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, 2020

OR

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

For the transition period from __________ to __________

Commission file number 001-09341

iCAD, Inc.
(Exact name of registrant as specified in its charter)

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

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

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

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value	**ICAD**	**The Nasdaq Stock Market LLC**

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

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

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

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

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

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

As of the close of business on August 1, 2020, there were 22,900,592 shares outstanding of the registrant’s Common Stock, $0.01 par value.

iCAD, Inc.

INDEX

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

Assets	June 30, 2020	December 31, 2019
Current assets:		
Cash and cash equivalents	$ 24,225	$ 15,313
Trade accounts receivable, net of allowance for doubtful accounts of $255 in 2020 and $136 in 2019	6,658	9,819
Inventory, net	3,348	2,611
Prepaid expenses and other current assets	1,452	1,453
Total current assets	35,683	29,196
Property and equipment, net of accumulated depreciation of $6,652 in 2020 and $6,510 in 2019	590	551
Operating lease assets	2,131	2,406
Other assets	110	50
Intangible assets, net of accumulated amortization of $8,338 in 2020 and $8,186 in 2019	1,037	1,183
Goodwill	8,362	8,362
Total assets	$ 47,913	$ 41,748
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 1,421	$ 1,990
Accrued and other expenses	5,085	6,590
Notes payable - current portion	—	4,250
Lease payable - current portion	813	758
Deferred revenue	5,466	5,248
Total current liabilities	12,785	18,836
Lease payable, long-term portion	1,497	1,837
Notes payable, long-term portion	6,937	2,003
Convertible debentures payable to non-related parties, at fair value	—	12,409
Convertible debentures payable to related parties, at fair value	—	1,233
Deferred revenue, long-term portion	198	356
Deferred tax	4	3
Total liabilities	21,421	36,677
Commitments and Contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, $0.01 par value: authorized 1,000,000 shares; none issued.	—	—
Common stock, $0.01 par value: authorized 30,000,000 shares; issued 23,060,272 as of June 30, 2020 and 19,546,151 as of December 31, 2019. Outstanding 22,874,441 as of June 30, 2020 and 19,360,320 as of December 31, 2019.	231	195
Additional paid-in capital	266,211	230,615
Accumulated deficit	(238,535)	(224,324)
Treasury stock at cost, 185,831 shares in 2020 and 2019	(1,415)	(1,415)
Total stockholders' equity	26,492	5,071
Total liabilities and stockholders' equity	$ 47,913	$ 41,748

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Revenue:				
Products	$ 2,888	$ 4,353	$ 6,683	$ 8,175
Service and supplies	2,679	2,976	5,435	5,927
Total revenue	5,567	7,329	12,118	14,102
Cost of revenue:				
Products	537	645	1,554	1,325
Service and supplies	575	858	1,502	1,575
Amortization and depreciation	98	100	195	194
Total cost of revenue	1,210	1,603	3,251	3,094
Gross profit	4,357	5,726	8,867	11,008
Operating expenses:				
Engineering and product development	1,878	2,139	4,089	4,266
Marketing and sales	2,631	3,120	6,239	5,693
General and administrative	2,110	1,858	4,642	3,404
Amortization and depreciation	49	67	101	137
Total operating expenses	6,668	7,184	15,071	13,500
Loss from operations	(2,311)	(1,458)	(6,204)	(2,492)
Interest expense	(115)	(202)	(245)	(411)
Other income	33	64	75	123
Loss on extinguishment of debt	—	—	(341)	—
Loss on fair value of convertible debentures	—	(1,915)	(7,464)	(4,440)
Other expense, net	(82)	(2,053)	(7,975)	(4,728)
Loss before income tax expense	(2,393)	(3,511)	(14,179)	(7,220)
Tax expense	(5)	(19)	(31)	(27)
Net loss and comprehensive loss	$ (2,398)	$ (3,530)	$ (14,210)	$ (7,247)
Net loss per share:				
Basic	$ (0.11)	$ (0.20)	$ (0.67)	$ (0.42)
Diluted	$ (0.11)	$ (0.20)	$ (0.67)	$ (0.42)
Weighted average number of shares used in computing loss per share:				
Basic	22,396	17,640	21,275	17,422
Diluted	22,396	17,640	21,275	17,422

See accompanying notes to consolidated financial statements.

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

	For the Six Months ended June 30, 2020	2019
	(in thousands)	
Cash flow from operating activities:		
Net loss	$ (14,210)	$ (7,247)
Adjustments to reconcile net loss to net cash used for operating activities:		
Amortization	154	189
Depreciation	142	142
Bad debt provision	119	31
Stock-based compensation expense	2,077	516
Amortization of debt discount and debt costs	53	79
Loss on extinguishment of debt	341	—
Deferred tax expense	1	—
Change in fair value of convertible debentures	7,464	4,440
Changes in operating assets and liabilities:		
Accounts receivable	3,201	(399)
Inventory	(737)	(671)
Prepaid and other current assets	(19)	51
Accounts payable	(569)	573
Accrued expenses	(1,650)	(184)
Deferred revenue	60	76
Total adjustments	10,637	4,843
Net cash used for operating activities	(3,573)	(2,404)
Cash flow from investing activities:		
Additions to patents, technology and other	(6)	(7)
Additions to property and equipment	(180)	(136)
Net cash used for investing activities	(186)	(143)
Cash flow from financing activities:		
Stock option exercises	100	1,395
Taxes paid related to restricted stock issuance	—	(12)
Principal payments of capital lease obligations	—	(6)
Principal repayment of debt financing	(4,638)	(800)
Repayment of credit line	(2,000)	—
Proceeds from debt financing	6,957	—
Debt issuance costs	(37)	
Proceeds from issuance of common stock, net	12,289	9,352
Net cash provided by financing activities	12,671	9,929
Decrease in cash and equivalents	8,912	7,382
Cash and cash equivalents, beginning of period	15,313	12,185
Cash and cash equivalents, end of period	$ 24,225	$ 19,567
Supplemental disclosure of cash flow information:		
Interest paid	$ 127	$ 335
Taxes paid	$ 31	$ 27
Issuance of stock upon conversion of debentures	21,164	—
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 69	$ 907

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Year to Date
(In thousands except shares)

	Common Stock Number of Shares Issued	Par Value	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Stockholders' Equity
Balance December 31, 2019	$19,546,151	196	$230,615	$ (224,325)	$(1,415)	$ 5,071
Issuance of common stock relative to vesting of restricted stock	68,724	—	(131)			(131)
Issuance of common stock pursuant to stock option plans	44,966	1	231			232
Stock Issuance Net	1,580,965	16	12,273	—	—	12,289
Issuance of stock upon conversion of Debentures	1,819,466	18	21,146	—	—	21,164
Stock-based compensation			2,077			2,077
Net loss				(14,210)		(14,210)
Balance at June 30, 2020	$23,060,272	$ 231	$266,211	$ (238,535)	$(1,415)	$ 26,492

Consolidated Statements of Stockholders' Equity Quarter to Date
(In thousands except shares)

	Common Stock Number of Shares Issued	Par Value	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Stockholders' Equity
Balance at March 31, 2020	21,425,916	$ 215	$252,420	$ (236,137)	$(1,415)$	$ 15,083
Issuance of common stock relative to vesting of restricted stock	45,224	—	(131)			(131)
Issuance of common stock pursuant to stock option plans	8,167	—	36			36
Stock Issuance Net	1,580,965	16	12,273			12,289
Stock-based compensation			1,613			1,613
Net loss				(2,398)		(2,398)
Balance at June 30, 2020	23,060,272	$ 231	$266,211	$ (238,535)	$ (1,415)	$ 26,492

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

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

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

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

Notes to Condensed Consolidated Financial Statements:

Note 1 – Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The accompanying condensed consolidated financial statements of iCAD, Inc. and subsidiaries ("iCAD" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). In the opinion of management, these unaudited interim condensed consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the financial position of the Company at June 30, 2020, the results of operations of the Company for the three and six-month periods ended June 30, 2020 and 2019, cash flows of the Company for the six-month periods ended June 30, 2020 and 2019 and stockholders' equity for the Company for the three and six-month periods ended June 30, 2020 and 2019.

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, 2019 filed with the SEC on March 11, 2020. The results for the three and six-month periods ended June 30, 2020 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2020, or any future period.

Segments

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

Risk and Uncertainty

On March 12, 2020, the World Health Organization declared COVID-19 to be a pandemic. In an effort to contain and mitigate the spread of COVID-19, many countries, including the United States, Canada and China, have imposed unprecedented restrictions on travel, and there have been business closures and a substantial reduction in economic activity in countries that have had significant outbreaks of COVID-19. As a provider of devices and services to the health care industry, our operations have been materially affected in part due to stay-at-home and social distancing orders as well as uncertainty in the market. Significant uncertainty remains as to the potential impact of the COVID-19 pandemic on our continuing operations and on the global economy as a whole. It is currently not possible to predict how long the pandemic will last or the time that it will take for economic activity to return to prior levels. The COVID-19 pandemic has resulted in significant financial market volatility and uncertainty. A continuation or worsening of the levels of market disruption and volatility seen in the recent past could have an adverse effect on our ability to access capital, on our business, results of operations and financial condition, and on the market price of our common stock.

The potential impact of the COVID-19 pandemic on the Company's future revenue could affect our ability to access capital in future quarters due to the covenants contained in the Company's loan agreement with Western Alliance Bank (the "Bank"), as described in Note 4(b). Effective June 16, 2020 the loan agreement requires the Company to satisfy the minimum revenue covenant or maintain a ratio of (x) unrestricted cash at the Bank to (y) the aggregate total of indebtedness owed to the Bank, equal to or greater than 1.25 to 1.00. If at any point the Company is not in compliance with at least one of these and certain other covenants and is unable to obtain an amendment or waiver, such noncompliance may result in an event of default under the Loan and Security Agreement, which could result in acceleration of the outstanding indebtedness and require the Company to repay such indebtedness before the scheduled due date. However, the Company believes that even if an event of default were to occur, the Company's current liquidity and capital resources are sufficient to sustain operations through at least the next 12 months, primarily due to cash on hand of $24.2 million and anticipated revenue and cash collections.

Our results for the quarter ending June 30, 2020 reflect a negative impact from the COVID-19 pandemic as the typical sales cycle and ordering patterns were still disrupted due to healthcare facilities' additional focus on COVID-19. Although we do not provide guidance to investors relating to our future results of operations, our results for the quarter ending September 30, 2020, and possibly future quarters, could reflect a negative impact from the COVID-19 pandemic for similar reasons. Depending upon the duration and severity of the pandemic, the continuing effect on our results over the long term is uncertain.

Although the Company did not see any material impact to trade accounts receivable losses in the quarter ended June 30, 2020, the Company's exposure may increase if its customers are adversely affected by changes in healthcare laws, coverage, and reimbursement, economic pressures or uncertainty associated with local or global economic recessions, disruption associated with the current COVID-19 pandemic, or other customer-specific factors. Although the Company has historically not experienced significant trade account receivable losses, it is possible that there could be a material adverse impact from potential adjustments of the carrying amount of trade account receivables as hospitals' cash flows are impacted by their response to the COVID-19 pandemic.

The Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted on March 27, 2020. The Company is continuing to analyze the impact of the CARES Act on its business. For the three months ended June 30, 2020, the Company recorded a benefit of $0.3 million from the Employee Retention Credit, a component of the CARES Act. This was reflected in the Company's statement of operations.

