

ICAD INC  
Form 10-K/A  
April 30, 2007

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

FORM 10-K/A  
(Amendment No. 1)

(Mark One)

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

For the fiscal year ended December 31, 2006

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 1-9341

iCAD, Inc.

---

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction  
of incorporation or organization)

02-0377419  
(I.R.S. Employer Identification No.)

98 Spit Brook Road, Suite 100, Nashua, New Hampshire  
(Address of principal executive offices)

03062  
(Zip Code)

Registrant's telephone number, including area code: (603) 882-5200

Securities registered pursuant to Section 12(b) of the Act:

Title of Class  
Common Stock, \$.01 par value

Name of each exchange on which registered  
The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12 (g) of the Act:

None

---

Edgar Filing: ICAD INC - Form 10-K/A

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 requirement for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated filer

Accelerated filer

Non-accelerated filer

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, based upon the closing price for the registrant's Common Stock on June 30, 2006 was \$47,369,481.

As of April 25, 2007, the registrant had 38,026,591 shares of Common Stock outstanding.

Documents Incorporated by Reference: None

---

**EXPLANATORY NOTE**

This Amendment No. 1 on Form 10-K/A (the “Amendment”) amends the Annual Report on Form 10-K of iCAD, Inc. for the fiscal year ended December 31, 2006, originally filed with the Securities and Exchange Commission on March 22, 2007 (the “Original Filing”). We are filing this Amendment to amend Part III of the Original Filing to include the information required by and not included in Part III of the Original Filing because we no longer intend to file our definitive proxy statement within 120 days of the end of our fiscal year ended December 31, 2006 and the cover page of the Amendment reflects this fact. In connection with the filing of this Amendment and pursuant to the rules of the Securities and Exchange Commission, we are including with this Amendment certain new certifications by our principal executive officer and principal financial officer. Accordingly, Item 15 of Part IV has also been amended to reflect the filing of these new certifications.

Except as described above, no other changes have been made to the Original Filing. The Original Filing continues to speak as of the date of the Original Filing, and we have not updated the disclosures contained therein to reflect any events which occurred at a date subsequent to the filing of the Original Filing other than as expressly indicated in this Amendment. In this Amendment, unless the context indicates otherwise, the terms “Company,” “we,” “us,” and “our” refer to iCAD, Inc. and its subsidiaries. Other defined terms used in this Amendment but not defined herein shall have the meaning specified for such terms in the Original Filing.

---

**PART III****Item 10. Directors, Executive Officers and Corporate Governance.**

The following is information with respect to our executive officers and directors.

<b>Name</b>	<b>Age</b>	<b>Position with iCAD</b>	<b>Since</b>
Robert Howard #	83	Chairman of the Board, and Director	1984
Kenneth Ferry+	53	President, Chief Executive Officer, and Director	2006
Darlene Deptula-Hicks	49	Executive Vice President of Finance, Chief Financial Officer and Treasurer	2006
Jeffrey Barnes	44	Senior Vice President of Sales	2006
Stacey Stevens	38	Senior Vice President of Marketing and Strategy	2006
Jonathan Go	44	Senior Vice President of Research and Development	2006
Rachel Brem#	48	Director	2004
George Farley+	68	Director	2004
James Harlan*	55	Director	2000
Lawrence Howard#	54	Director	2006
Steven Rappaport +	58	Director	2006
Maha Sallam*	40	Director	2002
Elliot Sussman*	55	Director	2002

+ Class I Director, current term expires in 2009

\* Class II Director, current term expires in 2007

# Class III Director, current term expires in 2008

The Company's Certificate of Incorporation provides that the Company's Board of Directors is divided into three classes (Class I, Class II and Class III). At each Annual Meeting of stockholders, directors constituting one class are elected for a three-year term.

*Robert Howard*, the founder and Chairman of the Board of Directors of the Company, a non-executive position, is the co-founder and has served since March 2007 as the Chairman of the Board and Chief Executive Officer of America Hears, Inc., a manufacturer and distributor of digital hearing aids. Mr. Howard was Chief Executive Officer of the Company from its establishment in 1984 until December of 1993. He was the founder, and from 1969 to April 1980 he served as President and Chairman of the Board, of Centronics Data Computer Corp. ("Centronics"), a manufacturer of a variety of computer printers, including the first impact dot matrix printer, which was invented by Mr. Howard. He resigned from Centronics' board of directors in 1983. From April 1980 until 1983, Mr. Howard was principally engaged in the management of his investments. Commencing in mid-1982, Mr. Howard, doing business as R.H. Research, developed the ink jet technology upon which the Company was initially based and he contributed this technology, without compensation, to the Company. Mr. Howard was Chairman of the Board of Presstek, Inc. ("Presstek"), a public company which has developed proprietary imaging and consumables technologies for the printing and graphic arts industries, from July 1988 to September 1998 and served as Chairman Emeritus of the Board of Presstek from September 1998 to December 2000. Mr. Howard was Chairman of the Board of Ionatron, Inc. ("Ionatron"), a public company involved in the development and marketing of directed energy weapon technology and products that include direct energy weapons for defense and security customers primarily in the U.S. Government, from its inception in 2002 until he resigned as its Chairman and a director in March 2006. Mr. Howard is the father of Lawrence Howard, a member of the Company's Board.



