
**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, 2021

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 July 30, 2021, there were 25,035,893 shares outstanding of the registrant’s Common Stock, \$0.01 par value.

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

	June 30, 2021	December 31, 2020
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 37,889	\$ 27,186
Trade accounts receivable, net of allowance for doubtful accounts of \$104 in 2021 and \$111 in 2020	11,107	10,027
Inventory, net	2,861	3,144
Prepaid expenses and other current assets	1,742	1,945
Total current assets	<u>53,599</u>	<u>42,302</u>
Property and equipment, net of accumulated depreciation of \$6,935 in 2021 and \$6,778 in 2020	921	744
Operating lease assets	1,370	1,758
Other assets	1,532	1,527
Intangible assets, net of accumulated amortization of \$8,610 in 2021 and \$8,494 in 2020	777	889
Goodwill	8,362	8,362
Total assets	<u>\$ 66,561</u>	<u>\$ 55,582</u>
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities:		
Accounts payable	\$ 1,039	\$ 2,869
Accrued and other expenses	6,606	7,039
Lease payable - current portion	851	726
Deferred revenue	5,964	6,117
Total current liabilities	<u>14,460</u>	<u>16,751</u>
Lease payable, long-term portion	646	1,075
Notes payable, long-term portion	—	6,960
Deferred revenue, long-term portion	424	267
Deferred tax	4	4
Total liabilities	<u>15,534</u>	<u>25,057</u>
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 25,213,302 as of June 30, 2021 and 23,693,735 as of December 31, 2020.		
Outstanding 25,027,471 as of June 30, 2021 and 23,508,575 as of December 31, 2020.	251	236
Additional paid-in capital	299,049	273,639
Accumulated deficit	(246,858)	(241,935)
Treasury stock at cost, 185,831 shares in 2021 and 2020	(1,415)	(1,415)
Total stockholders' equity	<u>51,027</u>	<u>30,525</u>
Total liabilities and stockholders' equity	<u>\$ 66,561</u>	<u>\$ 55,582</u>

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,		Six Months Ended June 30,	
	2021	2020	2021	2020
Revenue:				
Products	\$ 4,552	\$ 2,888	\$ 10,109	\$ 6,683
Service and supplies	3,274	2,679	6,361	5,435
Total revenue	<u>7,826</u>	<u>5,567</u>	<u>16,470</u>	<u>12,118</u>
Cost of revenue:				
Products	1,377	537	2,786	1,554
Service and supplies	832	575	1,699	1,502
Amortization and depreciation	79	98	158	195
Total cost of revenue	<u>2,288</u>	<u>1,210</u>	<u>4,643</u>	<u>3,251</u>
Gross profit	<u>5,538</u>	<u>4,357</u>	<u>11,827</u>	<u>8,867</u>
Operating expenses:				
Engineering and product development	2,268	1,878	4,460	4,089
Marketing and sales	3,429	2,631	6,853	6,239
General and administrative	2,652	2,110	4,803	4,642
Amortization and depreciation	60	49	115	101
Total operating expenses	<u>8,409</u>	<u>6,668</u>	<u>16,231</u>	<u>15,071</u>
Loss from operations	(2,871)	(2,311)	(4,404)	(6,204)
Interest expense	(28)	(115)	(140)	(245)
Other income	5	33	7	75
Loss on extinguishment of debt	(386)	—	(386)	(341)
Loss on fair value of convertible debentures	—	—	—	(7,464)
Other expense, net	(409)	(82)	(519)	(7,975)
Loss before income tax expense	<u>(3,280)</u>	<u>(2,393)</u>	<u>(4,923)</u>	<u>(14,179)</u>
Tax expense	—	(5)	—	(31)
Net loss and comprehensive loss	<u>\$ (3,280)</u>	<u>\$ (2,398)</u>	<u>\$ (4,923)</u>	<u>\$ (14,210)</u>
Net loss per share:				
Basic	<u>\$ (0.13)</u>	<u>\$ (0.11)</u>	<u>\$ (0.20)</u>	<u>\$ (0.67)</u>
Diluted	<u>\$ (0.13)</u>	<u>\$ (0.11)</u>	<u>\$ (0.20)</u>	<u>\$ (0.67)</u>
Weighted average number of shares used in computing loss per share:				
Basic	<u>24,989</u>	<u>22,396</u>	<u>24,462</u>	<u>21,275</u>
Diluted	<u>24,989</u>	<u>22,396</u>	<u>24,462</u>	<u>21,275</u>

See accompanying notes to condensed consolidated financial statements.

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

	For the Six Months ended	
	2021	2020
	<small>(in thousands)</small>	
Cash flow from operating activities:		
Net loss	\$ (4,923)	\$ (14,210)
Adjustments to reconcile net loss to net cash used for operating activities:		
Amortization	157	154
Depreciation	115	142
Bad debt provision	(3)	119
Stock-based compensation	1,446	2,077
Amortization of debt discount and debt costs	17	53
Loss on extinguishment of debt	386	341
Deferred tax expense	—	1
Change in fair value of convertible debentures	—	7,464
Changes in operating assets and liabilities:		
Accounts receivable	(924)	3,201
Inventory	284	(737)
Prepaid and other assets	510	(19)
Accounts payable	(1,829)	(569)
Accrued expenses	(736)	(1,650)
Deferred revenue	(77)	60
Total adjustments	(654)	10,637
Net cash used for operating activities	<u>(5,577)</u>	<u>(3,573)</u>
Cash flow from investing activities:		
Additions to patents, technology and other	—	(6)
Additions to property and equipment	(336)	(180)
Net cash used for investing activities	<u>(336)</u>	<u>(186)</u>
Cash flow from financing activities:		
Issuance of common stock pursuant to stock option plans	636	100
Issuance of common stock pursuant to Employee Stock Purchase Plan	114	—
Proceeds from issuance of common stock, net	23,229	12,289
Principal repayment of debt financing	(7,363)	(4,638)
Repayment on line of credit	—	(2,000)
Proceeds from notes payable	—	6,957
Debt issuance costs	—	(37)
Net cash provided by financing activities	<u>16,616</u>	<u>12,671</u>
Increase in cash and equivalents	10,703	8,912
Cash and cash equivalents, beginning of period	27,186	15,313
Cash and cash equivalents, end of period	<u>\$ 37,889</u>	<u>\$ 24,225</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 92</u>	<u>\$ 127</u>
Taxes paid	<u>\$ —</u>	<u>\$ 31</u>
Issuance of common stock upon conversion of debentures	<u>—</u>	<u>21,164</u>
Right-of-use assets obtained in exchange for new operating lease liabilities	<u>\$ —</u>	<u>\$ 69</u>

See accompanying notes to condensed consolidated financial statements.

Consolidated Statements of Stockholders' Equity Year to Date

(In thousands except shares)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Stockholders' Equity
	Number of Shares Issued	Par Value				
Balance at December 31, 2020	23,694,406	236	273,639	(241,935)	(1,415)	\$ 30,525
Issuance of common stock relative to vesting of restricted stock	29,166	—	—	—	—	—
Issuance of common stock, net	1,393,738	14	23,215	—	—	23,229
Issuance of common stock pursuant to stock option plans	83,748	1	635	—	—	636
Issuance of common stock pursuant Employee Stock Purchase Plan	12,244	—	114	—	—	114
Stock-based compensation	—	—	1,446	—	—	1,446
Net loss	—	—	—	(4,923)	—	(4,923)
Balance at June 30, 2021	<u>25,213,302</u>	<u>\$ 251</u>	<u>\$299,049</u>	<u>\$ (246,858)</u>	<u>\$ (1,415)</u>	<u>\$ 51,027</u>

Consolidated Statements of Stockholders' Equity Quarter to Date

(In thousands except shares)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Stockholders' Equity
	Number of Shares Issued	Par Value				
Balance at March 31, 2021	25,143,432	251	298,106	(243,578)	(1,415)	\$ 53,364
Issuance of common stock relative to vesting of restricted stock	9,166	—	—	—	—	—
Issuance of common stock, net	54,814	—	365	—	—	365
Issuance of common stock pursuant to stock option plans	—	—	—	—	—	—
Issuance of common stock pursuant Employee Stock Purchase Plan	5,890	—	67	—	—	67
Stock-based compensation	—	—	511	—	—	511
Net loss	—	—	—	(3,280)	—	(3,280)
Balance at June 30, 2021	<u>25,213,302</u>	<u>\$ 251</u>	<u>\$299,049</u>	<u>\$ (246,858)</u>	<u>\$ (1,415)</u>	<u>\$ 51,027</u>

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

	<u>Common Stock</u>			<u>Accumulated Deficit</u>	<u>Treasury Stock</u>	<u>Stockholders' Equity</u>
	<u>Number of Shares Issued</u>	<u>Par Value</u>	<u>Additional Paid-in Capital</u>			
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	1,562,500	16	12,158	—	—	12,174
ESPP Issuance	18,465	—	115	—	—	115
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	<u>\$23,060,272</u>	<u>\$231</u>	<u>\$266,211</u>	<u>\$ (238,535)</u>	<u>\$(1,415)</u>	<u>\$ 26,492</u>

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

	<u>Common Stock</u>			<u>Accumulated Deficit</u>	<u>Treasury Stock</u>	<u>Stockholders' Equity</u>
	<u>Number of Shares Issued</u>	<u>Par Value</u>	<u>Additional Paid-in Capital</u>			
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	1,562,500	16	12,158	—	—	12,174
ESPP Issuance	18,465	—	115	—	—	115
Stock-based compensation	—	—	1,613	—	—	1,613
Net loss	—	—	—	(2,398)	—	(2,398)
Balance at June 30, 2020	<u>23,060,272</u>	<u>\$231</u>	<u>\$266,211</u>	<u>\$ (238,535)</u>	<u>\$(1,415)</u>	<u>\$ 26,492</u>

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 its subsidiaries (together “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 the Company’s 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, 2021, the results of operations of the Company for the three and six-months ended June 30, 2021 and 2020, cash flows of the Company for the six-months ended June 30, 2021 and 2020, and stockholders’ equity for the Company for the three and six-months ended June 30, 2021 and 2020.

Although the Company believes that the disclosures made in these interim 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 (the “SEC”). The accompanying interim 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, 2020 filed with the SEC on March 15, 2021. The results for the three and six-months ended June 30, 2021 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2021, 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 the COVID-19 pandemic, the United States, many countries in Europe, as well as Canada and China, imposed unprecedented restrictions on travel, and there have been business closures and reductions 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, the Company’s 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 continuing impact of the COVID-19 pandemic on the Company’s operations and on the global economy as a whole.

It is currently not possible to predict the duration of the pandemic or the time needed for economic activity to return to prior levels. The COVID-19 pandemic has resulted in significant financial market volatility and uncertainty. Although the United States and other countries have made significant progress related to vaccinating significant portions of their populations, the efficacy of each individual vaccine against the multiple strains of the COVID-19 virus is unknown. Moreover, a new “wave” of COVID-19 cases may exacerbate the increased levels of market disruption and volatility seen in the recent past will have an adverse effect on the Company’s ability to access capital, on its business, results of operations and financial condition, and on the market price of its common stock.

The Company’s results for the quarter ending June 30, 2021 reflect a negative impact from the COVID-19 pandemic due to some healthcare facilities’ additional focus on COVID-19. Although the Company does not provide guidance to investors relating to its future results of operations, its results for the quarter ending September 30, 2021, and possibly future quarters, could reflect a continued negative impact from the COVID-19 pandemic for similar reasons. The duration and severity of the pandemic is unknown, and so the continued effect on the Company’s results over the long term is uncertain.

Although the Company did not experience any material impact to trade accounts receivable losses in the quarter ended June 30, 2021, 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. The Company has not historically experienced significant trade account receivable losses, but 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.

Recently Adopted Accounting Pronouncements

There are no significant recently adopted accounting pronouncements. For a full list of the Company’s response to all relevant 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 the Company's revenues disaggregated by major good or service line, timing of revenue recognition, and sales channel, reconciled to its reportable segments (in thousands).

