
**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, 2013

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 1-9341

iCAD, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

03062
(Zip Code)

(603) 882-5200
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large Accelerated filer

Accelerated filer

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

Smaller reporting company

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

As of the close of business on August 6, 2013 there were 10,850,244 shares outstanding of the registrant's Common Stock, \$.01 par value.

iCAD, Inc.

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iCAD, INC. AND SUBSIDIARY

Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands except for share data)

	<u>June 30,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 12,912	\$ 13,948
Trade accounts receivable, net of allowance for doubtful accounts of \$73 in 2013 and \$48 in 2012	6,099	4,980
Inventory, net	1,941	2,119
Prepaid expenses and other current assets	467	486
Total current assets	<u>21,419</u>	<u>21,533</u>
Property and equipment, net of accumulated depreciation and amortization of \$3,947 in 2013 and \$3,627 in 2012	1,343	1,483
Other assets	531	638
Intangible assets, net of accumulated amortization of \$11,604 in 2013 and \$10,744 in 2012	14,388	15,230
Goodwill	21,109	21,109
Total assets	<u>\$ 58,790</u>	<u>\$ 59,993</u>
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities:		
Accounts payable	\$ 2,480	\$ 1,940
Accrued and other expenses	2,829	4,142
Interest payable	543	499
Warrant liability	1,678	1,538
Deferred revenue	7,433	6,520
Total current liabilities	<u>14,963</u>	<u>14,639</u>
Deferred revenue, long-term portion	1,775	1,502
Other long-term liabilities	1,248	1,341
Notes payable	15,169	14,846
Total liabilities	<u>33,155</u>	<u>32,328</u>
Commitments and Contingencies (see Note 5)		
Stockholders' equity:		
Preferred stock, \$.01 par value: authorized 1,000,000 shares; none issued	—	—
Common stock, \$.01 par value: authorized 85,000,000 shares; issued 11,022,742 in 2013 and 10,993,933 in 2012; outstanding 10,836,911 in 2013 and 10,808,102 in 2012	110	110
Additional paid-in capital	165,995	165,416
Accumulated deficit	(139,055)	(136,446)
Treasury stock at cost, 185,831 shares in 2013 and 2012	(1,415)	(1,415)
Total stockholders' equity	<u>25,635</u>	<u>27,665</u>
Total liabilities and stockholders' equity	<u>\$ 58,790</u>	<u>\$ 59,993</u>

See accompanying notes to condensed consolidated financial statements.

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

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenue:				
Products	\$ 4,504	\$ 3,536	\$ 9,564	\$ 7,587
Service and supplies	3,208	2,395	6,078	4,687
Total revenue	<u>7,712</u>	<u>5,931</u>	<u>15,642</u>	<u>12,274</u>
Cost of revenue:				
Products	1,446	969	2,801	2,076
Service and supplies	810	560	1,504	1,137
Amortization of acquired intangibles	234	233	467	465
Total cost of revenue	<u>2,490</u>	<u>1,762</u>	<u>4,772</u>	<u>3,678</u>
Gross profit	<u>5,222</u>	<u>4,169</u>	<u>10,870</u>	<u>8,596</u>
Operating expenses:				
Engineering and product development	1,756	1,975	3,622	4,187
Marketing and sales	2,337	2,488	4,775	5,134
General and administrative	1,602	1,603	3,274	3,198
Total operating expenses	<u>5,695</u>	<u>6,066</u>	<u>11,671</u>	<u>12,519</u>
Loss from operations	(473)	(1,897)	(801)	(3,923)
(Loss) gain from change in fair value of warrant	(571)	(213)	(140)	386
Interest expense	(834)	(831)	(1,660)	(1,666)
Other income	6	9	12	18
Other expense, net	(1,399)	(1,035)	(1,788)	(1,262)
Loss before income tax expense	(1,872)	(2,932)	(2,589)	(5,185)
Income tax expense	(10)	(11)	(20)	(22)
Net loss and comprehensive loss	<u>\$ (1,882)</u>	<u>\$ (2,943)</u>	<u>\$ (2,609)</u>	<u>\$ (5,207)</u>
Net loss per share:				
Basic and diluted	<u>\$ (0.17)</u>	<u>\$ (0.27)</u>	<u>\$ (0.24)</u>	<u>\$ (0.48)</u>
Weighted average number of shares used in computing loss per share:				
Basic and diluted	<u>10,836</u>	<u>10,794</u>	<u>10,828</u>	<u>10,785</u>

See accompanying notes to consolidated financial statements.

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

	For the six months ended June 30,	
	2013	2012
	(in thousands)	
Cash flow from operating activities:		
Net loss	\$ (2,609)	\$ (5,207)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation	365	466
Amortization	860	1,046
Bad debt provision	35	—
Gain (loss) from change in fair value of warrant	140	(386)
Loss on disposal of assets	49	67
Stock-based compensation expense	601	448
Amortization of debt discount and debt costs	412	498
Interest on settlement obligations	152	216
Changes in operating assets and liabilities:		
Accounts receivable	(1,154)	669
Inventory	178	80
Prepaid and other current assets	37	1
Accounts payable	541	268
Accrued expenses	(1,513)	(2,291)
Deferred revenue	1,185	(223)
Total adjustments	1,888	859
Net cash used for operating activities	(721)	(4,348)
Cash flow from investing activities:		
Additions to patents, technology and other	(19)	(3)
Additions to property and equipment	(274)	(275)
Net cash used for investing activities	(293)	(278)
Cash flow from financing activities:		
Issuance of common stock for cash	3	—
Taxes paid related to restricted stock issuance	(25)	(13)
Proceeds from debt financing, net	—	14,325
Net cash (used for) provided by financing activities	(22)	14,312
Increase (decrease) in cash and equivalents	(1,036)	9,686
Cash and equivalents, beginning of period	13,948	4,576
Cash and equivalents, end of period	\$ 12,912	\$ 14,262
Supplemental disclosure of cash flow information:		
Interest paid	\$ 1,052	\$ 485
Taxes paid	\$ 33	\$ 17

See accompanying notes to consolidated financial statements.

iCAD, INC. AND SUBSIDIARY.
Notes to Condensed Consolidated Financial Statements
(Unaudited)
June 30, 2013

Note 1 - Basis of Presentation and Significant Accounting Policies

The accompanying condensed consolidated financial statements of iCAD, Inc. and subsidiary (“iCAD” or the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). In the opinion of management, these unaudited interim consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the financial position at June 30, 2013, the results of operations for the three and six month period ended June 30, 2013 and 2012, respectively, and cash flows for the three and six month period ended June 30, 2013 and 2012, respectively. Although the Company believes that the disclosures in these financial statements are adequate to make the information presented not misleading, certain information normally included in the footnotes prepared in accordance with US GAAP has been omitted as permitted by the rules and regulations of the Securities and Exchange Commission (“SEC”). The accompanying financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company’s Annual Report on Form 10–K for the fiscal year ended December 31, 2012 filed with the SEC on February 27, 2013. The results for the three and six month periods ended June 30, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2013, or any future period.