Recently Adopted Accounting Pronouncements

There are no significant recently adopted accounting pronouncements. For a full list of the Company's response to all recent accounting pronouncements please refer to Note 13 below.

Revenue Recognition

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

Disaggregation of Revenue

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

	Three months ended June 30, 2020		
	Reportable Segments		
	Detection	Therapy	Total
Major Goods/Service Lines			
Products	$ 2,702	$ 575	$ 3,277
Service contracts	1,403	385	1,788
Supply and source usage agreements	—	490	490
Other	12	—	12
	$ 4,117	$ 1,450	$ 5,567
Timing of Revenue Recognition			
Goods transferred at a point in time	$ 2,714	$ 605	$ 3,319
Services transferred over time	1,403	845	2,248
	$ 4,117	$ 1,450	$ 5,567
Sales Channels			
Direct sales force	$ 2,709	$ 805	$ 3,514
OEM partners	1,408	—	1,408
Channel partners	—	645	645
	$ 4,117	$ 1,450	$ 5,567

	Six months ended June 30, 2020		
	Reportable Segments		
	Detection	Therapy	Total
Major Goods/Service Lines			
Products	$ 5,802	$ 1,921	$ 7,723
Service contracts	2,750	732	3,482
Supply and source usage agreements	—	861	861
Professional services	—	11	11
Other	41	—	41
	$ 8,593	$ 3,525	$12,118
Timing of Revenue Recognition			
Goods transferred at a point in time	$ 5,843	$ 1,988	$ 7,831
Services transferred over time	2,750	1,537	4,287
	$ 8,593	$ 3,525	$12,118
Sales Channels			
Direct sales force	$ 4,881	$ 2,274	$ 7,155
OEM partners	3,712	—	3,712
Channel partners	—	1,251	1,251
	$ 8,593	$ 3,525	$12,118

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

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

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

Service Contracts. The Company sells service contracts in which it provides professional services including product installations, maintenance, training, and service repairs, and in certain cases leases equipment, to hospitals, imaging centers, radiology practices, radiation oncologists and treatment centers. These represent separate performance obligations to the Company. The Company allocates revenue to each performance obligation based on the Standalone Selling Price ("SSP"). Revenue for lease and non-lease components, or the entire arrangement when accounted for under ASC 606, is recognized on a straight-line basis over the term of the agreement. The service contracts range from 12 months to 48 months. The Company typically receives payment at the inception of the contract and recognizes revenue on a straight-line basis over the term of the agreement.

Supply and Source Usage Agreements. Revenue from supply and source usage agreements is recognized on a straight-line basis over the term of the supply or source usage agreement. These agreements represent a separate performance obligation to the Company. The Company allocates revenue to each performance obligation based on the SSP.

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

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

Contract Balances

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

Contract balances

	Balance at June 30, 2020
Receivables, which are included in 'Trade accounts receivable'	$ 6,658
Contract assets, which are included in "Prepaid and other current assets"	21
Contract liabilities, which are included in "Deferred revenue"	5,664

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

The Company's accounts receivable from contracts with customers, net of allowance for doubtful accounts, was $6.7 million and $9.8 million as of June 30, 2020 and December 31, 2019, respectively.

The Company will record a contract asset for unbilled revenue when the Company's performance is in excess of amounts billed or billable. The Company has classified the contract asset balance as a component of prepaid expenses and other current assets as of June 30, 2020 and December 31, 2019. The contract asset balance was $21,000 as of June 30, 2020 and $14,000 as of December 31, 2019.

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

The balance of deferred revenue at June30, 2020 and December 31, 2019 is as follows (in thousands):

Contract liabilities	June 30, 2020	December 31, 2019
Short term	$ 5,466	$ 5,248
Long term	198	356
Total	$ 5,664	$ 5,604

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

	Six Months Ended June 30, 2020
Balance at beginning of period	$ 5,604
Deferral of revenue	5,078
Recognition of deferred revenue	(5,018)
Balance at end of period	$ 5,664

We expect to recognize approximately $4.5 million of the deferred amount in 2020, $1.0 million in 2021, and $0.2 million thereafter.

Note 2 – Net Loss per Common Share

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net loss	**$ (2,398)**	**$ (3,530)**	**$(14,210)**	**$ (7,247)**
Shares used in the calculation of basic and diluted net loss per share	22,396	17,640	21,275	17,422
Diluted shares used in the calculation of net loss per share	22,396	17,640	21,275	17,422
Net loss per share - basic and diluted	$ (0.11)	$ (0.20)	$ (0.67)	$ (0.42)

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

	Period Ended June 30,	
	2020	2019
Stock options	2,006,221	1,519,713
Restricted stock	70,992	262,732
Convertible Debentures	—	1,742,500
Total	2,077,213	3,524,945

Note 3 – Inventory

Inventory is valued at the lower of cost or net realizable value, with cost determined by the first-in, first-out method. The Company regularly reviews inventory quantities on hand and records a reserve for excess and/or obsolete inventory primarily based upon the estimated usage of its inventory as well as other factors. Inventories consisted of the following (in thousands) and include an inventory reserve of approximately $0.2 million and $0.5 million as of June 30, 2020 and December 31, 2019, respectively.

	As of June 30, 2020	As of December 31, 2019
Raw materials	$ 1,734	$ 1,572
Work in process	159	39
Finished Goods	1,675	1,469
Inventory Gross	3,568	3,080
Inventory Reserve	(220)	(469)
Inventory Net	$ 3,348	$ 2,611

Note 4 – Financing Arrangements

(a) Loan and Security Agreement – Western Alliance Bank

On March 30, 2020, the Company entered into a Loan and Security Agreement with the Bank that provided an initial term loan ("Term Loan") facility of $7.0 million and a $5.0 million revolving line of credit.

The Loan Agreement was amended effective June 16, 2020 (as amended, the "Loan Agreement"). The Loan Agreement requires the Company to either (i) meet a minimum revenue covenant, or (ii) maintain a ratio of unrestricted cash at the bank to aggregate indebtedness owed to the Bank of at least 1.25 to 1.00. The Company was compliant with these covenants as of June 30, 2020, but cannot provide any assurance as to its future compliance due to, in part, the uncertainty of the effect of the COVID-19 pandemic on the world economy and the U.S. health system.

If at any point the Company is not in compliance with certain covenants under the Loan Agreement and is unable to obtain an amendment or waiver, such noncompliance may result in an event of default under the Loan Agreement, which could permit acceleration of the outstanding indebtedness and require the Company to repay such indebtedness before the scheduled due date. The Company was required, periodically in the past, to seek modifications from its prior lender to avoid non-compliance with its earlier covenants.

Interest in arrears on the Term Loan began to be repaid on April 1, 2020 and will continue to be paid on the first of each successive month thereafter until the principal repayment starts. Commencing on the principal repayment date of September 1, 2021 (or March 1, 2022 if the Company achieves a specified revenue target for any trailing six-month period prior to December 31, 2020) and continuing on the first day of each month thereafter, the Company shall make equal monthly payments of principal, together with applicable interest in arrears, to the Bank. The interest rate is set at 1% above the Prime Rate. Prime Rate is defined in the Loan Agreement as the greater of four and a quarter percent (4.25%) or the Prime Rate published in the Money Rates section of the Western Edition of the Wall Street Journal. The Prime Rate as of June 30, 2020 was 3.25%.

The Company has the option to prepay all, but not less than all, of the Term Loan advanced by the Bank under the Loan Agreement. The Company prepayment is subject to payment of (1) all outstanding principal of the Term Loan plus accrued and unpaid interest thereon through the prepayment date, (2) the final payment ($122,500 or 1.75% of the original loan amount), (3) the prepayment fee (3% of principal balance if prepaid prior to first March 30, 2021, 2% if principal of prepaid after March 30, 2021 but before June 30, 2022, or 1% of principal if prepaid after March 30, 2022) plus (4) all other obligations that are due and payable, including Bank's expenses and interest at the default rate with respect to any past due amounts.

The Company did not draw against its revolving line of credit as of June 30, 2020. The interest rate on such borrowings, if the Company were to take an advance, is three quarters-percent (0.75%) above the Prime Rate as defined above.

Obligations to the Bank under the Loan Agreement are secured by a first priority security interest in the Company's assets, except for certain permitted liens that have priority to the Bank's security interest by operation of law.

In connection with the Loan Agreement, the Company incurred approximately $141,000 of closing costs. The closing costs have been deduced from the carrying value of the debt and will be amortized through March 30, 2022, the maturity date of the Term Loan.

The maturity of the revolving loan is March 30, 2022.

(b) Loan and Security Agreement – Silicon Valley Bank

On August 7, 2017, the Company entered into a Loan and Security Agreement, which has since been modified several times through November 1, 2019 (as amended, the "SVB Loan Agreement") with Silicon Valley Bank that provided an initial term loan facility of $6.0 million and a $4.0 million revolving line of credit.

On March 30, 2020, the Company elected to repay all outstanding obligations (including accrued interest) and retire the SVB Loan Agreement. The Company accounted for this repayment and retirement as an extinguishment of the SVB Loan Agreement. In addition to the outstanding principal and accrued interest, the Company was required to pay the $510,000 final payment, a termination fee of $114,000 and other costs totaling $10,000. The Company also wrote off unamortized original closing costs as of the extinguishment date. The Company recorded a loss on extinguishment of approximately $341,000 related to the repayment and retirement of the SVB Loan Agreement. The loss on extinguishment was composed of approximately $185,000 for the unaccrued final payment, $114,000 termination fee, and $42,000 for the unamortized and other closing costs.

(c) Convertible Debentures

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

On February 21, 2020 (the "Conversion Date"), the conditions permitting a forced conversion were met, and the Company elected to exercise its forced conversion right under the terms of the Convertible Debentures.

As a result of this election, all of the outstanding Convertible Debentures were converted, at a conversion price of $4.00 per share, into 1,742,500 shares of the Company's common stock. In accordance with the make-whole provisions in the Debenture, the Company also issued an additional 76,966 shares of the Company's common stock. The make-whole amount represented the total interest which would have accrued through the maturity date of the Convertible Debentures, less the amounts previously paid, totaling $697,000. The conversion prices related to the make-whole amount were dependent on whether the Investors were related parties or unrelated third parties.

Accounting Considerations and Fair Value Measurements Related to the Convertible Debentures

The Company had previously elected to make a one-time, irrevocable election to utilize the fair value option to account for the Convertible Debentures as a single hybrid instrument at its fair value, with changes in fair value from period to period being recorded either in current earnings, or as an element of other comprehensive income (loss), for the portion of the change in fair value determined to relate to the Company's own credit risk. The Company believed that the election of the fair value option allowed for a more meaningful representation of the total fair value of its obligation under the Convertible Debentures and allowed for a better understanding of how changes in the external market environment and valuation assumptions impact such fair value.

As of the December 31, 2019 valuation and the prior measurement dates, the Company utilized a Monte Carlo simulation model to estimate the fair value of the Convertible Debentures. The simulation model was designed to capture the potential settlement features of the Convertible Debentures, in conjunction with simulated changes in the Company's stock price and the probability of certain events occurring. The simulation utilized 100,000 trials or simulations to determine the estimated fair value.

