

ICAD INC
Form 10-Q
November 14, 2018
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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, 2018

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
(State or other jurisdiction of
incorporation or organization)

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

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

03062
(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 every Interactive Data File required to be submitted 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 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

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 12, 2018 there were 16,771,698 shares outstanding of the registrant's Common Stock, \$.01 par value.

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iCAD, Inc.

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Table of Contents**iCAD, INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets**

(Unaudited)

(In thousands except for share data)

| | September 30, 2018 | December 31, 2017 |
|---|-----------------------|----------------------|
| <u>Assets</u> | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 6,810 | \$ 9,387 |
| Trade accounts receivable, net of allowance for doubtful accounts of \$53 in 2018 and \$107 in 2017 | 6,228 | 8,599 |
| Inventory, net | 1,911 | 2,123 |
| Prepaid expenses and other current assets | 1,217 | 1,100 |
| Total current assets | 16,166 | 21,209 |
| Property and equipment, net of accumulated depreciation of \$6,143 in 2018 and \$5,889 in 2017 | 429 | 576 |
| Other assets | 53 | 53 |
| Intangible assets, net of accumulated amortization of \$7,712 in 2018 and \$7,433 in 2017 | 1,641 | 1,931 |
| Goodwill | 8,362 | 8,362 |
| Total assets | \$ 26,651 | \$ 32,131 |
| <u>Liabilities and Stockholders' Equity</u> | | |
| Current liabilities: | | |
| Accounts payable | \$ 872 | \$ 1,362 |
| Accrued and other expenses | 3,767 | 4,475 |
| Lease payable - current portion | 14 | 12 |
| Notes payable - current portion | 1,250 | 817 |
| Deferred revenue | 5,722 | 5,404 |
| Total current liabilities | 11,625 | 12,070 |
| Other long-term liabilities | 51 | 119 |
| Lease payable, long-term portion | 15 | 27 |
| Notes payable, long-term portion | 4,814 | 5,119 |
| Deferred revenue, long-term portion | 376 | 506 |
| Deferred tax | 2 | 14 |
| Total liabilities | 16,883 | 17,855 |

Commitments and Contingencies (Note 5, 6 and 8)

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

16,913,430 in 2018 and 16,711,752 in 2017; outstanding 16,727,599 in 2018

and 16,525,681 in 2017

| | | |
|---|---------------|---------------|
| | 169 | 167 |
| Additional paid-in capital | 218,444 | 217,389 |
| Accumulated deficit | (207,430) | (201,865) |
| Treasury stock at cost, 185,831 shares in 2018 and 2017 | (1,415) | (1,415) |
| Total stockholders' equity | 9,768 | 14,276 |
| Total liabilities and stockholders' equity | \$ 26,651 | \$ 32,131 |

See accompanying notes to condensed consolidated financial statements.

Table of Contents**iCAD, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Operations**

(Unaudited)

(In thousands except for per share data)

| | Three Months Ended September 30, 2018 | | Nine Months Ended September 30, 2017 | |
|--|---------------------------------------|-------------------|--------------------------------------|--------------------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenue: | | | | |
| Products | \$ 3,093 | \$ 3,426 | \$ 9,301 | \$ 9,225 |
| Service and supplies | 3,099 | 3,574 | 9,366 | 10,975 |
| Total revenue | 6,192 | 7,000 | 18,667 | 20,200 |
| Cost of revenue: | | | | |
| Products | 603 | 636 | 1,598 | 1,349 |
| Service and supplies | 752 | 1,458 | 2,743 | 4,169 |
| Amortization and depreciation | 99 | 263 | 306 | 847 |
| Total cost of revenue | 1,454 | 2,357 | 4,647 | 6,365 |
| Gross profit | 4,738 | 4,643 | 14,020 | 13,835 |
| Operating expenses: | | | | |
| Engineering and product development | 2,035 | 2,254 | 7,431 | 7,060 |
| Marketing and sales | 2,100 | 2,580 | 6,272 | 8,172 |
| General and administrative | 1,778 | 1,944 | 5,419 | 6,067 |
| Amortization and depreciation | 74 | 107 | 234 | 345 |
| Gain on sale of MRI assets | | | | (2,508) |
| Goodwill and long-lived asset impairment | | 4,700 | | 4,700 |
| Total operating expenses | 5,987 | 11,585 | 19,356 | 23,836 |
| Loss from operations | (1,249) | (6,942) | (5,336) | (10,001) |
| Interest expense | (118) | (36) | (373) | (51) |
| Other income | 28 | 3 | 79 | 3 |
| Other expense, net | (90) | (33) | (294) | (48) |
| Loss before income tax expense | (1,339) | (6,975) | (5,630) | (10,049) |
| Tax (expense) benefit | (26) | 42 | (43) | 28 |
| Net loss and comprehensive loss | \$ (1,365) | \$ (6,933) | \$ (5,673) | \$ (10,021) |
| Net loss per share: | | | | |
| Basic | \$ (0.08) | \$ (0.42) | \$ (0.34) | \$ (0.62) |

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| | | | | | | | | |
|---|----|--------|----|--------|----|--------|----|--------|
| Diluted | \$ | (0.08) | \$ | (0.42) | \$ | (0.34) | \$ | (0.62) |
| Weighted average number of shares used in computing loss per share: | | | | | | | | |
| Basic | | 16,700 | | 16,424 | | 16,652 | | 16,291 |
| Diluted | | 16,700 | | 16,424 | | 16,652 | | 16,291 |

See accompanying notes to consolidated financial statements.

Table of Contents**iCAD, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Cash Flows**

(unaudited)

| | For the nine months ended September 30, | |
|--|--|----------------|
| | 2018 | 2017 |
| | (in thousands) | |
| Cash flow from operating activities: | | |
| Net loss | \$ (5,673) | \$ (10,021) |
| Adjustments to reconcile net loss to net cash used for by operating activities: | | |
| Amortization | 286 | 394 |
| Depreciation | 254 | 798 |
| Bad debt provision | 101 | 44 |
| Inventory obsolescence reserve | | 49 |
| Stock-based compensation expense | 1,186 | 3,073 |
| Amortization of debt discount and debt costs | 129 | (6) |
| Interest on settlement obligations | | 26 |
| Deferred tax expense | (13) | 6 |
| Goodwill and long-lived asset impairment | | 4,700 |
| Loss on disposal of assets | 12 | 26 |
| Gain on sale of MRI assets | | (2,158) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 2,301 | (2,062) |
| Inventory | 212 | 340 |
| Prepaid and other current assets | 1 | 179 |
| Accounts payable | (490) | (231) |
| Accrued expenses | (775) | (23) |
| Deferred revenue | 147 | (699) |
| Total adjustments | 3,351 | 4,456 |
| Net cash used for operating activities | (2,322) | (5,565) |
| Cash flow from investing activities: | | |
| Additions to patents, technology and other | (9) | (2) |
| Additions to property and equipment | (107) | (362) |
| Sale of MRI assets | | 2,850 |
| Net cash (used for) provided by investing activities | (116) | 2,486 |
| Cash flow from financing activities: | | |
| Stock option exercises | | 57 |
| Taxes paid related to restricted stock issuance | (130) | (151) |

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| | | |
|--|----------|-----------|
| Principal payments of capital lease obligations | (9) | (77) |
| Proceeds from debt financing, net | | 6,000 |
| Net cash (used for) provided by financing activities | (139) | 5,755 |
| Increase (decrease) in cash and equivalents | (2,577) | 2,676 |
| Cash and equivalents, beginning of period | 9,387 | 8,585 |
| Cash and equivalents, end of period | \$ 6,810 | \$ 11,261 |
| Supplemental disclosure of cash flow information: | | |
| Interest paid | \$ 215 | \$ 14 |
| Taxes paid | \$ 42 | \$ 52 |

See accompanying notes to consolidated financial statements.

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iCAD, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2018

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, 2018, the results of operations of the Company for the three and nine month periods ended September 30, 2018 and 2017, and cash flows of the Company for the nine month periods ended September 30, 2018 and 2017.

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, 2017 filed with the SEC on March 30, 2018. The results for the three and nine month periods ended September 30, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2018, or any future period.

On a quarterly basis the Company evaluates whether there are conditions or events, considered in the aggregate, that would raise substantial doubt about the entity's ability to continue as a going concern. Substantial doubt exists when conditions and events, considered in the aggregate, indicate it is probable that the Company will be unable to meet its obligations as they become due during the one-year period following the date of the Company's financial statements for the quarter ended September 30, 2018. The assessment is based on the relevant conditions that are known or reasonably knowable as of November 13, 2018. As of September 30, 2018, the Company had a working capital surplus of \$4.5 million. The Loan Agreement with Silicon Valley Bank has certain financial covenants that are measured on a six month trailing basis including a revenue covenant based on the revenues of the Detection segment and a minimum EBITDA amount. Based on the Company's current estimates, the Company anticipates that it may not meet the financial covenants for the quarter ending December 31, 2018. If the Company does not comply with the covenants and if the Company is unable to secure a waiver or modifications to the Loan Agreement or alternative sources of capital to allow the Company to come into compliance with the covenants or allow the Company to repay or refinance the Loan Agreement, an event of default may occur under the Loan Agreement. If an event of default were to occur under the Loan Agreement, the lender may accelerate the payment of amounts outstanding and otherwise exercise any remedies to which it may be entitled. In addition, in such a case, the Company may no longer have access to the liquidity provided by the Loan Agreement and, as a result, the Company may not have sufficient liquidity to satisfy operating expenses, capital expenditures and other cash needs. These conditions

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iCAD, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2018

raise substantial doubt about our ability to continue as a going concern. However, the Company believes alternative sources of capital are available including from other sources of debt financings and/or future sales of its equity securities. In addition, the Company has made and can make additional reductions to reduce near term cash requirements. One or more of these mitigating responses, together with anticipated revenues, are expected to provide the Company with sufficient liquidity to continue as a going concern. There are no assurances, however, that in the event the Company is not successful in obtaining the necessary waivers or modifications to the Loan Agreement, that other sources of capital will be available, or, if available, the Company will be able to secure such capital on favorable terms. The Company's failure to secure the necessary waivers or modifications, to generate enough revenue, control or further reduce expenditures and/or to secure capital from other sources may result in an inability of the Company to continue as a going concern. Our financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

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

Adoption of ASC Topic 606, Revenue from Contracts with Customers

On January 1, 2018, the Company adopted the new accounting standard ASC 606, Revenue from Contracts with Customers and all the related amendments (Topic 606) using the modified retrospective method for all contracts not completed as of the date of adoption. For contracts that were modified before the effective date, the Company reflected the aggregate effect of all modifications when identifying performance obligations and allocating transaction price in accordance with practical expedient ASC 606-10-65-1-(f)-4, which did not have a material effect on the Company's assessment of the cumulative effect adjustment upon adoption. The Company recognized the cumulative effect of initially applying the new standard as an adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

Table of Contents**iCAD, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements****(Unaudited)****September 30, 2018**

A significant portion of the Company's revenue continues to be recognized when products are shipped from manufacturing or warehousing facilities. Revenue generated from fixed fee service contracts and source agreements continues to be recognized on a straight-line basis over the term of the agreement. Revenue generated from professional service contracts entered into with customers on a time and material basis is recognized over the term of the agreement in proportion to the costs incurred in satisfying the obligations under the contract. Components of certain fixed fee service contracts are accounted for as a lease and therefore are outside the scope of Topic 606. See Note 1 for further details.

