	Exercise Price
4,000,000	(a)	--	$ 0.02
1,250,000	March 2011	.25	$ 0.02
30,000,000	May 2013	2.4	$ 0.15
160,583,338	March 2012	1.25	$ 0.03
195,833,338			

(a) Warrants expire six months after the date on which a registration statement is filed and accepted by the Securities Exchange Commission permitting a sale of the shares issuable upon exercise of the warrant.

12. Preferred Stock

The Company's Articles of Incorporation, as amended 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. Out of the 10,000,000 shares of preferred, the Board designated 3,000,000 shares Series G Preferred Stock on April 4 2006, and designated 100,000 shares Series S Preferred Stock on September 25, 2008. 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.

At December 31, 2010, there were 457,599 shares of Series A Preferred Stock outstanding.

Series B Preferred Stock

On September 30, 2006 the Board of Directors authorized a 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, 2010, 6,668,444 shares of Series B Preferred Stock were outstanding.

Series G Preferred Stock

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. 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, 2010, 19,200 shares of Series G Preferred Stock were outstanding.

Series S Preferred

On November 7, 2008 the Board of Directors authorized a new series of preferred stock designated Series S Convertible Preferred Stock. The number of shares authorized was 100,000. Each share of Series S Convertible Preferred Stock, $1.00 par value per share, is convertible into 10,000 shares of the Company's Common Stock, subject to adjustment The Series S Preferred Stock is senior to the Company's Common Stock and junior in priority to the Company's A, B and G Preferred Stock in liquidation. Holders of the Series S Preferred Stock are entitled to 10,000 votes per share on all matters requiring shareholder vote. While Series S Preferred Stock is outstanding no Common Stock dividends may be paid or declared by the Company.

On November 18, 2008, the Company, Solaris Opportunity Fund, L.P. and Imagin Molecular Corporation executed and consummated a Securities Exchange Agreement whereby Imagin transferred and assigned all of its rights title and interest to Note 1, Note 2 and the Pledged Shares (see "Amounts Due To Related Parties" in note 13) to Solaris in exchange for the return of the 20,000,000 shares of Imagin's common stock and 4,387,500 shares of Imagin's Series A Preferred Stock, to be retired and cancelled on Imagin's books and records and the retirement and satisfaction of any obligations to the advances made in the amount of $200,000 to Imagin by Solaris. Simultaneously therewith, Solaris exchanged Note 1, Note 2 and the Pledged Shares and the retirement and satisfaction of any obligations to the advances made to the Company in the aggregate amount of $1,195,000 for the issuance of 100,000 shares of the Company's Series S Preferred Stock.

As of December 31, 2010, 100,000 shares of Series S Convertible Preferred Stock were outstanding.

13. Shares Issued for Services

In accordance with ASC 718 Compensation – Stock Compensation, the Company values shares issued for services by using the fair value of the shares provided for the services at the earlier of (1) the date at which a "commitment for performance" by the counterparty is reached, or (2) the date at which the counterparty's performance is complete.

During the year ended December 31, 2010, the Company granted 53,725,000 common and 291,777 Series B preferred shares to consultants for services and recorded compensation expense of $6,346,000 and $441,000, respectively during the year ended December 31, 2010.

During the year ended December 31, 2009, the Company granted 25,474,140 common shares and 89,860 Series B preferred shares to consultants for services and recorded compensation expense of $258,000 and $90,000, respectively during the year ended December 31, 2009.

14. Other Income

For the year ended December 31, 2010 the Company recorded other income of $1,460,000 which resulted from the forgiveness of debt and other liabilities pursuant to settlement agreements between the Company and certain debtors. The following summarizes the debt forgiven (in thousands):

Accrued interest on convertible debentures	$	367
Trade accounts payable – closed Canadian operation		985
Accrued compensation – closed Canadian operation		103
Other		5
	$	1,460

15. Income Taxes

The Company has incurred losses since its inception and, therefore, has not been subject to federal income taxes. As of December 31, 2010, the Company had domestic net operating loss ("NOL") carryforwards for income tax purposes of approximately $40,000,000, which expire in 2011 through 2032. Under the provisions of Section 382 of the Internal Revenue Code greater than 50% ownership changes that occurred in the Company may significantly limit the Company's ability to utilize its NOL carryforwards to reduce future taxable income and related tax liabilities.

Section 382 allows an owner shift any time there is a transfer of stock by a person who directly, or indirectly, owns more than 5% of the corporation and the percentage of stock of the corporation owned by one or more five percent shareholders has increased, in the aggregate, by more than 50 percentage points over the lowest percentage of stock owned by such shareholders at any time during the "testing period." The "testing period" is generally a three-year period ending on the date of any owner or equity structure shift.

The amount of post-change income that may be offset by pre-change losses is limited each year by the "Section 382 Limitation." Generally, the Section 382 Limitation is an amount equal to the value of the old loss corporation multiplied by a long-term interest rate established monthly by the Internal Revenue Service. The Company has not yet determined the qualifying events and resulting limitation that may impact utilization of net operating losses against future periods.