*Kenneth Ferry* has served as a Director and the Company's President and Chief Executive Officer since May 2006. He has over 25 years of experience in the healthcare technology field, with more than 10 years experience in senior management positions. Prior to joining the Company, from October 2003 to May 2006, Mr. Ferry was Senior Vice President and General Manager for the Global Patient Monitoring business for Philips Medical Systems, the market leader in a \$2.5 billion industry. In this role he was responsible for Research & Development, Marketing, Business Development, Supply Chain and Manufacturing, Quality and Regulatory, Finance and Human Resources. From August 2001 to October 2003, Mr. Ferry served as Senior Vice President for Philips Medical Systems Division. From 1983 to 2001, Mr. Ferry served in a number of management positions with Hewlett Packard and Agilent Technologies, Inc.

*Darlene Deptula-Hicks* has served as the Company's Executive Vice President of Finance and Chief Financial Officer and Treasurer since September 2006. She has more than 25 years experience in financial management within the medical device and high technology industries. Prior to joining the Company, from January 2002 to February 2006, Ms. Deptula-Hicks served as Executive Vice President and Chief Financial Officer and Treasurer of ONI Medical Systems, Inc., a venture capital-backed designer and manufacturer of high-field diagnostic imaging systems. From 1998 to 2001, Ms. Deptula-Hicks was Executive Vice President and Chief Financial Officer and Treasurer of Implant Sciences Corporation, an early stage medical device company that had its initial public offering in June of 1999. Ms. Deptula-Hicks led the pre-IPO and post-IPO activities for the company. Ms. Deptula-Hicks has also held various senior financial and accounting positions at Abiomed, Incorporated; GCA Corporation; Edwards High Vacuum International and Puritan Bennett Corporation. Ms. Deptula-Hicks also currently serves on the Board of Directors and as Chair of the Audit Committees of Technest Holding, Inc., a public defense and homeland security company and IMCOR Pharmaceutical Company, a public biotech company.

*Jeffrey Barnes* has served as the Company's Senior Vice President of Sales since May 2006. For the 17 years prior to joining the Company Mr. Barnes served in a variety of sales and marketing management positions with Philips Medical Systems, Agilent Technologies, Inc. and Hewlett Packard Healthcare Solutions Group (which was acquired in 2001 by Philips Medical Systems). From November 2002 to April 2006 he was Vice President Sales and National Sales Manager for Cardiac Resuscitation Solutions at Philips Medical Systems, where he worked closely with iCAD's Chief Executive Officer, Kenneth Ferry. Mr. Barnes was responsible for sales and service operations at Philips' market-leading defibrillation field organization. From May 2000 to November 2002, Mr. Barnes served as Vice President of Marketing, Americas, for the Cardiac and Monitoring Systems unit of Hewlett-Packard /Agilent and Philips Medical Systems. He was responsible for all marketing activities and certain direct sales activities for the North and South American field operation.

*Stacey Stevens* has served as the Company's Senior Vice President of Marketing and Strategy since June 2006. During the past 16 years, Ms. Stevens has served in a variety of sales, business development, and marketing management positions with Philips Medical Systems, Agilent Technologies, Inc. and Hewlett Packard's Healthcare Solutions Group (which was acquired in 2001 by Philips Medical Systems). From February 2005 until joining the Company she was Vice President, Marketing Planning at Philips Medical Systems, where she was responsible for the leadership of all global marketing planning functions for Philips' Healthcare Business. From 2003 to January 2005, she was Vice President of Marketing for the Cardiac and Monitoring Systems Business Unit of Philips where she was responsible for all marketing and certain direct sales activities for the America's Field Operation. Prior to that, Ms. Stevens held several key marketing management positions in the Ultrasound Business Unit of Hewlett-Packard/Agilent and Philips Medical Systems.

*Jonathan Go* has served as the Company's Senior Vice President of Research and Development since October 2006. Mr. Go brings more than twenty years of software development experience in the medical industry to his position with the Company. From February 1998 to May 2006, Mr. Go served as Vice President of Engineering at Merge eMed, a provider of RIS/PACS solutions for imaging centers, specialty practices and hospitals. At Merge eMed, Mr. Go was responsible for software development, product management, testing, system integration and technical support for all of eMed's products. From July 1986 to January 1998, Mr. Go held various development roles at Cedara Software in Toronto culminating as Director of Engineering. Cedara Software is focused on the development of custom engineered software applications and development tools for the medical imaging OEMs. At Cedara Mr. Go built the workstation program, developing multiple specialty workstations that have been adopted by a large number of OEM partners.