We recorded a net increase to opening retained earnings of \$0.1 million as of January 1, 2018 due to the cumulative impact of adopting Topic 606, with the impact primarily related to the deferral of commissions on our long-term service arrangements and warranty periods greater than one year, which previously were expensed as incurred but under the amendments to ASC 340-40 will generally be capitalized and amortized over the period of contract performance or a longer period if renewals are expected and the renewal commission is not commensurate with the initial commission.

The cumulative effect of the changes made to the Company's consolidated balance sheet for the adoption of Topic 606 were as follows (in thousands):

| Selected Balance Sheet | Balance at December 31, 2017 | Adjustments Due to ASU 2014-09 | Balance at January 1, 2018 |
|---|---|---|---------------------------------------|
| Assets | | | |
| Prepaid expenses and other current assets | \$ 1,100 | \$ 147 | \$ 1,247 |
| Liabilities | | | |
| Deferred revenue | | 409 | 409 |
| Contract liabilities | 5,910 | (370) | 5,540 |
| Stockholders equity | | | |
| Accumulated deficit | (201,865) | 108 | (201,973) |

Table of Contents**iCAD, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements****(Unaudited)****September 30, 2018**

In accordance with the requirements of the new standard, the disclosure of the impact of the adoption on our consolidated balance sheet and statement of operations was as follows (in thousands):

| Selected Balance Sheet | As of September 30, 2018 | | |
|---|---------------------------------|---|---|
| | As Reported | Balances without Adoption of ASC 606 | Effect of Change Increase (Decrease) |
| Assets | | | |
| Prepaid expenses and other current assets | \$ 1,217 | \$ 986 | \$ (231) |
| Liabilities | | | |
| Accrued expenses | 3,767 | 3,767 | |
| Deferred revenue | 332 | 332 | |
| Contract liabilities | 5,766 | 5,863 | 97 |
| Deferred tax | 2 | 2 | |
| Stockholders equity | | | |
| Accumulated deficit | (207,430) | (207,564) | (134) |

The impact to revenues as a result of applying Topic 606 for the three and nine months ended September 30, 2018 was an increase of \$67,000 and \$63,000, respectively (table in thousands).

| Selected Statement of Operations | Three months ended September 30, 2018 | | | Nine months ended September 30, 2018 | | |
|---|--|---|---|---|---|---|
| | As Reported | Balances without Adoption of ASC 606 | Effect of Change Increase (Decrease) | As Reported | Balances without Adoption of ASC 606 | Effect of Change Increase (Decrease) |
| Revenue | | | | | | |
| Products | \$ 3,093 | \$ 3,036 | \$ 57 | \$ 9,301 | \$ 9,215 | \$ 86 |
| Service and supplies | 3,099 | 3,089 | \$ 10 | 9,366 | 9,355 | 11 |
| Cost of revenue | | | | | | |
| Products | 603 | 603 | | 1,598 | 1,598 | |
| Service and supplies | 752 | 752 | | 2,743 | 2,743 | |
| Operating expenses | | | | | | |
| Marketing and sales | 2,100 | 2,118 | (18) | 6,272 | 6,528 | (256) |
| Interest expense | (118) | (118) | | (373) | (373) | |
| Other income | 28 | 28 | | 79 | 79 | |

| | | | | | | |
|----------------------------|---------|---------|------|---------|---------|-------|
| Tax benefit (expense) | (26) | (26) | (43) | (43) | | |
| Net loss | (1,365) | (1,450) | (85) | (5,673) | (6,026) | (353) |
| Revenue Recognition | | | | | | |

In accordance with ASC 606, revenue is recognized when a customer obtains control of promised goods or services. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these goods or services and excludes any sales incentives or taxes collected from customer which are subsequently remitted to government authorities. To achieve this core principle, the Company applies the following five steps:

- 1) **Identify the contract(s) with a customer** A contract with a customer exists when (i) the Company enters into an enforceable contract with a customer that defines each party's rights regarding the goods or services to be transferred and identifies the payment terms related to those goods or services, (ii) the contract has commercial

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(Unaudited)

September 30, 2018

substance and, (iii) the Company determines that collection of substantially all consideration for goods or services that are transferred is probable based on the customer's intent and ability to pay the promised consideration. The Company's contracts are typically in the form of a purchase order. For certain large customers, the Company may also enter master service agreements which although include the terms under which the parties will enter into contracts do not require any minimum purchases and therefore, do not represent contracts until coupled with a purchase order. The Company applies judgment in determining the customer's ability and intention to pay, which is based on a variety of factors including the customer's historical payment experience or, in the case of a new customer, published credit and financial information pertaining to the customer.

- 2) **Identify the performance obligations in the contract** Performance obligations promised in a contract are identified based on the goods or services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the good or service either on its own or together with other resources that are readily available from third parties or from the Company, and are distinct in the context of the contract, whereby the transfer of the goods or services is separately identifiable from other promises in the contract. To the extent a contract includes multiple promised goods or services, the Company must apply judgment to determine whether promised goods or services are capable of being distinct and distinct in the context of the contract. If these criteria are not met the promised goods or services are accounted for as a combined performance obligation. The Company's contracts typically do not include options that would result in a material right. If options to purchase additional goods or services are included in customer contracts, the Company evaluates the option in order to determine if the Company's arrangement include promises that may represent a material right and needs to be accounted for as a performance obligation in the contract with the customer. The Company did not note any significant provisions within its typical contracts that would create a material right.
- 3) **Determine the transaction price** The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring goods or services to the customer. To the extent the transaction price includes variable consideration; the Company estimates the amount of variable consideration that should be included in the transaction price utilizing either the expected value method or the most likely amount method depending on the nature of the variable consideration. Variable consideration is included in the transaction price if, in the Company's judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur.
- 4) **Allocate the transaction price to the performance obligations in the contract** If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation.

Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price (SSP) basis unless

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(Unaudited)

September 30, 2018

the transaction price is variable and meets the criteria to be allocated entirely to a performance obligation or to a distinct good or service that forms part of a single performance obligation. The Company determines SSP based on the price at which the performance obligation is sold separately. If the SSP is not observable through past transactions, the Company estimates the SSP taking into account available information such as market conditions and internally approved pricing guidelines related to the performance obligations.

- 5) **Recognize revenue when (or as) the Company satisfies a performance obligation** The Company satisfies performance obligations either over time or at a point in time as discussed in further detail below. Revenue is recognized at the time the related performance obligation is satisfied by transferring a promised good or service to a customer.

The Company recognizes revenue from its contracts with customers primarily from the sale of products and from the sale of services and supplies. Revenue is recognized when control of the promised goods or services is transferred to a customer, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. For product revenue, control has transferred upon shipment provided title and risk of loss have passed to the customer. Services and supplies are considered to be transferred as the services are performed or over the term of the service or supply agreement. The Company enters into contracts that can include various combinations of products and services, which are generally capable of being distinct and accounted for as separate performance obligations. The Company's hardware is generally highly dependent on, and interrelated with, the underlying software and the software is considered essential to the functionality of the product. In these cases, the hardware and software license are accounted for as a single performance obligation and revenue is recognized at the point in time when ownership is transferred to the customer. Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Company from a customer, are excluded from revenue. Shipping and handling costs associated with outbound freight after control of a product has transferred to a customer are accounted for as fulfillment costs and are included in cost of revenue.

Table of Contents**iCAD, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements****(Unaudited)****September 30, 2018****Disaggregation of Revenue**

The following tables presents our revenues disaggregated by major good or service line, timing of revenue recognition, and sales channel, reconciled to our reportable segments (in thousands).

| | Three months ended September 30, 2018 | | |
|---------------------------------------|--|----------------|--------------|
| | Reportable Segments | | Total |
| | Detection | Therapy | |
| Major Goods/Service Lines | | | |
| Products | \$ 2,394 | \$ 1,162 | \$ 3,556 |
| Service contracts | 1,341 | 373 | 1,714 |
| Supply and source usage agreements | | 599 | 599 |
| Professional services | | 68 | 68 |
| Other | 58 | 63 | 121 |
| | \$ 3,793 | \$ 2,265 | \$ 6,058 |
| Timing of Revenue Recognition | | | |
| Goods transferred at a point in time | \$ 2,394 | \$ 1,206 | \$ 3,600 |
| Services transferred over time | 1,399 | 1,059 | 2,458 |
| | \$ 3,793 | \$ 2,265 | \$ 6,058 |
| Sales Channels | | | |
| Direct sales force | \$ 2,340 | \$ 1,798 | \$ 4,138 |
| OEM partners | 1,453 | | 1,453 |
| Channel partners | | 467 | 467 |
| | \$ 3,793 | \$ 2,265 | \$ 6,058 |
| Total Revenue | | | |
| Revenue from contracts with customers | \$ 3,793 | \$ 2,265 | \$ 6,058 |
| Revenue from lease components | 134 | | 134 |
| | \$ 3,927 | \$ 2,265 | \$ 6,192 |

Table of Contents**iCAD, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements****(Unaudited)****September 30, 2018**

| | Nine months ended September 30, 2018 | | |
|---------------------------------------|---|----------------|--------------|
| | Reportable Segments | | |
| | Detection | Therapy | Total |
| Major Goods/Service Lines | | | |
| Products | \$ 7,369 | \$ 3,406 | \$ 10,775 |
| Service contracts | 3,978 | 1,082 | 5,060 |
| Supply and source usage agreements | | 1,686 | 1,686 |
| Professional services | | 262 | 262 |
| Other | 167 | 303 | 470 |
| | \$ 11,514 | \$ 6,739 | \$ 18,253 |
| Timing of Revenue Recognition | | | |
| Goods transferred at a point in time | \$ 7,369 | \$ 3,676 | \$ 11,045 |
| Services transferred over time | 4,145 | 3,063 | 7,208 |
| | \$ 11,514 | \$ 6,739 | \$ 18,253 |
| Sales Channels | | | |
| Direct sales force | \$ 6,180 | \$ 5,756 | \$ 11,936 |
| OEM partners | 5,334 | | 5,334 |
| Channel partners | | 983 | 983 |
| | \$ 11,514 | \$ 6,739 | \$ 18,253 |
| Total Revenue | | | |
| Revenue from contracts with customers | \$ 11,514 | \$ 6,739 | \$ 18,253 |
| Revenue from lease components | 414 | | 414 |
| | \$ 11,928 | \$ 6,739 | \$ 18,667 |