The composition of deferred tax assets and the related tax effects at December 31, 2010 and 2009 are as follows (in thousands):

	2010	2009
Deferred tax assets:		
Domestic net operating losses	$ 14,517	$ 10,062
Stock option compensation	850	375
Accrued liabilities and reserves	169	400
	15,536	10,837
Valuation allowance	(15,536)	(10,837)
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):

	2010		2009	
	Amount	%	Amount	%
Benefit for income taxes at federal statutory rate	$ 3,714	34.0%	$ 1,954	34.0%
Derivative gains	715	6.5	170	3.0
Discount amortization and other	-	-	(316)	(5.5)
Change in valuation allowance	(4,429)	(40.5)	(1,808)	(31.5)
	$ --	--%	$ --	--%

16. 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 allows for the Company to make discretionary 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 2010 and 2009. The Board of Directors of the Company may authorize additional discretionary contributions; however, no such contributions were made by the Company in 2010 or 2009.

17. Related Party Transactions

Due from affiliates at December 31, 2010 and 2009 consisted of the following (in thousands):

	2010	2009
IMGM	$ -	$ 64
NPMS	-	5
Total	$ -	$ 69

The receivables from IMGM and MPMS were written off in 2010 as they were deemed uncollectible.

During the year ended December 31, 2010, the Company paid $200,000 of consulting fees to a related party entity.

During the year ended December 31, 2010, the Company recognized cost of revenues of $3,184,282 related to the purchase of Attrius® PET systems from Neusoft, the Company's joint venture and recorded deposits totaling $2,484,000 from Neusoft.

In October 2009, the Company purchased a used machine from IMGM in the amount of $245,000. The Company incurred additional direct shipping and refurbishment expenses of approximately $33,000 and sold the machine to an unrelated party for $350,000.

During 2010, the Company entered into a four year operating lease with a Company owned by a Company executive for additional administrative offices in Westmont, Illinois. During 2010, the Company paid $136,060 of costs in connection with this lease (consisting of $50,000 cash payment to the related party and $86,060 of build-out expenses all of which are being amortized over the four year lease term at $2,835/month. Additionally, the Company shall be responsible for maintenance, operating expenses and property taxes. No further rent payments are required under the lease agreement by the Company.

In December 2009, the Company issued 53,000 and 40,000 shares of Series B Preferred shares to Solaris Opportunity Fund and Solaris Management Fund, respectively, as settlement of notes payable of approximately $93,000.

Key Employee Incentive Compensation

The Company has an incentive compensation plan for certain key employees and its Board of Directors. The incentive compensation plan provides for annual bonus payments based upon achievement of certain corporate objectives as determined by the Company's Board of Directors.

18. Commitments and Contingencies

Lease Agreements

We have operating leases for various offices and operating facilities in the United States. Rent expense was $97,397 and $43,057 for the years ended December 31, 2010 and 2009, respectively. Future minimum rental commitments under noncancellable facilities operating leases in place are as follows as of December 31, 2010:

Year Ending December 31,		
2011	$	124,725
2012		116,400
2013		105,500
2014		96,000
2015 and Thereafter		72,000
Total	$	514,625

19. 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)	
	2010	2009
Numerator:		
Basic and diluted net loss:	$ (10,923)	$ (5,749)
Denominator:		
Denominator for basic earnings per share-weighted average shares	713,463	239,033
Effect of dilutive securities		
Convertible Preferred Stock	--	--
Stock Warrants	--	--
Stock Options	--	--
Denominator for diluted earnings per share-adjusted weighted average shares and assumed conversions	713,463	239,033
Basic and diluted loss per common share	$ (0.02)	$ (0.02)

All common stock equivalents in the years ended December 31, 2010 and 2009 were excluded from the above calculation as their effect was anti-dilutive.

Anti-dilutive securities (based on conversions to common shares) not included in net loss per share calculation (in thousands):

	2010	2009
Convertible Series A Preferred Stock	457	457
Convertible Series B Preferred Stock	666,844	672,942
Convertible Series G Preferred Stock	1,920	6,239
Convertible Series S Preferred Stock	1,000,000	1,000,000
Stock Warrants	206,083	190,462
Stock Options	-	26,645

20. Selected Quarterly Financial Data (Unaudited) (in thousands, except per share data)

	Quarter ended			
	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010
Net sales	$ 467	$ 934	$ 1,013	$ 2,209
Gross profit (loss)	284	15	(113)	(127)
Net income (loss)	(3,265)	(6,393)	294	(1,559)
Net loss per share – basic and diluted	$ (0.01)	$ (0.01)	$ (0.00)	$ (0.00)
Weighted average basic and diluted shares	410,371	579,529	755,595	780,522

	Quarter ended			
	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009
Net sales	$ 367	$ 334	$ 188	$ 557
Gross profit (loss)	128	135	(121)	(15)
Net loss	(746)	(929)	(1,189)	(2,885)
Net earnings (loss) per share – basic and diluted	$ (0.00)	$ (0.00)	$ (0.01)	$ (0.01)
Weighted average basic and diluted shares	170,733	199,909	225,838	357,608

21. Segments

The Company is made up of two segments based on its proprietary technologies – medical devices (including PET imaging devices and dose delivery systems) and radiopharmaceutical products. Our radiopharmaceutical products are currently in the very early stage of development. The radiopharmaceutical products segment did not meet the quantitative thresholds necessary to report the operating segments separately during the year ended December 31, 2010.