	Three months ended June 30, 2021		
	Reportable Segments		
	Detection	Therapy	Total
Major Goods/Service Lines			
Products	\$ 3,164	\$ 2,119	\$ 5,283
Service contracts	1,625	371	1,996
Supply and source usage agreements	—	529	529
Professional services	—	18	18
Other	—	—	—
	<u>\$ 4,789</u>	<u>\$ 3,037</u>	<u>\$ 7,826</u>
Timing of Revenue Recognition			
Goods transferred at a point in time	\$ 3,164	\$ 2,136	\$ 5,300
Services transferred over time	1,625	901	2,526
	<u>\$ 4,789</u>	<u>\$ 3,037</u>	<u>\$ 7,826</u>
Sales Channels			
Direct sales force	\$ 3,188	\$ 1,252	\$ 4,440
OEM partners	1,601	—	1,601
Channel partners	—	1,785	1,785
	<u>\$ 4,789</u>	<u>\$ 3,037</u>	<u>\$ 7,826</u>
Six months ended June 30, 2021			
	Reportable Segments		
	Detection	Therapy	Total
Major Goods/Service Lines			
Products	\$ 7,325	\$ 4,222	\$11,547
Service contracts	3,183	711	3,894
Supply and source usage agreements	—	1,010	1,010
Professional services	—	19	19
Other	—	—	—
	<u>\$ 10,508</u>	<u>\$ 5,962</u>	<u>\$16,470</u>
Timing of Revenue Recognition			
Goods transferred at a point in time	\$ 7,325	\$ 4,240	\$11,565
Services transferred over time	3,183	1,722	4,905
	<u>\$ 10,508</u>	<u>\$ 5,962</u>	<u>\$16,470</u>
Sales Channels			
Direct sales force	\$ 7,063	\$ 1,926	\$ 8,989
OEM partners	3,445	—	3,445
Channel partners	—	4,036	4,036
	<u>\$ 10,508</u>	<u>\$ 5,962</u>	<u>\$16,470</u>

	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
Professional services	—	—	—
Other	12	—	12
	<u>\$ 4,117</u>	<u>\$ 1,450</u>	<u>\$ 5,567</u>
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
	<u>\$ 4,117</u>	<u>\$ 1,450</u>	<u>\$ 5,567</u>
Sales Channels			
Direct sales force	\$ 2,709	\$ 805	\$ 3,514
OEM partners	1,408	—	1,408
Channel partners	—	645	645
	<u>\$ 4,117</u>	<u>\$ 1,450</u>	<u>\$ 5,567</u>

	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
	<u>\$ 8,593</u>	<u>\$ 3,525</u>	<u>\$12,118</u>
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
	<u>\$ 8,593</u>	<u>\$ 3,525</u>	<u>\$12,118</u>
Sales Channels			
Direct sales force	\$ 4,881	\$ 2,274	\$ 7,155
OEM partners	3,712	—	3,712
Channel partners	—	1,251	1,251
	<u>\$ 8,593</u>	<u>\$ 3,525</u>	<u>\$12,118</u>

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 generally recognizes a sale when the product is shipped from the manufacturing or warehousing facility to the customer unless an individual contract states otherwise.

Service Contracts. The Company sells service contracts under which it provides professional services, including product installations, maintenance, training, and service repairs, and in certain cases equipment leases, to hospitals, imaging centers, radiology practices, radiation oncologists and treatment centers. These contracts represent separate performance obligations of 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, “Revenue from Contracts with Customers” (“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 of 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 product is shipped from the manufacturing or warehousing facility to the customer or the installation services are performed.

Contract Balances

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

Contract balances

Contract balances

	Balance at June 30, 2021	Balance at December 31, 2020
Receivables, which are included in ‘Trade accounts receivable’	\$ 11,107	\$ 10,027
Current contract assets, which are included in “Prepaid and other assets”	742	481
Non-current contract assets, which are included in “other assets”	1,478	1,434
Contract liabilities, which are included in “Deferred revenue”	6,388	6,384

Timing of revenue recognition may differ from timing of invoicing of 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 \$11.1 million and \$10.0 million as of June 30, 2021 and December 31, 2020, respectively.

The Company records net contract assets or contract liabilities on a contract-by-contract basis. The Company records a contract asset for unbilled revenue when the Company’s performance is in excess of amounts invoiced or invoiceable. The Company classifies the net contract asset as either a current or non-current based on the expected timing of the Company’s right to invoice under the terms of the contract. The current contract asset balance primarily relates to the net unbilled revenue balances with two significant customers, which the Company expects to be able to invoice within one year. The non-current contract asset balance consists of net unbilled revenue balances with one customer which the Company expects to be able to invoice in more than one year.

Contract liabilities, or deferred revenue from contracts with customers, is primarily composed of fees related to long-term service arrangements, which are generally invoiced in advance. Deferred revenue also includes payments for installation and training that has not yet been completed and other offerings for which the Company has been paid in advance and earn the revenue when it transfers control of the product or service. The balance of deferred revenue at June 30, 2021 and December 31, 2020 was as follows (in thousands):

Contract liabilities	June 30, 2021	December 31, 2020
Short term	\$ 5,964	\$ 6,117
Long term	424	267
Total	\$ 6,388	\$ 6,384

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

	Six Months Ended June 30, 2021
Balance at beginning of period	\$ 6,384
Deferral of revenue	6,393
Recognition of deferred revenue	(6,389)
Balance at end of period	<u>\$ 6,388</u>

The Company expects to recognize estimated revenues related to performance obligation that are unsatisfied (or partially satisfied) in the amounts of approximately \$3.8 million in 2021, \$3.0 million in 2022, and \$1.2 million each year from 2023 through 2025.

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,	
	2021	2020	2021	2020
Net loss	<u>\$ (3,280)</u>	<u>\$ (2,398)</u>	<u>\$ (4,923)</u>	<u>\$ (14,210)</u>
Shares used in the calculation of basic and diluted net loss per share	<u>24,989</u>	<u>22,396</u>	<u>24,462</u>	<u>21,275</u>
Diluted shares used in the calculation of net loss per share	<u>24,989</u>	<u>22,396</u>	<u>24,462</u>	<u>21,275</u>
Net loss per share - basic and diluted	<u>\$ (0.13)</u>	<u>\$ (0.11)</u>	<u>\$ (0.20)</u>	<u>\$ (0.67)</u>

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:

	As of June 30,	
	2021	2020
Stock options	<u>2,176,607</u>	<u>2,006,221</u>
Restricted stock	<u>21,613</u>	<u>70,992</u>
Total	<u>2,198,220</u>	<u>2,077,213</u>

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. Inventory consisted of the following (in thousands) and includes an inventory reserve of approximately \$0.2 million for both periods ended June 30, 2021 and December 31, 2020.

	June 30, 2021	December 31, 2020
Raw materials	\$ 1,518	\$ 1,538
Work in process	192	76
Finished Goods	<u>1,381</u>	<u>1,774</u>
Inventory Gross	3,091	3,388
Inventory Reserve	<u>(230)</u>	<u>(244)</u>
Inventory Net	<u>\$ 2,861</u>	<u>\$ 3,144</u>

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 (the “Loan Agreement”) with Western Alliance Bank (the “Bank”) that provided an initial term loan (“Term Loan”) facility of \$7.0 million and a \$5.0 million revolving line of credit.

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 March 1, 2022 and continuing on the first day of each month thereafter, the Company will 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, which is defined in the Loan Agreement as the greater of 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%.

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.

On April 27, 2021, the Company repaid its obligations in the aggregate amount of \$7,354,283 and terminated the Loan Agreement with the Bank, and the Company’s collateral securing the facility was released. The Company accounted for this repayment and retirement as an extinguishment of the Loan Agreement. In addition to the outstanding principal and accrued interest, the Company was required to pay the \$122,500 final payment, a termination fee of \$50,000 and other closing costs totaling approximately \$15,000. The Company also wrote off unamortized original closing costs as of the extinguishment date. The Company recorded a loss on extinguishment of approximately \$386,000 related to the repayment and retirement of the Loan Agreement. The loss on extinguishment was composed of approximately \$140,000 for a prepayment fee, \$122,000 for the unaccrued final payment, \$65,000 termination and other fees, and \$58,000 for the unamortized and other closing costs from origination of the loan.

(b) Loan and Security Agreement – Silicon Valley Bank

On August 7, 2017, the Company entered into a Loan and Security Agreement, which was subsequently 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. In March 2020 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 of 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 (the “Investors”), including, but not limited to, all directors and executive officers of the Company at the time, 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 Convertible Debentures, the Company also issued an additional 76,966 shares of its 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 were 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 occurred 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 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, 2020
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 Probability 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):

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

In February 2020 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 is 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

The Company no longer has any financing agreements as of June 30, 2021.

The following amounts are included in interest expense in the Company's consolidated statement of operations for the three and six months ended June 30, 2021 and 2020 (in thousands):

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Cash interest expense	\$ 26	\$ 95	\$ 118	\$ 138
Interest on convertible debentures	—	—	—	49
Accrual of notes payable final payment	2	8	9	39
Amortization of debt costs	—	12	13	19
Total interest expense	<u>\$ 28</u>	<u>\$ 115</u>	<u>\$ 140</u>	<u>\$ 245</u>

Note 5 – Lease Commitments

Under ASC 842, “Leases” (“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 leases or financing leases. 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 uses its incremental borrowing rate to determine the present value of the lease payments. The Company determines the incremental borrowing rates for its leases by applying its applicable, fully collateralized borrowing rate, with adjustment as appropriate for the 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 considers a number of factors when evaluating whether the options in its lease contracts are 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, 2021. 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, 2021 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 its accounting of 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 two years and nine months as of June 30, 2021.

The components of lease expense for the three and six months ended June 30, 2021 are as follows (in thousands):

<u>Lease Cost</u>	<u>Classification</u>	<u>Three Months Ended June 30, 2021</u>	<u>Six Months Ended June 30, 2021</u>
Operating lease cost - Right of Use Asset	Operating expenses	\$ 217	\$ 434
Operating lease cost - Variable	Operating expenses	7	\$ 64
Total		\$ 224	\$ 498

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

	<u>Three Months Ended June 30, 2021</u>	<u>Six Months Ended June 30, 2021</u>
Cash paid from operating cash flows for operating leases	\$ 233	\$ 351

	<u>As of June 30, 2021</u>
Weighted-average remaining lease term of operating leases	1.72
Weighted-average discount rate for operating leases	5.6%

Maturity of the Company's lease liabilities as of June 30, 2021 was as follows (in thousands):

<u>As of June 30, 2021:</u>	<u>Operating Leases</u>
2021	459
2022	899
2023	211
2024	5
Total lease payments	1,574
Less: imputed interest	(77)
Total lease liabilities	1,497
Less: current portion of lease liabilities	(851)
Long-term lease liabilities	<u>\$ 646</u>

Note 6 – Stockholders Equity

(a) Financing Activity

On March 2, 2021, the Company entered into an underwriting agreement with Guggenheim Securities, LLC, as representative of the several underwriters thereto, in connection with an underwritten public offering of 1,393,738 shares of the Company's common stock at an offering price of \$18.00 per share. The offering closed on March 5, 2021 for gross proceeds of approximately \$25.1 million and net proceeds of approximately \$23.2 million to the Company.

(b) Stock-Based Compensation

The Company granted options to purchase 0 and 428,938 shares of the Company's stock during the three and six months ended June 30, 2021 respectively. The full amount of options were granted in the first quarter of 2021. 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 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Average risk-free interest rate	N/A	0.26%	0.20%	0.79%
Expected dividend yield	None	None	None	None
Expected life	3.5 years	3.5 years	3.5 years	3.5 years
Expected volatility	N/A	64.0% to 65.7%	66.0% to 66.0%	50.2 to 65.7%
Weighted average exercise price	N/A	\$10.76	\$18.00	\$10.11
Weighted average fair value	N/A	\$4.96	\$8.37	\$4.34

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Cost of revenue	\$ 2	\$ 24	\$ 16	\$ 24
Engineering and product development	58	288	208	343
Marketing and sales	128	490	481	548
General and administrative	323	811	741	1,162
	<u>\$ 511</u>	<u>\$ 1,613</u>	<u>\$ 1,446</u>	<u>\$ 2,077</u>

As of June 30, 2021, 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	\$3,113
Weighted average term	1.2

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 the grant date.

The Company did not grant any shares of restricted stock during the three-months ended June 30, 2021 or 2020. The Company granted 22,488 and 0 shares of restricted stock during the six-months ended June 30, 2021 and 2020, respectively.

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

<u>Aggregate intrinsic value</u>	<u>As of</u> <u>June 30,</u>	
	<u>2021</u>	<u>2020</u>
Stock options	\$20,324	\$8,992
Restricted stock	374	709

The Company issued 34,814 and 83,748 shares of common stock upon the exercise of outstanding stock options in the three and six-months ended June 30, 2021 respectively. The Company received cash proceeds of approximately \$364,000 and \$636,000 in the three and six-months ended June 30, 2021 respectively. The intrinsic value of restricted shares that vested in the three and six months ended June 30, 2021 was \$0.2 million and \$0.5 million respectively. There were 10,041 and 30,041 restricted shares that vested in the three and six months ended June 30, 2021 respectively.

Employee Stock Purchase Plan

In December 2019, the 2019 Employee Stock Purchase Plan ("ESPP") was adopted by the Company's Board of Directors (the "Board") 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 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 5,890 and 12,212 shares under the ESPP in the three and six-months ended June 30, 2021 respectively. The Company recorded approximately \$26,000 and \$53,000 of stock-based compensation expense pursuant to ESPP for the three and six-months ended June 30, 2021 respectively. The next accumulation period under the ESPP commenced on March 31, 2021 and ended on June 30, 2021, and the related shares purchased by the participants were issued in July 2021. As of June 30, 2021, the Company recorded a liability of approximately \$79,000 related to employee withholdings in connection with the ESPP accumulation period ended June 30, 2021, which was included as a component of accrued expenses and other current liabilities.

Note 7 – Commitments and Contingencies

Other Commitments

The Company is obligated to pay approximately \$4.0 million for firm purchase obligations to suppliers for future product and service deliverables and \$0.5 million for minimum royalty obligations.

