ICAD INC
Form 10-Q
November 14, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017

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 001-09341

iCAD, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**02-0377419**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

98 Spit Brook Road, Suite 100, Nashua, NH	**03062**
(Address of principal executive offices)	**(Zip Code)**

(603) 882-5200

(Registrant s telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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 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 NO .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, an emerging growth company or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer, smaller reporting company and emerging growth company in Rule 12b-2 of the Exchange Act.

Large Accelerated filer	Accelerated filer
Non-accelerated filer (do not check if a smaller reporting company)	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. .

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

As of the close of business on November 13, 2017 there were 16,511,655 shares outstanding of the registrant s Common Stock, $.01 par value.

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iCAD, Inc.

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iCAD, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands except for share data)

	September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 11,261	$ 8,585
Trade accounts receivable, net of allowance for doubtful accounts of $209 in 2017 and $172 in 2016	7,189	5,189
Inventory, net	3,340	3,727
Prepaid expenses and other current assets	949	1,128
Assets held for sale		1,304
Total current assets	22,739	19,933
Property and equipment, net of accumulated depreciation of $7,245 in 2017 and $6,538 in 2016	972	1,385
Other assets	53	53
Intangible assets, net of accumulated amortization of $7,333 in 2017 and $7,518 in 2016	2,055	3,183
Goodwill	10,128	14,097
Total assets	$ 35,947	$ 38,651
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 1,346	$ 1,577
Accrued and other expenses	4,935	4,988
Lease payable - current portion	12	86
Notes payable - current portion	317	
Liabilities held for sale		832
Deferred revenue	5,021	5,372
Total current liabilities	11,631	12,855
Other long-term liabilities	140	83
Lease payable, long-term portion	30	
Notes payable, long-term portion	5,612	
Deferred revenue, long-term portion	525	668
Deferred tax	12	7

Total liabilities	17,950	13,613
Commitments and Contingencies (Note 6, 7 and 9)		
Stockholders equity:		
Preferred stock, $ .01 par value: authorized 1,000,000 shares; none issued.		
Common stock, $ .01 par value: authorized 30,000,000 shares; issued 16,627,705 in 2017 and 16,260,663 in 2016; outstanding 16,441,874 in 2017 and 16,074,832 in 2016	167	163
Additional paid-in capital	216,875	213,899
Accumulated deficit	(197,630)	(187,609)
Treasury stock at cost, 185,831 shares in 2017 and 2016	(1,415)	(1,415)
Total stockholders equity	17,997	25,038
Total liabilities and stockholders equity	$ 35,947	$ 38,651

See accompanying notes to condensed consolidated financial statements.

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iCAD, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

(Unaudited)

(In thousands except for per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenue:				
Products	$ 3,426	$ 2,014	$ 9,225	$ 7,460
Service and supplies	3,574	3,989	10,975	11,950
Total revenue	7,000	6,003	20,200	19,410
Cost of revenue:				
Products	636	236	1,349	611
Service and supplies	1,458	1,370	4,169	3,911
Amortization and depreciation	263	296	847	899
Total cost of revenue	2,357	1,902	6,365	5,421
Gross profit	4,643	4,101	13,835	13,989
Operating expenses:				
Engineering and product development	2,254	2,360	7,060	6,835
Marketing and sales	2,580	2,322	8,172	7,379
General and administrative	1,944	1,783	6,067	5,586
Amortization and depreciation	107	288	345	867
Gain on sale of MRI assets			(2,508)	
Goodwill and long-lived asset impairment	4,700		4,700	
Total operating expenses	11,585	6,753	23,836	20,667
Loss from operations	(6,942)	(2,652)	(10,001)	(6,678)
Interest expense	(36)	(15)	(51)	(59)
Other income	3	2	3	9
Other expense, net	(33)	(13)	(48)	(50)
Loss before income tax expense	(6,975)	(2,665)	(10,049)	(6,728)
Tax benefit (expense)	42	(10)	28	(55)
Net loss and comprehensive loss	$ (6,933)	$ (2,675)	$ (10,021)	$ (6,783)
Net loss per share:				
Basic	$ (0.42)	$ (0.17)	$ (0.62)	$ (0.43)

Diluted	$ (0.42)	$ (0.17)	$ (0.62)	$ (0.43)
Weighted average number of shares used in computing loss per share:				
Basic	16,424	15,957	16,291	15,896
Diluted	16,424	15,957	16,291	15,896

See accompanying notes to consolidated financial statements.

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iCAD, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(unaudited)

	For the nine months ended September 30,	
	2017	**2016**
	(in thousands)	
Cash flow from operating activities:		
Net loss	$ (10,021)	$ (6,783)
Adjustments to reconcile net loss to net cash used for by operating activities:		
Amortization	394	753
Depreciation	798	1,013
Bad debt provision	44	133
Stock-based compensation expense	3,073	1,648
Amortization of debt discount and debt costs	(6)	(13)
Interest on settlement obligations	26	69
Deferred tax expense	6	
Gain from acquisition litigation settlement		(249)
Goodwill and long-lived asset impairment	4,700	
Loss on disposal of assets	26	9
Gain on sale of MRI assets	(2,158)	
Changes in operating assets and liabilities (net of the effect of acquisitions):		
Accounts receivable	(2,062)	2,706
Inventory	389	(82)
Prepaid and other current assets	179	(483)
Accounts payable	(231)	(281)
Accrued expenses	(23)	78
Deferred revenue	(699)	(2,380)
Total adjustments	4,456	2,921
Net cash used for operating activities	(5,565)	(3,862)
Cash flow from investing activities:		
Additions to patents, technology and other	(2)	(8)
Additions to property and equipment	(362)	(248)
Acquisition of VuComp M-Vu CAD		(6)
Sale of MRI assets	2,850	
Net cash provided by (used for) investing activities	2,486	(262)
Cash flow from financing activities:		
Stock option exercises	57	188

Taxes paid related to restricted stock issuance	(151)	(65)
Debt issuance costs	(74)	
Principal payments of capital lease obligations	(77)	(796)
Proceeds from debt financing, net	6,000	
Net cash provided by (used for) financing activities	5,755	(673)
Increase (decrease) in cash and equivalents	2,676	(4,797)
Cash and equivalents, beginning of period	8,585	15,280
Cash and equivalents, end of period	$ 11,261	$ 10,483
Supplemental disclosure of cash flow information:		
Interest paid	$ 14	$ 63
Taxes paid	$ 52	$ 65
Escrow due from MRI asset sale	$ 350	$
Equipment purchased under capital lease	$ 42	$

See accompanying notes to consolidated financial statements.

