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 March 31, 2014

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	**02-0377419**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
98 Spit Brook Road, Suite 100, Nashua, NH	**03062**
(Address of principal executive offices)	**(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 May 9, 2014 there were 14,222,352 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)

	March 31, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 38,395	$ 11,880
Trade accounts receivable, net of allowance for doubtful accounts of $63 in 2014 and $73 in 2013	7,548	7,623
Inventory, net	1,965	1,891
Prepaid expenses and other current assets	639	649
Total current assets	48,547	22,043
Property and equipment, net of accumulated depreciation and amortization of $3,819 in 2014 and $4, 265 in 2013	1,664	1,671
Other assets	350	419
Intangible assets, net of accumulated amortization of $12,841 in 2014 and $12,468 in 2013	13,316	13,674
Goodwill	21,109	21,109
Total assets	$ 84,986	$ 58,916
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 1,201	$ 2,000
Accrued and other expenses	3,365	3,799
Interest payable	578	483
Notes and lease payable - current portion	3,882	3,878
Warrant liability	2,850	3,986
Deferred revenue	8,403	8,306
Total current liabilities	20,279	22,452
Deferred revenue, long-term portion	1,509	1,726
Other long-term liabilities	1,154	1,356
Capital lease - long-term portion	198	235
Notes payable - long-term portion	11,905	11,770
Total liabilities	35,045	37,539
Commitments and Contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, $ .01 par value: authorized 1,000,000 shares; none issued	—	—
Common stock, $ .01 par value: authorized 20,000,000 shares; issued 13,958,183 in 2014 and 11,084,119 in 2013; outstanding 13,772,352 in 2014 and 10,898,288 in 2013	140	111
Additional paid-in capital	195,460	166,735
Accumulated deficit	(144,244)	(144,054)
Treasury stock at cost, 185,831 shares in 2014 and 2013	(1,415)	(1,415)
Total stockholders' equity	49,941	21,377
Total liabilities and stockholders' equity	$ 84,986	$ 58,916

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)

	Three Months Ended March 31, 2014	2013
Revenue:		
Products	$ 4,209	$ 4,834
Service and supplies	4,311	3,096
Total revenue	8,520	7,930
Cost of revenue:		
Products	1,199	1,162
Service and supplies	1,146	887
Amortization of acquired intangibles	241	233
Total cost of revenue	2,586	2,282
Gross profit	5,934	5,648
Operating expenses:		
Engineering and product development	2,027	1,866
Marketing and sales	2,619	2,438
General and administrative	1,748	1,672
Total operating expenses	6,394	5,976
Loss from operations	(460)	(328)
Gain from change in fair value of warrant	1,136	431
Interest expense	(817)	(826)
Other income	4	6
Other income (expense), net	323	(389)
Loss before income tax expense	(137)	(717)
Tax expense	(53)	(10)
Net loss and comprehensive loss	$ (190)	$ (727)
Net loss per share:		
Basic and diluted	$ (0.02)	$ (0.07)
Weighted average number of shares used in computing loss per share:		
Basic and diluted	11,429	10,820

See accompanying notes to consolidated financial statements.

iCAD, INC. AND SUBSIDIARY

Condensed Consolidated Statements of Cash Flows
(unaudited)

	For the three months ended March 31,	
	2014	**2013**
	(in thousands)	
Cash flow from operating activities:		
Net loss	$ (190)	$ (727)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation	209	183
Amortization	373	430
Bad debt (benefit) provision	(14)	35
Gain from change in fair value of warrant	(1,136)	(431)
Loss on disposal of assets	—	25
Stock-based compensation expense	325	307
Amortization of debt discount and debt costs	183	198
Interest on settlement obligations	52	75
Changes in operating assets and liabilities:		
Accounts receivable	88	(521)
Inventory	(74)	346
Prepaid and other current assets	30	(63)
Accounts payable	(799)	(215)
Accrued expenses	(593)	(1,403)
Deferred revenue	(119)	592
Total adjustments	(1,475)	(442)
Net cash used for operating activities	(1,665)	(1,169)
Cash flow from investing activities:		
Additions to patents, technology and other	(15)	(2)
Additions to property and equipment	(202)	(97)
Net cash used for investing activities	(217)	(99)
Cash flow from financing activities:		
Issuance of common stock for cash, net	28,243	—
Stock option exercises	287	—
Taxes paid related to restricted stock issuance	(101)	(7)
Payments of capital lease obligations	(32)	—
Net cash provided by (used for) financing activities	28,397	(7)
Increase (decrease) in cash and equivalents	26,515	(1,275)
Cash and equivalents, beginning of period	11,880	13,948
Cash and equivalents, end of period	$ 38,395	$ 12,673
Supplemental disclosure of cash flow information:		
Interest paid	$ 483	$ 499
Taxes paid	$ 56	$ 25