Revenue Recognition

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

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

iCAD, INC. AND SUBSIDIARY.
Notes to Condensed Consolidated Financial Statements
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June 30, 2013

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

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

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

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

Sales of the Company's eBx product typically include a controller, accessories, and service and source agreements. The Company allocates revenue to the deliverables in the arrangement based on the BESP in accordance with ASU 2009-13. Product revenue is generally recognized when the product has been delivered and service and source revenue is typically recognized over the life of the service and source agreement.

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

iCAD, INC. AND SUBSIDIARY.
Notes to Condensed Consolidated Financial Statements
(Unaudited)
June 30, 2013

Cost of Revenue

Cost of revenue consists of the costs of products purchased for resale, cost relating to service including costs of service contracts to maintain equipment after the warranty period, product installation, training, customer support, certain warranty repair costs, inbound freight and duty, manufacturing, warehousing, material movement, inspection, scrap, rework, depreciation and in-house product warranty repairs. In the three and six months ended June 30, 2013, the Company included in cost of revenue, approximately \$134,000 and \$271,000, respectively of expense related to the newly enacted Medical Device Excise tax.

Segments

The Company now 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, and the Therapy segment consists of our radiation therapy (“Axxent”) products.

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 and, if there are dilutive securities, diluted loss per share is computed by including common stock equivalents which includes shares issuable upon the exercise of stock options, net of shares assumed to have been purchased with the proceeds, using the treasury stock method.

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,	
	2013	2012	2013	2012
Net loss	<u><u>\$ (1,882)</u></u>	<u><u>\$ (2,943)</u></u>	<u><u>\$ (2,609)</u></u>	<u><u>\$ (5,207)</u></u>
Basic shares used in the calculation of net loss per share	10,836	10,794	10,828	10,785
Effect of dilutive securities:				
Stock options	—	—	—	—
Restricted stock	—	—	—	—
Diluted shares used in the calculation of net loss per share	<u><u>10,836</u></u>	<u><u>10,794</u></u>	<u><u>10,828</u></u>	<u><u>10,785</u></u>
Net loss per share - basic	<u><u>\$ (0.17)</u></u>	<u><u>\$ (0.27)</u></u>	<u><u>\$ (0.24)</u></u>	<u><u>\$ (0.48)</u></u>
Net loss per share - diluted	<u><u>\$ (0.17)</u></u>	<u><u>\$ (0.27)</u></u>	<u><u>\$ (0.24)</u></u>	<u><u>\$ (0.48)</u></u>

iCAD, INC. AND SUBSIDIARY.
Notes to Condensed Consolidated Financial Statements
(Unaudited)
June 30, 2013

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

	Period Ended June 30,	
	2013	2012
Stock Options	1,410,127	1,097,004
Warrants	550,000	550,000
Restricted Stock	220,250	81,297
Stock options, warrants and restricted stock	2,180,377	1,728,301

Note 3 – Long Term Debt

On December 29, 2011, the Company entered into several agreements with entities affiliated with Deerfield Management, a healthcare investment fund ("Deerfield"), pursuant to which Deerfield agreed to provide \$15 million in funding to the Company. Pursuant to the terms of a Facility Agreement, dated as of December 29, 2011 (the "Facility Agreement"), on January 6, 2012 (the "Funding Date"), the Company issued to Deerfield promissory notes in the aggregate principal amount of \$15 million (the "Note"). Under a Revenue Purchase Agreement, dated as of December 29, 2011 (the "Revenue Purchase Agreement"), the Company agreed to pay Deerfield a portion of the Company's revenues until the maturity date of the Note, whether or not the Note is outstanding through that date. On the Funding Date, the Company issued to Deerfield (i) six-year warrants to purchase up to 450,000 shares of common stock at an exercise price of \$3.50 per share (the "Warrants") and (ii) a second Warrant (the "B Warrant") to purchase an additional 100,000 shares of common stock at an exercise price of \$3.50 per share, which may become exercisable if certain conditions are met, as described in the Warrants. Collectively, these transactions are referred to as the "Transactions." On the Funding Date, the Company received net proceeds of \$14,325,000 from the Transactions, representing \$15,000,000 of gross proceeds, less a \$225,000 facility fee and a \$450,000 finder's fee before deducting other expenses of the Transactions.

The Facility Agreement has been accounted for as debt pursuant to ASC 470, *Debt* ("ASC 470"). The Facility Agreement had an original issue discount of approximately \$4.1 million and an additional value allocated to the warrants of approximately \$1.0 million. The discount is being accreted to the \$15.0 million face value of the Note using the effective interest method with an effective interest rate of 17.35% based on the discount of approximately \$5.1 million.

The original issue discount of approximately \$4.1 million was assigned to the Revenue Purchase Agreement. Under this agreement, the Company is obligated to pay 4.25% of annual revenues up to \$25 million, 2.75% of annual revenues from \$25 million to \$50 million during 2013 and 2014, and 2.25% of annual revenues during 2015, 2016 and if the Facility Agreement is extended, in 2017, and 1.0% of annual revenues in excess of \$50 million. The \$4.1 million discount assigned to the Revenue Purchase Agreement was capitalized as debt in accordance with ASC 470-10-25, "*Sales of Future Revenues or Various Other Measures of Income*". The Company has estimated the cash flows

iCAD, INC. AND SUBSIDIARY.
Notes to Condensed Consolidated Financial Statements
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June 30, 2013

associated with the Revenue Purchase Agreement and is amortizing the discount to interest expense over the expected term of the arrangement at an effective amortization rate of approximately 23.6%.

The overall effective interest rate of the financing arrangement, excluding changes in the fair value of the warrants, is currently estimated to be approximately 19%.

The Warrants have been classified as debt in accordance with ASC 480 “*Distinguishing Liabilities from Equity*”, as the Warrants contain a feature whereby the Company could be required to redeem the Warrants for cash upon the occurrence of a major transaction, as defined in the Warrants. The value of the Warrants was determined using a binomial lattice model. The Warrant is being valued at fair value at each reporting period with changes in fair value recorded in the consolidated statement of operations (see Note 6).

The Company determined that the B Warrant did not have any value as of the Funding Date, as the B Warrant is exercisable upon the Company’s election to extend the Facility Agreement. The Company does not plan to extend the Facility Agreement at this time. If the Company determines it will extend the Facility Agreement, the value of the “B Warrant” will be determined using the binomial lattice model at such time.