Litigation

In December 2016, the Company entered into an Asset Purchase Agreement (the “Asset Purchase Agreement”) with Invivo Corporation (“Invivo”). In accordance with the Asset Purchase 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 (the “Escrowed Amount”) for net proceeds 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. Yeda alleged, 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. On April 13, 2021, the Company and Yeda entered into a Settlement and Release Agreement (the “Settlement Agreement”) whereby the Company furnished to Yeda a one-time cash payment of \$85,000 and received a full, non-conditional release from Yeda of any and all claims related to the Complaint and the subject of the Complaint. Neither the Company nor Invivo acknowledged any wrongdoing at any point in connection with the Complaint or the subject matter thereof. The Escrowed Amount was reserved, in part, to cover any legal expenses related to the Asset Purchase Agreement and the transactions contemplated therein. The remaining balance of the Escrowed Amount following such expenses is due and payable to the Company in accordance with the terms of the Asset Purchase Agreement. The Company and Invivo agreed that Invivo would pay \$50,000 of the Escrowed Amount and the Company expensed approximately \$93,000 in the three-months ended June 30, 2021.

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 or claims pending against it the ultimate resolution of which would have a material adverse effect on its financial condition or results of operations. However, should the Company fail to prevail in any legal matter or should several legal matters be resolved against the Company in the same reporting period, such matters could have a material adverse effect on the Company’s 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 accounting 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 consolidated 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 as of December 31, 2020

	Level 1	Level 2	Level 3	Total
Assets				
Money market accounts	\$27,186	—	—	\$27,186
Total Assets	<u>\$27,186</u>	<u>—</u>	<u>—</u>	<u>\$27,186</u>

Fair Value Measurements (in thousands) as of June 30, 2021

	Level 1	Level 2	Level 3	Total
Assets				
Money market accounts	\$37,889	—	—	\$37,889
Total Assets	<u>\$37,889</u>	<u>—</u>	<u>—</u>	<u>\$37,889</u>

Note 9 - Income Taxes

The Coronavirus Aid, Relief, and Economic Security Act was enacted on March 27, 2020 and did not have a material impact on the Company's provision for income taxes for the three and six months ended June 30, 2021.

The Company recorded an income tax provision of \$0 for the three and six months ended June 30, 2021, and \$5,000 and \$31,000 for the three and six months ended June 30, 2020. The Company adopted ASU 2019-12 as of January 1, 2021, in accordance with this provision non-income and state franchise taxes are now classified as a component of operating expenses in General and Administrative expense. Income based tax expense will continue to be recognized as tax expense in the Consolidated Financial Statements. Tax expense for three and six months ended June 30, 2020 represent non-income and state franchise tax, however the expense was not reclassified to operating expenses in accordance with ASU 2019-12.

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 its 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, 2021.

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 tax 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 its carrying value. There were no impairment indicators present as of June 30, 2021.

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 would record an impairment charge when such assessment indicates that the fair value of a reporting unit is 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 its most recent views of the long-term forecast for each segment. Accordingly, actual results can differ from those assumed in the Company's forecasts. Discount rates are derived from a capital asset pricing model and by analyzing published rates for industries relevant to the Company's 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 of its reporting units and in the Company's 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 in similar 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 the Company, as well as the fact that 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. 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)
Balance at December 31, 2020 and June 30, 2021	<u>—</u>	<u>8,362</u>	<u>—</u>	<u>8,362</u>

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 its carrying value.

There is no set interval or frequency for recoverability evaluation. Rather, the determination of 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 (or 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 (or asset group);
- A significant adverse change in the extent or manner in which a long-lived asset (or 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 (or 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 (or asset group); and
- A current operating period, 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 (or asset group).

The Company determined there were no such triggering events in the quarter ended June 30, 2021.

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

A considerable amount of judgment and assumptions are required in performing the impairment tests, principally in determining the fair value of the asset group and the reporting unit. While the Company believes that its 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 the Company’s advanced image analysis and workflow products, and the Therapy segment consists of the Company’s radiation therapy products, “Axxent,” and related services. The primary factors used by the Company’s 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 the Company’s 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		Six Months Ended	
	June 30,		June 30,	
	2021	2020	2021	2020
Segment revenues:				
Detection	\$ 4,789	\$ 4,117	\$10,508	\$ 8,593
Therapy	3,037	1,450	5,962	3,525
Total Revenue	\$ 7,826	\$ 5,567	\$16,470	\$ 12,118
Segment gross profit:				
Detection	\$ 4,005	\$ 3,533	\$ 8,730	\$ 7,000
Therapy	1,533	824	3,097	1,867
Segment gross profit	\$ 5,538	\$ 4,357	\$11,827	\$ 8,867
Segment operating income (loss):				
Detection	\$ 52	\$ 201	\$ 993	\$ (145)
Therapy	(250)	(432)	(562)	(1,438)
Segment operating income (loss)	\$ (198)	\$ (231)	\$ 431	\$ (1,583)
General, administrative, depreciation and amortization expense	\$(2,673)	\$(2,080)	\$(4,835)	\$(4,621)
Interest expense	(28)	(115)	(140)	(245)
Other income	5	33	7	75
Loss on extinguishment of debt	(386)	—	(386)	(341)
Fair value of convertible debentures	—	—	—	(7,464)
Loss before income tax	\$(3,280)	\$(2,393)	\$(4,923)	\$(14,179)

Note 13 - Recent Accounting Pronouncements

Recently Adopted Accounting Standards

In December 2019, the Financial Accounting Standard Board (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 US 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 notes that the adoption of ASU 2019-12 resulted in the reclassification of an immaterial amount from income tax expense to non-income tax included in operating expenses related to the accounting for state and Franchise taxes, with no impact to the Company’s consolidated income, equity or cash flows.

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 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, and at the end of 2021, banks will no longer be required to report information that is used to determine LIBOR. As a result, LIBOR is expected to be discontinued as a benchmark interest rate. 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.

In August 2020, the FASB issued ASU 2020-06, “Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity” (“ASU 2020-06”). ASU 2020-06 was issued to simplify the accounting for convertible instruments by removing major separation models required under current U.S. GAAP. Consequently, more convertible debt instruments will be reported as a single liability instrument and more convertible preferred stock as a single equity instrument with no separate accounting for embedded conversion features. ASU 2020-06 removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception, which will permit more equity contracts to qualify for it. ASU 2020-06 also simplifies the diluted earnings per share calculation in certain areas. ASU 2020-06 is effective for the Company for the fiscal year and interim periods therein beginning January 1, 2022. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of ASU 2020-06 will have on its consolidated financial statements.

Note 14 – Subsequent Events

The Company held its 2021 annual meeting of stockholders on July 15, 2021 (the “Meeting”). The Company’s stockholders approved all matters submitted by the Company to the stockholders for approval at the Meeting (the “Proposals”), including a proposal to approve and adopt an amendment to the Certificate of Incorporation (the “Amendment to the Certificate of Incorporation”) to increase the Company’s authorized shares of common stock from 30,000,000 shares to 60,000,000 shares, and a proposal to approve an amendment to the Company’s 2016 Stock Incentive Plan, as amended, to increase the number of shares of common stock available thereunder from 2,600,000 shares to 4,700,000 shares and to increase the aggregate number of incentive stock options available thereunder from 1,000,000 to 2,000,000 (the “Plan Amendment”). Following stockholder approval of all Proposals at the Meeting, the Company filed the Amendment to the Certificate of Incorporation with the Secretary of State of the State of Delaware on July 21, 2021, and the Plan Amendment was made effective as of July 15, 2021.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Certain information included in this Item 2 and elsewhere in this Form 10-Q that are not historical facts contain statements that may be deemed "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements involve or may 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 the Company's business and the global 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 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 forward-looking statements, which speak only as of the date the statement was made. Except as required by law, we undertake no obligation to update any such forward-looking statements to reflect events or circumstances after the date of such statements.

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 the Xofig System, an isotope-free cancer treatment platform technology. The Xofig System can be used for the treatment of early-stage breast cancer, endometrial cancer, cervical cancer and nonmelanoma skin cancer.

On January 30, 2017, the Company completed the sale of certain intellectual property relating to the VersaVue Software and the DynaCAD product and related assets to Invivo for \$3,200,000 in cash with a holdback amount of \$350,000. The Company recently settled litigation with a third-party relating to this transaction, as further described in "Item 1—Legal Proceedings" and Note 7 hereto. The three and six months ended June 30, 2021 includes a \$0.4 million charge related to the loss on the extinguishment of debt while the three and six months ended June 30, 2020 included a \$7.8 million charge related to the losses on the extinguishment of debentures and debt. In April 2021, the Company used approximately \$7.4 million of cash to repay its credit facility in full.

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 the COVID-19 pandemic, the United States, many countries in Europe, as well as 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 continuing impact of the COVID-19 pandemic on our 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 worsening level of market disruption and volatility seen in the recent past will 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, 2021 reflect a negative impact from the COVID-19 pandemic, due to some 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, 2021, and possibly future quarters, could reflect a continued negative impact from the COVID-19 pandemic for similar reasons.

During the first quarter of fiscal 2020, the Company 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 "ATM Facility"). On December 17, 2020 the company sold 470,704 shares of common stock under the ATM Facility for gross proceeds of approximately \$6.6 million and net proceeds of approximately \$6.1 million. On

March 2, 2021, the Company terminated the ATM Facility. Also on March 2, 2021, the Company entered into an underwriting agreement with Guggenheim Securities, LLC, as representative of the several underwriters thereto, in connection with an underwritten public offering of 1,393,738 shares of the Company's common stock at an offering price of \$18.00 per share. The offering closed on March 5, 2021 for gross proceeds of approximately \$25.1 million and net proceeds of approximately \$23.2 million to the Company. 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 \$37.9 million at June 30, 2021 and anticipated revenue and cash collections. However, the resurgence of the COVID-19 pandemic could affect our liquidity.

Critical Accounting Estimates

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.

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 debentures, 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 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 Annual Report on Form 10-K for the fiscal year ended December 31, 2020 filed with the SEC on March 15, 2021 (the "2020 10-K"). For a comprehensive list of the Company's critical accounting policies, reference should be made to the 2020 10-K.

Three and six months ended June 30, 2021 compared to three and six months ended June 30, 2020.

Revenue: (in thousands)

Three months ended June 30, 2021 and 2020:

	2021	2020	Change	% Change
Three months ended June 30,				
Detection revenue				
Product revenue	\$3,164	\$2,702	\$ 462	17.1%
Service and supplies revenue	1,625	1,415	210	14.8%
Subtotal	<u>4,789</u>	<u>4,117</u>	<u>672</u>	<u>16.3%</u>
Therapy revenue				
Product revenue	1,388	186	1,202	646.2%
Service and supplies revenue	1,649	1,264	385	30.5%
Subtotal	<u>3,037</u>	<u>1,450</u>	<u>1,587</u>	<u>109.4%</u>
Total revenue	<u>\$7,826</u>	<u>\$5,567</u>	<u>\$2,259</u>	<u>40.6%</u>

Total revenue increased by approximately \$2.3 million, or 40.6%, from \$5.6 million for the three months ended June 30, 2020 to \$7.8 million for the three months ended June 30, 2021. The increase is due to an increase in Therapy revenue of approximately \$1.6 million and Detection revenue of \$0.7 million.

Detection product revenue increased by approximately \$0.5 million, or 17.1%, from \$2.7 million for the three ended June 30, 2020 to \$3.2 million for the three months ended June 30, 2021. The overall increase is due primarily to an increase in direct customer revenue of \$0.3 million and an increase in original equipment manufacturer customer revenue of \$0.2 million, in each case relating primarily to revenue from 3D imaging and density assessment products. The Company also believes that the COVID-19 pandemic adversely affected revenues during the three months ended June 30, 2020.

Detection service and supplies revenue, which is primarily sold to direct customers, increased by \$0.2 million, or 14.8%, from \$1.4 million in the three months ended June 30, 2020 to \$1.6 million in the three months ended June 30, 2021.

Therapy product revenue increased by approximately \$1.2 million, or 646.2%, from \$0.2 million for the three months ended June 30, 2020 to \$1.4 million for the three months ended June 30, 2021. 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. The Company believes that Therapy product revenue was adversely affected by the COVID-19 pandemic during the three months ended June 30, 2020, due to stay-at-home and social distancing orders as well as the uncertainty in the market.

Therapy service and supplies revenue increased by approximately \$0.4 million, or 30.5%, from \$1.3 million for the three months ended June 30, 2020 to \$1.7 million for the three months ended June 30, 2021. The Company believes that Therapy service and supplies revenue, specifically the use of balloons for procedures, was adversely affected by the COVID-19 pandemic during the three months ended June 30, 2020, due to stay-at-home and social distancing orders as well as the uncertainty in the market. The Company saw higher service and supplies revenues due to higher balloon sales in the three months ended June 30, 2021 as compared to the three months ended June 30, 2020. The Company is not able to predict how the COVID-19 pandemic will affect future Therapy service and supplies revenue.

Six months ended June 30, 2021 and 2020:

	2021	Six months ended June 30,		
		2020	\$ Change	% Change
Detection revenue				
Product revenue	\$ 7,325	\$ 5,802	\$ 1,523	26.2%
Service revenue	3,183	2,791	392	14.0%
Subtotal	<u>10,508</u>	<u>8,593</u>	<u>1,915</u>	<u>22.3%</u>
Therapy revenue				
Product revenue	2,784	881	1,903	216.0%
Service revenue	3,178	2,644	534	20.2%
Subtotal	<u>5,962</u>	<u>3,525</u>	<u>2,437</u>	<u>69.1%</u>
Total revenue	<u>\$16,470</u>	<u>\$12,118</u>	<u>\$ 4,352</u>	<u>35.9%</u>

Total revenue increased by approximately \$4.4 million, or 35.9%, from \$12.1 million for the six months ended June 30, 2020 to \$16.5 million for the six months ended June 30, 2021. The increase is due to an increase in Therapy revenue of approximately \$2.4 million and an increase in Detection revenue of \$1.9 million.