See accompanying notes to consolidated financial statements.

iCAD, INC. AND SUBSIDIARY.
Notes to Condensed Consolidated Financial Statements
(Unaudited)
March 31, 2014

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 March 31, 2014, the results of operations for the three month period ended March 31, 2014 and 2013, respectively, and cash flows for the three month period ended March 31, 2014 and 2013, 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, 2013 filed with the SEC on March 3, 2014. The results for the three month period ended March 31, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2014, or any future period.

Revenue Recognition

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

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

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

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

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

Revenue from the Company's MRI products is recognized in accordance with ASC 985-605. Sales of this product include third level OEM support, and the Company has established VSOE for this element based on substantive renewal rates for support as specified in the agreement. Product revenue is determined based on the residual value in the arrangement, and is recognized when delivered. Revenue for third-party support is deferred and recognized over the support period which is typically on an annual basis.

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.

The Company has reclassified on the statement of operations for the three months ended March 31, 2013, revenue for disposable applicators and supplies of approximately $226,000 to service and supply revenue that was previously included in product revenue to conform to current period classification.

Cost of Revenue

Cost of revenue consists of the costs of products purchased for resale, costs relating to service include costs of service contracts to maintain equipment after the warranty period, product installation, training, customer support, certain warranty repair costs, inbound freight and duty, cost of supplies, manufacturing, warehousing, material movement, inspection, scrap, rework, depreciation and in-house product warranty repairs. The Company has reclassified on the statement of operations for the three months ended March 31, 2013, cost of revenue for disposable applicators and supplies and other related expenses of approximately $193,000 to service and supply cost of revenue that was previously included in cost of product revenue to conform to current period classification. For the three months ended March 31, 2014 and 2013, approximately $179,000 and $137,000, respectively related to Medical Device Excise tax is included in cost of product revenue.

Segments

The Company reports the results of two segments, Cancer Detection ("Detection") and Cancer Therapy ("Therapy"). The Detection segment consists of our advanced image analysis and workflow products, 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 March 31,	
	2014	2013
Net loss	**$ (190)**	**$ (727)**
Basic shares used in the calculation of net loss per share	11,429	10,820
Effect of dilutive securities:		
Stock options	—	—
Restricted stock	—	—
Diluted shares used in the calculation of net loss per share	11,429	10,820
Net loss per share - basic	$ (0.02)	$ (0.07)
Net loss per share - diluted	$ (0.02)	$ (0.07)

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 March 31,	
	2014	2013
Stock Options	1,320,156	1,426,077
Warrants	550,000	550,000
Restricted Stock	157,484	220,250
Stock options, warrants and restricted stock	2,027,640	2,196,327

Note 3 - Long Term Debt

In December, 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. The agreements consist of a Facility Agreement (the "Facility Agreement"), a Revenue Purchase Agreement (the "Revenue Purchase Agreement") and the issuance of Warrants to purchase up to 550,000 shares of the Company's Common Stock at an exercise price of $3.50 (the "Warrants"). In accordance with the Facility Agreement, the Company is obligated to repay $15 million in three payments due as follows: $3.75 million due December 2014, $3.75 million due December 2015, and $7.5 million due December 2016, together with interest on the outstanding obligation at 5.75% per annum. The agreement also specified the Company could extend the final payment of $7.5 million to $3.75 million in December 2016 and $3.75 million in December 2017. In accordance with the Revenue Purchase 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 2017 (if the Facility agreement was extended), and 1.0% of annual revenues in excess of $50 million.

On April 30, 2014, the Company agreed to pay Deerfield $4.1 million to terminate the Revenue Purchase Agreement, and modified the Facility Agreement to eliminate the ability to extend the last debt payment for an additional year which would also eliminate the payment obligation for 2017 under the Revenue Purchase Agreement. In addition, Deerfield exercised their warrants, for an aggregate purchase price of $1,575,000, and the Company issued 450,000 shares of Common Stock to Deerfield, pursuant to the terms of the Warrants. The Warrants to purchase an additional 100,000 shares of Common Stock were cancelled, since said Warrants were exercisable only in the event the Company extended the last debt payment for an additional year.