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iCAD, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2017

Note 1 - Basis of Presentation and Significant Accounting Policies

The accompanying condensed consolidated financial statements of iCAD, Inc. and subsidiaries (iCAD or the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). In the opinion of management, these unaudited interim condensed consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the financial position of the Company at September 30, 2017, the results of operations of the Company for the three and nine month periods ended September 30, 2017 and 2016, and cash flows of the Company for the nine month periods ended September 30, 2017 and 2016. Although the Company believes that the disclosures in these financial statements are adequate to make the information presented not misleading, certain information normally included in the footnotes prepared in accordance with US GAAP has been omitted as permitted by the rules and regulations of the Securities and Exchange Commission (SEC). The accompanying financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2016 filed with the SEC on March 24, 2017. The results for the three and nine month periods ended September 30, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2017, or any future period.

Segments

The Company reports the results of two segments: Cancer Detection (Detection) and Cancer Therapy (Therapy). The Detection segment consists of our advanced image analysis and workflow products. The Therapy segment consists of our radiation therapy (Axxent) products, physics and management services, development fees, supplies, and fees for the AxxentHub software platform.

Revenue Recognition

The Company recognizes revenue primarily from the sale of products and from the sale of services and supplies. Revenue is recognized when delivery has occurred, persuasive evidence of an arrangement exists, fees are fixed or determinable and collectability of the related receivable is probable. For product revenue, delivery has occurred upon shipment provided title and risk of loss have passed to the customer. Services and supplies revenue are considered to be delivered as the services are performed or over the estimated life of the supply agreement.

The Company recognizes revenue from the sale of its digital, film-based CAD and cancer therapy products and services in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Update No. 2009-13, Multiple-Deliverable Revenue Arrangements (ASU 2009-13) and ASC Update No. 2009-14, Certain Arrangements That Contain Software Elements (ASU 2009-14) and ASC 985-605, Software (ASC 985-605 Revenue from the sale of certain CAD products is

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iCAD, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2017

recognized in accordance with ASC 840 Leases (ASC 840). For multiple element arrangements, revenue is allocated to all deliverables based on their relative selling prices. In such circumstances, a hierarchy is used to determine the selling price to be used for allocating revenue to deliverables as follows: (i) vendor-specific objective evidence of fair value (VSOE), (ii) third-party evidence of selling price (TPE) and (iii) best estimate of the selling price (BESP). VSOE generally exists only when the deliverable is sold separately and is the price actually charged for that deliverable. The process for determining BESP for deliverables without VSOE or TPE considers multiple factors including relative selling prices; competitive prices in the marketplace, and management judgment; however, these may vary depending upon the unique facts and circumstances related to each deliverable.

The Company uses customer purchase orders that are subject to the Company s terms and conditions or, in the case of an Original Equipment Manufacturer (OEM) are governed by distribution agreements. In accordance with the Company s distribution agreements, the OEM does not have a right of return, and title and risk of loss passes to the OEM upon shipment. The Company generally ships Free On Board shipping point and uses shipping documents and third-party proof of delivery to verify delivery and transfer of title. In addition, the Company assesses whether collection is probable by considering a number of factors, including past transaction history with the customer and the creditworthiness of the customer, as obtained from third party credit references.

If the terms of the sale include customer acceptance provisions and compliance with those provisions cannot be demonstrated, all revenue is deferred and not recognized until such acceptance occurs. The Company considers all relevant facts and circumstances in determining when to recognize revenue, including contractual obligations to the customer, the customer s post-delivery acceptance provisions, if any, and the installation process.

The Company has determined that iCAD s digital and film based sales generally follow the guidance of FASB ASC Topic 605 Revenue Recognition (ASC 605) as the software has been considered essential to the functionality of the product per the guidance of ASU 2009-14. Typically, the responsibility for the installation process lies with the OEM partner. On occasion, when iCAD is responsible for product installation, the installation element is considered a separate unit of accounting because the delivered product has stand-alone value to the customer. In these instances, the Company allocates revenue to the deliverables based on the framework established within ASU 2009-13. Therefore, the installation and training revenue is recognized as the services are performed according to the BESP of the element. Revenue from the digital and film based equipment, when there is installation, is recognized based on the relative selling price allocation of the BESP, when delivered.

Revenue from certain CAD products is recognized in accordance with ASC 985-605. Sales of these products include training, and the Company has established VSOE for this element. Product revenue is determined based on the residual value in the arrangement and is recognized when delivered. Revenue for training is deferred and recognized when the training has been completed.

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iCAD, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2017

The Company recognizes post contract customer support revenue together with the initial licensing fee for certain MRI products in accordance with ASC 985-605-25-71. In January 2017 the Company sold certain MRI assets to Invivo.

Sales of the Company s Therapy segment products typically include a controller, accessories, source agreements and services. The Company allocates revenue to the deliverables in the arrangement based on the BESP in accordance with ASU 2009-13. Product revenue is generally recognized when the product has been delivered and service and source revenue is typically recognized over the life of the service and source agreement. The Company includes the following in service and supplies revenue: the sale of physics and management services, the lease of electronic brachytherapy equipment, development fees, supplies and the right to use the Company s AxxentHub software. Physics and management services revenue and development fees are considered to be delivered as the services are performed or over the estimated life of the agreement. The Company typically bills items monthly over the life of the agreement except for development fees, which are generally billed in advance or over a 12 month period and the fee for treatment supplies which is generally billed in advance.

The Company defers revenue from the sale of certain service contracts and recognizes the related revenue on a straight-line basis in accordance with ASC Topic 605-20, Services . The Company provides for estimated warranty costs on original product warranties at the time of sale.

Cost of Revenue

Cost of revenue consists of the costs of products purchased for resale, costs relating to service including personnel costs for physicists, management services and radiation therapists, costs of service contracts to maintain equipment after the warranty period, product installation, training, customer support, certain warranty repair costs, inbound freight and duty, cost of supplies, manufacturing, warehousing, material movement, inspection, scrap, rework, amortization, depreciation and in-house product warranty repairs. Included in cost of revenue for the nine months ended September 30, 2016 is a credit of $467,000 related to a refund of the Medical Device Excise Tax (MDET). The MDET refund of $467,000 is related to refunds of the MDET for the periods from April 2013 to December 2015. The MDET refunds were not material to any prior period; accordingly, prior periods were not restated.

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iCAD, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2017

Note 2 - Loss per Common Share

The Company s basic net loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding for the period.