Table of Contents**iCAD, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements****(Unaudited)****September 30, 2018**

| | Three months ended September 30, 2017(1) | | |
|---------------------------------------|---|----------------|--------------|
| | Reportable Segments | | |
| | Detection | Therapy | Total |
| Major Goods/Service Lines | | | |
| Products | \$ 2,758 | \$ 1,364 | \$ 4,122 |
| Service contracts | 1,385 | 322 | 1,707 |
| Supply and source usage agreements | | 507 | 507 |
| Professional services | | 99 | 99 |
| Other | 60 | 362 | 422 |
| | \$ 4,203 | \$ 2,654 | \$ 6,857 |
| Timing of Revenue Recognition | | | |
| Goods transferred at a point in time | 2,758 | 1,552 | \$ 4,310 |
| Services transferred over time | 1,445 | 1,102 | 2,547 |
| | \$ 4,203 | \$ 2,654 | \$ 6,857 |
| Sales Channels | | | |
| Direct sales force | \$ 1,788 | \$ 2,084 | \$ 3,872 |
| OEM partners | 2,415 | | 2,415 |
| Channel partners | | 570 | 570 |
| | \$ 4,203 | \$ 2,654 | \$ 6,857 |
| Total Revenue | | | |
| Revenue from contracts with customers | \$ 4,203 | \$ 2,654 | \$ 6,857 |
| Revenue from lease components | 143 | | 143 |
| | \$ 4,346 | \$ 2,654 | \$ 7,000 |

(1) As noted above, prior period amounts have not been adjusted under the modified retrospective method.

Table of Contents**iCAD, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements****(Unaudited)****September 30, 2018**

| | Nine months ended September 30, 2017(1) | | |
|---------------------------------------|--|-----------------|------------------|
| | Reportable Segments | | |
| | Detection | Therapy | Total |
| Major Goods/Service Lines | | | |
| Products | \$ 7,970 | \$ 3,365 | \$ 11,335 |
| Service contracts | 4,324 | 1,126 | 5,450 |
| Supply and source usage agreements | | 1,454 | 1,454 |
| Professional services | | 167 | 167 |
| Other | 334 | 1,022 | 1,356 |
| | \$ 12,628 | \$ 7,134 | \$ 19,762 |
| Timing of Revenue Recognition | | | |
| Goods transferred at a point in time | 7,970 | 3,703 | \$ 11,673 |
| Services transferred over time | 4,658 | 3,431 | 8,089 |
| | \$ 12,628 | \$ 7,134 | \$ 19,762 |
| Sales Channels | | | |
| Direct sales force | \$ 5,899 | \$ 6,254 | \$ 12,153 |
| OEM partners | 6,729 | | 6,729 |
| Channel partners | | 880 | 880 |
| | \$ 12,628 | \$ 7,134 | \$ 19,762 |
| Total Revenue | | | |
| Revenue from contracts with customers | \$ 12,628 | \$ 7,134 | \$ 19,762 |
| Revenue from lease components | 438 | | 438 |
| | \$ 13,066 | \$ 7,134 | \$ 20,200 |

(1) As noted above, prior period amounts have not been adjusted under the modified retrospective method. *Products*. Product revenue consists of sales of cancer detection products, cancer therapy systems, cancer therapy applicators, cancer therapy disposable applicators and other accessories that are typically shipped with a cancer therapy system. The Company transfers control and recognizes a sale when the product is shipped from the manufacturing or warehousing facility to the customer.

Service Contracts. The Company sells service contracts in which the Company provides professional services including product installations, maintenance, training, and service repairs, and in certain cases leases equipment, to hospitals, imaging centers, radiological practices, and radiation oncologists and treatment centers. As lease contracts are not within the scope of Topic 606, the Company accounts for the lease components of these arrangements in accordance with ASC 840 Leases and the remaining consideration is

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iCAD, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2018

allocated to the other performance obligations identified in accordance with Topic 606. The consideration allocated to the lease component is recognized as lease revenue on a straight-line basis over the specified term of the agreement. Revenue for the non-lease components, such as service contracts, is recognized on a straight-line basis over the term of the agreement. The service contracts range from 12 months to 48 months. The Company typically receives payment at the inception of the contract and recognizes revenue on a straight-line basis over the term of the agreement.

Supply and Source Usage Agreements. Revenue from supply and source usage agreements is recognized on a straight-line basis over the term of the supply or source agreement.

Professional Services. Revenue from fixed fee service contracts is recognized on a straight-line basis over the term of the agreement. Revenue from professional service contracts entered into with customers on a time and materials basis is recognized over the term of the agreement in proportion to the costs incurred in satisfying the obligations under the contract.

Other. Other revenue consists primarily of miscellaneous products and services. The Company transfers control and recognizes a sale when the installation services are performed or when the Company ships the product from our manufacturing or warehouse facility to the customer.

Significant Judgments

The Company's contracts with customers may include promises to transfer multiple products and services to a customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. For arrangements with multiple performance obligations, the Company allocates revenue to each performance obligation based on its relative standalone selling price. Judgment is required to determine the standalone selling price for each distinct performance obligation. The Company generally determines standalone selling prices based on the prices charged to customers and uses a range of amounts to estimate standalone selling prices when we sell each of the products and services separately and need to determine whether there is a discount that needs to be allocated based on the relative standalone selling prices of the various products and services. The Company typically has more than one range of standalone selling prices for individual products and services due to the stratification of those products and services by customers and circumstances. In these instances, the Company may use information such as the type of customer and geographic region in determining the range of standalone selling prices.

The Company may provide credits or incentives to customers, which are accounted for as variable consideration when estimating the transaction price of the contract and amounts of revenue to recognize. The amount of variable consideration to include in the transaction price is estimated at contract inception using either the estimated value method or the most likely amount method based on the nature of the variable consideration. These estimates

Table of Contents**iCAD, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements****(Unaudited)****September 30, 2018**

are updated at the end of each reporting period as additional information becomes available and revenue is recognized only to the extent that it is probable that a significant reversal of any amounts of variable consideration included in the transaction price will not occur. The Company provides for estimated warranty costs on original product warranties at the time of sale.

Contract Balances

Contract liabilities are a component of deferred revenue, and contract assets are a component of prepaid and other current assets. The following table provides information about receivables, contract assets, and contract liabilities from contracts with customers (in thousands).

Contract balances

| | Balance at September 30, 2018 |
|---|--|
| Receivables, which are included in Trade accounts receivable | \$ 6,128 |
| Contract assets, which are included in Prepaid and other current assets | 19 |
| Contract liabilities, which are included in Deferred revenue | 5,766 |

Timing of revenue recognition may differ from timing of invoicing to customers. The Company records a receivable when revenue is recognized prior to receipt of cash payments and the Company has the unconditional right to such consideration, or unearned revenue when cash payments are received or due in advance of performance. For multi-year agreements, the Company generally invoices customers annually at the beginning of each annual service period.

The opening balance of accounts receivable from contracts with customers, net of allowance for doubtful accounts, was \$8.5 million as of January 1, 2018. As of September 30, 2018, accounts receivable, net of allowance for doubtful accounts, was \$6.1 million.

The Company will record a contract asset for unbilled revenue when the Company's performance is in excess of amounts billed or billable. The Company has classified the contract asset balance as a component of prepaid expenses and other current assets as of January 1, 2018 and September 30, 2018. The opening balance of contract assets was \$166,000 as of January 1, 2018. As of September 30, 2018, the contract asset balance was \$19,000.

Deferred revenue from contracts with customers is primarily composed of fees related to long-term service arrangements, which are generally billed in advance. Deferred revenue also includes payments for installation and training that has not yet been completed and other offerings for which we have been paid in advance and earn the revenue when we transfer control of the product or service. Deferred revenue from contracts with customers is included in deferred revenue in the consolidated balance sheets. Deferred revenue on the

Table of Contents**iCAD, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements****(Unaudited)****September 30, 2018**

consolidated balance sheet also includes \$369,000 and \$332,000 at December 31, 2017 and September 30, 2018, respectively of amounts associated with service contracts accounted for under Topic 840. The balance of deferred revenue at December 31, 2017 and September 30, 2018 is as follows (in thousands):

| December 31, 2017 | Contract liabilities | Lease revenue | Total |
|--------------------------|-----------------------------|----------------------|-----------------|
| Short term | \$ 5,044 | \$ 360 | \$ 5,404 |
| Long term | 497 | 9 | 506 |
| Total | \$ 5,541 | \$ 369 | \$ 5,910 |

| September 30, 2018 | Contract liabilities | Lease revenue | Total |
|---------------------------|-----------------------------|----------------------|-----------------|
| Short term | \$ 5,402 | \$ 320 | \$ 5,722 |
| Long term | 364 | 12 | 376 |
| Total | \$ 5,766 | \$ 332 | \$ 6,098 |

Changes in deferred revenue from contracts with customers were as follows (in thousands):

| | Nine Months Ended September 30, 2018 |
|---------------------------------|---|
| Balance at beginning of period | \$ 5,541 |
| Adoption adjustment | 39 |
| Deferral of revenue | 7,995 |
| Recognition of deferred revenue | (7,809) |
| Balance at end of period | \$ 5,766 |

We expect to recognize approximately \$2.1 million of the deferred amount in 2018, \$3.8 million in 2019, and \$0.2 million thereafter.

Assets Recognized from the Costs to Obtain a Contract with a Customer

We recognize an asset for the incremental costs of obtaining a contract with a customer if we expect the benefit of those costs to be longer than one year. We have determined that certain commissions programs meet the requirements to be capitalized. The opening balance of capitalized costs to obtain a contract was \$117,000 as of January 1, 2018. As of September 30, 2018, the balance of capitalized costs to obtain a contract was \$256,000. The Company has classified the capitalized costs to obtain a contract as a component of prepaid expenses and other current assets as of January 1, 2018 and September 30, 2018.

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Changes in the balance of capitalized costs to obtain a contract were as follows (in thousands):

| | Nine Months Ended September 30, 2018 | |
|---|---|-------|
| Balance at beginning of period | \$ | 117 |
| Deferral of costs to obtain a contract | | 293 |
| Recognition of costs to obtain a contract | | (154) |
| Balance at end of period | \$ | 256 |

Practical Expedients and Exemptions

The Company has elected to make the following accounting policy elections through the adoption of the following practical expedients:

Right to Invoice

Where applicable, the Company will recognize revenue from a contract with a customer in an amount that corresponds directly with the value to the customer of the Company's performance completed to date and the amount to which the entity has a right to invoice.

Sales and Other Similar Taxes

The Company will exclude sales taxes and similar taxes from the measurement of transaction price and will ensure that it complies with the disclosure requirements of ASC 235-10-50-1 through 50-6.