The following amounts are included in the consolidated balance sheet as of March 31, 2014 related to the Facility Agreement and Revenue Purchase Agreement: (in thousands)

Principal Amount of Facility Agreement	$ 15,000
Unamortized discount	(2,816)
Carrying amount of Facility Agreement	12,184
Revenue Purchase Agreement	3,471
Less current portion of Facility Agreement	(3,750)
Notes payable long-term portion	$ 11,905

The following amounts comprise interest included in our consolidated statement of operations for the three months ended March 31, 2014 and 2013: (in thousands)

	Three months ended March 31, 2014	2013
Cash interest expense	$ 578	$ 553
Non-cash amortization of debt discount	135	154
Amortization of debt costs	48	44
Amortization of settlement obligations	52	75
Interest expense capital lease	4	—
Total interest expense	$ 817	$ 826

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 a facility fee and a finder's fee that were capitalized and, expensed using the effective interest method. The amortization of the settlement obligation represent the interest associated with the settlement agreements for both Carl Zeiss Meditec AG and Hologic, Inc. Interest expense capital lease represents interest related to the capital lease as described in Note 4.

Note 4 - Lease Commitments

Operating leases

Facilities are leased under operating leases expiring at various dates through September, 2017. Certain of these leases contain renewal options. For the three month period ended March 31, 2014 and 2013, rent expense under operating leases was $162,000 and $169,000, respectively.

As of March 31, 2014, future minimum lease payments under non-cancelable operating leases were as follows: (in thousands)

Fiscal Year	Operating Leases
2014	$ 368
2015	481
2016	490
2017	255
	$ 1,594

Capital leases

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

Future minimum lease payments under this lease are as follows: (in thousands)

Fiscal Year	Capital Leases
2014	108
2015	145
2016	97
subtotal minimum lease obligation	350
less interest	(20)
Total, net	330
less current portion	(132)
long term portion	$ 198

Note 5 - 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:

	Three Months Ended March 31,	
	2014	**2013**
Average risk-free interest rate	0.80%	0.58%
Expected dividend yield	None	None
Expected life	3.5 years	3.5 years
Expected volatility	64.2% to 65.6%	61.5% to 68.9%
Weighted average exercise price	$11.95	$5.15
Weighted average fair value	$5.54	$2.28

As of March 31, 2014 unrecognized compensation cost related to unexercisable options and unvested restricted stock and the weighted average remaining period is as follows:

Remaining expense	$1,321,865
Weighted average term	1.0 years

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

	Three Months Ended March 31,	
Aggregate intrinsic value	2014	2013
Stock options	$6,492,797	$1,962,883
Restricted stock	1,442,553	1,099,048

Note 6 - 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 March 31, 2014.

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 then estimated remaining useful life of approximately six years. In addition, a liability has been recorded within accrued expenses and long-term settlement cost for future payment and for future minimum royalty obligations totaling $587,000. The Company recorded interest expense of approximately $24,000 in the three months ended March 31, 2014, and $30,000 in the three months ended March 31, 2013, related to this obligation.

In December, 2011, the Company agreed to a settlement related to the litigation with Carl Zeiss Meditec AG. The Company is obligated to pay $0.5 million in June 2015 and $0.5 million in June 2017, for an aggregate remaining total of $1.0 million. As of March 31, 2014, the remaining liability recorded within accrued expenses and long-term settlement cost for future payment and for future minimum royalty obligations is $754,000. The Company recorded interest expense of approximately $28,000 in the three months ended March 31, 2014, and $45,000 in the three months ended March 31, 2013, related to this obligation.

Other Commitments

The Company is obligated to pay approximately $1.5 million for firm purchase obligations to suppliers for future product deliverables.

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 Guerrera, 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. On October 24, 2013, plaintiff's filed an amended master consolidated complaint. On January 17, 2014, Ralph Mackintosh, Ph.D., Robert Dillman, M.D., Jack Cox, and Hoag Memorial Hospital Presbyterian each filed a cross-complaint for equitable indemnity, contribution and declaratory relief against American Ceramic Technology. 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 7 - 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.

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 due to the market rate of the stated interest rate.

The Company's assets that are measured at fair value on a recurring basis relate to the Company's money market accounts. The Company's 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.

Fair value measurements using: (000's) as of December 31, 2013

	Level 1	Level 2	Level 3	Total
Assets				
Money market accounts	$ 7,572	$ —	$ —	$ 7,572
Total Assets	$ 7,572	$ —	$ —	$ 7,572
Liabilities				
Contingent Consideration	$ —	$ —	$ —	$ —
Warrants	—	—	3,986	3,986
Total Liabilities	$ —	$ —	$3,986	$ 3,986

Fair value measurements using: (000's) as of March 31, 2014

	Level 1	Level 2	Level 3	Total
Assets				
Money market accounts	$36,057	$ —	$ —	$36,057
Total Assets	$36,057	$ —	$ —	$36,057
Liabilities				
Warrant Liability	$ —	$ —	$2,850	$ 2,850
Total Liabilities	$ —	$ —	$2,850	$ 2,850

As discussed in Note 3, the Company issued 450,000 immediately exercisable warrants to Deerfield. The warrant liability for the warrants associated with the debt is 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, 2013 and March 31, 2014.