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

The Company also recorded a final adjustment to the Convertible Debentures based on their fair value on the Conversion Date, just prior to the forced conversion being completed. Given that the Company's prior simulation model included the assumption that the Company would elect to force conversion in 100% of scenarios when the requirements were met, the final valuation was based on the actual results of the forced conversion. As such, the Company based the final fair value adjustment to the Convertible Debentures just prior to conversion on the number of shares of common stock that were issued to the Investors upon conversion and the fair value of the Company's common stock as of the Conversion Date.

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

Input	December 31, 2019	February 21, 2019
Company's stock price	$ 7.77	$ 11.64
Conversion price	4.00	4.00
Remaining term (years)	1.97	0.00
Equity volatility	49.00%	N/A
Risk free rate	1.57%	N/A
[1] Probabilty of default event	0.45%	N/A
[1] Utilization of Forced Conversion (if available)	100.00%	100.00%
[1] Exercise of Default Redemption (if available)	100.00%	N/A
[1] Effective discount rate	18.52%	N/A

[1] Represents a Level 3 unobservable input, as defined in Note 8 - Fair Value Measurements, below.

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

The remaining term was determined based on the remaining time period to maturity of the Convertible Debentures, or remaining term under the expectation of the Company's election of its forced conversion right.

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

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

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

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

The effective discount rate utilized at the December 31, 2019 valuation date was based on yields on CCC-rated debt instruments with terms equivalent to the remaining term of the Convertible Debentures. The credit rating estimate was based on the implied credit rating determined at issuance and no changes were identified by the Company that would impact this assessment.

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

Convertible Debentures	December 31, 2019	February 21, 2020
Fair value, in accordance with fair value option	$ 13,642	$ 21,164
Principal value outstanding	$ 6,970	$ 6,970

The Company recorded a loss from the change in fair value of the Convertible Debentures of approximately $7.5 million for period through the conversion date which are described in the additional fair value disclosures related to the Convertible Debentures in Note 8.

Upon the consummation of the Forced Conversion, the Company issued 1,816,466 shares of common stock with a fair value of approximately $21.2 million, which was reclassified to stockholders' equity.

(d) Principal and Interest Payments Related to Financing Arrangements

Future principal, interest payments, and final payment related to the Loan Agreement are as follows (in thousands):

Fiscal Year	Amount Due
2020	$ 188
2021	1,238
2022	2,875
2023	2,735
2024	1,004
Total	$ 8,040

The following amounts are included in interest expense in our consolidated statement of operations for the three and six months ended June 30, 2020 and 2019 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Cash interest expense	$ 95	$ 75	$ 138	$ 157
Interest on convertible debentures	—	87	49	174
Accrual of notes payable final payment	8	32	39	64
Amortization of debt costs	12	7	19	14
Interest expense capital lease	—	1	—	2
Total interest expense	$ 115	$ 202	$ 245	$ 411

Note 5 – Lease Commitments

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

ASC 842 includes a number of reassessment and re-measurement requirements for lessees based on certain triggering events or conditions, including whether a contract is or contains a lease, assessment of lease term and purchase options, measurement of lease payments, assessment of lease classification and assessment of the discount rate. The Company reviewed the reassessment and re-measurement requirements and identified two lease modifications which are reflected in the table below showing the maturity of the Company's lease liabilities as of June 30, 2020. This includes an extension of an operating lease for the facility leased by the Company in San Jose, California as well as some equipment. In addition, there were no impairment indicators identified during the quarter ended June 30, 2020 that required an impairment test for the Company's right-of-use assets or other long-lived assets in accordance with ASC 360-10 Property Plant and Equipment ("ASC 360").

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

Components of Leases:

The Company has leases for office space and office equipment. The leases have remaining lease terms ranging from less than one year to three years and six months as of June 30, 2020.

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

Lease Cost	Classification	Three Months Ended June 30, 2020
Operating lease cost	Operating expenses	$ 224
Capital lease costs		
Amortization of leased assets	Amortization and depreciation	4
Interest on lease liabilities	Interest expense	—
Total		$ 228

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

	Three Months Ended June 30, 2020
Cash paid for operating cash flows from operating leases	$ 236
Cash paid for operating cash flows from capital leases	—
Cash paid for financing cash flows from capital leases	4

	As of June 30, 2020
Weighted-average remaining lease term of operating leases (in years)	2.70
Weighted-average remaining lease term of capital leases (in years)	1.00
Weighted-average discount rate for operating leases	5.6%
Weighted-average discount rate for capital leases	11.0%

Maturity of the Company's lease liabilities as of June 30, 2020 was as follows (in thousands):

As of June 30, 2020:	Operating Leases	Finance Leases	Total
2020	$ 457	4	461
2021	920	—	920
2022	899	—	899
2023	211	—	211
2024	5	—	5
Total lease payments	2,492	4	2,496
Less: imputed interest	(186)	—	(186)
Total lease liabilities	2,306	4	2,310
Less: current portion of lease liabilities	(809)	(4)	(813)
Long-term lease liabilities	$ 1,497	$ —	$1,497

Note 6 – Stock-Based Compensation

The Company granted options to purchase 270,357 and 523,857 shares of the Company's stock during the three and six months ended June 30, 2020, respectively. Options granted under the Company's stock incentive plans were valued utilizing the Black-Scholes model using the following assumptions and had the following fair values:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Average risk-free interest rate	0.26%	1.97%	0.79%	2.23%
Expected dividend yield	None	None	None	None
Expected life	3.5 years	3.5 years	3.5 years	3.5 years
Expected volatility	64.0% to 65.7%	51.9% to 54.2%	50.2 to 65.7%	51.9% to 54.2%
Weighted average exercise price	$10.76	$5.81	$10.11	$4.78
Weighted average fair value	$4.96	$2.35	$4.34	$1.93

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Cost of revenue	$ 24	$ 1	$ 24	$ 2
Engineering and product development	288	32	343	119
Marketing and sales	490	57	548	116
General and administrative	811	214	1,162	279
	$ 1,613	$ 304	$ 2,077	$ 516

As of June 30, 2020, unrecognized compensation cost (in thousands) related to unvested options and unvested restricted stock and the weighted average term of such equity instruments is as follows:

Remaining expense	$1,442
Weighted average term	1.0

The Company's restricted stock awards typically vest in either one year or three equal annual installments with the first installment vesting one year from grant date.

The Company granted 0 and 14,000 shares of restricted stock during the six-month periods ended June 30, 2020 and 2019, respectively.

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

	As of June 30,	
Aggregate intrinsic value	2020	2019
Stock options	$8,992	$2,273
Restricted stock	709	1,674

The Company issued 8,167 and 44,966 shares of common stock upon the exercise of outstanding stock options in the three and six-month periods ended June 30, 2020, respectively. The Company received cash proceeds of approximately $36,000 and $231,000 in the three and six-month periods ended June 30, 2020, respectively. The intrinsic value of restricted shares that vested in the six months ended June 30, 2020 was $0.4 million. There was no vesting of restricted shares in the three months ended June 30, 2020.

Employee Stock Purchase Plan

In December 2019, the 2019 Employee Stock Purchase Plan ("ESPP") was adopted by the Company's Board of Directors and approved by stockholders, effective January 1, 2020.

The ESPP provides for the issuance of up to 950,000 shares of common stock, subject to adjustment in the event of a stock split, stock dividend or other change in the Company's capitalization. The ESPP may be terminated or amended by the Board of Directors at any time. Certain amendments to the ESPP require stockholder approval.

Substantially all of the Company's employees whose customary employment is for more than 20 hours a week are eligible to participate in the ESPP. Any employee who owns 5% or more of the voting power or value of the Company's shares of common stock is not eligible to participate in the ESPP.

Any eligible employee can enroll in the ESPP as of the beginning of a respective quarterly accumulation period. Employees who participate in the ESPP may purchase shares by authorizing payroll deductions of up to 15% of their base compensation during an accumulation period. Unless the participating employee withdraws from participation, accumulated payroll deductions are used to purchase shares of common stock on the last business day of the accumulation period (the “Purchase Date”) at a price equal to 85% of the lower of the fair market value on (i) the Purchase Date or (ii) the first day of such accumulation period. Under applicable tax rules, no employee may purchase more than $25,000 worth of common stock, valued at the start of the purchase period, under the ESPP in any calendar year.

The Company issued 16,392 and 34,857 shares under the ESPP in the three and six-month periods ended June 30, 2020, respectively. The Company recorded approximately $30,000 and $64,000 of stock-based compensation expense pursuant to ESPP for the three and six-month periods ended June 30, 2020, respectively. The second accumulation period under the ESPP commenced on April 1, 2020 and was completed on June 30, 2020, and the related shares purchased by the participants were issued in July 2020. As of June 30, 2020, the Company recorded a liability of $94,000 related to employee withholdings in connection with the ESPP accumulation period ended June 30, 2020, which was included as a component of accrued expenses and other current liabilities.

Note 7 – Commitments and Contingencies

Foreign Tax Claim

In July 2007, a dissolved former Canadian subsidiary of the Company, CADx Medical Systems Inc. (“CADx Medical”), received a tax re-assessment of approximately $6,800,000 from the Canada Revenue Agency (“CRA”) resulting from the 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 CRA has the right to pursue the matter until July 2020. The Company believes that it is not liable for the re-assessment against CADx Medical and continues to defend its position. As the Company believes that the probability of a loss is remote, no accrual has been recorded for this matter as of June 30, 2020.

Other Commitments

The Company is obligated to pay approximately $4.5 million for firm purchase obligations to suppliers for future product and service deliverables.

Litigation

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

On September 5, 2018, third-party Yeda Research and Development Company Ltd. ("Yeda"), filed a complaint ("the Complaint") against the Company and Invivo in the United States District Court for the Southern District of New York, captioned Yeda Research and Development Company Ltd. v. iCAD, Inc. and Invivo Corporation, Case No. 1:18-cv-08083-GBD, related to the Company's sale of the VersaVue software and DynaCAD product under the Asset Purchase Agreement. In the Complaint, Yeda asserted claims for: (i) copyright infringement and misappropriation of trade secrets against both the Company and Invivo; (ii) breach of contract against the Company only; and (iii) tortious interference with existing business relationships and unjust enrichment against Invivo only. The Company and Invivo filed Motions to Dismiss the Complaint on December 21, 2018. On January 18, 2019, Yeda filed Oppositions to the Motions to Dismiss. The Company and Invivo submitted responses to the Opposition to the Motion to Dismiss on February 8, 2019. The Court held oral argument on the Motions to Dismiss on March 27, 2019. On September 5, 2019, the Court granted Invivo's Motion to Dismiss in its entirety and granted the Company's Motion to Dismiss as it relates to Yeda's breach of contract and misappropriation of trade secrets claims. On October 22, 2019, Yeda filed an Amended Complaint against only the Company asserting claims for (i) copyright infringement; and (ii) a replead breach of contract claim. The Company filed its Answer to Yeda's Amended Complaint on November 5, 2019. Yeda alleges, among other things, that the Company infringed upon Yeda's source code, which was originally licensed to the Company, by using it in the products that the Company sold to Invivo and that it is entitled to damages that could include, among other things, profits relating to the sales of these products. If the Company is found to have infringed Yeda's copyright or breached its agreements with Yeda, the Company could be obligated to pay to Yeda substantial monetary damages.

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

Note 8 – Fair Value Measurements

Fair value is defined 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 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, and notes payable and convertible debentures. Due to their short-term nature and market rates of interest, the carrying amounts of the financial instruments (except the Convertible Debentures, which were measured at fair value in accordance with the fair value option election) approximated fair value as of February 21, 2020 and December 31, 2019.