Significant Financing Component

The Company will not adjust the promised amount of consideration for the effects of a significant financing component if the Company expects, at contract inception, that the period between when the entity transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

Cost to Obtain a Contract

The Company will recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the Company otherwise would have recognized is one year or less and there are no renewal periods on which the Company does not pay commissions that are not commensurate with those originally paid.

Promised Goods or Services that are Immaterial in the Context of a Contract

The Company has elected to assess promised goods or services as performance obligations that are deemed to be immaterial in the context of a contract. As such, the Company will not aggregate and assess immaterial items at the entity level. That is, when determining whether a good or service is immaterial in the context of a contract, the assessment will be made based on the application of ASC 606 at the contract level.

The Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed.

Table of Contents**iCAD, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements****(Unaudited)****September 30, 2018***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.

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, | |
|--|---|-------------------|--|--------------------|
| | 2018 | 2017 | 2018 | 2017 |
| Net loss | \$ (1,365) | \$ (6,933) | \$ (5,673) | \$ (10,021) |
| Shares used in the calculation of basic and diluted net loss per share | 16,700 | 16,424 | 16,652 | 16,291 |
| Effect of dilutive securities: | | | | |
| Stock options | | | | |
| Restricted stock | | | | |
| Diluted shares used in the calculation of net loss per share | 16,700 | 16,424 | 16,652 | 16,291 |
| Net loss per share basic and diluted | \$ (0.08) | \$ (0.42) | \$ (0.34) | \$ (0.62) |

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, | |
|------------------------------------|---------------------------------------|-------------|
| | 2018 | 2017 |
| Stock options | 1,462,439 | 1,426,513 |
| Restricted stock | 502,868 | 507,147 |
| Stock options and restricted stock | 1,965,307 | 1,933,660 |

Table of Contents**iCAD, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements****(Unaudited)****September 30, 2018****Note 3 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 prepaid and other current 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. A third party has made a claim against Invivo and the Company, for which the Company is required to indemnify Invivo. The Company is disputing such third party claim and the amount of the claim the Company may be required to pay is not determinable at this time. Any amounts owed by the Company in connection with such indemnification obligations will reduce the \$350,000 holdback.

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 |

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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):

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

Note 4 Inventory

Inventory is valued at the lower of cost or net realizable value, with cost determined by the first-in, first-out method. The Company regularly reviews inventory quantities on hand and records a reserve for excess and/or obsolete inventory primarily based upon the estimated usage of its inventory as well as other factors. Inventories consisted of the following (in thousands), which includes an inventory reserve of approximately \$1.2 million as of September 30, 2018 and December 31, 2017.

| | as of September 30, 2018 | as of December 31, 2017 |
|-----------------|-----------------------------|----------------------------|
| Raw materials | \$ 826 | \$ 992 |
| Work in process | 150 | 63 |
| Finished Goods | 935 | 1,068 |
| Inventory | \$ 1,911 | \$ 2,123 |

Note 5 Debt financing

On August 7, 2017, the Company entered into a Loan and Security Agreement, which has been modified by the First Loan Modification Agreement dated as of March 22, 2018 and the Second Loan Modification Agreement dated as of August 13, 2018 (the Loan Agreement) with Silicon Valley Bank (the Bank) that provided an initial term loan facility

(amounts borrowed thereunder, the Initial Term Loan) of \$6.0 million and a \$4.0 million revolving line of credit (amounts borrowed thereunder, the Revolving Loans). The Company also has the option to borrow an additional \$3.0 million term loan under the Loan Agreement (amounts borrowed thereunder, the Subsequent Term Loan and together with the Initial Term Loan, the Term Loan), subject to meeting a Detection revenue minimum of at least \$21.5 million for a trailing twelve month period ending on or prior to June 30, 2019.

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iCAD, INC. AND SUBSIDIARIES

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September 30, 2018

In the quarter ended June 30, 2018, the Company met the minimum 3 month trailing EBITDA threshold of \$(750,000) for a trailing three month period ending between March 22, 2018 and July 31, 2018 (the Adjusted EBITDA Event) and thus will begin repayment of the first tranche of the Term Loan on March 1, 2019. The Company is required to make 30 equal monthly installment payments of principal.

The Company will be required to begin repayment of the second tranche of the Term Loan if drawn on October 1, 2019 and make 30 equal monthly installments of principal, if the Company meets the Detection revenue minimum.

Outstanding Revolving Loans 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 Loans will accrue interest at a floating per annum rate equal to the prime rate.

The maturity date of the Revolving Loans and the Term Loans is March 1, 2022. However, the maturity date will become April 30, 2019, April 30, 2020 or April 30, 2021 if, on or before March 15, 2019, or 2020 or 2021, as applicable, the Company does not agree in writing to the Detection revenue and adjusted EBITDA covenant levels proposed by the Bank with respect to the upcoming applicable calendar year.

If the Revolving Loans 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 (2.0%) of the maximum revolving line of credit. If the Company prepays the Term Loans prior to the maturity date, then the Company will pay to the Bank an amount equal to 1.0%-3.0% of the Term Loans, depending on when such Term Loans are repaid. In addition, the Loan Agreement requires the Company to pay a final payment of 8.5% of the Term Loan, which was increased by the Second Loan Modification Agreement from 8% upon the earliest of the repayment of the Term Loans, the termination of the Loan agreement and the maturity date. The Company is accruing such payment as interest expense. As of September 30, 2018, the accrued final payment is approximately \$129,000 and is a component of the outstanding loan balance.

As part of the Second Loan Modification Agreement dated August 13, 2018, the Company revised the Detection Revenue Covenant (the Covenant) for the quarter ended June 30, 2018 to maintain compliance with the Covenant. The Second Loan Modification Agreement requires the Company to maintain minimum detection revenues during the trailing six month period ending on the last day of each calendar quarter as follows: June 30, 2018 - \$7.5 million; September 30, 2018 - \$7.5 million and December 31, 2018 - \$8.75 million. The Second Loan Modification Agreement requires the Company to maintain adjusted EBITDA during the trailing six month period ending on the last day of each calendar quarter as follows: September 30, 2018 - \$(1 million) and December 31, 2018 - \$1.00. For the quarter ended September 30, 2018 the Company was in compliance with the

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covenants as modified by the Second Loan Modification Agreement. Although the Bank has agreed to revise the Covenants in prior quarters, there is no guarantee that the Bank would be willing to revise the Covenants. If the Company does not meet the Covenants and the Loan Agreement were breached and required to be repaid, there would be substantial doubt about the ability to fund operations for 12 months, which could have a significant impact on the Company's financial position.

Obligations to the Bank under the Loan Agreement are secured by a first priority security interest in substantially all of the assets, including intellectual property, accounts, receivables, equipment, general intangibles, inventory and investment property, and all of the proceeds and products of the foregoing, of each of the Company and Xoft, Inc. and Xoft Solutions LLC, wholly-owned subsidiaries of the Company.

In connection with the Loan Agreement, 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 March 1, 2019, as the Company met the EBITDA minimum as of September 30, 2018. The carrying value of the Term Loan (net of debt issuance costs) as of September 30, 2018 and December 31, 2017 is as follows (in thousands):

| | September 30, 2018 | December 31, 2017 |
|-----------------------------------|-----------------------|----------------------|
| Principal Amount of Term Loan | \$ 6,000 | \$ 6,000 |
| Unamortized closing costs | (65) | (64) |
| Accrued Final Payment | 129 | |
| Carrying amount of Term Loan | 6,064 | 5,936 |
| Less current portion of Term Loan | (1,250) | (817) |
| Notes payable long-term portion | \$ 4,814 | \$ 5,119 |

Principal and interest payments are as follows (in thousands):

Fiscal Year**Amount Due**

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| | | |
|-------|----|-------|
| 2018 | \$ | 77 |
| 2019 | | 2,459 |
| 2020 | | 2,538 |
| 2021 | | 1,934 |
| Total | \$ | 7,008 |

Table of Contents**iCAD, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements****(Unaudited)****September 30, 2018**

The following amounts are included in interest expense in our consolidated statement of operations for the three and nine months ended September 30, 2018 and 2017 (in thousands):

| | Three Months Ended | | Nine Months Ended | |
|--|---------------------------|--------------|--------------------------|--------------|
| | September 30 | | September 30 | |
| | 2018 | 2017 | 2018 | 2017 |
| Cash interest expense | \$ 78 | \$ 36 | \$ 219 | \$ 36 |
| Final Payment accrual | 31 | | 129 | |
| Amortization of debt costs | 8 | | 22 | |
| Amortization of settlement obligations | | | | 26 |
| Interest expense capital lease | 1 | | 3 | |
| Capital lease fair value amortization | | | | (11) |
| Total interest expense | \$ 118 | \$ 36 | \$ 373 | \$ 51 |

Note 6 Lease CommitmentsOperating 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 \$224,000, \$229,000, \$675,000 and \$665,000 for the three and nine months ended September 30, 2018 and 2017, respectively.

Future minimum lease payments as of September 30, 2018 under operating leases are as follows: (in thousands)

| Fiscal Year | Operating Leases |
|--------------|---------------------|
| 2018 | \$ 194 |
| 2019 | 755 |
| 2020 | 174 |
| Total | \$ 1,123 |

Table of Contents**iCAD, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements****(Unaudited)****September 30, 2018**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 three years. Minimum lease payments are as follows (in thousands):

| Fiscal Year | Capital Lease |
|-----------------------------------|---------------|
| 2018 | \$ 4 |
| 2019 | 16 |
| 2020 | 13 |
| subtotal minimum lease obligation | 33 |
| less interest | (4) |
| Total, net | 29 |
| Less current portion | (14) |
| Long term portion | \$ 15 |

Note 7 - Stock-Based Compensation

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

The Company granted options to purchase 71,690 and 212,958 shares of the Company's stock in the three and nine months ended September 30, 2018, respectively. 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:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---------------------------------|-------------------------------------|-------|------------------------------------|-------|
| | 2018 | 2017 | 2018 | 2017 |
| Average risk-free interest rate | 2.89% | 1.56% | 2.50% | 1.52% |
| Expected dividend yield | None | None | None | None |

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| | | | | |
|---------------------------------|-----------|----------------|----------------|----------------|
| Expected life | 3.5 years | 3.5 years | 3.5 years | 3.5 years |
| Expected volatility | 61.2% | 64.2% to 67.0% | 60.8% to 61.6% | 64.2% to 72.0% |
| Weighted average exercise price | \$ 2.91 | \$ 4.28 | \$ 3.08 | \$ 4.39 |
| Weighted average fair value | \$ 1.34 | \$ 2.02 | \$ 1.41 | \$ 2.12 |

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

| | Three Months Ended | | Nine Months Ended | |
|-------------------------------------|--------------------|--------|-------------------|----------|
| | September 30, | | September 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| Cost of revenue | \$ 1 | \$ 1 | 3 | \$ 5 |
| Engineering and product development | 108 | 76 | 305 | 633 |
| Marketing and sales | 71 | 132 | 128 | 854 |
| General and administrative | 233 | 294 | 750 | 1,581 |
| | \$ 413 | \$ 503 | \$ 1,186 | \$ 3,073 |

Table of Contents**iCAD, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements****(Unaudited)****September 30, 2018**

As of September 30, 2018, unrecognized compensation cost (in thousands) related to unexercisable options and unvested restricted stock and the weighted average remaining period is as follows:

| | |
|-----------------------|----------|
| Remaining expense | \$ 1,351 |
| Weighted average term | 1.0 |

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 were available to be earned based on exceeding the revenue goal. On March 30, 2018, in accordance with the performance award, the Board of Directors deemed that the award had been earned and a total of 189,583 shares were granted, with 63,194 immediately vesting and the remainder vesting on the first and second anniversary of the award date. On March 22, 2018, the Company granted a total of 112,500 shares of performance based restricted stock with performance measured on meeting a revenue target based on growth for fiscal year 2018 and vesting in three equal installments with the first installment vesting upon measurement of the goal. The Company also granted a total of 112,500 shares of time based restricted stock.