	March 31, 2014	December 31, 2013
Warrants		
Exercise price	$ 3.50	$ 3.50
Volatility	52.7%	56.2%
Equivalent term (years)	3.77	4.00
Risk-free interest rate	1.3%	1.3%

The volatility was determined based on the definition in the Warrants, and 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 had estimated a low probability of these items as of March 31, 2014. On April 30, 2014, Deerfield exercised the warrants, for an aggregate purchase price of $1,575,000, and the Company issued 450,000 shares of Common Stock. The Warrant obligation was fully satisfied following that exercise.

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

Warrants	Amount
Balance as of December 31, 2013	3,986
Gain from change in fair value of warrant	(1,136)
Balance as of March 31, 2014	$ 2,850

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 March 31, 2014.

Note 8 - Income Taxes

At March 31, 2014, 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 March 31, 2014. 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 9 - Goodwill

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

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

- significant underperformance relative to historical or projected future operating results;
- significant changes in the manner or use of the assets or the strategy for the Company's overall business;
- significant negative industry or economic trends;
- significant decline in the Company's stock price for a sustained period; and
- a decline in the Company's market capitalization below net book value.

The Company's CODM is the Chief Executive Officer ("CEO"). In the second quarter of 2013, we changed the manner in which Company financial information is reported to the CODM. The Company's reportable segments have been identified primarily based on the types of products sold. Each reportable segment generates revenue from the sale of medical equipment and related services and/or sale of supplies. The Company has determined there are two segments, Cancer Detection ("Detection") and Cancer Therapy ("Therapy"). Goodwill was allocated to the reporting units based on the relative fair value of the reporting units as of June 2013.

The Company performed an annual impairment assessment at October 1, 2013 based on the new reporting structure and compared the fair value of each of reporting unit to its carrying value as of this date. Fair value of each reporting unit exceeded the carry value by approximately 362% for the Detection reporting unit and 179% for the Therapy reporting unit. The carrying values of the reporting units were determined based on an allocation of our assets and liabilities through specific allocation of certain assets and liabilities, to the reporting units and an apportionment based on the relative size of the reporting units' revenues and operating expenses compared to the Company as a whole. The determination of reporting units also requires management judgment.

The Company would record an impairment charge if such an assessment were to indicate that the fair value of a reporting unit was less than the carrying value. In evaluating

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

The Company determined the fair values for each reporting unit using a weighting of the income approach and the market approach. For purposes of the income approach, fair value is determined based on the present value of estimated future cash flows, discounted at an appropriate risk adjusted rate. The Company used internal forecasts to estimate future cash flows and includes an estimate of long-term future growth rates based on the most recent views of the long-term forecast for each segment. Accordingly, actual results can differ from those assumed in the forecasts. The discount rate of approximately 25% is derived from a capital asset pricing model and analyzing published rates for industries relevant to the reporting units to estimate the cost of equity financing. The Company uses discount rates that are commensurate with the risks and uncertainty inherent in the respective businesses and in the internally developed forecasts.

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

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

A rollforward of goodwill activity by reportable segment is as follows:

	Detection	Therapy	Total
Accumulated Goodwill	$ —	$ —	$ 47,937
Accumulated impairment	—	—	(26,828)
Fair value allocation	7,663	13,446	—
Balance at December 31, 2013	7,663	13,446	21,109
	—	—	—
Balance at March 31, 2014	$ 7,663	$13,446	$ 21,109

Note 10 - Segment Reporting

In accordance with FASB Topic ASC 280, "*Segments*", operating segments, are defined as components of an enterprise that engage in business activities for which discrete financial information is available and regularly reviewed by the chief operating decision maker ("CODM") in deciding how to allocate resources and assess performance.

The Company's CODM is the Chief Executive Officer ("CEO"). In the second quarter of 2013, we changed the manner in which Company financial information is reported to the CODM. The Company's reportable segments have been identified primarily based on the types of products sold. Each reportable segment generates revenue from the sale of medical equipment and related services and/or sale of supplies. The Company has determined there are two segments, Cancer Detection ("Detection") and Cancer Therapy ("Therapy").

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

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.

