
**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 June 30, 2015

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO .

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

Large Accelerated filer

Accelerated filer

Non-accelerated filer (do not check if a smaller reporting company)

Smaller reporting company

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

As of the close of business on August 4, 2015 there were 15,720,547 shares outstanding of the registrant’s Common Stock, \$.01 par value.

iCAD, Inc.

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iCAD, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(Unaudited)
(In thousands except for share data)

	<u>June 30,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 18,208	\$ 32,220
Trade accounts receivable, net of allowance for doubtful accounts of \$228 in 2015 and \$203 in 2014	7,764	9,642
Inventory, net	3,322	2,214
Prepaid expenses and other current assets	422	540
Total current assets	<u>29,716</u>	<u>44,616</u>
Property and equipment, net of accumulated depreciation of \$4,678 in 2015 and \$4,861 in 2014	2,861	4,255
Other assets	94	132
Intangible assets, net of accumulated amortization of \$10,492 in 2015 and \$14,738 in 2014	4,674	17,504
Goodwill	14,198	27,263
Total assets	<u>\$ 51,543</u>	<u>\$ 93,770</u>
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities:		
Accounts payable	\$ 1,804	\$ 2,151
Accrued and other expenses	4,235	5,554
Interest payable	—	180
Notes and lease payable - current portion	1,251	5,044
Deferred revenue	8,049	9,120
Total current liabilities	<u>15,339</u>	<u>22,049</u>
Deferred revenue, long-term portion	633	1,525
Other long-term liabilities	639	795
Capital lease - long-term portion	488	1,020
Notes payable - long-term portion	—	5,602
Total liabilities	<u>17,099</u>	<u>30,991</u>
Commitments and Contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, \$.01 par value: authorized 1,000,000 shares; none issued.	—	—
Common stock, \$.01 par value: authorized 20,000,000 shares; issued 15,906,378 in 2015 and 15,732,177 in 2014; outstanding 15,720,547 in 2015 and 15,546,346 in 2014	159	157
Additional paid-in capital	210,406	209,100
Accumulated deficit	(174,706)	(145,063)
Treasury stock at cost, 185,831 shares in 2015 and 2014	(1,415)	(1,415)
Total stockholders' equity	<u>34,444</u>	<u>62,779</u>
Total liabilities and stockholders' equity	<u>\$ 51,543</u>	<u>\$ 93,770</u>

See accompanying notes to condensed consolidated financial statements.

iCAD, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(Unaudited)
(In thousands except for per share data)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenue:				
Products	\$ 3,096	\$ 5,294	\$ 7,054	\$ 9,503
Service and supplies	8,047	4,373	17,309	8,684
Total revenue	<u>11,143</u>	<u>9,667</u>	<u>24,363</u>	<u>18,187</u>
Cost of revenue:				
Products	680	1,390	1,621	2,570
Service and supplies	2,082	1,104	4,360	2,179
Amortization and depreciation	503	343	1,142	674
Total cost of revenue	<u>3,265</u>	<u>2,837</u>	<u>7,123</u>	<u>5,423</u>
Gross profit	<u>7,878</u>	<u>6,830</u>	<u>17,240</u>	<u>12,764</u>
Operating expenses:				
Engineering and product development	2,272	2,004	4,528	3,866
Marketing and sales	3,165	2,872	6,995	5,464
General and administrative	2,330	1,865	4,543	3,554
Amortization and depreciation	496	255	1,116	506
Goodwill and long-lived asset impairment	27,443	—	27,443	—
Total operating expenses	<u>35,706</u>	<u>6,996</u>	<u>44,625</u>	<u>13,390</u>
Loss from operations	(27,828)	(166)	(27,385)	(626)
Loss from extinguishment of debt	—	(903)	(1,723)	(903)
Gain from change in fair value of warrant	—	699	—	1,835
Interest expense	(70)	(614)	(577)	(1,431)
Other income	5	12	14	16
Other expense, net	(65)	(806)	(2,286)	(483)
Loss before income tax expense	(27,893)	(972)	(29,671)	(1,109)
Tax benefit (expense)	107	(25)	28	(78)
Net loss and comprehensive loss	<u>\$ (27,786)</u>	<u>\$ (997)</u>	<u>\$ (29,643)</u>	<u>\$ (1,187)</u>
Net loss per share:				
Basic	<u>\$ (1.77)</u>	<u>\$ (0.07)</u>	<u>\$ (1.90)</u>	<u>\$ (0.09)</u>
Diluted	<u>\$ (1.77)</u>	<u>\$ (0.07)</u>	<u>\$ (1.90)</u>	<u>\$ (0.09)</u>
Weighted average number of shares used in computing loss per share:				
Basic	<u>15,679</u>	<u>14,074</u>	<u>15,642</u>	<u>12,759</u>
Diluted	<u>15,679</u>	<u>14,074</u>	<u>15,642</u>	<u>12,759</u>

See accompanying notes to consolidated financial statements.

iCAD, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(unaudited)

	For the six months ended June 30,	
	2015	2014
	(in thousands)	
Cash flow from operating activities:		
Net loss	\$ (29,643)	\$ (1,187)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:		
Amortization	1,362	748
Depreciation	896	432
Bad debt provision	188	27
Stock-based compensation expense	1,064	606
Amortization of debt discount and debt costs	323	524
Interest on settlement obligations	92	106
Loss on extinguishment of debt	1,723	903
Gain from change in fair value of warrant	—	(1,835)
Goodwill and long-lived asset impairment	27,443	—
Loss on disposal of assets	123	—
Changes in operating assets and liabilities (net of the effect of the acquisition):		
Accounts receivable	1,691	(2,035)
Inventory	(993)	22
Prepaid and other current assets	65	96
Accounts payable	(347)	31
Accrued expenses	(1,802)	(576)
Deferred revenue	(1,962)	(198)
Total adjustments	29,866	(1,149)
Net cash provided by (used for) operating activities	<u>223</u>	<u>(2,336)</u>
Cash flow from investing activities:		
Additions to patents, technology and other	(36)	(44)
Additions to property and equipment	(799)	(465)
Acquisition of VuComp M-Vu Breast Density	(1,700)	—
Net cash used for investing activities	<u>(2,535)</u>	<u>(509)</u>
Cash flow from financing activities:		
Issuance of common stock for cash, net	—	28,214
Stock option exercises	327	293
Warrant exercise	—	1,575
Taxes paid related to restricted stock issuance	(84)	(101)
Principal payments of capital lease obligations	(693)	(65)
Principal repayment of debt financing, net	(11,250)	(4,100)
Net cash provided by (used for) financing activities	<u>(11,700)</u>	<u>25,816</u>
Increase (decrease) in cash and equivalents	(14,012)	22,971
Cash and equivalents, beginning of period	32,220	11,880
Cash and equivalents, end of period	<u>\$ 18,208</u>	<u>\$ 34,851</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 471</u>	<u>\$ 1,068</u>
Taxes paid	<u>\$ 93</u>	<u>\$ 80</u>

See accompanying notes to consolidated financial statements.

iCAD, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)
June 30, 2015

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 consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the financial position of the Company at June 30, 2015, the results of operations of the Company for the three and six month period ended June 30, 2015 and 2014, respectively, and cash flows of the Company for the three and six month period ended June 30, 2015 and 2014, respectively. 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, 2014 filed with the SEC on March 13, 2015. The results for the three and six month period ended June 30, 2015 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2015, or any future period.

Revenue Recognition

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

The Company recognizes revenue from the sale of its digital, film-based CAD and cancer therapy products and services in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Update No. 2009-13, “Multiple-Deliverable Revenue Arrangements” (“ASU 2009-13”) and ASC Update No. 2009-14, “Certain Arrangements That Contain Software Elements” (“ASU 2009-14”) and ASC 985-605, “Software” (“ASC 985-605”). Revenue for the sale of certain CAD products is recognized in accordance with ASC 840 “Leases” (“ASC 840”). For multiple element arrangements, revenue is allocated to all deliverables based on their relative selling prices. In such circumstances, a hierarchy is used to determine the selling price to be used for allocating revenue to deliverables as follows: (i) vendor-specific objective evidence of fair value (“VSOE”), (ii) third-party evidence of selling price (“TPE”), and (iii) best estimate of the selling price (“BESP”). VSOE generally exists only when the deliverable is sold separately and is the price actually charged for that deliverable. The process for determining BESP for deliverables without VSOE or TPE considers multiple factors

iCAD, INC. AND SUBSIDIARIES
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June 30, 2015

including relative selling prices; competitive prices in the marketplace, and management judgment; however, these may vary depending upon the unique facts and circumstances related to each deliverable.

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

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

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

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

The Company recognizes post contract customer support revenue together with the initial licensing fee for certain MRI products in accordance with ASC 985-605-25-71.

Sales of the Company's Therapy segment products typically include a controller, accessories, source agreements and services. The Company allocates revenue to the deliverables in the arrangement based on the BESP in accordance with ASU 2009-13.

iCAD, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
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June 30, 2015

Product revenue is generally recognized when the product has been delivered and service and source revenue is typically recognized over the life of the service and source agreement. The Company includes the following in service and supplies revenue: the sale of physics and management services, the lease of electronic brachytherapy equipment, development fees, supplies and the right to use the Company's AxxentHub software. Physics and management services revenue and development fees are considered to be delivered as the services are performed or over the estimated life of the agreement. The Company typically bills items monthly over the life of the agreement except for development fees, which are generally billed in advance or over a 12 month period and the fee for treatment supplies which is generally billed in advance.

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

Cost of Revenue

Cost of revenue consists of the costs of products purchased for resale, costs relating to service including personnel costs for physicists, management services and radiation therapists, costs of service contracts to maintain equipment after the warranty period, product installation, training, customer support, certain warranty repair costs, inbound freight and duty, cost of supplies, manufacturing, warehousing, material movement, inspection, scrap, rework, amortization, depreciation and in-house product warranty repairs.

In September 2014, the Company reclassified depreciation previously included in product and service cost of revenue to amortization and depreciation as a separate component of cost of revenue. For the three and six months ended June 30, 2014, approximately \$343,000 and \$674,000, respectively was reclassified to conform to current period classification. Medical Device Excise tax included in the cost of revenue is approximately \$132,000 and \$331,000, for the three and six months ended June 30, 2015, respectively and \$200,000 and \$379,000 for the three and six months ended June 30, 2014, respectively.

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 the right to use the AxxentHub software platform.

iCAD, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)
June 30, 2015

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net loss	<u>\$(27,786)</u>	<u>\$ (997)</u>	<u>\$(29,643)</u>	<u>\$ (1,187)</u>
Basic and diluted shares used in the calculation of net loss per share	15,679	14,074	15,642	12,759
Net loss per share - basic and diluted	<u>\$ (1.77)</u>	<u>\$ (0.07)</u>	<u>\$ (1.90)</u>	<u>\$ (0.09)</u>

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 is as follows:

	Period Ended June 30,	
	2015	2014
Stock Options	1,618,043	1,477,871
Restricted Stock	453,392	326,318
Stock options and restricted stock	<u>2,071,435</u>	<u>1,804,189</u>

Note 3 – Business Combinations

Acquisition of VuComp M-Vu Breast Density Product

On April 29, 2015, pursuant to the terms of the Asset Purchase Agreement with VuComp, the Company purchased VuComp's M-Vu Breast Density product for \$1,700,000 in cash. Under the terms of the agreement, the Company acquired the breast density intellectual property product, which will be integrated with the Company's PowerLook Advanced Mammography Platform (AMP). PowerLook AMP is a modular solution designed to provide advanced tools for breast disease detection and analysis, including CAD for tomosynthesis. The Company considered the acquisition to be an acquisition of a business as the Company acquired the Breast Density product and certain customer liabilities which were considered to be an integrated set of activities at acquisition. Accordingly the assets were valued in accordance with ASC Topic 805, "Business Combinations" ("ASC 805").

The amount allocated to the acquired assets, was estimated primarily through the use of discounted cash flow valuation techniques. Appraisal assumptions utilized under this method include a forecast of estimated future net cash flows, as well as discounting the

iCAD, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
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future net cash flows to their present value. The acquired technology is being amortized over the estimated useful life of approximately eight years and nine months from the closing of the transaction. The following is a summary of the preliminary allocation of the total purchase price based on the estimated fair values as of the date of the acquisition and the amortizable life:

	<u>Amount</u>	<u>Estimated Amortizable Life</u>
Developed Technology	900	8 years 9 months
Goodwill	800	
Purchase price	<u>\$1,700</u>	

The assets obtained in the acquisition of VuComp’s M-Vu Breast Density product and the anticipated future revenues are included in the Detection segment and, accordingly, the goodwill resulting from the purchase price allocation is included in goodwill of the Detection segment.

Acquisition of DermEbx and Radion

On July 15, 2014, the Company entered into two Asset Purchase Agreements, one with Radion, Inc. (“Radion”) the other with DermEbx, a series of Radion Capital Partners LLC (“DermEbx”) (the “Radion/DermEbx Acquisition”). Pursuant to the Asset Purchase Agreement with DermEbx, the Company purchased substantially all of the assets of DermEbx, including all of DermEbx’s intellectual property and customer contracts. The Company paid the following consideration to DermEbx: (i) \$1,600,000 in cash and (ii) 600,000 restricted shares of the Company’s common stock, \$0.01 par value per share. The 600,000 restricted shares are subject to the following provisions; 25% was locked up until the date that was two trading days after the Company announced its fourth quarter 2014 earnings, which occurred on March 2, 2015; 30% of the shares shall be locked up for a period of 24 months from the date of the agreement; and 30% of the shares shall be locked up for a period of 36 months from the date of the agreement. In addition the Company delivered the remaining 15%, or 90,000, of the restricted shares to US Bank, N.A., as escrow agent, to be held in escrow for a period of 18 months pursuant to the terms of an escrow agreement. The 90,000 escrow shares will act as the source of payment for the indemnification of the Company by DermEbx under the DermEbx Asset Purchase Agreement.

Pursuant to the terms of the Asset Purchase Agreement with Radion, the Company purchased substantially all of the assets of Radion, including all of Radion’s intellectual property and customer contracts. The Company paid the following consideration to Radion: (i) \$2,382,000 in cash which included \$182,000 payoff of an existing note payable and (ii) the issuance to Radion of 600,000 restricted shares of the Company’s common

iCAD, INC. AND SUBSIDIARIES
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stock. The 600,000 restricted shares are subject to the following provisions; 25% of the shares were locked up until the date that is two trading days after the Company announces its fourth quarter 2014 earnings, which occurred on March 2, 2015; 30% of the shares shall be locked up for a period of 24 months from the date of the agreement; and 30% of the shares shall be locked up for a period of 36 months from the date of the agreement. In addition the Company delivered the remaining 15% or 90,000 of the restricted shares to US Bank, N.A., as escrow agent, to be held in escrow for a period of 18 months pursuant to the terms of an escrow agreement. The 90,000 escrow shares will act as the source of payment for the indemnification of the Company by Radion under the Radion Asset Purchase Agreement.

The Company did not achieve significant synergies from the Radion/DermEbx Acquisition. Prior to the Radion DermEbx Acquisition, the Sellers represented one of the Company's significant customers in the Therapy segment. The Company recognized approximately \$0.8 million of Therapy product revenue and approximately \$0.3 million of Therapy service revenue, for a total of \$1.1 million related to Sellers, in the quarter ended June 30, 2014 and approximately \$1.6 million of Therapy product revenue and approximately \$0.5 million of Therapy service revenue, for a total of \$2.1 million related to Sellers, in the six months ended June 30, 2014.