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

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

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

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

Fair Value Measurements (in thousands) as of December 31, 2019

	Level 1	Level 2	Level 3	Total
Assets				
Money market accounts	$15,313	$ —	$ —	$15,313
Total Assets	$15,313	$ —	$ —	$15,313
Liabilities				
Convertible debentures	$ —	$ —	$13,642	$13,642
Total Liabilities	$ —	$ —	$13,642	$13,642

Fair Value Measurements (in thousands) as of June 30, 2020

	Level 1	Level 2	Level 3	Total
Assets				
Money market accounts	$24,225	$ —	$ —	$24,225
Total Assets	$24,225	$ —	$ —	$24,225

The following sets forth a reconciliation of the changes in the fair value of the Convertible Debentures that were converted to equity during the six month period ended June 30, 2020 (in thousands):

	Convertible Debenture
Balance, December 31, 2019	$ 13,642
Fair value adjustments	7,522
Conversion	(21,164)
Balance, June 30, 2020	$ —

Note 9 – Income Taxes

The CARES Act was enacted on March 27, 2020. Although the Company is continuing to analyze the impact of the CARES Act on its business, the CARES Act did not have a material impact on our provision for income taxes for the three and six months ended June 30, 2020.

The Company recorded an income tax provision of $5,000 and $31,000 for the three and six months ended June 30, 2020, respectively, and $19,000 and $27,000 for the three and six months ended June 30, 2019, respectively. The Company had no material unrecognized tax benefits and a deferred tax liability of approximately $4,000 related to tax amortizable goodwill. No other adjustments were required under ASC 740, “Income Taxes”. The Company does not expect that the unrecognized tax benefits will materially increase within the next 12 months. The Company did not recognize any interest or penalties related to uncertain tax positions at June 30, 2020.

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

Note 10 – Goodwill

The Company tests goodwill for impairment on an annual basis and between annual tests if events and circumstances indicate it is more likely than not that the fair value of the reporting unit is less than the carrying value of the reporting unit.

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

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

The Company considered the goodwill impairment factors due to the uncertainty around the potential impact of the COVID-19 pandemic on the Company’s continuing operations and on the global economy as a whole. Under this consideration the Company performed scenario testing as of March 31, 2020 updating the projections to the most recent impairment analysis performed as of October 1, 2019. The Company compared the scenario test again against current forecasts as of June 30, 2020 and concluded that it did not have a triggering event or impairment indicators in the quarter ended June 30, 2020.

The Company would record an impairment charge when such assessment indicates that the fair value of a reporting unit was less than the carrying value. In evaluating potential impairments outside of the annual measurement date, judgment is required in determining whether an event has occurred that may impair the value of goodwill or intangible assets.

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

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

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

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

The Company has two operating segments, Detection and Therapy, as further discussed in Note 12 below.

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

	Consolidated reporting unit	Detection	Therapy	Total
Accumulated Goodwill	47,937	$ —	$ —	47,937
Accumulated impairment	(26,828)	—	—	(26,828)
Fair value allocation	(21,109)	7,663	13,446	—
Acquisition of DermEbx and Radion	—	—	6,154	6,154
Acquisition measurement period adjustments	—	—	116	116
Acquisition of VuComp	—	1,093	—	1,093
Sale of MRI assets	—	(394)		(394)
Impairment	—	—	(19,716)	(19,716)
Prior to December 31, 2019	—	8,362	—	8,362
Balance at June 30, 2020	$ —	$ 8,362	$ —	$ 8,362

Note 11 – Long-lived assets

The Company assesses long-lived assets for impairment if events and circumstances indicate it is more likely than not that the fair value of the asset group is less than the carrying value of the asset group.

There is no set interval or frequency for recoverability evaluation rather when to determine when, if at all, an asset (or asset group) is evaluated for recoverability is based on “events and circumstances.” The following factors are examples of events or changes in circumstances that indicate the carrying amount of an asset (asset group) may not be recoverable and thus is to be evaluated for recoverability.

- A significant decrease in the market price of a long-lived asset (asset group);
- A significant adverse change in the extent or manner in which a long-lived asset (asset group) is being used or in its physical condition;
- A significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset (asset group), including an adverse action or assessment by a regulator;
- An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset (asset group);
- A current period operating, or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset (asset group).

The Company determined there were no triggering events in the quarter ended June 30, 2020.

If the carrying amount of an asset or asset group (in use or under development) is evaluated and found not to be fully recoverable (the carrying amount exceeds the estimated gross, undiscounted cash flows from use and disposition), then an impairment loss must be recognized. The impairment loss is measured as the excess of the carrying amount over the fair value of the asset (or asset group). The Company determined the "Asset Group" of the Company to be the assets of the Cancer Therapy segment and the Cancer Detection segment, which the Company considers to be the lowest level for which the identifiable cash flows were largely independent of the cash flows of other assets and liabilities.

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

Note 12 – Segment Reporting

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. 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, Detection and Therapy.

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

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

Segment revenues, gross profit, segment operating income or loss, and a reconciliation of segment operating income or loss to US GAAP loss before income tax is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Segment revenues:				
Detection	$ 4,117	$ 5,209	$ 8,593	$ 9,377
Therapy	1,450	2,120	3,525	4,725
Total Revenue	$ 5,567	$ 7,329	$ 12,118	$14,102
Segment gross profit:				
Detection	$ 3,533	$ 4,356	$ 7,000	$ 7,823
Therapy	824	1,370	1,867	$ 3,185
Segment gross profit	$ 4,357	$ 5,726	$ 8,867	$11,008
Segment operating income (loss):				
Detection	$ 201	$ 673	$ (145)	$ 975
Therapy	(432)	(264)	(1,438)	$ (43)
Segment operating income (loss)	$ (231)	$ 409	$ (1,583)	$ 932
General, administrative, depreciation and amortization expense	$(2,080)	$(1,867)	$ (4,621)	$ (3,424)
Interest expense	(115)	(202)	(245)	(411)
Other income	33	64	75	123
Loss on extinguishment of debt	—	—	(341)	—
Fair value of convertible debentures	—	(1,915)	(7,464)	(4,440)
Loss before income tax	$(2,393)	$(3,511)	$(14,179)	$ (7,220)

Note 13 – Recent Accounting Pronouncements

Recently Adopted Accounting Standards

On January 1, 2020, the Company adopted ASU 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement” (“ASU 2018-13”). ASU 2018-13 removes, modifies and adds certain disclosure requirements of ASC Topic 820. ASU 2018-13 is effective for Company for the fiscal year and interim periods therein beginning January 1, 2020. The Company notes that the adoption of ASU 2018-13 did not have a material impact on its consolidated financial statements.

Recently Issued Accounting Standards Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments - Credit Losses (Topic 326)” (“ASU 2016-13”), which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss model which requires the use of forward-looking information to calculate credit loss estimates. These changes will result in earlier recognition of credit losses. In November 2019, the FASB elected to defer the adoption date of ASU 2016-13 for public business entities that meet the definition of a smaller reporting company to fiscal years beginning after December 15, 2022. Early adoption of the guidance in ASU 2016-13 is permitted. The Company is currently evaluating the impact that the adoption of ASU 2016-13 will have on its consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, “Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes” (“ASU 2019-12”). ASU 2019-12 is intended to simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. ASU 2019-12 is effective for the Company for the fiscal year and interim periods therein beginning January 1, 2021. The Company is currently evaluating the impact that the adoption of ASU 2019-12 will have on its consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, “Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting” (“ASU 2020-04”). ASU 2020-04 was issued because the London Interbank Offered Rate (“LIBOR”) is a benchmark interest rate referenced in a variety of agreements that are used by all types of entities. At the end of 2021, banks will no longer be required to report information that is used to determine LIBOR. As a result, LIBOR could be discontinued. Other interest rates used globally could also be discontinued for similar reasons. ASU 2020-04 provides companies with optional guidance to ease the potential accounting burden associated with transitioning away from reference rates that are expected to be discontinued. Companies can apply the ASU immediately. However, the guidance will only be available for a limited time (generally through December 31, 2022). The Company is currently evaluating the impact that the adoption of ASU 2020-04 will have on its consolidated 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 following: the impact of the COVID-19 pandemic on our business and the macro economy; uncertainty of future sales and expense levels, protection of patents and other proprietary rights, the impact of supply and manufacturing constraints or difficulties, regulatory changes and requirements applicable to our products, product market acceptance, possible technological obsolescence of products, increased competition, integration of the acquired businesses, the impact of litigation and/or government regulation, changes in Medicare reimbursement policies, competitive factors, the effects of a decline in the economy in markets served by the Company and other risks detailed in the Company's other filings with the Securities and Exchange Commission. The words "believe", "plan", "intend", "expect", "estimate", "anticipate", "likely", "seek", "should", "would", "could" and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on those forward-looking statements, which speak only as of the date the statement was made.

Results of Operations

Overview

iCAD, Inc. is a global medical technology company providing innovative cancer detection and therapy solutions. The Company reports in two segments: Detection and Therapy.

In the Detection segment, the Company's solutions include (i) advanced image analysis and workflow solutions that enable healthcare professionals to better serve patients by identifying pathologies and pinpointing the most prevalent cancers earlier, and (ii) a comprehensive range of high-performance, Artificial Intelligence and Computer-Aided Detection (CAD) systems and workflow solutions for 2D and 3D mammography, Magnetic Resonance Imaging (MRI) and Computed Tomography (CT).

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

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

COVID-19 Impact

On March 12, 2020, the World Health Organization declared COVID-19 to be a pandemic. In an effort to contain and mitigate the spread of COVID-19, many countries, including the United States, Canada and China, have imposed unprecedented restrictions on travel, and there have been business closures and a substantial reduction in economic activity in countries that have had significant outbreaks of COVID-19. As a provider of devices and services to the health care industry, our operations have been materially affected. Significant uncertainty remains as to the potential impact of the COVID-19 pandemic on our continuing operations and on the global economy as a whole. It is currently not possible to predict how long the pandemic will last or the time that it will take for economic activity to return to prior levels. The COVID-19 pandemic has resulted in significant financial market volatility and uncertainty. A continuation or worsening of the levels of market disruption and volatility seen in the recent past could have an adverse effect on our ability to access capital, on our business, results of operations and financial condition, and on the market price of our common stock. Our results for the quarter ending June 30, 2020 reflect a negative impact from the COVID-19 pandemic as the typical sales cycle and ordering patterns were still disrupted due to healthcare facilities' additional focus on COVID-19. Although we do not provide guidance to investors relating to our results of operations, our results for the quarter ending September 30, 2020, and possibly future quarters could reflect a negative impact from the COVID-19 pandemic for similar reasons. With this impact happening so late in the three-month period ended March 31, 2020, the Company was unable to make significant changes to costs for that period. However, the Company took steps during the three-month period ended June 30, 2020 to reduce operating expenses, including cutting non-essential travel, implementing employee furloughs and terminations, reducing employee salaries by 10%, and cancelling most in-person trade shows. Depending upon the duration and severity of the pandemic, the continuing effect on our results over the long term is uncertain. We will continue to evaluate the nature and extent of the impact of COVID-19 on our business and cost structure.

