

ICAD INC
Form 10-Q
November 14, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from _____ to _____

Commission file number 001-09341

iCAD, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	02-0377419 (I.R.S. Employer Identification No.)
98 Spit Brook Road, Suite 100, Nashua, NH (Address of principal executive offices) (603) 882-5200	03062 (Zip Code)
(Registrant's telephone number, including area code)	
Not Applicable	
(Former name, former address and former fiscal year, if changed since last report)	

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

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

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

Large Accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

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

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iCAD, Inc.

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

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

Commitments and Contingencies (Note 5, 6 and 8)

Stockholders' equity:

Preferred stock, \$.01 par value: authorized 1,000,000 shares; none issued.

Common stock, \$.01 par value: authorized 30,000,000 shares; issued

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

and 16,525,681 in 2017

	169	167
Additional paid-in capital	218,444	217,389
Accumulated deficit	(207,430)	(201,865)
Treasury stock at cost, 185,831 shares in 2018 and 2017	(1,415)	(1,415)

Total stockholders' equity	9,768	14,276
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Total liabilities and stockholders' equity	\$ 26,651	\$ 32,131
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See accompanying notes to condensed consolidated financial statements.

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

(Unaudited)

(In thousands except for per share data)

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

Diluted	\$	(0.08)	\$	(0.42)	\$	(0.34)	\$	(0.62)
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Weighted average number of shares used in
computing loss per share:

Basic	16,700	16,424	16,652	16,291
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Diluted	16,700	16,424	16,652	16,291
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See accompanying notes to consolidated financial statements.

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

(unaudited)

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

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

See accompanying notes to consolidated financial statements.

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iCAD, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2018

Note 1 - Basis of Presentation and Significant Accounting Policies

The accompanying condensed consolidated financial statements of iCAD, Inc. and subsidiaries ("iCAD" or the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). In the opinion of management, these unaudited interim condensed consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the financial position of the Company at September 30, 2018, the results of operations of the Company for the three and nine month periods ended September 30, 2018 and 2017, and cash flows of the Company for the nine month periods ended September 30, 2018 and 2017.

Although the Company believes that the disclosures in these financial statements are adequate to make the information presented not misleading, certain information normally included in the footnotes prepared in accordance with US GAAP has been omitted as permitted by the rules and regulations of the Securities and Exchange Commission ("SEC"). The accompanying financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017 filed with the SEC on March 30, 2018. The results for the three and nine month periods ended September 30, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2018, or any future period.

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

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iCAD, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2018

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

Segments

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

Revenue Recognition

Adoption of ASC Topic 606, Revenue from Contracts with Customers

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

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

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

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

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

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

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

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

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

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

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

Tax benefit (expense)	(26)	(26)		(43)	(43)	
Net loss	(1,365)	(1,450)	(85)	(5,673)	(6,026)	(353)
<i>Revenue Recognition</i>						

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

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

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iCAD, INC. AND SUBSIDIARIES

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(Unaudited)

September 30, 2018

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

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

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

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iCAD, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

September 30, 2018

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Significant Judgments

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

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

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

Contract Balances

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

Contract balances

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Practical Expedients and Exemptions

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

Right to Invoice

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

Sales and Other Similar Taxes

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

Significant Financing Component

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

Cost to Obtain a Contract

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

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

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

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

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

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

Note 2 - Loss per Common Share

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net loss	\$ (1,365)	\$ (6,933)	\$ (5,673)	\$ (10,021)
Shares used in the calculation of basic and diluted net loss per share	16,700	16,424	16,652	16,291
Effect of dilutive securities:				
Stock options				
Restricted stock				
Diluted shares used in the calculation of net loss per share	16,700	16,424	16,652	16,291
Net loss per share basic and diluted	\$ (0.08)	\$ (0.42)	\$ (0.34)	\$ (0.62)

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

	Period Ended September 30,	
	2018	2017
Stock options	1,462,439	1,426,513
Restricted stock	502,868	507,147
Stock options and restricted stock	1,965,307	1,933,660

Table of Contents**iCAD, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements****(Unaudited)****September 30, 2018****Note 3 Sale of MRI Assets**

In December 2016, the Company entered into an Asset Purchase Agreement with Invivo Corporation. In accordance with the agreement, the Company sold to Invivo all right, title and interest to certain intellectual property relating to the Company's VersaVue Software and DynaCAD product and related assets for \$3.2 million. The Company closed the transaction on January 30, 2017 less a holdback reserve of \$350,000 for a net of approximately \$2.9 million. The holdback reserve of \$350,000 has been recorded as an asset in prepaid and other current assets and will be paid to the Company within eighteen months from the closing date, less any amounts, if any, due and payable or reserved under the indemnification provisions in the Asset Purchase agreement. A third party has made a claim against Invivo and the Company, for which the Company is required to indemnify Invivo. The Company is disputing such third party claim and the amount of the claim the Company may be required to pay is not determinable at this time. Any amounts owed by the Company in connection with such indemnification obligations will reduce the \$350,000 holdback.

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

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

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

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In connection with the sale the Company agreed to provide certain transition services to Invivo. The fair value of the transition services were determined based on the cost to provide plus a reasonable profit margin and have been recognized as revenue over the term of approximately ninety days from the closing date. The Company recorded a gain of \$2.5 million as of January 30, 2017. The components of the gain on the sale are as follows (in thousands):

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

Note 4 Inventory

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

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

Note 5 Debt financing

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

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

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

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

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

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

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

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

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

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

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

The current repayment schedule for the Term Loan is based on repayment beginning on March 1, 2019, as the Company met the EBITDA minimum as of September 30, 2018. The carrying value of the Term Loan (net of debt issuance costs) as of September 30, 2018 and December 31, 2017 is as follows (in thousands):

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

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

Fiscal Year**Amount Due**

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

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

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2018	2017	2018	2017
Cash interest expense	\$ 78	\$ 36	\$ 219	\$ 36
Final Payment accrual	31		129	
Amortization of debt costs	8		22	
Amortization of settlement obligations				26
Interest expense capital lease	1		3	