The amounts allocated to purchased and developed software, customer relationships, trade names, employee non-compete agreements and backlog were estimated primarily through the use of discounted cash flow valuation techniques. Appraisal assumptions utilized under these methods include a forecast of estimated future net cash flows, as well as discounting the future net cash flows to their present value. Acquired intangible assets are being amortized over the estimated useful lives as set forth in the following table. The following is a summary of the allocation of the total purchase price based on the estimated fair values of the assets acquired and liabilities assumed as of the date of the acquisition and the amortizable lives of the intangible assets:

	<u>Amount</u>	<u>Estimated Amortizable Life</u>
Current assets	\$ 3,457	
Property and equipment	2,625	3 – 7 Years
Identifiable intangible assets	6,050	5 – 10 Years
Goodwill	6,270	
Current liabilities	(4,382)	
Long-term liabilities	(2,164)	
Purchase price	<u>\$11,856</u>	

The assets obtained in the Radion/DermEbx Acquisition and the resulting revenues are included in the Therapy segment and, accordingly, the goodwill resulting from the purchase price allocation is included in goodwill of the Therapy segment. As discussed in Note 12, the Company recorded a goodwill impairment charge related to the Therapy segment of \$14.0 million in the quarter ended June 30, 2015.

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The goodwill is deductible for income tax purposes.

The unaudited proforma operating results for the Company for the three and six months ended June 30, 2014, assuming the Radion/DermEbx Acquisition occurred as of January 1, 2014 are as follows (in thousands except per share amounts):

	June 30, 2014	
	Three months	Six months
Revenue	\$ 11,815	\$ 22,408
Income from operations	566	685
Net (loss) income	(264)	32
Net (loss) income per share-basic	\$ (0.02)	\$ 0.00
Net (loss) income per share-diluted	\$ (0.02)	\$ 0.00
Basic	13,959	13,959
Diluted	13,959	14,667

Note 4 – Inventory

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

	as of June 30, 2015	as of December 31, 2014
Raw materials	\$ 1,608	\$ 955
Work in process	223	54
Finished Goods	1,491	1,205
Inventory	<u>\$ 3,322</u>	<u>\$ 2,214</u>

Note 5 – Long Term Debt

On March 31, 2015, the Company repaid in full the aggregate amount outstanding under the Deerfield Facility Agreement, dated as of December 29, 2011 (as amended, supplemented or otherwise modified to the date hereof, the “Facility Agreement”), by and among the Company, Deerfield Private Design Fund II, L.P., Deerfield Private Design International II, L.P., and Deerfield Special Situations Fund, L.P. and, for itself and as assignee of the obligations held by Deerfield Special Situations Fund International Master Fund, L.P. The Facility Agreement and related documents were terminated as of March 31, 2015. The Facility Agreement was to mature on December 29, 2016 and was able to be repaid prior to the maturity date at the Company’s option without penalty or premium. On

iCAD, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
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June 30, 2015

March 31, 2015, the Company used cash on hand to pay the \$11.25 million outstanding principal amount due under the Facility Agreement and approximately \$162,000 in accrued and unpaid interest on such principal amount.

The Company recorded a loss on the extinguishment of debt of approximately \$1.7 million at the termination date in the quarter ended March 31, 2015.

The following amounts compose interest expense included in our consolidated statement of operations for the three and six months ended June 30, 2015 and 2014: (in thousands)

	Three months ended June 30,	
	2015	2014
Cash interest expense	\$ —	\$ 216
Non-cash amortization of debt discount	—	313
Amortization of debt costs	—	28
Amortization of settlement obligations	47	54
Interest expense capital lease	23	3
Total interest expense	<u>\$ 70</u>	<u>\$ 614</u>

	Six months ended June 30	
	2015	2014
Cash interest expense	\$ 162	\$ 794
Non-cash amortization of debt discount	254	448
Amortization of debt costs	13	76
Amortization of settlement obligations	92	106
Interest expense capital lease	56	7
Total interest expense	<u>\$ 577</u>	<u>\$ 1,431</u>

Cash interest expense represents the amount of interest paid in cash under the Facility Agreement which represents the interest of 5.75% on the Facility Agreement through March 31, 2015. Non-cash amortization is the amortization of the discount on the Facility Agreement. The amortization of debt costs relates to the costs incurred with the financing, which is primarily a facility fee and a finder's fee that were capitalized and are being expensed using the effective interest method. The amortization of the settlement obligation represents the interest associated with the settlement agreements for both Carl Zeiss Meditec AG and Hologic, Inc (see Note 8). Interest expense capital lease represents interest related to the capital lease as described in Note 6.

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Note 6 – Lease Commitments

Operating leases

Facilities are leased under operating leases expiring at various dates through September, 2017. Certain of these leases contain renewal options. Rent expense under operating leases was \$165,000 and \$328,000 for the three and six month period ended June 30, 2015 and \$168,000 and \$327,000 for the three and six month period ended June 30, 2014, respectively.

Future minimum lease payments as of June 30, 2015 under operating leases are as follows: (in thousands)

<u>Fiscal Year</u>	<u>Operating Leases</u>
2015	\$ 255
2016	499
2017	255
	<u>\$ 1,009</u>

Capital leases

The Company entered into a capital lease agreement for the purchase of certain equipment in August 2013 for approximately \$409,000. Under the guidance of ASC Topic 840, “Leases” (“ASC 840”) the Company determined that the lease was a capital lease as it contained a bargain purchase option whereby the Company has the option to buy the equipment for \$1 at the end of the lease term. Accordingly, the equipment has been capitalized and a liability has been recorded. The equipment cost of \$409,000 is reflected as property and equipment in the balance sheet and is being depreciated over its useful life.

In connection with the Radion/DermEbx Acquisition, the Company assumed two separate equipment lease obligations with payments totaling approximately \$2.6 million through May, 2017. The leases were determined to be capital leases and accordingly the equipment was capitalized and a liability of \$2.5 million was recorded. As of June 30, 2015, the outstanding liability for the acquired equipment leases was approximately \$1.7 million.

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Future minimum lease payments under all outstanding capital leases are as follows: (in thousands)

Fiscal Year	Capital Leases
2015	\$ 774
2016	1,039
2017	89
Subtotal minimum lease obligation	1,902
Less interest	(163)
Total, net	1,739
Less current portion	(1,251)
Long term portion	\$ 488

Kamal Gogineni is an employee of the Company's and a beneficial owner of more than 5% of the Company's common stock. Additionally, Mr. Gogineni is a significant shareholder of Radion Capital Partners ("RCP"). RCP was the lessor under a lease between RCP and DermEbx (the "DermEbx Lease"). In connection with the Company's Radion/DermEbx acquisition that closed in July 2014, one of the assets and obligations that the Company acquired was the Lease. Pursuant to the Lease, the Company is obligated to pay a total of \$855,000 as of June 30, 2015 and the liability is included in the minimum lease payments above, with annual payments of \$383,000 for the remainder of 2015, \$396,000 in 2016 and \$76,000 in 2017.

Note 7 - Stock-Based Compensation

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

The Company granted 130,000 and 317,000 options in the three and six months ended June 30, 2015. 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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Average risk-free interest rate	0.98%	0.85%	0.92%	0.82%
Expected dividend yield	None	None	None	None
Expected life	3.5 years	3.5 years	3.5 years	3.5 years
Expected volatility	60.5% to 73.8%	64.9% to 66.5%	60.5% to 73.8%	64.2% to 66.5%
Weighted average exercise price	\$3.37	\$6.72	\$6.97	\$7.83
Weighted average fair value	\$1.74	\$3.17	\$3.33	\$3.67

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The amounts included in the consolidated statement of operations relating to stock based compensation expense are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Cost of revenue	\$ 4	\$ 3	\$ 8	\$ 7
Engineering and product development	60	34	111	83
Marketing and sales	203	69	333	140
General and administrative	353	175	612	376
	<u>\$ 620</u>	<u>\$ 281</u>	<u>\$ 1,064</u>	<u>\$ 606</u>

As of June 30, 2015 unrecognized compensation cost (in thousands) related to unexercisable options and unvested restricted stock and the weighted average remaining period is as follows:

Remaining expense	\$ 4,698
Weighted average term	1.31 years

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

	Period Ended June 30,	
	2015	2014
<u>Aggregate intrinsic value</u>		
Stock options	\$ 485	\$3,187
Restricted stock	1,469	2,092

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 June 30, 2015.

Settlement Obligations

In connection with the acquisition of Xoft in 2010, the Company recorded a royalty obligation pursuant to a settlement agreement entered into between Xoft and Hologic in August 2007. Xoft received a nonexclusive, irrevocable, perpetual, worldwide license,

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including the right to sublicense certain Hologic patents, and a non-compete covenant as well as an agreement not to seek further damages with respect to the alleged patent violations. In return, the Company has a remaining obligation to pay a minimum annual royalty payment to Hologic, of \$250,000 payable through 2016. In addition to the minimum annual royalty payments, the litigation settlement agreement with Hologic also provided for payment of royalties based upon a specified percentage of future net sales on any products that utilize the licensed rights. The Company has a liability within accrued expenses and long-term settlement cost for future payment and for future minimum royalty obligations totaling \$442,000. The Company recorded interest expense of approximately \$18,000 and \$36,000 in the three and six months ended June 30, 2015 and \$25,000 and \$50,000 in the three and six months June 30, 2014, respectively, related to this obligation.

In December, 2011, the Company agreed to a settlement related to litigation with Carl Zeiss Meditec AG. The Company is obligated to pay the remaining amount of \$0.5 million in June 2017. As of June 30, 2015, the remaining liability recorded within accrued expenses and long-term settlement cost for future payment and for future minimum royalty obligations is \$395,000. The Company recorded interest expense of approximately \$28,000 and \$56,000 in the three and six months ended June 30, 2015 and \$28,000 and \$56,000 in the three and six months ended June 30, 2014, respectively, related to this obligation.

Other Commitments

The Company is obligated to pay approximately \$2.2 million for firm purchase obligations to suppliers for future product 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 of which the ultimate resolution would have a material adverse effect on its financial condition or results of operations. However, should the Company fail to prevail in any legal matter or should several legal matters be resolved against the Company in the same reporting period, such matters could have a material adverse effect on our operating results and cash flows for that particular period. In all cases, at each reporting period, the Company evaluates whether or not a potential loss amount or a potential range of loss is probable and reasonably estimable under ASC 450, Contingencies. Legal costs are expensed as incurred.

Note 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

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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.
- 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 and certain accrued liabilities and our notes payable. 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 notes payable 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.

<u>Fair value measurements using: (000's) as of December 31, 2014</u>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Money market accounts	\$26,530	\$ —	\$ —	\$26,530
Total Assets	<u>\$26,530</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$26,530</u>

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Fair value measurements using: (000's) as of June 30, 2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Money market accounts	\$13,568	\$ —	\$ —	\$13,568
Total Assets	<u>\$13,568</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$13,568</u>

Items Measured at Fair Value on a Nonrecurring Basis

Certain assets, including long-lived assets and goodwill, are measured at fair value on a nonrecurring basis. These assets are recognized at fair value when they are deemed to be impaired. The Company recorded a \$27.4 million impairment consisting of \$14.0 million related to goodwill and \$13.4 million related to long-lived assets as discussed in Note 11 and Note 12 and remeasured long-lived assets and goodwill of the Therapy reporting unit at fair value as of the impairment date as noted in the following table. The fair values of long-lived assets and goodwill were measured using Level 3 inputs.

Fair value measurements using: (000's) as of June 30, 2015

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Non-recurring assets				
Long-lived and intangible assets	\$ —	\$ —	\$3,195	\$3,195
Goodwill	—	—	5,735	5,735
Total Assets	<u>\$ —</u>	<u>\$ —</u>	<u>\$8,930</u>	<u>\$8,930</u>

Note 10 - Income Taxes

The Company recorded an income tax benefit of \$107,000 and \$28,000, in the three and six months ended June 30, 2015 as compared to a provision of \$25,000 and \$78,000 in the three and six months ended June 30, 2014, respectively. The income tax net benefit as of June 30, 2015 primarily relates a state tax provision and a benefit from the reversal of a deferred tax liability relating to tax amortizable goodwill. Due to the Company's goodwill impairment the tax basis in amortizable goodwill is greater than book basis which results in a deferred tax asset that is subject to a valuation allowance. At June 30, 2015, the Company had no material unrecognized tax benefits and no adjustments to liabilities or tax expense were required under ASC 740, "Income Taxes". The Company does not expect that the unrecognized tax benefits will materially increase within the next twelve months. The Company did not recognize any interest or penalties related to uncertain tax positions at June 30, 2015. 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 under examination by any federal or state jurisdiction for any tax years.

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Note 11 – 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);
- 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).

As a result of external factors and general uncertainty related to reimbursement for the treatment of non-melanoma skin cancer, the Company evaluated the long-lived assets of the Therapy segment and reviewed them for potential impairment. The Company determined the “Asset Group” to be the assets of the Therapy segment, which the Company considered to be the lowest level for which the identifiable cash flows were largely independent of the cash flows of other assets and liabilities.

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

In connection with the preparation of the financial statements for the second quarter ended June 30, 2015, the Company completed its analysis pursuant to ASC 360-10-35-17 and determined that the carrying value of the Asset Group was approximately \$36.8 million, which exceeded the undiscounted cash flows by approximately \$2.8 million. Accordingly the Company completed the Step 2 analysis to determine the fair value of the asset group. The Company recorded long-lived asset impairment charges of approximately \$13.4 million in the second quarter ended June 30, 2015 and as a result the long lived assets in the asset group are recorded at their current fair values.

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

Note 12 - Goodwill

In accordance with FASB ASC Topic 350-20, "Intangibles - Goodwill and Other", ("ASC 350-20"), the Company tests goodwill for impairment on an annual basis and between annual tests if events and circumstances indicate it is more likely than not that the fair value of the Company is less than the carrying value of the Company.

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's Chief Operating Decision Maker ("CODM") is the Chief Executive Officer ("CEO"). The two segments and reporting units are Cancer Detection ("Detection") and Cancer Therapy ("Therapy"). Each segment generates revenue from the sale of medical equipment and related services and/or sale of supplies.

The Company performed the annual impairment assessment at October 1, 2014 and compared the fair value of each of reporting unit to its carrying value as of this date. Fair value of each reporting unit exceeded the carry value by approximately 315% for the Detection reporting unit and 255% for the Therapy reporting unit. 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.

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

As a result of external factors and general uncertainty related to reimbursement for non-melanoma skin cancer and in conjunction with the long-lived asset impairment testing, the Company performed an impairment assessment of the Therapy reporting unit. As a result the Company recorded a goodwill impairment charge of \$14.0 million during the quarter ended June 30, 2015.

The implied fair value of the Therapy reporting unit was determined in the same manner as the manner in which the amount of goodwill recognized in a business combination is determined. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied amount of goodwill. The Company identified the intangible assets that were valued during this process, including technology, customer relationships, trade-names, and the Company's workforce. The allocation process was performed only for purposes of testing goodwill for impairment.

The Company determined the fair value of the Therapy reporting unit based on the present value of estimated future cash flows, discounted at an appropriate risk adjusted rate. This approach was selected as it measures the income producing assets, primarily technology and customer relationships. This method estimates the fair value based upon the ability to generate future cash flows, which is particularly applicable when future profit margins and growth are expected to vary significantly from historical operating results.