During the first quarter of fiscal 2020 the Company also entered into an equity distribution agreement with JMP Securities to provide for an at- the-market offering program to provide additional potential liquidity through the sale of common stock having a value of up to $25.0 million. The Company did not make any sales under this equity distribution agreement in the period ended June 30, 2020. The Company believes that its current liquidity and capital resources are sufficient to sustain operations through at least the next 12 months, primarily due to cash on hand of $24.2 million and anticipated revenue and cash collections.

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 ongoing basis, the Company evaluates these estimates, including those related to revenue recognition, allowance for doubtful accounts, inventory valuation and obsolescence, intangible assets, goodwill, income taxes, contingencies and litigation. Additionally, the Company uses assumptions and estimates in calculations to determine stock-based compensation, the fair value of convertible notes, and evaluation of litigation. 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.

Due to the COVID-19 pandemic, there has been uncertainty and disruption in the global economy and financial markets. The Company is not aware of any specific event or circumstance that would require an update to its estimates or judgments or a revision of the carrying value of its assets or liabilities as of August 7, 2020, the date of issuance of this Quarterly Report on Form 10-Q. These estimates may change, as new events occur and additional information is obtained. Actual results could differ materially from these estimates under different assumptions or conditions.

Other than as described herein, there have been no additional material changes to our critical accounting policies as discussed in our 2019 Annual Report on Form 10-K (the "2019 10-K"). For a comprehensive list of the Company's critical accounting policies, reference should be made to the 2019 10-K.

Three and six months ended June 30, 2020 compared to three and six months ended June 30, 2019.

Revenue: (in thousands)

Three months ended June 30, 2020 and 2019:

	Three months ended June 30,			
	2020	**2019**	**$ Change**	**% Change**
Detection revenue				
Product revenue	$2,702	$3,808	$ (1,106)	(29.0)%
Service revenue	1,415	1,401	14	1.0%
Subtotal	4,117	5,209	(1,092)	(21.0)%
Therapy revenue				
Product revenue	186	545	(359)	(65.9)%
Service revenue	1,264	1,575	(311)	(19.7)%
Subtotal	1,450	2,120	(670)	(31.6)%
Total revenue	$5,567	$7,329	$ (1,762)	(24.0)%

Total revenue decreased by approximately $1.8 million, or 24.0%, from $7.3 million for the three months ended June 30, 2019 to $5.6 million for the three months ended June 30, 2020. The decrease is due to a decrease in Therapy revenue of approximately $0.7 million and a decrease in Detection revenue of $1.1 million. The Company believes that Detection product revenue and Therapy segment revenue were adversely affected in the second quarter of 2020 by the COVID-19 pandemic, as the typical sales cycle and ordering patterns were disrupted due to healthcare facilities' additional focus on COVID-19. The Company is not able to predict how the COVID-19 pandemic will affect future revenue and order volume.

Detection product revenue decreased by approximately $1.1 million, or 29.0%, from $3.8 million for the three months ended June 30, 2019 to $2.7 million for the three months ended June 30, 2020. The decrease was due primarily to decreases in (i) direct customer revenue of $0.2 million. and (ii) OEM customer revenue of $0.9 million, in each case relating primarily to revenue from 3D imaging and density assessment products.

Detection service and supplies revenue remained at approximately $1.4 million in each of the three months ended June 30, 2019 and 2020. The Company did not see a significant impact of the COVID-19 pandemic on Detection service and supplies revenue in the second quarter of 2020 but is not able to predict how the COVID-19 pandemic will affect future Detection service and supplies revenue.

Therapy product revenue decreased by approximately $0.4million, or 65.9%, from $0.6 million for the three months ended June 30, 2019 to $0.2 million for the three months ended

June 30, 2020. Therapy product revenue is related to the sale of our Axxent systems and can vary significantly from quarter to quarter due to changes in the number of units sold, and the average selling price.

Therapy service and supply revenue decreased by approximately $0.3 million, or 19.7%, from $1.6 million for the three months ended June 30, 2019 to $1.3 million for the three months ended June 30, 2020. The Company believes that Therapy service and supply revenue was adversely affected by the COVID-19 pandemic, due to stay-at-home and social distancing orders as well as the uncertainty in the market. The Company is not able to predict how the COVID-19 pandemic will affect future Therapy service and supply revenue.

Six months ended June 30, 2020 and 2019:

	Six months ended June 30,			
	2020	**2019**	**$ Change**	**% Change**
Detection revenue				
Product revenue	$ 5,802	$ 6,598	$ (796)	(12.1)%
Service revenue	2,791	2,779	12	0.4%
Subtotal	8,593	9,377	(784)	(8.4)%
Therapy revenue				
Product revenue	881	1,577	(696)	(44.1)%
Service revenue	2,644	3,148	(504)	(16.0)%
Subtotal	3,525	4,725	(1,200)	(25.4)%
Total revenue	$12,118	$14,102	$ (1,984)	(14.1)%

Total revenue decreased by approximately $2.0 million, or 14.1%, from $14.1 million for the six months ended June 30, 2019 to $12.1 million for the six months ended June 30, 2020. The decrease is due to a decrease in Therapy revenue of approximately $1.2 million and a decrease in Detection revenue of approximately $0.8 million. The Company believes that Detection product revenue and order volume, and both Therapy product and Therapy service and supply revenue were adversely affected in the second quarter of 2020 by the COVID-19 pandemic, as the typical sales cycle and ordering patterns were disrupted due to healthcare facilities' additional focus on COVID-19. The Company is not able to predict how the COVID-19 pandemic will affect future revenue and order volume.

Detection product revenue decreased by approximately $0.8 million, or 12.3%, from $6.6 million for the six months ended June 30, 2019 to $5.8 million for the six months ended June 30, 2020. The decrease was due primarily to a decrease in OEM revenue of $0.8 million, relating primarily to revenue from 3D imaging and density assessment products.

Detection service and supplies revenue remained at approximately $2.8 million in each of the six months ended June 30, 2019 and 2020. The Company did not see a significant impact of the COVID-19 pandemic on Detection service and supplies revenue for the six months ended June 30, 2020 but is not able to predict how the COVID-19 pandemic will affect future Detection service and supplies revenue.

Therapy product revenue decreased by approximately $0.7 million, or 44.1%, from $1.6 million for the six months ended June 30, 2019 to $0.9 million for the six months ended June 30, 2020. Therapy product revenue is related to the sale of our Axxent systems and can vary significantly from quarter to quarter due to changes in the number of units sold, and the average selling price.

Therapy service and supply revenue decreased by approximately $0.5 million, or 16%, from $3.1 million for the six months ended June 30, 2019 to $2.6 million for the six months ended June 30, 2020.

Cost of Revenue and Gross Profit: (in thousands)

Three months ended June 30, 2020 and 2019:

	Three months ended June 30,			
	2020	**2019**	**$ Change**	**% Change**
Products	$ 537	$ 645	$ (108)	(16.7)%
Service and supplies	575	858	(283)	(33.0)%
Amortization and depreciation	98	100	(2)	(2.0)%
Total cost of revenue	$1,210	$ 1,603	$ (393)	(24.5)%
Gross profit	$4,357	$ 5,726	$ (1,369)	(23.9)%

	Three months ended June 30,			
	2020	**2019**	**$ Change**	**% Change**
Detection gross profit	$3,533	$ 4,356	$ (823)	(18.9%)
Therapy gross profit	824	1,370	(546)	(39.9%)
Gross profit	$4,357	$ 5,726	$ (1,369)	(23.9)%

Gross profit for the three months ended June 30, 2020 was approximately $4.4 million, or 78.3% of revenue, as compared to $5.7 million, or 78.1% of revenue, for the three months period ended June 30, 2019. The COVID-19 pandemic adversely affected revenues from Detection products and the Therapy segment in the three months ended June 30, 2020, and as a result, lower gross profit in both segments. However, the Company took steps during the three-month period ended June 30, 2020 to reduce operating expenses, including cutting non-essential travel, implementing employee furloughs and terminations and reducing employee salaries by 10%. These measures enabled an increase in gross profit in the three months ended June 30, 2020 compared to the prior year period.

Cost of products decreased by approximately $0.1 million, or 16.7%, from $0.6 million for the three months ended June 30, 2019 to $0.5 million for the three months ended June 30, 2020. Cost of product revenue as a percentage of product revenue was approximately 14.8% for the three months ended June 30, 2019 as compared to 18.6% for the three months ended June 30, 2020. The decrease in cost of products is due primarily to decreased personnel costs. The increase as a percentage of revenue is primarily due to the timing of cost-cutting measures in response to COVID-19 and increased server and hardware costs.

Cost of service and supplies decreased by approximately $0.3 million, or 33%, from $0.9 million for the three months ended June 30, 2019 to $0.6 million for the three months ended June 30, 2020. Cost of service and supplies revenue as a percentage of service and supplies revenue was approximately 28.8% for the three months ended June 30, 2019 as compared to 21.5% for the three months ended June 30, 2020. The decrease in service and supplies costs is due primarily to decrease in personnel costs.

Amortization and depreciation, which relates primarily to acquired intangible assets and depreciation of machinery and equipment, was approximately $0.1 million for each of the three months ended June 30, 2020 and 2019.

Six months ended June 30, 2020 and 2019:

	Six months ended June 30,			
	2020	**2019**	**$ Change**	**% Change**
Products	$ 1,554	$ 1,325	$ 229	17.3%
Service and supplies	1,502	1,575	(73)	(4.6)%
Amortization and depreciation	195	194	1	0.5%
Total cost of revenue	$ 3,251	$ 3,094	$ 157	5.1%
Gross profit	$ 8,867	$ 11,008	$ (2,141)	(19.4)%

	Six months ended June 30,			
	2020	**2019**	**$ Change**	**% Change**
Detection gross profit	$ 7,000	$ 7,823	$ (823)	(10.5%)
Therapy gross profit	1,867	3,185	(1,318)	(41.4%)
Gross profit	8,867	11,008	(2,141)	(19.4%)

Gross profit for the six months ended June 30, 2020 was approximately $8.9 million, or 73.2% of revenue, as compared to $11.0 million, or 78.1% of revenue, for the six months period ended June 30, 2019. The COVID-19 pandemic adversely affected revenues from Detection products and the Therapy segment in the six months ended June 30, 2020, and as a result, gross profit in both segments. However, the Company took steps during the three-month period ended June 30, 2020 to reduce operating expenses, including cutting non-essential travel, implementing employee furloughs and terminations and reducing employee salaries by 10%.

Cost of products increased by approximately $0.2 million, or 17.3%, from $1.3 million for the six months ended June 30, 2019 to $1.5 million for the six months ended June 30, 2020. Cost of product revenue as a percentage of product revenue was approximately 16.2% for the six months ended June 30, 2019 as compared to 23.3% for the six months ended June 30, 2020. The increase in cost of products is due primarily to increased personnel costs in the three months ended period March 31, 2020 prior to the COVID-19 cost cutting measures, as well as increased server and hardware costs.

Cost of service and supplies decreased by approximately $0.1 million, or 4.6%, from $1.6 million for the six months ended June 30, 2019 to $1.5 million for the six months ended June 30, 2020. Cost of service and supplies revenue as a percentage of service and supplies revenue was approximately 26.6% for the six months ended June 30, 2019 as compared to 27.6% for the six months ended June 30, 2020. The decrease in service and supplies costs is due primarily to decreased personnel costs in cost of sales.

Amortization and depreciation, which relates primarily to acquired intangible assets and depreciation of machinery and equipment, was approximately $0.2 million for each of the six months ended June 30, 2020 and 2019.

