# 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, 2019**

**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**<br>**(State or other jurisdiction of incorporation or organization)** | **02-0377419**<br>**(I.R.S. Employer Identification No.)** |
| **98 Spit Brook Road, Suite 100, Nashua, NH**<br>**(Address of principal executive offices)** | **03062**<br>**(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)**

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

| Title of each class | Trading symbol(s) | Name of each exchange on which registered |
|---|---|---|
| **Common Stock, $.01 par value** | **ICAD** | **The NASDAQ Stock Market LLC** |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirement for the past 90 days. YES ☒ NO ☐.

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES ☒ NO ☐.

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

| | | | |
|---|---|---|---|
| Large Accelerated filer | ☐ | Accelerated filer | ☐ |
| Non-accelerated filer | ☐ | Smaller reporting company | ☒ |
| | | Emerging growth company | ☐ |

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

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

As of the close of business on August 9, 2019 there were 19,261,932 shares outstanding of the registrant’s Common Stock, $.01 par value.

iCAD, Inc.

INDEX

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

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $ 19,567 | $ 12,185 |
| Trade accounts receivable, net of allowance for doubtful accounts of $202 in 2019 and $177 in 2018 | 6,771 | 6,403 |
| Inventory, net | 2,258 | 1,587 |
| Prepaid expenses and other current assets | 1,172 | 1,045 |
| Total current assets | 29,768 | 21,220 |
| Property and equipment, net of accumulated depreciation of $6,356 in 2019 and $6,214 in 2018 | 546 | 552 |
| Operating lease assets | 552 | — |
| Other assets | 53 | 53 |
| Intangible assets, net of accumulated amortization of $7,998 in 2019 and $7,809 in 2018 | 1,367 | 1,550 |
| Goodwill | 8,362 | 8,362 |
| Total assets | $ 40,648 | $ 31,737 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | $ 1,727 | $ 1,154 |
| Accrued and other expenses | 5,018 | 5,060 |
| Notes payable—current portion | 2,250 | 1,851 |
| Lease payable—current portion | 618 | 15 |
| Deferred revenue | 5,242 | 5,165 |
| Total current liabilities | 14,855 | 13,245 |
| Lease payable, long-term portion | 18 | 38 |
| Notes payable, long-term portion | 3,133 | 4,254 |
| Convertible debentures payable to non-related parties, at fair value | 10,379 | 6,300 |
| Convertible debentures payable to related parties, at fair value | 1,031 | 670 |
| Deferred revenue, long-term portion | 330 | 331 |
| Deferred tax | 3 | 3 |
| Total liabilities | 29,749 | 24,841 |
| Commitments and Contingencies (Note 5 and 7) | | |
| Stockholders' equity: | | |
| Preferred stock, $ .01 par value: authorized 1,000,000 shares; none issued. | — | — |
| Common stock, $ .01 par value: authorized 30,000,000 shares; issued 19,447,763 in 2019 and 17,066,510 in 2018; outstanding 19,261,932 in 2019 and 16,880,679 in 2018 | 194 | 171 |
| Additional paid-in capital | 230,141 | 218,914 |
| Accumulated deficit | (218,021) | (210,774) |
| Treasury stock at cost, 185,831 shares in 2019 and 2018 | (1,415) | (1,415) |
| Total stockholders' equity | 10,899 | 6,896 |
| Total liabilities and stockholders' equity | $ 40,648 | $ 31,737 |

*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)

| | Three Months Ended June 30th, 2019 | Three Months Ended June 30th, 2018 | Six Months Ended June 30th, 2019 | Six Months Ended June 30th, 2018 |
|---|---|---|---|---|
| Revenue: | | | | |
| Products | $ 4,353 | $ 3,194 | $ 8,175 | $ 6,208 |
| Service and supplies | 2,976 | 2,968 | 5,927 | 6,267 |
| Total revenue | 7,329 | 6,162 | 14,102 | 12,475 |
| Cost of revenue: | | | | |
| Products | 645 | 537 | 1,325 | 995 |
| Service and supplies | 858 | 739 | 1,575 | 1,991 |
| Amortization and depreciation | 100 | 102 | 194 | 207 |
| Total cost of revenue | 1,603 | 1,378 | 3,094 | 3,193 |
| Gross profit | 5,726 | 4,784 | 11,008 | 9,282 |
| Operating expenses: | | | | |
| Engineering and product development | 2,139 | 2,057 | 4,266 | 5,396 |
| Marketing and sales | 3,120 | 2,006 | 5,693 | 4,172 |
| General and administrative | 1,858 | 1,583 | 3,404 | 3,641 |
| Amortization and depreciation | 67 | 77 | 137 | 160 |
| Total operating expenses | 7,184 | 5,723 | 13,500 | 13,369 |
| Loss from operations | (1,458) | (939) | (2,492) | (4,087) |
| Interest expense | (202) | (113) | (411) | (255) |
| Other income | 64 | 29 | 123 | 51 |
| Loss on fair value of convertible debentures | (1,915) | — | (4,440) | — |
| Other expense, net | (2,053) | (84) | (4,728) | (204) |
| Loss before income tax expense | (3,511) | (1,023) | (7,220) | (4,291) |
| Tax expense | (19) | (4) | (27) | (17) |
| Net loss and comprehensive loss | $ (3,530) | $ (1,027) | $ (7,247) | $ (4,308) |
| Net loss per share: | | | | |
| Basic | $ (0.20) | $ (0.06) | $ (0.42) | $ (0.26) |
| Diluted | $ (0.20) | $ (0.06) | $ (0.42) | $ (0.26) |
| Weighted average number of shares used in computing loss per share: | | | | |
| Basic | 17,640 | 16,664 | 17,422 | 16,624 |
| Diluted | 17,640 | 16,664 | 17,422 | 16,624 |

*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, 2019 | 2018 |
|---|---|---|
| | (in thousands) | |
| Cash flow from operating activities: | | |
| Net loss | $ (7,247) | $ (4,308) |
| Adjustments to reconcile net loss to net cash used for by operating activities: | | |
| Amortization | 189 | 189 |
| Depreciation | 142 | 178 |
| Bad debt provision | 31 | 101 |
| Inventory obsolesence reserve | — | (7) |
| Stock-based compensation expense | 516 | 773 |
| Amortization of debt discount and debt costs | 79 | 102 |
| Deferred tax expense | — | (13) |
| Loss on disposal of assets | — | 12 |
| Change in fair value of convertible debentures | 4,440 | — |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (399) | 2,198 |
| Inventory | (671) | 30 |
| Prepaid and other current assets | 51 | 91 |
| Accounts payable | 573 | (490) |
| Accrued expenses | (184) | (1,209) |
| Deferred revenue | 76 | 890 |
| Total adjustments | 4,843 | 2,845 |
| Net cash used for operating activities | (2,404) | (1,463) |
| Cash flow from investing activities: | | |
| Additions to patents, technology and other | (7) | (4) |
| Additions to property and equipment | (136) | (60) |
| Net cash used for investing activities | (143) | (64) |
| Cash flow from financing activities: | | |
| Stock option exercises | 1,395 | — |
| Taxes paid related to restricted stock issuance | (12) | (63) |
| Principal payments of capital lease obligations | (6) | (6) |
| Principal repayment of debt financing, net | (800) | — |
| Proceeds from issuance of common stock | 10,350 | — |
| Issuance costs from common stock | (998) | — |
| Net cash provided by (used for) financing activities | 9,929 | (69) |
| Increase (decrease) in cash and equivalents | 7,382 | (1,596) |
| Cash and equivalents, beginning of period | 12,185 | 9,387 |
| Cash and equivalents, end of period | $ 19,567 | $ 7,791 |
| Supplemental disclosure of cash flow information: | | |
| Interest paid | $ 335 | $ 139 |
| Taxes paid | $ 27 | $ 35 |
| Right-of-use assets obtained in exchange for new operating lease liabilities | $ 907 | $ — |

*See accompanying notes to consolidated financial statements.*

**Consolidated Statements of Stockholders' Equity YTD**
(in thousands except shares)

| | Common Stock | | Additional | | | |
|---|---|---|---|---|---|---|
| | Number of Shares Issued | Par Value | Paid-in Capital | Accumulated Deficit | Treasury Stock | Stockholders' Equity |
| Balance at December 31, 2018 | 17,066,510 | $ 171 | $218,914 | $ (210,774) | $(1,415) | $ 6,896 |
| Issuance of common stock relative to vesting of restricted stock shares forfeited for tax obligations | 71,122 | 1 | (14) | — | — | (13) |
| Issuance of common stock pursuant to stock option plans | 428,313 | 4 | 1,391 | — | — | 1,395 |
| Stock Issuance Net | 1,881,818 | 18 | 9,334 | | | 9,352 |
| Stock-based compensation | — | — | 516 | — | — | 516 |
| Net loss | — | — | — | (7,247) | — | (7,247) |
| Balance at June 30, 2019 | 19,447,763 | $ 194 | $230,141 | $ (218,021) | $(1,415) | $ 10,899 |

**Consolidated Statements of Stockholders' Equity QTD**
(in thousands except shares)

| | Common Stock | | Additional | | | |
|---|---|---|---|---|---|---|
| | Number of Shares Issued | Par Value | Paid-in Capital | Accumulated Deficit | Treasury Stock | Stockholders' Equity |
| Balance at March 31, 2019 | 17,500,265 | $ 175 | $220,296 | $ (214,491) | $(1,415) | $ 4,565 |
| Issuance of common stock relative to vesting of restricted stock shares forfeited for tax obligations | 4,788 | 0 | (13) | — | — | (13) |
| Issuance of common stock pursuant to stock option plans | 60,892 | 1 | 220 | — | — | 221 |
| Stock Issuance Net | 1,881,818 | 18 | 9,334 | | | 9,352 |
| Stock-based compensation | — | — | 304 | — | — | 304 |
| Net loss | — | — | — | (3,530) | — | (3,530) |
| Balance at June 30, 2019 | 19,447,763 | $ 194 | $230,141 | $ (218,021) | $(1,415) | $ 10,899 |

## Consolidated Statements of Stockholders' Equity YTD
(in thousands except shares)

| | Common Stock | | Additional | | | |
|---|---|---|---|---|---|---|
| | Number of Shares Issued | Par Value | Paid-in Capital | Accumulated Deficit | Treasury Stock | Stockholders Equity |
| Balance at December 31, 2017 | 16,711,512 | $ 167 | $217,389 | $ (201,865) | $(1,415) | $ 14,276 |
| Cumulative impact from the adoption of ASC 606 (see Note 1) | — | — | — | 107 | — | 107 |
| Issuance of common stock relative to vesting of restricted stock, net of 18,385 shares forfeited for tax obligations | 142,373 | 1 | (62) | — | — | (61) |
| Issuance of common stock pursuant to stock option plans | — | — | — | — | — | — |
| Stock-based compensation | — | — | 773 | — | — | 773 |
| Net loss | — | — | — | (4,308) | — | (4,308) |
| Balance at June 30, 2018 | 16,853,885 | $ 168 | $218,100 | $ (206,066) | $(1,415) | $ 10,787 |

## Consolidated Statements of Stockholders' Equity QTD
(in thousands except shares)

| | Common Stock | | Additional | | | |
|---|---|---|---|---|---|---|
| | Number of Shares Issued | Par Value | Paid-in Capital | Accumulated Deficit | Treasury Stock | Stockholders' Equity |
| Balance at March 31, 2018 | 16,848,824 | $ 168 | $217,722 | $ (205,039) | $(1,415) | $ 11,436 |
| Cumulative impact from the adoption of ASC 606 (see Note 1) | — | — | — | — | — | — |
| Issuance of common stock relative to vesting of restricted stock, net of 19,991 shares forfeited for tax obligations | 5,061 | — | (5) | — | — | (5) |
| Issuance of common stock pursuant to stock option plans | — | — | — | — | — | — |
| Stock-based compensation | — | — | 383 | — | — | 383 |
| Net loss | — | — | — | (1,027) | — | (1,027) |
| Balance at June 30, 2018 | 16,853,885 | $ 168 | $218,100 | $ (206,066) | $(1,415) | $ 10,787 |

**iCAD, INC. AND SUBSIDIARIES**
**Notes to Condensed Consolidated Financial Statements**
**(Unaudited)**
**June 30, 2019**

## Note 1 - Basis of Presentation and Significant Accounting Policies

The accompanying condensed consolidated financial statements of iCAD, Inc. and subsidiaries ("iCAD" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). In the opinion of management, these unaudited interim condensed consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the financial position of the Company at June 30, 2019, the results of operations of the Company for the three and six month periods ended June 30, 2019 and 2018, and cash flows of the Company for the six month periods ended June 30, 2019 and 2018.