*Dr. Rachel Brem* is currently the Director of Breast Imaging and Intervention, Professor of Radiology and the Vice-Chairman in the Department of Radiology at The George Washington University Medical Center, positions she has held since 2000. From 1991 to 1999 Dr. Brem was previously the Director of Breast Imaging at the John Hopkins Medical Institution. Dr. Brem's research includes Minimally Invasive Breast Biopsy, New Technologies for the Earlier Diagnosis of breast cancer including Computer Aided Detection, as well as Nuclear Medicine Imaging of the Breast and Electrical Impedance Imaging of the Breast.

*George Farley*, a Certified Public Accountant, is currently a financial consultant, a position he has held since August 1999. From November 1997 to August 1999 Mr. Farley served as Chief Financial Officer and Director for Talk America, Inc (formerly Talk.com, Inc.), a communications services provider. He previously held the position as National Director, Managing Partner of BDO Seidman, LLP, where he specialized in Capital Formation and Mergers and Acquisitions. In addition to his service as director at Talk America, he has held directorships at Preserver Insurance Company, Inc., and Acorn Holding Corp., and is currently a director of Ionatron.

*James Harlan* was the founder and has been the Executive Vice President and Chief Financial Officer of HNG Storage Company, a natural gas storage, development and operations company since 1998. From 1991 to 1997 Mr. Harlan served as General Manager and Chief Financial Officer of Pacific Resources Group where he was responsible for the planning and financial development of various manufacturing and distribution businesses in Asia. He also served as operations research and planning analyst for the White House Office of Energy Policy and Planning from 1977 to 1978, the Department of Energy from 1978 to 1981, and U.S. Synthetic Fuels Corporation from 1981 to 1984. Mr. Harlan is also a director of Ionatron.

*Dr. Lawrence Howard* has been since March 1997 a general partner of Hudson Ventures, L.P. (formerly known as Hudson Partners, L.P.), a limited partnership that is the general partner of Hudson Venture Partners, L.P. (“HVP”), a limited partnership that is qualified as a small business investment company. Since March 1997, Dr. Howard has also been a managing member of Hudson Management Associates LLC, a limited liability company that provides management services to HVP. Since November 2000, Dr. Howard has been a General Partner of Hudson Venture Partners II, and a limited partner of Hudson Venture II, L.P. He was a founder and has been since November 1987, and continues to be, a director of Presstek and served in various officer positions at Presstek from October 1987 to June 1993, lastly as its Chief Executive Officer. Dr. Howard is the son of Robert Howard, the Chairman of the Company’s Board of Directors.

*Steven Rappaport* has been a partner of RZ Capital, LLC since July 2002, a private investment firm that also provides administrative services for a limited number of clients. From March 1995 to July 2002, Mr. Rappaport was Director, President and Principal of Loanet, Inc., an online real-time accounting service used by brokers and institutions to support domestic and international securities borrowing and lending activities. Loanet, Inc. was acquired by SunGard Data Systems in May 2001. From March 1992 to December 1994, Mr. Rappaport was Executive Vice President of Metallurg, Inc. (“Metallurg”) and President of Metallurg’s subsidiary, Shieldalloy Corporation. He served as Director of Metallurg from 1985 to 1998. From March 1987 to March 1992, Mr. Rappaport was Director, Executive Vice President and Secretary of Telerate, Inc. (“Telerate”), an electronic distributor of financial information. Telerate was acquired by Dow Jones over a number of years commencing in 1985 and culminating in January 1990, when it became a wholly-owned subsidiary. Mr. Rappaport practiced corporate and tax law at the New York law firm of Hartman & Craven from August 1974 to March 1987. He became a partner in the firm in 1979. Mr. Rappaport is currently serving as an independent director of Presstek and a number of open and closed end American Stock Exchange funds of which Credit Suisse serves as the investment adviser.



*Maha Sallam, PhD* has been a Vice President of the Company since July 2002. From 1997 until the Company's acquisition of Intelligent Systems Software, Inc. ("ISSI") in July 2002, Ms. Sallam served as President, and then Director and Vice President of Regulatory Affairs and Clinical Testing at ISSI. She was one of ISSI's founders and has over fourteen years of experience in the medical industry. Ms. Sallam has a strong background in image analysis research including a doctoral dissertation, conference presentations and several publications.

*Dr. Elliot Sussman* is currently President and Chief Executive Officer of Lehigh Valley Hospital and Health Network, a position he has held since 1993. Dr. Sussman is the Leonard Parker Pool Professor of Health Systems Management, Professor of Medicine, and Professor of Health Evaluation Sciences at Pennsylvania State University's College of Medicine. Dr. Sussman served as a Fellow in General Medicine and a Robert Wood Johnson Clinical Scholar at the University of Pennsylvania, and trained as a resident at the Hospital of the University of Pennsylvania. Dr. Sussman is a director and the Chairperson of the compensation committee of the Board of Directors of Universal Health Realty Income Trust, a public company involved in real estate investment trust primarily engaged in investing in healthcare and human service-related facilities. Dr. Sussman is also a director of the Board of Directors of VIASYS Healthcare, Inc., a healthcare technology company.