Operating Expenses: (in thousands)

The Company's investments in its business and the resulting operating expenses continued to grow throughout 2019. The Company expected sales orders, shipments, and overall revenue to continue to grow in 2020, which would have necessitated similar levels of operating expenses in 2020. Although the COVID-19 pandemic impacted revenue throughout the six months ended June 30, 2020, the Company began to implement significant reductions to operating expenses in April 2020. Steps taken to reduce operating expenses included cutting non-essential travel, implementing employee furloughs and terminations, reducing employee salaries by 10%, and cancelling most in-person trade shows. The Company will continue to monitor the timing of when these measures may be reversed based on the impact that COVID-19 has on the Company's revenues.

Three months ended June 30, 2020 and 2019:

	Three months ended June 30,			
	2020	2019	Change	Change %
Operating expenses:				
Engineering and product development	$ 1,878	$ 2,139	$ (261)	(12.2)%
Marketing and sales	2,631	3,120	(489)	(15.7)%
General and administrative	2,110	1,858	252	13.6%
Amortization and depreciation	49	67	(18)	(26.9)%
Total operating expenses	$ 6,668	$ 7,184	$ (516)	(7.2)%

Operating expenses decreased by approximately $0.5 million, or 7.2%, from $7.2 million in the three months ended June 30, 2019 to $6.7 million in the three months ended June 30, 2020. The Company took steps during the three-month period ended June 30, 2020 to reduce operating expenses, including cutting non-essential travel, implementing employee furloughs and terminations, reducing employee salaries by 10%, and cancelling most in-person trade shows.

The Company will continue to monitor the timing of when any of these measures can be reversed based on the impact that COVID-19 has on the Company's revenues. The decrease in operating expenses was also due to the $0.3 million Employee Retention Credit that the Company recorded pursuant to the CARES Act.

Engineering and Product Development. Engineering and product development costs decreased by approximately $0.3 million, or 12.2%, from $2.1 million for the three months ended June 30, 2019 to $1.9 million for the three months ended June 30, 2020. Detection engineering and product development costs decreased by $0.1 million from $1.5 million for the three months ended June 30, 2019 to $1.4 million for the three months ended June 30, 2020. Therapy engineering and product development costs decreased $0.1 million, from $0.6 million in the three months ended June 30, 2019 to $0.5 million for the three months ended June 30, 2020. The decreases were due primarily to decreased personnel costs.

Marketing and Sales. Marketing and sales expenses decreased by approximately $0.5 million, or 15.7%, from $3.1 million in the three months ended June 30, 2019 to $2.6 million in the three months ended June 30, 2020. Detection marketing and sales expense decreased by $0.2 million, from $2.1 million in the three months ended June 30, 2019 to $1.9 million in the three months ended June 30, 2020. This included a credit of $0.1 million Employee Retention Credit pursuant to the CARES Act. Therapy marketing and sales expense decreased by $0.3 million, from $1.0 million in the three months ended June 30, 2019 to $0.7 million in the three months ended June 30, 2020. The decrease in both Detection and Therapy marketing and sales expense is due primarily to (i) decreased personnel costs and commissions as a result of the Company's COVID-19 related cost-cutting efforts, and (ii) the Employee Retention Credit.

General and Administrative. General and administrative expenses increased by approximately $0.2 million, or 13.6%, from $1.9 million in the three months ended June 30, 2019 to $2.1 million for the three months ended June 30, 2020. The increase is due primarily to increases in stock compensation expense and legal costs offset by a decrease in personnel costs.

Amortization and Depreciation. Amortization and depreciation, which relates primarily to acquired intangible assets and depreciation of machinery and equipment, decreased by approximately $18,000, or 26.9% from $67,000 for the three months ended June 30, 2019 to $49,000 for the three months ended June 30, 2020.

Six months ended June 30, 2020 and 2019:

	Six months ended June 30,			
	2020	2019	Change	Change %
Operating expenses:				
Engineering and product development	$ 4,089	$ 4,266	$ (177)	(4.1)%
Marketing and sales	6,239	5,693	546	9.6%
General and administrative	4,642	3,404	1,238	36.4%
Amortization and depreciation	101	137	(36)	(26.3)%
Total operating expenses	$ 15,071	$ 13,500	$ 1,571	11.6%

Operating expenses increased by approximately $1.6 million, or 11.6%, from $13.5 million in the six months ended June 30, 2019 to $15.1 million in the six months ended June 30, 2020. Although the Company implemented cost-cutting measures related to COVID-19 and was able to achieve a reduction in operating expenses during the three months ended June 30, 2020, there were still no such measures related to COVID-19 in the three months ended March 31, 2020, resulting in an overall increase in operating expenses for the six months ended June 30, 2020. The increase in operating expenses was also offset by the $0.3 million Employee Retention Credit that the Company recorded in the quarter ended June 30, 2020 pursuant to the CARES Act.

Engineering and Product Development. Engineering and product development costs decreased by approximately $0.2 million, or 4.1%, from $4.3 million for the six months ended June 30, 2019 to $4.1 million for the six months ended June 30, 2020. Detection engineering and product development costs decreased by $0.2 million, from $3.0 million for the six months ended June 30, 2019 to $2.8 million for the six months ended June 30, 2020, due primarily to decreased personnel costs. Therapy engineering and product development costs remained at approximately $1.3 million in the six-months ended June 30, 2019 and 2020.

Marketing and Sales. Marketing and sales expenses increased by approximately $0.5 million, or 9.6%, from $5.7 million in the six months ended June 30, 2019 to $6.2 million in the six months ended June 30, 2020. Detection marketing and sales expense increased by $0.5 million, from $3.8 million in the six months ended June 30, 2019 to $4.3 million in the six months ended June 30, 2020. Therapy marketing and sales expense remained flat at $1.9 million in the six months ended June 30, 2019 and 2020.

The increase in Detection marketing and sales expense is due primarily to increased personnel costs and commissions, which were incurred prior to implementation of cost-cutting measures prompted by the COVID-19 pandemic. The increase was also offset by the Employee Retention Credit of $0.1 million in Marketing and sales between the Detection and Therapy segments.

General and Administrative. General and administrative expenses increased by approximately $1.2 million, or 36.4%, from $3.4 million in the six months ended June 30, 2019 to $4.6 million for the six months ended June 30, 2020. The increase is due primarily to increases in stock compensation expense and legal costs, and was offset by cost-cutting measures prompted by the COVID-19 pandemic.

Amortization and Depreciation. Amortization and depreciation, which relates primarily to acquired intangible assets and depreciation of machinery and equipment, decreased by approximately $36,000, or 26.3% from $137,000 for the six months ended June 30, 2019 to $101,000 for the three months ended June 30, 2020.

Other Income and Expense: (in thousands)

Three months ended June 30, 2020 and 2019:

	Three months ended June 30,			
	2020	2019	Change	Change %
Interest expense	$(115)	$ (202)	$ 87	(43.1)%
Other income	33	64	(31)	(48.4)%
Loss on fair value of debentures	—	(1,915)	1,915	(100.0)%
	$ (82)	$(2,053)	$ 1,971	(96.0)%
Tax benefit (expense)	(5)	(19)	14	(73.7)%

Interest expense. Interest expense decreased by approximately $0.1 million, or 43.1%, from $0.2 million for the three months ended June 30, 2019 to $0.1 million for the three months ended June 30, 2020. The decrease is due primarily to the interest on the Company's loans with Silicon Valley Bank ("SVB") and Western Alliance Bank (the "Bank").

Other income. Other income decreased by approximately $31,000, or 48.4%, from $64,000 for the three months ended June 30, 2019 to $33,000 for the three months ended June 30, 2020. The decrease resulted primarily from lower cash balances in interest-generating accounts and investments.

Loss on fair value of debentures. The Company recorded a loss of approximately $1.9 million in the three months ended June 30, 2019, which reflected an increase in the fair value of the unsecured subordinated convertible debentures issued in December 2018 (the

“Convertible Debentures”) from $9.5 million at March 31, 2019 to $11.4 million at June 30, 2019. Upon the consummation of the forced conversion, the Company issued 1,816,466 shares of common stock with a fair value of approximately $21.2 million, which was reclassified to stockholders’ equity during the three-month ending March 31, 2020. As a result of the forced conversion there was no fair value adjustment for the three months ended June 30, 2020.

Tax expense. Tax expense decreased by approximately $14,000, or 73.7%, from $19,000 for the three months ended June 30, 2019 to $5,000 for the three months ended June 30, 2020. Tax expense is due primarily to state non-income and franchise-based taxes.

Six months ended June 30, 2020 and 2019:

	Six months ended June 30,			
	2020	2019	Change	Change %
Interest expense	$ (245)	$ (411)	$ 166	(40.4)%
Other income	75	123	(48)	(39.0)%
Loss on fair value of debentures	(7,464)	(4,440)	(3,024)	68.1%
	$(7,634)	$(4,728)	$(2,906)	61.5%
Tax expense	$ (31)	$ (27)	$ (4)	14.8%

Interest expense. Interest expense decreased by approximately $0.2 million, or 40.4%, from $0.4 million for the six months ended June 30, 2019 to $0.2 million for the six months ended June 30, 2020. The decrease is due primarily to the interest on the Company’s loans with SVB and the Bank.

Other income. Other income decreased by approximately $48,000, or 39%, from $123,000 for the six months ended June 30, 2019 to $75,000 for the six months ended June 30, 2020. The decrease resulted primarily from lower cash balances in interest-generating accounts and investments.

Loss on fair value of debentures. The Company recorded a loss of approximately $7.5 million in the six months ended June 30, 2020, which reflected an increase in the fair value of the Convertible Debentures from $13.7 million at December 31, 2019 to $21.2 million as of February 21, 2020. The Company recorded a loss of approximately $1.9 million in the six months ended June 30, 2019, which reflected an increase in the fair value of Convertible Debentures from $9.5 million at March 31, 2019 to $11.4 million at June 30, 2019. Upon the consummation of the forced conversion, the Company issued 1,816,466 shares of common stock with a fair value of approximately $21.2 million, which was reclassified to stockholders’ equity. As a result of the forced conversion, there was no fair value adjustment for the three months ended June 30, 2020. The Convertible Debenture balance as of June 30, 2020 was $0.

Loss on extinguishment of debt: The Company recorded a loss on extinguishment of approximately $341,000 related to the repayment and retirement of the loan with SVB. The loss on extinguishment was composed of approximately $185,000 for the unaccrued final payment, the $114,000 termination fee, $42,000 for the unamortized and other closing costs. There were no such costs in 2019.

Tax expense. Tax expense increased by approximately $4,000, or 14.8%, from $27,000 for the six months ended June 30, 2019 to $31,000 for the six months ended June 30, 2020. Tax expense is due primarily to state non-income and franchise-based taxes.

Liquidity and Capital Resources

The Company's cash on hand includes proceeds from the Loan and Security Agreement entered into with the Bank on March 31, 2020. The Company and the Bank amended the Loan and Security Agreement on June 22, 2020 (as amended, the "Loan Agreement"). The Loan Agreement includes certain financial covenants tied to minimum revenue and the ratio of the Company's unrestricted cash at the Bank to its indebtedness under the Loan Agreement. The COVID-19 pandemic has resulted in significant financial market volatility and uncertainty. A continuation or worsening of the levels of market disruption and volatility seen in the recent past could have an adverse effect on the Company's ability to maintain compliance with the covenants under the Loan Agreement. If at any point the Company is not in compliance with certain covenants and is unable to obtain an amendment or waiver, such noncompliance may result in an event of default under the Loan Agreement, which could permit acceleration of the outstanding indebtedness and require the Company to repay such indebtedness before the scheduled due date.