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, 2018 filed with the SEC on March 29, 2019. The results for the three and six month periods ended June 30, 2019 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2019, or any future period.

*Segments*

The Company reports the results of two segments: Cancer Detection ("Detection") and Cancer Therapy ("Therapy"). The Detection segment consists of advanced image analysis and workflow products. The Therapy segment consists of radiation therapy ("Axxent") products.

*Lease Accounting*

*Adoption of ASC Topic 842, "Leases"*

On January 1, 2019, the Company adopted the new accounting standard ASC 842, "Leases" and all the related amendments ("ASC 842") and has applied its transition provisions at the beginning of the period of adoption (i.e. on the effective date), and so did not restate comparative periods. Under this transition provision, the Company has applied the legacy guidance under ASC 840, "Leases" ("ASC 840"), including its disclosure requirements, in the comparative periods presented. See Note 5 for the disclosures required upon adoption of ASC 842.

***Revenue Recognition***

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

**Disaggregation of Revenue**

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

| | Three months ended June 30, 2019 | | |
|---|---|---|---|
| | Reportable Segments | | |
| | Detection | Therapy | Total |
| **Major Goods/Service Lines** | | | |
| Products | $ 3,808 | $ 1,050 | $4,858 |
| Service contracts | 1,354 | 475 | 1,829 |
| Supply and source usage agreements | — | 526 | 526 |
| Professional services | — | 8 | 8 |
| Other | 47 | 61 | 108 |
| | $ 5,209 | $ 2,120 | $7,329 |
| **Timing of Revenue Recognition** | | | |
| Goods transferred at a point in time | $ 3,808 | $ 1,144 | $4,952 |
| Services transferred over time | 1,401 | 976 | 2,377 |
| | $ 5,209 | $ 2,120 | $7,329 |
| **Sales Channels** | | | |
| Direct sales force | $ 2,863 | $ 1,701 | $4,564 |
| OEM partners | 2,346 | — | 2,346 |
| Channel partners | — | 419 | 419 |
| | $ 5,209 | $ 2,120 | $7,329 |

| | Six months ended June 30, 2019 | | |
|---|---|---|---|
| | Reportable Segments | | |
| | Detection | Therapy | Total |
| **Major Goods/Service Lines** | | | |
| Products | $ 6,598 | $ 2,569 | $ 9,167 |
| Service contracts | $ 2,676 | $ 991 | 3,667 |
| Supply and source usage agreements | $ — | $ 1,063 | 1,063 |
| Professional services | $ — | $ 41 | 41 |
| Other | $ 103 | $ 61 | 164 |
| | $ 9,377 | $ 4,725 | $14,102 |
| **Timing of Revenue Recognition** | | | |
| Goods transferred at a point in time | $ 6,598 | $ 2,776 | $ 9,374 |
| Services transferred over time | $ 2,779 | $ 1,949 | 4,728 |
| | $ 9,377 | $ 4,725 | $14,102 |
| **Sales Channels** | | | |
| Direct sales force | $ 4,974 | $ 3,513 | $ 8,487 |
| OEM partners | $ 4,403 | $ — | 4,403 |
| Channel partners | $ — | $ 1,212 | 1,212 |
| | $ 9,377 | $ 4,725 | $14,102 |

| | Three months ended June 30, 2018 | | |
|---|---|---|---|
| | Reportable Segments | | |
| | Detection | Therapy | Total |
| **Major Goods/Service Lines** | | | |
| Products | $ 2,486 | $ 1,176 | $ 3,662 |
| Service contracts | 1,310 | 347 | 1,657 |
| Supply and source usage agreements | — | 558 | 558 |
| Professional services | — | 50 | 50 |
| Other | 55 | 41 | 96 |
| | $ 3,851 | $ 2,172 | $ 6,023 |
| **Timing of Revenue Recognition** | | | |
| Goods transferred at a point in time | 2,486 | 1,199 | $ 3,685 |
| Services transferred over time | 1,365 | 973 | 2,338 |
| | $ 3,851 | $ 2,172 | $ 6,023 |
| **Sales Channels** | | | |
| Direct sales force | $ 2,114 | $ 1,917 | $ 4,031 |
| OEM partners | 1,737 | — | 1,737 |
| Channel partners | — | 255 | 255 |
| | $ 3,851 | $ 2,172 | $ 6,023 |

| | Six months ended June 30, 2018 | | |
|---|---|---|---|
| | Reportable Segments | | |
| | Detection | Therapy | Total |
| **Major Goods/Service Lines** | | | |
| Products | $ 4,975 | $ 2,244 | $ 7,219 |
| Service contracts | $ 2,778 | $ 709 | 3,487 |
| Supply and source usage agreements | $ — | $ 1,087 | 1,087 |
| Professional services | $ — | $ 194 | 194 |
| Other | $ 109 | $ 240 | 349 |
| | $ 7,862 | $ 4,474 | $12,336 |
| **Timing of Revenue Recognition** | | | |
| Goods transferred at a point in time | $ 4,975 | $ 2,470 | $ 7,445 |
| Services transferred over time | $ 2,887 | $ 2,004 | 4,891 |
| | $ 7,862 | $ 4,474 | $12,336 |
| **Sales Channels** | | | |
| Direct sales force | $ 3,981 | $ 3,958 | $ 7,939 |
| OEM partners | $ 3,881 | $ — | 3,881 |
| Channel partners | $ — | $ 516 | 516 |
| | $ 7,862 | $ 4,474 | $12,336 |

*Products.* Product revenue consists of sales of cancer detection products, cancer therapy systems, cancer therapy applicators, cancer therapy disposable applicators and other accessories that are typically shipped with a cancer therapy system. The Company transfers control and recognizes a sale when the product is shipped from the manufacturing or warehousing facility to the customer.

*Service Contracts.* The Company sells service contracts in which the Company provides professional services including product installations, maintenance, training, and service repairs, and in certain cases leases equipment, to hospitals, imaging centers, radiological practices, and radiation oncologists and treatment centers. Upon the Company's adoption of ASC 842 effective January 1, 2019, the lease components of the Company's service contracts are no longer being separately accounted for under the lease guidance. As the lease component is not considered the predominant component of these service contracts, the Company is accounting for the whole contract under Topic 606. Prior to the adoption of ASC 842, the Company accounted for the lease components of these arrangements in accordance with ASC 840, "Leases," and the remaining consideration was allocated to the other performance obligations identified in accordance with Topic 606. The consideration allocated to the lease component was recognized as lease revenue on a straight-line basis over the specified term of the agreement. Revenue for the non-lease components, or the entire arrangement when accounted for under Topic 606, is recognized on a straight-line basis over the term of the agreement. The service contracts range from 12 months to 48 months. The Company typically receives payment at the inception of the contract and recognizes revenue on a straight-line basis over the term of the agreement.

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

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

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

**Contract Balances**

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

| | Balance at June 30, 2019 |
|---|---|
| Receivables, which are included in 'Trade accounts receivable' | $ 6,771 |
| Contract assets, which are included in "Prepaid and other current assets" | 91 |
| Contract liabilities, which are included in "Deferred revenue" | 5,572 |

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

The Company's accounts receivable from contracts with customers, net of allowance for doubtful accounts, was $6.8 million and $6.4 million as of June 30, 2019 and December 31, 2018, respectively.

The Company will record a contract asset for unbilled revenue when the Company's performance is in excess of amounts billed or billable. The Company has classified the contract asset balance as a component of prepaid expenses and other current assets as of June 30, 2019 and December 31, 2018. The contract asset balance was $91,000 and $19,000 as of June 30, 2019 and December 31, 2018, respectively.

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

The balance of deferred revenue at June 30, 2019 and December 31, 2018 is as follows (in thousands):

| Contract liabilities | June 30, 2019 | December 31, 2018 |
|---|---|---|
| Short term | $ 5,242 | $ 5,165 |
| Long term | 330 | 331 |
| Total | $ 5,572 | $ 5,496 |

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

| | Six Months Ended June 30, 2019 |
|---|---|
| Balance at beginning of period | $ 5,496 |
| Deferral of revenue | 5,406 |
| Recognition of deferred revenue | (5,330) |
| Balance at end of period | $ 5,572 |

We expect to recognize approximately $4.0 million of the deferred amount in 2019, $1.3 million in 2020, and $0.3 million thereafter.