The Company uses internal forecasts to estimate future cash flows and includes an estimate of long-term future growth rates based on the most recent views of the long-term forecast for the reporting unit. Accordingly, actual results can differ from those assumed in the forecasts. The discount rate of approximately 17% is derived from a capital asset pricing model and analyzing published rates for industries relevant to the reporting unit to estimate the cost of equity financing. The Company uses discount rates that are commensurate with the risks and uncertainty inherent in the respective businesses and in the internally developed forecasts

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Other significant assumptions include terminal value margin rates, future capital expenditures, and changes in future working capital requirements. While there are inherent uncertainties related to the assumptions used and to the application of these assumptions to this analysis, the income approach provides a reasonable estimate of the fair value of the Therapy reporting unit.

The Step 2 test resulted in an approximate fair value of goodwill of \$5.7 million which resulted in a goodwill impairment loss of \$14.0 million.

As discussed in Note 3, the Company acquired VuComp's M-Vu® Breast Density product for \$1.7 million. The product will be integrated into the Company's Powerlook AMP system, which is a component of the Detection reporting unit. The Company determined that the acquisition was a business combination and accordingly recorded goodwill of \$0.8 million.

A roll forward of goodwill activity by reporting unit is as follows:

	<u>Detection</u>	<u>Therapy</u>	<u>Total</u>
Accumulated Goodwill	\$ —	\$ —	\$ 47,937
Accumulated impairment	—	—	(26,828)
Fair value allocation	7,663	13,446	—
Acquisition of DermEbx and Radion	—	6,154	6,154
Balance at December 31, 2014	<u>7,663</u>	<u>19,600</u>	<u>27,263</u>
Acquisition measurement period adjustments	—	116	116
Acquisition of VuComp	800	—	800
Impairment	—	(13,981)	(13,981)
Balance at June 30, 2015	<u>\$ 8,463</u>	<u>\$ 5,735</u>	<u>\$ 14,198</u>

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, Detection and Therapy.

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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.

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Segment revenues:				
Detection	\$ 4,955	\$ 4,832	\$ 9,743	\$ 9,007
Therapy	6,188	4,835	14,620	9,180
Total Revenue	<u>\$ 11,143</u>	<u>\$ 9,667</u>	<u>\$ 24,363</u>	<u>\$18,187</u>
Segment gross profit:				
Detection	\$ 4,090	\$ 3,960	\$ 8,037	\$ 7,324
Therapy	3,788	2,870	9,203	5,440
Segment gross profit	<u>\$ 7,878</u>	<u>\$ 6,830</u>	<u>\$ 17,240</u>	<u>\$12,764</u>
Segment operating income (loss):				
Detection	2,033	1,897	3,793	3,413
Therapy	(27,469)	(140)	(26,512)	(368)
Segment operating income	<u>\$(25,436)</u>	<u>\$ 1,757</u>	<u>\$(22,719)</u>	<u>\$ 3,045</u>
General, administrative, depreciation and amortization expense	\$ (2,392)	\$(1,923)	\$ (4,666)	\$(3,671)
Interest expense	(70)	(614)	(577)	(1,431)
Gain on fair value of warrant	—	699	—	1,835
Other income	5	12	14	16
Loss on debt extinguishment	—	(903)	(1,723)	(903)
Loss before income tax	<u>\$(27,893)</u>	<u>\$ (972)</u>	<u>\$(29,671)</u>	<u>\$ (1,109)</u>

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Note 14 - Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09 “Revenue from Contracts with Customers” (ASU 2014-09), which amends ASC 605 “Revenue Recognition” and creates a new Topic 606 “Revenue from Contracts with Customers.” This update provides guidance on how an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Upon initial application, the provisions of this update are required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this update recognized at the date of initial application. This update also expands the disclosure requirements surrounding revenue recorded from contracts with customers. This update is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. In April 2015 the FASB voted to defer effective date of this standard with respect to years, beginning after December 15, 2017. We are currently evaluating the effect of this update on our financial statements and have not yet determined the method of initial application we will use.

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 similar expressions 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, prostate 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 and DermEbx and Radion. The Radion/DermEbx acquisition extends 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.

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, MRI 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 April 2015, the Company acquired VuComp's M-Vu Breast Density product, which the Company expects to integrate with our mammography products. The purchase price was \$1.7 million which was paid in cash at closing.

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 which will continue to drive growth in this segment. With the acquisition of the assets of DermEbx and Radion the Company now offers solutions that enable dermatologists and radiation oncologists to develop, launch and manage their eBx programs for the treatment of non-melanoma skin cancer.

In May 2015 the Company announced that one of the regional Medicare Administrative Contractors instructed physicians to report CPT code (17999) rather than the established CPT code (0182T) for electronic brachytherapy for treatment of non-melanoma skin cancers ("NMSC"). This announcement resulted in a significant disruption in our Therapy segment as a result of the reimbursement uncertainty. Revenues for the three and six months ended June 30, 2015 were also negatively impacted as a result of the uncertainty. In addition, the Company implemented expense reductions in response to the general uncertainty with respect to reimbursement levels. The Company is proactively addressing the situation in its dialogue with the regional provider and Centers for Medicare and Medicaid Services ("CMS"); however there is insufficient clarification to fully assess the impact on our customers.

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, 2014, 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 change in CPT codes for the Company's electronic brachytherapy treatment of NMSC had a negative impact on the Company's revenues in the second quarter of 2015.

In connection with the preparation of the financial statements for the second quarter ended June 30, 2015, the Company evaluated the Therapy reporting unit for both long-lived asset and goodwill impairment. As a result of this assessment, the Company has recorded material impairment charges in our Therapy reporting unit.

The Company's headquarters are located in Nashua, New Hampshire, with manufacturing and contract manufacturing facilities in New Hampshire and Massachusetts and an operations, research, development, manufacturing and warehousing facility in San Jose, California, which now includes the operations of Xoft, Radion and DermEbx.

Critical Accounting Policies

The Company's discussion and analysis of its financial condition, results of operations, and cash flows are based on the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates these estimates, including those related to accounts receivable allowance, inventory valuation and obsolescence, intangible assets, income taxes, warranty obligations, contingencies and litigation. Additionally, the Company uses assumptions and estimates in calculations to determine stock-based compensation. The Company bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. For a comprehensive list of the Company's critical accounting policies, reference should be made to the Annual Report on Form 10-K for the year ended December 31, 2014 filed on March 13, 2015.

Three months ended June 30, 2015 compared to the three months ended June 30, 2014**Revenue: (in thousands)**

	<u>2015</u>	<u>2014</u>	<u>Change</u>	<u>% Change</u>
Detection revenue				
Product revenue	\$ 2,955	\$2,809	\$ 146	5.2%
Service revenue	<u>2,000</u>	<u>2,023</u>	<u>(23)</u>	<u>(1.1)%</u>
Subtotal	<u>4,955</u>	<u>4,832</u>	<u>123</u>	<u>2.5%</u>
Therapy revenue				
Product revenue	141	2,485	(2,344)	(94.3)%
Service revenue	<u>6,047</u>	<u>2,350</u>	<u>3,697</u>	<u>157.3%</u>
Subtotal	<u>6,188</u>	<u>4,835</u>	<u>1,353</u>	<u>28.0%</u>
Total revenue	<u>\$11,143</u>	<u>\$9,667</u>	<u>\$ 1,476</u>	<u>15.3%</u>

Three months ended June 30, 2015 and 2014:

Total revenue for the three month period ended June 30, 2015 was \$11.1 million compared with revenue of \$9.7 million for the three month period ended June 30, 2014, an increase of approximately \$1.5 million, or 15.3%. The increase in revenue was due to a \$1.4 million increase in Therapy revenue and an increase in Detection revenues of approximately \$0.1 million.

Detection product revenue increased by approximately \$0.1 million from \$2.8 million to \$3.0 million or 5.2% in the three months ended June 30, 2015 as compared to the three months ended June 30, 2014. The increase is due primarily to an increase in MRI revenue of approximately \$0.6 million offset by a decrease in CAD revenue of \$0.5 million.

Detection service and supplies revenue was \$2.0 million in the three months ended June 30, 2014 and the three months ended June 30, 2015. 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 can vary from quarter to quarter.

Therapy product revenue was approximately \$0.1 million for the three months ended June 30, 2015 as compared to \$2.5 million for the three months ended June 30, 2014. The decrease in product revenue was due primarily to the customer reaction to the uncertainty of reimbursement rates. 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 supplies revenue increased approximately \$3.7 million from \$2.4 million in the three months ended June 30, 2014 to \$6.0 million for the three months ended June 30, 2015. The increase in Therapy service and supplies revenue is due primarily to additional revenues resulting from the acquisition of Radion and DermEbx which represented approximately \$3.8 million of revenue in the current quarter. Included in the \$3.8 million of revenue are approximately \$0.7 million of certain customer deferred revenues which were recognized upon termination of the respective customer agreement.

In July 2014, we acquired the assets of DermEbx and Radion, each of which was a Therapy customer. For the three months ended June 30, 2014 we recognized approximately \$275,000 of Therapy product revenue and \$838,000 of Therapy service and supplies revenue, for a total of approximately \$1.1 million, related specifically to these two customers.

Cost of Revenue and Gross Profit: (in thousands)

	2015	Three months ended June 30,		% Change
		2014	Change	
Products	\$ 680	\$1,390	\$ (710)	(51.1)%
Service & supply	\$2,082	\$1,104	978	88.6%
Amortization and depreciation	\$ 503	\$ 343	160	46.6%
Total cost of revenue	<u>\$3,265</u>	<u>\$2,837</u>	<u>\$ 428</u>	<u>15.1%</u>
	2015	Three months ended June 30,		% Change
		2014	Change	
Detection gross profit	\$4,090	\$3,960	\$ 130	3.3%
Therapy gross profit	3,788	2,870	918	32.0%
Gross profit	<u>7,878</u>	<u>6,830</u>	<u>1,048</u>	<u>15.3%</u>
Gross profit %	70.7%	70.7%		

Gross profit for the three month period ended June 30, 2015 was \$7.9 million, or 70.7% of revenue as compared to \$6.8 million or 70.7% of revenue in the three month period ended June 30, 2014. 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 \$0.7 million from approximately \$1.4 million for the three months ended June 30, 2014 to approximately \$0.7 million for the three months ended June 30, 2015, which is due primarily to the overall decrease in product revenue. The cost of product revenue as a percentage of product revenue was approximately 22% for the three months ended June 30, 2015 as compared to 26% for the three months ended June 30, 2014. Cost of product revenue can vary due primarily to product mix.
- The cost of service and supplies increased by \$1.0 million from \$1.1 million in the three months ended June 30, 2014 to \$2.1 million in the three months ended June 30, 2015. This increase is due primarily to the increase related to the acquisition of the assets of DermEbx

and Radion, and represents primarily personnel costs related to physics, radiation therapist and management services provided following the acquisition. The cost of service and supply revenue as a percentage of service revenue was approximately 26% for the quarter ended June 30, 2015 and 25% for the quarter ended June 30, 2014. During the second quarter of 2015, the Company implemented cost reduction initiatives.

- Amortization and depreciation increased by \$160,000 from \$343,000 in three months ended June 30, 2014 to \$503,000 for the three months ended June 30, 2015. The increase in amortization and depreciation is due to amortization and depreciation for the acquired intangibles. In June 2015, the Company impaired intangible assets of the Therapy reporting unit and recorded amortization expense based on the revised values of the assets.

Operating Expenses: (in thousands)

	Three months ended June 30,			
	2015	2014	Change	Change %
Operating expenses:				
Engineering and product development	\$ 2,272	\$2,004	\$ 268	13.4%
Marketing and sales	3,165	2,872	293	10.2%
General and administrative	2,330	1,865	465	24.9%
Amortization and depreciation	496	255	241	94.5%
Goodwill and long-lived asset impairment	27,443	—	27,443	0.0%
Total operating expenses	<u>\$35,706</u>	<u>\$6,996</u>	<u>\$28,710</u>	<u>410.4%</u>

Operating expenses increased by approximately \$28.7 million or 410.4% in the three months ended June 30, 2015. The primary driver for the increase was the goodwill and long-lived asset impairment as well as additional personnel costs related to the acquisition of DermEbx and Radion. During the second quarter of 2015, the Company implemented cost reduction initiatives, which we expect to impact operating expenses in the third quarter of 2015.

Engineering and Product Development. Engineering and product development costs for the three month period ended June 30, 2015 increased by \$0.3 million or 13.4%, from \$2.0 million in 2014 to \$2.3 million in 2015. Therapy engineering and product development increased \$0.3 million from \$1.0 million in the three months ended June 30, 2014 to \$1.3 million for the three months ended June 30, 2015. The increase in Therapy engineering and product development costs was due primarily to increases in salaries, consulting and clinical costs. Detection engineering and product development costs remained at \$1.0 million for the three months ended June 30, 2014 and the three months ended June 30, 2015.

Marketing and Sales. Marketing and sales expenses increased by \$0.3 million or 10.2%, from \$2.9 million in the three month period ended June 30, 2014 to \$3.2 million in the three month period ended June 30, 2015. Therapy marketing and sales expense increased \$0.2 million from \$2.0 million in the three months ended June 30, 2014 to \$2.2 million for the three months ended June 30, 2015. The increase in Therapy marketing and sales expenses was due primarily to increases in salaries and wages and consulting fees. In June 2015, the Company incurred \$235,000 of severance payments in the Therapy segment marketing and sales, which is reflected in salaries and wages. Detection marketing and sales costs increased slightly by \$0.1 million from \$0.9 million in the three months ended June 30, 2014 to \$1.0 million for the three months ended June 30, 2015; this increase is due primarily to \$0.1 million of severance payments.

General and Administrative. General and administrative expenses increased by \$0.5 million from \$1.9 million in the three month period ended June 30, 2014 to \$2.3 million in the three month periods ended June 30, 2015. The increase was due primarily to increases in personnel legal, accounting, consulting, travel and stock compensation expense.

Amortization and Depreciation. Amortization and depreciation is primarily related to acquired intangible assets and depreciation related to machinery and equipment. Amortization and depreciation increased by \$241,000 from \$255,000 in the three month period ended June 30, 2014 to \$496,000 in the three month period ended June 30, 2015. The increase in expense was due to amortization of the acquired intangible assets related to the acquisition. In June 2015, the Company impaired intangible assets of the Therapy reporting unit and recorded amortization and depreciation expense based on the revised values of the assets.

Goodwill and long-lived asset impairment. In connection with the preparation of the financial statements for the second quarter ended June 30, 2015, the Company evaluated the Therapy reporting unit for both long-lived asset and goodwill impairment and recorded a goodwill impairment charge of \$14.0 million and a \$13.4 million long-lived asset impairment for a total of \$27.4 million.

Other Income and Expense: (in thousands)

	Three months ended June 30,			
	<u>2015</u>	<u>2014</u>	<u>Change</u>	<u>Change %</u>
Loss on extinguishment of debt	\$—	\$(903)	903	(100.0)%
Gain from change in fair value of warrants	—	\$ 699	(699)	(100.0)%
Interest expense	(70)	(614)	544	(88.6)%
Interest income	5	12	(7)	(58.3)%
	<u>\$ (65)</u>	<u>\$(806)</u>	<u>\$ 741</u>	<u>(91.9)%</u>
Tax benefit (expense)	107	(25)	132	(528.0)%

Loss on extinguishment of debt. The loss of \$0.9 million from the extinguishment of debt represents the loss associated with the payoff of the Deerfield revenue purchase agreement, which was terminated in April 2014.