Even if an event of default were to occur under the Loan Agreement, the Company believes that its current liquidity and capital resources are sufficient to sustain operations through at least the next 12 months, primarily due to cash on hand of $24.2 million and anticipated revenue and cash collections. The Company has also entered into an at-the-market offering program with JMP Securities (the "ATM") to provide for additional potential liquidity. The Company's ATM facility provides for the sale of common stock having a value of up to $25.0 million. As of June 30, 2020, no sales had been made pursuant to the ATM facility and $25.0 million in capacity remains under the facility.

On April 27, 2020, the Company issued 1,562,500 shares of common stock to several institutional investors at a price of $8.00 per share in a registered direct offering. The gross proceeds of the offering were approximately $12.5 million, and the Company received net proceeds of approximately $12.3 million.

Our projected cash needs include planned capital expenditures, loan interest payments, lease commitments, and other long-term obligations. The Company's ability to generate cash adequate to meet its future capital requirements will depend primarily on operating cash flow. If sales or cash collections are reduced from current expectations, or if expenses and cash requirements are increased, the Company may require additional financing, although there are no guarantees that the Company will be able to obtain the financing if necessary.

As of June 30, 2020, the Company has 22,874,441 shares of common stock issued and outstanding, and 432,021 shares reserved for future issuance, out of 30,000,000 authorized shares of common stock. Given this relatively limited number of shares available for issuance in a capital markets transaction, the Company may not be able to raise significant financing through a capital markets transaction and accordingly, the Company will seek approval from its stockholders to amend its Certificate of Incorporation to increase its authorized shares of common stock at a later date and subject to the filing with the SEC of a proxy statement and solicitation of stockholder approval. The Company will incur additional costs and expenses in seeking approval for such amendment and as a result of the failure to obtain valid approval of a related amendment at its earlier stockholder meeting. The Company will continue to closely monitor its liquidity and the capital and credit markets.

As of June 30, 2020, the Company had current assets of $35.7 million including $24.2 million of cash and cash equivalents. Current liabilities are $12.8 million and working capital is $22.9 million. The ratio of current assets to current liabilities is 2.79:1.

	For the six-months ended June 30, 2020	2019
	(in thousands)	
Net cash used for operating activities	$ (3,573)	$ (2,404)
Net cash used for investing activities	(186)	(143)
Net cash provided by financing activities	12,671	9,929
Decrease in cash and equivalents	$ 8,912	$ 7,382

Net cash used for operating activities for the six-month period ended June 30, 2020 was $3.6 million, compared to net cash used for operating activities of $2.4 million for the six-month period ended June 30, 2019. The net cash used for operating activities for the six-month period ended June 30, 2020 resulted primarily from our net loss as adjusted for non-cash items, and was reduced by working capital changes resulting from decreases in accounts receivable offset by increases in inventory and decreases in in accounts payable and accrued expenses. We expect that net cash used for or provided by operating activities may fluctuate in future periods as a result of a number of factors, including fluctuations in our operating results, the timing of when we recognize revenue, collections of accounts and the timing of other payments.

Net cash used for investing activities for the six-month period ended June 30, 2020 was $186,000, compared to $143,000 for the six-month period ended June 30, 2019. The net cash used for investing activities for the six-month period ended June 30, 2020 is primarily for purchases of property and equipment.

Net cash provided by financing activities for the six-month period ended June 30, 2020 was $12.7 million, compared to $9.9 million for the six-month period ended June 30, 2019. Net cash provided by financing activities for the six-month period ended June 30, 2020 is primarily from the $12.3 million in net proceeds from the issuance of common stock and $7.0 million from the Loan Agreement with the Bank, offset by $4.6 million in repayment of the term loan with SVB and $2.0 million in repayment of the revolving loan with SVB. Cash provided by financing activities for the six months ended June 30, 2019 is due primarily to cash from the issuance of common stock. In June 2019, the Company completed an underwritten public offering of approximately $1.9 million shares of common stock. The Company received net proceeds of approximately $9.4 million after deducting underwriting and other offering expenses.

Contractual Obligations

The Company had the following commitments as of June 30, 2020:

	Total	Less than 1 year	1-3 years	3-5 years	5+ years
Operating Lease Obligations	$ 2,496,532	$ 922,858	$1,564,314	$ 9,360	$ —
Finance Lease Obligations	4,683	4,683	—	—	—
Settlement Obligations	463,262	463,262	—	—	—
Notes Payable	8,039,336	372,604	5,312,740	2,353,992	—
Other Commitments	4,456,329	4,456,329	—	—	—
Total Contractual Obligations	$ 15,460,143	$ 6,219,737	$6,877,054	$2,363,352	$ —

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

Settlement Obligations represent the remaining payments under the settlement agreement with Hologic, Inc.

Notes Payable – principal and interest represents the payments due under the term loan from the Bank.

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

Recent Accounting Pronouncements

See Note 13 to the Condensed Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Company believes that it is not subject to material foreign currency exchange rate fluctuations, as substantially all of its sales and expenses are denominated in the U.S. dollar. The Company does not hold derivative securities and has 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. The Company is subject to a 19% fluctuation in interest expense on for every 1% change in interest rate on its floating rate Term Loan with the Bank.

Item 4. Controls and Procedures

The Company's management, with the participation of its principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, as of June 30, 2020, the principal executive officer and principal financial officer concluded that the Company's 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. The Company conducts periodic evaluations to enhance, where necessary the Company's procedures and controls.

The Company's principal executive officer and principal financial officer conducted an evaluation of the Company's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) and have determined there are no changes in its internal controls over financial reporting during the quarter ended June 30, 2020, that have materially affected or which are reasonably likely to materially affect internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Please refer to the detailed discussion regarding litigation set forth in Note 7 of the Notes to Condensed Consolidated Financial Statements in this Form 10-Q.

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

On September 5, 2018, third-party Yeda Research and Development Company Ltd. ("Yeda"), filed a complaint ("the Complaint") against the Company and Invivo in the United States District Court for the Southern District of New York, captioned Yeda Research and Development Company Ltd. v. iCAD, Inc. and Invivo Corporation, Case No. 1:18-cv-08083-GBD, related to the Company's sale of the VersaVue software and DynaCAD product under the Asset Purchase Agreement. In the Complaint, Yeda asserted claims for: (i) copyright infringement and misappropriation of trade secrets against both the Company and Invivo; (ii) breach of contract against the Company only; and (iii) tortious interference with existing business relationships and unjust enrichment against Invivo only. The Company and Invivo filed Motions to Dismiss the Complaint on December 21, 2018. On January 18, 2019, Yeda filed Oppositions to the Motions to Dismiss. The Company and Invivo submitted responses to the Opposition to the Motion to Dismiss on February 8, 2019. The Court held oral argument on the Motions to Dismiss on March 27, 2019. On September 5, 2019, the Court granted Invivo's Motion to Dismiss in its entirety and granted the Company's Motion to Dismiss as it relates to Yeda's breach of contract and misappropriation of trade secrets claims. On October 22, 2019, Yeda filed an Amended Complaint against only the Company asserting claims for (i) copyright infringement; and (ii) a replead breach of contract claim. The Company filed its Answer to Yeda's Amended Complaint on November 5, 2019. Yeda alleges, among other things, that the Company infringed upon Yeda's source code, which was originally licensed to the Company, by using it in the products that the Company sold to Invivo and that it is entitled to damages that could include, among other things, profits relating to the sales of these products. If the Company is found to have infringed Yeda's copyright or breached its agreements with Yeda, the Company could be obligated to pay to Yeda substantial monetary damages.

In addition to the forgoing, the Company may be party to various legal matters that are in the process of litigation or settled in the ordinary course of business. Although the final results of all such matters and claims cannot be predicted with certainty, we believe that the ultimate resolution of all such matters and claims will not have a material adverse effect on our financial condition. However, such matters could have a material adverse effect on our operating results and cash flows for a particular period.

Item 1A. Risk Factors:

We operate in a changing environment that involves numerous known and unknown risks and uncertainties that could materially adversely affect our operations. In addition to the risk factor below, factors that have affected our Company are described in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019 as filed with the SEC on March 11, 2020 and are incorporated by reference herein.

We expect the novel coronavirus (COVID-19) pandemic to have a significant effect on our results of operations. In addition, it has resulted in significant financial market volatility, and its impact on the global economy appears to be significant. A continuation or worsening of the pandemic will have a material adverse impact on our business, results of operations and financial condition and on the market price of our common stock.

On March 12, 2020, the World Health Organization declared COVID-19 to be a pandemic. In an effort to contain and mitigate the spread of COVID-19, many countries, including the United States, Canada and China, have imposed unprecedented restrictions on travel, and there have been business closures and a substantial reduction in economic activity in countries that have had significant outbreaks of COVID-19. As a provider of devices and services to the health care industry, our operations have been materially affected. Significant uncertainty remains as to the potential impact of the COVID-19 pandemic on our continuing operations and on the global economy as a whole. It is currently not possible to predict how long the pandemic will last or the time that it will take for economic activity to return to prior levels. The COVID-19 pandemic has resulted in significant financial market volatility and uncertainty. A continuation or worsening of the levels of market disruption and volatility seen in the recent past could have an adverse effect on our ability to access capital, on our business, results of operations and financial condition, and on the market price of our common stock. Our results for the quarter ending June 30, 2020 reflect a negative impact from the COVID-19 pandemic as the typical sales cycle and ordering patterns were still disrupted due to healthcare facilities' additional focus on COVID-19. Although we do not provide guidance to investors relating to our results of operations, our results for the quarter ending September 30, 2020, and possibly future quarters, could reflect a negative impact from the COVID-19 pandemic for similar reasons. Depending upon the duration and severity of the pandemic, the continuing effect on our results over the long term is uncertain.

These effects could impact the Company's ability to remain in compliance with its minimum revenue covenant under its Loan and Security Agreement with Western Alliance Bank. If at any point the Company is not in compliance with such covenant and is unable to obtain an amendment or waiver, such noncompliance may result in an event of default under the Loan Agreement, which could permit acceleration of the outstanding indebtedness and require the Company to repay such indebtedness before the scheduled due date. The Company was required, historically, to seek modifications from its prior lender to avoid non-compliance with its earlier covenants. With the COVID-19 pandemic affecting the world economy, the company cannot assure that it will be able to continue to satisfy the applicable minimum revenue covenant.

The Company’s exposure to trade accounts receivable losses may increase if its customers are adversely affected by changes in healthcare laws, coverage, and reimbursement, economic pressures or uncertainty associated with local or global economic recessions, disruption associated with the current COVID-19 pandemic, or other customer-specific factors. Although the Company has historically not experienced significant trade account receivable losses, it is possible that there could be a material adverse impact from potential adjustments of the carrying amount of trade account receivables as hospitals’ cash flows are impacted by their response to the COVID-19 pandemic.