## Note 2 – Net 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, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Net loss** | **$ (3,530)** | **$ (1,027)** | **$ (7,247)** | **$ (4,308)** |
| Shares used in the calculation of basic and diluted net loss per share | 17,640 | 16,664 | 17,422 | 16,624 |
| Diluted shares used in the calculation of net loss per share | 17,640 | 16,664 | 17,422 | 16,624 |
| Net loss per share—basic and diluted | $ (0.20) | $ (0.06) | $ (0.42) | $ (0.26) |

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

| | Period Ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| Stock options | 1,519,713 | 1,394,275 |
| Restricted stock | 262,732 | 574,213 |
| Convertible Debentures | 1,742,500 | — |
| Stock options and restricted stock | 3,524,945 | 1,968,488 |

## Note 3 – Inventory

Inventory is valued at the lower of cost or net realizable value, with cost determined by the first-in, first-out method. The Company regularly reviews inventory quantities on hand and records a reserve for excess and/or obsolete inventory primarily based upon the estimated usage of its inventory as well as other factors. Inventories consisted of the following (in thousands), which includes an inventory reserve of approximately $0.8 million and $1.1 million as of June 30, 2019 and December 31, 2018, respectively.

| | as of June 30, 2019 | as of December 31, 2018 |
|---|---|---|
| Raw materials | $ 1,157 | $ 606 |
| Work in process | 145 | 67 |
| Finished Goods | 956 | 914 |
| Inventory | $ 2,258 | $ 1,587 |

**Note 4 – Financing Arrangements**

**(a) Loan and Security Agreement**

On August 7, 2017, the Company entered into a Loan and Security Agreement, which has been modified by the First Loan Modification Agreement dated as of March 22, 2018, the Second Loan Modification Agreement dated as of August 13, 2018, the Third Loan Modification Agreement dated as of December 20, 2018, and the Fourth Loan Modification Agreement dated as of March 18, 2019 (collectively, the “Loan Agreement”) with Silicon Valley Bank (the “Bank”) that provided an initial term loan facility (amounts borrowed thereunder, the “Initial Term Loan”) of $6.0 million and a $4.0 million revolving line of credit (amounts borrowed thereunder, the “Revolving Loans”). The Company also has the option to borrow an additional $3.0 million term loan under the Loan Agreement (amounts borrowed thereunder, the “Subsequent Term Loan” and together with the Initial Term Loan, the “Term Loan”), subject to meeting a Detection revenue minimum of at least $21.5 million for a trailing twelve month period ending on or prior to June 30, 2019. The Company did not meet the minimum Detection revenue minimum for the trailing twelve month period and accordingly is not eligible to borrow the additional $3.0 million.

The Company began repayment of the Initial Term Loan on March 1, 2019, with 30 equal monthly installments of principal, based on the amended terms of the Loan Agreement. The maturity date of the Initial Term Loan is August 1, 2021.

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

The outstanding Revolving Loans will accrue interest at a floating per annum rate equal to 1.50% above the prime rate for periods when the ratio of the Company’s unrestricted cash to the Company’s outstanding liabilities to the Bank, plus the amount of the Company’s total liabilities that mature within one year is at least 1.25 to 1.0. At all other times, the interest rate will be 0.50% above the prime rate. The outstanding Term Loans will accrue interest at a floating per annum rate equal to the prime rate.

If the Revolving Loans are paid in full and the Loan Agreement is terminated prior to the maturity date, then the Company will pay to the Bank a termination fee in an amount equal to two percent (2.0%) of the maximum revolving line of credit. If the Company prepays the Term Loans prior to the maturity date, then the Company will pay to the Bank an amount between 1.0% and 3.0% of the Term Loans, depending on when such Term Loans are repaid. In addition, the Loan Agreement requires the Company to pay a final payment of 8.5% of the Term Loans upon the earliest of the repayment of the Term Loans, the termination of the Loan Agreement and the maturity date. The Company is accruing such payment as additional interest expense. As of June 30, 2019 and December 31, 2018, the accrued final payment is approximately $227,000 and $162,000, respectively and is a component of the outstanding loan balance.

The Loan Agreement, as amended, includes certain covenants which require the Company to maintain minimum consolidated revenues of $11.6 million, $13.0 million and $14.5 million during the trailing six month periods ending on June 30, 2019, September 30, 2019 and December 31, 2019, respectively, as well as adjusted EBITDA levels of $(4.0 million), $(4.0 million) and $(2.0 million) during the trailing six month periods ending on June 30, 2019, September 30, 2019 and December 31, 2019, respectively. In addition, the Company and Silicon Valley Bank will be required to negotiate the covenants for the 2020 and 2021 fiscal years by March 15, 2020 and March 15, 2021 respectively. A failure to agree to such covenants by the specified dates in the agreement could lead to an acceleration of the Initial Term Loan maturity date to either April 30, 2020 or April 31, 2021, respectively. The Company is in compliance with the covenants for the six month period ended June 30, 2019.

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

In connection with the Loan Agreement, the Company incurred approximately $74,000 of closing costs. In accordance with ASC Topic 835, “Interest,” the closing costs have been deducted from the carrying value of the debt and will be amortized through August 1, 2021, the maturity date of the Initial Term Loan.

The Company has evaluated the accounting impact of each of the modifications noted above, and as all have occurred within a 12 month period, each successive modification has been combined and compared to the terms of the original Loan Agreement. The Company has determined that modifications occurring at each modification date above are modifications of the Loan Agreement for accounting purposes. As such, the Company has capitalized any closing costs paid to the Bank as part of the modifications and has expensed any third party costs incurred. The additional closing costs and the unamortized initial closing costs are being amortized over the remaining term of the modified Initial Term Loan.

The carrying value of the Term Loans (net of debt issuance costs) as of June 30, 2019 and December 31, 2018 is as follows (in thousands):

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| Principal Amount of Term Loan | $ 5,200 | $ 6,000 |
| Unamortized closing costs | (44) | (57) |
| Accrued Final Payment | 227 | 162 |
| Carrying amount of Term Loan | 5,383 | 6,105 |
| Less current portion of Term Loan | (2,250) | (1,851) |
| Notes payable long-term portion | $ 3,133 | $ 4,254 |

**(b) Convertible Debentures**

On December 20, 2018, the Company entered into a Securities Purchase Agreement (the "SPA") with certain institutional and accredited investors, including, but not limited to, all directors and executive officers of the Company (the "Investors"), pursuant to which the Investors purchased unsecured subordinated convertible debentures (the "Convertible Debentures" or the "Notes") with an aggregate principal amount of approximately $7.0 million in a private placement.

The Company will pay interest to the Investors on the outstanding principal amount of the Convertible Debentures at the rate of 5.0% per annum, payable semi-annually on December 21st and June 21st, beginning on June 21, 2019, as well as on each conversion date (as to the principal amount then being converted) and on the maturity date. The Convertible Debentures mature on December 21, 2021. The first interest payment of $174,250 was made in accordance with the schedule this quarter.

At any time prior to the maturity date, the Convertible Debentures are convertible into shares of the Company's common stock at a conversion price of $4.00 per share, at the Investor's option, subject to certain anti-dilution adjustments. The Convertible Debentures contain a cap of shares to be issued upon the conversion of the Convertible Debentures at 19.99% of the issued and outstanding shares of the Company's Common Stock on December 21, 2018, unless shareholder approval of such issuance has been obtained. Upon the satisfaction of certain conditions, the Company has the right to cause the Investors to convert all or part of the then outstanding principal amount of the Convertible Debentures (a "Forced Conversion"). In connection with such Forced Conversion, the Company will be required to pay accrued but unpaid interest, an interest make whole amount determined based on the timing of the Forced Conversion and interest payments made to that date, liquidated damages and other amounts owing to the Investors under the Convertible Debentures. The conversion price in both the optional conversion and Forced Conversion provisions is subject to adjustment due to certain 'down-round' dilutive issuances as well for typical anti-dilutive actions, such as stock splits and stock dividends.

The Investors also have the right to require the Company to repurchase the Convertible Debentures, at a repurchase price that would be at least 115% of the then outstanding principal, plus any accrued but unpaid interest, upon the occurrence of an event of default, as defined in the SPA. The Convertible Debentures will also accrue interest upon an event of default at a rate of the lesser of 10.0% or the maximum permitted by law.

The Convertible Debentures also include certain liquidated damages provisions, whereby the Company will be required to compensate the Investors for certain contingent events, such as the failure to timely deliver conversion shares of common stock, failure to timely pay any accrued interest when due and failure to timely report public information.

The Convertible Debentures are unsecured and structurally subordinated to the Company's existing indebtedness. In connection with the issuance of the Convertible Debentures, the Company's subsidiaries entered into a Subsidiary Guarantee, dated as of December 20, 2018, for the benefit of the Investors, pursuant to which the subsidiaries guaranteed the Company's payments under the Convertible Debentures.

In connection with the issuance, on December 20, 2018, the Company entered into a registration rights agreement (the "Registration Rights Agreement") with the Investors, pursuant to which the Company agreed to file a registration statement with the Securities and Exchange Commission ("SEC") to register the resale of shares of common stock underlying the Convertible Debentures on or prior to January 31, 2019. The Company filed the Registration Rights Agreement with the SEC on January 31, 2019.

Certain Investors in the Convertible Debentures include directors and employees of the Company. These related parties purchased approximately 10% of the principal value of the Convertible Debentures, or $670,000. The Convertible Debentures issued to the related parties have substantially the same rights and provisions as the unrelated third party investors, with the exception of certain terms where the related parties received less favorable terms than the unrelated third parties (such as with determination of the make whole conversion rate, as defined in the Convertible Debentures; or limits on the impact of potential 'down-round' adjustments to the conversion price).

The Company initially evaluated the required accounting for the Convertible Debentures under ASC Topic 470, "*Debt*" ("ASC 470"), ASC Topic 480, "*Distinguishing Liabilities from Equity*" ("ASC 480") and ASC Topic 815, "*Derivatives and Hedging*" ("ASC 815"). The Company determined that the Convertible Debentures contained multiple embedded derivative features that would be required to be bifurcated and accounted for as a combined derivative liability at fair value, with subsequent changes in fair value being recorded in current earnings in the respective periods. As a result of this assessment, the Company elected to make a one-time, irrevocable election to utilize the fair value option allowed under ASC Topic 825, "*Financial Instruments*." Under the fair value option election, the Company will account for the Convertible Debentures as a single hybrid instrument at its fair value, with changes in fair value from period to period being recorded either in current earnings, or as an element of other comprehensive income (loss), for the portion of the change in fair value determined to relate to the Company’s own credit risk. The Company believes that the election of the fair value option will allow for a more meaningful representation of the total fair value of its obligation under the Convertible Debentures and allow for a better understanding of how changes in the external market environment and valuation assumptions impact such fair value, when compared to recording the Convertible Debentures and fair value of the bifurcated embedded derivatives separately under the guidance of ASC 470 and ASC 815.

In accordance the Company’s election of the fair value option, the Company expensed the approximately $503,000 in issuance costs incurred related to the Convertible Debentures during the year ended December 31, 2018.

*Fair Value Measurements Related to the Convertible Debentures*

The Company utilized a Monte Carlo simulation model to estimate the fair value of the Convertible Debentures as June 30, 2019. The simulation model is designed to capture the potential settlement features of the Convertible Debentures (the embedded features described above), in conjunction with simulated changes in the Company’s stock price and the probability of certain events occurring. The simulation utilizes 100,000 trials or simulations to determine the estimated fair value.

The simulation utilizes the assumptions that if the Company is able to exercise its Forced Conversion right (if the requirements to do so are met), that it will do so in 100% of such scenarios. Additionally, if an event of default occurs during the simulated trial (based on the Company’s probability of default), the Investors will opt to redeem the Convertible Debentures in 100% of such scenarios. If neither event occurs during a simulated trial, the simulation assumes that the Investor will hold the Convertible Debentures until the maturity date. The value of the cash flows associated with each potential settlement are discounted to present value in each trial based on either the risk free rate (for an equity settlement) or the effective discount rate (for a redemption or cash settlement).