During the three months ended September 30, 2018 the Company granted 12,584 shares of restricted stock with time based vesting.

The fair value of the performance based grants is determined at the grant date based on the Company's stock price at that date. Compensation cost for performance based restricted stock requires significant judgment regarding probability of achieving the performance objectives and compensation cost is adjusted for the probability of achieving these objectives. As a result compensation cost could vary significantly during the performance measurement period.

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

| | Period Ended | |
|---------------------------|----------------------|-------------|
| | September 30, | |
| | 2018 | 2017 |
| Aggregate intrinsic value | | |
| Stock options | \$ 204 | \$ 1,050 |
| Restricted stock | 1,463 | 2,242 |

There were no stock options exercised during the three months ended September 30, 2018. The intrinsic value of restricted shares that vested in the three months ended September 30, 2018 was \$246,000. The intrinsic value of restricted shares that vested in the three months ended September 30, 2017 was \$0.2 million.

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iCAD, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2018

Note 8 - 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, 2018.

Other Commitments

The Company is obligated to pay approximately \$0.9 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. The Company is party to certain actions that have been filed against the Company which are being vigorously defended. The Company has determined that potential losses in these matters are neither probable or reasonably possible at this time. 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 9 - 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:

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

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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 \$) as of December 31, 2017

| | Level 1 | Level 2 | Level 3 | Total |
|-----------------------|-----------------|----------------|----------------|-----------------|
| Assets | | | | |
| Money market accounts | \$ 8,853 | \$ | \$ | \$ 8,853 |
| Total Assets | \$ 8,853 | \$ | \$ | \$ 8,853 |

Table of Contents**iCAD, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements****(Unaudited)****September 30, 2018****Fair value measurements using: (000 \$) as of September 30, 2018**

| | Level 1 | Level 2 | Level 3 | Total |
|-----------------------|-----------------|----------------|----------------|-----------------|
| Assets | | | | |
| Money market accounts | \$ 6,756 | \$ | \$ | \$ 6,756 |
| Total Assets | \$ 6,756 | \$ | \$ | \$ 6,756 |

Note 10 - Income Taxes

The Company recorded an income tax provision of \$26,000 and \$43,000 for the three and nine months ended September 30, 2018, respectively. At September 30, 2018, the Company had no material unrecognized tax benefits and a deferred tax liability of approximately \$2,000 related to tax amortizable goodwill. The Company recorded a decrease in the deferred tax liability of approximately \$4,000 in the three months ended September 30, 2018. For the three and nine months ended September 30, 2017, the Company recorded an income tax benefit of \$42,000 and a provision of \$28,000, respectively. The tax benefit for the three and nine months ended September 30, 2017 was the result of receiving research and development credits in New Hampshire. 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, 2018.

The Company's estimate of the Tax Cut and Jobs Act (TCJA) and the remeasurement of our deferred tax assets and liabilities is subject to the finalization of the Company's analysis related to certain matters, such as developing interpretations of the provisions of the TCJA, changes to certain estimates and the filing of the Company's tax returns. U.S. Treasury regulations, administrative interpretations or court decisions interpreting the TCJA may require further adjustments and changes in the Company's estimates. The final determination of the TCJA and the re-measurement of the Company's deferred assets and liabilities will be completed as additional information becomes available, but no later than one year from the enactment of the TCJA. For the nine months ended September 30, 2018, there were no changes to the Company's analysis performed as of December 31, 2017.

The Company files United States federal income tax returns and 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.

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Note 11 - Goodwill

In accordance with FASB Accounting Standards Codification (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.

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 records an impairment charge when such assessment indicates 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 did not have any triggering events in the quarter ended September 30, 2018.

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.

In January 2018 the Company adopted a plan to discontinue offering radiation therapy professional services to practices that provide the Company's electronic brachytherapy solution for the treatment of non-melanoma skin cancer

under the subscription service model within the Therapy Segment. As result, the Company will no longer offer the subscription service model to customers. Based on the decision to discontinue offering radiation therapy professional services within the Therapy Segment, the Company revised its forecasts related to the Therapy segment, which the Company deemed to be a triggering event for the quarter ended December 31, 2017.

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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) as of September 30, 2017 which affected both the third quarter and fourth quarter impairment tests. 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 as of the fourth quarter was \$0.1 million and the carrying value was \$2.1 million. The deficiency exceeded the carrying value of goodwill and the balance of \$1.7 million was recorded as an impairment charge in the quarter ended December 31, 2017.

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 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 third quarter ended September 30, 2017. The Company did not identify a triggering event within the Detection reporting unit and accordingly did not perform an interim test.

The Company performed the annual impairment assessment at October 1, 2017 and compared the fair value of each of reporting unit to its carrying value as of this date. Fair value exceeded the carrying value for the Detection reporting unit, and the carrying value approximated fair value of the Therapy reporting unit after the impairment as of 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 determines 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 uses internal forecasts to estimate future cash flows and includes estimates of long-term future growth rates based on our most recent views of the long-term forecast for each segment. Accordingly, actual results can differ from those assumed in our forecasts. Discount rates are derived from a capital asset pricing model and by analyzing published rates for industries relevant to our 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 our 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

Table of Contents**iCAD, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements****(Unaudited)****September 30, 2018**

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 corroborates 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 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 weights the methodologies appropriately.

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

| | Detection | Therapy | Total |
|-------------------------------|-----------|----------|-----------|
| Balance at December 31, 2017 | \$ 8,362 | \$ | \$ 8,362 |
| Balance at September 30, 2018 | \$ 8,362 | \$ | \$ 8,362 |
| Accumulated Goodwill | \$ 699 | \$ 6,270 | \$ 54,906 |
| Fair value allocation | 7,663 | 13,446 | |
| Accumulated impairment | | (19,716) | (46,544) |
| Balance at September 30, 2018 | \$ 8,362 | \$ | \$ 8,362 |

Note 12 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.

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);

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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 asset's (or asset group's) fair value. The Company determined the Asset Group's of the Company to be the assets of the Therapy segment and the Detection segment, which the Company considers to be the lowest level for which the identifiable cash flows were largely independent of the cash flows of other assets and liabilities.

The Company completed an interim goodwill impairment assessment for the Therapy reporting unit in the third quarter of 2017 and noted that there was an impairment of goodwill. As a result, the Company determined this was a triggering event to review long-lived assets for impairment. 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.

The Company also completed a goodwill assessment for the fourth quarter of 2017, and in connection with that assessment, the Company completed an analysis pursuant to ASC 360-10-35-17 and determined that the undiscounted cash flows exceeded the carrying value of the asset group and that long-lived assets were not impaired. The Company determined there were no triggering events in the quarter ended September 30, 2018.

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,

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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.

Note 13 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, | |
|--|--|------------|------------------------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| Segment revenues: | | | | |
| Detection | \$ 3,927 | \$ 4,346 | \$ 11,928 | \$ 13,066 |
| Therapy | 2,265 | 2,654 | 6,739 | 7,134 |
| Total Revenue | \$ 6,192 | \$ 7,000 | \$ 18,667 | \$ 20,200 |
| Segment gross profit: | | | | |
| Detection | \$ 3,454 | \$ 3,822 | \$ 10,439 | \$ 11,553 |
| Therapy | 1,284 | 821 | 3,581 | 2,282 |
| Segment gross profit | \$ 4,738 | \$ 4,643 | \$ 14,020 | \$ 13,835 |
| Segment operating income (loss): | | | | |
| Detection | \$ 978 | \$ 1,475 | \$ 1,984 | \$ 4,261 |
| Therapy | (435) | (6,451) | (1,861) | (10,627) |
| Segment operating income (loss) | \$ 543 | \$ (4,976) | \$ 123 | \$ (6,366) |
| General, administrative, depreciation and amortization expense | | | | |
| | \$ (1,792) | \$ (1,966) | \$ (5,459) | \$ (6,143) |
| Interest expense | (118) | (36) | (373) | (51) |
| Gain on sale of MRI assets | | | | 2,508 |
| Other income | 28 | 3 | 79 | 3 |
| Loss before income tax | \$ (1,339) | \$ (6,975) | \$ (5,630) | \$ (10,049) |

Note 14 - Recent Accounting Pronouncements

ASU 2014-09, *Revenue from Contracts with Customers*.

On January 1, 2018, the Company adopted the new accounting standard ASC 606, Revenue from Contracts with Customers and all the related amendments (Topic 606) using the modified retrospective method for all contracts not completed as of the date of adoption. For contracts that were modified before the effective date, the Company reflected the aggregate effect of all modifications when identifying performance obligations and allocating transaction price in accordance with practical expedient ASC 606-10-65-1(f)-4, which did not have a material effect on the Company's assessment of the cumulative effect adjustment upon adoption. The Company recognized the cumulative effect of initially applying the new standard as an adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. See Note 1 for details of the Company's adoption of Topic 606.

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ASU 2016-02, Leases

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This update requires lessees to recognize a lease liability and a right-of-use (ROU) asset for all leases with a term greater than 12 months on the balance sheet. This ASU modifies the definition of a lease and outlines the recognition, measurement, presentation and disclosure of leasing arrangement by both lessees and lessors. The Company plans to make the election to not recognize ROU assets or lease liabilities for short-term leases. In July 2018, the FASB issued ASU No. 2018-11, Leases (Topic 842), Targeted Improvements, which allows entities to apply the transition provisions of the new standard at its adoption date instead of at the earliest comparative period presented in the consolidated financial statements. ASU No. 2018-11 will allow entities to continue to apply the legacy guidance in Topic 840, including its disclosure requirements, in the comparative periods presented in the year the new leases standard is adopted. Entities that elect this option would recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption rather than in the earliest period presented. The Company will adopt ASU No. 2016-02 on January 1, 2019 using the new transition method and will recognize and measure leases without revising comparative period information or disclosure. We plan to elect the practical expedients upon transition that will allow us to not reassess whether any expired or existing contract is or contains a lease, the lease classification of any expired or existing leases and the initial direct costs for any existing leases.