Gain from change in fair value of warrants. The loss of \$0.7 million from the change in fair value of the warrants for the period ended June 30, 2014, resulted from change in the fair value of the warrants under the binomial lattice based valuation methodology, due primarily to changes in the Company's stock price, and volatility which are the key assumptions in determining the value of the warrants. On April 30, 2014, the warrants were exercised in full and the Company issued 450,000 shares of common stock.

Interest expense. Interest expense of \$70,000 decreased by \$544,000 or 88.6% for the three month period ended June 30, 2015 as compared to interest expense of \$614,000 in the three month period ended June 30, 2014. The reduction in interest expense is due primarily to the reduction in interest

related to the Deerfield facility agreement that was terminated in March 2015. Interest related to the Hologic and Zeiss settlement obligations was \$47,000 in the three months ended June 30, 2015 as compared to \$54,000 in the same period in 2014.

Interest income. Interest income of \$5,000 and \$12,000 for the three month periods ended June 30, 2015, and 2014, respectively, reflects income earned from our money market accounts.

Tax benefit (expense). The Company recorded a tax benefit of \$107,000 as compared to tax expense of \$25,000 for the three month periods ended June 30, 2015, and 2014, respectively. The tax benefit is due primarily to the reversal of a deferred tax liability of approximately \$117,000, offset by tax expense of approximately \$10,000. The deferred liability was the result of tax amortizable goodwill that was recognized due to the impairment of goodwill. Tax expense is due primarily to state non-income and franchise based taxes.

Six months ended June 30, 2015 compared to the six months ended June 30, 2014

Revenue: (in thousands)

	<u>2015</u>	<u>Six months ended June 30, 2014</u>	<u>Change</u>	<u>% Change</u>
Detection revenue				
Product revenue	\$ 5,828	\$ 4,873	\$ 955	19.6%
Service revenue	3,915	4,134	(219)	(5.3)%
Subtotal	<u>9,743</u>	<u>9,007</u>	<u>736</u>	<u>8.2%</u>
Therapy revenue				
Product revenue	1,226	4,630	(3,404)	(73.5)%
Service revenue	13,394	4,550	8,844	194.4%
Subtotal	<u>14,620</u>	<u>9,180</u>	<u>5,440</u>	<u>59.3%</u>
Total revenue	<u>\$24,363</u>	<u>\$18,187</u>	<u>\$ 6,176</u>	<u>34.0%</u>

Six months ended June 30, 2015 and 2014:

Total revenue for the six month period ended June 30, 2015 was \$24.4 million compared with revenue of \$18.2 million for the six month period ended June 30, 2014, an increase of approximately \$6.2 million, or 34.0%. The increase in revenue was due to a \$5.4 million increase in Therapy revenue and an increase in Detection revenues of approximately \$0.7 million.

Detection product revenue increased by approximately \$1.0 million from \$4.9 million to \$5.8 million or 19.6% in the six months ended June 30, 2015 as compared to the six months ended June 30, 2014. The increase is due primarily to an increase in CAD revenue of approximately \$0.2 million and an increase in MRI revenue of \$0.8 million.

Detection service and supplies revenue decreased approximately \$0.2 million from \$4.1 million in the six months ended June 30, 2014 to \$3.9 million in the six months ended June 30, 2015.

Service and supplies revenue reflects the sale of service contracts to our installed base of customers. The decrease in service and supplies revenue is due primarily to the decrease in OEM service contracts. Service and supplies revenue related to our installed base of customers can vary from quarter to quarter.

Therapy product revenue was approximately \$1.2 million for the six months ended June 30, 2015 as compared to \$4.6 million for the six months ended June 30, 2014. The decrease in product revenue was due primarily to the customer reaction to the uncertainty of reimbursement rates. 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 supplies revenue increased approximately \$8.8 million from \$4.6 million in the six months ended June 30, 2014 to \$13.4 million for the six months ended June 30, 2015. The increase in Therapy service and supplies revenue is due to additional revenues resulting from the acquisition of the assets of Radion and DermEbx which represented approximately \$8.6 million of revenue for the six months ended June 30, 2015. Included in the \$8.6 million of revenue are approximately \$0.7 million of certain customer deferred revenues which were recognized upon termination of the respective customer agreement.

In July 2014, we acquired the assets of DermEbx and Radion, each of which was a Therapy customer. For the six months ended June 30, 2014 we recognized approximately \$1.6 million of Therapy product revenue and \$0.5 million of Therapy service and supplies revenue, for a total of approximately \$2.1 million, related specifically to these two customers.

Cost of Revenue and Gross Profit: (in thousands)

	Six months ended June 30,			
	2015	2014	Change	% Change
Products	\$ 1,621	\$ 2,570	\$ (949)	(36.9)%
Service & supply	4,360	2,179	2,181	100.1%
Amortization and depreciation	1,142	674	468	69.4%
Total cost of revenue	<u>\$ 7,123</u>	<u>\$ 5,423</u>	<u>\$ 1,700</u>	<u>31.3%</u>
	Six months ended June 30,			
	2015	2014	Change	% Change
Detection gross profit	\$ 8,037	\$ 7,324	\$ 713	9.7%
Therapy gross profit	9,203	5,440	3,763	69.2%
Gross profit	<u>17,240</u>	<u>12,764</u>	<u>4,476</u>	<u>35.1%</u>
Gross profit %	70.8%	70.2%		

Gross profit for the six month period ended June 30, 2015 was \$17.2 million, or 70.8% of revenue as compared to \$12.8 million or 70.2% of revenue in the six month period ended June 30, 2014. 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 \$0.9 million from approximately \$2.6 million for the six months ended June 30, 2014 to approximately \$1.6 million for the six months ended June 30, 2015, which is due primarily to the overall decrease in product revenue. The cost of product revenue as a percentage of product revenue was approximately 23% for the six months ended June 30, 2015 as compared to 27% for the six months ended June 30, 2014. Cost of product revenue can vary due primarily to product mix.

- The cost of service and supplies increased by \$2.2 million from \$2.2 million in the six months ended June 30, 2014 to \$4.4 million in the six months ended June 30, 2015. This increase is due primarily to the increase related to the acquisition of the assets of DermEbx and Radion, and represents primarily personnel costs related to physics, radiation therapist and management services provided following the acquisition. The cost of service and supply revenue as a percentage of service revenue was approximately 25% in each of the quarters ended June 30, 2015 and June 30, 2014.
- Amortization and depreciation increased by \$0.4 million from \$0.7 million for the six months ended June 30, 2014 to \$1.1 million for the six months ended June 30, 2015. The increase in amortization and depreciation is due to amortization and depreciation for the acquired intangibles. In June 2015, the Company impaired intangible assets of the Therapy reporting unit and recorded amortization and depreciation expense based on the revised values of the assets.

Operating Expenses: (in thousands)

	Six months ended June 30,			
	2015	2014	Change	Change %
Operating expenses:				
Engineering and product development	\$ 4,528	\$ 3,866	\$ 662	17.1%
Marketing and sales	6,995	5,464	1,531	28.0%
General and administrative	4,543	3,554	989	27.8%
Amortization and depreciation	1,116	506	610	120.6%
Goodwill and long-lived asset impairment	27,443	—	27,443	0.0%
Total operating expenses	<u>\$44,625</u>	<u>\$13,390</u>	<u>\$31,235</u>	<u>233.3%</u>

Operating expenses increased by approximately \$31.2 million or 233.3%, in the six months ended June 30, 2015. The primary driver for the increase was the goodwill and long-lived asset impairment as well as additional personnel costs related to the acquisition of DermEbx and Radion. In the second quarter of 2015, the Company implemented cost reduction initiatives and as a result we expect operating expenses, net of impairment to decrease from the current levels.

Engineering and Product Development. Engineering and product development costs for the six month period ended June 30, 2015 increased by \$0.6 million, or 17.1%, from \$3.9 million in 2014 to \$4.5 million in 2015. Therapy engineering and product development increased \$0.6 million from \$1.9 million in the six months ended June 30, 2014 to \$2.5 million for the six months ended June 30, 2015. The increase in Therapy engineering and product development costs was due primarily to increases in salaries, consulting and clinical costs. Detection engineering and product development costs remained at \$1.9 million for the six months ended June 30, 2014 and the six months ended June 30, 2015.

Marketing and Sales. Marketing and sales expenses increased by \$1.5 million or 28.0%, from \$5.5 million in the six month period ended June 30, 2014 to \$7.0 million in the six month period ended June 30, 2015. Therapy marketing and sales expense increased \$1.3 million from \$3.7 million in the six months ended June 30, 2014 to \$5.0 million for the six months ended June 30, 2015. The increase in Therapy marketing and sales expenses was due primarily to increases in salaries and wages, consulting, trade shows and travel. These increases reflect continued investment in the Therapy segment. For the six months ended June 30, 2015, the Company incurred \$0.5 million of severance payments in the Therapy segment marketing and sales. Detection marketing and sales costs increased slightly by \$0.2 million from \$1.8 million in the six months ended June 30, 2014 to \$2.0 million for the six months ended June 30, 2015, this increase is due primarily to \$0.1 million of severance payments in the second quarter of 2015.

General and Administrative. General and administrative expenses increased by \$0.9 million from \$3.6 million in the six month period ended June 30, 2014 to \$4.5 million in the six month periods ended June 30, 2015. The increase was due primarily to increases in personnel, legal, accounting, consulting, travel and stock compensation expense.

Amortization and Depreciation. Amortization and depreciation is primarily related to acquired intangible assets and depreciation related to machinery and equipment. Amortization and depreciation increased by \$0.6 million from \$0.5 million in the six month period ended June 30, 2014 to \$1.1 million in the six month period ended June 30, 2015. The increase in expense was due to amortization of the acquired intangible assets related to the DermEbX/ Radion acquisition. In June 2015, the Company impaired intangible assets of the Therapy reporting unit and recorded amortization and depreciation expense based on the revised values of the assets.

Goodwill and long-lived asset impairment. In connection with the preparation of the financial statements for the second quarter ended June 30, 2015, the Company evaluated the Therapy reporting unit for both long-lived asset and goodwill impairment and recorded an impairment charge of \$14.0 million related to goodwill and an impairment charge of \$13.4 related to long-lived assets for a total of \$27.4 million.

Other Income and Expense: (in thousands)

	Six months ended June 30,			
	<u>2015</u>	<u>2014</u>	<u>Change</u>	<u>Change %</u>
Loss on extinguishment of debt	\$(1,723)	\$ (903)	(820)	90.8%
Gain from change in fair value of warrants	—	1,835	(1,835)	(100.0)%
Interest expense	(577)	(1,431)	854	(59.7)%
Interest income	14	16	(2)	(12.5)%
	<u>\$(2,286)</u>	<u>\$ (483)</u>	<u>\$(1,803)</u>	<u>373.3%</u>
Tax benefit (expense)	28	(78)	106	(135.9)%

Loss on extinguishment of debt. The loss of \$1.7 million from the extinguishment of debt represents the loss associated with the payoff of the Deerfield facility agreement, which has now been terminated. On March 31, 2015, the Company paid \$11.25 million which represented the entire obligation. The loss on extinguishment represents the unamortized discount on the Facility agreement, and the write-off of the deferred debt costs. The Facility Agreement was to mature on December 29, 2016 and was able to be repaid at the Company's option without penalty or premium. The loss of \$0.9 million from the extinguishment of debt represents the loss associated with the payoff of the Deerfield revenue purchase agreement, which was terminated in April 2014.

Gain from change in fair value of warrants. The gain of \$1.8 million from the change in fair value of the warrants for the period ended June 30, 2014, resulted from change in the fair value of the warrants under the binomial lattice based valuation methodology, due primarily to changes in the Company's stock price, and volatility which are the key assumptions in determining the value of the warrants. On April 30, 2014, the warrants were exercised in full and the Company issued 450,000 shares of common stock.

Interest expense. Interest expense of \$0.6 million decreased by \$0.9 million or 59.7% for the six month period ended June 30, 2015 as compared to interest expense of \$1.4 million in the six month period ended June 30, 2014. The reduction in interest expense is due primarily to the reduction in interest related to the Deerfield facility agreement that was terminated on March 31, 2015. Interest related to the Hologic and Zeiss settlement obligations was \$92,000 in the six months ended June 30, 2015 as compared to \$0.1 million in the same period in 2014.

Interest income. Interest income of \$14,000 and \$16,000 for the six month periods ended June 30, 2015, and 2014, respectively, reflects income earned from our money market accounts.

Tax benefit (expense). The Company recorded a tax benefit of \$28,000 as compared to tax expense of \$78,000 for the six month period ended June 30, 2015, and 2014, respectively. The tax benefit is due primarily to a deferred tax liability of approximately \$117,000, offset by tax expense of approximately \$89,000. The deferred liability was the result of tax amortizable goodwill that was recognized due to the impairment of goodwill. Tax expense is due primarily to state non-income and franchise based taxes.

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, lease and settlement commitments, and other long-term obligations.

As of June 30, 2015, the Company current assets of \$29.7 million which includes \$18.2 of cash and cash equivalents, current liabilities of \$15.3 million and working capital of \$14.4 million. The ratio of current assets to current liabilities was 1.93:1. On March 31, 2015 the Company paid \$11.2 million to repay the Deerfield facility agreement. In April 2015, we paid \$1.7 million to acquire VuComp's M-Vu Breast Density product which was paid in cash at closing.

	For the six months ended June 30,	
	<u>2015</u>	<u>2014</u>
Net cash provided by (used for) operating activities	\$ 223	\$ (2,336)
Net cash used for investing activities	(2,535)	(509)
Net cash provided by (used for) financing activities	<u>(11,700)</u>	<u>25,816</u>
Increase (decrease) in cash and equivalents	<u>\$ (14,012)</u>	<u>\$ 22,971</u>

Net cash provided by operating activities for the six month period ended June 30, 2015 was \$223,000, compared to net cash used for operating activities of \$2.3 million for the six month period ended June 30, 2014. The cash provided by operating activities for the six month period ended June 30, 2015 resulted primarily from sources of cash due to working capital changes resulting from decreases in accounts receivable offset by an increase in inventory and 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.

The net cash used for investing activities for the six month period ended June 30, 2015 was \$2.5 million. The Company used approximately \$799,000 for purchases of property and equipment, and \$1.7 million to acquire VuComp M-Vu Breast Density software. Cash used for investing activities of \$509,000 in the six month period ended June 30, 2014 consisted primarily of purchases of property and equipment.

Net cash used for financing activities for the six month period ended June 30, 2015 was \$11.7 million as compared to net cash provided by financing activities of \$25.8 million for the six month period ended June 30, 2014. The net cash used of \$11.7 million represents primarily the repayment of the Deerfield facility agreement. The cash provided by financing activities reflects the underwritten offering in March 2014 of 2.76 million shares at approximately \$11.00 per share, with net proceeds of \$28.2 million after deducting offering expenses and underwriting discounts.