The following amounts are included in the consolidated balance sheet as of June 30, 2013 related to the Facility Agreement and Revenue Purchase Agreement:

Principal Amount of Facility Agreement	\$15,000
Unamortized discount	<u>(3,679)</u>
Carrying amount of Facility Agreement	<u>11,321</u>
Revenue Purchase Agreement	<u>3,848</u>
Notes payable total	<u><u>\$15,169</u></u>

iCAD, INC. AND SUBSIDIARY.
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(Unaudited)
June 30, 2013

The following amounts comprise interest expense included in our consolidated statement of operations for the three and six months ended June 30, 2013 and 2012:

	Three months ended June 30	
	2013	2012
Cash interest expense	\$ 543	\$ 467
Non-cash amortization of debt discount	169	218
Amortization of debt costs	45	42
Amortization of settlement obligations	77	104
Total interest expense	<u>\$ 834</u>	<u>\$ 831</u>

	Six months ended June 30	
	2013	2012
Cash interest expense	\$ 1,096	\$ 952
Non-cash amortization of debt discount	323	416
Amortization of debt costs	89	82
Amortization of settlement obligations	152	216
Total interest expense	<u>\$ 1,660</u>	<u>\$ 1,666</u>

Cash interest expense represents the amount of interest expected to be paid in cash under the Facility agreement and the Revenue Purchase Agreement, which represents the interest of 5.75% on the Facility Agreement and the expected cash payments on the Revenue Purchase Agreement for the period. Non-cash amortization is the amortization of the discount on the Facility Agreement. The amortization of debt costs represents the costs incurred with the financing, which is primarily the facility fee and the finder's fee which has been capitalized and, is expensed using the effective interest method. The amortization of the settlement obligations represent the interest associated with the settlement agreements for both Carl Zeiss Meditec AG and Hologic, Inc.

Note 4 - Stock-Based Compensation

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

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 (prior period amounts have been adjusted for the reverse split):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Average risk-free interest rate	0.39%	0.83%	0.45%	1.41%
Expected dividend yield	None	None	None	None
Expected life	3.5 years	3.5 years	3.5 years	3.5 years
Expected volatility	57.7% to 58.4%	67.4% to 67.8%	57.7% to 68.9%	67.4% to 68.8%
Weighted average exercise price	\$5.08	\$2.35	\$5.14	\$2.80
Weighted average fair value	\$2.12	\$1.15	\$2.25	\$1.40

iCAD, INC. AND SUBSIDIARY.
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June 30, 2013

As of June 30, 2013 unrecognized compensation cost related to unexercisable options and unvested restricted stock and the weighted average remaining period is as follows:

Remaining expense	1,836,261
Weighted average term	1.12 years

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

<u>Aggregate intrinsic value</u>	<u>Period Ended</u> <u>June 30,</u>	
	<u>2013</u>	<u>2012</u>
Stock options	\$2,968,000	\$ 500
Restricted stock	1,321,500	187,000

Note 5 - 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, 2013.

Settlement Obligations

In connection with the acquisition of Xoft, the Company recorded a royalty obligation pursuant to a settlement agreement entered into between Xoft and Hologic in August 2007. Xoft received a nonexclusive, irrevocable, perpetual, worldwide license, including the right to sublicense certain Hologic patents, and a non-compete covenant as well as an agreement not to seek further damages with respect to the alleged patent violations. In return, the Company has a remaining obligation to pay a minimum annual royalty payment to Hologic, of \$250,000 payable through 2016. In addition to the minimum annual royalty payments, the litigation settlement agreement with Hologic also provided for payment of royalties based upon a specified percentage of future net sales on any products that practice the licensed rights. The estimated fair value of the patent license and non-compete covenant is \$100,000 and is being amortized over the estimated remaining useful life of approximately six years. In addition, a liability has been recorded within accrued expenses

iCAD, INC. AND SUBSIDIARY.
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June 30, 2013

and long-term settlement cost for future payment and for future minimum royalty obligations totaling \$756,000. The Company recorded interest expense of approximately \$31,000 and \$62,000 in the three and six months ended June 30, 2013, and \$37,000 and \$72,000 in the three and six months ended June 30, 2012, respectively, related to this obligation.

On December 22, 2011, the Company agreed to a settlement related to the litigation with Carl Zeiss Meditec AG. The Company determined that this settlement should be recorded as a measurement period adjustment and accordingly recorded the present value of the litigation to the opening balance sheet of Xoft. The present value of the liability was estimated at approximately \$1.8 million as of December 31, 2011. The Company is obligated to pay \$0.5 million in June 2015 and \$0.5 million in June 2017, for a total of \$1.0 million. As of June 30, 2013, the remaining liability recorded within accrued expenses and long-term settlement cost for future payment and for future minimum royalty obligations is \$0.6 million. The Company recorded interest expense of approximately \$45,000 and \$90,000 in the three and six months ended June 30, 2013, and \$67,000 and \$144,000 in the three and six months ended June 30, 2012, respectively related to this obligation.

Litigation

On February 18, 2011, in the Orange County Superior Court (Docket No. 30-2011-00451816-CU-PL-CXC), named plaintiffs Jane Doe and John Doe filed a complaint against Xoft, the Company, and Hoag Memorial Hospital Presbyterian asserting causes of action for general negligence, breach of warranty, and strict liability and seeking unlimited damages in excess of \$25,000. On March 2, 2011, the Company received a Statement of Damages – specifying that the damages being sought aggregated an amount of at least approximately \$14.5 million. On April 6, 2011, plaintiffs Jane Doe and John Doe amended their complaint alleging only medical malpractice against Hoag Memorial Hospital Presbyterian. On April 8, 2011, another complaint was filed in the Orange County Superior Court (Docket No. 30-2011-00465448-CU-MM-CXC) on behalf of four additional Jane Doe plaintiffs and two John Doe spouses with identical allegations against the same defendants. One John Doe spouse from this group of plaintiffs was later dismissed on August 18, 2011. On April 19, 2011, a sixth Jane Doe plaintiff filed an identical complaint in the Orange County Superior Court (Docket No. 30-2011-00468687-CU-MM-CXC), and on May 4, 2011, a seventh Jane Doe plaintiff and John Doe spouse filed another complaint in the Orange County Superior Court (Docket No. 30-2011-00473120-CU-PO-CXC), again with identical allegations against the same defendants. On July 12, 2011, an eighth Jane Doe plaintiff and John Doe spouse filed a complaint in the Orange County Superior Court (Docket No. 30-2011-00491068-CU-PL-CXC), and on July 14, 2011, a ninth Jane Doe plaintiff and John Doe spouse filed another complaint in the Orange County Superior Court (Docket No. 30-2011-00491497-CU-PL-CXC), each with identical allegations as the previously filed complaints. On August 18, 2011, these two groups of Jane Doe plaintiffs and John Doe spouses amended their complaints to correct certain deficiencies. Additionally on August 18, 2011, a tenth Jane Doe plaintiff and two additional John Doe spouses filed a complaint in the Orange County Superior Court (Docket No. 30-2011-501448-CU-PL-CXC), again with identical allegations against the same defendants. On January 18, 2012, three additional Jane Doe plaintiffs and one additional John Doe spouse filed a complaint in the Orange County Superior Court (Docket No. 30-2012-00538423-CU-PL-CXC) with identical allegations against the same defendants. On April 11, 2012, the above-referenced cases were consolidated for all purposes, excluding trial. On May 2, 2012, plaintiffs filed a master consolidated complaint, with the same case number as the original filed complaint. On August 2, 2012, plaintiffs filed fictitious name amendments adding defendants, Mel Silverstein, M.D., Peter Chen, M.D., Lisa Guerrero, M.D., Ralph Mackintosh, Ph.D., Robert Dillman, M.D., and Jack Cox. On September 14, 2012, an additional Jane Doe plaintiff and John Doe spouse filed a complaint in the Orange County Superior Court (Docket No. 30-2012-00598740-CU-PL-CXC) with identical allegations as plaintiffs above against the same original defendants. On October 17, 2012, plaintiff John Doe No. 11 dismissed his complaint, with prejudice, as to all defendants. On November 26, 2012, plaintiffs filed an additional fictitious name amendment adding defendant, American Ceramic Technology, Inc. On January 15, 2013, plaintiffs filed a dismissal, with prejudice, as to defendant, Mel Silverstein, M.D., only. On May 28, 2013, plaintiffs filed an additional fictitious name amendment adding defendant, American Ceramic Technology. On July 11, 2013, American Ceramic Technology filed a cross-complaint for express and implied indemnity, apportionment, contribution and declaratory relief against all defendants. It is alleged that each Jane Doe plaintiff was a patient who was treated with the Axxent Electronic Brachytherapy System that incorporated the Axxent Flexishield Mini. The Company believes that all of the Jane Doe plaintiffs were part of the group of 29 patients treated using the Axxent Flexishield Mini as part of a clinical trial. The Axxent Flexishield Mini was the subject of a voluntary recall. These claims are still in the early stages. Based upon our preliminary analysis, the Company plans to vigorously defend the lawsuits however a loss is reasonably possible. Since the amount of the potential damages in the event of an adverse result is not reasonably estimable, we are unable to estimate a range of loss and no expense has been recorded with respect to the contingent liability associated with this matter.