In preparation for adoption, we substantially completed the process to identify a complete population of our leases, including the review of contracts to identify embedded leases. We are still in the process of quantifying the impact the adoption will have on our financial position as well as any potential impact on our debt covenants. We expect an increase in lease-related assets and liabilities in the consolidated balance sheet with no material impact on the results of operations, equity or cash flows. We additionally began developing new business processes and controls and the expanded disclosures of our leasing arrangements.

Table of Contents**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 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.

On January 4, 2018, the Company adopted a plan to discontinue offering radiation therapy professional services to practices that provide the Company's electronic brachytherapy solution for the treatment of NMSC under the subscription service model within the Therapy Segment. As a result, the Company will no longer offer the subscription service model to customers. The Company will continue to offer its capital sales model for both skin cancer treatment and IORT, which provides a brachytherapy system and related source and service agreements. The discontinuance of the subscription service model is expected to reduce radiation therapy professional services delivery costs, decrease cash burn, and re-focus the Company on the higher margin capital product and service offerings.

In May 2018, the Company submitted Version 2.0 of its PowerLook Tomo Detection product for FDA approval.

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, 2017, 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.

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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 ("US GAAP") applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. The Company's activities are subject to risk and uncertainties. The Company continues to use cash in its operations, as a result the Company will need additional financing to continue its operations if it is unable to generate cash from operations. In order to generate cash from operations, the Company will need to either increase revenues, reduce expenses or both. The Company has incurred a cumulative loss of \$207,430,000 from inception to September 30, 2018. The Company has currently funded operations through debt and, historically through the issuance of capital stock and debt. The Company's future success is dependent upon its ability to raise sufficient capital or generate adequate revenue, to cover its ongoing operating expenses, and also to continue to develop and be able to profitably market its products. There can be no assurance that such financing will be available at all or on favorable terms. These factors raise substantial doubt about the ability of the Company to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty and such adjustments could be material.

The 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. As of January 1, 2018, we adopted ASC Topic 606. Refer to Note 1 of this Form 10-Q for disclosure of the changes related to this adoption. There have been no additional material changes to our critical accounting policies as discussed in our 2017 Annual Report on Form 10-K. 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, 2017 filed on March 30, 2018.

Table of Contents**Three months ended September 30, 2018 compared to the three months ended September 30, 2017****Revenue: (in thousands)**

| | Three months ended September 30, | | | |
|----------------------|---|-----------------|-----------------|-----------------|
| | 2018 | 2017 | Change | % Change |
| Detection revenue | | | | |
| Product revenue | \$ 2,394 | \$ 2,758 | \$ (364) | (13.2)% |
| Service revenue | 1,533 | 1,588 | (55) | (3.5)% |
| Subtotal | 3,927 | 4,346 | (419) | (9.6)% |
| Therapy revenue | | | | |
| Product revenue | 699 | 668 | 31 | 4.6% |
| Service revenue | 1,566 | 1,986 | (420) | (21.1)% |
| Subtotal | 2,265 | 2,654 | (389) | (14.7)% |
| Total revenue | \$ 6,192 | \$ 7,000 | \$ (808) | (11.5)% |

Three months ended September 30, 2018 and 2017:

Total revenue for the three month period ended September 30, 2018 was \$6.2 million compared with revenue of \$7.0 million for the three month period ended September 30, 2017, a decrease of approximately \$0.8 million, or 11.5%. The decrease in revenue was due to the decrease in Detection revenues of approximately \$0.4 million, and a decrease in Therapy revenues of \$0.4 million.

Detection product revenue decreased by approximately \$419,000 or 9.6% in the three months ended September 30, 2018 as compared to the three months ended September 30, 2017. The decrease in Detection product revenue is due to a decrease in sales of Secondlook products of approximately \$0.4 million.

Detection service and supplies revenue was approximately \$1.5 million for the three months ended September 30, 2017 as compared to \$1.6 million for the three months ended September 30, 2018. Service and supplies revenue reflects the sale of service contracts to our installed base of customers. Service and supplies revenue related to our installed base of customers and can vary from quarter to quarter.

Therapy product revenue was approximately \$0.7 million for the three months ended September 30, 2017 and the three months ended September 30, 2018. Product revenue from the sale of our Axxent eBx systems can vary significantly due to an increase or decrease in the number of units sold which can cause a significant fluctuation in product revenue in the period.

Therapy service and supply revenue decreased by approximately \$0.4 million from \$2.0 million for the three months ended September 30, 2017 to \$1.6 million for the three months ended September 30, 2018. Therapy service and supplies revenue related to electronic brachytherapy for non-melanoma skin cancer (NMSC) for the three months ended September 30, 2017 was

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approximately \$0.6 million as compared to \$62,000 for the three months ended September 30, 2018, reflecting the wind-down of the customers using the subscription service model which the Company discontinued offering in early 2018. Source, service and disposable applicators remain a significant component of Therapy service revenue.

Cost of Revenue and Gross Profit: (in thousands)

| | Three months ended September 30, | | | |
|-------------------------------|---|-------------|---------------|-----------------|
| | 2018 | 2017 | Change | % Change |
| Products | \$ 603 | \$ 636 | \$ (33) | (5.2)% |
| Service and supplies | 752 | 1,458 | (706) | (48.4)% |
| Amortization and depreciation | 99 | 263 | (164) | (62.4)% |
| Total cost of revenue | \$ 1,454 | \$ 2,357 | \$ (903) | (38.3)% |
| Gross profit | \$ 4,738 | \$ 4,643 | \$ 95 | 2.0% |
| Gross profit % | 76.5% | 66.3% | | 10.2% |

| | Three months ended September 30, | | | |
|------------------------|---|-------------|---------------|-----------------|
| | 2018 | 2017 | Change | % Change |
| Detection gross profit | \$ 3,454 | \$ 3,822 | \$ (368) | (9.6)% |
| Therapy gross profit | 1,284 | 821 | 463 | 56.4% |
| Gross profit | \$ 4,738 | \$ 4,643 | \$ 95 | 2.0% |
| Gross profit % | 76.5% | 66.3% | | 10.2% |

Gross profit for the three month period ended September 30, 2018 was \$4.7 million, or 76.5% of revenue as compared to \$4.6 million or 66.3% of revenue in the three month period ended September 30, 2017. Gross profit percent changes are primarily due to changes in the mix of business, consulting costs related to non-recurring engineering revenue, additional manufacturing investments and amortization of acquired intangibles.

Cost of products decreased by approximately \$33,000 from approximately \$636,000 for the three months ended September 30, 2017 to approximately \$603,000 for the three months ended September 30, 2018. The cost of product revenue as a percentage of product revenue was approximately 20% for the three months ended September 30, 2018 as compared to 19% for the three months ended September 30, 2017.

The cost of service and supplies was \$1.5 million for the three months ended September 30, 2017 as compared to \$0.8 million for the three months ended September 30, 2018. The cost of service and supplies revenue as a percentage of service and supplies revenue was approximately 24% for the quarter ended September 30, 2018 as compared to 41% for the quarter ended September 30, 2017, which reflects the decrease of the cost of sales related to the exit from the Xoft subscription business.

Amortization and depreciation decreased from \$0.3 million for the three month period ended September 30, 2017 to \$0.1 million for the three months ended September 30, 2018, as a result of the impairment recorded during the third quarter of 2017.

Table of Contents**Operating Expenses: (in thousands)**

| | Three months ended September 30, | | | |
|--|---|------------------|-------------------|----------------|
| | 2018 | 2017 | Change | Change % |
| Operating expenses: | | | | |
| Engineering and product development | \$ 2,035 | \$ 2,254 | \$ (219) | (9.7)% |
| Marketing and sales | 2,100 | 2,580 | (480) | (18.6)% |
| General and administrative | 1,778 | 1,944 | (166) | (8.5)% |
| Amortization and depreciation | 74 | 107 | (33) | (30.8)% |
| Goodwill and long-lived asset impairment | | 4,700 | (4,700) | (100.0)% |
| Total operating expenses | \$ 5,987 | \$ 11,585 | \$ (5,598) | (48.3)% |

Operating expenses decreased by approximately \$5.6 million, or 48.3%, in the three months ended September 30, 2018.

Engineering and Product Development. Engineering and product development costs were approximately \$2.0 million for the three month period ended September 30, 2018 as compared to \$2.3 million for the three month periods ended September 30, 2017. Detection engineering and product development costs were \$1.4 million and \$1.3 million for the three months ended September 30, 2018 and 2017, respectively. Therapy engineering and product development costs decreased by \$0.3 million to \$0.7 million for the three months ended September 30, 2018 from \$1.0 million for the three months ended September 30, 2017. The decrease in Therapy engineering and product development costs for the three months ended September 30, 2018 is due primarily to decreases in personnel and consulting expenses.

Marketing and Sales. Marketing and sales expenses decreased by \$0.5 million or 18.6%, from \$2.6 million in the three month period ended September 30, 2017 to \$2.1 million in the three month period ended September 30, 2018. Detection marketing and sales expense was approximately \$1.1 million in each of the three month periods ended September 30, 2017 and 2018. Therapy marketing and sales expense decreased by \$0.5 million from \$1.5 million in the three months ended September 30, 2017 to \$1.0 million in the three months ended September 30, 2018. The decrease in Therapy marketing and sales is due primarily to decreases in personnel costs, consulting, stock compensation, trade shows and travel, which are due to expense controls as well as reductions related to the exit from the Xoft subscription business.

General and Administrative. General and administrative expenses decreased by \$0.2 million or 8.5%, from \$1.9 million in the three months ended September 30, 2017 as compared to approximately \$1.8 million for the three months ended September 30, 2018. The decrease in General and administrative expenses is due primarily to a decrease in personnel costs.

Amortization and Depreciation. Amortization and depreciation is primarily related to acquired intangible assets and depreciation related to machinery and equipment. Amortization and depreciation decreased to approximately \$74,000 in the quarter ended September 30, 2018 from \$107,000 for the quarter ended September 30, 2017.

Table of Contents**Other Income and Expense: (in thousands)**

| | Three months ended September 30, | | | |
|-----------------------|---|-------------|---------------|-----------------|
| | 2018 | 2017 | Change | Change % |
| Interest expense | \$ (118) | \$ (36) | (82) | 227.8% |
| Interest income | 28 | 3 | 25 | 833.3% |
| | \$ (90) | \$ (33) | \$ (57) | 172.7% |
| Tax benefit (expense) | \$ (26) | \$ 42 | \$ (68) | (161.9)% |

Interest expense. Interest expense of \$118,000 increased by \$82,000 for the three month period ended September 30, 2018 as compared to interest expense of \$36,000 in the three month period ended September 30, 2017. The increase in interest expense is due to the interest expense associated with the Silicon Valley Bank term loan signed in August 2017.