A summary of the Company s calculation of net loss per share is as follows (in thousands except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net loss	**$ (6,933)**	**$ (2,675)**	**$ (10,021)**	**$ (6,783)**
Shares used in the calculation of basic and diluted net loss per share	16,424	15,957	16,291	15,896
Effect of dilutive securities:				
Stock options				
Restricted stock				
Diluted shares used in the calculation of net loss per share	16,424	15,957	16,291	15,896
Net loss per share - basic and diluted	$ (0.42)	$ (0.17)	$ (0.62)	$ (0.43)

The shares of the Company s common stock issuable upon the exercise of stock options and vesting of restricted stock that were excluded from the calculation of diluted net loss per share because their effect would have been antidilutive are as follows:

	Period Ended September 30,	
	2017	2016
Stock options	1,426,513	1,569,166
Restricted stock	507,147	392,148

Stock options and restricted stock	1,933,660	1,961,314

Note 3 - Business Combinations

Acquisition of VuComp Cancer detection portfolio

On January 13, 2016, the Company completed the acquisition of the VuCOMP cancer detection portfolio, including the M-Vu computer aided detection (CAD) technology platform. The acquisition includes an extensive library of related clinical data, VuCOMP s key personnel and the customer base that existed at closing of the transaction. The acquisition of the key personnel and clinical data is expected to contribute to the ongoing development of the Company s CAD technology which will be used for future cancer detection research and patents. As the Company considered this to be a business combination, the assets were valued in accordance with ASC Topic 805, *Business Combinations* (ASC 805).

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iCAD, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2017

The Company acquired VuComp s M-Vu Breast Density product in April 2015. In connection with the diligence of the January 2016 acquisition, VuComp disclosed that it had previously entered into a license agreement pursuant to which it issued an irrevocable, royalty-free worldwide license to a third party. On December 24, 2015, iCAD notified VuComp of a claim under the April 2015 asset purchase agreement based on the disclosure of the third party license agreement, which iCAD believed constituted a breach of VuComp s representation as to its exclusive ownership of its intellectual property at the time of the April 2015 transaction. In connection with the purchase of the VuComp cancer detection portfolio, the Company provided a release of the aforementioned claim. The Company determined that this claim was a component of the purchase price. The Company determined the value of litigation settlement as the excess of the fair value of the business acquired over the cash consideration paid. As a result the Company recorded a gain on litigation settlement of $249,000 in general and administrative expenses during the first quarter of 2016, which is a component of the purchase price as noted below:

	Amount (000 s)
Cash	$ 6
Acquisition litigation settlement	249
Purchase price	$ 255

The amount allocated to the acquired assets was estimated primarily through the use of discounted cash flow valuation techniques. Appraisal assumptions utilized under this method include a forecast of estimated future net cash flows, as well as discounting the future net cash flows to their present value. The following is a summary of the preliminary allocation of the total purchase price based on the estimated fair values as of the date of the acquisition and the amortizable life:

	Amount (000 s)	Estimated amortizable life
Current assets	$ 84	
Property and equipment	65	3 Years
Identifiable intangible assets	699	1-10 Years
Goodwill	293	
Current liabilities	(280)	
Long-term liabilities	(606)	
Purchase price	$ 255	

The assets obtained in the acquisition of VuComp s M-Vu Cancer detection portfolio (including the M-Vu breast density product) and the anticipated future revenues are included in the Detection segment and, accordingly, the goodwill resulting from the purchase price allocation is included in goodwill of the Detection segment.

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iCAD, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2017

Note 4 - Sale of MRI Assets

In December 2016, the Company entered into an Asset Purchase Agreement with Invivo Corporation. In accordance with the agreement, the Company sold to Invivo all right, title and interest to certain intellectual property relating to the Company s VersaVue Software and DynaCAD product and related assets for $3.2 million. The Company closed the transaction on January 30, 2017 less a holdback reserve of $350,000 for a net of approximately $2.9 million. The holdback reserve of $350,000 has been recorded as an asset in other assets and will be paid to the Company within eighteen months from the closing date, less any amounts, if any, due and payable or reserved under the indemnification provisions in the Asset Purchase agreement.

The Company determined the sale constituted the sale of a business in accordance with ASC 805. The Company performed an evaluation to determine if the sale constituted discontinued operations and concluded that the sale did not represent a major strategic shift, and accordingly it was not considered to be discontinued operations. In connection with the transaction, the Company allocated $394,000 of goodwill which was a component of the gain on the sale. The allocation was based on the fair value of the assets sold relative to the fair value of the Detection reporting unit as of the date of the agreement, based on the guidance from ASC 350-20-40-3.

The value of the net assets sold is as follows (in thousands):

Assets	
Accounts Receivable	$ 116
Intangible assets	810
Allocated Goodwill	394
Total Assets	$ 1,320
Liabilities	
Deferred Revenue	$ 746
Total Liabilities	$ 746
Net Assets Sold	$ 574

In connection with the sale the Company agreed to provide certain transition services to Invivo. The fair value of the transition services were determined based on the cost to provide plus a reasonable profit margin and have been recognized as revenue over the term of approximately ninety days from the closing date. The Company recorded a

gain of $2.5 million as of January 30, 2017. The components of the gain on the sale are as follows (in thousands):

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iCAD, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2017

Gain on Sale	
Cash received	$ 2,850
Holdback reserve	350
Fair value of transition services	(118)
Net Assets sold	(574)
Total	$ 2,508

Note 5 - Inventory

The components of inventory, net of allowance for obsolete, unmarketable or slow-moving inventories, are summarized as follows (in thousands):

	as of September 30, 2017	as of December 31, 2016
Raw materials	$ 2,033	$ 2,503
Work in process	139	75
Finished Goods	1,168	1,149
Inventory	$ 3,340	$ 3,727

Note 6 - Debt financing

On August 7, 2017 the Company entered into a Loan and Security Agreement (the Loan Agreement) with Silicon Valley Bank (the Bank) that provides an initial term loan facility (the Term Loan) of $6.0 million and a $4.0 million revolving line of credit (the Revolving Loan). The Company also has the option to secure an additional $3.0 million under the Loan Agreement for a total of $9.0 million in 2018, subject to meeting a net revenue minimum of at least $35.0 million for a trailing twelve month period ending prior to July 30, 2018 (the Revenue Milestone).

The Term Loan accrues interest at prime rate. The Company will begin repayment on Sept 1, 2018 in 36 equal monthly installments of principal. Subject to meeting the Revenue Milestone, the Company could elect to defer repayment of the Term Loan to March 1, 2019 in 30 equal monthly payments.

The outstanding Revolving Advances will accrue interest at a floating per annum rate equal to 1.50% above the prime rate for periods when the ratio of the Company s unrestricted cash to the Company s outstanding liabilities to the Bank plus the amount of the Company s total liabilities that mature within one year is at least 1.25 to 1.0. At all other times,

the interest rate shall be 0.50% above the prime rate. The outstanding Term Loan Advances will accrue interest at a floating per annum rate equal to the prime rate.

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iCAD, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2017

The maturity date of the Revolving Advances and the Term Loan Advances is August 7, 2021. However, the maturity date will become April 30, 2019, April 30, 2020 or April 30, 2021 if, on or before October 30, 2018, or 2019 or 2020, as applicable, the Company does not agree in writing to the net revenue covenant levels proposed by the Bank with respect to the upcoming applicable calendar year.