Note 6 - 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.

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Our financial instruments include cash and cash equivalents, accounts receivable, accounts payable and certain accrued liabilities and our notes payable. The carrying amounts of our cash and cash equivalents (which are comprised primarily of deposit and overnight sweep accounts), accounts receivable, accounts payable and certain accrued liabilities approximate fair value due to the short maturity of these instruments. The carrying value of our notes payable approximates fair value.

The Company's assets that are measured at fair value on a recurring basis relate to the Company's money market accounts. The Company's liabilities that are measured at fair value on a recurring basis relate to contingent consideration resulting from the acquisition of Xoft and the Warrants issued in connection with the Deerfield Facility Agreement.

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

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

	<u>Fair value measurements using: (000's) as of December 31, 2012</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Money market accounts	\$12,336	\$ —	\$ —	\$12,336
Total Assets	<u>\$12,336</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$12,336</u>
Liabilities				
Contingent Consideration	\$ —	\$ —	\$ —	\$ —
Warrant Liability	—	—	1,538	1,538
Total Liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$1,538</u>	<u>\$ 1,538</u>

	<u>Fair value measurements using: (000's) as of June 30, 2013</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Money market accounts	\$11,049	\$ —	\$ —	\$11,049
Total Assets	<u>\$11,049</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$11,049</u>
Liabilities				
Contingent Consideration	\$ —	\$ —	\$ —	\$ —
Warrant Liability	—	—	1,678	1,678
Total Liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$1,678</u>	<u>\$ 1,678</u>

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The fair value of contingent consideration is a Level 3 liability and was determined to be \$0 at December 31, 2012 and June 30, 2013, as the Company does not expect to meet the revenue thresholds for the Xoft transaction.

As discussed in Note 3, the Company issued 450,000 warrants which were immediately exercisable and therefore were valued as of the Funding Date. The warrant liability for the warrants associated with the debt was valued using the binomial lattice-based valuation methodology because that model embodies all of the relevant assumptions that address the features underlying these instruments. Significant assumptions in valuing the warrant liability were as follows as of December 31, 2012 and June 30, 2013.

	June 30, 2013	December 31, 2012
Warrants		
Exercise price	\$ 3.50	\$ 3.50
Volatility	56.8%	82.4%
Equivalent term (years)	4.52	5.00
Risk-free interest rate	1.4%	0.8%

The volatility was determined based on the definition in the Warrants, the risk-free interest rate was determined using the six year LIBOR rate as of the measurement date.

In addition the other significant assumptions include the probability of voluntary exercise versus a major transaction (as defined in the Warrants); and assuming a major transaction, the probability of cashless major exercise; and assuming a cashless major exercise, the annual probabilities for a major transaction. The Company has estimated a low probability of these items as of June 30, 2013.

The following sets forth a reconciliation of the changes in the fair value of warrants payable during the period:

<u>Six months ended June 30, 2013</u>	
Balance as of December 31, 2012	\$1,538
Fair value adjustment	140
Balance as of June 30, 2013	<u>\$1,678</u>

Items Measured at Fair Value on a Nonrecurring Basis

Certain assets, including our goodwill, are measured at fair value on a nonrecurring basis. These assets are recognized at fair value when they are deemed to be impaired. We did not consider any assets to be impaired during the three months ended June 30, 2013.

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Note 7 - Income Taxes

At June 30, 2013, the Company had no material unrecognized tax benefits and no adjustments to liabilities or operations were required under ASC 740, "Income Taxes". The Company does not expect that the unrecognized tax benefits will materially increase within the next twelve months. The Company did not recognize any interest or penalties related to uncertain tax positions at June 30, 2013. The Company files United States federal income tax returns and income tax returns in various states and local jurisdictions. The Company's three preceding tax years remain subject to examination by federal and state taxing authorities. In addition, because the Company has net operating loss carry-forwards, the Internal Revenue Service and state jurisdictions are permitted to audit earlier years and propose adjustments up to the amount of net operating loss generated in those years. The Company is not under examination by any other federal or state jurisdiction for any tax years.

Note 8 - Goodwill

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

The Company's goodwill arose in connection with its acquisitions in June 2002, December 2003 and December 2010.

The Company assesses the potential impairment of goodwill on an annual basis or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors management 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 our overall business;
- significant negative industry or economic trends;
- significant decline in our stock price for a sustained period; and
- a sustained decline in our market capitalization below net book value.

During the second quarter of 2013, the Company determined that it operated in two segments and, accordingly, determined that there are two reporting units. The Company is in the process of allocating the goodwill by reporting unit and will complete the analysis in conjunction with the annual impairment assessment. We do not expect the allocation of goodwill by reporting unit to have a material impact on the financial statements. In addition, the Company concluded there were no triggering events as of June 30, 2013.

The carrying amount of goodwill for the quarter ended June 30, 2013 was approximately \$21.1 million.

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Note 9 – 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 now 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, and the Therapy segment consists of our radiation therapy (“Axxent”) products. The primary factors used by our CODM to allocate resources are based on revenues, operating income, and earnings 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.

We do not track our assets by operating segment and our CODM does not use asset information by segment to allocate resources or make operating decisions.