The Company notes that the key inputs to the simulation model that were utilized to estimate the fair value of the Convertible Debentures included:

| Input | December 31, 2018 | June 30, 2019 |
|---|---|---|
| Company's stock price | $ 3.70 | $ 6.37 |
| Conversion price | $ 4.00 | $ 4.00 |
| Remaining term (years) | 2.97 | 2.47 |
| Equity volatility | 54.00% | 54.00% |
| Risk free rate | 2.46% | 1.72% |
| Probabilty of default event | 0.81% | 55.00% |
| Utilization of Forced Conversion (if available) | 100.00% | 100.00% |
| Exercise of Default Redemption (if available) | 100.00% | 100.00% |
| Effective discount rate | 21.90% | 20.86% |

The Company's stock price is based on the closing stock price on the valuation date. The conversion price is based on the contractual conversion price included in the SPA.

The remaining term was determined based on the remaining time period to maturity of the Convertible Debentures.

The Company's equity volatility estimate was based on the Company's historical equity volatility, the Company's implied and observed volatility of option pricing, and the historical equity and observed volatility of option pricing for a selection of comparable guideline public companies.

The risk free rate was determined based on U.S. Treasury securities with similar terms.

The probability of the occurrence of a default event was based on Bloomberg's 1 year estimate of default risk for the Company (extrapolated over the remaining term).

The utilization of the forced conversion right and the default redemption right is based on management's best estimate of both features being exercised upon the occurrence of the related contingent events.

The effective discount rate utilized at December 31, 2018 was solved for utilizing the simulation model based on the principal value of the Convertible Debentures, as the transaction was determined to represent an 'arm's length' transaction. The effective discount was corroborated against market yield data which implied the Company's credit rating. The effective discount rate utilized at June 30, 2019 was based on this implied credit rating and current market yield data as of the valuation date.

The fair value and principal value of the Convertible Debentures as of June 30, 2019 and December 31, 2018 was as follows (in thousands):

| Convertible Debentures | December 31, 2018 | June 30, 2019 |
|---|---|---|
| Fair value, in accordance with fair value option | $ 6,970 | $ 11,410 |
| Principal value outstanding | $ 6,970 | $ 6,970 |

The Company recorded a loss from the change in fair value of the Convertible Debentures of $4.4 million for the six months ended June 30, 2019. See also additional fair value disclosures related to the Convertible Debentures in Note 8.

### (c) Principal and Interest Payments Related to Financing Arrangements

Future principal and interest payments related to the Loan Agreement and Convertible Debentures are as follows (in thousands):

| Fiscal Year | Amount Due |
|---|---|
| 2019 | $ 1,506 |
| 2020 | $ 2,911 |
| 2021 | $ 9,462 |
| Total | $ 13,879 |

The following amounts are included in interest expense in our consolidated statement of operations for the three and six months ended June 30, 2019 and 2018 (in thousands):

| | Three Months Ended June 30, 2019 | | Six Months Ended June 30, 2019 | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Cash interest expense | $ 75 | $ 73 | $ 157 | $ 141 |
| Interest on convertible debentures | 87 | — | 174 | — |
| Accrual of notes payable final payment | 32 | 32 | 64 | 98 |
| Amortization of debt costs | 7 | 7 | 14 | 14 |
| Interest expense capital lease | 1 | 1 | 2 | 2 |
| Total interest expense | $ 202 | $ 113 | $ 411 | $ 255 |

**Note 5 – Lease Commitments**

On January 1, 2019, the Company adopted ASC 842 and has applied its transition provisions at the beginning of the period of adoption (i.e. on the effective date), and so did not restate comparative periods. Under this transition provision, the Company has applied the legacy guidance under ASC 840, "Leases" ("ASC 840"), including its disclosure requirements, in the comparative periods presented.

Under ASC 842, the Company determines if an arrangement contains a lease at inception. A lease is a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment (i.e., an identified asset) for a period of time in exchange for consideration. Leases are classified as either operating or financing. At lease inception, the Company recognizes a lease liability equal to the present value of the remaining lease payments, and a right of use asset equal to the lease liability, subject to certain adjustments, such as for lease incentives. The Company used its incremental borrowing rate to determine the present value of the lease payments. The Company determined the incremental borrowing rates for its leases by applying its applicable borrowing rate, with adjustment as appropriate for lease term. The lease term at the lease commencement date is determined based on the non-cancellable period for which the Company has the right to use the underlying asset, together with any periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option. The Company considered a number of factors when evaluating whether the options in its lease contracts were reasonably certain of exercise, such as length of time before option exercise, expected value of the leased asset at the end of the initial lease term, importance of the lease to overall operations, costs to negotiate a new lease, and any contractual or economic penalties. Right-of-use assets and obligations for short-term leases (leases with an initial term of 12 months or less) are not recognized in the consolidated balance sheet. Lease expense for short-term leases is recognized on a straight-line basis over the lease term. The Company does not sublease any of its leased assets to third parties. The Company's lease agreements do not contain any residual value guarantees or restrictive covenants. The Company has lessor agreements that contain lease and non-lease components. As the Company has determined that the non-lease component of these agreements is the predominant component, the Company is accounting for the complete agreement under ASC 606 upon adoption of ASC 842.

ASC 842 includes a number of reassessment and re-measurement requirements for lessees based on certain triggering events or conditions, including whether a contract is or contains a lease, assessment of lease term and purchase options, measurement of lease payments, assessment of lease classification and assessment of the discount rate. The Company reviewed the reassessment and re-measurement requirements and identified two lease modifications which are reflected in the table below showing the maturity of the Company's lease liabilities as of June 30, 2019. This includes an extension of an operating lease for the facility leased by the Company in San Jose as well as some equipment. In addition, there were no impairment indicators identified during the quarter ended June 30, 2019 that required an impairment test for the Company's right-of-use assets or other long-lived assets in accordance with ASC 360-10.

Certain of the Company's leases include variable lease costs to reimburse the lessor for real estate tax and insurance expenses, and certain non-lease components that transfer a distinct service to the Company, such as common area maintenance services. The Company has elected to not separate the accounting for lease components and non-lease components for real estate and equipment leases.

*Required Disclosures under ASC 842*

The Company has leases for office space and office equipment. The leases have remaining lease terms ranging from less than one year to three years and 9 months as of June 30, 2019.

The components of lease expense for the period are as follows (in thousands):

| Lease Cost | Classification | Three Months Ended June 30, 2019 | Six Months Ended June 30, 2019 |
|---|---|---|---|
| Operating lease cost | Operating expenses | $ 209 | $ 418 |
| Finance lease costs | | | |
| Amortization of leased assets | Amortization and depreciation | 3 | 7 |
| Interest on lease liabilities | Interest expense | 1 | 2 |
| Total | | $ 213 | $ 427 |

Other information related to leases was as follows (in thousands)

| | Three Months Ended June 30, 2019 |
|---|---|
| Cash paid for operating cash flows from operating leases | $ 209 |
| Cash paid for operating cash flows from finance leases | $ 1 |
| Cash paid for financing cash flows from finance leases | $ 3 |

| | As of June 30, 2019 |
|---|---|
| Weighted-average remaining lease term of operating leases (in years) | 1.05 |
| Weighted-average remaining lease term of finance leases (in years) | 1.30 |
| Weighted-average discount rate for operating leases | 0.0% |
| Weighted-average discount rate for finance leases | 11.0% |

Maturity of the Company's lease liabilities as of June 30, 2019 was as follows (in thousands):

| Year Ended December 31: | Operating Leases | Finance Leases | Total |
|---|---|---|---|
| 2019 (remaining period of year) | $ 413 | $ 8 | $ 421 |
| 2020 | 212 | 11 | 223 |
| 2021 | 7 | — | 7 |
| Total lease payments | 632 | 19 | 651 |
| Less: imputed interest | (14) | (1) | (15) |
| Total lease liabilities | 618 | 18 | 636 |
| Less: current portion of lease liabilities | (603) | (15) | (618) |
| Long-term lease liabilities | $ 15 | $ 3 | $ 18 |

Subsequent to June 30, 2019, the Company executed an extension of the lease in San Jose that has not yet commenced. The lease extended from March 31, 2020 to March 31, 2023 and results in an additional obligation of $2.1 million.

The cumulative effect of the changes made to the Company's consolidated balance sheet for the adoption of Topic 842 were as follows (in thousands):

| Selected Balance Sheet | Balance at December 31, 2018 | Adjustments Due to ASC 842 | Balance at January 1, 2018 |
|---|---|---|---|
| **Assets** | | | |
| Operating lease assets | $ — | $ 907 | $ 907 |
| **Liabilities** | | | |
| Deferred rent, current portion (within accrued expenses) | 92 | (92) | — |
| Deferred rent, long-term portion (within other long-term liabilities) | 27 | (27) | — |
| Lease payable—current portion | 15 | 780 | 795 |
| Lease payable, long-term portion | 38 | 179 | 217 |

In connection with the adoption of ASC 842, the Company recorded an immaterial expense of $14,000 in the quarter ended March 31, 2019 which would have been an opening retained earnings adjustment.

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

| | As of June 30, 2019 | | |
|---|---|---|---|
| **Selected Balance Sheet** | As Reported | Balances without Adoption of ASC 842 | Effect of Change Increase (Decrease) |
| **Assets** | | | |
| Operating lease assets | $ 552 | $ — | $ 552 |
| **Liabilities** | | | |
| Lease payable—current portion | 618 | 15 | 603 |
| Lease payable, long-term portion | 18 | 8 | 10 |

| | Payments due by period | | | |
|---|---|---|---|---|
| | **Total** | **2019** | **2020** | **2021** |
| Operating Lease Obligations | $632 | $413 | $212 | $ 7 |
| Capital Lease Obligations | 26 | 15 | 11 | — |
| | **$658** | **$428** | **$223** | **$ 7** |

## Note 6 – Stock-Based Compensation

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

The Company granted options to purchase 48,285 and 196,737 shares of the Company's stock during the three and six months ended June 30, 2019. 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, | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Average risk-free interest rate | 1.97% | 2.62% | 2.23% | 2.50% |
| Expected dividend yield | None | None | None | None |
| Expected life | 3.5 years | 3.5 years | 3.5 years | 3.5 years |
| Expected volatility | 51.9% to 54.2% | 61.6% | 51.9% to 54.2% | 60.8% to 61.6% |
| Weighted average exercise price | $5.81 | $3.08 | $4.78 | $3.08 |
| Weighted average fair value | $2.35 | $1.42 | $1.93 | $1.41 |

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Cost of revenue | $ 1 | $ 1 | 2 | $ 2 |
| Engineering and product development | 32 | 100 | 119 | 197 |
| Marketing and sales | 57 | 57 | 116 | 57 |
| General and administrative | 214 | 224 | 279 | 517 |
| | $ 304 | $ 382 | $ 516 | $ 773 |

As of June 30, 2019, unrecognized compensation cost (in thousands) related to unexercisable options and unvested restricted stock and the weighted average remaining period is as follows:

| | |
|---|---|
| Remaining expense | $1,383 |
| Weighted average term | 1.1 |

The Company's restricted stock awards typically vest in either one year or three equal annual installments with the first installment vesting one year from grant date. The Company granted a total of 162,500 shares of performance based restricted stock during 2016 with performance measured on meeting a revenue target based on growth for fiscal year 2017 and vesting in three equal installments with the first installment vesting upon measurement of the goal. In addition, a maximum of 108,333 additional shares were available to be earned based on exceeding the revenue goal. On March 30, 2018, in accordance with the performance award, the Board of Directors determined that the revenue goal had been met and a total of 189,583 shares were granted, with 63,194 vesting immediately and the remainder vesting on the first and second anniversary of the award date.