Contractual Obligations

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

<u>Contractual Obligations</u>	<u>Payments due by period</u>				
	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>5+ years</u>
Operating Lease Obligations	\$1,009	\$ 507	\$ 502	\$ —	\$ —
Capital Lease Obligations	1,739	\$ 1,251	\$ 488	—	—
Settlement Obligations	1,425	275	800	50	300
Other Commitments	2,233	2,233	—	—	—
Total Contractual Obligations	\$6,406	\$ 4,266	\$ 1,790	\$ 50	\$ 300

Operating lease obligations are the minimum payments due under these obligations. Capital lease obligations represent the principal payments due under the respective leases.

Settlement obligations represent the minimum payments attributable to the obligations related primarily to Zeiss and Hologic.

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

Recent Accounting Pronouncements

See Note 14 to the Condensed Consolidated Financial Statements.

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 June 30, 2015, 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)) to determine whether any changes in internal control over financial reporting occurred during the quarter ended June 30, 2015, that have materially affected or which are reasonably likely to materially affect internal control over financial reporting. Based on that evaluation, there has been no such change during such period.

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. Our risk factors are described in Part I, Item 1A of our Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2014 as filed with the SEC on March 13, 2015. There have been no material changes in the risks affecting iCAD since the filing of our Form 10K.

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

<u>Month of purchase</u>	<u>Total number of shares purchased (1)</u>	<u>Average price paid per share</u>	<u>Total number of shares purchased as part of publicly announced plans or programs</u>	<u>Maximum dollar value of shares that may yet be purchased under the plans or programs</u>
April 1 - April 30, 2015	4,118	\$ 4.72	\$ —	\$ —
May 1 - May 31, 2015	1,084	\$ 3.70	\$ —	\$ —
June 1 - June 30, 2015	—	\$ —	\$ —	\$ —
Total	<u>5,202</u>	<u>\$ 4.51</u>	<u>\$ —</u>	<u>\$ —</u>

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

Item 6. **Exhibits**

<u>Exhibit No.</u>	<u>Description</u>
3.1	Certificate of Incorporation of the Registrant as amended through June 16, 2015.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *
101	The following materials formatted in XBRL (eXtensible Business Reporting Language); (i) Consolidated Balance Sheets as of June 30, 2015 and December 31, 2014, (ii) Consolidated Statements of Operations for the three and six months ended June 30, 2015 and 2014, (iii) Consolidated Statements of Cash Flows for the three and six months ended June 30, 2015 and 2014, and (iv) Notes to Consolidated Financial Statements.

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: August 6, 2015

By: /s/ Kenneth M. Ferry
Kenneth M. Ferry
Chief Executive Officer,
Director

Date: August 6, 2015

By: /s/ Kevin C. Burns
Kevin C. Burns
President, Chief Operating Officer
Chief Financial Officer and Treasurer

CERTIFICATE OF INCORPORATION

OF

HOWTEK, INC.

FIRST: The name of the Corporation is Howtek, Inc.

SECOND: The address of its registered office in the State of Delaware is 100 West 10th St., Wilmington, Delaware, County of New Castle. The name of its registered agent at such address is The Corporation Trust Company.

THIRD: The nature of the business or purposes to be conducted or promoted are:

To engage in research and development, purchase, sale, import, export, license, distribution, manufacture or rental of any program, product, machine, apparatus, appliance, merchandise and property of every kind and description, ideas, systems, procedures and services of any nature, including, without limiting the generality of the foregoing, all types of products which possess an internal intelligence for recognizing and correlating any type of data or information to be processed, pattern interpretation, recognition and memory systems and equipment, optical scanning, printing, (including, but not limited to, impact dot matrix and jet stream), analog and digital computers, components, all types of electrical, mechanical, electromechanical and electronic products and systems.

To engage in any lawful act or activity for which corporations may be organized under the General Corporation Laws of the State of Delaware.

FOURTH: The total number of shares of stock which the corporation shall have authority to issue is 1,000 all of which shares are to be Common Stock of no par value.

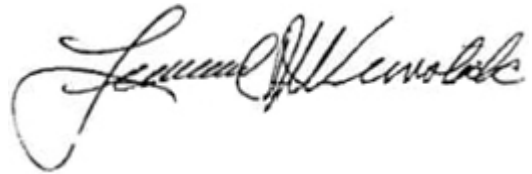
FIFTH: The name and mailing address of the incorporator is Leonard I. Weinstock, 355 Lexington Avenue, New York, New York 10017.

SIXTH: Election of directors need not be by ballot.

SEVENTH: The Board of Directors is authorized to make, alter, or repeal the By-laws of the corporation.

EIGHTH: Whenever a compromise or arrangement is proposed between this corporation and its creditors or any class of them and/or between this corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for this corporation under the provisions of section 291 or Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for this corporation under the provisions of section 279 of Title 8 of the Delaware Code order a meeting of the creditors or class of creditors, and/or of the stockholders or a class of stockholders of this corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this corporation as consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this corporation, as the case may be, and also on this corporation.

THE UNDERSIGNED, being the incorporator herein before named, for the purpose of incorporating a corporation pursuant to the General Corporation Law of the State of Delaware, does make this Certificate this 21st day of February, 1984, and affirms that the statements contained herein are true under the penalties of perjury.



Leonard I. Weinstock
Incorporator

CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION
OF
HOWTEK, INC.

HOWTEK, INC. (hereinafter the "Corporation"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, DOES HEREBY CERTIFY:

FIRST: That the Board of Directors of said Corporation, by unanimous written consent of its members, filed with the minutes of the Board, adopted resolutions proposing and declaring advisable the following amendments to the Certificate of Incorporation of said Corporation:

RESOLVED, that the Certificate of Incorporation of HOWTEK, INC. be amended by changing Article FOURTH thereof so that, as amended, said Article shall be and read as follows:

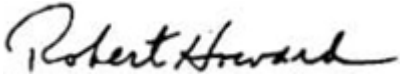
"FOURTH: The aggregate number of shares of stock which this Corporation shall have authority to issue is one million (1,000,000) shares, all of which shares are to be Common Stock par value \$.01 per share."

SECOND: That in lieu of a meeting and vote of stockholders, the stockholders have given unanimous written consent to said amendment in accordance with the provisions of Section 228 of the General Corporation Law of the State of Delaware.


THIRD: That the aforesaid amendment was duly adopted in accordance with the applicable provisions of Sections 242 and 228 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, the Corporation has caused this certificate to be signed by Robert Howard, its President and attested by Beth Weinstein, its Secretary, as of the 31st day of May, 1984.

HOWTEK, INC.


By: _____
Robert Howard, President

ATTEST:



Beth Weinstein, Secretary

CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION
OF
HOWTEK, INC.

HOWTEK, INC. (hereinafter the "Corporation"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, DOES HEREBY CERTIFY:

FIRST: That the Board of Directors of said Corporation, by unanimous written consent of its members, filed with the minutes of the Board, adopted resolutions proposing and declaring advisable the following amendments to the Certificate of Incorporation of said Corporation:

RESOLVED, that the Certificate of Incorporation of HOWTEK INC., be amended by changing Article FOURTH thereof so that, as amended, said Article shall be and read as follows:

"FOURTH: The aggregate number of shares of stock which this Corporation shall have authority to issue is ten million (10,000,000) shares, all of which shares are to be Common Stock par value \$.01 per share."

SECOND: That in lieu of a meeting and vote of stockholders, the stockholders have given unanimous written consent to said amendment in accordance with the provisions of Section 228 of the General Corporation Law of the State of Delaware.

THIRD: That the aforesaid amendment was duly adopted in accordance with the applicable provisions of Sections 242 and 228 of the General Corporation Law of the State of Delaware.

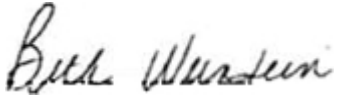
IN WITNESS WHEREOF, the Corporation has caused this certificate to be signed by Robert Howard, its President and attested by Beth Weinstein, its Secretary, as of the 22nd day of August, 1984.

HOWTEK, INC.



By: _____
Robert Howard, President

ATTEST:



Beth Weinstein, Secretary

Certificate of Restoration and Revival of
Certificate of Incorporation
of

It is hereby certified that:

1.) The name of the corporation (hereinafter called the "corporation") is Howtek, Inc.
2.) The corporation was organized under the provisions of the General Corporation Law of the State of Delaware.
3.) The address, including the street, city and county, of the registered office of the corporation in the State of Delaware and the name of the registered agent at such address are as Follows:

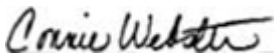
The Corporation Trust Company
Corporation Trust Center
1209 Orange Street
Wilmington, DE 19801
New Castle County
4.) The corporation hereby procures a restoration and revival of its certificate of incorporation, which became inoperative by law on March 1, 1987 for failure to file annual reports and non-payment of taxes payable to the State of Delaware.
5.) The certificate of incorporation of the corporation, which provides for and will continue to provide for, perpetual duration, shall, upon the filing of this Certificate of Restoration and Revival of the Certificate of Incorporation in the Department of State of the State of Delaware, be restored and revived and shall become fully operative on February 28, 1987.
6.) This certificate of restoration and revival of the Certificate of Incorporation is filed by authority of the duly elected directors as prescribed by Section 312 of the General Corporation Law of the State of Delaware.

Signed and attested to on July 31, 1987.



Vice President – Finance

Attest:



Secretary

[illegible]
[illegible] HOWTEK, INC.
* * * * *

TAX HISTORY

[illegible]
SCREEN TAX
* * * * *

[illegible]	TAXES	INTEREST	PENALTY	CHECK CHGS	PETITION/[illegible] DATES & STATUS
1986 DUE	2,380.00		50.00		08/03/1987
ADJUSTMENT PAID	2,380.00		50.00		
	08/03/1987	000706826			
1985 DUE	1,260.00	15.65	50.00		08/03/1987
ADJUSTMENT PAID	1,260.00	15.65	50.00		
4	04/25/1986	R27 5032			
1984 DUE	915.22				
ADJUSTMENT PAID	915.22				
	03/01/1985	060013661			
FRANCHISE TAX BALANCE:		10.55CR			

plf
VOID 3-1-87
PETITION GRANTED AUGUST 4, 1987
BILL TO RENEW

CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION
OF
HOWTEK, INC.

Adopted in accordance with the provisions
of Section 242 of the General Corporation
Law of the State of Delaware

WE, Robert Howard, Chairman of the Board and President, and Robert J. Mittman, Assistant Secretary, of Howtek, Inc. (the "Corporation"), a corporation existing under the laws of the State of Delaware, do hereby certify as follows:

1. That Article FOURTH of the Certificate of Incorporation of the Corporation has been amended to read in its entirety as follows:

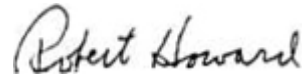
FOURTH: The total number of shares of stock which the Corporation shall have authority to issue is twenty-five million (25,000,000) shares, all of which shares are to be shares of Common Stock, par value \$.01 per share.

2. That the Certificate of Incorporation of the Corporation has been amended by adding a new Article Ninth, reading in its entirety as follows:

NINTH: No director of the Corporation shall be personally liable to the Corporation or its stockholders for any monetary damages for breaches of fiduciary duty as a director, provided that this provision shall not eliminate or limit the liability of a director (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders; (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (iii) under Section 174 of the General Corporation Law of the State of Delaware; or (iv) for any transaction from which the director derived an improper personal benefit. No repeal or modification of this Article NINTH shall adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification with respect to any acts or omissions of such director occurring in whole or in part prior to the effective date of such repeal or modification.

3. That such amendments have been duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware by the affirmative vote of the holders of a majority of the stock entitled to vote at a meeting of stockholders.

IN WITNESS WHEREOF, we have signed this Certificate this 21st day of October, 1987.



Robert Howard, Chairman of the Board and
President

ATTEST:



Robert J. Mittman
Assistant Secretary

CERTIFICATE OF AMENDMENT
OF THE
CERTIFICATE OF INCORPORATION
OF
HOWTEK, INC.

Adopted in accordance with the provisions of Section 242
of the General Corporation Law of the State of Delaware

The undersigned, being the President of HOWTEK, INC. (the "Corporation"), a corporation existing under the laws of the State of Delaware, does hereby certify as follows:

FIRST: That the Certificate of Incorporation of the Corporation has been amended as follows by striking out the whole of Article FOURTH thereof as it now exists and inserting in lieu and instead thereof a new Article FOURTH, reading as follows:

"FOURTH: The total number of shares of capital stock which the Corporation shall have authority to issue is Twenty-Six Million (26,000,000) shares, of which Twenty-Five Million (25,000,000) shares shall be Common stock, par value \$.01 per share, and One Million (1,000,000) shares shall be Preferred Stock, par value \$.01 per share.

The Preferred Stock may be issued from time to time in one or more series. The Board of Directors of the Corporation is hereby expressly authorized to provide, by resolution or resolutions duly adopted by it prior to issuance, for the creation of each such series and to fix the designation and the powers, preferences, rights, qualifications, limitations and restrictions relating to the shares of each such series. The authority of the Board of Directors with respect to each series of Preferred Stock shall include, but not be limited to, determining the following:

(a) the designation of the series and the number of shares to constitute such series (which number may be increased or decreased from time to time unless otherwise provided by the Board of Directors);

(b) the dividend rate (or method of determining such rate), any conditions on which and times at which dividends are payable, the preference or relation which such dividends shall bear to the dividends payable on any other class or classes or of any other series of capital stock including the Preferred Stock, and whether such dividends shall be cumulative or non-cumulative;

(c) whether the series will be redeemable (at the option of the Corporation or the holders of such shares or both, or upon the happening of a specified event) and, if so, the redemption prices and the conditions and times upon which redemption may take place and whether for cash, property or rights, including securities of the Corporation or another corporation;

(d) whether the shares of such series shall be subject to the operation of a retirement or sinking fund and, if so, the extent to and manner in which any such retirement or sinking fund shall be applied to the purchase or redemption of the shares of such series for retirement or other corporate purposes and the terms and provisions relating to the operation thereof;

(e) the conversion or exchange rights (at the option of the Corporation or the holders of such shares or both, or upon the happening of a specified event), if any, including the conversion or exchange, times, prices, rates, adjustments and other terms of conversion or exchange;

(f) whether the shares of such series shall have voting rights in addition to any voting rights provided as a matter of law and, if so, the terms of such voting rights, which may be general or limited;

(g) the conditions or restrictions, if any, upon the creation of indebtedness of the Corporation or upon the issue or reissue or sale of any additional stock, including additional shares of such series or of any other series of Preferred Stock or of any other class;

(h) the rights of the holders upon voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation or upon any dissolution of the assets of the Corporation (including preferences over the Common Stock or other class or classes or series of capital stock including the Preferred Stock);

(i) the preemptive rights, if any, to subscribe to additional issues of stock or securities of the Corporation;

(j) the limitations and restrictions, if any, to be effective while any shares of such series are outstanding upon the payment of dividends or the making of other distributions on, and upon the purchase, redemption or other acquisition by the Corporation of, the Common Stock or shares of stock of any other class or any other series of Preferred Stock; and

(k) such other special rights and privileges, if any, for the benefit of the holders of the Preferred Stock, as shall not be inconsistent with the provisions of the Corporation's Certificate of Incorporation, as amended, or applicable law.

All shares of Preferred Stock of the same series shall be identical in all respects, except that shares of any one series issued at different times may differ as to dates, if any, from which dividends thereon may accumulate. All shares of Preferred Stock redeemed, purchased or otherwise acquired by the Corporation (including share surrendered for conversion) shall be cancelled and thereupon restored to the status of authorized but unissued shares of Preferred Stock undesignated as to series."