#### **Audit Committee and Audit Committee Financial Expert**

Our Board of Directors maintains an Audit Committee which is comprised of Mr. Rappaport (Chair), Mr. Harlan and Dr. Sussman. Our Board has determined that each member of the Audit Committee meets the definition of an "Independent Director" under applicable NASDAQ Marketplace Rules. In addition, the Board has determined that each member of the Audit Committee meets the independence requirements of applicable Securities and Exchange Commission ("SEC") rules and that Mr. Rappaport qualifies as an audit committee financial expert under applicable SEC rules.

#### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 ("Exchange Act") requires our officers and directors, and persons who own more than 10 percent of a registered class of our company's equity securities, to file reports of ownership and changes in ownership with the SEC. Officers, directors, and greater than 10 percent stockholders are required by SEC regulation to furnish the us with copies of all Section 16(a) forms they file.

Based solely on our review of copies of such forms received by us, we believe that during the year ended December 31, 2006, all filing requirements applicable to all of our officers, directors, and greater than 10% beneficial stockholders were timely complied with, except for Robert Howard, Dr. Elliot Sussman and Dr. Herschel Sklaroff (a former director) who filed late Forms 4 with respect to a stock option grant made to each of them on November 14, 2006.

## **Code of Ethics**

We have developed and adopted a comprehensive Code of Business Conduct and Ethics to cover all of our employees. Copies of the Code of Business Conduct and Ethics can be obtained, without charge, upon written request, addressed to:

iCAD, Inc.  
98 Spit Brook Road, Suite 100  
Nashua, NH 03062  
Attention: Assistant Corporate Secretary

## **Item 11. Executive Compensation.**

### **EXECUTIVE COMPENSATION**

The following discussion covers the compensation arrangements of our current principal executive officer, our current principal financial officer and our current three other executive officers (the “Named Executive Officers”) and our directors and includes a general discussion and analysis of our compensation program for our executive officers as well as a series of tables containing specific compensation information for our Named Executive Officers and directors as well as certain former executive officers. This discussion contains forward looking statements that are based upon our current executive compensation program, policies and methodologies. We may make changes in this program and these policies and methodologies in the future, and if made, we could have materially different compensation arrangements in the future

#### ***Compensation Discussion and Analysis***

This Compensation Discussion and Analysis is intended to provide information about our compensation objectives, policies and practices for our Named Executive Officers. The Compensation Committee of our Board of Directors oversees and approves all compensation decisions relating to our Named Executive Officers.

While our compensation program includes short-term elements, such as annual base salary, and generally annual incentive cash bonuses, a significant aspect of our compensation program includes longer term elements such as equity-based incentive awards through grants of stock options or other stock-based awards. We believe that our compensation program provides an overall level of compensation that is competitive to that offered in our industry and with executives in other companies of similar size within the healthcare industry.

The Compensation Committee intends to continue its strategy of compensating executives through programs that are linked to our achievement of our business goals and objectives, including certain financial goals, such as revenue and pre-tax profitability, and individual executives are further rewarded for exceeding those goals. The Compensation Committee believes that the total compensation of executive officers should reflect their leadership abilities, initiative, the scope of their responsibilities and our success and the past and expected future contribution of each executive to that success. The Committee seeks to foster a performance-oriented environment by tying certain compensation components to the achievement of performance targets that are important to us and to our efforts to increase stockholder value. We believe that our compensation program contributes to our employees’ and Named Executive Officers’ incentive to execute on our goals.

***Objectives of our Executive Compensation Program***

The Compensation Committee strives to ensure that our executive compensation programs will enable us to attract and retain superior executive talent and motivate our executives to execute our business strategy and to assist us in achieving our short-term and long-term growth and earnings goals. The primary objectives of our executive compensation program are to:

- attract, retain and fairly compensate highly talented and experienced executives in the healthcare industry for us to achieve and expand our business goals and objectives;
- ensure executive compensation is aligned with specific performance objectives;
- promote the achievement of strategic and financial performance measures by tying cash and equity incentives to the achievement of measurable corporate and individual performance goals; and
- align executives' incentives with the creation of stockholder value.

The Compensation Committee and the Board of Directors evaluate the performance of our president/chief executive officer and rely on input from our president/chief executive officer as it relates to other senior management executives. Our goal is to compensate at levels we believe are competitive with executives in other companies of similar size within the healthcare industry.

Although the Compensation Committee did not retain a compensation consultant for 2006 it did utilize the services of Diversified Search, Inc., ("Diversified") an executive search firm for the recruitment of our president and chief executive officer and our executive vice president and chief financial officer and senior vice president of research and development. In connection with these recruitment efforts, Diversified provided the Compensation Committee with compensation comparables for all of our executive positions. In January 2007 the Compensation Committee retained the consulting firm Pearl Meyer and Partners ("Pearl Meyer") as its independent compensation consultant to review our executive compensation programs and to advise it on matters relating to chief executive officer and other executive officer compensation.