During the three and six months ended June 30, 2019, the Company granted 0 and 14,000 shares of restricted stock respectively with time based vesting.

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

| | Period Ended June 30, | |
|---|---|---|
| Aggregate intrinsic value | 2019 | 2018 |
| Stock options | $3,585 | $ 261 |
| Restricted stock | 1,674 | 1,789 |

The Company issued 60,892 and 428,313 shares of common stock upon the exercise of outstanding stock options in the three and six months ended June 30, 2019, respectively. The Company received cash proceeds of approximately $0.2 and $1.4 million in the three and six months ended June 30, 2019, respectively. The intrinsic value of restricted shares that vested in the three and six months ended June 30, 2019 was $0.1 million and $0.5 million, respectively. The intrinsic value of restricted shares that vested in the six months ended June 30, 2018 was $0.5 million.

## Note 7 – 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, 2019.

### Other Commitments

The Company is obligated to pay approximately $2.3 million for firm purchase obligations to suppliers for future product and service deliverables.

### Litigation

In December 2016, the Company entered into an Asset Purchase Agreement with Invivo Corporation. In accordance with the agreement, the Company sold to Invivo all right, title and interest to certain intellectual property relating to the Company’s VersaVue Software and DynaCAD product and related assets for $3.2 million. The Company closed the transaction on January 30, 2017 less a holdback reserve of $350,000 for a net of approximately $2.9 million.

On September 5, 2018, third-party Yeda Research and Development Company Ltd., referred to in this Section as Yeda, filed a complaint against the Company and Invivo in the United States District Court for the Southern District of New York, captioned Yeda Research and Development Company Ltd. v. iCAD, Inc. and Invivo Corporation, Case No. 1:18-cv-08083-GBD, related to the Company’s sale of the VersaVue software and DynaCAD product under the Agreement. In the Complaint, Yeda asserts claims for: (i) copyright infringement and misappropriation of trade secrets against both the Company and Invivo; (ii) breach of contract against the Company only; and (iii) tortious interference with existing business relationships and unjust enrichment against Invivo only. The Company and Invivo filed Motions to Dismiss the Complaint on December 21, 2018. On January 18, 2019, Yeda filed Oppositions to the Motions to Dismiss. The Company and Invivo submitted responses to the Opposition to the Motion to Dismiss on February 8, 2019. The Court held oral argument on the Motions to Dismiss on March 27, 2019. The Company is awaiting a decision from the Court. To the extent that the Complaint is not dismissed in its entirety, the Company will vigorously defend against the claims asserted by Yeda. The amount of the loss, if any, cannot be reasonably estimated at this time. Any amounts owed by the Company in connection with its indemnification obligations to Invivo related to this action may reduce the $350,000 holdback under the Asset Purchase Agreement.

The Company is a party to various legal proceedings and claims arising out of the ordinary course of its business. Although the final results of all such matters and claims cannot be predicted with certainty, the Company currently believes that there are no current proceedings or claims pending against it the ultimate resolution of which would have a material adverse effect on its financial condition or results of operations. However, should the Company fail to prevail in any legal matter or should several legal matters be resolved against the Company in the same reporting period, such matters could have a material adverse effect on our operating results and cash flows for that particular period. The Company is party to certain actions that have been filed against the Company which are being vigorously defended. The Company has determined that potential losses in these matters are neither probable or reasonably possible at this time. In all cases, at each reporting period, the Company evaluates whether or not a potential loss amount or a potential range of loss is probable and reasonably estimable under ASC 450, Contingencies. Legal costs are expensed as incurred.

**Note 8 – Fair Value Measurements**

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

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

The Company’s financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, notes payable and convertible debentures. Due to their short term nature and market rates of interest, the carrying amounts of the financial instruments (except the convertible debentures, which are measured at fair value in accordance with the fair value option election) approximated fair value as of June 30, 2019 and December 31, 2018.

The Company’s assets and liabilities that are measured at fair value on a recurring basis include the Company’s money market accounts and convertible debentures.

The money market funds are included in cash and cash equivalents in the accompanying balance sheet, and are considered a Level 1 measurement as they are valued at quoted market prices in active markets.

The convertible debentures are recorded as a separate component of the Company’s consolidated balance sheets, and are considered a Level 3 measurement due to the utilization of significant unobservable inputs in their valuation. See Note 4(b) for a discussion of these fair value measurements.

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

**Fair Value Measurements (000’s) as of December 31, 2018**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets | | | | |
| Money market accounts | $12,134 | $ — | $ — | $12,134 |
| Total Assets | $12,134 | $ — | $ — | $12,134 |
| Liabilities | | | | |
| Convertible debentures | $ — | $ — | $6,970 | $ 6,970 |
| Total Liabilities | $ — | $ — | $6,970 | $ 6,970 |

**Fair Value Measurements (000’s) as of June 30, 2019**

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets | | | | |
| Money market accounts | $19,567 | $ — | $ — | $19,567 |
| Total Assets | $19,567 | $ — | $ — | $19,567 |
| Liabilities | | | | |
| Convertible debentures | $ — | $ — | $11,410 | $11,410 |
| Total Liabilities | $ — | $ — | $11,410 | $11,410 |

The following sets forth a reconciliation of the changes in the fair value of the convertible debenture during the period:

| | Six months ended June 30, 2019 |
|---|---|
| Balance, December 31, 2018 | $ 6,970 |
| Fair value adjustment | 4,440 |
| Balance, June 30, 2019 | $ 11,410 |

**Note 9 – Income Taxes**

The Company recorded an income tax provision of $19,000 and $27,000 for the three and six months ended June 30, 2019, respectively. The Company recorded an income tax provision of $4,000 and $17,000 for three and six months ended June 30, 2018, respectively. At June 30, 2019, the Company had no material unrecognized tax benefits and a deferred tax liability of approximately $3,000 related to tax amortizable goodwill. No other adjustments were required under ASC 740, "Income Taxes". The Company does not expect that the unrecognized tax benefits will materially increase within the next 12 months. The Company did not recognize any interest or penalties related to uncertain tax positions at June 30, 2019.

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

**Note 10 – Goodwill**

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

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

- significant underperformance relative to historical or projected future operating results;
- significant changes in the manner or use of the assets or the strategy for the Company's overall business;

- significant negative industry or economic trends;
- significant decline in the Company's stock price for a sustained period; and
- a decline in the Company's market capitalization below net book value.

The Company records an impairment charge when such assessment indicates that the fair value of a reporting unit was less than the carrying value. In evaluating potential impairments outside of the annual measurement date, judgment is required in determining whether an event has occurred that may impair the value of goodwill or intangible assets. The Company did not have any triggering events in the quarter ended June 30, 2019.

The Company utilizes either discounted cash flow models or other valuation models, such as comparative transactions and market multiples, to determine the fair value of reporting units. The Company makes assumptions about future cash flows, future operating plans, discount rates, comparable companies, market multiples, purchase price premiums and other factors in those models. Different assumptions and judgment determinations could yield different conclusions that would result in an impairment charge to income in the period that such change or determination was made.

In January 2018, the Company adopted a plan to discontinue offering radiation therapy professional services to practices that provide the Company's electronic brachytherapy solution for the treatment of non-melanoma skin cancer under the subscription service model within the Therapy Segment. As result, the Company no longer offers the subscription service model to customers. Based on the decision to discontinue offering radiation therapy professional services within the Therapy Segment, the Company revised its forecasts related to the Therapy segment, which the Company deemed to be a triggering event in the quarter ended December 31, 2017.

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

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

The Company corroborates the total fair values of the reporting units using a market capitalization approach; however, this approach cannot be used to determine the fair value of each reporting unit value. The blend of the income approach and market approach is more closely aligned to the business profile of the Company, including markets served and products available. In addition, required rates of return, along with uncertainties inherent in the forecast of future cash flows, are reflected in the selection of the discount rate. In addition, under the blended approach, reasonably likely scenarios and associated sensitivities can be developed for alternative future states that may not be reflected in an observable market price. The Company will assess each valuation methodology based upon the relevance and availability of the data at the time the valuation is performed and weights the methodologies appropriately.

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

| | Detection | Therapy | Total |
|---|---|---|---|
| Balance at December 31, 2018 | $ 8,362 | $ — | $ 8,362 |
| Balance at June 30, 2019 | $ 8,362 | $ — | $ 8,362 |
| Accumulated Goodwill | $ 699 | $ 6,270 | $ 54,906 |
| Fair value allocation | 7,663 | 13,446 | — |
| Accumulated impairment | — | (19,716) | (46,544) |
| Balance at June 30, 2019 | $ 8,362 | $ — | $ 8,362 |

## 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).

The Company determined there were no triggering events in the quarter ended June 30, 2019.

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

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 – 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 Chief Executive Officer ("CEO"). Each reportable segment generates revenue from the sale of medical equipment and related services and/or sale of supplies. The Company has determined there are two segments, Cancer Detection ("Detection") and Cancer Therapy ("Therapy").

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

The Company does not track assets by operating segment and 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, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Segment revenues:** | | | | |
| Detection | $ 5,209 | $ 3,990 | $ 9,377 | $ 8,001 |
| Therapy | 2,120 | 2,172 | 4,725 | 4,474 |
| Total Revenue | $ 7,329 | $ 6,162 | $14,102 | $12,475 |
| **Segment gross profit:** | | | | |
| Detection | $ 4,356 | $ 3,456 | $ 7,823 | $ 6,985 |
| Therapy | 1,370 | 1,328 | 3,185 | 2,297 |
| Segment gross profit | $ 5,726 | $ 4,784 | $11,008 | $ 9,282 |
| **Segment operating income (loss):** | | | | |
| Detection | $ 673 | $ 1,019 | $ 975 | $ 1,006 |
| Therapy | (264) | (360) | (43) | (1,426) |
| Segment operating income (loss) | $ 409 | $ 659 | $ 932 | $ (420) |
| General, administrative, depreciation and amortization expense | $(1,867) | $(1,598) | $ (3,424) | $ (3,667) |
| Interest expense | (202) | (113) | (411) | (255) |
| Other income | 64 | 29 | 123 | 51 |
| Fair value of convertible debentures | (1,915) | — | (4,440) | — |
| Loss before income tax | $(3,511) | $(1,023) | $ (7,220) | $ (4,291) |

**Note 13 – Recent Accounting Pronouncements**

On January 1, 2019, the Company adopted the new accounting standard ASC 842, "Leases" and all related amendments using the modified retrospective method for all lease arrangements in place as of the date of adoption. The Company recognized the cumulative effect of initially applying the new standard as an expense in the quarter ended June 30, 2019 as the amount was immaterial to the financial statements. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. Results for reporting periods beginning after January 1, 2019 are presented under ASC 842, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 840. In addition, upon electing the practical expedient to combine lease and non-lease components under ASC 842, the Company does not expect the changes to lessor accounting to impact the amount or timing of revenue recognition, but will result in revenue to be recognized under ASC 606 because the non-lease component will be the predominant component in the arrangement. See Note 1 for details of the Company's adoption of ASC 842.