SECOND: That such amendment has been duly adopted by the affirmative vote of the holders of a majority of the stock entitled to vote at a meeting of stockholders in accordance with the provisions of the General Corporation Law of the State of Delaware.

Dated: September 28, 1999.

HOWTEK, INC.

A handwritten signature in black ink, appearing to read "W. Scott Parr", written over a horizontal line.

By: _____
W. Scott Parr, President

HOWTEK, INC.

CERTIFICATE OF DESIGNATION
OF
7.0% SERIES A CONVERTIBLE PREFERRED STOCK
SETTING FORTH THE POWERS,
PREFERENCES, RIGHTS, QUALIFICATIONS,
LIMITATIONS AND RESTRICTIONS OF
SUCH SERIES OF PREFERRED STOCK

Pursuant to Section 151 of the General Corporation Law of the State of Delaware, Howtek, Inc. (the "Corporation"), a corporation organized and existing under the General Corporation Law of the State of Delaware, in accordance with the provisions of Section 103 thereof, DOES HEREBY CERTIFY:

That pursuant to the authority of Directors of the Board of Directors of the Corporation by Article Fourth of the Certificate of Incorporation of the Corporation (the "Certificate of Incorporation"), and in accordance with the provisions of Section 151 of the General Corporation Law of the State of Delaware, the Board of Directors of the Corporation adopted the following resolution creating a series of preferred stock designated as 7.0% Series A Convertible Preferred Stock.

RESOLVED that, pursuant to the authority vested in the Board of Directors of the Corporation in accordance with the General Corporation Law of the State of Delaware and the provisions of the Certificate of Incorporation, a series of the class of authorized Preferred Stock, liquidation preference \$100 per share, of the Corporation is hereby created and that the designation and number of shares thereof and the voting powers, preferences and relative, participating, optional and other special rights of the shares of such series, and the qualifications, limitations and restrictions thereof, are as follows:

Section 1. Designation, Number and Rank. (a) The shares of such series shall be designated "7.0% Series a Convertible Preferred Stock" (the "Series A Preferred Stock"). The number of shares initially constituting the Series A Preferred Stock shall be 10,000, par value \$.01 per share, which number may be decreased (but not increased) by the Board of Directors without a vote of stockholders; provided, however, that such number may not be decreased below the number of then outstanding shares of Series A Preferred Stock.

(b) The Series A Preferred Stock shall, with respect to dividend rights and rights on liquidation, dissolution or winding up, rank prior to the common stock, par value \$.01 per share, of the Corporation (the "Common Stock") and any other issue of preferred stock hereinafter created by the Corporation which does not expressly provide that it ranks senior to or pari passu with the Series A Preferred Stock as to dividends, liquidation preference or otherwise.

Section 2. Dividends and Distributions. (a) The holders of shares of Series A Preferred Stock, in preference to the holders of shares of Common Stock and of any shares of other capital stock of the Corporation (other than shares of any other issue of preferred stock hereinafter created by the Corporation that expressly provides that it ranks senior to or pari passu with the Series A Preferred Stock as to dividends and distributions), shall be entitled to receive, out of the assets of the Corporation legally available therefor, cumulative dividends of \$7.00 per annum per share, payable annually, subject to appropriate adjustment by the Board of Directors of the Corporation in the event of any stock split, dividend or similar division of shares of Series A Preferred Stock or reverse split or similar combination of the Series A Preferred Stock. Dividends shall be payable annually, in arrears, on the last day of December in each year, commencing December 31, 1999.

(b) Dividends payable pursuant to paragraph (a) of this Section 2 shall begin to accrue and be cumulative from the date of issuance, whether or not earned or declared. The amount of dividends so payable shall be determined on the basis of twelve 30-day months and a 360-day year. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series A Preferred Stock entitled to receive payment of a dividend declared hereon, which record date shall be no more than sixty days prior to the date fixed for the payment thereof.

(c) Dividends payable pursuant to paragraph (a) of this Section 2 shall be payable at the Corporation's option in either cash or in that number of shares of Common Stock determined by dividing the total amount of dividends due by the Fair Market Value of the Common Stock. For purposes of this paragraph (c) and Section 7(d) "Fair Market Value" shall mean the average of the closing sales price of the Common Stock as reported on Nasdaq (or such other exchange or quotation medium on which the Common Stock is then traded) for the ten (10) day trading period ending on the third trading date immediately preceding the payment date. In the event of payment of dividends in shares of Common Stock no fractional shares shall be issued but cash shall be paid in lieu of the issuance of the fractional shares based upon the Fair Market Value of such fractional shares.

(d) No dividends or other distributions shall be paid or set apart for payment on, and no purchase, redemption or other acquisition shall be made by the Corporation of any shares of Common Stock unless and until all accrued and unpaid dividends on the Series A Preferred Stock, including the full dividend for the then-current annual dividend period, shall have been paid or declared and set apart for payment.

(e) The holders of shares of Series A Preferred Stock shall not be entitled to receive any dividends or other distributions except as provided herein.

Section 3. Voting Rights. In addition to any voting rights provided in the Corporation's Certificate of Incorporation or By-Laws, the Series A Preferred Stock shall vote together with the Common Stock as a single class on all actions to be voted on by the stockholders of the Corporation. Each share of Series A Preferred Stock shall entitle the holder thereof to such number of votes per share on each such action as shall equal the number of whole shares of Common Stock into which each share of Series A Preferred Stock is then convertible. The holders of Series A Preferred Stock shall be entitled to notice of any stockholder's meeting in accordance with the By-Laws of the Corporation.

Section 4. Redemption at the Option of the Corporation.

(a) Provided the Corporation has not received a notice of conversion pursuant to Section 7 hereof, the Corporation may at any time after the date of issuance, at the option of the Board of Directors, redeem in whole or in part the Series A Preferred Stock by paying in cash therefor a sum equal to \$100 per share, together with any accrued and unpaid dividends thereon (the "Redemption Price"). The Redemption Price shall be subject to appropriate adjustment by the Board of Directors of the Corporation in the event of any stock split, dividend or similar division of shares of Series A Preferred Stock or reverse split or similar combination of the Series A Preferred Stock. At least fifteen (15) but no more than thirty (30) days prior to the Redemption Date (as hereinafter defined) set forth therein, written notice shall be mailed, first class postage prepaid, to each holder of record (at the close of business on the business day next preceding the day on which notice is given) of the Series A Preferred Stock to be redeemed, at the address last shown on the records of the Corporation for such holder, notifying such holder of the redemption to be effected, specifying the number of shares to be redeemed from such holder, the date of such redemption (the "Redemption Date"), the Redemption Price, the place at which payment may be obtained and calling upon such holder to surrender to the Corporation, in the manner and at the place designated, his, her or its certificate or certificates representing the shares to be redeemed (the "Redemption Notice"). Any redemption effected pursuant to this Section 4 shall be made on a pro rata basis among the holders of the Series A Preferred Stock in proportion to the number of shares of Series A Preferred Stock then held by them. Each holder of Series A Preferred Stock to be redeemed shall surrender to the Corporation the certificate or certificates representing such shares, in the manner and at the place designated in the Redemption Notice, and thereupon the Redemption Price of such shares shall be payable to the order of the person whose name appears on such certificate or certificates as the owner thereof and each surrendered certificate shall be cancelled.

(b) From and after the applicable Redemption Date, unless there shall have been a default in payment of the Redemption Price, all rights of the holders of shares of series A Preferred Stock designated for redemption in the Redemption Notice as holders of Series A Preferred Stock (except the right

to receive the Redemption Price without interest upon surrender of their certificate or certificates) shall cease with respect to such shares.

Section 5. Reacquired Shares. Any shares of Series A Preferred Stock converted, redeemed, purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof and shall upon cancellation be restored to the status of authorized but unissued shares of preferred stock, subject to reissuance by the Board of Directors as shares of preferred stock of one or more other series but not as shares of Series A Preferred Stock.

Section 6. Liquidation, Dissolution or Winding Up.

(a) If the Corporation shall commence a voluntary case under the Federal bankruptcy laws or any other applicable Federal or state bankruptcy, insolvency or similar law, or consent to the entry of an order for relief in an involuntary case under such law or to the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of the Corporation or of any substantial part of its property, or make an assignment for the benefit of its creditors, or admit in writing its inability to pay its debts generally as they become due, or if a decree or order for relief in respect of the Corporation shall be entered by a court having jurisdiction in the premises in an involuntary case under the Federal bankruptcy laws or any other applicable federal or state bankruptcy, insolvency or similar law, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of the Corporation or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and any such decree or order shall be unstayed and in effect for a period of 180 consecutive days and on account of any such event the Corporation shall liquidate, dissolve or wind up, or if the Corporation shall otherwise liquidate, dissolve or wind up, no distribution shall be made (i) to the holders of shares of Common Stock unless, prior thereto, the holders of shares of Series A Preferred Stock shall have received \$100 with respect to each share (as adjusted for any stock dividends, combinations or splits with respect to such shares) plus all declared or accumulated but unpaid dividends on such shares.

(b) Neither the consolidation, merger or other business combination of the Corporation with or into any other person or persons nor the sale of all or substantially all the

assets of the Corporation shall be deemed to be a liquidation, dissolution or winding up of the Corporation for purposes of this Section 6.

Section 7. Conversion. The holders of the Series A Preferred Stock shall have conversion rights as follows:

(a) Each share of Series A Preferred Stock, if not redeemed by the Corporation, is convertible into that number of shares of Common Stock determined by dividing the aggregate liquidation preference of the number of Series A Preferred Stock being converted by \$1.00 (the "Conversion Rate"). The Conversion Rate shall be subject to appropriate adjustment by the Board of Directors of the Corporation in the event of any stock split, dividend or similar division of the Common Stock or reverse split or similar combination of the Common Stock prior to conversion.

(b) Before any holder of Series A Preferred Stock shall be entitled to convert the same into shares of Common Stock, he shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Corporation or of any transfer agent for the Series A Preferred Stock together with such other documents and evidence of payment of any required taxes on the part of the holder as the Corporation may request, and shall give written notice to the Corporation at its principal corporate office, of the election to convert the same and shall state therein the name or names in which the certificate or certificates for shares of Common Stock are to be issued. The Corporation shall, as soon as practicable thereafter, issue and deliver at such office to such holder of Series A Preferred Stock, or to the nominee or nominees of such holder, a certificate or certificates for the number of shares of Common Stock to which such holder shall be entitled as aforesaid. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the shares of Series A Preferred Stock to be converted, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock as of such date.

(c) In case any shares of Series A Preferred Stock are to be redeemed pursuant to Section 4, such right of conversion shall cease and terminate as to the shares of Series A Preferred Stock to be redeemed at the close of business on the

business day next preceding the date fixed for redemption unless the Corporation shall default in the payment of the Redemption Price.

(d) Upon conversion, the holder of shares of Series A Preferred Stock shall be entitled to receive any accrued and unpaid dividends on the shares of Series A Preferred Stock surrendered for conversion to the date of such conversion. Such dividends shall be payable at the Corporation's option in either cash or in that number of shares of Common Stock determined by dividing the total amount of dividends due by the Fair Market Value of the Common Stock. In the event of payment of dividends in shares of Common Stock no fractional shares shall be issued but cash shall be paid in lieu of the issuance of the fractional shares based upon the Fair Market Value of such fractional shares.

(e) Once the Corporation has received the written notice of the holder of the election to convert, the right of the Corporation to redeem such shares of Series A Preferred Stock shall terminate.

(f) The Corporation will pay any and all issue or other taxes that may be payable in respect of any issuance or delivery of shares of Common Stock on conversion of the Series A Preferred Stock. The Corporation shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issuance or delivery of Common Stock in a name other than that of the holder of Series A Preferred Stock, and no such issuance or delivery shall be made unless and until the person requesting such issuance has paid to the Corporation the amount of such tax or has established, to the satisfaction of the Corporation, that such tax has been paid.

(g) The Corporation shall at all times reserve and keep available for issuance upon the conversion of the Series A Preferred Stock, such number of its authorized but unissued shares of Common Stock as will from time to time be sufficient to permit the conversion of all outstanding shares of Series A Preferred Stock, and shall take all action required to increase

the authorized number of shares of Common Stock if necessary to permit the conversion of all outstanding shares of Series A Preferred Stock.

Section 8. Certain Covenants. Any registered holder of Series A Preferred Stock may proceed to protect and enforce its rights and the rights of such holders by any available remedy by proceeding at law or in equity to protect and enforce any such rights, whether for the specific enforcement of any provision in this Certificate of Designation or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

IN WITNESS WHEREOF, a duly authorized officer of the Corporation has caused this Certificate to be duly executed on this 22nd day of December, 1999.

HOWTEK, INC.



By: _____
Name: W. Scott Parr
Title: President

CERTIFICATE OF DESIGNATION
OF
7.0% SERIES B CONVERTIBLE PREFERRED STOCK
SETTING FORTH THE POWERS,
PREFERENCES, RIGHTS, QUALIFICATIONS,
LIMITATIONS AND RESTRICTIONS OF
SUCH SERIES OF PREFERRED STOCK

Pursuant to Section 151 of the General Corporation Law of the State of Delaware, Howtek, Inc. (the "Corporation"), a corporation organized and existing under the General Corporation Law of the State of Delaware, in accordance with the provisions of Section 103 thereof, DOES HEREBY CERTIFY:

That pursuant to the authority of Directors of the Board of Directors of the Corporation by Article Fourth of the Certificate of Incorporation of the Corporation (the "Certificate of Incorporation"), and in accordance with the provisions of Section 151 of the General Corporation Law of the State of Delaware, the Board of Directors of the Corporation adopted the following resolution creating a series of preferred stock designated as 7.0% Series B Convertible Preferred Stock.

RESOLVED that, pursuant to the authority vested in the Board of Directors of the Corporation in accordance with the General Corporation Law of the State of Delaware and the provisions of the Certificate of Incorporation, a series of the class of authorized Preferred Stock, liquidation preference \$1,000 per share, of the Corporation is hereby created and that the designation and number of shares thereof and the voting powers, preferences and relative, participating, optional and other special rights of the shares of such series, and the qualifications, limitations and restrictions thereof, are as follows:

Section 1. Designation, Number and Rank. (a) The shares of such series shall be designated "7.0% Series B Convertible Preferred Stock" (the "Series B Preferred Stock"). The number of shares initially constituting the Series B Preferred Stock shall be 2,000, par value \$.01 per share, which number may be decreased (but not increased) by the Board of Directors without a vote of stockholders; provided, however, that such number may not be decreased below the number of then outstanding shares of Series B Preferred Stock.

(a) The Series B Preferred Stock shall, with respect to dividend rights and rights on liquidation, dissolution or winding up, be equivalent to the rights of the Company's 7% Series A Convertible Preferred Stock and pari passu to any other issue of preferred stock hereinafter created by the Corporation which does not expressly provide that it ranks either junior to or senior to the Series B Preferred Stock as to dividends, liquidation preference or otherwise and shall rank prior in right to the common stock, par value \$.01 per share, of the Corporation (the "Common Stock").