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Segment revenues, segment operating income, segment adjusted EBITDA and a reconciliation of segment operating income to loss before income tax is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Segment revenues:				
Detection	\$ 3,807	\$ 4,433	\$ 8,445	\$ 8,772
Therapy	3,905	1,498	7,197	3,502
Total Revenue	<u>\$ 7,712</u>	<u>\$ 5,931</u>	<u>\$15,642</u>	<u>\$12,274</u>
Segment income (loss):				
Detection	\$ 1,052	\$ 1,222	\$ 2,626	\$ 2,193
Therapy	77	(1,516)	(153)	(2,918)
Segment operating income (loss)	<u>1,129</u>	<u>(294)</u>	<u>2,473</u>	<u>(725)</u>
General and administrative expenses	(1,602)	(1,603)	(3,274)	(3,198)
Interest expense	(834)	(831)	(1,660)	(1,666)
(Gain) loss on fair value of warrant	(571)	(213)	(140)	386
Other income	6	9	12	18
Loss before income tax	<u>\$(1,872)</u>	<u>\$(2,932)</u>	<u>\$(2,589)</u>	<u>\$(5,185)</u>
Segment adjusted EBITDA:				
Detection segment operating income	\$ 1,052	\$ 1,222	\$ 2,626	\$ 2,193
Stock compensation	90	82	195	161
Depreciation	45	34	86	73
Amortization	129	130	258	260
Detection adjusted EBITDA	<u>\$ 1,316</u>	<u>\$ 1,468</u>	<u>\$ 3,165</u>	<u>\$ 2,687</u>
Therapy segment operating income (loss)	\$ 77	\$(1,516)	\$ (153)	\$(2,918)
Stock compensation	32	24	68	46
Depreciation	113	150	226	308
Amortization	234	233	468	465
Therapy adjusted EBITDA	<u>\$ 456</u>	<u>\$(1,110)</u>	<u>\$ 609</u>	<u>\$(2,098)</u>

Note 10 - Recent Accounting Pronouncements

In February 2013, the FASB issued Accounting Standards Update (“ASU”) 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, an amendment to FASB ASC Topic 220. The update requires disclosure of amounts

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reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present either on the face of the statement of operations or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. For amounts not reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional detail about those amounts. The Company adopted the disclosure requirements of this ASU and the disclosure had no impact on the financial statements.

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 is an industry-leading provider of advanced image analysis, workflow solutions and radiation therapy solutions for the early identification and treatment of cancer. The Company now reports in two segments – Detection and Therapy.

The Company has grown primarily through acquisitions including CADx, Qualia Computing, CAD Sciences and Xoft to become a broad player in the oncology market.

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

The Company intends to continue the extension of its superior image analysis and clinical decision support solutions for mammography, MRI and CT imaging. iCAD believes that advances in digital imaging techniques 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 isotope-free cancer treatment platform technology. The Xoft Electronic Brachytherapy System (“eBx”) can be used for the treatment of early- stage breast cancer, endometrial cancer, cervical cancer and skin cancer. We believe the

Xoft eBx system platform indications represent strategic opportunities in the United States and International markets to offer differentiated treatment alternatives. In addition, the Xoft eBx system generates additional recurring revenue for the sale of consumables and related accessories which will continue to drive growth in this segment.

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

Critical Accounting Policies

The Company's discussion and analysis of its financial condition, results of operations, and cash flows are based on the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates these estimates, including those related to accounts receivable allowance, inventory valuation and obsolescence, intangible assets, income taxes, warranty obligations, contingencies and litigation. Additionally, the Company uses assumptions and estimates in calculations to determine stock-based compensation. The Company bases its estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. For a comprehensive list of the Company's critical accounting policies, reference should be made to the Annual Report on Form 10-K for the year ended December 31, 2012 filed on February 27, 2013.

Three months ended June 30, 2013 compared to the three months ended June 30, 2012**Revenue:**

	2013	2012	Change	% Change
Detection revenue				
Product revenue	\$1,647	\$2,687	\$(1,040)	(38.7)%
Service revenue	2,160	1,746	414	23.7%
Subtotal	3,807	4,433	(626)	(14.1)%
Therapy revenue				
Product revenue	2,857	849	2,008	236.5%
Service revenue	1,048	649	399	61.5%
Subtotal	3,905	1,498	2,407	160.7%
Total revenue	\$7,712	\$5,931	\$ 1,781	30.0%

Three months ended June 30, 2013:

Total revenue for the three month period ended June 30, 2013 was \$7.7 million compared with revenue of \$5.9 million for the three month period ended June 30, 2012, an increase of approximately \$1.8 million, or 30%. The increase in revenue was due to a \$2.4 million increase in revenue from Therapy products offset by a decrease in Detection revenues of approximately \$0.6 million.

Detection product revenue decreased by approximately \$1.0 million from \$2.7 million to \$1.7 million or 39% in the three months ended June 30 2013 as compared to June 30, 2012. The decrease is due primarily to a decrease in our Digital, and MRI CAD revenue of approximately \$0.8 million and a decrease in film based revenues of \$0.2 million. The decrease in Digital and MRI CAD revenue is due primarily to a decrease in international sales. Film based revenues continue to decrease as a result of the transition to digital technologies.

Detection service revenue increased approximately \$0.4 million from \$1.8 million in the three months ended June 30, 2012 to \$2.2 million in the three months ended June 30, 2013. The increase in service revenue reflects the sale of service contracts as the result of our initiatives to sell into our installed base of customers as well as additional billable MRI engineering revenue.

The increase in Therapy product revenue of \$2.0 million from \$0.9 million in the three months ended June 30, 2012 to \$2.9 million in the three months ended June 30, 2013 is due to sales of our Axxent Electronic Brachytherapy System and accessories which has continued to increase both for its use in in the treatment of non-melanoma skin cancers as well as the intra-operative radiation therapy (“IORT”) market. Revenue growth for electronic brachytherapy products was also enhanced by continued sales increases for balloon and surface applicators, which we believe is based on market adoption of the systems resulting in increased procedure volumes.

Therapy service and supply revenue increased approximately \$0.4 million from \$0.6 million in the three months ended June 30, 2012 to \$1.0 million for the three months ended June 30, 2013. The increase in Therapy service and supply revenue is due primarily to increases in service revenue due to the growing install base and source agreement revenues which is driven by increased procedure volumes. We expect service and supply revenue for our electronic brachytherapy products to increase as patient treatment volume and our installed base of electronic brachytherapy products increases.

Gross Profit:

	Three months ended June 30,			
	2013	2012	Change	% Change
Products	\$1,446	\$ 969	\$ 477	49.2%
Service & supply	810	560	250	44.6%
Amortization of acquired technology	234	233	1	0.4%
Total cost of revenue	<u>\$2,490</u>	<u>\$1,762</u>	<u>\$ 728</u>	<u>41.3%</u>
Gross profit	\$5,222	\$4,169	\$1,053	25.3%
Gross profit %	67.7%	70.3%		

Gross profit for the three month period ended June 30, 2013 was \$5.2 million, or 67.7% of revenue as compared to \$4.2 million or 70.3% of revenue in the three month period ended June 30, 2012. Gross profit percent decreased primarily due to changes in the mix of business, consulting costs related to non-recurring engineering revenue, and additional manufacturing investments. Gross profit percent is also impacted by amortization of acquired technology, and the impact of the medical device excise tax implemented as of January 1, 2013 which represented an additional \$134,000 of expense as compared to the quarter ended June 30, 2012.