## 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, Inc. is a provider of advanced image analysis, workflow solutions and radiation therapy for the early identification and treatment of cancer. The Company reports in two segments –Cancer Detection (“Detection”) and Cancer Therapy (“Therapy”).

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

The Company intends to continue the extension of its image analysis and clinical decision support solutions for mammography and CT imaging. The Company believes that advances in digital imaging techniques, such as 3D mammography, should bolster its efforts to develop additional commercially viable CAD/advanced image analysis and workflow products.

In the Therapy segment, the Company offers an isotope-free cancer treatment platform technology the Xoft Electronic Brachytherapy System (“Xoft System”). The Xoft System can be used for the treatment of early- stage breast cancer, endometrial cancer, cervical cancer and skin cancer. We believe the Xoft System platform indications represent strategic opportunities in the United States and international markets to offer differentiated treatment alternatives. In addition, the Xoft System generates additional recurring revenue for the sale of consumables and related accessories which will continue to drive growth in this segment.

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

**Critical Accounting Policies**

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

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 revenue recognition, allowance for doubtful accounts, inventory valuation and obsolescence, intangible assets, goodwill, income taxes, contingencies and litigation. Additionally, the Company uses assumptions and estimates in calculations to determine stock-based compensation and the fair value of convertible notes. The Company bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. As of January 1, 2019, we adopted ASC Topic 842. Refer to Note 1 of this Form 10-Q for disclosure of the changes related to this adoption.

There have been no additional material changes to our critical accounting policies as discussed in our 2018 Annual Report on Form 10-K (the "2018 10-K"). For a comprehensive list of the Company's critical accounting policies, reference should be made to the 2018 10-K.

**<u>Three and six months ended June 30, 2019 compared to the three and six months ended June 30, 2018</u>**

**Revenue: (in thousands)**

| | Three months ended June 30, 2019 | 2018 | Change | % Change |
|---|---|---|---|---|
| Detection revenue | | | | |
| Product revenue | $3,808 | $2,486 | $1,322 | 53.2% |
| Service revenue | 1,401 | 1,504 | (103) | (6.8)% |
| Subtotal | 5,209 | 3,990 | 1,219 | 30.6% |
| Therapy revenue | | | | |
| Product revenue | 545 | 708 | (163) | (23.0)% |
| Service revenue | 1,575 | 1,464 | 111 | 7.6% |
| Subtotal | 2,120 | 2,172 | (52) | (2.4)% |
| Total revenue | $7,329 | $6,162 | $1,167 | 18.9% |

*Three months ended June 30, 2019 and 2018:*

Total revenue for the three months ended June 30, 2019 was $7.3 million compared with revenue of $6.2 million for the three months ended June 30, 2018. This is an increase of approximately $1.1 million, or 18.9%. The increase in revenue is due to an increase in Detection revenue of approximately $1.2 million offset by a slight decrease in Therapy revenue of $0.1 million.

Detection product revenue increased by approximately $1.3 million from $2.5 million for three month period ended June 2018 to $3.8 million for three months period ended June 30, 2018. This represents increases of 53.8%. The increase in Detection product revenue is due primarily to an increase in direct sales.

Detection service and supplies revenue decreased $0.1 million from approximately $1.5 million for the three months ended June 30, 2018 to $1.4 million for the three months ended June 30, 2019. Service and supplies revenue reflects the sale of service contracts to our installed base of customers and can vary from quarter to quarter.

Therapy product revenue decreased by $0.2 million from $0.7 million for the three months ended June 30, 2018 to $0.5 for the three months ended June 30, 2019. Therapy product revenue related to the sale of our Axxent systems can vary significantly from quarter to quarter due to an increase or decrease in the number of units sold.

Therapy service and supply revenue increased by approximately $0.1 million from $1.5 million for the three months ended June 30, 2018 to $1.6 million for the three months ended June 30, 2019. Source, service and disposable applicators remain a significant component of Therapy service revenue.

| | Six months ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | 2018 | Change | % Change |
| Detection revenue | | | | |
| Product revenue | $ 6,613 | $ 4,975 | $1,638 | 32.9% |
| Service revenue | 2,764 | 3,026 | (262) | (8.7)% |
| Subtotal | 9,377 | 8,001 | 1,376 | 17.2% |
| Therapy revenue | | | | |
| Product revenue | 1,577 | 1,233 | 344 | 27.9% |
| Service revenue | 3,148 | 3,241 | (93) | (2.9)% |
| Subtotal | 4,725 | 4,474 | 251 | 5.6% |
| Total revenue | $14,102 | $12,475 | $1,627 | 13.0% |

*Six months ended June 30, 2019 and 2018:*

Total revenue for the six months ended June 30, 2019 was $14.1 compared with revenue of $12.5 million for the six months ended June 30, 2018. This is an increase of approximately $1.6 million, or 13.0%. The increase in revenue is due to an increase in Detection revenues of approximately $1.4 million and in Therapy revenue of $0.2 million.

Detection product revenue increased by approximately $1.6 million from $5.0 million for the six month period ending June 2018 to $6.6 million for the six month period ended June 30, 2018. This represents increases of 32.9%. The increase in Detection product revenue is due primarily to an increase in direct sales.

Detection service and supplies revenue decreased $0.2 million from approximately $3.0 million for the six months ended June 30, 2018 to $2.8 million for the six months ended June 30, 2019. Detection service and supplies revenue reflects the sale of service contracts to our installed base of customers, and can vary from quarter to quarter.

Therapy product revenue increased by $0.4 million from $1.2 million for the six months ended June 30, 2018 to $1.6 million for the six months ended June 30, 2019. Product revenue from the sale of our Axxent systems can vary significantly due to an increase or decrease in the number of units sold.

Therapy service and supply revenue decreased by approximately $0.1 million from $3.2 million for the six months ended June 30, 2018 to $3.1 million for the six months ended June 30, 2019.

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

| | Three months ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | 2018 | Change | % Change |
| Products | $ 645 | $ 537 | $ 108 | 20.1% |
| Service and supplies | 858 | 739 | 119 | 16.1% |
| Amortization and depreciation | 100 | 102 | (2) | (2.0)% |
| Total cost of revenue | $ 1,603 | $1,378 | $ 225 | 16.3% |
| Gross profit | $ 5,726 | $4,784 | $ 942 | 19.7% |
| Gross profit % | 78.1% | 77.6% | | 0.5% |

| | Three months ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | 2018 | Change | % Change |
| Detection gross profit | $ 4,356 | $3,456 | $ 900 | 26.0% |
| Therapy gross profit | 1,370 | 1,328 | 42 | 3.2% |
| Gross profit | 5,726 | 4,784 | 942 | 19.7% |
| Gross profit % | 78.1% | 77.6% | | 0.5% |

| | Six months ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | 2018 | Change | % Change |
| Products | $ 1,325 | $ 995 | $ 330 | 33.2% |
| Service and supplies | 1,575 | 1,991 | (416) | (20.9)% |
| Amortization and depreciation | 194 | 207 | (13) | (6.3)% |
| Total cost of revenue | $ 3,094 | $3,193 | $ (99) | (3.1)% |
| Gross profit | $11,008 | $9,282 | $1,726 | 18.6% |
| Gross profit % | 78.1% | 74.4% | | 3.7% |

| | Six months ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | 2018 | Change | % Change |
| Detection gross profit | $ 7,823 | $6,985 | $ 838 | 12.0% |
| Therapy gross profit | 3,185 | 2,297 | 888 | 38.7% |
| Gross profit | 11,008 | 9,282 | 1,726 | 18.6% |
| Gross profit % | 78.1% | 74.4% | | 3.7% |

Gross profit for the three month period ended June 30, 2019 was $5.7 million, or 78.1% of revenue as compared to $4.8 million or 77.6% of revenue in the three month period ended June 30, 2018.

Gross profit for the six month period ended June 30, 2019 was $11.0 million, or 78.1% of revenue as compared to $9.3 million or 74.4% of revenue in the six month period ended June 30, 2018. 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 Detection products increased by approximately $0.1 million from approximately $0.5 million for the three months ended June 30, 2018 to approximately $0.6 million for the three months ended June 30, 2019. The cost of product revenue as a percentage of product revenue was approximately 17% for the three months ended June 30, 2018 as compared to 15% for the three months ended June 30, 2019. Cost of products increased by approximately $0.3 million from approximately $1.0 million for the six months ended June 30, 2018 to approximately $1.3 million for the six months ended June 30, 2019. The cost of product revenue as a percentage of product revenue was approximately 16% for the six months ended June 30, 2018 as compared to 16.2% for the six months ended June 30, 2019.

The cost of service and supplies was $0.7 million for the three months ended June 30, 2018 as compared to $0.9 million for the three months ended June 30, 2019. The cost of service and supplies revenue as a percentage of service and supplies revenue was approximately 25% for the three months ended June 30, 2018 as compared to 29% for the three months ended June 30, 2019, which is due primarily to product mix. The cost of service and supplies was $2.0 million for the six months ended June 30, 2018 as compared to $1.6 million for the six months ended June 30, 2019. The cost of service and supplies revenue as a percentage of service and supplies revenue was approximately 31.8% for the six months ended June 30, 2018 as compared to 26.6% for the six months ended June 30, 2019, which reflects the decrease of the cost of sales related to the wind-down of the Xoft subscription business.

Amortization and depreciation was approximately $0.1 million for the three month period ended June 30, 2018 and 2019. It was $0.2 million for the six months ended June 30, 2018 and 2019.

**Operating Expenses: (in thousands)**

| | Three months ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | 2018 | Change | Change % |
| Operating expenses: | | | | |
| Engineering and product development | $ 2,139 | $ 2,057 | $ 82 | 4.0% |
| Marketing and sales | 3,120 | 2,006 | 1,114 | 55.5% |
| General and administrative | 1,858 | 1,583 | 275 | 17.4% |
| Amortization and depreciation | 67 | 77 | (10) | (13.0)% |
| Total operating expenses | $ 7,184 | $ 5,723 | $ 1,461 | 25.5% |

| | Six months ended June 30, | | | |
|---|---|---|---|---|
| | 2019 | 2018 | Change | Change % |
| Operating expenses: | | | | |
| Engineering and product development | $ 4,266 | $ 5,396 | $(1,130) | (20.9)% |
| Marketing and sales | 5,693 | 4,172 | 1,521 | 36.5% |
| General and administrative | 3,404 | 3,641 | (237) | (6.5)% |
| Amortization and depreciation | 137 | 160 | (23) | (14.4)% |
| Goodwill and long-lived asset impairment | | | | |
| Total operating expenses | $13,500 | $13,369 | $ 131 | 1.0% |

*Three months ended June 30, 2019 and 2018.*

Operating expenses increased by approximately $1.5 million, or 25.5%, in the three months ended June 30, 2019 compared to three months ended June 30, 2018

*Engineering and Product Development.* Engineering and product development costs were approximately $2.1 million for the three month period ended June 30, 2019 and 2018. Detection engineering and product development costs increased by $0.2 million to $1.5 for the three months ended June 30, 2019 from $1.3 million for three months ended June 30, 2018. Therapy engineering and product development costs decreased by $0.2 million to $0.6 million for the three months ended June 30, 2019 from $0.8 million for the three months ended June 30, 2018. The increase in Detection engineering and product development costs is due to an increase in personnel expenses. The decrease in Therapy engineering and product development costs for the three months ended June 30, 2019 is due primarily to decreases in personnel and consulting expenses.