***Forms of Compensation Paid to Executive Officers During 2006***

During the fiscal year ending December 31, 2006 we hired an entire new executive management team and we provided these executive officers with the following forms of compensation:

Base Salary  
Auto Allowance  
Signing Bonus  
Annual Incentive Bonus Compensation  
Equity Incentives  
Severance and Change of Control Benefits; and  
Retirement and other Employee Benefits.

***Base Salary***

Base salary represents amounts paid during the fiscal year to Named Executive Officers as direct guaranteed compensation under their employment agreements for their services to us. Base salaries are an important element of compensation and are used to provide a fixed amount of compensation for the executive's regular work. The base salaries of executive officers are reviewed on an annual basis, as well as at the time of a promotion or other change in responsibilities. Increases in salary are based on an evaluation of the individual's performance and level of pay compared to comparable companies pay levels for similar positions.

The effective date of merit increases typically is June 1st of each year. Increases in base salaries are based upon individual performance. Base salary increases can also occur upon promotion.

The base salary of each of our Named Executive Officers is fixed pursuant to the terms of their respective employment agreements with us and, when a contract is up for, or otherwise considered for, renewal, may be increased upon a review of the executive's abilities, experience and performance, as well as a review of salaries for executives for comparable positions at corporations which either compete with us in its business or of comparable size and scope of operations. The recommendations to the Board of Directors by the Compensation Committee with respect to base salary are based primarily on informal judgments reasonably believed to be in our best interests. Base salaries are used to reward individual performance of each Named Executive Officer on a day-to-day basis during the year, and to encourage them to perform at their highest levels. We also use our base salary as an incentive to attract top quality executives and other management employees from other companies. Moreover, base salary (and increases to base salary) are intended to recognize the overall experience, position within our company and expected contributions of each Named Executive Officer to us and our goals.

***Employment Contracts***

Between May 2006 and October 2006 we hired and entered into employment contracts with our five current Named Executive Officers. We did not have employment agreements with any other executive officer during 2006. In determining base salary the Compensation Committee, utilizing information obtained from Diversified and elsewhere, utilized a number of criteria, including executives' qualifications, experience, responsibility and comparison to other companies of similar size in the healthcare industry. The material provisions of these contracts are discussed in the narrative following the Summary Compensation Table.

***Auto Allowance***

During 2006 and as part of their employment agreements, we agreed to pay to our Named Executive Officers an executive automobile allowance in the amount of \$1,500 per month for Mr. Ferry and \$1,000 per month for each of Ms. Deptula-Hicks, Mr. Barnes, Ms. Stevens and Mr. Go. The executives are responsible for paying all the expenses of maintaining, insuring and operating their automobiles. The purpose of providing the allowance is to defray the Named Executive Officer's cost of owning and operating an automobile often used for business purposes; while preventing us from having to own and maintain a fleet of automobiles and is a taxable benefit for the Named Executive Officer.

***Signing Bonus***

During 2006, to help attract a talented and experienced management team we offered signing bonuses to our Named Executive Officers. We agreed to pay to signing bonus in the amount of \$35,000 to Mr. Ferry, and \$20,000 to each of Ms. Deptula-Hicks, Mr. Barnes, Ms. Stevens and Mr. Go. All signing bonuses were paid after commencement of their employment.

***Annual Incentive Bonus Compensation***

We have an Executive Incentive Bonus Plan for our Named Executive Officers. Our Named Executive Officers each have a contractual right specified in their respective employment agreements to receive an annual cash bonus, based upon goals and objectives mutually agreed by the Board of Directors and the executive, with a minimum contractual bonus for 2006. The purpose of such cash bonuses is to provide a direct financial incentive to the Named Executive Officers to achieve the goals and objectives of our company. In 2006, the following measures were taken into consideration by the Compensation Committee in evaluating the payment of cash bonuses:

1. The strong performance of our company in the third and fourth quarters of 2006 as a direct result of the new management team;
2. Positive changes in revenue and operating income compared to prior first and second quarters of 2006;
3. Individual performance; and
4. Stock performance.

In January 2007 the Compensation Committee engaged Pearl Meyer, to provide a competitive assessment of our executive compensation program. They assessed the competitiveness of our executive compensation program utilizing a peer group of nine companies, including AFP Imaging Corporation, Amicas, Inc., Bio Imaging Technologies, Inc., Clariant, Inc., CSP, Inc., Emageon, Inc., Hologic, Inc., Tripath Imaging, Inc., and Vital Images, Inc., supplemented by three published surveys. As a result of the Pearl Meyer compensation assessment and our financial results for 2006, the Board of Directors, upon recommendation of the Compensation Committee, approved 2006 bonus payments in the amounts of \$175,000 for Mr. Ferry, \$35,000 for Ms. Deptula-Hicks, \$90,000 for Mr. Barnes, \$70,000 for Ms. Stevens and \$15,000 for Mr. Go. These bonuses were in lieu of any bonuses for 2006 that the Named Executive Officer's would otherwise have been entitled to under their respective employment agreements. In addition, the amount of the incentive bonus that Ms. Stevens is eligible to receive under her employment agreement during the year ending December 31, 2007 was increased to an amount equal to 40% of her annual base salary.