Detection product revenue increased by approximately \$1.5 million, or 26.2%, from \$5.8 million for the six months ended June 30, 2020 to \$7.3 million for the six months ended June 30, 2021. The overall increase is due primarily to an increase in direct customer revenue of \$1.7 million and offset by a decrease in original equipment manufacturer customer revenue of \$0.2 million, in each case relating primarily to revenue from 3D imaging and density assessment products. The Company also believes that the COVID-19 pandemic adversely affected revenues during the six months ended June 30, 2020.

Detection service and supplies revenue, which is primarily sold to direct customers, increased by \$0.4 million, or 14.0%, from \$2.8 million in the six months ended June 30, 2020 to \$3.2 million in the six months ended June 30, 2021.

Therapy product revenue increased by approximately \$1.9 million, or 216%, from \$0.9 million for the six months ended June 30, 2020 to \$2.8 million for the six months ended June 30, 2021. 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. The Company believes that Therapy product revenue was adversely affected by the COVID-19 pandemic during the six months ended June 30, 2020, due to stay-at-home and social distancing orders as well as the uncertainty in the market.

Therapy service and supplies revenue increased by approximately \$0.5 million, or 20.2%, from \$2.6 million for the six months ended June 30, 2020 to \$3.2 million for the six months ended June 30, 2021. The Company believes that Therapy service and supplies revenue, specifically the use of balloons for procedures, was adversely affected by the COVID-19 pandemic during the three months ended June 30, 2020, due to stay-at-home and social distancing orders as well as the uncertainty in the market. The Company saw higher service and supplies revenues due to higher balloon sales in the six months ended June 30, 2021 as compared to the six months ended June 30, 2020. The Company is not able to predict how the COVID-19 pandemic will affect future Therapy service and supplies revenue.

Cost of Revenue and Gross Profit: (in thousands)*Three months ended June 30, 2021 and 2020:*

	2021	Three months ended June 30,		% Change
		2020	\$ Change	
Products	\$1,377	\$ 537	\$ 840	156.4%
Service and supplies	832	575	257	44.7%
Amortization and depreciation	79	98	(19)	(19.4)%
Total cost of revenue	<u>\$2,288</u>	<u>\$1,210</u>	<u>\$ 1,078</u>	<u>89.1%</u>
Gross profit	\$5,538	\$4,357	\$ 1,181	27.1%

	Three Months Ended June 30,	
	2021	2020
Segment gross profit:		
Detection	\$ 4,005	\$ 3,533
Therapy	1,533	824
Segment gross profit	<u>\$ 5,538</u>	<u>\$ 4,357</u>

Gross profit for the three months ended June 30, 2021 was approximately \$5.5 million, or 70.8% of revenue, as compared to \$4.4 million, or 78.3% of revenue, for the three months ended June 30, 2020. The COVID-19 pandemic adversely affected revenues from Detection products and the Therapy segment in the three months ended June 30, 2020, which resulted in lower gross profit in both segments in 2020. The higher gross profit as a percentage of sales in the three months ended June 30, 2020 was primarily related to product mix, with lower margin Therapy products being a greater percentage of total sales in the three months ended June 30, 2021 than in the three months ended June 30, 2020.

Cost of products increased by approximately \$0.8 million, or 156.4%, from \$0.5 million for the three months ended June 30, 2020 to \$1.4 million for the three months ended June 30, 2021. Cost of product revenue as a percentage of product revenue was approximately 18.6% for the three months ended June 30, 2020 as compared to 30.3% for the three months ended June 30, 2021. The increase in cost of products is primarily due to the increased sales in both Therapy and Detection resulting in increases in cost of products of \$0.3 and \$0.1 million respectively. The higher cost of products as a percentage of sales in the three months ended June 30, 2021 was primarily related to product mix, with lower margin Therapy products being a greater percentage of total sales in the three months ended June 30, 2021 than in the three month period ended June 30, 2020.

Cost of service and supplies increased by approximately \$0.3 million, or 44.7%, from \$0.6 million for the three months ended June 30, 2020 to \$0.8 million for the three months ended June 30, 2021. Cost of service and supplies revenue as a percentage of service and supplies revenue was approximately 21.5% for the three months ended June 30, 2020 as compared to 25.4% for the three months ended June 30, 2021. The higher cost of service and supplies as a percentage of sales in the three months ended June 30, 2021 was primarily related to product mix, with lower margin Therapy products being a greater percentage of total sales in the three months ended June 30, 2021 than in the three month period ended June 30, 2020.

Amortization and depreciation, which relates primarily to acquired intangible assets and depreciation of machinery and equipment, was approximately \$0.1 million for the three months ended June 30, 2021 and 2020.

Six months ended June 30, 2021 and 2020:

	2021	2020	\$ Change	% Change
Products	\$ 2,786	\$1,554	\$ 1,232	79.3%
Service and supplies	1,699	1,502	197	13.1%
Amortization and depreciation	158	195	(37)	(19.0)%
Total cost of revenue	<u>\$ 4,643</u>	<u>\$3,251</u>	<u>\$ 1,392</u>	<u>42.8%</u>
Gross profit	<u>\$11,827</u>	<u>\$8,867</u>	<u>\$ 2,960</u>	<u>33.4%</u>

	Six Months Ended June 30,	
	2021	2020
Segment gross profit:		
Detection	\$ 8,730	\$7,000
Therapy	3,097	1,867
Segment gross profit	<u>\$11,827</u>	<u>\$8,867</u>

Gross profit for the six months ended June 30, 2021 was approximately \$11.8 million, or 71.8% of revenue, as compared to \$8.9 million, or 73.2% of revenue, for the six months ended June 30, 2020. The COVID-19 pandemic adversely affected revenues from Detection products and the Therapy segment in the six months ended June 30, 2020, which resulted in lower gross profit in both segments in 2020. The higher gross profit as a percentage of sales in the six months ended June 30, 2020 was primarily related to product mix, with lower margin Therapy products being a greater percentage of total sales in the six months ended June 30, 2021 than in the six months ended June 30, 2020.

Cost of products increased by approximately \$1.2 million, or 79.3%, from \$1.5 million for the six months ended June 30, 2020 to \$2.8 million for the six months ended June 30, 2021. Cost of product revenue as a percentage of product revenue was approximately 23.3% for the six months ended June 30, 2020 as compared to 27.6% for the six months ended June 30, 2021. The increase in cost of products is primarily due to the increased sales in both Therapy and Detection resulting in increases in cost of products of \$1.0 and \$0.2 million respectively. The higher cost of products as a percentage of sales in the six months ended June 30, 2021 was primarily related to product mix, with lower margin Therapy products being a greater percentage of total sales in the six months ended June 30, 2021 than in the six months ended June 30, 2020.

Cost of service and supplies increased by approximately \$0.2 million, or 13.1%, from \$1.5 million for the six months ended June 30, 2020 to \$1.7 million for the six months ended June 30, 2021. Cost of service and supplies revenue as a percentage of service and supplies revenue was approximately 27.6% for the six months ended June 30, 2020 as compared to 26.7% for the six months ended June 30, 2021. The lower cost of service and supplies as a percentage of sales in the six months ended June 30, 2021 was primarily related to reduced personnel costs as a percentage of total cost of service and supplies.

Amortization and depreciation, which relates primarily to acquired intangible assets and depreciation of machinery and equipment, was approximately \$0.2 million for both the six months ended June 30, 2021 and 2020.

Operating Expenses: (in thousands)

Three months ended June 30, 2021 and 2020:

	Three months ended June 30,			
	2021	2020	Change	Change %
Operating expenses:				
Engineering and product development	\$2,268	\$1,878	\$ 390	20.8%
Marketing and sales	3,429	2,631	798	30.3%
General and administrative	2,652	2,110	542	25.7%
Amortization and depreciation	60	49	11	22.4%
Total operating expenses	<u>\$8,409</u>	<u>\$6,668</u>	<u>\$1,741</u>	<u>26.1%</u>

Operating expenses increased by approximately \$1.7 million, or 26.1%, from \$6.7 million in the three months ended June 30, 2020 to \$8.4 million in the three months ended June 30, 2021. The Company took steps throughout 2020 to reduce operating expenses during the COVID-19 pandemic and this was evident in the three-months ended June 30, 2020. The Company reinstated furloughed employees and resumed some business travel based on relaxation of COVID-19 restrictions and the strength of the business, but the Company continues to take a disciplined approach with expenses, given the lingering risk of COVID-19 related negative impacts to the business.

Engineering and Product Development. Engineering and product development costs increased by approximately \$0.4 million, or 20.8%, from \$1.9 million for the three months ended June 30, 2020 to \$2.3 million for the three-months ended June 30, 2021. The increase is primarily due to personnel costs related to reinstatement of furloughed employees.

Marketing and Sales. Marketing and sales expenses increased by approximately \$0.8 million, or 30.3%, from \$2.6 million in the three months ended June 30, 2020, to \$3.4 million in the three months ended June 30, 2021. Both Detection and Therapy marketing and sales each increased by approximately \$0.4 million. The increase is primarily due to personnel costs including increased travel as compared to the three months ended June 30, 2020 when travel was impacted by the COVID-19 pandemic.

General and Administrative. General and administrative expenses increased by approximately \$0.5 million, or 25.7.0%, from \$2.1 million in the three months ended June 30, 2020 to \$2.6 million for the three months ended June 30, 2021. The increase is primarily due to personnel costs related to reinstatement of furloughed employees.

Amortization and Depreciation. Amortization and depreciation, which relates primarily to acquired intangible assets and depreciation of machinery and equipment, increased by approximately \$11,000, or 22.4% from \$49,000 for the three months ended June 30, 2020 to \$60,000 for the three months ended June 30, 2021.

Other Income and Expense: (in thousands)

Three months ended June 30, 2021 and 2020:

	Three months ended June 30,			
	2021	2020	Change	Change %
Interest expense	\$ (28)	\$ (115)	\$ 87	(75.7)%
Other income	5	33	(28)	(84.8)%
Loss on extinguishment of debt	(386)	—	—	0.0%
	<u>\$(409)</u>	<u>\$ (82)</u>	<u>\$ 59</u>	<u>(72.0)%</u>
Tax benefit (expense)	—	(5)	5	(100.0)%

Interest expense. Interest expense decreased \$87,000, or 75.7%, from \$115,000 in the three months ended June 30, 2020 to \$28,000 for the three months ended June 30, 2021. The decrease is due to the timing of termination of the Loan Agreement.

Other income. Other income decreased by approximately \$28,000, or 84.8%, from \$33,000 for the three months ended June 30, 2020 to \$5,000 for the three months ended June 30, 2021.

Loss on extinguishment of debt: The Company recorded a loss on extinguishment of approximately \$386,000 related to the repayment and retirement of the Loan Agreement as of the three months ended June 30, 2021. The loss on extinguishment was composed of approximately \$140,000 for a prepayment fee, \$122,000 for the unaccrued final payment, \$65,000 termination and other fees, and \$58,000 for the unamortized and other closing costs from opening the loan.

Tax expense. Tax expense decreased by approximately \$5,000, or 100%, from \$5,000 for the three months ended June 30, 2020 to \$0 for the three months ended June 30, 2021. The Company has approximately \$13,000 in non-income related tax expense classified in operating expenses under ASU 2019-12 that had previously been classified here in tax expense. Tax expense is due to state non-income and franchise-based taxes.

Operating Expenses: (in thousands)

Six months ended June 30, 2021 and 2020:

	Six months ended June 30,			
	2021	2020	Change	Change %
Operating expenses:				
Engineering and product development	\$ 4,460	\$ 4,089	\$ 371	9.1%
Marketing and sales	6,853	6,239	614	9.8%
General and administrative	4,803	4,642	161	3.5%
Amortization and depreciation	115	101	14	13.9%
Total operating expenses	<u>\$16,231</u>	<u>\$15,071</u>	<u>\$1,160</u>	<u>7.7%</u>

Operating expenses increased by approximately \$1.1 million, or 7.7%, from \$15.1 million in the six months ended June 30, 2020 to \$16.2 million in the six months ended June 30, 2021. The Company took steps throughout 2020 to reduce operating expenses during the COVID-19 pandemic and this was evident in the six months ended June 30, 2020. The Company reinstated furloughed employees and resumed some business travel based on relaxation of COVID-19 restrictions and the strength of the business, but the Company continues to take a disciplined approach with expenses, given the lingering risk of COVID-19 related negative impacts to the business.

Engineering and Product Development. Engineering and product development costs increased by approximately \$0.4 million, or 9.1%, from \$4.1 million for the six months ended June 30, 2020, to \$4.5 million for the six months ended June 30, 2021. The increase is primarily due to personnel costs related to reinstatement of furloughed employees.