If the Revolving Advances are paid in full and the Loan Agreement is terminated prior to the maturity date, then the Company will pay to the Bank a termination fee in an amount equal to two percent (2.0%) of the maximum revolving line of credit. If the Company prepays the Term Loan Advances prior to the maturity date, then the Company will pay to the Bank an amount equal to 1.0%-3.0% of the Term Loan Advances, depending on when such Term Loan Advances are repaid. The Loan Agreement requires the Company to maintain net revenues during the trailing six month period ending on the last day of each calendar quarter as follows: June 30, 2017 - $10.25 million; September 30, 2017 - $11.5 million; December 31, 2017 - $14 million; March 31, 2018 - $15 million; June 30, 2018 - $15.25 million; and September 30, 2018 and December 31, 2018 - $15.5 million. As of September 30, 2017 the Company is in compliance with the revenue covenants in the Loan Agreement.

In connection with the credit line, the Company incurred approximately $74,000 of closing costs. In accordance with ASU 2015-03 the closing costs have been deducted from the carrying value of the debt and will be amortized over the expected term of 36 months.

The current repayment schedule for the term loan is based on repayment beginning on September 1, 2018. If the Revenue Milestone is met, the Company could elect to defer repayment until March 2019. The carrying value of the Term Loan (net of debt issuance costs) as of September 30, 2017 is as follows (in thousands):

	September 30, 2017
Short-term	$ 317
Long-term	5,612
Total	$ 5,929

Interest expense related to the loan for the three and nine month periods ended September 30, 2017 is as follows (in thousands):

	September 30, 2017
Three months ended	$ 33
Nine month ended	33

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iCAD, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2017

Note 7 - Lease Commitments

Operating leases

Facilities are leased under operating leases expiring at various dates through March 2020. Certain of these leases contain renewal options. Rent expense under operating leases was $229,000 and $665,000 for the three and nine months ended September 30, 2017, respectively and $178,000 and $516,000 for the three and nine months ended September 30, 2016, respectively.

Future minimum lease payments as of September 30, 2017 under operating leases are as follows: (in thousands)

Fiscal Year	Operating Leases
2017	$ 318
2018	738
2019	746
2020	174
Total	$ 1,976

Capital leases

In August, 2017, the Company assumed an equipment lease obligation with payments totaling $50,000. The leases were determined to be capital leases and accordingly the equipment was capitalized and a liability of $42,000 was recorded. The equipment will be depreciated over the expected life of 3 years. Minimum lease payments are as follows (in thousands):

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iCAD, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2017

Fiscal Year	Capital Lease
2017	4
2018	16
2019	17
2020	13
subtotal minimum lease obligation	50
less interest	(8)
Total, net	42
less current portion	(12)
long term portion	$ 30

In connection with the Radion/DermEbx Acquisition which closed in July 2014, the Company assumed two separate equipment lease obligations with payments totaling approximately $2.6 million through May 2017. The leases were determined to be capital leases and accordingly the equipment was capitalized and a liability of $2.5 million was recorded. In connection with the acquisition, the Company recorded a fair value adjustment to interest expense and amortized the adjustment over the life of the related lease. As of September 30, 2017, there was no further liability for the acquired equipment leases.

Related Party Lease:

Kamal Gogineni is an employee of one of the Company s subsidiaries and a stockholder of the Company s common stock. Additionally, Mr. Gogineni is a shareholder of Radion Capital Partners (RCP). RCP was the lessor under a lease between RCP and DermEbx (the Lease). In connection with the Company s acquisition of assets of Radion, Inc. and DermEbx that closed in July 2014, one of the assets and obligations that the Company acquired was the Lease. Pursuant to the Lease, the Company paid approximately $76,000 to RCP in 2017. As of September 30, 2017, there is no further obligation.

Note 8 - Stock-Based Compensation

The Company follows the guidance in ASC Topic 718, *Compensation Stock Compensation* , (ASC 718).

The Company granted options to purchase 57,352 shares of the Company s stock in the three months ended September 30, 2017. Options granted under the Company s stock incentive plans were valued utilizing the Black-Scholes model using the following assumptions and had the following fair values:

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iCAD, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2017

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Average risk-free interest rate	1.56%	0.84%	1.52%	0.87%
Expected dividend yield	None	None	None	None
Expected life	3.5 years	3.5 years	3.5 years	3.5 years
Expected volatility	64.2% to 67.0%	68.6% to 75.3%	64.2% to 72.0%	68.6% to 75.3%
Weighted average exercise price	$4.28	$5.49	$4.39	$5.57
Weighted average fair value	$2.02	$2.67	$2.12	$2.71

The Company s stock-based compensation expense, including options and restricted stock by category is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Cost of revenue	$ 1	$ 1	5	$ 5
Engineering and product development	76	82	633	289
Marketing and sales	132	162	854	476
General and administrative	294	201	1,581	878
	$ 503	$ 446	$ 3,073	$ 1,648

As of September 30, 2017, unrecognized compensation cost (in thousands) related to unexercisable options and unvested restricted stock and the weighted average remaining period is as follows:

Remaining expense	$ 2,504
Weighted average term	1.1 years

The Company s restricted stock awards typically vest in either one year or three equal annual installments with the first installment vesting one year from grant date. The Company granted a total of 162,500 shares of performance based restricted stock during 2016 with performance measured on meeting a revenue target based on growth for fiscal year 2017 and vesting in three equal installments with the first installment vesting upon measurement of the goal. In addition, a maximum of 108,333 additional shares are available to be earned based on exceeding the revenue goal. Assumptions used to determine the value of performance based grants of restricted stock include the probability of

achievement of the specified revenue targets. Compensation cost for performance based restricted stock requires significant judgment regarding probability of achieving the performance objectives and compensation cost is re-measured at every reporting period. As a result compensation cost could vary significantly during the performance measurement period. The Company granted 153,480 and 392,055 shares of restricted stock with either time based or immediate vesting in the three and nine months ended September 30, 2017, respectively. Included in the restricted shares granted in the second quarter of 2017 are 172,668 shares that were issued in lieu of cash bonus payments and was approved by the Board of Directors in February 2017. The number of shares granted were determined based the amount of approved bonus divided by the stock price of the Company at the date of issuance.

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The Company s aggregate intrinsic value for stock options and restricted stock outstanding is as follows (in thousands):

	Period Ended September 30,	
Aggregate intrinsic value	**2017**	**2016**
Stock options	$ 1,050	$ 1,748
Restricted stock	2,242	2,039

The intrinsic value of stock options exercised during the three and nine months ended September 30, 2017 was $12,000 and $50,000, respectively. The intrinsic value of stock options exercised during the three and nine months September 30, 2016 was $189,000 and $195,000, respectively. The intrinsic value of restricted shares that vested in the three and nine months ended September 30, 2017 was $0.2 million and $1.7 million, respectively. The intrinsic value of restricted shares that vested in the three and nine months ended September 30, 2016 was $0.0 million and $1.0 million, respectively.