Interest income. Interest income was \$28,000 and \$3,000, respectively, for the three month periods ended September 30, 2018 and 2017.

Tax expense. The Company had tax expense of \$26,000 for the three month period ended September 30, 2018 as compared to a tax benefit of \$42,000 for the three month period ended September 30, 2017. Tax expense is due primarily to state non-income and franchise based taxes.

Nine months ended September 30, 2018 compared to the nine months ended September 30, 2017**Revenue: (in thousands)**

| | Nine months ended September 30, | | | |
|-------------------|--|-------------|---------------|-----------------|
| | 2018 | 2017 | Change | % Change |
| Detection revenue | | | | |
| Product revenue | \$ 7,369 | \$ 7,970 | \$ (601) | (7.5)% |
| Service revenue | 4,559 | 5,096 | (537) | (10.5)% |
| Subtotal | 11,928 | 13,066 | (1,138) | (8.7)% |
| Therapy revenue | | | | |
| Product revenue | 1,932 | 1,255 | 677 | 53.9% |
| Service revenue | 4,807 | 5,879 | (1,072) | (18.2)% |
| Subtotal | 6,739 | 7,134 | (395) | (5.5)% |
| Total revenue | \$ 18,667 | \$ 20,200 | \$ (1,533) | (7.6)% |

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Nine months ended September 30, 2018 and 2017:

Total revenue for the nine month period ended September 30, 2018 was \$18.7 million compared with revenue of \$20.2 million for the nine month period ended September 30, 2017, a decrease of approximately \$1.5 million, or 7.6%. The decrease in revenue was due to the decrease in Detection revenues of approximately \$1.1 million and a decrease in Therapy revenues of \$0.4 million.

Detection product revenue decreased by approximately \$0.6 million to \$7.4 million from \$8.0 million or 7.5% in the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017. The decrease in Detection product revenue is due to a decrease in sales of Secondlook of approximately \$1.4 million offset by an increase in sales of Powerlook of approximately \$1.0 million, reflecting the transition of Detection product revenue from 2D to 3D. The remaining decrease is due primarily to a decrease in MRI revenue and Colon revenue. The MRI business was sold in January 2017.

Detection service and supplies revenue decreased by approximately \$0.5 million from \$5.1 million in the nine months ended September 30, 2017 to \$4.6 million in the nine months ended September 30, 2018. The decrease in service and supplies revenue is due to a decrease in service revenue associated with the MRI business and a decrease in service contracts related to the Company's legacy TotalLook product which has been sunset. Service and supplies revenue reflects the sale of service contracts to our installed base of customers. Service and supplies revenue related to our installed base of customers and can vary from quarter to quarter.

Therapy product revenue was approximately \$1.9 million for the nine months ended September 30, 2018 as compared to \$1.3 million for the nine months ended September 30, 2017. Product revenue from the sale of our Axxent eBx systems can vary significantly due to an increase or decrease in the number of units sold which can cause a significant fluctuation in product revenue in the period.

Therapy service and supply revenue was approximately \$4.8 million for the nine months ended September 30, 2018 as compared to \$5.9 million for the nine months ended September 30, 2017. Therapy service and supplies revenue related to electronic brachytherapy for NMSC for the nine months ended September 30, 2017 was approximately \$1.7 million as compared to \$0.4 million for the nine months ended September 30, 2018, reflecting the wind-down of the customers using the subscription service model which the Company discontinued offering in early 2018. Source, service and disposable applicators continue to be a significant component of Therapy service revenue.

Table of Contents**Cost of Revenue and Gross Profit: (in thousands)**

| | Nine months ended September 30, | | | |
|-------------------------------|--|-------------|---------------|-----------------|
| | 2018 | 2017 | Change | % Change |
| Products | \$ 1,598 | \$ 1,349 | \$ 249 | 18.5% |
| Service and supplies | 2,743 | 4,169 | (1,426) | (34.2)% |
| Amortization and depreciation | 306 | 847 | (541) | (63.9)% |
| Total cost of revenue | \$ 4,647 | \$ 6,365 | \$ (1,718) | (27.0)% |
| Gross profit | \$ 14,020 | \$ 13,835 | \$ 185 | 1.3% |
| Gross profit % | 75.1% | 68.5% | | 6.6% |

| | Nine months ended September 30, | | | |
|------------------------|--|-------------|---------------|-----------------|
| | 2018 | 2017 | Change | % Change |
| Detection gross profit | \$ 10,439 | \$ 11,553 | \$ (1,114) | (9.6)% |
| Therapy gross profit | 3,581 | 2,282 | 1,299 | 56.9% |
| Gross profit | \$ 14,020 | \$ 13,835 | \$ 185 | 1.3% |
| Gross profit % | 75.1% | 68.5% | | 6.6% |

Gross profit for the nine month period ended September 30, 2018 was \$14.0 million, or 75.1%, of revenue as compared to \$13.8 million or 68.5% of revenue in the nine month period ended September 30, 2017. Gross profit percent changes are primarily due to changes in the mix of business, consulting costs related to non-recurring engineering revenue, additional manufacturing investments and amortization of acquired intangibles.

Cost of products increased by approximately \$249,000 from approximately \$1.3 million for the nine months ended September 30, 2017 to approximately \$1.6 million for the nine months ended September 30, 2018. The increase is due primarily to the increase in therapy product revenue for the nine months ended September 30, 2018. The cost of product revenue as a percentage of product revenue was approximately 17% for the nine months ended September 30, 2018 as compared to 15% for the nine months ended September 30, 2017. The increase in cost of product revenue as a percentage of product revenue is due primarily to sales of Therapy products which have a higher cost of sales than Detection products.

The cost of service and supplies was \$2.7 million for the nine months ended September 30, 2018 as compared to \$4.2 million for the nine months ended September 30, 2017. The cost of service and supplies revenue as a percentage of service and supplies revenue was approximately 29% for the nine months ended September 30, 2018 as compared to 38% for the nine months ended September 30, 2017. The decrease in service and supplies cost of sales is due primarily to discontinuing the Xoft subscription business.

Amortization and depreciation decreased from \$0.8 million for the nine month period ended September 30, 2017 to \$306,000 for the nine months ended September 30, 2018, which reflects the reduction in

depreciation and amortization as a result of the impairment recorded during the third quarter of 2017.

Table of Contents**Operating Expenses: (in thousands)**

| | Nine months ended September 30, | | | |
|--|--|------------------|-------------------|----------------|
| | 2018 | 2017 | Change | Change % |
| Operating expenses: | | | | |
| Engineering and product development | \$ 7,431 | \$ 7,060 | \$ 371 | 5.3% |
| Marketing and sales | 6,272 | 8,172 | (1,900) | (23.3)% |
| General and administrative | 5,419 | 6,067 | (648) | (10.7)% |
| Amortization and depreciation | 234 | 345 | (111) | (32.2)% |
| Goodwill and long-lived asset impairment | | 4,700 | (4,700) | (100.0)% |
| Gain from sale of MRI assets | | (2,508) | 2,508 | (100.0)% |
| Total operating expenses | \$ 19,356 | \$ 23,836 | \$ (4,480) | (18.8)% |

Operating expenses increased by approximately \$4.5 million or 18.8% in the nine months ended September 30, 2018. Operating expenses for the nine months ended September 30, 2017 include a gain from the sale of MRI assets of \$2.5 million and goodwill impairment of \$4.7 million.

Engineering and Product Development. Engineering and product development costs were approximately \$7.4 million for the nine month period ended September 30, 2018 as compared to \$7.1 million for the nine month period ended September 30, 2017. Detection engineering and product development costs increased by \$1.1 million to \$5.0 million for the nine months ended September 30, 2018 as compared to \$3.9 million for the nine months ended September 30, 2017. Therapy engineering and product development costs decreased by \$0.7 million to \$2.4 million for the nine months ended September 30, 2018 from \$3.2 million for the nine months ended September 30, 2017. The increase in Detection engineering and product development costs for the nine months ended September 30, 2018 is due to costs related to the development of the next version of the Company's breast tomosynthesis product. The decrease in Therapy engineering and product development costs is due to decreases in personnel, consulting and clinical trial expenses.

Marketing and Sales. Marketing and sales expenses decreased by \$1.9 million or 23.3%, from \$8.2 million in the nine month period ended September 30, 2017 to \$6.3 million in the nine month period ended September 30, 2018. Detection marketing and sales expense increased by \$0.1 million from \$3.2 million in the nine month period ended September 30, 2017 to \$3.2 million for the nine month period ended September 30, 2018. Therapy marketing and sales expense decreased by \$2.0 million from \$4.9 million in the nine months ended September 30, 2017 to \$2.9 million in the nine months ended September 30, 2018. The decrease in Therapy marketing and sales is due primarily to decreases in personnel costs, stock compensation, trade shows and travel, which is due to expense controls as well as reductions related to the Xoft subscription business.

General and Administrative. General and administrative expenses decreased by \$0.6 million or 10.7%, from \$6.1 million in the nine month period ended September 30, 2017 to \$5.4 million in the nine month period ended September 30, 2018. The decrease in general and administrative expenses is due primarily to a decrease of approximately \$0.5 million related to stock compensation expense in the prior year quarter. In the quarter ended September 30, 2017, restricted shares were issued in lieu of cash bonuses, which increased stock compensation expense.

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Amortization and Depreciation. Amortization and depreciation is primarily related to acquired intangible assets and depreciation related to machinery and equipment. Amortization and depreciation decreased to approximately \$234,000 for the nine months ended September 30, 2018 from \$345,000 for the nine months ended September 30, 2017.

Other Income and Expense: (in thousands)

| | Nine months ended September 30, | | | |
|-----------------------|--|---------|----------|----------|
| | 2018 | 2017 | Change | Change % |
| Interest expense | \$ (373) | \$ (51) | \$ (322) | 631.4% |
| Interest income | 79 | 3 | 76 | 2533.3% |
| | \$ (294) | \$ (48) | \$ (246) | 512.5% |
| Tax benefit (expense) | \$ (43) | \$ 28 | \$ (71) | (253.6)% |

Interest expense. Interest expense of \$373,000 increased by \$322,000 for the nine month period ended September 30, 2018 as compared to interest expense of \$51,000 for the nine month period ended September 30, 2017. The increase in interest expense is due to the interest expense associated with the Silicon Valley Bank term loan signed in August 2017.

Interest income. Other income was \$79,000 and \$3,000 respectively, for the nine month periods ended September 30, 2018 and 2017.