### *Equity Incentives*

The Named Executive Officers' and our other employees are eligible to receive equity incentive awards under our equity incentive plans. On occasion, we grant options outside of a formal stockholder approved plan to new employees, including new executive officers, as an inducement to their employment with us. The primary goal of the use of these incentives is to create long-term value for stockholders by providing the Named Executive Officers with an additional incentive to work towards maximizing stockholder value. The Compensation Committee views equity incentive awards as one of the more important components of our long-term, performance-based compensation philosophy. The grant of equity incentive awards to executive officers encourages equity ownership in iCAD and closely aligns the Named Executive Officers' interests to the interests of all the stockholders.

Equity awards may take the form of stock options, restricted stock, unrestricted stock, stock units including restricted stock units, performance awards and other stock-based awards. The mix of cash and equity-based awards, as well as the types of equity-based awards, granted to our Named Executive Officers may vary in the future from year to year. Consideration may be given to various factors, such as the relative merits of cash and equity as a device for retaining and motivating the Named Executive Officers, the practices of other companies, individual performance, an individual's pay relative to others, contractual commitments pursuant to employment or other agreements, and the value of already-outstanding grants of equity in determining the size and type of future equity-based awards that may be granted in the future to each Named Executive Officer.

These awards are generally provided through initial grants at or near the date of hire and through subsequent periodic grants. Equity incentive awards granted to the Named Executive Officers' and other employees in the form of stock options have exercise prices not less than the fair market value of the stock on the date of the grant or award. Equity incentive awards vest and become exercisable at such time as determined by the Compensation Committee or Board of Directors. The initial grant is designed for the level of the job that the executive holds and is designed to motivate the executive to make the kind of decisions and implement strategies and programs that will contribute to an increase in our stock price over time. Periodic additional equity incentive awards within the comparable range for the job are expected to be granted to reflect the executives' ongoing contributions to us, to create an incentive to remain in our employ and to provide a long-term incentive to achieve or exceed the our financial goals.

**Severance and Change of Control Benefits**

We have entered into employment agreements with each of the Named Executive Officers. Each of these agreements provides for certain payments and other benefits if the executive's employment terminates under certain circumstances, including, in the event of a "change in control". See "Executive Compensation - Narrative Disclosure to Summary Compensation Table - Employment Contracts for our Named Executive Officers" and "Severance and Change of Control Benefits" appearing after the Outstanding Equity Awards At Fiscal Year-end table for a description of the severance and change in control benefits.

**Retirement and Other Employee Benefits**

We provide various employee benefit programs to all employees, including medical, dental, life insurance, short and long term disability and a 401k plan to which in early 2007 we added an employer matching contribution. Executives are eligible to participate in all our employee benefit programs, in each case on the same basis as other employees. In addition, we paid a \$2,140 life insurance premium on behalf of Mr. Ferry during 2006.

**Executive Compensation Tables**

The following table provides information on the compensation provided during 2006 to (i) those persons who served in the capacity as our Chief Executive Officer, (ii) those persons who served in the capacity as our Chief Financial Officer, and (iii) the three highest paid executive officers other than persons who served in the capacities as our Chief Executive Officer or Chief Financial Officer, who served in such capacity during 2006 and at the end of 2006 whose total compensation exceeded \$100,000 (collectively "the Named Persons").

**SUMMARY COMPENSATION TABLE**

Name and Principal Position	Year	Salary	Bonus (1)	Option Awards (9)	All Other Compensation(10)	Total
		\$	\$	\$	\$	\$
Kenneth Ferry (4) President, Chief Executive Officer, Director	2006	190,385	210,000	361,536	13,563	775,484
W. Scott Parr (2) President, Chief Executive Officer, Director	2006	257,885	-	258,000	-	515,885
Darlene Deptula-Hicks (5) Executive Vice President of Finance, Chief Financial Officer	2006	58,423	55,000	90,438	3,462	207,323
Annette Heroux (3) Vice President of Finance, Chief Financial Officer	2006	154,904	20,000	2,623	-	177,527
Jeffrey Barnes (6) Senior Vice President of Sales	2006	113,846	110,000	101,682	7,385	332,913
Stacey Stevens (7) Senior Vice President of Marketing and Strategy	2006	90,462	90,000	83,246	5,379	269,087
Jonathan Go (8)						

Senior Vice President of Research and Development	2006	32,019	35,000	63,212	2,077	132,308
--	------	--------	--------	--------	-------	---------