Item 6. **Exhibits**

Exhibit No.	Description
10.1*†	First Amendment to Loan and Security Agreement, dated June 16, 2020, between iCAD, Inc., Xoft, Inc., Xoft Solutions LLC and Western Alliance Bank.
10.2	Form of Securities Purchase Agreement, dated as of April 23, 2020, between iCAD, Inc. and the purchasers party thereto (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on April 27, 2020).
10.3	Amendment to Employment Agreement, dated May 26, 2020, between iCAD, Inc. and Michael Klein (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on May 29, 2020).
10.4	Employment Agreement, dated May 26, 2020, between iCAD, Inc. and Stacey Stevens (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed with the SEC on May 29, 2020).
10.5	Employment Agreement, dated May 26, 2020, between iCAD, Inc. and R. Scott Areglado (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed with the SEC on May 29, 2020).
10.6	Employment Agreement, dated May 26, 2020, between iCAD, Inc. and Jonathan Go (incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K filed with the SEC on May 29, 2020).
31.1*	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Principal 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, 2020 and December 31, 2019, (ii) Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2020 and 2019, (iii) Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2020 and 2019, (iv) Stockholders' Equity for the three and six-month period ended June 30, 2020 and 2019 and (v) Notes to Consolidated Financial Statements.
104*	Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101)

* Filed herewith

** Furnished herewith

† Portions of this exhibit, marked by brackets, have been omitted pursuant to Item 601(b)(10)(iv) of Regulation S-K under the Securities Act of 1933, as amended, because they are both (i) not material and (ii) would likely cause competitive harm to the registrant if publicly disclosed.

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 7, 2020	By:	/s/ Michael Klein
	Name:	Michael Klein
	Title:	Chief Executive Officer (Principal Executive Officer)
Date: August 7, 2020	By:	/s/ R. Scott Areglado
	Name:	R. Scott Areglado
	Title:	Chief Financial Officer (Principal Financial Officer)

Exhibit 10.1

CERTAIN INFORMATION IDENTIFIED BY BRACKETED ASTERISKS ([* * *]) HAS BEEN OMITTED FROM THIS EXHIBIT BECAUSE IT IS BOTH NOT MATERIAL AND WOULD BE COMPETITIVELY HARMFUL IF PUBLICLY DISCLOSED.

FIRST AMENDMENT TO LOAN AND SECURITY AGREEMENT

This First Amendment to Loan and Security Agreement (this "Amendment") is entered into as of June 16, 2020, by and between WESTERN ALLIANCE BANK, an Arizona corporation ("Bank") and ICAD, INC., a Delaware corporation ("Parent"), (ii) XOFT, INC., a Delaware corporation ("Xoft") and (iii) XOFT SOLUTIONS, LLC, a Delaware limited liability company ("Xoft Solutions") (each a "Borrower" and collectively, the "Borrowers").

RECITALS

Borrowers and Bank are parties to that certain Loan and Security Agreement dated as of March 30, 2020, as amended from time to time (the "Agreement"). The parties desire to amend the Agreement in accordance with the terms of this Amendment.

NOW, THEREFORE, the parties agree as follows:

1. Section 6.8 of the Agreement hereby is amended and restated in its entirety to read as follows:

"**6.8 Financial Covenants**.

(a) At all times, Borrower shall be in compliance with at least one (1) of the following financial covenants:

(i) Performance to Plan; Minimum Revenue. Borrowers shall maintain consolidated revenue (measured in accordance with GAAP), tested monthly as of the last day of each month on a trailing six (6) month basis, of not less than (x) for the periods ending February 29, 2020, March 31, 2020, April 30, 2020, May 31, 2020, June 30, 2020, July 31, 2020, August 31, 2020, September 30, 2020, October 31, 2020, November 30, 2020, and December 31, 2020, the amount set forth opposite such date on Annex I to the Compliance Certificate, and (y) for the last day of each month thereafter, shall be set by Bank and Borrower, working in good faith to set such levels, based on Borrower's projections delivered to Bank in accordance with Section 6.3(e) hereof and documented in an amendment to this Agreement; provided that if Borrowers and Bank cannot agree to such levels by January 31st of any year, then from January 31st of such year until such levels are agreed to and documented, Borrowers shall be at all times required to comply with Section 6.8(a)(ii) hereof.

(ii) Cash to Bank Indebtedness. Borrowers shall maintain a ratio of (x) unrestricted cash at Bank, to (y) the aggregate total Indebtedness owing from Borrowers to Bank, equal to or greater than 1.25 to 1.00."

2. Section 2.6(h) hereby is added to the Agreement as follows:

"(h) **First Amendment Fee**. On June 16, 2020, Borrowers shall pay to Bank an amendment fee equal to Ten Thousand Dollars ($10,000) (the "First Amendment Fee"), which shall be nonrefundable;"

3. Exhibit D of the Agreement hereby is amended and restated in its entirety to read as set forth on Exhibit D attached hereto.

4. No course of dealing on the part of Bank or its officers, nor any failure or delay in the exercise of any right by Bank, shall operate as a waiver thereof, and any single or partial exercise of any such right shall not preclude any later exercise of any such right. Bank's failure at any time to require strict performance by any Borrower of any provision shall not affect any right of Bank thereafter to demand strict compliance and performance. Any suspension or waiver of a right must be in writing signed by an officer of Bank.

5. Unless otherwise defined, all initially capitalized terms in this Amendment shall be as defined in the Agreement. The Agreement, as amended hereby, shall be and remain in full force and effect in accordance with its respective terms and hereby is ratified and confirmed in all respects. Except as expressly set forth herein, the execution, delivery, and performance of this Amendment shall not operate as a waiver of, or as an amendment of, any right, power, or remedy of Bank under the Agreement, as in effect prior to the date hereof.

6. Each Borrower represents and warrants that (a) the Representations and Warranties contained in the Agreement are true and correct in all material respects as of the date of this Amendment (except to the extent any such representation or warranty is expressly stated to have been made as of a specific date, in which case such representation or warranty shall be true and correct in all material respects as of such date), (b) the execution, delivery, and performance of this Amendment have been duly authorized, (c) on the date hereof, the persons whose names appear on the Corporate Resolutions to Borrow or the Limited Liability Company Resolution, as the case may be, dated March 30, 2020, delivered to Bank to Borrowers in connection with the Agreement are duly elected, qualified and acting officers of the applicable Borrower occupying the offices set forth adjacent to their respective names, the signatures set forth adjacent to their respective names are their true signatures, and each such officer is duly authorized to execute and deliver, on behalf of such Borrower, this Amendment and each of the Loan Documents and to act as an authorized officer on behalf of such Borrower under this Amendment each of the Loan Documents, and (d) no Event of Default has occurred and is continuing.

7. As a condition to the effectiveness of this Amendment, Bank shall have received, in form and substance satisfactory to Bank, the following:

(a) this Amendment, duly executed by each Borrower;

(b) in accordance with Section 2.6(h), the First Amendment Fee, in the amount of Ten Thousand Dollars ($10,000), which may be debited from any of Borrowers accounts; and

(c) all reasonable Bank Expenses incurred through the date of this Amendment, which may be debited from any of Borrowers' accounts.

8. This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one instrument. Delivery of an executed counterpart of this Amendment by telefacsimile or other electronic method of transmission shall be equally as effective as delivery of an original executed counterpart of this Amendment.

[***Balance of Page Intentionally Left Blank***]

IN WITNESS WHEREOF, the undersigned have executed this Amendment as of the first date above written.

ICAD, INC.

By: /s/ Michael Klein

Name: Michael Klein

Title: CEO

XOFT, INC.

By: /s/ Michael Klein

Name: Michael Klein

Title: CEO

XOFT SOLUTIONS, LLC

By: /s/ Michael Klein

Name: Michael Klein

Title: CEO

WESTERN ALLIANCE BANK, an Arizona corporation

By: /s/ Brian Kirkpatrick

Name: Brian Kirkpatrick

Title: Vice President

[***Signature Page to First Amendment to Loan and Security Agreement***]

EXHIBIT D

COMPLIANCE CERTIFICATE

TO: WESTERN ALLIANCE BANK, an Arizona corporation

FROM: ICAD, INC., for itself and on behalf of all Borrowers

The undersigned authorized officer of ICAD, INC. hereby certifies that in accordance with the terms and conditions of the Loan and Security Agreement between ICAD, INC., a Delaware corporation ("Parent"), (ii) XOFT, INC., a Delaware corporation ("Xoft") and (iii) XOFT SOLUTIONS, LLC, a Delaware limited liability company ("Xoft Solutions") (each a "Borrower" and collectively, the "Borrowers") and Bank (the "Agreement"), (i) Borrowers are in complete compliance for the period ending ________ with all required covenants except as noted below and (ii) all representations and warranties of each Borrower stated in the Agreement are true and correct as of the date hereof. Attached herewith are the required documents supporting the above certification. The Officer further certifies that these are prepared in accordance with Generally Accepted Accounting Principles (GAAP) and are consistently applied from one period to the next except as explained in an accompanying letter or footnotes.

Please indicate compliance status by circling Yes/No under " Complies" column.

Reporting Covenant	Required	Complies	
Annual financial statements (CPA Audited)	FYE within 90 days	Yes	No
Monthly financial statements and Compliance Certificate; with bank account statements while accounts still maintained outside of Bank	monthly within 30 days	Yes	No
10K and 10Q	(as applicable)	Yes	No
Annual operating budget, sales projections and operating plans approved by board of directors	Annually no later than 30 days after the beginning of each fiscal year	Yes	No
A/R & A/P Agings, Borrowing Base Certificate	monthly within 30 days	Yes	No
A/R Audit	Initial and Annual	Yes	No
Deposit balances with Bank	$________________		
Deposit balance outside Bank	$________________		

Financial Covenant	Required	Actual	Complies		
Minimum consolidated revenue (As set forth on Annex I or as determined pursuant to Section 6.8(a)(i), as applicable)	$____________	$______________	Yes	No	N/A
or					
Minimum unrestricted Cash to Bank Indebtedness ratio	1.25 to 1.00	_______ to 1.00	Yes	No	N/A

Comments Regarding Exceptions: See Attached.

Sincerely,

SIGNATURE

TITLE

DATE

BANK USE ONLY

Received by: ______________________

AUTHORIZED SIGNER

Date: ______________________

Verified: ______________________

AUTHORIZED SIGNER

Date: ______________________

Compliance Status Yes No

Annex I

Minimum Trailing 6 Month Revenue

Trailing 6 Months Period Ending	Minimum Revenue
February 29, 2020	[* * *]
March 31, 2020	[* * *]
April 30, 2020	[* * *]
May 31, 2020	[* * *]
June 30, 2020	[* * *]
July 31, 2020	[* * *]
August 31, 2020	[* * *]
September 30, 2020	[* * *]
October 31, 2020	[* * *]
November 30, 2020	[* * *]
December 31, 2020	[* * *]

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Michael Klein, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2020 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 7, 2020

/s/ Michael Klein

Name: Michael Klein
Title: Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, R. Scott Areglado, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2020 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 7, 2020

/s/ R. Scott Areglado

Name: R. Scott Areglado
Title: Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.1

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

In connection with the Quarterly Report of iCAD, Inc. (the "Company") on Form 10-Q for the quarterly period ended June 30, 2020 (the "Report"), I, Michael Klein, the 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, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael Klein
Name: Michael Klein
Title: Chief Executive Officer
(Principal Executive Officer)

Date: August 7, 2020

EXHIBIT 32.2

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

In connection with the Quarterly Report of iCAD, Inc. (the "Company") on Form 10-Q for the quarterly period ended June 30, 2020 (the "Report"), I, R. Scott Areglado, the Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

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

Date: August 7, 2020