Operating Expenses:

	Three months ended June 30,			
	2013	2012	Change	Change %
Operating expenses:				
Engineering and product development	\$1,756	\$1,975	\$(219)	(11.1)%
Marketing and sales	2,337	2,488	(151)	(6.1)%
General and administrative	1,602	1,603	(1)	(0.1)%
Total operating expenses	<u>\$5,695</u>	<u>\$6,066</u>	<u>\$(371)</u>	<u>(6.1)%</u>

Engineering and Product Development. Engineering and product development costs for the three month period ended June 30, 2013 decreased by \$0.2 million or 11.1%, from \$2.0 million in 2012 to \$1.8 million in 2013. The decrease in engineering and product development costs was primarily due to a decrease in consulting and subcontracting costs.

Marketing and Sales. Marketing and sales expenses decreased by \$0.2 million or 6.1%, from \$2.5 million in the three month period ended June 30, 2012 to \$2.3 million in the three month period ended June 30, 2013. The decrease in marketing and sales expenses primarily resulted from reductions in salary and related expenses as compared to the three months ended June 30, 2012.

General and Administrative. General and administrative expenses remained flat at approximately \$1.6 million for the three month periods ended June 30, 2012 and 2013. Decreases in amortization expense, consulting and legal, were offset by increases in stock compensation costs, bonus expense and travel costs.

Other Income and Expense:

	Three months ended June 30,			
	2013	2012	Change	Change %
Loss from change in fair value of warrants	\$ (571)	\$ (213)	(358)	168.1%
Interest expense	(834)	(831)	(3)	0.4%
Other income	6	9	(3)	(33.3)%
	<u>\$(1,399)</u>	<u>\$(1,035)</u>	<u>\$(364)</u>	<u>35.2%</u>
Tax expense	(10)	(11)	1	(9.1)%

Loss from change in fair value of Warrants. The \$571,000 and \$213,000 loss from the change in fair value of the warrants for the periods ended June 30, 2013 and 2012, respectively, resulted from an increase in the fair value of the Warrants under the binomial lattice based valuation methodology, due primarily to an increase in volatility, which is one of the key assumptions in determining the value of the warrants. We expect the value of the Warrants to continue to fluctuate as changes in volatility, which is driven by changes in our stock price, can have a significant impact on the value of the Warrants.

Interest expense. Interest expense of \$834,000 increased by \$3,000 or 0.4% for the three month period ended June 30, 2013 as compared to interest expense of \$831,000 in the three month period ended June 30, 2012. Interest expense is due primarily to interest expense related to the credit facility entered into with certain entities affiliated with Deerfield Management. Interest related to the Hologic and Zeiss settlement obligations was \$77,000 in the three months ended June 30, 2013 as compared to \$104,000 in the same period in 2012.

Interest income. Interest income of \$6,000 and \$9,000 for the quarters ended June 30, 2013, and 2012, respectively reflects income earned from our money market accounts.

Tax expense. Tax expense of \$10,000 and \$11,000 for the quarters ended June 30, 2013, and 2012, respectively is due primarily to state non-income and franchise based taxes.

Six months ended June 30, 2013 compared to the six months ended June 30, 2012

Revenue:

	2013	Six months ended June 30, 2012	Change	% Change
Detection revenue				
Product revenue	\$ 4,320	\$ 5,304	\$ (984)	(18.6)%
Service revenue	4,125	3,468	657	18.9%
Subtotal	8,445	8,772	(327)	(3.7)%
Therapy revenue				
Product revenue	5,244	2,283	2,961	129.7%
Service revenue	1,953	1,219	734	60.2%
Subtotal	7,197	3,502	3,695	105.5%
Total revenue	\$15,642	\$12,274	\$3,368	27.4%

Six months ended June 30, 2013:

Total revenue for the six month period ended June 30, 2013 was \$15.7 million compared with revenue of \$12.3 million for the six month period ended June 30, 2012, an increase of approximately \$3.4 million, or 27.4%. The increase in revenue was primarily due to an increase in Therapy revenue of \$3.7 million offset by a decrease in Detection revenue of \$0.3 million.

Detection product revenue decreased by approximately \$1.0 million from \$5.3 million to \$4.3 million or 18.6% in the six months ended June 30 2013 as compared to the six months ended June 30, 2012. The decrease is due primarily to a decrease in our Digital, and MRI CAD revenue of approximately \$0.6 million and a decrease in film based revenues of \$0.4 million. The decrease in revenue is due primarily to a slowing of the transition from analog to digital technology.

Detection service revenue increased approximately \$0.7 million from \$3.4 million in the six months ended June 30, 2012 to \$4.1 million in the six months ended June 30, 2013. The increase in service revenue reflects the sale of service contracts as the result of our initiatives to sell into our installed base of customers, as well as additional billable MRI engineering revenue.

Therapy product revenue increased \$2.9 million or 129.7% from \$2.3 million in the six months ended June 30, 2012 to \$5.2 million in the six months ended June 30, 2013. The increase in product revenue is due to sales of our Axxent Electronic Brachytherapy System and accessories which has continued to increase both for its use in in the treatment of non-melanoma skin cancers as well as the IORT market. Revenue growth for electronic brachytherapy products was also enhanced by continued sales increases for balloon and surface applicators, which we believe is based on market adoption of the systems resulting in increased procedure volumes.

Therapy service and supply revenue increased approximately \$0.7 million from \$1.2 million in the six months ended June 30, 2012 to \$2.0 million for the six months ended June 30, 2013. The increase in service and supply revenue is due primarily to increases in service and source agreements related to sales of the electronic brachytherapy system which is driven by increased procedure volumes. We expect service and supply revenue for our electronic brachytherapy products to increase as our installed base of electronic brachytherapy products increases.

Gross Profit:

	2013	2012	Change	% Change
Products	\$ 2,801	\$2,076	\$ 725	34.9%
Service & supply	1,504	1,137	367	32.3%
Amortization of acquired technology	467	465	2	0.4%
Total cost of revenue	<u>\$ 4,772</u>	<u>\$3,678</u>	<u>\$1,094</u>	<u>29.7%</u>
Gross profit	\$10,870	\$8,596	\$2,274	26.5%
Gross profit %	69.5%	70.0%		

Gross profit for the six month period ended June 30, 2013 was \$10.9 million, or 69.5% of revenue as compared to \$8.6 million or 70.0% of revenue in the six month period ended June 30, 2012. Gross profit percent decreased slightly due to the impact of the medical device excise tax implemented as of January 1, 2013 which represented an additional \$271,000 of expense as compared to the quarter ended June 30, 2012, this decrease was offset by an increase in gross profit percent due to the impact of higher revenue which absorbed the fixed manufacturing expenses and the amortization of acquired technology.