Segment revenues, segment operating income or loss, and a reconciliation of segment operating income or loss to GAAP loss before income tax is as follows (including prior periods which have been presented for consistency):

	Three Months Ended March 31,	
	2014	2013
Segment revenues:		
Detection	$ 4,175	$ 4,638
Therapy	4,345	3,292
Total Revenue	$ 8,520	$ 7,930
Segment operating income (loss):		
Detection	$ 1,516	$ 1,574
Therapy	(228)	(230)
Segment operating income (loss)	$ 1,288	$ 1,344
General and administrative expenses	$(1,748)	$(1,672)
Interest expense	(817)	(826)
Gain on fair value of warrant	1,136	431
Other income	4	6
Loss before income tax	$ (137)	$ (717)

Note 11 - Recent Accounting Pronouncements

We describe recent pronouncements that have had or may have a significant effect on our financial statements or on our disclosures. We do not discuss recent pronouncements that are not anticipated to have an impact on or are unrelated to our financial condition, results of operations, or related disclosures, and accordingly there are none noted.

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 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-free cancer treatment platform technology. The Xoft Electronic Brachytherapy System ("Xoft eBx") can be used for the treatment of early-stage breast cancer, endometrial cancer, cervical cancer and skin cancer. We believe the Xoft eBx

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

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, 2013 filed on March 3, 2014.

Three months ended March 31, 2014 compared to the three months ended March 31, 2013

Revenue:

	Three months ended March 31,			
	2014	2013	Change	% Change
Detection revenue				
Product revenue	$2,064	$2,673	$ (609)	(22.8)%
Service revenue	2,111	1,965	146	7.4%
Subtotal	4,175	4,638	(463)	(10.0)%
Therapy revenue				
Product revenue	2,145	2,161	(16)	(0.7)%
Service revenue	2,200	1,131	1,069	94.5%
Subtotal	4,345	3,292	1,053	32.0%
Total revenue	$8,520	$7,930	$ 590	7.4%

Three months ended March 31, 2014:

Total revenue for the three month period ended March 31, 2014 was $8.5 million compared with revenue of $7.9 million for the three month period ended March 31, 2013, an increase of approximately $590,000, or 7.4%. The increase in revenue was due to a $1.0 million increase in Therapy service revenue offset by a decrease in total Detection revenues of approximately $463,000.

Detection product revenue decreased by approximately $0.6 million from $2.7 million to $2.1 million or 22.8% in the three months ended March 31, 2014 as compared to the three months ended March 31, 2013. The decrease is due primarily to a decrease in our Digital CAD revenue of approximately $0.7 million and a decrease in film based revenues of $0.2 million, offset by an increase in our MRI product revenues of $0.3 million. The decrease in Digital CAD revenue is driven by decreases in sales to our OEM partners. The increase in MRI product revenues reflects the success of our OEM partner in the MRI market.

Detection service revenue increased approximately $0.1 million from $2.0 million in the three months ended March 31, 2013 to $2.1 million in the three months ended March 31, 2014. 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.

Therapy product revenue was approximately $2.1 million for each of the three months ended March 31, 2014 to and March 31, 2013. Revenue from the sale of our Axxent eBx systems can vary due to an increase or decrease in the number of units sold which can cause a significant fluctuation in product revenue in the period. We continue to see interest in the Xoft solution for both its use in the treatment of non-melanoma skin cancers as well as the intra-operative radiation therapy (“IORT”) market.

Therapy service and supply revenue increased approximately $1.1 million from $1.1 million in the three months ended March 31, 2013 to $2.2 million for the three months ended March 31, 2014. In March 2014, we reclassified certain applicator and accessory revenues that were previously a component of Product Revenue to Service and Supply revenue. The prior period was adjusted for consistency. The increase in Therapy service and supply revenue is due primarily to increases in service revenue due to the growing installed base and associated source and service agreement revenues combined with disposable applicators which is a result of 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 systems increases.

Gross Profit:

	Three months ended March 31,			
	2014	**2013**	**Change**	**% Change**
Products	$1,199	$1,162	$ 37	3.2%
Service & supply	1,146	887	259	29.2%
Amortization of acquired technology	241	233	8	3.4%
Total cost of revenue	$2,586	$2,282	$ 304	13.3%
Gross profit	$5,934	$5,648	$ 286	5.1%

Gross profit for the three month period ended March 31, 2014 was $5.9 million, or 70% of revenue as compared to $5.6 million or 71% of revenue in the three month period ended March 31, 2013. Gross profit percent changes 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 which represented $179,000 for the three months ended March 31, 2014 as compared to $137,000 for the three months ended March 31, 2013. In March 2014, we reclassified certain applicator, accessory and other related cost of revenues that were previously a component of cost of product revenue to cost of service and supply revenue. The prior period was adjusted for consistency.