Section 2. Dividends and Distributions. (a) The holders of shares of Series B Preferred Stock, in preference to the holders of shares of Common Stock and of any shares of other capital stock of the Corporation (other than shares of the 7% Series A Convertible Preferred Stock or any other issue of preferred stock hereinafter created by the Corporation unless the issue of preferred stock hereinafter created expressly provides that it ranks junior to or senior to the Series B Preferred Stock as to dividends and distributions), shall be entitled to receive, out of the assets of the Corporation legally available therefor, cumulative dividends of \$70.00 per annum per share, payable annually, subject to appropriate adjustment by the Board of Directors of the Corporation in the event of any stock split, dividend or similar division of shares of Series B Preferred Stock or reverse split or similar combination of the Series B Preferred Stock. Dividends shall be payable annually, in arrears, on the last day of December in each year, commencing December 31, 2000, provided, however, if any such date shall fall on a day other than a business day, then such payment shall, at the Corporation's option, be made on either the first business day preceding or the first business day following the date on which such payment shall have so fallen due.

(b) Dividends payable pursuant to paragraph (a) of this Section 2 shall begin to accrue and be cumulative from the date of issuance, whether or not earned or declared. The amount of dividends so payable shall be determined on the basis of twelve 30-day months and a 360-day year. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series B Preferred Stock in an amount less than the total

amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series B Preferred Stock entitled to receive payment of a dividend declared hereon, which record date shall be no more than sixty days prior to the date fixed for the payment thereof.

(c) Dividends payable pursuant to paragraph (a) of this Section 2 shall be payable at the Corporation's option in either cash or in that number of shares of Common Stock determined by dividing the total amount of dividends due by the Fair Market Value of the Common Stock. For purposes of this paragraph (c) "Fair Market Value" shall mean the average of the closing sales price of the Common Stock as reported on Nasdaq (or such other exchange or quotation medium on which the Common Stock is then traded) for the ten (10) day trading period immediately preceding the record date for such dividend, or the payment date if no record date shall have been established. In the event of payment of interest in shares of Common Stock no fractional shares shall be issued but cash shall be paid in lieu of the issuance of the fractional share based upon the Fair Market Value of such fractional shares.

(d) No dividends or other cash distributions shall be paid or set apart for payment on any shares of Common Stock unless and until all accrued and unpaid dividends on the Series B Preferred Stock, including the full dividend for the then – current annual dividend period, shall have been paid or declared and set apart for payment.

(e) The holders of shares of Series B Preferred Stock shall not be entitled to receive any dividends or other distributions except as provided herein.

Section 3. Voting Rights. Except as provided in the Corporation's Certificate of Incorporation or By-Laws or as provided in the Delaware General Corporation Law, the Series B Preferred Stock shall have no voting rights.

Section 4. Redemption at the Option of the Corporation.

(a) Provided (i) the Corporation has not received a notice of conversion pursuant to Section 7 hereof and (ii) the closing sales prices of the Common Stock as reported by Nasdaq (or such other exchange or quotation medium on which the Common Stock is then traded) has been 125% or more of the then Conversion Rate (as hereinafter defined) for any five consecutive trading days (the "Trigger Period"), the Corporation may at any time after the date of issuance, at the option of the Board of Directors, redeem in whole or in part the Series B Preferred Stock by paying in cash therefor a sum equal to \$1,000 per share, together with any accrued and unpaid dividends thereon (the "Redemption Price"). Written notice of redemption may be given no more than twenty (20) days after the last day of the Trigger Period and shall be mailed, first class postage prepaid, to each holder of record (at the close of business on the business day next preceding the day on which notice is given) of the Series B Preferred Stock to be redeemed, at the address last shown on the records of the Corporation for such holder. Each such notice of redemption shall specify the date fixed for redemption, which date shall not be less than fifteen (15) days nor more than sixty (60) days after the date notice of redemption is first given, the redemption price, the place or places of payment, the then effective Conversion Rate (as hereinafter defined), that the right of holders of shares of Series B Preferred Stock being redeemed to exercise their conversion right shall terminate as to such shares at the close of business on the day that immediately precedes the date that is fixed for redemption (provided that no default by the Corporation in the payment of the applicable redemption price shall have occurred and be continuing), that payment will be made upon presentation and surrender of the shares of Series B Preferred Stock, that accrued but unpaid dividends to the date fixed for redemption (whether or not declared) will be paid on the date fixed for redemption, and that on and after the redemption date, dividends will cease to accrue on such shares.

(b) Any notice which is mailed as herein provided shall be conclusively presumed to have been duly given, whether or not the holder of the Series B Preferred Stock receives such notice; and failure to give such notice by mail, or any defect in such notice, to the holders of any shares designated for redemption shall not affect the validity of the proceedings for the redemption of any other shares of Series B Preferred Stock. On or after the date fixed for redemption as stated in such notice, each holder of the shares of Series B Preferred Stock shall surrender the certificate (or certificates) evidencing such shares to the Corporation at the place designated in such

notice and shall thereupon be entitled to receive payment of the applicable Redemption Price. If, on the date fixed for redemption, funds necessary for the redemption shall be available therefor and shall have been irrevocably deposited or set aside, then, notwithstanding that the certificates evidencing any shares so called for redemption shall not have been surrendered, the dividends with respect to the shares so called shall cease to accrue after the date fixed for redemption, the shares shall no longer be deemed outstanding, the holders thereof shall cease to be stockholders, and all rights whatsoever with respect to the shares so called for redemption (except the right of the holders to receive the applicable Redemption Price, without interest, upon surrender of their certificates therefor) shall terminate. Any monies deposited by the Corporation pursuant to the foregoing provision and unclaimed at the end of one year from the date fixed for redemption shall, to the extent permitted by law, be returned to the Corporation, after which the holders of shares of Series B Preferred Stock so called for redemption shall look only to the Corporation for the payment thereof.

(c) Notwithstanding the provisions of paragraph (b) of this Section 5, no redemption of the Series B Preferred Stock may be made unless at the date fixed for redemption the shares of Common Stock that may be issued upon conversion of the Series B Preferred Stock have either been registered under the Securities Act of 1933 (the "Act") or may be publicly sold under either Rule 144 promulgated under the Act or another applicable exemption from registration under the Act.

Section 5. Reacquired Shares. Any shares of Series B Preferred Stock converted, redeemed, purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares of Series B Preferred Stock shall upon their cancellation, and, if required, upon the filing of an appropriate certificate with the Secretary of State of the State of Delaware, become authorized but unissued shares of Preferred Stock of the Corporation and may be reissued as part of another series of Preferred Stock of the Corporation.

Section 6. Liquidation, Dissolution or Winding Up.

(a) If the Corporation shall commence a voluntary case under the Federal bankruptcy laws or any other applicable Federal or state bankruptcy, insolvency or similar law, or consent to the entry of an order for relief in an involuntary case under such law or to the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of the Corporation or of any substantial part of its property, or make an assignment for the benefit of its creditors, or admit in writing its inability to pay its debts generally as they become due, or if a decree or order for relief in respect of the Corporation shall be entered by a court having jurisdiction in the premises in an involuntary case under the Federal bankruptcy laws or any other applicable federal or state bankruptcy, insolvency or similar law, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of the Corporation or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and any such decree or order shall be unstayed and in effect for a period of 180 consecutive days and on account of any such event the Corporation shall liquidate, dissolve or wind up, or if the Corporation shall otherwise liquidate, dissolve or wind up, no distribution shall be made (i) to the holders of shares of Common Stock unless, prior thereto, the holders of shares of Series B Preferred Stock shall have received \$1,000 with respect to each share (as adjusted for any stock dividends, combinations or splits with respect to such shares) plus all declared or accumulated but unpaid dividends on such shares.

(b) Neither the consolidation, merger or other business combination of the Corporation with or into any other entity nor the sale of all or substantially all the assets of the Corporation shall be deemed to be a liquidation, dissolution or winding up of the Corporation for purposes of this Section 6.

Section 7. Conversion. The holders of the Series B Preferred Stock shall have conversion rights as follows (the “Conversion Rights”):

(a) Right to Convert. Each share of Series B Preferred Stock, if not redeemed by the Corporation, is convertible into that number of shares of Common Stock determined by dividing the aggregate liquidation preference of the number of Series B Preferred Stock being converted by \$2.00 (the “Conversion Rate”). The Conversion Rate shall be subject to appropriate adjustment by the Board of Directors of the Corporation in the event of any stock split, dividend or similar division of the Common Stock, or the Series B Preferred Stock,

as the case may be, or reverse split or similar combination of the Common Stock, or the Series B Preferred Stock, as the case may be, prior to conversion.

(b) Mechanics of Conversion. Before any holder of Series B Preferred Stock shall be entitled to convert the same into shares of Common Stock, he shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Corporation or of any transfer agent for the Series B Preferred Stock, and shall give written notice to the Corporation at its principal corporate office, of the election to convert the same and shall state therein the name or names in which the certificate or certificates for shares of Common Stock are to be issued. The Corporation shall, as soon as practicable thereafter, subject to the receipt by the Corporation from the converting holder of any representations or other documentation the Corporation may reasonably request in order to comply with the federal securities laws with respect to the issue of the Common Stock upon such conversion, to issue and deliver at such office to such holder of Series B Preferred Stock, or to the nominee or nominees of such holder, a certificate or certificates for the number of shares of Common Stock to which such holder shall be entitled as aforesaid. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of such surrender of the shares of Series B Preferred Stock to be converted, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock as of such date.

(c) In case any shares of Series B Preferred Stock are to be redeemed pursuant to Section 4, such right of conversion shall cease and terminate as to the shares of Series B Preferred Stock to be redeemed at the close of business on the business day next preceding the date fixed for redemption unless the Corporation shall default in the payment of the Redemption Price.

(d) Upon conversion, the holder of shares of Series B Preferred Stock shall be entitled to receive, at the Corporation's option, in cash, or shares of Common Stock, any accrued and unpaid dividends on the shares of Series B Preferred Stock surrendered for conversion to the date of such conversion.

(e) Once the Corporation has received the written notice of the holder of the election to convert, the right of the Corporation to redeem such shares of Series B Preferred Stock shall terminate.

(f) The Corporation shall at all times reserve and keep available for issuance upon the conversion of the Series B Preferred Stock, such number of its authorized but unissued shares of Common Stock as will from time to time be sufficient to permit the conversion of all outstanding shares of Series B Preferred Stock, and shall take all action required to increase the authorized number of shares of Common Stock if necessary to permit the conversion of all outstanding shares of Series B Preferred Stock.

Section 8. Certain Covenants. Any registered holder of Series B Preferred Stock may proceed to protect and enforce its rights and the rights of such holders by any available remedy by proceeding at law or in equity to protect and enforce any such rights, whether for the specific enforcement of any provision in this Certificate of Designation or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

IN WITNESS WHEREOF, a duly authorized officer of the Corporation has caused this Certificate to be duly executed on this 19th day of October, 2000.

HOWTEK, INC.

By: /s/ W. Scott Parr

Name: W. Scott Parr

Title: President

CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION
OF
HOWTEK, INC.

Adopted in accordance with the provisions of Section 242
of the General Corporation Law of the State of Delaware

THE UNDERSIGNED, being a duly authorized officer of Howtek, Inc., a corporation existing under the laws of the State of Delaware (the "Corporation"), does hereby certify as follows:

FIRST: That the Certificate of Incorporation of the Corporation has been amended as follows by striking out the first sentence of Article FOURTH as it now exists and inserting in lieu and instead thereof a new first sentence of Article FOURTH, reading as follows:

"The total number of shares of capital stock which the Corporation shall have authority to issue is Fifty One Million (51,000,000), of which Fifty Million (50,000,000) shares shall be Common Stock, par value \$.01 per share ("Common Stock"), and One Million (1,000,000) shares shall be Preferred Stock, par value \$.01 per share ("Preferred Stock")."

SECOND: That such amendment has been duly adopted in accordance with the provisions of the General Corporation Law of the State of Delaware by the affirmative vote of the holders of a majority of the stock entitled to vote at a meeting of stockholders.

IN WITNESS WHEREOF, the undersigned has executed this Certificate this 28th day of June, 2002.

/s/ W. Scott Parr
Name: W. Scott Parr
Title: President and CEO

CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION
OF
HOWTEK, INC.

Adopted in accordance with the provisions of Section 242
of the General Corporation Law of the State of Delaware

THE UNDERSIGNED, being a duly authorized officer of Howtek, Inc., a corporation existing under the laws of the State of Delaware (the "Corporation"), does hereby certify as follows:

1. That the Certificate of Incorporation of the Corporation has been amended as follows by striking out Article FIRST as it now exists and inserting in lieu and instead thereof a new Article FIRST reading as follows:

"FIRST: The name of the Corporation is:
icad, inc."

2. That the Certificate of Incorporation of the Corporation has been further amended as follows by inserting a new Article TENTH reading as follows:

"TENTH: 1. Indemnification.

The Corporation shall, and does hereby, indemnify to the fullest extent permitted or authorized by the Delaware General Corporation Law or judicial or administrative decisions, as the same exists or may hereafter be amended or interpreted differently in the future (but, in the case of any such amendment or interpretation, only to the extent that such amendment or interpretation permits the Corporation to provide broader indemnification rights than permitted

prior thereto), each person (including the current and future heirs, beneficiaries, personal representatives and estate of such person) who was or is a party, or is threatened to be made a party, or was or is a witness, to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding") and whether the basis of such Proceeding is an allegation of an action in an official capacity of such person related to the Corporation or any other capacity while such person is serving as an officer, director, employee or agent of the Corporation, against any liability (which for purposes of this Article shall include any judgment, settlement, penalty or fine) or cost, charge or expense (including attorneys' fees) asserted against him or incurred by him by reason of the fact that such indemnified person (1) is or was a director, officer or employee of the Corporation or (2) is or was an agent of the Corporation as to whom the Corporation, by action of its Board of Directors, has agreed to grant such indemnity or (3) is or was serving, at the request of the Corporation, as a director, officer or employee of another corporation, partnership, joint venture, trust or other enterprise (including serving as a fiduciary of any employee benefit plan) or (4) is or was serving as an agent of such other corporation, partnership, joint venture, trust or other enterprise described in clause (3) hereof as to whom the Corporation, by action of its Board of Directors, has agreed to grant such indemnity. Each director, officer, employee or agent of the Corporation to whom indemnification rights under this Section 1 of this Article have been granted shall be referred to as an "Indemnified Person."

Notwithstanding the foregoing, except as specified in Section 3 of this Article, the Corporation shall not be required to indemnify an Indemnified Person in connection with a Proceeding (or any part thereof) initiated by such Indemnified Person, unless such authorization for such Proceeding (or any part thereof) was not denied by the Board of Directors of the

Corporation prior to sixty (60) days after receipt of notice thereof from such Indemnified Person stating his intent to initiate such Proceeding and any such indemnification shall be made only upon such terms and conditions as the Board of Directors may deem appropriate.

2. Advance of Costs, Charges and Expenses.

Costs, charges and expenses (including attorneys' fees) incurred by an officer, director, employee or agent who is an Indemnified Person in defending a Proceeding shall be paid by the Corporation to the fullest extent permitted or authorized by the Delaware General Corporation Law or judicial or administrative decisions, as the same exists or may hereafter be amended or interpreted differently in the future (but, in the case of any such future amendment or interpretation, only to the extent that such amendment or interpretation permits the Corporation to provide broader rights to advance costs, charges and expenses than permitted prior thereto), in advance of the final disposition of such Proceeding, upon receipt of an undertaking by or on behalf of the Indemnified Person to repay all amounts so advanced in the event that it shall ultimately be determined by final judicial decision that such person is not entitled to be indemnified by the Corporation as authorized in this Article and upon such other terms and conditions, in the case of an agent as to whom the Corporation has agreed to grant such indemnity, as the Board of Directors may deem appropriate. The Corporation may, upon approval of the Indemnified Person, authorize the Corporation's counsel to represent such person in any Proceeding, whether or not the Corporation is a party to such Proceeding. Such authorization may be made by the Board of Directors by majority vote, including directors who are parties to such Proceeding.