*Marketing and Sales.* Marketing and sales expenses increased by $1.2 million or 57.1%, from $2.0 million in the three month period ended June 30, 2018 to $3.2 million in the three month period ended June 30, 2019. Detection marketing and sales expense increased by $1.0 million from $1.1 million in the three months ended June 30, 2018 to $2.1 million in the three months ended June 30, 2019. Therapy marketing and sales expense increased by $0.1 million from $1.0 million in the three months ended June 30, 2018 to $1.1 million in the three months ended June 30, 2019. The increase in Detection marketing and sales expense is due primarily to an increase in personnel costs and commissions as the Company has invested in additional commercial resources to help drive sales of the new Detection products. The increase in Therapy marketing and sales expense is due primarily to the timing of trade shows.

*General and Administrative.* General and administrative expenses increased by $0.2 million or 15.3%, from $1.6 million in the three months ended June 30, 2018 as compared to approximately $1.8 million for the three months ended June 30, 2019. The increase in General and administrative expenses is due primarily to a increase in personnel costs.

*Amortization and Depreciation.* Amortization and depreciation is primarily related to acquired intangible assets and depreciation related to machinery and equipment. Amortization and depreciation decreased to approximately $68,000 in the quarter ended June 30, 2019 from $77,000 for the quarter ended June 30, 2018.

*Six months ended June 30, 2019 and 2018.*

Operating expenses increased $0.1 million or 1.0% in the six month period ended June 30, 2019 compared to six month period ended June 30, 2019.

*Engineering and Product Development.* Engineering and product development costs were approximately $4.3 million for the six month period ended June 30, 2019 down from $5.4 million for the same period last year, a reduction of $1.1 million or 20.9%. Detection engineering and product development costs were $3.0 million and $3.7 million for the six months ended June 30, 2019 and 2018, respectively. Therapy engineering and product development costs decreased by $0.4 million to $1.3 million for the six months ended June 30, 2019 from $1.7 million for the six months ended June 30, 2018. The decrease in Detection engineering and product development costs for the six months ended June 30, 2019 is due primarily to clinical expenses in the first quarter of 2018 related to the development of the Company's breast tomosynthesis product. The decrease in Therapy engineering and product development costs for the six months ended June 30, 2019 is due primarily to decreases in personnel and clinical trial costs that were higher in 2018.

*Marketing and Sales.* Marketing and sales expenses increased by $1.5 million or 37.2%, from $4.2 million in the six month period ended June 30, 2018 to $5.7 million in the six month period ended June 30, 2019. Detection marketing and sales expense increased by $1.6 million from $2.2 million in the six months ended June 30, 2018 to $3.8 million in the six months ended June 30, 2019. Therapy marketing and sales expense decreased by $0.1 million from $2.0 million in the six months ended June 30, 2018 to $1.9 million in the six months ended June 30, 2019. The increase in Detection marketing and sales expense is due primarily to an increase in personnel costs and commissions as the Company has invested in additional commercial resources to help drive sales of the new Detection products, The decrease in Therapy marketing and sales is due primarily to the timing of trade shows.

*General and Administrative.* General and administrative expenses decreased by $0.2 million or 7.4%, from $3.6 million in the six months ended June 30, 2018 as compared to approximately $3.4 million for the six months ended June 30, 2019. The decrease in General and administrative expenses is due primarily to a decrease in personnel costs.

*Amortization and Depreciation.* Amortization and depreciation is primarily related to acquired intangible assets and depreciation related to machinery and equipment. Amortization and depreciation decreased to approximately $138,000 for the six months ended June 30, 2019 from $160,000 for the six months ended June 30, 2018.

**Other Income and Expense: (in thousands)**

| | Three months ended June 30, | | | |
|---|---|---|---|---|
| | **2019** | **2018** | **Change** | **Change%** |
| Interest expense | $ (202) | $(113) | $ (89) | 78.8% |
| Interest income | 64 | 29 | 35 | 120.7% |
| Loss on fair value of debentures | (1,915) | — | (1,915) | 0.0% |
| | $(2,053) | $ (84) | $(1,969) | 2344.0% |
| Tax benefit (expense) | (19) | (4) | (15) | 375.0% |

| | Six months ended June 30, | | | |
|---|---|---|---|---|
| | **2019** | **2018** | **Change** | **Change%** |
| Interest expense | $ (411) | $(255) | $ (156) | 61.2% |
| Interest income | 123 | 51 | 72 | 141.2% |
| Loss on fair value of debentures | (4,440) | — | (4,440) | 0.0% |
| | $(4,728) | $(204) | $(4,524) | 2217.6% |
| Tax expense | $ (27) | $ (17) | $ (10) | 58.8% |

*Interest expense*. Interest expense of $202,000 increased by $89,000 for the three month period ended June 30, 2019 as compared to interest expense of $113,000 for the three month period ended June 30, 2018. The increase in interest expense is due to the interest expense associated with the convertible debentures issued in December 2018. Interest expense of $411,000 increased by $156,000 for the six month period ended June 30, 2019 as compared to interest expense of $255,000 for the six month period ended June 30, 2018. The increase in interest expense is due to the interest expense associated with the convertible debentures issued in December 2018.

*Interest income.* Interest income was $64,000 and $29,000, respectively, for the three month periods ended June 30, 2019 and 2018. Interest income was $123,000 and $51,000, respectively, for the six month periods ended June 30, 2019 and 2018.

*Loss on fair value of debentures.* The Company recorded a loss of $1.9 million in the quarter ended June 30, 2019, which reflects an increase in the fair value of the Convertible Debentures from approximately $9.5 million at March 31, 2019 to $11.4 million at June 30, 2019. The Company recorded a loss of $4.5 million in the six months ended June 30, 2019, which reflects an increase in the fair value of the Convertible Debentures from approximately $6.9 million at December 31, 2018 to $11.4 million at June 30, 2018. The Company expects changes in the fair value of the Convertible Debentures to change from quarter to quarter as changes in the stock price of the Company drive changes in the underlying fair value of the instruments.

*Tax expense.* The Company had tax expense of $19,000 for the three month period ended June 30, 2019 as compared to tax expense of $4,000 for the three month period ended June 30, 2018. The Company had tax expense of $27,000 for the six month period ended June 30, 2019 as compared to tax expense of $17,000 for the six month period ended June 30, 2018. 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, loan repayments, lease commitments, and other long-term obligations. The Company's ability to generate cash adequate to meet its future capital requirements will depend primarily on operating cash flow. If sales or cash collections are reduced from current expectations, or if expenses and cash requirements are increased, the Company may require additional financing, although there are no guarantees that the Company will be able to obtain the financing if necessary. The Company will continue to closely monitor its liquidity and the capital and credit markets.

As of June 30, 2019, the Company had current assets of $29.8 million including $19.6 million of cash and cash equivalents. Current liabilities are $14.9 million and working capital is $14.9 million. The ratio of current assets to current liabilities is 2:1.

In June 2019, in connection with the Fourth Loan Modification, the Company and the Bank agreed to covenant levels for minimum revenue and EBITDA covenants (the "Covenants") under the Loan Agreement for fiscal year 2019. The Company is in compliance with the Covenants for the quarter ended June 30, 2019.

| | For the six months ended June 30, | |
|---|---|---|
| | 2019 | 2018 |
| | (in thousands) | |
| Net cash used for operating activities | $ (2,404) | $ (1,463) |
| Net cash used for investing activities | (143) | (64) |
| Net cash provided by (used for) financing activities | 9,929 | (69) |
| Decrease in cash and equivalents | $ 7,382 | $ (1,596) |

Net cash used for operating activities for the six month period ended June 30, 2019 was $2.4 million, compared to net cash used for operating activities of $1.5 million for the six month period ended June 30, 2018. The cash used for operating activities for the six month period ended June 30, 2019 resulted primarily from our net loss offset by working capital changes resulting from increases in cash and cash equivalents, accounts receivable and inventory, offset by increases in accounts payable, accrued expenses and notes payable. 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, the timing of when we recognize revenue, collections of accounts and the timing of other payments.

Net cash used for investing activities for the six month period ended June 30, 2019 was $143,000 compared to $64,000 for the six month period ended June 30, 2018. The cash used for investing activities for the six month period ended June 30, 2019 was primarily for purchases of property and equipment.

Net cash provided by financing activities for the six month period ended June 30, 2019 was $9.9 million as compared to cash used for financing activities of $69,000 for the six month period ended June 30, 2018. Cash provided by financing activities for the six months ended June 30, 2019 is due primarily to cash from the issuance of common stock. In June 2019, the Company completed an underwritten public offering of approximately 1.9 million shares of common stock. The Company received net proceeds of approximately $9.4 million after deducting underwriting and other offering expenses. Cash used for financing activities for the six months ended June 30, 2018 is due primarily to taxes paid on the issuance of restricted stock to employees.

**Contractual Obligations**

In accordance with the transition disclosure requirements under ASC 840, the Company had the following commitments as of June 30, 2019:

| Contractual Obligations | Payments due by period | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | 1-3 years | 3-5 years | 5+ years |
| Operating Lease Obligations | $ 632 | $ 614 | $ 18 | $ — | $ — |
| Capital Lease Obligations | 21 | 18 | 3 | — | — |
| Settlement Obligations | 463 | 463 | — | — | — |
| Notes Payable—principal and interest | 6,038 | 2,630 | 3,408 | — | — |
| Convertible Debentures—principal and interest | 8,016 | 349 | 7,667 | — | — |
| Other Commitments | 2,248 | 2,058 | 82 | 34 | 74 |
| **Total Contractual Obligations** | **$ 17,418** | **$ 6,132** | **$11,178** | **$ 34** | **$ 74** |

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

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

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

Convertible debentures – principal and interest represents the payments due related to the 5.0% convertible notes due 2021 that were issued by the Company in December 2018.

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

**Recent Accounting Pronouncements**

See Note 13 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, 2019, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 ("Exchange Act") were effective at the reasonable level of assurance.

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

Our principal executive officer and principal financial officer conducted an evaluation of our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) and have determined there are no changes in our internal controls over financial reporting during the quarter ended June 30, 2019, that have materially affected or which are reasonably likely to materially affect internal control over financial reporting.

Beginning January 1, 2019, the Company implemented ASC 842, Leases. In relation to the adoption of this new standard, the Company implemented changes to our processes related to lessee and lessor accounting under the leasing guidance and the control activities within them. These included the development of new policies related to the identification of leases, including embedded leases, new training programs, ongoing lease contract review requirements, and the gathering of information necessary to provide for expanded disclosures.