Operating Expenses:

	Three months ended March 31,			
	2014	2013	Change	Change %
Operating expenses:				
Engineering and product development	$2,027	$1,866	$ 161	8.6%
Marketing and sales	2,619	2,438	181	7.4%
General and administrative	1,748	1,672	76	4.5%
Total operating expenses	$6,394	$5,976	$ 418	7.0%

Engineering and Product Development. Engineering and product development costs for the three month period ended March 31, 2014 increased by $0.1 million or 8.6%, from $1.9 million in 2013 to $2.0 million in 2014. Therapy Engineering and Product Development increased $0.2 million from $0.8 million in the three months ended March 31, 2013 as compared to $1.0 million for the three months ended March 31, 2014. The increase in Therapy Engineering and Product Development costs was due primarily to increases in clinical and consulting costs. Detection

Engineering and Product Development costs decreased slightly by $0.1 million from $1.1 million for the three months ended March 31, 2013 to $1.0 million for the three months ended March 31, 2014.

Marketing and Sales. Marketing and sales expenses increased by $0.2 million or 7.4%, from $2.4 million in the three month period ended March 31, 2013 to $2.6 million in the three month period ended March 31, 2014. Therapy Marketing and sales expense increased $0.5 million from $1.3 million in the three months ended March 31, 2013 as compared to $1.8 million for the three months ended March 31, 2014. The increase in Therapy Marketing and Sales expenses was due primarily to increases in salaries and wages, consulting, trade shows and travel. These increases reflect continued investment in the Therapy segment. Detection Marketing and sales costs decreased by $0.3 million from $1.1 million for the three months ended March 31, 2013 to $0.8 million for the three months ended March 31, 2014, due primarily to decreases in salaries and wages.

General and Administrative. General and administrative expenses were $1.7 million for each of the three month periods ended March 31, 2014 and 2013. A slight decrease in amortization and legal expense, were offset by a slight increase in audit and consulting costs.

Other Income and Expense:

	Three months ended March 31,			
	2013	2012	Change	Change %
Gain from change in fair value of Warrant	$1,136	$ 431	705	163.6%
Interest expense	(817)	(826)	9	(1.1)%
Interest income	4	6	(2)	(33.3)%
	$ 323	$(389)	$ 712	(183.0)%
Tax expense	(53)	(10)	(43)	430.0%

Gain from change in fair value of warrants. The $1.1 million and $431,000 gain from the change in fair value of the warrants for the periods ended March 31, 2014 and 2013, respectively, resulted from a decrease in the fair value of the warrants under the binomial lattice based valuation methodology, due primarily to a decrease in the Company's stock price at March 31, 2014 versus the prior period, and volatility which are the key assumptions in determining the value of the warrants. On April 30, 2014, the Warrants were exercised in full and the Company issued 450,000 shares of Common Stock. The Warrants to purchase an additional 100,000 shares of Common Stock were terminated.

Interest expense. Interest expense of $817,000 decreased by $9,000 or 1.1% for the three month period ended March 31, 2014 as compared to interest expense of $826,000 in the three month period ended March 31, 2013. 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 $52,000 in the three months ended March 31, 2014 as compared to $75,000 in the same period in 2013.

Interest income. Interest income of $4,000 and $6,000 for the quarters ended March 31, 2014, and 2013, respectively, reflects income earned from our money market accounts.

Tax expense. Tax expense of $53,000 and $10,000 for the quarters ended March 31, 2014, and 2013, 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. Our projected cash needs include planned capital expenditures, lease and settlement commitments, and other long-term obligations.

As of March 31, 2014, the Company had cash and cash equivalents of $38.4 million, current assets of $48.5 million, current liabilities of $20.3 million and working capital of $28.3 million. The ratio of current assets to current liabilities was 2.39:1.

Pursuant to the agreements with Deerfield Management, a healthcare investment fund ("Deerfield") in December 2011, the Company is obligated under the terms these agreements, to repay an aggregate principal amount of $15 million. In addition, we agreed to pay Deerfield a portion of our revenues until the maturity date of the note payable, whether or not the note is outstanding through that date. We also issued 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 a result, we are obligated to pay interest at 5.75% on the outstanding balance of the note which is approximately $216,000 per quarter until the fourth quarter of 2014, when the first payment of $3.75 million is due. In 2015, interest is approximately $162,000 per quarter with a payment of $3.75 million in December 2015 and in 2016, interest is approximately $108,000 per quarter, with the final payment of $7.5 million due in December 2016. On April 30, 2014, the Revenue Purchase agreement was terminated and the Company paid Deerfield $4.1 million. In addition, Deerfield exercised 450,000 warrants at the exercise price of $3.50 and paid the Company $1.575 million. Additionally, the Credit Facility with Deerfield was amended to provide that the Maturity Date thereunder may no longer be extended for a year. As a result, the second B Warrant was terminated.