Note 9 - Commitments and Contingencies

Foreign Tax Claim

In July 2007, a dissolved former Canadian subsidiary of the Company, CADx Medical Systems Inc. (CADx Medical), received a tax re-assessment of approximately $6,800,000 from the Canada Revenue Agency (CRA) resulting from CRA s audit of CADx Medical s Canadian federal tax return for the year ended December 31, 2002. In February 2010 the CRA reviewed the matter and reduced the tax re-assessment to approximately $703,000, excluding interest and penalties. The Company believes that it is not liable for the re-assessment against CADx Medical and no accrual has been recorded for this matter as of September 30, 2017.

Settlement Obligations

In connection with the acquisition of Xoft in 2010, the Company recorded a royalty obligation pursuant to a settlement agreement entered into between Xoft and Hologic in August 2007. Xoft received a nonexclusive, irrevocable, perpetual, worldwide license, including the right to sublicense certain Hologic patents, and a non-compete covenant as well as an agreement not to seek further damages with respect to the alleged patent violations. In return, the Company had a remaining obligation to pay a minimum annual royalty payment to Hologic, of $250,000 payable through 2016. In addition to the minimum annual royalty payments, the litigation settlement agreement with Hologic also provided for payment of royalties based upon a specified percentage of future net sales on

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any products that utilize the licensed rights. The Company has a liability within accounts payable and accrued expenses for future payment and for the remaining minimum royalty obligations totaling $448,000 as of September 30, 2017. The Company recorded interest expense of approximately $10,000 and $30,000 in the three and nine months September 30, 2016, respectively, related to this obligation.

In December, 2011, the Company agreed to a settlement related to litigation with Carl Zeiss Meditec AG. In July 2017, the Company paid the remaining $500,000 due and there is no further obligation to Zeiss. The Company recorded interest expense of approximately $0 and $26,000 in the three and nine months ended September 30, 2017, respectively and $13,000 and $39,000 in the three and nine months ended September 30, 2016, respectively related to this obligation.

Other Commitments

The Company is obligated to pay approximately $0.8 million for firm purchase obligations to suppliers for future product and service deliverables.

Litigation

The Company is a party to various legal proceedings and claims arising out of the ordinary course of its business. Although the final results of all such matters and claims cannot be predicted with certainty, the Company currently believes that there are no current proceedings or claims pending against it the ultimate resolution of which would have a material adverse effect on its financial condition or results of operations. However, should the Company fail to prevail in any legal matter or should several legal matters be resolved against the Company in the same reporting period, such matters could have a material adverse effect on our operating results and cash flows for that particular period. In all cases, at each reporting period, the Company evaluates whether or not a potential loss amount or a potential range of loss is probable and reasonably estimable under ASC 450, Contingencies. Legal costs are expensed as incurred.

Note 10 - Fair Value Measurements

The Company follows the provisions of ASC Topic 820, *Fair Value Measurement and Disclosures*, (ASC 820). This topic defines fair value, establishes a framework for measuring fair value under US GAAP and enhances disclosures about fair value measurements. Fair value is defined under ASC 820 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

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Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value.

A financial instrument s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Our financial instruments include cash and cash equivalents, accounts receivable, accounts payable certain accrued liabilities and debt. The carrying amounts of our cash and cash equivalents (which are composed primarily of deposit and overnight sweep accounts), accounts receivable, accounts payable and certain accrued liabilities approximate fair value due to the short maturity of these instruments. The carrying value of our term loan approximates fair value due to the market rate of the stated interest rate.

The Company s assets that are measured at fair value on a recurring basis relate to the Company s money market accounts.

The Company s money market funds are included in cash and cash equivalents in the accompanying balance sheets and are considered a Level 1 investment as they are valued at quoted market prices in active markets.

The following table sets forth the Company s assets and liabilities which are measured at fair value on a recurring basis by level within the fair value hierarchy.

Fair value measurements using: (000 s) as of December 31, 2016

	Level 1	Level 2	Level 3	Total
Assets				
Money market accounts	$ 6,622	$	$	$ 6,622
Total Assets	$ 6,622	$	$	$ 6,622

Fair value measurements using: (000 s) as of September 30, 2017				
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Money market accounts	$ 10,054	$	$	$ 10,054
Total Assets	$ 10,054	$	$	$ 10,054

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Items Measured at Fair Value on a Nonrecurring Basis

Certain assets, including long-lived assets and goodwill, are measured at fair value on a nonrecurring basis. These assets are recognized at fair value when they are deemed to be impaired. The Company recorded a $4.7 million impairment in the quarter ended September 30, 2017 which consisted of $4.0 million related to goodwill and $0.7 million related to long-lived assets as discussed in Note 12 and Note 13 and remeasured long-lived assets and goodwill of the Therapy reporting unit at fair value as of the impairment date as noted in the following table. The fair values of long-lived assets and goodwill were measured using Level 3 inputs.

Fair value measurements using: (000 s) as of September 30, 2017

	Level 1	Level 2	Level 3	Total
Non-recurring assets				
Long-lived and intangible assets	$	$	$ 780	$ 780
Goodwill			1,766	1,766
Total Assets	$	$	$ 2,546	$ 2,546

Note 11 - Income Taxes

The Company recorded an income tax benefit of $42,000 and $28,000 for the three and nine months ended September 30, 2017, respectively, as compared to a provision of $10,000 and $55,000 for the three and nine months ended September 30, 2016, respectively. The tax benefit for the three and nine months ended September 30, 2017 is the result of applying for research and development credits in New Hampshire. In the second quarter of 2017, the Company applied for $50,000 of research and development credits from New Hampshire. The Company anticipates the credits to be allocated for the 2016 tax year as well as the 2017 tax year. The research and development credits have been utilized to decrease the New Hampshire non-income tax liability to zero. The $42,000 benefit for the quarter is a result of the utilization of these credits and the decrease of the overall state tax.. At September 30, 2017, the Company had no material unrecognized tax benefits and a deferred tax liability of $12,400 related to tax amortizable goodwill. The Company recorded a deferred tax liability of approximately $1,900 through September 30, 2017. No other adjustments were required under ASC 740, Income Taxes . The Company does not expect that the unrecognized tax benefits will materially increase within the next 12 months. The Company did not recognize any interest or penalties related to uncertain tax positions at September 30, 2017.