Marketing and Sales. Marketing and sales expenses increased by approximately \$0.6 million, or 9.8%, from \$6.2 million in the six months ended June 30, 2020, to \$6.8 million in the six months ended June 30, 2021. Both Detection and Therapy marketing and each sales increased by approximately \$0.3 million. The increase is primarily due to personnel costs including increased travel as compared to the six months ended June 30, 2020 when travel was impacted by the COVID-19 pandemic.

General and Administrative. General and administrative expenses increased by approximately \$0.2 million, or 3.5%, from \$4.6 million in the six months ended June 30, 2020 to \$4.8 million for the six months ended June 30, 2021. The increase is primarily due to personnel costs related to reinstatement of furloughed employees.

Amortization and Depreciation. Amortization and depreciation which relates primarily to acquired intangible assets and depreciation of machinery and equipment, increased by approximately \$14,000, or 13.9% from \$101,000 for the six months ended June 30, 2020, to \$115,000 for the six months ended June 30, 2021.

Other Income and Expense: (in thousands)

Six months ended June 30, 2021 and 2020:

	Six months ended June 30,			
	2021	2020	Change	Change %
Interest expense	\$(140)	\$ (245)	\$ 105	(42.9)%
Other income	7	75	(68)	(90.7)%
Loss on extinguishment of debt	(386)	(341)	(45)	13.2%
Loss on fair value of debentures	—	(7,464)	7,464	(100.0)%
	<u>\$(519)</u>	<u>\$(7,975)</u>	<u>\$7,456</u>	<u>(93.5)%</u>
Tax expense	\$ —	\$ (31)	\$ 31	(100.0)%

Interest expense. Interest expense decreased \$105,000, or 42.9%, from \$245,000 in the six months ended June 30, 2020 to \$140,000 for the six months ended June 30, 2021. The decrease is due to the timing of termination of the Loan Agreement.

Other income. Other income decreased by approximately \$68,000, or 90.7%, from \$75,000 for the six months ended June 30, 2020 to \$7,000 for the six months ended June 30, 2021.

Loss on extinguishment of debt: The Company recorded a loss on extinguishment of approximately \$386,000 related to the repayment and retirement of the Loan Agreement as of the three months ended June 30, 2021. The loss on extinguishment was composed of approximately \$140,000 for a prepayment fee, \$122,000 for the unaccrued final payment, \$65,000 termination, and other fees, and \$58,000 for the unamortized and other closing costs from opening the loan. In March 2020 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 of unamortized and other closing costs.

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 unsecured subordinated convertible debentures issued in December 2018 from \$13.7 million at December 31, 2019 to \$21.2 million at February 21, 2020. Upon the consummation of the forced conversion of the debentures, 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 and six-months ending June 30, 2020. As a result of the forced conversion there was no fair value adjustment for the six months ended June 30, 2021.

Tax expense. Tax expense decreased by approximately \$31,000, or 100%, from \$31,000 for the six months ended June 30, 2020 to \$0 for the six months ended June 30, 2021. The Company has approximately \$26,000 in non-income related tax expense classified in operating expenses under ASU 2019-12 that had previously been classified here in tax expense. Tax expense is due to state non-income and franchise-based taxes.

Liquidity and Capital Resources

The Company believes that its cash and cash equivalents balance of \$37.9 million as of June 30, 2021, and projected cash balances are sufficient to sustain operations through at least the next 12 months. 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. In addition, the resurgence of the COVID-19 pandemic could affect our liquidity. The Company will continue to closely monitor its liquidity and the capital and credit markets.

The Company's cash on hand as of June 30, 2021 includes proceeds from the March 2, 2021 underwritten public offering of 1,393,738 shares of the Company's common stock at an offering price of \$18.00 per share resulting in net proceeds of approximately \$23.2 million. On April 27, 2021, the Company repaid its obligations in the aggregate amount of \$7,354,283 under and terminated the Loan Agreement entered into with the Bank on March 30, 2020 and amended on June 22, 2020 and the Company's collateral securing the facility was released.

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. The Company also entered into the ATM Facility with JMP Securities in March 2020 to provide for additional potential liquidity. The ATM facility provided for the sale of common stock having a value of up to \$25.0 million. On December 17, 2020 the Company sold 470,704 shares of common stock under the ATM Facility for gross proceeds of approximately \$6.6 million and net proceeds of approximately \$6.1 million. As of December 31, 2020, \$18.4 million in capacity remained under the ATM Facility. On March 2, 2021, the Company terminated the ATM Facility.

On March 2, 2021, the Company entered into an underwriting agreement with Guggenheim Securities, LLC, as representative of the several underwriters thereto, in connection with an underwritten public offering of 1,393,738 shares of the Company's common stock at an offering price of \$18.00 per share. The offering closed on March 5, 2021 for gross proceeds of approximately \$25.1 million and net proceeds of approximately \$23.2 million to the Company.

The Company had net working capital of \$39.2 million at June 30, 2021. The ratio of current assets to current liabilities at June 30, 2021 and December 31, 2020 was 3.71 and 2.53 respectively.

	For the six months ended June 30,	
	2021	2020
	(in thousands)	
Net cash used for operating activities	\$ (5,577)	\$ (3,573)
Net cash used for investing activities	(336)	(186)
Net cash provided by financing activities	16,616	12,671
Increase in cash and equivalents	<u>\$ 10,703</u>	<u>\$ 8,912</u>

Net cash used for operating activities for the six months ended June 30, 2021 was \$5.6 million, compared to \$3.6 million for the six months ended June 30, 2020. The net cash used for operating activities for the six months ended June 30, 2021 primarily reflects our net loss and working capital changes resulting from decreases in accounts payable and accrued expenses as well as an increase in accounts receivable offset by a decrease in inventory and prepaid and other assets. 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 receivable and the timing of other payments.

Net cash used for investing activities for the six months ended June 30, 2021 was \$336,000, compared to \$186,000 for the six months ended June 30, 2020. The net cash used for investing activities for the six months ended June 30, 2021 and 2020 is primarily for purchases of property and equipment.

Net cash provided by financing activities for the six months ended June 30, 2021 was \$16.6 million, compared to \$12.7 million for the six months ended June 30, 2020. Net cash provided by financing activities for the six months ended June 30, 2021 is primarily from the March 2, 2021 underwritten public offering of 1,393,738 shares of the Company's common stock at an offering price of \$18.00 per share resulting in net proceeds of approximately \$23.2 million. This was offset by repayment of the Loan Agreement to the Bank. The company also received \$0.6 million from the issuance of common stock pursuant the Company's stock option plan and \$0.1 million for from the issuance of common stock pursuant the Employee Stock Purchase

Plan. Net cash provided by financing activities for the six-months ended June 30, 2020 was \$12.7 million 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.

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.

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, 2021, 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, as amended (the "Exchange Act")) were effective at a 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, its controls and procedures.

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 Rule 13a-15(f) of the Exchange Act) and have determined there are no changes in its internal controls over financial reporting during the quarter ended June 30, 2021 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 the Asset Purchase Agreement with Invivo. In accordance with the Asset Purchase 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 the Escrowed Amount, a holdback reserve of \$350,000, for net proceeds of approximately \$2.9 million.

On September 5, 2018, third-party Yeda, filed 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. Yeda alleged, 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. On April 13, 2021, the Company and Yeda entered into the Settlement Agreement whereby the Company furnished to Yeda a one-time cash payment of \$85,000 and received a full, non-conditional release from Yeda of any and all claims related to the Complaint and the subject of the Complaint. Neither the Company nor Invivo acknowledged any wrongdoing at any point in connection with the Complaint or the subject matter thereof. The Escrowed Amount was reserved, in part, to cover any legal expenses related to the Asset Purchase Agreement and the transactions contemplated therein. The remaining balance of the Escrowed Amount following such expenses is due and payable to the Company in accord with the terms of the Asset Purchase Agreement. However, the Company is unaware of the amount Invivo may claim it is entitled to of the Escrowed Amount, if any, under the Asset Purchase Agreement. The Company and Invivo agreed that Invivo would pay \$50,000 of the Escrowed Amount and the Company expensed approximately \$93,000 in the three-months ended June 30, 2021.

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, 2020 as filed with the SEC on March 15, 2021 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 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 the COVID-19 pandemic, the United States, many countries in Europe, as well as 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 impact of the COVID-19 pandemic on our 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 worsening of the levels of market disruption and volatility seen in the recent past will 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, 2021 reflect a negative impact from the COVID-19 pandemic due to some 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, 2021, 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 effect on our results over the long term is uncertain.

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. The Company has historically not experienced significant trade account receivable losses, but 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
3.1*	<u>Certificate of Incorporation, as amended.</u>
10.1*	<u>2016 Stock Incentive Plan, as amended.</u>
10.2	<u>Consulting Agreement dated April 16, 2021, by and between iCAD, Inc. and Charles Carter (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the SEC on April 28, 2021).</u>
31.1*	<u>Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2*	<u>Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1**	<u>Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2**	<u>Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101*	The following materials formatted in XBRL (eXtensible Business Reporting Language); (i) Condensed Consolidated Balance Sheets as of June 30, 2021 and December 31, 2020, (ii) Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2021 and 2020, (iii) Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2021 and 2020, (iv) Condensed Statements of Stockholders' Equity for the three and six months ended June 30, 2021 and June 30, 2020 and (v) Notes to Condensed 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

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 6, 2021

By: /s/ Michael Klein

Name: Michael Klein

Title: Chief Executive Officer
(Principal Executive Officer)

Date: August 6, 2021

By: /s/ Charles R. Carter

Name: Charles R. Carter

Title: Chief Financial Officer
(Principal Financial Officer)

CERTIFICATE OF INCORPORATION

OF

HOWTEK, INC.

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

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

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

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

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

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

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

SIXTH: Election of directors need not be by ballot.

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

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

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

A handwritten signature in cursive script, appearing to read "Leonard I. Weinstock".

Leonard I. Weinstock
Incorporator

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

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

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

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

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

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

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

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

HOWTEK, INC.

By:



Robert Howard, President

ATTEST:



Beth Weinstein, Secretary

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

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

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

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

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

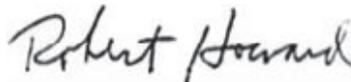
SECOND: That in lieu of a meeting and vote of stockholders, the stockholders have given unanimous written consent to said amendment in accordance with the provisions of Section 228 of the General Corporation Law of the State of Delaware.

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

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

HOWTEK, INC.

By:



Robert Howard, President

ATTEST:



Beth Weinstein, Secretary

Certificate of Restoration and Revival of
Certificate of Incorporation
of

It is hereby certified that:

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

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

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

Signed and attested to on July 31, 1987.



Vice President – Finance

Attest:



Secretary

[illegible]
[illegible] HOWTEK, INC.

[illegible]
SCREEN TAX

TAX
HISTORY

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

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

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

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

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

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

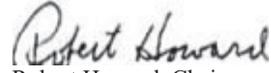
FOURTH: The total number of shares of stock which the Corporation shall have authority to issue is twenty-five million (25,000,000) shares, all of which shares are to be shares of Common Stock, par value \$.01 per share.

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

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

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

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



Robert Howard, Chairman of the Board and President

ATTEST:



Robert J. Mittman
Assistant Secretary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Dated: September 28, 1999.

HOWTEK, INC.

By: 
W. Scott Parr, President

HOWTEK, INC.

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

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

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

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

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

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

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

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

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

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

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

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

Section 4. Redemption at the Option of the Corporation.

(a) Provided the Corporation has not received a notice of conversion pursuant to Section 7 hereof, the Corporation may at any time after the date of issuance, at the option of the Board of Directors, redeem in whole or in part the Series A Preferred Stock by paying in cash therefor a sum equal to \$100 per share, together with any accrued and unpaid dividends thereon (the "Redemption Price"). The Redemption Price shall be subject to appropriate adjustment by the Board of Directors of the Corporation in the event of any stock split, dividend or similar division of shares of Series A Preferred Stock or reverse split or similar combination of the Series A Preferred Stock. At least fifteen (15) but no more than thirty (30) days prior to the Redemption Date (as hereinafter defined) set forth therein, written notice shall be mailed, first class postage prepaid, to each holder of record (at the close of business on the

business day next preceding the day on which notice is given) of the Series A Preferred Stock to be redeemed, at the address last shown on the records of the Corporation for such holder, notifying such holder of the redemption to be effected, specifying the number of shares to be redeemed from such holder, the date of such redemption (the "Redemption Date"), the Redemption Price, the place at which payment may be obtained and calling upon such holder to surrender to the Corporation, in the manner and at the place designated, his, her or its certificate or certificates representing the shares to be redeemed (the "Redemption Notice"). Any redemption effected pursuant to this Section 4 shall be made on a pro rata basis among the holders of the Series A Preferred Stock in proportion to the number of shares of Series A Preferred Stock then held by them. Each holder of Series A Preferred Stock to be redeemed shall surrender to the Corporation the certificate or certificates representing such shares, in the manner and at the place designated in the Redemption Notice, and thereupon the Redemption Price of such shares shall be payable to the order of the person whose name appears on such certificate or certificates as the owner thereof and each surrendered certificate shall be cancelled.

(b) From and after the applicable Redemption Date, unless there shall have been a default in payment of the Redemption Price, all rights of the holders of shares of series A Preferred Stock designated for redemption in the Redemption Notice as holders of Series A Preferred Stock (except the right to receive the Redemption Price without interest upon surrender of their certificate or certificates) shall cease with respect to such shares.