Net cash used for operating activities for the nine month period ended March 31, 2014 was $1.7 million, compared to net cash used for operating activities of $1.2 million for the three month period ended March 31, 2013. The cash used for operating activities for the three months ended March 31, 2014 resulted primarily from uses of cash due to working capital changes resulting from decreases in accounts payable, accrued expenses and deferred revenue. We expect that cash used for or provided by operating activities may fluctuate in future periods as a result of a number of factors, including fluctuations in our operating results, specifically the timing of when we recognize revenue, our accounts receivable collections and the timing of other payments.

The net cash provided by investing activities for the three month period ended March 31, 2014 was $217,000 as compared to $99,000 for the three month period ended March 31, 2013. Cash used for investing activities consisted primarily of additions to property and equipment.

Net cash provided by financing activities for the three month period ended March 31, 2014 was $28.4 million as compared to net cash used of $7,000 for financing activities for the three month period ended March 31, 2013. The cash provided by financing activities reflects the underwritten offering of 2.76 million shares at approximately $11.00 per share, with net proceeds of $28.2 million after deducting offering expenses and underwriting discounts. The net cash used of $7,000 consisted of taxes paid related to restricted stock issuance.

Contractual Obligations

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

Contractual Obligations	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	5+ years
Operating Lease Obligations	$ 1,595	$ 494	$ 953	$ 148	$ —
Capital Lease Obligations	331	$ 133	198	—	
Settlement Obligations	2,225	25	800	1,050	350
Notes Payable	16,941	4,613	12,328		—
Other Commitments	1,545	1,545	—	—	—
Total Contractual Obligations	**$22,637**	**$ 6,810**	**$14,279**	**$ 1,198**	**$ 350**

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

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

Notes payable reflects the payments on the $15.0 million outstanding facility agreement with Deerfield and the interest payments at 5.75% on this obligation. In accordance with the termination of the Revenue Purchase Agreement as of April 30, 2014, payments related to this agreement are no longer considered an obligation.

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

Recent Accounting Pronouncements

See Note 11 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 March 31, 2014, 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 March 31, 2014, 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 6 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, 2013 as filed with the SEC on March 3, 2014. 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

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
January 1 - January 31, 2014	6,177	$ 11.50	$ —	$ —
February 1 - February 28, 2014	2,698	$ 11.23	$ —	$ —
March 1 - March 31, 2014			$ —	$ —
Total	8,875	$ 11.42	$ —	$ —

(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

Exhibit No.	Description
10.1	Revenue Purchase Termination Agreement and Amendment of Facility Agreement dated April 28, 2014 by and among Deerfield Private Design Fund II, L.P., Deerfield Private Design International II, L.P., Deerfield Special Situations Fund, L.P., Deerfield Special Situations Fund International Limited, Horizon Santé TTNP SARL and the Company.
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 March 31, 2014 and December 31, 2013, (ii) Consolidated Statements of Operations for the three months ended March 31, 2014 and 2013, (iii) Consolidated Statements of Cash Flows for the three months ended March 31, 2014 and 2013, and (iv) Notes to Consolidated Financial Statements**.

Signatures

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

iCAD, Inc.
(Registrant)

Date: May 14, 2014

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

Date: May 14, 2014

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

Exhibit 10.1

REVENUE PURCHASE TERMINATION AGREEMENT AND

AMENDMENT OF FACILITY AGREEMENT

April 28, 2014

Reference is hereby made to:

(i) that certain REVENUE PURCHASE AGREEMENT (the "Revenue Purchase Agreement"), dated December 29, 2011, by and between **Deerfield Private Design Fund II, L.P.**, a Delaware limited partnership ("Private Design Fund II"), **Deerfield Special Situations Fund, L.P.**, a Delaware limited partnership ("DSS"), **Horizon Santé TTNP SARL**, a Luxembourg limited company ("Horizon" and together with Private Design Fund II and DSS, the "Purchasers") and **iCAD, Inc.**, a Delaware corporation ("iCAD"); and

(ii) that certain FACILITY AGREEMENT (the "Facility Agreement"), dated as of December 29, 2011, between iCAD, Private Design Fund II, DSS, **Deerfield Private Design International II, L.P.** ("Private Design Fund II International") and **Deerfield Special Situations Fund International Limited** ("DSS International" and together with Private Design Fund II, DSS and Private Design Fund II International, the "Lenders").