On January 1, 2017, the Company adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-09, *Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (ASU 2016-09). Under ASU 2016-09, excess tax benefits and tax deficiencies are

recognized as income tax expense or benefit in the income statement, and excess tax benefits are recognized regardless of whether the benefit reduces taxes payable in the current period. The tax effects of exercised or vested awards are treated as discrete items in the reporting period in which they occur. As a result of the adoption, the net operating loss deferred tax assets increased by $2.1 million and are offset by a corresponding increase in the valuation allowance. The Company files United States federal income tax returns and

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income tax returns in various states and local jurisdictions. The Company s three preceding tax years remain subject to examination by federal and state taxing authorities. In addition, because the Company has net operating loss carry-forwards, the Internal Revenue Service and state jurisdictions are permitted to audit earlier years and propose adjustments up to the amount of net operating loss generated in those years. The Company is not currently under examination by any federal or state jurisdiction for any tax years.

Note 12 - Goodwill

In accordance with FASB ASC Topic 350-20, Intangibles - Goodwill and Other , (ASC 350-20), the Company tests goodwill for impairment on an annual basis and between annual tests if events and circumstances indicate it is more likely than not that the fair value of the reporting unit is less than the carrying value of the reporting unit. The Company s annual test date is October 1st of each year.

Factors the Company considers important, which could trigger an impairment of such asset, include the following:

- significant underperformance relative to historical or projected future operating results;
- significant changes in the manner or use of the assets or the strategy for the Company s overall business;
- significant negative industry or economic trends;
- significant decline in the Company s stock price for a sustained period; and
- a decline in the Company s market capitalization below net book value.

The Company would record an impairment charge if such an assessment were to indicate that the fair value of a reporting unit was less than the carrying value. In evaluating potential impairments outside of the annual measurement date, judgment is required in determining whether an event has occurred that may impair the value of goodwill or intangible assets. The Company utilizes either discounted cash flow models or other valuation models, such as comparative transactions and market multiples, to determine the fair value of reporting units. The Company makes assumptions about future cash flows, future operating plans, discount rates, comparable companies, market multiples, purchase price premiums and other factors in those models. Different assumptions and judgment determinations could

yield different conclusions that would result in an impairment charge to income in the period that such change or determination was made.

As a result of the underperformance of the Therapy reporting unit as compared to expected future results, the Company determined there was a triggering event in the third quarter of 2017. As a result, the Company completed an interim impairment assessment. The interim test resulted in the fair value of the Therapy reporting unit being less than the carrying value of the reporting unit. The Company did not identify a triggering event within the Detection reporting unit and accordingly did not perform an interim test.

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The Company elected to early adopt ASU 2017-04, Intangibles Goodwill and Other: Simplifying the Test for Goodwill Impairment (ASU 2017-04). ASU 2017-04 specifies that goodwill impairment is the amount by which a reporting unit s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. In accordance with the standard, the fair value of the Therapy reporting unit was $3.5 million and the carrying value was $7.5 million. The deficiency of $4.0 million was recorded as an impairment charge in the quarter ended September 30, 2017.

The carrying values of the reporting units were determined based on an allocation of our assets and liabilities through specific allocation of certain assets and liabilities to the reporting units and an apportionment of the remaining net assets based on the relative size of the reporting units revenues and operating expenses compared to the Company as a whole. The determination of reporting units also requires management judgment.

The Company determined the fair values for each reporting unit using a weighting of the income approach and the market approach. For purposes of the income approach, fair value is determined based on the present value of estimated future cash flows, discounted at an appropriate risk adjusted rate. The Company used internal forecasts to estimate future cash flows and includes an estimate of long-term future growth rates based on the most recent views of the long-term forecast for each segment. Accordingly, actual results can differ from those assumed in the forecasts. The discount rate of approximately 18% is derived from a capital asset pricing model and analyzing published rates for industries relevant to the reporting units to estimate the cost of equity financing. The Company uses discount rates that are commensurate with the risks and uncertainty inherent in the respective businesses and in the internally developed forecasts.

In the market approach, the Company uses a valuation technique in which values are derived based on market prices of publicly traded companies with similar operating characteristics and industries. A market approach allows for comparison to actual market transactions and multiples. It can be somewhat limited in its application because the population of potential comparable publicly-traded companies can be limited due to differing characteristics of the comparative business and ours, as well as market data may not be available for divisions within larger conglomerates or non-public subsidiaries that could otherwise qualify as comparable, and the specific circumstances surrounding a market transaction (e.g., synergies between the parties, terms and conditions of the transaction, etc.) may be different or irrelevant with respect to the business.

The Company corroborated the total fair values of the reporting units using a market capitalization approach; however, this approach cannot be used to determine the fair value of each reporting unit value. The blend of the income approach and market approach is more closely aligned to the business profile of the Company, including markets served and products available. In addition, required rates of return, along with uncertainties inherent in the forecast of future cash flows, are reflected in the selection of the discount rate. In addition, under the blended approach, reasonably likely scenarios and associated

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sensitivities can be developed for alternative future states that may not be reflected in an observable market price. The Company will assess each valuation methodology based upon the relevance and availability of the data at the time the valuation is performed and weight the methodologies appropriately.

As discussed in Note 3, in April 2015, the Company acquired VuComp s M-Vu® Breast Density product for $1.7 million. The product was integrated into the Company s Powerlook AMP system, which is a component of the Detection reporting unit. The Company determined that the acquisition was a business combination and recorded goodwill of $0.8 million to the Detection segment. In January 2016, the Company completed the acquisition of VuComp s M-Vu CAD and other assets for $6,000. The customers, related technology and clinical data acquired are being used for the Company s Cancer Detection products and the Company recorded goodwill of $293,000 to the Detection segment.

In December 2016, the Company entered into an Asset Purchase Agreement with Invivo Corporation. The Company sold and conveyed to Buyer all right, title and interest to certain intellectual property relating to the VersaVue Software and the DynaCAD product and related assets. As a result of the Asset Purchase Agreement, the Company determined that the sale constituted the sale of a business and the Company allocated $394,000 of goodwill to assets held for sale as of December 31, 2016. The allocation was based on the fair value of the assets sold relative to the fair value of the Detection reporting unit as of the date of the Asset Purchase Agreement. The Company closed the transaction on January 30, 2017, and goodwill was a component of the net assets sold as of the closing date.

A roll forward of goodwill activity by reportable segment is as follows (in thousands):

	Detection	Therapy	Total
Balance at December 31, 2016	8,362	5,735	14,097
Impairment		(3,969)	(3,969)
Balance at September 30, 2017	$ 8,362	$ 1,766	$ 10,128
Accumulated Goodwill	699	6,270	54,906
Fair value allocation	7,663	13,446	
Accumulated impairment		(17,950)	(44,778)
Balance at September 30, 2017	$ 8,362	$ 1,766	$ 10,128

Note 13 - Long-lived assets

In accordance with FASB ASC Topic 360, Property, Plant and Equipment (ASC 360), the Company assesses long-lived assets for impairment if events and circumstances indicate it is more likely than not that the fair value of the asset group is less than the carrying value of the asset group.