3. Procedure for Indemnification.

Any indemnification or advance under this Article shall be made promptly and in any event within sixty (60) days upon the written request of the Indemnified Person (except in the case of a claim for an advancement of costs, charges or expenses, in which case the applicable period shall be twenty (20) days). The right to indemnification or advances as granted by this Article shall be enforceable by the Indemnified Person in any court of competent jurisdiction if the Corporation denies such request under this Article, in whole or in part, or if no disposition thereof is made within sixty (60) days or twenty (20) days, as may be applicable. Such Indemnified Person's costs and expenses incurred in connection with successfully establishing his right to indemnification or advancement of costs, charges or expenses, in whole or in part, in any such action shall also be indemnified by the Corporation. It shall be a defense to any such action that the claimant has not met the standard of conduct, if any, required by the Delaware General Corporation Law or judicial or administrative decisions, as the same exists or may hereafter be amended or interpreted differently in the future (but, in the case of any such future amendment or interpretation, only to the extent that such amendment or interpretation does not impose a more stringent standard of conduct than permitted prior thereto), but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors or any committee thereof, its independent legal counsel, and its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant or advancement for the claimant is proper in the circumstances because he has met the applicable standard of conduct, if any, nor the fact that there has been an actual determination by the Corporation (including its Board of Directors or any committee thereof, its independent legal counsel, or its stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

4. Non-Exclusivity; Survival of Indemnification.

The indemnification and advancement provided by this Article shall not be deemed exclusive of any other rights to which those Indemnified Persons may be entitled under any agreement, vote of stockholders or disinterested directors or recommendation of counsel or otherwise, both as to actions in such person's official capacity and as to actions in any other capacity while holding such office or position, and shall continue as to an Indemnified Person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, beneficiaries, personal representatives and the estate of such person. All rights to indemnification and advancement under this Article shall be deemed to be a contract between the Corporation and each Indemnified Person who serves or served in such capacity at any time while this Article is in effect. Any repeal or modification of this Article or any repeal or modification of relevant provisions of the Delaware General Corporation Law or any other applicable laws shall not in any way diminish any rights to indemnification of such Indemnified Person, or the obligations of the Corporation arising hereunder, for claims relating to matters occurring prior to such repeal or modification.

5. Savings Clause.

If this Article or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify and advance costs to each Indemnified Person as to costs, charges and expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any Proceeding, including an action by or in the right of the Corporation, to the full extent permitted by any applicable portion of this Article that shall not have been invalidated and as permitted by the Delaware General Corporation Law."

3. That the Certificate of Incorporation of the Corporation has been further amended as follows by inserting a new Article ELEVENTH reading as follows:

“ELEVENTH: 1. The number of directors comprising the Board of Directors shall be such number as may be from time to time fixed by resolution of the Board of Directors. The directors shall be classified in respect to the time for which they shall severally hold office, by dividing them into three classes. The number of directors in each class shall be as nearly equal as possible. At each annual election, any vacancy in any class may be filled and the successors to the directors of the class whose terms shall expire in that year shall be elected to hold office for the term of three years, and the term of office of one class of directors shall expire in each year. In the event the number of directors is increased, election may be made to a class of directors with terms expiring in three years or less in order to maintain proportionate equality between the classes.

2. The directors shall be elected by the holders of shares of stock of the Corporation entitled to vote on the election of directors, and directors shall be elected by a plurality vote. The directors shall be divided into three classes, designated as Class I, Class II and Class III as set forth in Section 1 of this Article ELEVENTH. The Class I directors shall serve until the annual meeting of stockholders held in 2003, the Class II directors until the annual meeting of stockholders held in 2004, and the Class III directors until the annual meeting of stockholders held in 2005 and, in each case, until their successor(s) are duly elected and qualified. At each annual meeting of stockholders commencing with the annual meeting to be held during the calendar year 2003 each of the successors to the Directors of the Class whose

term shall have expired that year shall be elected for a three-year term. If the number of directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible, and any additional director of any class elected to fill a vacancy resulting from an increase in such class shall hold office for a term that shall coincide with the remaining term of that class, but in no case will a decrease in the number of directors shorten the term of any incumbent director. A director shall hold office until the annual meeting for the year in which his term expires and until the successor shall be elected and shall qualify, subject, however to prior death, resignation, retirement, disqualification or removal from office. Any vacancy occurring in the Board of Directors, including any vacancy created by reason of an increase in the number of directors, shall be filled for the unexpired term by the concurring vote of a majority of the directors then in office, whether or not a quorum, and any director so chosen shall hold office for the remainder of the full term of the class of directors in which the new directorship was created or the vacancy occurred and until such director's successor shall have been elected and qualified.”

4. That such amendments have been duly adopted in accordance with the provisions of the General Corporation Law of the State of Delaware by the affirmative vote of the holders of a majority of the stock entitled to vote at a meeting of stockholders.

Dated: June 28, 2002

HOWTEK, INC.

By: /s/ W. Scott Parr

Name: W. Scott Parr

Title: President and CEO

CERTIFICATE OF OWNERSHIP AND MERGER

OF

ISSI ACQUISITION CORP.

AND

HOWTEK DEVICES CORPORATION.

INTO

ICAD, INC.

Adopted in accordance with the provisions of
Section 253 of the Delaware General Corporation Law

iCAD, Inc. a Delaware corporation, desiring to merge with ISSI ACQUISITION CORP., a Delaware corporation, and HOWTEK DEVICES CORPORATION, a Delaware corporation, pursuant to the provisions of Section 253 of the Delaware General Corporation Law, hereby certifies as follows:

1. iCAD, Inc. is a corporation formed under the laws of the State of Delaware (the "Corporation").

2. The Corporation is the owner of all of the outstanding shares of each class of stock of each of ISSI ACQUISITION CORP., a corporation formed under the laws of the State of Delaware, and HOWTEK DEVICES CORPORATION, a corporation formed under the laws of the State of Delaware (the "Subsidiaries").

3. On December 4, 2003, the Board of Directors of the Corporation adopted the following resolutions to merge the Subsidiaries into the Corporation:

"WHEREAS, (the Corporation owns 100% of the issued and outstanding common stock of ISSI ACQUISITION CORP., a Delaware corporation ("ISSI"); and

WHEREAS, the Corporation owns 100% of the issued and outstanding common stock of HOWTEK DEVICES CORPORATION, a Delaware corporation (“Howtek”); and

WHEREAS, it is in the best interests of the Corporation to enter into an Agreement and Plan of Merger with ISSI and Howtek providing for the merger of ISSI and Howtek with and into the Corporation in order that all the estate, property, rights, privileges and franchises of ISSI and Howtek shall vest in and be possessed by the Corporation;

NOW, THEREFORE, be it:

RESOLVED, that ISSI and Howtek shall merge into the Corporation and upon the effective date of such merger each of ISSI and Howtek shall cease to exist and shall no longer exercise their respective powers, privileges and franchises subject to the laws of the State of Delaware; The Corporation shall succeed to the property and assets of and exercise all the powers, privileges and franchises of each of ISSI and Howtek and shall assume and be liable for all of the debts and liabilities, if any, of each of ISSI and Howtek; and further

RESOLVED, that the President, or any executive officer of the Corporation designated by the Board of Directors, is hereby authorized to execute, in the name of the Corporation, a Certificate of Ownership and Merger, and to file such Certificate in the Office of the Secretary of State of the State of Delaware, and to do all the other acts and things that may be necessary to carry out and effectuate the purpose of these resolutions.”

IN WITNESS WHEREOF, ICAD, INC. has caused this Certificate to be executed by its duly authorized officer thereunto duly authorized this 4th day of December 2003.

iCAD, Inc.
(a Delaware corporation)

By: /s/ W. Scott Parr
Name: W. Scott Parr
Title: President and CEO

State of Delaware
Secretary of State
Division of Corporations
Delivered 05:38 PM 07/18/2007
FILED 05:12 PM 07/18/2007
SRV 070828054 – 2029045 FILE

**CERTIFICATE OF AMENDMENT
OF CERTIFICATE OF INCORPORATION
OF
ICAD, INC.**

Adopted in accordance with the provisions of Section 242
of the General Corporation Law of the State of Delaware

The undersigned, being a duly authorized officer of iCAD, Inc. (the "Corporation"), a corporation existing under the laws of the State of Delaware, does hereby certify as follows:

1. The Certificate of Incorporation of the Corporation is hereby amended by striking out the first sentence of Article FOURTH thereof and by substituting in lieu thereof a new first sentence reading as follows:

"FOURTH: The total number of shares of capital stock which the Corporation shall have authority to issue is Eighty Six Million (86,000,000), of which Eighty Five Million (85,000,000) shares shall be Common Stock, par value \$.01 per share ("Common Stock"), and One Million (1,000,000) shares shall be Preferred Stock, par value \$.01 per share ("Preferred Stock").

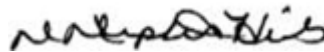
2. The Certificate of Incorporation of the Corporation is hereby amended by striking out Article ELEVENTH thereof in its entirety and by substituting in lieu thereof the following new Article ELEVENTH:

"ELEVENTH: The number of directors of the Corporation shall be fixed only by resolution of the board of directors of the Corporation from time to time. Each director who is serving as a director on the date of this Amendment to the Certificate of Incorporation shall hold office until the next annual meeting of stockholders after such date and until his or her successor has been duly elected and qualified, notwithstanding that such director may have been elected for a term that extended beyond the date of such next annual meeting of stockholders. At each annual meeting of stockholders after the date of this Amendment to the Certificate of Incorporation, directors elected at such annual meeting shall hold office until the next annual meeting of stockholders"

2. That such amendments have been duly adopted in accordance with the provisions of the General Corporation Law of the State of Delaware by the affirmative vote of the holders of a majority of the stock entitled to vote at a meeting of stockholders.

Dated: July 18, 2007

iCAD, INC.



By: _____

Name: Darlene Deptula-Hicks
Title: EVP/CFO

**CERTIFICATE OF AMENDMENT
OF CERTIFICATE OF INCORPORATION
OF
ICAD, INC.**

Adopted in accordance with the provisions of Section 242
of the General Corporation Law of the State of Delaware

The undersigned, being a duly authorized officer of iCAD, Inc. (the "Corporation"), a corporation existing under the laws of the State of Delaware, does hereby certify as follows:

1. The Certificate of Incorporation of the Corporation is hereby amended by striking out the first sentence of Article FOURTH thereof and by substituting in lieu thereof a new first sentence reading as follows:

"FOURTH: The total number of shares of capital stock which the Corporation shall have authority to issue is Eighty Six Million (86,000,000), of which Eighty Five Million (85,000,000) shares shall be Common Stock, par value \$.01 per share ("Common Stock"), and One Million (1,000,000) shares shall be Preferred Stock, par value \$.01 per share ("Preferred Stock"). The presently issued and outstanding shares of Common Stock, exclusive of treasury stock, shall be combined in the ratio of one (1) share of Common Stock for each five (5) shares of Common Stock currently issued and outstanding. Such combination shall not change the number of shares of capital stock which the Corporations shall have authority to issue as set forth in this Certificate of Amendment of Certificate of Incorporation nor shall it affect the rights or preferences of the holders of Common Stock now issued and outstanding."

2. That such amendment has been duly adopted in accordance with the provisions of the General Corporation Law of the State of Delaware by the affirmative vote of the holders of a majority of the stock entitled to vote at a meeting of stockholders.

3. That such amendment shall be effective on August 15, 2012 at 4:15 P.M. Eastern Daylight Time.

Dated: August 10, 2012

iCAD, INC.

By: /s/ Kevin C. Burns

Name: Kevin C. Burns
Title: Executive Vice President of Finance,
Chief Financial Officer

**CERTIFICATE OF AMENDMENT
OF CERTIFICATE OF INCORPORATION
OF
ICAD, INC.**

Adopted in accordance with the provisions of Section 242
of the General Corporation Law of the State of Delaware

The undersigned, being a duly authorized officer of iCAD, Inc. (the "Corporation"), a corporation existing under the laws of the State of Delaware, does hereby certify as follows:

1. The Certificate of Incorporation of the Corporation is hereby amended by striking out the first sentence of Article FOURTH thereof and by substituting in lieu thereof a new first sentence reading as follows:

"FOURTH: The total number of shares of capital stock which the Corporation shall have authority to issue is Twenty One Million (21,000,000), of which Twenty Million (20,000,000) shares shall be Common Stock, par value \$.01 per share ("Common Stock"), and One Million (1,000,000) shares shall be Preferred Stock, par value \$.01 per share ("Preferred Stock").

2. That such amendment has been duly adopted in accordance with the provisions of the General Corporation Law of the State of Delaware by the affirmative vote of the holders of a majority of the stock entitled to vote at a meeting of stockholders.

Dated: May 31, 2013

iCAD, INC.

By: /s/ Kevin Burns

Kevin Burns, Executive Vice President of
Finance and Chief Financial Officer

**CERTIFICATE OF AMENDMENT
OF CERTIFICATE OF INCORPORATION
OF
iCAD, INC.**

Adopted in accordance with the provisions of Section 242
of the General Corporation Law of the State of Delaware

The undersigned, being a duly authorized officer of iCAD, Inc. (the "Corporation"), a corporation existing under the laws of the State of Delaware, does hereby certify as follows:

1. The Certificate of Incorporation of the Corporation is hereby amended by striking out the first sentence of Article FOURTH thereof and by substituting in lieu thereof a new first sentence reading as follows:

"FOURTH: The total number of shares of capital stock which the Corporation shall have authority to issue is Thirty One Million (31,000,000), of which Thirty Million (30,000,000) shares shall be Common Stock, par value \$0.01 per share ("Common Stock"), and One Million (1,000,000) shares shall be Preferred Stock, par value \$.01 per share ("Preferred Stock")."

2. That such amendment has been duly adopted in accordance with the provisions of the General Corporation Law of the State of Delaware by the affirmative vote of the holders of a majority of the stock entitled to vote at a meeting of stockholders.

Dated: June 16, 2015

iCAD, INC.

By: /s/ Kevin Burns

Kevin Burns, President, Chief Operating Officer,
Chief Financial Officer and Treasurer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Kenneth M. Ferry, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2015 of iCAD, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and;

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2015

/s/ Kenneth M. Ferry
Kenneth M. Ferry
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Kevin C. Burns, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2015 of iCAD, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and;

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 6, 2015

/s/ Kevin C. Burns
Kevin Burns
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of iCAD, Inc. (the "Company") on Form 10-Q for the quarterly period ended June 30, 2015 (the "Report"), I, Kenneth M. Ferry, as Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Kenneth M. Ferry

Kenneth M. Ferry

Chief Executive Officer

Date: August 6, 2015

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of iCAD, Inc. (the "Company") on Form 10-Q for the quarterly period ended June 30, 2015 (the "Report"), I, Kevin C. Burns, as Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Kevin C. Burns
Kevin C. Burns
Chief Financial Officer

Date: August 6, 2015