Operating Expenses:

	2013	2012	Change	Change %
Operating expenses:				
Engineering and product development	\$ 3,622	\$ 4,187	\$(565)	(13.5)%
Marketing and sales	4,775	5,134	(359)	(7.0)%
General and administrative	3,274	3,198	76	2.4%
Total operating expenses	<u>\$11,671</u>	<u>\$12,519</u>	<u>\$(848)</u>	<u>(6.8)%</u>

Engineering and Product Development. Engineering and product development costs for the six month period ended June 30, 2013 decreased by \$0.6 million or 13.5%, from \$4.2 million for the six month period ended June 30, 2012 to \$3.6 million for the same period in 2013. The decrease in engineering and product development costs was primarily due to a decrease in consulting and subcontracting costs of approximately \$490,000 combined with a reduction in personnel costs and depreciation expense.

Marketing and Sales. Marketing and sales expenses decreased by \$0.3 million or 7.0%, from \$5.1 million in the six month period ended June 30, 2012 to \$4.8 million in six month period ended June 30, 2013. The decrease in marketing and sales expenses primarily resulted from reductions in salary and salary related expenses during the six months ended June 30, 2013 as compared to the six months ended June 30, 2012.

General and Administrative. General and administrative expenses increased by \$76,000 or 2.4%, from \$3.2 million in the six month period ended June 30, 2012 to \$3.3 million in the six month period ended June 30, 2013. The increase in general and administrative expense for the 2013 period is primarily due to an increase in personnel costs, stock compensation and bad debt expense offset by a decrease in amortization expense as compared to the six months ended June 30, 2012.

Other Income and Expense:

	<u>Six months ended June 30,</u>			
	<u>2013</u>	<u>2012</u>	<u>Change</u>	<u>Change %</u>
(Loss) gain from change in fair value of warrants	\$ (140)	\$ 386	(526)	(136.3)%
Interest expense	(1,660)	(1,666)	6	(0.4)%
Other income	<u>12</u>	<u>18</u>	<u>(6)</u>	<u>(33.3)%</u>
	<u>\$ (1,788)</u>	<u>\$ (1,262)</u>	<u>\$(526)</u>	<u>41.7%</u>
Tax expense	(20)	(22)	2	(9.1)%

(Loss) gain from change in fair value of Warrants. The \$140,000 loss and \$386,000 gain from the change in fair value of the warrants for the period ended June 30, 2013 and 2012, respectively, resulted from a changes in the fair value of the Warrants under the binomial lattice based valuation methodology, due primarily to changes in volatility, the expected life of the warrant and the stock price of the Company at the valuation date, which are key drivers in determining the value of the Warrants. We expect the value of the Warrants to continue to fluctuate as changes in volatility which is driven by changes in our stock price, can have a significant impact on the value of the Warrants.

Interest Expense. Interest expense is approximately \$1.7 million for each of the six month periods ended June 30, 2013 and 2012. Interest expense is due primarily to interest expense of approximately \$1.5 million related to the credit facility entered into with certain entities affiliated with Deerfield Management. Interest related to the Hologic and Zeiss settlement obligations was \$152,000 in the six months ended June 30, 2013 as compared to \$216,000 in the same period in 2012.

Interest Income. Interest income of \$12,000 and \$18,000 for the six months ended June 30, 2013, and 2012, respectively reflects income earned from our money market accounts.

Tax expense. Tax expense of \$20,000 and \$22,000 for the six months ended June 30, 2013, and 2012, respectively 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 twelve months, primarily due to cash on hand and projected cash generation from operations. Our ability to generate cash that is adequate to meet our 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, we may require additional financing, although there are no guarantees that we will be able to obtain the financing if necessary, on acceptable terms or at all.

As of June 30, 2013, the Company had cash and cash equivalents of \$12.9 million, current assets of \$21.4 million, current liabilities of \$15.0 million and working capital of \$6.4 million. The ratio of current assets to current liabilities was 1.43:1.

On December 29, 2011, we entered into several agreements with entities affiliated with Deerfield pursuant to which Deerfield agreed to provide \$15 million in funding to the Company. Pursuant to the terms of the Facility Agreement, on the Funding Date we issued to Deerfield Notes in the aggregate principal amount of \$15 million. Under the Revenue Purchase Agreement, we agreed to pay Deerfield a portion of our revenues until the maturity date of the Notes, whether or not the Notes are outstanding through that date. On the Funding Date, we issued to Deerfield, Warrants at an exercise price of \$3.50 per share and a second B Warrant (to purchase an additional 100,000 shares of common stock at an exercise price of \$3.50 per share, which may become exercisable if certain conditions are met, as described in the Warrant Agreement. Pursuant to the Revenue Purchase Agreement, we are obligated to pay interest at 5.75% on the balance of the Notes that are outstanding, which is approximately \$216,000 per quarter until the fourth quarter of 2014. In 2015, interest is approximately \$162,000 per quarter and in 2016, interest is approximately \$108,000 per quarter, with the final payment of \$7.5 million on the Notes balance due in January 2017 (unless we elect to extend). We are also required to pay a minimum commitment of \$125,000 per quarter under the Revenue Purchase Agreement; however this minimum is met at approximately \$2.9 million of revenue per quarter. We expect to exceed the minimum revenue thresholds on a quarterly basis as we did in the quarter ended June 30, 2013.

Net cash used for operating activities for the six month period ended June 30, 2013 was \$0.7 million, compared to net cash used for operating activities of \$4.3 million for the six month period ended June 30, 2012. The cash used for operating activities for the six months ended June 30, 2013 resulted primarily from a decrease in cash flows due to an increase in accounts receivable of \$1.1 million, a \$1.0 million decrease in accounts payable and accrued expenses, offset by an increase in cash flows due to an increase of \$1.2 million in deferred revenue. We expect that cash used or provided by operating activities may fluctuate in future periods as a result of a number of factors, including fluctuations in our operating results, specifically the timing of when we recognize revenue, our accounts receivable collections and the timing of other payments.

The net cash used for investing activities for the six month period ended June 30, 2013 was \$293,000 as compared to \$278,000 for the six month period ended June 30, 2012. Cash used for investing activities consisted primarily of additions to property and equipment.

Net cash used for financing activities for the six month period ended June 30, 2013 was \$22,000 as compared to cash provided by financing activities for the six month period ended June 30, 2012 of \$14.3 million, which consisted of cash received in connection with the credit facility entered into with Deerfield in December 2011, described in Note 3 of the accompanying Condensed Consolidated Financial Statements.

Contractual Obligations

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

<u>Contractual Obligations</u>	<u>Payments due by period</u>				
	<u>Total</u>	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>5+ years</u>
Lease Obligations	\$ 1,954	\$ 506	\$ 946	\$ 502	\$ —
Settlement Obligations	2,475	275	800	1,050	350
Notes Payable	19,463	1,363	9,902	8,198	—
Other Commitments	969	969	—	—	—
Total Contractual Obligations	<u>\$24,861</u>	<u>\$ 3,113</u>	<u>\$11,648</u>	<u>\$9,750</u>	<u>\$ 350</u>

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

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

In addition to the contractual obligations related to the interest payments from the Notes, the Company is obligated under the revenue purchase agreement discussed in Note 3 of the accompanying financial statements, to pay Deerfield 4.25% of revenues up to \$25 million, either 2.75% (for 2013 and 2014) or 2.25% (for 2015, 2016 and if applicable 2017) of annual revenues from \$25 million to \$50 million and 1.0% of annual revenues in excess of \$50 million. Included in the above amounts are the minimum annual payments under the revenue purchase agreement of \$125,000 per quarter payable in arrears. The Company has included only the minimum annual payments in Notes Payable.