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ASC 360-10-35 uses events and circumstances criteria to determine when, if at all, an asset (or asset group) is evaluated for recoverability. Thus, there is no set interval or frequency for recoverability evaluation. In accordance with ASC 360-10-35-21 the following factors are examples of events or changes in circumstances that indicate the carrying amount of an asset (asset group) may not be recoverable and thus is to be evaluated for recoverability.

A significant decrease in the market price of a long-lived asset (asset group);

A significant adverse change in the extent or manner in which a long-lived asset (asset group) is being used or in its physical condition;

A significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset (asset group), including an adverse action or assessment by a regulator;

An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset (asset group);

A current period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset (asset group).

In accordance with ASC 360-10-35-17, if the carrying amount of an asset or asset group (in use or under development) is evaluated and found not to be fully recoverable (the carrying amount exceeds the estimated gross, undiscounted cash flows from use and disposition), then an impairment loss must be recognized. The impairment loss is measured as the excess of the carrying amount over the assets (or asset group s) fair value.

The Company completed an interim goodwill impairment assessment for the Therapy reporting unit and noted that there was a goodwill impairment (see Note 13). As a result, the Company determined this was a triggering event for long-lived assets. Accordingly, the Company completed an analysis pursuant to ASC 360-10-35-17 and determined that the carrying value of the asset group exceeded the undiscounted cash flows, and that long-lived assets were impaired. The Company recorded long-lived asset impairment charges of approximately $0.7 million in the third quarter ended September 30, 2017 based on the deficiency between the book value of the assets and the fair value as determined in the analysis. At September 30, 2017, the long lived assets in the asset group are recorded at their current fair values.

A considerable amount of judgment and assumptions are required in performing the impairment tests, principally in determining the fair value of the asset group and the reporting unit. While the Company believes the judgments and assumptions are reasonable, different assumptions could change the estimated fair values and, therefore additional impairment charges could be required. Significant negative industry or economic trends, disruptions to the Company s business, loss of significant customers, inability to effectively integrate acquired businesses, unexpected significant changes or planned changes in use of the assets may adversely impact the assumptions used in the fair value estimates and ultimately result in future impairment charges.

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Note 14 - Segment Reporting

In accordance with FASB Topic ASC 280, *Segments* , operating segments, are defined as components of an enterprise that engage in business activities for which discrete financial information is available and regularly reviewed by the chief operating decision maker (CODM) in deciding how to allocate resources and assess performance.

The Company s CODM is the CEO. Each segment generates revenue from the sale of medical equipment and related services and/or sale of supplies. The Company has determined there are two segments, Cancer Detection and Cancer Therapy.

The Detection segment consists of our advanced image analysis and workflow products, and the Therapy segment consists of our radiation therapy Axxent products, and related services. The primary factors used by our CODM to allocate resources are based on revenues, gross profit, operating income, and earnings or loss before interest, taxes, depreciation, amortization, and other specific and non-recurring items (Adjusted EBITDA) of each segment. Included in segment operating income are stock compensation, amortization of technology and depreciation expense. There are no intersegment revenues.

Our CODM does not use asset information by segment to allocate resources or make operating decisions.

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Segment revenues, gross profit, segment operating income or loss, and a reconciliation of segment operating income or loss to GAAP loss before income tax is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Segment revenues:				
Detection	$ 4,346	$ 4,134	$ 13,066	$ 12,961
Therapy	2,654	1,869	7,134	6,449
Total Revenue	$ 7,000	$ 6,003	$ 20,200	$ 19,410
Segment gross profit:				
Detection	$ 3,822	$ 3,586	$ 11,553	$ 11,429
Therapy	821	515	2,282	2,560
Segment gross profit	$ 4,643	$ 4,101	$ 13,835	$ 13,989
Segment operating income (loss):				
Detection	1,475	1,250	4,261	4,494
Therapy	(6,451)	(2,055)	(10,627)	(5,398)
Segment operating income (loss)	$ (4,976)	$ (805)	$ (6,366)	$ (904)
General, administrative, depreciation and amortization expense	$ (1,966)	$ (1,847)	$ (6,143)	$ (5,774)
Interest expense	(36)	(15)	(51)	(59)
Gain on sale of MRI assets			2,508	
Other income	3	2	3	9
Loss before income tax	$ (6,975)	$ (2,665)	$ (10,049)	$ (6,728)

Note 15 - Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), or ASU 2014-09, which superseded nearly all existing revenue recognition guidance under U.S. GAAP. Since then, the FASB

has also issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606), Principals versus Agent Considerations and ASU 2016-10, Revenue from Contracts with Customers (Topic 606), Identifying Performance Obligations and Licensing, which further elaborate on the original ASU No. 2014-09. The core principle of these updates is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgments and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. In July 2015, the FASB approved a one-year deferral of the effective date to January 1, 2018, with early adoption to be permitted as of the original effective date of January 1, 2017. Once this standard becomes effective, companies may use either of the following transition methods: (i) a full retrospective approach

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reflecting the application of the standard in each reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures).

The Company has performed an assessment of its revenue streams and customer classes. The Company has used this information to develop an implementation plan which it expects to complete during the fourth quarter of 2017. The Company does not expect that its revenue recognition will be materially impacted by the new guidance. The Company is also assessing the impact of the guidance on its contract costs in order to determine the magnitude of impact. The Company currently expects to adopt the guidance using the modified retrospective approach, and will finalize this selection along with completion of the implementation plan.

There are also certain considerations related to internal control over financial reporting that are associated with implementing Topic 606. The Company is evaluating its internal control framework over revenue recognition to identify any changes that may need to be made in relation to the implementation process, as well as upon adoption of the new guidance.

In addition, disclosure requirements under the new guidance in Topic 606 have been significantly expanded in comparison to the disclosure requirements under the current guidance. The Company s implementation phase includes designing and implementing the appropriate internal controls to obtain and disclose the information required under Topic 606.

The Company expects to adopt certain practical expedients and make certain policy elections related to the accounting for significant finance components, sales taxes, shipping and handling, costs to obtain a contract and immaterial promised goods or services, which will mitigate certain impacts of adopting Topic 606. The Company also expects to review the tax impact, if any, that Topic 606 will have on the financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases . The standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. We are currently evaluating the impact of our pending adoption of the new standard on our consolidated financial statements, however the adoption of the standard is expected to increase both assets and liabilities for leases that would previously have been off-balance sheet operating leases.