(1) The amounts include (i) signing bonuses paid to the following Named Persons under the terms of their respective employment agreements -Kenneth Ferry (\$35,000), Darlene Deptula-Hicks (\$20,000), Jeffrey Barnes (\$20,000), Stacey Stevens (\$20,000) and Jonathan Go (\$20,000) and (ii) bonuses earned for 2006 and paid in 2007 that were awarded to the following Named Persons in lieu of any incentive bonus to which they were otherwise entitled to under the terms of their respective employment agreements: Kenneth Ferry (\$175,000); Darlene Deptula-Hicks (\$35,000), Jeffrey Barnes (\$90,000), Stacey Stevens (\$70,000) and Jonathan Go (\$15,000).



- (2) Mr. Parr resigned from the position of President and Chief Executive Officer and employee of our company in May 2006.
- (3) Ms. Heroux resigned from the position of Vice President of Finance and Chief Financial Officer of our company in September 2006 although she continues to be employed by us as Vice President of Administration.
- (4) Mr. Ferry joined our company on May 15, 2006.
- (5) Ms. Deptula-Hicks joined our company on September 11, 2006.
- (6) Mr. Barnes joined our company on May 15, 2006.
- (7) Ms. Stevens joined our company on June 1, 2006.
- (8) Mr. Go joined our company on October 23, 2006.
- (9) The amounts included in the "Option Awards" column represent the compensation cost recognized by us in 2006 related to stock option awards granted in 2006 to our Named Executive Officers or, with respect to Mr. Parr's options, cost recognized by us resulting from the modification of Mr. Parr's options pursuant to his separation agreement with us, computed in accordance with Statement of Financial Accounting Standards No. 123R. For a discussion of valuation assumptions, see Note 6(b) to our consolidated financial statements.
- (10) The amounts shown in the "All Other Compensation" column for Mr. Ferry consists of an automobile allowance of \$11,423 and \$2,140 of life insurance premiums paid by us. For the other Named Executive Officers the amounts represent payments of an automobile allowance.

#### **Narrative Disclosure to Summary Compensation Table**

##### ***Employment Contracts for our Named Executive Officers***

During 2006 we negotiated and entered into the following employment agreements with our Named Executive Officers and their compensation is determined based upon these employment agreements. A description of provisions of these agreements providing for certain post-termination payments upon termination of their employment are described following the "Outstanding Equity Awards At Fiscal Year-End table under the caption "Severance and Change of Control Benefits- *Termination for Cause, without Cause, or due to a Change in Control*".

*Mr. Kenneth Ferry, our President and Chief Executive Officer.* We entered into an employment agreement with Mr. Ferry in April 2006 that provides for his employment as our Chief Executive Officer and President for a term commencing in May 2006 and expiring on December 31, 2008, subject to automatic one-year renewals after the expiration of the initial term under certain conditions at an annual base salary of \$300,000. The agreement also provided for Mr. Ferry to receive a signing bonus of \$35,000 and for his eligibility to receive during each employment year during the term of his agreement an annual incentive bonus in each calendar year of up to \$100,000 (except for the 2006 fiscal year where the incentive bonus would not be less than \$50,000) if we achieve goals and objectives mutually agreed upon by our Board and Mr. Ferry. Mr. Ferry is also entitled to customary benefits, including participation in employee benefit plans, and reasonable travel and entertainment expenses as well as a monthly automobile allowance.

The base salary agreed to for Mr. Ferry was \$300,000, effective his date of hire of May 8, 2006. While no compensation consultant was utilized in establishing Mr. Ferry's base salary and incentive pay, based on input from Diversified and his past professional experience and credentials we believed that the compensation package provided to Mr. Ferry was comparable to that of chief executive officers for companies of similar size in the healthcare sector.

*Ms. Darlene Deptula-Hicks, our Executive Vice President of Finance and Chief Financial Officer.* We entered into an employment agreement with Ms. Deptula-Hicks in September 2006 that provides for her employment as our Executive Vice President of Finance and Chief Financial Officer for a term commencing on September 11, 2006 and expiring on December 31, 2008 subject to automatic one year renewals at the end of the initial term, subject to certain conditions, at an annual base salary of \$205,000. The agreement also provided for Ms. Deptula-Hicks to receive a signing bonus of \$20,000 and for her eligibility to receive during each employment year during the term of the Agreement an annual incentive bonus in each calendar year of up to \$82,000 (except for the 2006 fiscal year where the incentive bonus would not be less than \$27,000) if we achieve goals and objectives mutually agreed upon by the Board and Ms. Deptula-Hicks. Ms. Deptula-Hicks is also entitled to customary benefits, including participation in employee benefit plans and reasonable travel and entertainment expenses as well as a monthly automobile allowance.