Recent Accounting Pronouncements

See Note 9 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, 2013, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (“Exchange Act”)) were effective at the reasonable level of assurance.

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

Our principal executive officer and principal financial officer conducted an evaluation of our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) to determine whether any changes in internal control over financial reporting occurred during the quarter ended June 30, 2013, that have materially affected or which are reasonably likely to materially affect internal control over financial reporting. Based on that evaluation, there has been no such change during such period.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Please refer to the detailed discussion regarding litigation set forth in Note 5 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

Our risk factors are described in Part I, Item 1A of our Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2012. There have been no material changes in the risks affecting iCAD since the filing of our Form 10-K.

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

The following table represents information with respect to purchases of common stock made by the Company during the three months ended June 30, 2013:

Month of purchase	Total number of shares purchased (1)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum dollar value of shares that may yet be purchased under the plans or programs
April 1 - April 30, 2013	1,758	\$ 5.30	\$ —	\$ —
May 1 - May 31, 2013	—	\$ —	\$ —	\$ —
June 1 - June 30, 2013	—	\$ —	\$ —	\$ —
Total	<u>1,758</u>	<u>\$ 5.30</u>	<u>\$ —</u>	<u>\$ —</u>

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

Item 6. Exhibits

<u>Exhibit No.</u>	<u>Description</u>
3.1	Certificate of Incorporation of the Registrant as amended through May 31, 2013.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials formatted in XBRL (eXtensible Business Reporting Language); (i) Consolidated Balance Sheets as of June 30, 2013 and December 31, 2012, (ii) Consolidated Statements of Operations for the three and six months ended June 30, 2013 and 2012, (iii) Consolidated Statements of Cash Flows for the three and six months ended June 30, 2013 and 2012, and (iv) Notes to Consolidated Financial Statements**.

** Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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 8, 2013

By: /s/ Kenneth M. Ferry

Kenneth M. Ferry
President, Chief Executive Officer,
Director

Date: August 8, 2013

By: /s/ Kevin C. Burns

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

CERTIFICATE OF INCORPORATION
OF
HOWTEK, INC.

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

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

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

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

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

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

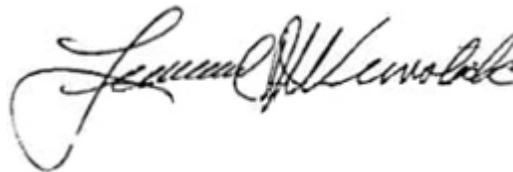
FIFTH: The name and mailing address of the incorporator is Leonard I. Weinstock, 355 Lexington Avenue, New York, New York 10017.

SIXTH: Election of directors need not be by ballot.

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

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

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



Leonard I. Weinstock
Incorporator

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

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

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

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

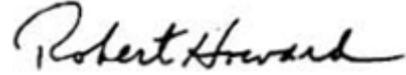
"FOURTH: The aggregate number of shares of stock which this Corporation shall have authority to issue is one million (1,000,000) shares, all of which shares are to be Common Stock par value \$.01 per share."

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

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

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

HOWTEK, INC.



By: _____
Robert Howard, President

ATTEST:



Beth Weinstein, Secretary

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

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

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

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

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

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

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

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

HOWTEK, INC.



By: _____
Robert Howard, President

ATTEST:



Beth Weinstein, Secretary

Certificate of Restoration and Revival of
Certificate of Incorporation
of

It is hereby certified that:

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

The Corporation Trust Company
Corporation Trust Center
1209 Orange Street
Wilmington, DE 19801
New Castle County

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

Signed and attested to on July 31, 1987.



Vice President – Finance

Attest:



Secretary

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

TAX HISTORY

[illegible]
SCREEN TAX
* * * * *

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

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

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

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

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

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

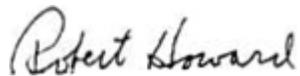
FOURTH: The total number of shares of stock which the Corporation shall have authority to issue is twenty-five million (25,000,000) shares, all of which shares are to be shares of Common Stock, par value \$.01 per share.

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

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

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

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



Robert Howard, Chairman of the Board and
President

ATTEST:



Robert J. Mittman
Assistant Secretary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Dated: September 28, 1999.

HOWTEK, INC.

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

By: _____
W. Scott Parr, President

HOWTEK, INC.

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

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

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

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

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

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

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

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

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

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

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

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

Section 4. Redemption at the Option of the Corporation.

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

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

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

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

Section 6. Liquidation, Dissolution or Winding Up.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

HOWTEK, INC.



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

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

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

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

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

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

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

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

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

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

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

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

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

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

Section 4. Redemption at the Option of the Corporation.

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

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

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

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

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

Section 6. Liquidation, Dissolution or Winding Up.

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

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

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

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

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

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

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

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

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

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

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

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

HOWTEK, INC.

By: /s/ W. Scott Parr

Name: W. Scott Parr

Title: President

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"TENTH: 1. Indemnification.

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

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

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

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

2. Advance of Costs, Charges and Expenses.

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

3. Procedure for Indemnification.

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

4. Non-Exclusivity; Survival of Indemnification.

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

5. Savings Clause.

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

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

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

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

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

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

Dated: June 28, 2002

HOWTEK, INC.

By: /s/ W. Scott Parr

Name: W. Scott Parr

Title: President and CEO

*State of Delaware
Secretary of State
Division of Corporations
Delivered 04:41 PM 12/10/2003
FILED 04:22 PM 12/10/2003
SRV 030794156 – 2029045 FILE*

CERTIFICATE OF OWNERSHIP AND MERGER

OF

ISSI ACQUISITION CORP.

AND

HOWTEK DEVICES CORPORATION.

INTO

ICAD, INC.

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

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

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

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

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

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

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

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

NOW, THEREFORE, be it:

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

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

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

iCAD, Inc.
(a Delaware corporation)

By: /s/ W. Scott Parr

Name: W. Scott Parr

Title: President and CEO

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

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

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

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

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

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

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

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

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

Dated: July 18, 2007

iCAD, INC.



By: _____

Name: Darlene Deptula-Hicks
Title: EVP/CFO

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

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

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

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

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

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

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

Dated: August 10, 2012

iCAD, INC.

By: /s/ Kevin C. Burns

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

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

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

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

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

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

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

Dated: May 31, 2013

iCAD, INC.

By: /s/ Kevin Burns

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

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Kenneth M. Ferry, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013 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 8, 2013

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

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Kevin C. Burns, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2013 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 8, 2013

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

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

In connection with the Quarterly Report of iCAD, Inc. (the "Company") on Form 10-Q for the quarterly period ended June 30, 2013 (the "Report"), I, Kenneth M. Ferry, as Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

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

Date: August 8, 2013

**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, 2013 (the "Report"), I, Kevin C. Burns, as Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

/s/ Kevin C. Burns

Kevin C. Burns

Chief Financial Officer

Date: August 8, 2013