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On January 1, 2017, we adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-09, Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (ASU 2016-09), which simplifies several aspects of the accounting for employee share-based payment transactions, including income taxes consequences, classification of awards as either equity or liabilities, and classification in the statement of cash flows. Under ASU 2016-09, excess tax benefits and tax deficiencies are recognized as income tax expense or benefit in the income statement, and excess tax benefits are recognized regardless of whether the benefit reduces taxes payable in the current period. The tax effects of exercised or vested awards are treated as discrete items in the reporting period in which they occur. As a result of the adoption, the net operating loss deferred tax assets increased by $2.1 million and are offset by a corresponding increase in the valuation allowance.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230) , a consensus of the FASB s Emerging Issues Task Force. This update is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The update requires cash payments for debt prepayment or debt extinguishment costs to be classified as cash outflows for financing activities. It also requires cash payments made soon after an acquisition s consummation date (approximately three months or less) to be classified as cash outflows for investing activities. Payments made thereafter should be classified as cash outflows for financing activities up to the amount of the original contingent consideration liability. Payments made in excess of the amount of the original contingent consideration liability should be classified as cash outflows for operating activities. The amendment is effective for annual periods beginning after December 15, 2017, and interim periods thereafter. Early adoption is permitted. The Company does not expect the adoption of this amendment will have a material impact on our consolidated financial statements.

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

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995: Certain information included in this Item 2 and elsewhere in this Form 10-Q that are not historical facts contain forward looking statements that involve a number of known and unknown risks, uncertainties and other factors that could cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievement expressed or implied by such forward looking statements. These risks and uncertainties include, but are not limited to, uncertainty of future sales and expense levels, protection of patents and other proprietary rights, the impact of supply and manufacturing constraints or difficulties, regulatory changes and requirements applicable to our products, product market acceptance, possible technological obsolescence of products, increased competition, integration of the acquired businesses, the impact of litigation and/or government regulation, changes in Medicare reimbursement policies, competitive factors, the effects of a decline in the economy in markets served by the Company and other risks detailed in the Company s other filings with the Securities and Exchange Commission. The words believe , plan , intend , expect , estimate , anticipate , likely , seek , should , would , could and identify forward-looking statements. Readers are cautioned not to place undue reliance on those forward-looking statements, which speak only as of the date the statement was made.

Results of Operations

Overview

iCAD delivers innovative cancer detection and radiation therapy solutions and services that enable clinicians to find and treat cancers earlier and while enhancing patient care. iCAD offers a comprehensive range of upgradeable computer aided detection (CAD) and workflow solutions to support rapid and accurate detection of breast and colorectal cancers. iCAD s Xoft® Axxent® Electronic Brachytherapy (eBx®) System® is a painless, non-invasive technology that delivers high dose rate, low energy radiation, which targets cancer while minimizing exposure to surrounding healthy tissue. The Xoft System is FDA cleared and CE marked for use anywhere in the body, including treatment of non-melanoma skin cancer, early-stage breast cancer and gynecological cancers. The comprehensive iCAD technology platforms include advanced hardware and software as well as management services designed to support cancer detection and radiation therapy treatments.

The Company has grown primarily through acquisitions including CADx, Qualia Computing, CAD Sciences, Xoft, DermEbx, Radion and VuComp. The Radion/DermEbx acquisition extended the Company s position as a larger player in the oncology market, including the components that enable dermatologists and radiation oncologists to develop, launch and manage their electronic brachytherapy (eBx) programs for the treatment of non-melanoma skin cancer (NMSC). The VuComp acquisition included an extensive library of related clinical data which we use for cancer detection research and patents, as well as key personnel and expanded our customer base.

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In the Detection segment, our industry-leading solutions include advanced image analysis and workflow solutions that enable healthcare professionals to better serve patients by identifying pathologies and pinpointing the most prevalent cancers earlier, a comprehensive range of high-performance, upgradeable Computer-Aided Detection (CAD) systems and workflow solutions for mammography, Magnetic Resonance Imaging (MRI) and Computed Tomography (CT).

The Company intends to continue the extension of its image analysis and clinical decision support solutions for mammography and CT imaging. The Company believes that advances in digital imaging techniques, such as 3D mammography, should bolster its efforts to develop additional commercially viable CAD/advanced image analysis and workflow products. In January 2016, the Company completed the acquisition of VuComp s M-Vu cancer detection portfolio including M-Vu CAD for $6,000. The acquisition provided clinical data for research and an additional customer install base to sell the Company s cancer detection solutions. In December 2016, the Company entered into an Asset Purchase Agreement with Invivo Corporation. The Company sold and conveyed to Invivo all right, title and interest to certain intellectual property relating to the VersaVue Software and the DynaCAD product and related assets. The Company closed the transaction on January 30, 2017, and recorded a gain on the sale of approximately $2.5 million as of the closing date. In March 2017, the Company announced that it received Premarket Approval from the U.S. Food and Drug Administration (the FDA) for the Powerlook Tomo Detection product.

In the Therapy segment, the Company offers an isotope-free cancer treatment platform technology. The Xoft Electronic Brachytherapy System (Xoft eBx) can be used for the treatment of early- stage breast cancer, endometrial cancer, cervical cancer and skin cancer. We believe the Xoft eBx system platform indications represent strategic opportunities in the United States and international markets to offer differentiated treatment alternatives. In addition, the Xoft eBx system generates additional recurring revenue for the sale of consumables and related accessories and offer solutions that enable dermatologists and radiation oncologists to develop, launch and manage their eBx programs for the treatment of NMSC.

As we have discussed in our risk factors noted in our Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2016, our business can be affected by coverage policies adopted by federal and state governmental authorities, such as Medicare and Medicaid, as well as private payers, which often follow the coverage policies of these public programs. Such policies may affect which products customers purchase and the prices customers are willing to pay for those products in a particular jurisdiction.

The Company s headquarters are located in Nashua, New Hampshire, with a manufacturing facility in New Hampshire and an operations, research, development, manufacturing and warehousing facility in San Jose, California.

Critical Accounting Policies

The Company s discussion and analysis of its financial condition, results of operations, and cash flows are based on the Company s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The

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preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates these estimates, including those related to accounts receivable allowance, inventory valuation and obsolescence, intangible assets, income taxes, warranty obligations, contingencies and litigation. Additionally, the Company uses assumptions and estimates in calculations to determine stock-based compensation. The Company bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. For a comprehensive list of the Company s critical accounting policies, reference should be made to the Annual Report on Form 10-K for the year ended December 31, 2016 filed on March 24, 2017.

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Three months ended September 30, 2017 compared to the three months ended September 30, 2016

Revenue: (in thousands)

	Three months ended September 30,			
	2017	**2016**	**Change**	**% Change**
Detection revenue				
Product revenue	$ 2,758	$ 1,991	$ 767	38.5%
Service revenue	1,588	2,143	(555)	(25.9)%
Subtotal	4,346	4,134	212	5.1%
Therapy revenue				
Product revenue	668	23	645	2804.3%
Service revenue	1,986	1,846	140	7.6%
Subtotal	2,654	1,869	785	42.0%
Total revenue	$ 7,000	$ 6,003	$ 997	16.6%

Three months ended September 30, 2017 and 2016:

Total revenue for the three month period ended September 30, 2017 was $7.0 million compared with revenue of $6.0 million for the three month period ended September 30,