The base salary agreed to for Ms. Deptula-Hicks was \$205,000, effective her date of hire of September 11, 2006. While no compensation consultant was utilized in establishing Ms. Deptula-Hicks' base salary and incentive pay, based input from Diversified and on her past professional experience and credentials we believed that the compensation package provided to Ms. Deptula-Hicks was comparable to that of chief financial officers for companies of similar size in the healthcare sector.

*Mr. Jeffrey Barnes, our Senior Vice President of Sales.* We entered into an employment agreement with Mr. Barnes in April 2006 that provides for his employment as our Senior Vice President of Sales for a term commencing on May 15, 2006 and expiring on December 31, 2008 subject to automatic one year renewals at the end of the initial term, subject to certain conditions, at an annual base salary of \$185,000. The agreement also provided for Mr. Barnes to receive a signing bonus of \$20,000 and for his eligibility to receive during each employment year during the term of the Agreement an annual incentive bonus in each calendar year of up to \$74,000 (except for the 2006 fiscal year where the incentive bonus would not be less than \$37,000) if we achieve goals and objectives mutually agreed upon by the Board and Mr. Barnes. Mr. Barnes is also entitled to customary benefits, including participation in employee benefit plans and reasonable travel and entertainment expenses as well as a monthly automobile allowance.

The base salary agreed to for Mr. Barnes was \$185,000, effective his date of hire of May 15, 2006. While no compensation consultant was utilized in establishing Mr. Barnes base salary and incentive pay, based on input from Diversified and his past professional experience and credentials we believed that the compensation package provided to Mr. Barnes was comparable to that of Senior Vice President of Sales for companies of similar size in the healthcare sector.

*Ms. Stacey Stevens, our Senior Vice President of Marketing and Strategy.* We entered into an employment agreement with Ms. Stevens in May 2006 that provides for her employment as our Vice President of Marketing and Strategy for a term commencing on June 1, 2006 and expiring on December 31, 2008 subject to automatic one year renewals at the end of the initial term, subject to certain conditions, at an annual base salary of \$160,000. The agreement also provided for Ms. Stevens to receive a signing bonus of \$20,000 and for her eligibility to receive during each employment year during the term of the Agreement an annual incentive bonus in each calendar year of up to \$48,000 (except for the 2006 fiscal year where the incentive bonus would not be less than \$24,000) if we achieve goals and objectives mutually agreed upon by the Board and Ms. Stevens. Ms. Stevens is also entitled to customary benefits, including participation in employee benefit plans and reasonable travel and entertainment expenses as well as a monthly automobile allowance.

The base salary agreed to for Ms. Stevens was \$160,000, effective her date of hire of June 1, 2006. While no compensation consultant was utilized in establishing Ms. Stevens base salary and incentive pay, based on input from Diversified and her past professional experience and credentials we believed that the compensation package provided to Ms. Stevens was comparable to that of chief marketing officers for companies of similar size in the healthcare sector.

*Mr. Jonathan Go, our Senior Vice President of Research and Development.* We entered into an employment agreement with Mr. Go in October 2006 that provides for his employment as our Senior Vice President of Research and Development for a term commencing on October 23, 2006 and expiring on December 31, 2008 subject to automatic one year renewals at the end of the initial term, subject to certain conditions, at an annual base salary of \$185,000. The agreement also provided for Mr. Go to receive a signing bonus of \$20,000 and for his eligibility to receive during each employment year during the term of the Agreement an annual incentive bonus in each calendar year of up to \$74,000 (except for the 2006 fiscal year where the incentive bonus would be determined on a pro rata basis by the Company's Board of Directors) if we achieve goals and objectives mutually agreed upon by the Board and Mr. Go. Mr. Go is also entitled to customary benefits, including participation in employee benefit plans and reasonable travel and entertainment expenses as well as a monthly automobile allowance.

The base salary agreed to for Mr. Go was \$185,000, effective his date of hire of October 23, 2006. While no compensation consultant was utilized in establishing Mr. Go's base salary and incentive pay, based on input from Diversified and his past professional experience and credentials we believed that the compensation package provided to Mr. Go was comparable to that of Senior VP's of Research and Development for companies of similar size in the healthcare sector.

**GRANTS OF PLAN-BASED AWARDS**

<b>Name</b>	<b>Grant Date</b>	<b>Estimated Future Payouts Under Non-Equity Incentive Plan Awards Target (1) (\$)</b>	<b>Estimated Future Payouts Under Non-Equity Incentive Plan Awards Maximum (1) (\$)</b>	<b>All Other Option Awards: Number of Securities Underlying Options (2) (#)</b>	<b>Exercise or Base Price of Option Awards (\$/Sh)</b>
Kenneth Ferry	5/15/2006	100,000	100,000	800,000	1.59
Darlene Deptula-Hicks	9/11/2006	82,000	82,000	275,000	1.80
Jeffrey Barnes	5/15/2006	74,000	74,000	225,000	1.59
Stacey Stevens	6/1/2006	64,000	64,000	150,000	1.98
Jonathan Go	11/3/2006	74,000	74,000	200,000	