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

Section 6. Liquidation, Dissolution or Winding Up.

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

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

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

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

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

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

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

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

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

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

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

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

HOWTEK, INC.

By: 
Name: W. Scott Parr
Title: President

STATE OF DELAWARE
SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED 09:00 AM 10/19/2000
001528794 – 2029045

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

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

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

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

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

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

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

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

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

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

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

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

Section 4. Redemption at the Option of the Corporation.

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

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

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

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

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

Section 6. Liquidation, Dissolution or Winding Up.

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

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

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

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

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

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

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

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

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

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

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

HOWTEK, INC.

By: /s/ W. Scott Parr

Name: W. Scott Parr

Title: President

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

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

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

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

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

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

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

/s/ W. Scott Parr

Name: W. Scott Parr

Title: President and CEO

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

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

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

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

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

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

"TENTH: 1. Indemnification.

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

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

Notwithstanding the foregoing, except as specified in Section 3 of this Article, the Corporation shall not be required to indemnify an Indemnified Person in connection with a Proceeding (or any part thereof) initiated by such Indemnified Person, unless such authorization for such Proceeding (or any part thereof) was not denied by the Board of Directors of the Corporation prior to sixty (60) days after receipt of notice thereof from such Indemnified Person stating his intent to initiate such Proceeding and any such indemnification shall be made only upon such terms and conditions as the Board of Directors may deem appropriate.

2. Advance of Costs, Charges and Expenses.

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

3. Procedure for Indemnification.

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

4. Non-Exclusivity; Survival of Indemnification.

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

5. Savings Clause.

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

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

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

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

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

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

Dated: June 28, 2002

HOWTEK, INC.

By: /s/ W. Scott Parr

Name: W. Scott Parr

Title: President and CEO

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

CERTIFICATE OF OWNERSHIP AND MERGER

OF

ISSI ACQUISITION CORP.

AND

HOWTEK DEVICES CORPORATION.

INTO

ICAD, INC.

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

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

1. iCAD, Inc. is a corporation formed under the laws of the State of Delaware (the "Corporation").
2. The Corporation is the owner of all of the outstanding shares of each class of stock of each of ISSI ACQUISITION CORP., a corporation formed under the laws of the State of Delaware, and HOWTEK DEVICES CORPORATION, a corporation formed under the laws of the State of Delaware (the "Subsidiaries").
3. On December 4, 2003, the Board of Directors of the Corporation adopted the following resolutions to merge the Subsidiaries into the Corporation:

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

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

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

NOW, THEREFORE, be it:

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

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

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

iCAD, Inc.
(a Delaware corporation)

By: /S/ W. Scott Parr
Name: W. Scott Parr
Title: President and CEO

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

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

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

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

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

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

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

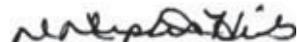
"ELEVENTH: The number of directors of the Corporation shall be fixed only by resolution of the board of directors of the Corporation from time to time. Each director who is serving as a director on the date of this Amendment to the Certificate of Incorporation shall hold office until the next annual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

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

Dated: July 18, 2007

iCAD, INC.

By:



Name: Darlene Deptula-Hicks

Title: EVP/CFO

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

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

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

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

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

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

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

Dated: August 10, 2012
iCAD, INC.

By: /s/ Kevin C. Burns

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

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

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

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

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

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

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

Dated: May 31, 2013

iCAD, INC.

By: /s/ Kevin Burns

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

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

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

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

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

"FOURTH: The total number of shares of capital stock which the Corporation shall have authority to issue is Thirty One Million (31,000,000), of which Thirty Million (30,000,000) shares shall be Common Stock, par value \$0.01 per share ("Common Stock"), and One Million (1,000,000) shares shall be Preferred Stock, par value \$.01 per share ("Preferred Stock").

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

Dated: June 16, 2015

iCAD, INC.

By: /s/ Kevin Burns

Kevin Burns, President, Chief Operating Officer, Chief
Financial Officer and Treasurer

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

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

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

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

"FOURTH: The total number of shares of capital stock which the Corporation shall have authority to issue is Sixty One Million (61,000,000), of which Sixty Million (60,000,000) shares shall be Common Stock, par value \$0.01 per share ("Common Stock"), and One Million (1,000,000) shares shall be Preferred Stock, par value \$.01 per share ("Preferred Stock").

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

Dated: July 21, 2021

iCAD, Inc.

By: /s/ Michael Klein

Name: Michael Klein

Title: Chief Executive Officer

iCAD, INC.

2016 STOCK INCENTIVE PLAN, AS AMENDED

SECTION 1. GENERAL PURPOSE OF THE PLAN; DEFINITIONS

The name of the plan is the iCad, Inc. 2016 Stock Incentive Plan (the “Plan”). The purpose of the Plan is to align the interests of the officers, employees, Non-Employee Directors and Consultants of iCad, Inc. (the “Company”) and its Subsidiaries upon whose judgment, initiative and efforts the Company largely depends for the successful conduct of its businesses, with those of the Company. It is anticipated that providing such persons with awards under the Plan will assure a closer identification of their interests with those of the Company and its stockholders, thereby stimulating their efforts on the Company’s behalf and strengthening their desire to remain with the Company.

The following terms shall be defined as set forth below:

“*Act*” means the Securities Act of 1933, as amended, and the rules and regulations thereunder.

“*Administrator*” means either the Board or the compensation committee of the Board or a similar committee performing the functions of the compensation committee and which is comprised of not less than two Non-Employee Directors who are independent.

“*Award*” or “*Awards*,” except where referring to a particular category of grant under the Plan, shall include Incentive Stock Options, Non-Qualified Stock Options, Stock Appreciation Rights, Restricted Stock Awards, Restricted Stock Units, Unrestricted Stock Awards, Cash-Based Awards, Performance Share Awards and Dividend Equivalent Rights.

“*Award Certificate*” means a written or electronic document setting forth the terms and provisions applicable to an Award granted under the Plan. Each Award Certificate is subject to the terms and conditions of the Plan.

“*Board*” means the Board of Directors of the Company.

“*Cash-Based Award*” means an Award entitling the recipient to receive a cash-denominated payment.

“*Code*” means the Internal Revenue Code of 1986, as amended, and any successor Code, and related rules, regulations and interpretations.

“*Consultant*” means any natural person that provides bona fide services to the Company, and such services are not in connection with the offer or sale of securities in a capital-raising transaction and do not directly or indirectly promote or maintain a market for the Company’s securities.

“*Covered Employee*” means an employee who is a “Covered Employee” within the meaning of Section 162(m) of the Code.

“*Date of Grant*” means, with respect to an Award, the date when the Company or the Administrator completes the action necessary to create the legally binding right that is the subject of the Award.

“*Dividend Equivalent Right*” means an Award entitling the grantee to receive credits based on cash dividends that would have been paid on the shares of Stock specified in the Dividend Equivalent Right (or other award to which it relates) if such shares had been issued to and held by the grantee.

“*Effective Date*” means the date on which the Plan is approved by stockholders as set forth in Section 21.

“*Exchange Act*” means the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder.

“*Fair Market Value*” of the Stock on any given date means the fair market value of the Stock determined in good faith by the Administrator; provided, however, that if the Stock is admitted to quotation on the National Association of Securities Dealers Automated Quotation System (“NASDAQ”), NASDAQ Global Market or another national securities exchange, the determination shall be made by reference to market quotations. If there are no market quotations for such date, the determination shall be made by reference to the last date preceding such date for which there are market quotations.

“*Incentive Stock Option*” means any Stock Option designated and qualified as an “incentive stock option” as defined in Section 422 of the Code.

“*Non-Employee Director*” means a member of the Board who is not also an employee of the Company or any Subsidiary.

“*Non-Qualified Stock Option*” means any Stock Option that is not an Incentive Stock Option.

“*Option*” or “*Stock Option*” means any option to purchase shares of Stock granted pursuant to Section 5.

“*Performance-Based Award*” means any Restricted Stock Award, Restricted Stock Units, Performance Share Award or Cash-Based Award granted to a Covered Employee that is intended to qualify as “performance-based compensation” under Section 162(m) of the Code and the regulations promulgated thereunder.

“*Performance Criteria*” means the criteria that the Administrator selects for purposes of establishing the Performance Goal or Performance Goals for an individual for a Performance Cycle. The Performance Criteria (which shall be applicable to the organizational level specified by the Administrator, including, but not limited to, the Company or a unit, division, group, or Subsidiary of the Company) that will be used to establish Performance Goals are limited to the following: total shareholder return; earnings before interest, taxes, depreciation and amortization; net income (loss) (either before or after interest, taxes, depreciation and/or amortization); adjusted earnings (loss) before interest, taxes, depreciation and amortization, stock-based compensation expense, merger and acquisition expense, net intellectual property litigation expense, and restructuring expense (Adjusted EBITDA); changes in the market price of the Stock; economic value-added; funds from operations or similar measure; sales or revenue; acquisitions or strategic transactions; operating income (loss); cash flow (including, but not limited to, operating cash flow and free cash flow); return on capital, assets, equity, or investment; return on sales; gross or net profit levels; productivity; expense; margins; operating efficiency; customer satisfaction; working capital; earnings (loss) per share of Stock; sales or market shares; and number of customers, any of which may be measured either in absolute terms or as compared to any incremental increase or as compared to results of a peer group. Unless otherwise specified in an Award Certificate in order to qualify as performance based compensation for purposes of Section 162(m) of the Code or otherwise, the Committee may appropriately adjust any evaluation performance under a Performance Criterion to exclude any of the following events that occurs during a Performance Cycle: (i) asset write-downs or impairments; (ii) litigation or claim judgments or settlements; (iii) the effect of changes in tax law, accounting principles or other such laws or provisions affecting reporting results; (iv) accruals for reorganizations and restructuring programs; (v) any extraordinary non-recurring items, including those described in the Financial Accounting Standards Board’s authoritative guidance and/or in management’s discussion and analysis of financial condition of operations appearing the Company’s annual report to stockholders for the applicable year; (vi) acquisitions and/or divestitures; and (vii) any other extraordinary items adjusted from the Company U.S. GAAP results.

“*Performance Cycle*” means one or more periods of time, which may be of varying and overlapping durations, as the Administrator may select, over which the attainment of one or more Performance Criteria will be measured for the purpose of determining a grantee’s right to and the payment of a Restricted Stock Award, Restricted Stock Units, Performance Share Award or Cash-Based Award, the vesting and/or payment of which is subject to the attainment of one or more Performance Goals. Each such period shall not be less than one year.

“*Performance Goals*” means, for a Performance Cycle, the specific goals established in writing by the Administrator for a Performance Cycle based upon the Performance Criteria.

“*Performance Share Award*” means an Award entitling the recipient to acquire shares of Stock upon the attainment of specified performance goals.

“*Restricted Shares*” means the shares of Stock underlying a Restricted Stock Award that remain subject to a risk of forfeiture or the Company’s right of repurchase.

“*Restricted Stock Award*” means an Award of Restricted Shares subject to such restrictions and conditions as the Administrator may determine as of the Date of Grant.

“*Restricted Stock Units*” means an Award of stock units subject to such restrictions and conditions as the Administrator may determine as of the Date of Grant.

“*Sale Event*” shall mean the consummation of (i) the sale of all or substantially all of the assets of the Company on a consolidated basis to an unrelated person or entity, (ii) a merger, reorganization or consolidation pursuant to which the holders of the Company’s outstanding voting power and outstanding stock immediately prior to such transaction do not own a majority of the outstanding voting power and outstanding stock or other equity interests of the resulting or successor entity (or its ultimate parent, if applicable) immediately upon completion of such transaction, (iii) the sale of all of the Stock of the Company to an unrelated person, entity or group thereof acting in concert, or (iv) any other transaction in which the owners of the Company’s outstanding voting power immediately prior to such transaction do not own at least a majority of the outstanding voting power of the Company or any successor entity immediately upon completion of the transaction other than as a result of the acquisition of securities directly from the Company.

“*Sale Price*” means the value as determined by the Administrator of the consideration payable, or otherwise to be received by stockholders, per share of Stock pursuant to a Sale Event.

“*Section 409A*” means Section 409A of the Code and the regulations and other guidance promulgated thereunder.

“*Stock*” means the Common Stock, par value \$0.01 per share, of the Company, subject to adjustments pursuant to Section 3.

“*Stock Appreciation Right*” means an Award entitling the recipient to receive shares of Stock having a value equal to the excess of the Fair Market Value of the Stock on the date of exercise over the exercise price of the Stock Appreciation Right multiplied by the number of shares of Stock with respect to which the Stock Appreciation Right shall have been exercised.

“*Subsidiary*” means any corporation or other entity (other than the Company) in which the Company has at least a 50 percent ownership interest, either directly or indirectly.

“*Ten Percent Owner*” means an employee who owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than 10 percent of the combined voting power of all classes of stock of the Company or any parent or subsidiary corporation.

“*Unrestricted Stock Award*” means an Award of shares of Stock free of any restrictions.

SECTION 2. ADMINISTRATION OF PLAN; ADMINISTRATOR AUTHORITY TO SELECT GRANTEES AND DETERMINE AWARDS

(a) **Administration of Plan.** The Plan shall be administered by the Administrator.