Capitalized terms used herein but not defined herein shall have the meanings set forth in the Revenue Purchase Agreement. The Purchasers, the Lenders and iCAD hereby agree as follows:

1. Contingent upon receipt of the payments set forth in paragraph 2 below, the Revenue Purchase Agreement, including, without limitation, Section 2(e) of the Revenue Purchase Agreement, is hereby terminated in its entirety and is of no further force and effect and iCAD shall have no obligation to make any further payments to the Purchasers thereunder.

2. In order to terminate the Revenue Purchase Agreement, iCAD hereby agrees to pay the Purchasers (i) $4,100,000 in immediately funds on the date hereof and (ii) the amount due to the Purchasers under Section 2(a)(i) of the Revenue Purchase Agreement for the first quarter of 2014, which amount the parties agree is $362,108.41. Such amounts shall be paid in the relative percentages set forth in Section 2(d) of the Revenue Purchase Agreement pursuant to the wire instructions previously provided by the Purchasers to iCAD.

3. iCAD represents and warrants to the Purchasers that it is not in active discussions, nor has it had any discussions during the last six months, to sell any assets in excess of $500,000.

4. The definition of "Final Payment Date" in the Facility Agreement is hereby amended to eliminate the ability of iCAD to extend such date to the sixth anniversary of the date of the Facility Agreement and shall now be amended to read as follows:

> "Final Payment Date" means the earlier of (i) the date on which the Borrower repays the Notes (together with any other amounts accrued and unpaid under the Financing Documents) pursuant to this Agreement or (ii) the fifth anniversary of the date hereof.

IN WITNESS WHEREOF, the Parties have caused this Revenue Purchase Termination Agreement and Amendment of Facility Agreement to be executed by their duly authorized representatives as of the date first set forth above.

DEERFIELD PRIVATE DESIGN FUND II, L.P.
By: Deerfield Mgmt, L.P., General Partner
By: J. E. Flynn Capital LLC, General Partner

By: _____
Name: James E. Flynn
Title: President

DEERFIELD PRIVATE DESIGN INTERNATIONAL II, L.P.
By: Deerfield Mgmt, L.P., General Partner
By: J. E. Flynn Capital LLC, General Partner

By: _____
Name: James E. Flynn
Title: President

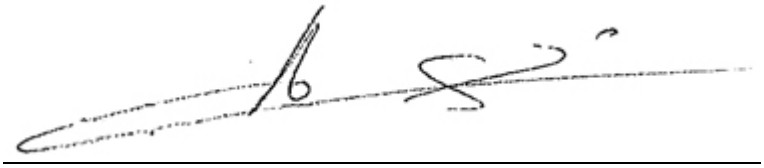
DEERFIELD SPECIAL SITUATIONS FUND, L.P.
By: Deerfield Mgmt. L.P., General Partner
By: J. E. Flynn Capital LLC, General Partner

By: _____
Name: James E. Flynn
Title: President

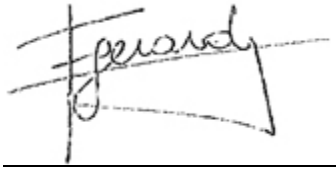
DEERFIELD SPECIAL SITUATIONS FUND INTERNATIONAL LIMITED

By: _____
Name: James E. Flynn
Title: Director

HORIZON SANTÉ TTNP SARL



By: _____
Name: Alexis Cazé
Title: Manager A



By: _____
Name: Florence Gerardy
Title: Manager B

ICAD, INC.

By: _____
Name:
Title:

HORIZON SANTÉ TTNP SARL

By: _____
Name: Alexis Cazé
Title: Manager

By: _____
Name: Florence Gerardy
Title: Manager

ICAD, INC.

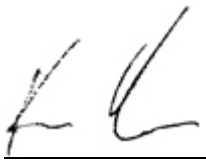
By:  _____
Name: Kevin Burns
Title: CFO

Exhibit 31.1

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 March 31, 2014 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: May 14, 2014

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

Exhibit 31.2

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 March 31, 2014 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: May 14, 2014

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

Exhibit 32.1

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

In connection with the Quarterly Report of iCAD, Inc. (the "Company") on Form 10-Q for the quarterly period ended March 31, 2014 (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: May 14, 2014

Exhibit 32.2

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

In connection with the Quarterly Report of iCAD, Inc. (the "Company") on Form 10-Q for the quarterly period ended March 31, 2014 (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: May 14, 2014