Tax expense. The Company had a tax expense of \$43,000 for the nine month period ended September 30, 2018 as compared to a tax benefit of \$28,000 for the nine month period ended September 30, 2017. Tax expense is due primarily to state non-income and franchise based taxes. The tax benefit was the result of receiving research and development credits in New Hampshire.

Liquidity and Capital Resources

We believe that our current liquidity and capital resources are sufficient to sustain operations through at least the next 12 months, primarily due to cash on hand. Our projected cash needs include planned capital expenditures, loan repayments, lease commitments, and other long-term obligations.

As of September 30, 2018, the Company has current assets of \$16.2 million which includes \$6.8 million of cash and cash equivalents. Current liabilities are \$11.6 million and working capital is \$4.5 million. The ratio of current assets to current liabilities was 1.39:1. As part of the Second Loan Modification Agreement dated August 13, 2018, the Company revised the Detection Revenue Covenant (the Covenant) for the quarter ended June 30, 2018 to maintain compliance with the Covenant, and met the Covenant for the quarter ended September 30, 2018.

On a quarterly basis the Company evaluates whether there are conditions or events, considered in the aggregate, that would raise substantial doubt about the entity's ability to continue as a going concern. Substantial doubt exists when conditions and events, considered in the aggregate, indicate it is probable that the Company will be unable to meet its obligations as they become due

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during the one-year period following the date of the Company's financial statements for the quarter ended September 30, 2018. The assessment is based on the relevant conditions that are known or reasonably knowable as of November 13, 2018. As of September 30, 2018, the Company had a working capital surplus of \$4.5 million. The Loan Agreement with Silicon Valley Bank has certain financial covenants that are measured on a six month trailing basis including a revenue covenant based on the revenues of the Detection segment and a minimum EBITDA amount. Based on the Company's current estimates, the Company anticipates that it may not meet the financial covenants for the quarter ending December 31, 2018. If the Company does not comply with the covenants and if the Company is unable to secure a waiver or modifications to the Loan Agreement or alternative sources of capital to allow the Company to come into compliance with the covenants or allow the Company to repay or refinance the Loan Agreement, an event of default may occur under the Loan Agreement. If an event of default were to occur under the Loan Agreement, the lender may accelerate the payment of amounts outstanding and otherwise exercise any remedies to which it may be entitled. In addition, in such a case, the Company may no longer have access to the liquidity provided by the Loan Agreement and, as a result, the Company may not have sufficient liquidity to satisfy operating expenses, capital expenditures and other cash needs. These conditions raise substantial doubt about our ability to continue as a going concern. However, the Company believes alternative sources of capital are available including from other sources of debt financings and/or future sales of its equity securities. In addition, the Company has made and can make additional reductions to reduce near term cash requirements. One or more of these mitigating responses, together with anticipated revenues, are expected to provide the Company with sufficient liquidity to continue as a going concern. There are no assurances, however, that in the event the Company is not successful in obtaining the necessary waivers or modifications to the Loan Agreement, that other sources of capital will be available, or, if available, the Company will be able to secure such capital on favorable terms. The Company's failure to secure the necessary waivers or modifications, to generate enough revenue, control or further reduce expenditures and/or to secure capital from other sources may result in an inability of the Company to continue as a going concern. Our financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

| | For the nine months ended September 30, | |
|--|--|-------------|
| | 2018 | 2017 |
| | (in thousands) | |
| Net cash used for operating activities | \$ (2,322) | \$ (5,565) |
| Net cash (used for) provided by investing activities | (116) | 2,486 |
| Net cash (used for) provided by financing activities | (139) | 5,755 |
| Increase (decrease) in cash and equivalents | \$ (2,577) | \$ 2,676 |

Net cash used for operating activities for the nine month period ended September 30, 2018 was \$2.3 million, compared to net cash used for operating activities of \$5.6 million for the nine month period ended September 30, 2017. The cash used for operating activities for the nine month period ended September 30, 2018 resulted primarily from our net loss offset by working capital changes resulting from decreases in accounts receivable, decreases in accounts payable and accrued expenses. We expect that cash used for or provided by operating activities may fluctuate in future periods as a result of a number of factors, including fluctuations in our operating results, specifically the timing of when we recognize revenue, our accounts receivable collections and the timing of other payments.

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The net cash used for investing activities for the nine month period ended September 30, 2018 of \$116,000 was primarily for purchases of property and equipment. Cash provided by investing activities for the nine month period ended September 30, 2017 was due to the cash received from the sale of MRI assets offset by purchases of property and equipment.

Net cash used for financing activities for the nine month period ended September 30, 2018 was \$139,000 as compared to cash provided by financing activities of \$5.7 million for the nine month period ended September 30, 2017. Cash used for financing activities for the nine months ended September 30, 2018 is due primarily to taxes paid on the issuance of restricted stock to employees. Cash provided by financing activities for the nine months ended September 30, 2017 is due primarily to proceeds from the \$6.0 million term loan and taxes paid on the issuance of restricted stock to employees.

Contractual Obligations

The following table summarizes, for the periods presented, our future estimated cash payments under existing contractual obligations (in thousands).

| Contractual Obligations | Total | Payments due by period | | | |
|--------------------------------------|-----------------|-------------------------------|------------------|------------------|-----------------|
| | | Less than 1 year | 1-3 years | 3-5 years | 5+ years |
| Operating Lease Obligations | \$ 1,123 | \$ 760 | \$ 363 | \$ | \$ |
| Capital lease obligations | 34 | 14 | 20 | | |
| Settlement Obligations | 463 | 463 | | | |
| Notes Payable principal and interest | 7,008 | 1,882 | 5,126 | | |
| Other Commitments | 931 | 735 | 93 | 29 | 74 |
| Total Contractual Obligations | \$ 9,559 | \$ 3,854 | \$ 5,602 | \$ 29 | \$ 74 |

Operating and Capital lease obligations are the minimum payments due under these obligations.

Settlement obligations represent the remaining payments of the obligation to Hologic.

Notes Payable principal and interest represents the payments due under the term loan from Silicon Valley Bank.

Other commitments represent firm purchase obligations to suppliers for future product and service deliverables.

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Recent Accounting Pronouncements

See Note 13 to the Condensed Consolidated Financial Statements.

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

We believe we are not subject to material foreign currency exchange rate fluctuations, as substantially all of our sales and expenses are denominated in the U.S. dollar. We do not hold derivative securities and have not entered into contracts embedded with derivative instruments, such as foreign currency and interest rate swaps, options, forwards, futures, collars or warrants, either to hedge existing risks or for speculative purposes.

Item 4. Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, as of September 30, 2018, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (Exchange Act)) were effective at the reasonable level of assurance.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. We conduct periodic evaluations to enhance, where necessary our procedures and controls.

Our principal executive officer and principal financial officer conducted an evaluation of our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) and have determined there are no changes in our internal controls over financial reporting during the quarter ended September 30, 2018, that have materially affected or which are reasonably likely to materially affect internal control over financial reporting.

Beginning January 1, 2018, the Company implemented ASC 606, Revenue from Contracts with Customers. Although the new revenue standard did not have a material impact on consolidated financial statements, the Company did implement changes to our processes related to revenue recognition and the control activities within them. These included the development of new policies based on the five-step model provided in the new revenue standard, new training, ongoing contract review requirements, and the gathering of information necessary provided for expanded disclosures.

Table of Contents**PART II OTHER INFORMATION****Item 1. Legal Proceedings**

Please refer to the detailed discussion regarding litigation set forth in Note 8 of the Notes to Condensed Consolidated Financial Statements in this Form 10-Q.

The Company is involved in various legal matters that are in the process of litigation or settled in the ordinary course of business. Although the final results of all such matters and claims cannot be predicted with certainty, we believe that the ultimate resolution of all such matters and claims will not have a material adverse effect on our financial condition. However, such matters could have a material adverse effect on our operating results and cash flows for a particular period.

Item 1A. Risk Factors:

We operate in a changing environment that involves numerous known and unknown risks and uncertainties that could materially adversely affect our operations. The following highlight some of the factors that have affected, and/or in the future could affect, our operations, which should be read in conjunction with our risk factors as described in Part I, Item 1A of our Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2017 as filed with the SEC on March 30, 2018.

Our historical operating results indicate substantial doubt exists related to the Company's ability to continue as a going concern.

Our financial statements have been prepared assuming that our company will continue as a going concern. We have incurred net losses and used significant cash in operating activities since inception and have an accumulated deficit of approximately \$207.4 million and working capital of \$4.5 million as of September 30, 2018. These factors raise substantial doubt about our ability to continue as a going concern and satisfying our estimated liquidity needs 12 months from the issuance of the financial statements.

If we continue to experience operating losses, and we are not able to generate additional liquidity through a capital raise or other cash infusion, while not expected, we may not be able to access additional funds under our Credit Facility and we might need to secure additional sources of funds, which may or may not be available to us. Additionally, a failure to generate additional liquidity could negatively impact our ability to operate our business. Moreover, we currently believe that, without additional liquidity, we will not be in compliance with the covenants in the Company's credit agreement for the fourth quarter, which could result in an event of default and an acceleration of the indebtedness.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

| Month of purchase | Total number of shares purchased (1) | Average price paid per share | Total number of shares purchased as part of publicly | Maximum dollar value of shares that may yet be purchased under |
|-------------------|--------------------------------------|------------------------------|--|--|
|-------------------|--------------------------------------|------------------------------|--|--|

| | | | announced plans or programs | the plans or programs |
|----------------------------------|--------|---------|-----------------------------------|-----------------------------|
| July 1 - July 31, 2018 | 3,732 | \$ 2.98 | \$ | \$ |
| August 1 - August 30, 2018 | 6,265 | 3.77 | | |
| September 1 - September 31, 2018 | 12,721 | 3.00 | | |
| Total | 22,718 | \$ 3.21 | \$ | \$ |

- (1) Represents shares of common stock surrendered by employees to the Company to pay employee withholding taxes due upon the vesting of restricted stock.

Table of Contents**Item 6. Exhibits**

| Exhibit No. | Description |
|-------------|---|
| 10.1 | <u>Cooperation Agreement between the Registrant and Andy Sassine dated October 18, 2018. *</u> |
| 31.1 | <u>Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *</u> |
| 31.2 | <u>Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *</u> |
| 32.1 | <u>Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *</u> |
| 32.2 | <u>Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *</u> |
| 101 | The following materials formatted in XBRL (eXtensible Business Reporting Language); (i) Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017, (ii) Consolidated Statements of Operations for the three and nine months ended September 30, 2018 and 2017, (iii) Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and 2017, and (iv) Notes to Consolidated Financial Statements. |

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

iCAD, Inc.
(Registrant)

Date: November 14, 2018

By: /s/ Michael Klein
Michael Klein
Principal Executive Officer,
Director

Date: November 14, 2018

By: /s/ Richard Christopher
Richard Christopher
Chief Financial Officer