(b) **Powers of Administrator.** The Administrator shall have the power and authority to grant Awards consistent with the terms of the Plan, including the power and authority:

(i) to select the individuals to whom Awards may from time to time be granted;

(ii) to determine the Date of Grant, and the extent, if any, of Incentive Stock Options, Non-Qualified Stock Options, Stock Appreciation Rights, Restricted Stock Awards, Restricted Stock Units, Unrestricted Stock Awards, Cash-Based Awards, Performance Share Awards and Dividend Equivalent Rights, or any combination of the foregoing, granted to any one or more grantees;

- (iii) to determine the number of shares of Stock to be covered by any Award;
- (iv) to determine and modify from time to time the terms and conditions, including restrictions, not inconsistent with the terms of the Plan, of any Award, which terms and conditions may differ among individual Awards and grantees, and to approve the forms of Award Certificates;
- (v) to accelerate the exercisability or vesting of all or any portion of any Award;
- (vi) subject to the provisions of Section 5(c), to extend at any time the period in which Stock Options may be exercised; and
- (vii) at any time to adopt, alter and repeal such rules, guidelines and practices for administration of the Plan and for its own acts and proceedings as it shall deem advisable; to interpret the terms and provisions of the Plan and any Award (including related written instruments); to make all determinations it deems advisable for the administration of the Plan; to decide all disputes arising in connection with the Plan; and to otherwise supervise the administration of the Plan.

All decisions and interpretations of the Administrator shall be binding on all persons, including the Company and Plan grantees.

(c) Delegation of Authority to Grant Awards. Subject to applicable law, the Administrator, in its discretion, may delegate to the Chief Executive Officer or another executive officer of the Company or a committee comprised of the Chief Executive Officer and another officer or officers of the Company, all or part of the Administrator's authority and duties with respect to the granting of Awards to individuals who are (i) not subject to the reporting and other provisions of Section 16 of the Exchange Act and (ii) not Covered Employees. Any such delegation by the Administrator shall include a limitation as to the amount of Stock underlying Awards that may be granted during the period of the delegation and shall contain guidelines as to the determination of the exercise price and the vesting criteria. The Administrator may revoke or amend the terms of a delegation at any time but such action shall not invalidate any prior actions of the Administrator's delegate or delegates that were consistent with the terms of the Plan.

(d) Award Certificate. Awards under the Plan shall be evidenced by Award Certificates that set forth the terms, conditions and limitations for each Award which may include, without limitation, the term of an Award and the provisions applicable in the event employment or service terminates.

(e) Indemnification. Neither the Board nor the Administrator, nor any member of either or any delegate thereof, shall be liable for any act, omission, interpretation, construction or determination made in good faith in connection with the Plan, and the members of the Board and the Administrator (and any delegate thereof) shall be entitled in all cases to indemnification and reimbursement by the Company in respect of any claim, loss, damage or expense (including, without limitation, reasonable attorneys' fees) arising or resulting therefrom to the fullest extent permitted by law and/or under the Company's articles or bylaws or any directors' and officers' liability insurance coverage which may be in effect from time to time and/or any indemnification agreement between such individual and the Company.

(f) Foreign Award Recipients. Notwithstanding any provision of the Plan to the contrary, in order to comply with the laws in other countries in which the Company and its Subsidiaries operate or have employees or other individuals eligible for Awards, the Administrator, in its sole discretion, shall have the power and authority to: (i) determine which Subsidiaries shall be covered by the Plan; (ii) determine which individuals outside the United States are eligible to participate in the Plan; (iii) modify the terms and conditions of any Award granted to individuals outside the United States to comply with applicable foreign laws; (iv) establish sub plans and modify exercise procedures and other terms and procedures, to the extent the Administrator determines such actions to be necessary or advisable (and such sub plans and/or modifications shall be attached to this Plan as appendices); provided, however, that no such sub plans and/or modifications shall increase the share limitations contained in Section 3(a) hereof; and (v) take any action, before or after an Award is made, that the Administrator determines to be necessary or advisable to obtain approval or comply with any local governmental regulatory exemptions or approvals. Notwithstanding the foregoing, the Administrator may not take any actions hereunder, and no Awards shall be granted, that would violate the Exchange Act or any other applicable United States securities law, the Code, or any other applicable United States governing statute or law.

SECTION 3. STOCK ISSUABLE UNDER THE PLAN; MERGERS; SUBSTITUTION

(a) **Stock Issuable**. The maximum number of shares of Stock reserved and available for issuance under the Plan shall be 4,700,000 shares, subject to adjustment as provided in this Section 3. For purposes of this limitation, the shares of Stock underlying any Awards that are forfeited, canceled or otherwise terminated (other than by exercise or withheld to cover the exercise price or tax withholdings, as described below) under the Plan shall be added back to the shares of Stock available for issuance under the Plan. Notwithstanding the foregoing, the following shares shall not be added to the shares authorized for grant under the Plan: (i) shares tendered or held back upon exercise of an Option or settlement of an Award to cover the exercise price or tax withholding, and (ii) shares subject to a Stock Appreciation Right that are not issued in connection with the stock settlement of the Stock Appreciation Right upon exercise thereof. In the event the Company repurchases shares of Stock on the open market, such shares shall not be added to the shares of Stock available for issuance under the Plan. Subject to such overall limitations, shares of Stock may be issued up to such maximum number pursuant to any type or types of Award; provided, however, that Stock Options or Stock Appreciation Rights with respect to no more than 1,000,000 shares of Stock may be granted to any one individual grantee during any one calendar year period, no more than 2,000,000 shares of the Stock may be issued in the form of Incentive Stock Options, and no more than 120,000 shares of Stock may be issued pursuant to Awards to Non-Employee Directors in any calendar year period. The shares available for issuance under the Plan may be authorized but unissued shares of Stock or shares of Stock reacquired by the Company.

(b) **Effect of Awards**. Any forfeitures, cancellations or other terminations (other than by exercise) of such Awards shall be returned to the reserved pool of shares of Stock under the Plan on a one for one basis.

(c) **Changes in Stock**. Subject to Section 3(d) hereof, if, as a result of any reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or other similar change in the Company's capital stock, the outstanding shares of Stock are increased or decreased or are exchanged for a different number or kind of shares or other securities of the Company, or additional shares or new or different shares or other securities of the Company or other non-cash assets are distributed with respect to such shares of Stock or other securities, or, if, as a result of any merger or consolidation, sale of all or substantially all of the assets of the Company, the outstanding shares of Stock are converted into or exchanged for securities of the Company or any successor entity (or a parent or subsidiary thereof), the Administrator shall make an appropriate or proportionate adjustment in (i) the maximum number of shares reserved for issuance under the Plan, including the maximum number of shares that may be issued in the form of Incentive Stock Options, (ii) the number of Stock Options or Stock Appreciation Rights that can be granted to any one individual grantee and the maximum number of shares that may be granted under a Performance-Based Award and the maximum number of shares subject to Awards that may be granted to Non-Employee Directors in a calendar year, (iii) the number and kind of shares or other securities subject to any then outstanding Awards under the Plan, (iv) the repurchase price, if any, per share subject to each outstanding Restricted Stock Award, and (v) the exercise price for each share subject to any then outstanding Stock Options and Stock Appreciation Rights under the Plan, without changing the aggregate exercise price (i.e., the exercise price multiplied by the number of Stock Options and Stock Appreciation Rights) as to which such Stock Options and Stock Appreciation Rights remain exercisable. The Administrator shall also make equitable or proportionate adjustments in the number of shares subject to outstanding Awards and the exercise price and the terms of outstanding Awards to take into consideration cash dividends paid other than in the ordinary course or any other extraordinary corporate event. The adjustment by the Administrator shall be final, binding and conclusive. No fractional shares of Stock shall be issued under the Plan resulting from any such adjustment, but the Administrator in its discretion may make a cash payment in lieu of fractional shares.

(d) **Mergers and Other Transactions**. In the case of and subject to the consummation of a Sale Event, the parties thereto may cause the assumption or continuation of Awards theretofore granted by the successor entity, or the substitution of such Awards with new Awards of the successor entity or parent thereof, with appropriate adjustment as to the number and kind of shares and, if appropriate, the per share exercise prices, as such parties shall agree. To the extent the parties to such Sale Event do not provide for the assumption, continuation or substitution of Awards, upon the effective time of the Sale Event, the Plan and all outstanding Awards granted hereunder shall terminate. In

the event of such termination, (i) the Company shall have the option (in its sole discretion) to make or provide for a cash payment to the grantees holding Awards, in exchange for the cancellation thereof, in an amount equal to the difference between (A) the Sale Price multiplied by the number of shares of Stock subject to such outstanding Awards (to the extent then vested or, in the case of Options and Stock Appreciation Rights, exercisable at prices not in excess of the Sale Price) and (B) if applicable, the aggregate exercise price (if any) of such outstanding Awards; or (ii) each grantee shall be permitted, within a specified period of time prior to the consummation of the Sale Event as determined by the Administrator, to exercise all outstanding Options and Stock Appreciation Rights (to the extent then exercisable) held by such grantee, but in such case the Board shall first accelerate the exercisability of such Options and Stock Appreciation Rights prior to termination. Unless otherwise determined by the Board (on the same basis or on different bases as the Board shall specify), any repurchase rights or other rights of the Company that relate to an Option, Stock Appreciation Right or other Award shall continue to apply to consideration, including cash, that has been substituted, assumed, amended or paid for a Stock Option, Stock Appreciation Right or other Award pursuant to this paragraph. The Company may hold in escrow all or any portion of any such consideration in order to effectuate any continuing restrictions.

SECTION 4. ELIGIBILITY

Grantees under the Plan will be such full or part-time officers and other employees, Non-Employee Directors and Consultants of the Company and its Subsidiaries as are selected from time to time by the Administrator in its sole discretion.

SECTION 5. STOCK OPTIONS

(a) Award of Stock Options. The Administrator may grant Stock Options under the Plan. Any Stock Option granted under the Plan shall be in such form as the Administrator may from time to time approve.

Stock Options granted under the Plan may be either Incentive Stock Options or Non-Qualified Stock Options. Incentive Stock Options may be granted only to employees of the Company or any Subsidiary that is a "subsidiary corporation" within the meaning of Section 424(f) of the Code. To the extent that any Option does not qualify as an Incentive Stock Option, it shall be deemed a Non-Qualified Stock Option.

Stock Options granted pursuant to this Section 5 shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Administrator shall deem desirable. If the Administrator so determines, Stock Options may be granted in lieu of cash compensation at the optionee's election, subject to such terms and conditions as the Administrator may establish.

(b) Exercise Price. The exercise price per share for the Stock covered by a Stock Option granted pursuant to this Section 5 shall be determined by the Administrator as of the Date of Grant but shall not be less than 100 percent of the Fair Market Value on the Date of Grant. In the case of an Incentive Stock Option that is granted to a Ten Percent Owner, the option price of such Incentive Stock Option shall be not less than 110 percent of the Fair Market Value on the Date of Grant.

(c) Option Term. The term of each Stock Option shall be fixed by the Administrator, but no Stock Option shall be exercisable more than ten years after the Date of Grant. In the case of an Incentive Stock Option that is granted to a Ten Percent Owner, the term of such Stock Option shall be no more than five years from the Date of Grant.

(d) Exercisability; Rights of a Stockholder. Stock Options shall become exercisable at such time or times, whether or not in installments, as shall be determined by the Administrator at or after the Date of Grant. An optionee shall have the rights of a stockholder only as to shares acquired upon the exercise of a Stock Option and not as to unexercised Stock Options.

(e) Method of Exercise. Stock Options may be exercised in whole or in part, by giving written or electronic notice of exercise to the Company, specifying the number of shares to be purchased. Payment of the purchase price may be made by one or more of the following methods except to the extent otherwise provided in the Option Award Certificate:

- (i) In cash, by certified or bank check or other instrument acceptable to the Administrator;
- (ii) Through the delivery (or attestation to the ownership following such procedures as the Company may prescribe) of shares of Stock that are not then subject to restrictions under any Company plan. Such surrendered shares shall be valued at Fair Market Value on the exercise date;
- (iii) By the optionee delivering to the Company a properly executed exercise notice together with irrevocable instructions to a broker to promptly deliver to the Company cash or a check payable and acceptable to the Company for the purchase price; provided that in the event the optionee chooses to pay the purchase price as so provided, the optionee and the broker shall comply with such procedures and enter into such agreements of indemnity and other agreements as the Company shall prescribe as a condition of such payment procedure; or
- (iv) With respect to Stock Options that are not Incentive Stock Options, by a “net exercise” arrangement pursuant to which the Company will reduce the number of shares of Stock issuable upon exercise by the largest whole number of shares with a Fair Market Value that does not exceed the aggregate exercise price.

Payment instruments will be received subject to collection. The transfer to the optionee on the records of the Company or of the transfer agent of the shares of Stock to be purchased pursuant to the exercise of a Stock Option will be contingent upon receipt from the optionee (or a purchaser acting in his stead in accordance with the provisions of the Stock Option) by the Company of the full purchase price for such shares and the fulfillment of any other requirements contained in the Option Award Certificate or applicable provisions of laws (including the satisfaction of any withholding taxes that the Company is obligated to withhold with respect to the optionee). In the event an optionee chooses to pay the purchase price by previously-owned shares of Stock through the attestation method, the number of shares of Stock transferred to the optionee upon the exercise of the Stock Option shall be net of the number of attested shares. In the event that the Company establishes, for itself or using the services of a third party, an automated system for the exercise of Stock Options, such as a system using an internet website or interactive voice response, then the paperless exercise of Stock Options may be permitted through the use of such an automated system.