## PART II OTHER INFORMATION

### Item 1. Legal Proceedings

Please refer to the detailed discussion regarding litigation set forth in Note 7 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. Factors that have affected, 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, 2018 as filed with the SEC on March 29, 2019, and are incorporated by reference herein.

### Item 5. Other Information

On August 11, 2019, we entered into a second amendment (the "Amendment") to our San Jose lease, dated June 29, 2019, with The Irvine Company LLC. Among other things, the Amendment extends the term of the lease from March 31, 2020 to March 31, 2023. The foregoing description is qualified in its entirety by reference to the full text of the Amendment, a copy of which is filed as Exhibit 10.1 to this Quarterly Report on Form 10-Q and incorporated herein by reference. The entry into the Amendment is being disclosed under this Part II, Item 5(a) of Form 10-Q in lieu of Item 1.01 of Form 8-K.

## Item 6. Exhibits

| Exhibit No. | Description |
|---|---|
| 10.1 | Second Amendment to Lease dated as of August 12, 2019, between The Irvine Company LLC and iCAD, Inc. |
| 31.1 | Certification of Principal 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 Principal 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, 2019 and December 31, 2018, (ii) Consolidated Statements of Operations for the three months ended June 30, 2019 and 2018, (iii) Consolidated Statements of Cash Flows for the three months ended June 30, 2019 and 2018, 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 13, 2019 | | By: | /s/ Michael Klein |
| | | Name: | Michael Klein |
| | | Title: | Chief Executive Officer |
| Date: August 13, 2019 | | By: | /s/ R. Scott Areglado |
| | | Name: | R. Scott Areglado |
| | | Title: | Chief Financial Officer |

**Exhibit 10.1**

# SECOND AMENDMENT TO LEASE

## I. PARTIES AND DATE.

This Second Amendment to Lease ("**Amendment**") dated August 12, 2019 is by and between **THE IRVINE COMPANY LLC**, a Delaware limited liability company ("**Landlord**"), and **ICAD, INC.**, a California corporation ("**Tenant**").

## II. RECITALS.

On June 29, 2012, Landlord and Tenant entered into a lease for space in a building located at 101-115 Nicholson Lane, Suite 100, San Jose, California ("**Premises**"), which lease was amended by a First Amendment to Lease dated September 19, 2016. The foregoing lease, as so amended, is hereinafter referred to as the "**Lease**".

Landlord and Tenant each desire to modify the Lease to extend the Lease Term, to adjust the Basic Rent, and to make such other modifications as are set forth in "III. MODIFICATIONS" next below.

## III. MODIFICATIONS.

A. Basic Lease Provisions. The Basic Lease Provisions are hereby amended as follows:

1. Item 5 is hereby deleted in its entirety and substituted therefor shall be the following:

"5. Lease Term: The Term of this Lease shall expire on March 31, 2023."

2. Item 6 is hereby amended by adding the following:

| Months of Term or Period | Monthly Rate Per Rentable Square Foot | Monthly Basic Rent (rounded to the nearest dollar) |
|---|---|---|
| 4/1/20 to 3/31/21 | $2.15 | $52,355.00 |
| 4/1/21 to 3/31/22 | $2.21 | $53,816.00 |
| 4/1/22 to 3/31/23 | $2.28 | $55,520.00 |

B. Brokers. Article 18 of the Lease is amended to provide that the parties recognize the following parties as the brokers who negotiated this Amendment, and agree that Landlord shall be responsible for payment of brokerage commissions to such brokers pursuant to its separate agreements with such brokers: Irvine Management Company ("**Landlord's Broker**") is the agent of Landlord exclusively and Newmark Cornish & Carey / Palo Alto ("**Tenant's Broker**") is the agent of Tenant exclusively. By the execution of this Amendment, each of Landlord and Tenant hereby acknowledge and confirm (a) receipt of a copy of a Disclosure Regarding Real Estate Agency Relationship conforming to the requirements of California Civil Code 2079.16, and (b) the agency relationships specified herein, which acknowledgement and confirmation is expressly made for the benefit of Tenant's Broker. If there is no Tenant's Broker so identified herein, then such acknowledgement and confirmation is expressly made for the benefit of Landlord's Broker. By the execution of this Amendment, Landlord and Tenant are executing the confirmation of the agency relationships set forth herein. The warranty and indemnity provisions of Article 18 of the Lease, as amended hereby, shall be binding and enforceable in connection with the negotiation of this Amendment.

C. Acceptance of Premises. Tenant acknowledges that the lease of the Premises pursuant to this Amendment shall be on an "as-is" basis without further obligation on Landlord's part as to improvements whatsoever.

D. Tenant Improvements. Landlord shall cause its contractor, or, at Tenant's option, shall permit Tenant to cause its contractor, to make such improvements to the Premises as may be specified by Tenant and approved by Landlord ("**Tenant Improvements**") with such Landlord approval not to be unreasonably withheld, delayed or conditioned. All such improvements shall be set forth at one time by Tenant as part of a single plan, it being understood that Landlord shall not be required to undertake multiple jobs. All materials and finishes utilized in completing the Tenant Improvements shall be Landlord's building standard. Should Landlord submit any matter to Tenant for approval, Tenant shall approve or reasonably disapprove same (with reasons specified) within 3 business days.

Landlord's total contribution for the Tenant Improvements shall not exceed $97,404.00 ("**Landlord Contribution**"). It is understood that Landlord shall be entitled to a supervision/administrative fee equal to 5% of the total hard and soft construction cost, which fee shall be paid from the Landlord Contribution. Any excess cost shall be borne solely by Tenant and, if Landlord's contractor performs the Tenant Improvements, shall be paid to Landlord within 10 days following Landlord's billing for such excess cost. If Tenant's contractor performs the Tenant Improvements, within 30 days after the completion of the Tenant Improvements and Landlord's receipt of copies of all supporting third-party invoices and other reasonable documentation of the costs, together with lien releases satisfactory to Landlord, Landlord will pay Tenant reimburse Tenant an amount equal to the lesser of (a) the cost of such Tenant Improvements and (b) the Landlord Contribution.

Tenant understands and agrees that any portion of the Landlord Contribution not utilized by Tenant as part of the single improvement project on or before June 30, 2021, shall inure to the benefit of Landlord and Tenant shall not be entitled to any credit or payment or to apply any such savings toward additional work; provided, however, if there is any unused Landlord Contribution as of June 30, 2021, and provided that the cost of any Tenant Improvements undertaken have been paid in full, Landlord shall apply up to $48,702.00 of the unused Landlord Contribution against the installments of Basic Rent next coming due under this Lease.

It is understood that the Tenant Improvements shall be done during Tenant's occupancy of the Premises. In this regard, Tenant agrees to assume any risk of injury, loss or damage which may result and that no rental abatement shall result while the Tenant Improvements are completed in the Premises. Tenant further agrees that it shall be solely responsible for relocating its office equipment, furniture and furnishings in the Premises to accommodate such improvement work.

E. Right to Extend this Lease. The provisions of Section 1 of **Exhibit G** to the Lease, entitled "Right to Extend this Lease," shall remain in effect during the Term as extended by this Amendment.

**IV. GENERAL.**

A. Effect of Amendment. The Lease shall remain in full force and effect and unmodified except to the extent that it is modified by this Amendment.

B. Entire Agreement. This Amendment embodies the entire understanding between Landlord and Tenant with respect to the modifications set forth in "III. MODIFICATIONS" above and can be changed only by a writing signed by Landlord and Tenant.

C. Defined Terms. All words commencing with initial capital letters in this Amendment and defined in the Lease shall have the same meaning in this Amendment as in the Lease, unless they are otherwise defined in this Amendment.

D. Corporate and Partnership Authority. If Tenant is a corporation or partnership, or is comprised of either or both of them, each individual executing this Amendment for the corporation or partnership represents that he or she is duly authorized to execute and deliver this Amendment on behalf of the corporation or partnership and that this Amendment is binding upon the corporation or partnership in accordance with its terms.

E. Counterparts; Digital Signatures. If this Amendment is executed in counterparts, each is hereby declared to be an original; all, however, shall constitute but one and the same amendment. In any action or proceeding, any photographic, photostatic, or other copy of this Amendment may be introduced into evidence without foundation. The parties agree to accept a digital image (including but not limited to an image in the form of a PDF, JPEG, GIF file, or other e-signature) of this Amendment, if applicable, reflecting the execution of one or both of the parties, as a true and correct original.

F. California Certified Access Specialist Inspection. Pursuant to California Civil Code § 1938, Landlord hereby states that the Premises have not undergone inspection by a Certified Access Specialist (CASp) (defined in California Civil Code § 55.52(a)(3)). Pursuant to Section 1938 of the California Civil Code, Landlord hereby provides the following notification to Tenant: "A Certified Access Specialist (CASp) can inspect the subject premises and determine whether the subject premises comply with all of the applicable construction-related accessibility standards under state law. Although state law does not require a CASp inspection of the subject premises, the commercial property owner or lessor may not prohibit the lessee or tenant from obtaining a CASp inspection of the subject premises for the occupancy or potential occupancy of the lessee or tenant, if requested by the lessee or tenant. The parties shall mutually agree on the arrangements for the time and manner of the CASp inspection, the payment of the fee for the CASp inspection, and the cost of making any repairs necessary to correct violations of construction related accessibility standards within the premises." If Tenant requests to perform a CASp inspection of the Premises, Tenant shall, at its cost, retain a CASp approved by Landlord (provided that Landlord may designate the CASp, at Landlord's option) to perform the inspection of the Premises at a time agreed upon by the parties. If Tenant requests to perform a CASp inspection of the Premises, Tenant shall provide Landlord with a copy of any report or certificate issued by the CASp (the "**CASp Report**"). Tenant agrees to keep the information in the CASp Report confidential except as necessary to complete such modifications.

**V. EXECUTION.**

Landlord and Tenant executed this Amendment on the date as set forth in "I. PARTIES AND DATE." above.

**LANDLORD:**

| | |
|---|---|
| **THE IRVINE COMPANY LLC,**<br>a Delaware limited liability company | **ICAD, INC.,**<br>a California corporation |
| By /s/ Steven M. Case<br>Steven M. Case<br>Executive Vice President | By /s/ Scott Areglado<br>Printed Name Scott Areglado<br>Title CFO |
| By /s/ George I. Meyer<br>George I. Meyer<br>Vice President, Operations | By /s/ Stacey Stevens<br>Printed Name Stacey Stevens<br>Title President |

**EXHIBIT 31.1**

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER**

I, Michael Klein, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2019 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 13, 2019

/s/ Michael Klein
Name: Michael Klein
Title: Chief Executive Officer

**EXHIBIT 31.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

I, R. Scott Areglado, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2019 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 13, 2019

/s/ R. Scott Areglado
Name: R. Scott Areglado
Title: Chief Financial Officer

**EXHIBIT 32.1**

**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, 2019 (the “Report”), I, Michael Klein, as Principal 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/ Michael Klein
Name: Michael Klein
Title: Chief Executive Officer

Date: August 13, 2019

**EXHIBIT 32.2**

**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, 2019 (the "Report"), R. Scott Areglado, the 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/ R. Scott Areglado

Name: R. Scott Areglado
Title: Chief Financial Officer

Date: August 13, 2019