(f) Annual Limit on Incentive Stock Options. To the extent required for “incentive stock option” treatment under Section 422 of the Code, the aggregate Fair Market Value (determined as of the Date of Grant) of the shares of Stock with respect to which Incentive Stock Options granted under this Plan and any other plan of the Company or its parent and subsidiary corporations become exercisable for the first time by an optionee during any calendar year shall not exceed \$100,000. To the extent that any Stock Option exceeds this limit, it shall constitute a Non-Qualified Stock Option.

SECTION 6. STOCK APPRECIATION RIGHTS

- (a) Award of Stock Appreciation Rights. The Administrator may grant Stock Appreciation Rights under the Plan. A Stock Appreciation Right is an Award entitling the recipient to receive shares of Stock or cash having a value equal to the excess of the Fair Market Value of a share of Stock on the date of exercise over the base amount multiplied by the number of shares of Stock with respect to which the Stock Appreciation Right shall have been exercised.
- (b) Base Amount of Stock Appreciation Rights. The base amount per Share of Stock underlying a Stock Appreciation Right shall be determined by the Administrator as of the Date of Grant but not be less than 100 percent of the Fair Market Value of the Stock on the Date of Grant.
- (c) Grant and Exercise of Stock Appreciation Rights. Stock Appreciation Rights may be granted by the Administrator independently of any Stock Option granted pursuant to Section 5 of the Plan.
- (d) Terms and Conditions of Stock Appreciation Rights. Stock Appreciation Rights shall be subject to such terms and conditions as shall be determined from time to time by the Administrator. The term of a Stock Appreciation Right may not exceed ten years.

SECTION 7. RESTRICTED STOCK AWARDS

(a) Nature of Restricted Stock Awards. The Administrator may grant Restricted Stock Awards under the Plan. A Restricted Stock Award is any Award of Restricted Shares subject to such restrictions and conditions as the Administrator may determine as of the Date of Grant. Conditions may be based on continuing employment (or other service relationship) and/or achievement of pre-established performance goals and objectives. The terms and conditions of each such Award Certificate shall be determined by the Administrator, and such terms and conditions may differ among individual Awards and grantees.

(b) Rights as a Stockholder. Upon the grant of the Restricted Stock Award and payment of any applicable purchase price, a grantee shall have the rights of a stockholder with respect to the voting of the Restricted Shares and receipt of dividends; provided that if the lapse of restrictions with respect to the Restricted Stock Award is tied to the attainment of performance goals, any dividends paid by the Company during the performance period shall accrue and shall not be paid to the grantee until and to the extent the performance goals are met with respect to the Restricted Stock Award. Unless the Administrator shall otherwise determine, (i) uncertificated Restricted Shares shall be accompanied by a notation on the records of the Company or the transfer agent to the effect that they are subject to forfeiture until such Restricted Shares are vested as provided in Section 7(d) below, and (ii) certificated Restricted Shares shall remain in the possession of the Company until such Restricted Shares are vested as provided in Section 7(d) below, and the grantee shall be required, as a condition of the grant, to deliver to the Company such instruments of transfer as the Administrator may prescribe.

(c) Restrictions. Restricted Shares may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of except as specifically provided herein or in the Restricted Stock Award Certificate. Except as may otherwise be provided by the Administrator either in the Award Certificate or, subject to Section 18 below, in writing after the Award is issued, if a grantee's employment (or other service relationship) with the Company and its Subsidiaries terminates for any reason, any Restricted Shares that have not vested at the time of termination shall automatically and without any requirement of notice to such grantee from or other action by or on behalf of, the Company be deemed to have been reacquired by the Company at its original purchase price (if any) from such grantee or such grantee's legal representative simultaneously with such termination of employment (or other service relationship), and thereafter shall cease to represent any ownership of the Company by the grantee or rights of the grantee as a stockholder. Following such deemed reacquisition of Restricted Shares that are represented by physical certificates, a grantee shall surrender such certificates to the Company upon request without consideration.

(d) Vesting of Restricted Shares. The Administrator at the time of grant shall specify the date or dates and/or the attainment of pre-established performance goals, objectives and other conditions on which the non-transferability of the Restricted Shares and the Company's right of repurchase or forfeiture shall lapse. Subsequent to such date or dates and/or the attainment of such pre-established performance goals, objectives and other conditions, the shares on which all restrictions have lapsed shall no longer be Restricted Shares and shall be deemed "vested."

SECTION 8. RESTRICTED STOCK UNITS

(a) Nature of Restricted Stock Units. The Administrator may grant Restricted Stock Units under the Plan. A Restricted Stock Unit is an Award of stock units that may be settled in shares of Stock upon the satisfaction of such restrictions and conditions as of the Date of Grant. Conditions may be based on continuing employment (or other service relationship) and/or achievement of pre-established performance goals and objectives. The terms and conditions of each such Award Certificate shall be determined by the Administrator, and such terms and conditions may differ among individual Awards and grantees. Except in the case of Restricted Stock Units with a deferred settlement date that complies with Section 409A, at the end of the vesting period, the Restricted Stock

Units, to the extent vested, shall be settled in the form of shares of Stock. Restricted Stock Units with deferred settlement dates are subject to Section 409A and shall contain such additional terms and conditions as the Administrator shall determine in its sole discretion in order to comply with the requirements of Section 409A.

(b) Election to Receive Restricted Stock Units in Lieu of Compensation. The Administrator may, in its sole discretion, permit a grantee to elect to receive a portion of future cash compensation otherwise due to such grantee in the form of an award of Restricted Stock Units. Any such election shall be made in writing and shall be delivered to the Company no later than the date specified by the Administrator and in accordance with Section 409A and such other rules and procedures established by the Administrator. Any such future cash compensation that the grantee

elects to defer shall be converted to a fixed number of Restricted Stock Units based on the Fair Market Value of Stock on the date the compensation would otherwise have been paid to the grantee if such payment had not been deferred as provided herein. The Administrator shall have the sole right to determine whether and under what circumstances to permit such elections and to impose such limitations and other terms and conditions thereon as the Administrator deems appropriate. Any Restricted Stock Units that are elected to be received in lieu of cash compensation shall be fully vested, unless otherwise provided in the Award Certificate.

(c) Rights as a Stockholder. A grantee shall have the rights as a stockholder only as to shares of Stock acquired by the grantee upon settlement of Restricted Stock Units; provided, however, that the grantee may be credited with Dividend Equivalent Rights with respect to the stock units underlying his Restricted Stock Units, subject to the provisions of Section 11 and such terms and conditions as the Administrator may determine.

(d) Termination. Except as may otherwise be provided by the Administrator either in the Award Certificate or, subject to Section 18 below, in writing after the Award is issued, a grantee's right in all Restricted Stock Units that have not vested shall automatically terminate upon the grantee's termination of employment (or cessation of service relationship) with the Company and its Subsidiaries for any reason.

SECTION 9. UNRESTRICTED STOCK AWARDS

The Administrator may grant (or sell at par value or such higher purchase price determined by the Administrator) an Unrestricted Stock Award under the Plan. An Unrestricted Stock Award is an Award pursuant to which the grantee may receive shares of Stock free of any restrictions under the Plan. Unrestricted Stock Awards may be granted in respect of past services or other valid consideration, or in lieu of cash compensation due to such grantee. No more than five percent (5%) of the shares reserved may be granted under the Plan pursuant to Unrestricted Stock Awards.

SECTION 10. CASH-BASED AWARDS

The Administrator may grant Cash-Based Awards under the Plan. A Cash-Based Award is an Award that entitles the grantee to a payment in cash upon the attainment of specified Performance Goals. The Administrator shall determine the maximum duration of the Cash-Based Award, the amount of cash to which the Cash-Based Award pertains, the conditions upon which the Cash-Based Award shall become vested or payable, and such other provisions as the Administrator shall determine. Each Cash-Based Award shall specify a cash-denominated payment amount, formula or payment ranges as determined by the Administrator. Payment, if any, with respect to a Cash-Based Award shall be made in accordance with the terms of the Award and may be made in cash.

SECTION 11. PERFORMANCE SHARE AWARDS

(a) Nature of Performance Share Awards. The Administrator may grant Performance Share Awards under the Plan. A Performance Share Award is an Award entitling the grantee to receive shares of Stock upon the attainment of performance goals. The Administrator shall determine whether and to whom Performance Share Awards shall be granted, the performance goals, the periods during which performance is to be measured, which may not be less than one year except in the case of a Sale Event, and such other limitations and conditions as the Administrator shall determine.

(b) Rights as a Stockholder. A grantee receiving a Performance Share Award shall have the rights of a stockholder only as to shares of Stock actually received by the grantee under the Plan and not with respect to shares subject to the Award but not actually received by the grantee. A grantee shall be entitled to receive shares of Stock under a Performance Share Award only upon satisfaction of all conditions specified in the Performance Share Award Certificate (or in a performance plan adopted by the Administrator).

(c) Termination. Except as may otherwise be provided by the Administrator either in the Award agreement or, subject to Section 18 below, in writing after the Award is issued, a grantee's rights in all Performance Share Awards shall automatically terminate upon the grantee's termination of employment (or cessation of service relationship) with the Company and its Subsidiaries for any reason.

SECTION 12. PERFORMANCE-BASED AWARDS TO COVERED EMPLOYEES

(a) **Performance-Based Awards.** The Administrator may grant one or more Performance-Based Awards in the form of a Restricted Stock Award, Restricted Stock Units, Performance Share Awards or Cash-Based Award payable upon the attainment of Performance Goals that are established by the Administrator and relate to one or more of the Performance Criteria, in each case on a specified date or dates or over any period or periods determined by the Administrator. The Administrator shall define in an objective fashion the manner of calculating the Performance Criteria it selects to use for any Performance Cycle. Depending on the Performance Criteria used to establish such Performance Goals, the Performance Goals may be expressed in terms of overall Company performance or the performance of a division, business unit, or an individual. Each Performance-Based Award shall comply with the provisions set forth below.

(b) **Grant of Performance-Based Awards.** With respect to each Performance-Based Award granted to a Covered Employee, the Administrator shall select, within the first 90 days of a Performance Cycle (or, if shorter, within the maximum period allowed under Section 162(m) of the Code) the Performance Criteria for such grant, and the Performance Goals with respect to each Performance Criterion (including a threshold level of performance below which no amount will become payable with respect to such Award). Each Performance-Based Award will specify the amount payable, or the formula for determining the amount payable, upon achievement of the various applicable performance targets. The Performance Criteria established by the Administrator may be (but need not be) different for each Performance Cycle and different Performance Goals may be applicable to Performance-Based Awards to different Covered Employees.

(c) **Payment of Performance-Based Awards.** Following the completion of a Performance Cycle, the Administrator shall meet to review and certify in writing whether, and to what extent, the Performance Goals for the Performance Cycle have been achieved and, if so, to also calculate and certify in writing the amount of the Performance-Based Awards earned for the Performance Cycle. The Administrator shall then determine the actual size of each Covered Employee's Performance-Based Award. Notwithstanding the foregoing, the Administrator shall have the discretionary authority to reduce (but not increase) the amount payable to a Covered Executive under a Performance-Based Award.

(d) **Maximum Award Payable.** The maximum Performance-Based Award payable to any one Covered Employee under the Plan for a calendar year is 1,000,000 shares of Stock (subject to adjustment as provided in Section 3(c) hereof) or \$2,500,000 in the case of a Performance-Based Award that is a Cash-Based Award.

SECTION 13. DIVIDEND EQUIVALENT RIGHTS

(a) **Dividend Equivalent Rights.** The Administrator may grant Dividend Equivalent Rights under the Plan. A Dividend Equivalent Right is an Award entitling the grantee to receive credits based on cash dividends that would have been paid on the shares of Stock specified in the Dividend Equivalent Right (or other Award to which it relates) if such shares had been issued to the grantee. A Dividend Equivalent Right may be granted hereunder to any grantee as a component of an award of Restricted Stock Units, Restricted Stock Award or Performance Share Award or as a freestanding award. The terms and conditions of Dividend Equivalent Rights shall be specified in the Award Certificate. Dividend equivalents credited to the holder of a Dividend Equivalent Right may be paid currently or may be deemed to be reinvested in additional shares of Stock, which may thereafter accrue additional equivalents. Any such reinvestment shall be at Fair Market Value on the date of reinvestment or such other price as may then apply under a dividend reinvestment plan sponsored by the Company, if any. Dividend Equivalent Rights may be settled in cash or shares of Stock or a combination thereof, in a single installment or installments. A Dividend Equivalent Right granted as a component of an Award of Restricted Stock Units or Performance Share Award shall provide that such Dividend Equivalent Right shall be settled only upon settlement or payment of, or lapse of restrictions on, such other Award, and that such Dividend Equivalent Right shall expire or be forfeited or annulled under the same conditions as such other Award.

(b) **Termination.** Except as may otherwise be provided by the Administrator either in the Award Certificate or, subject to Section 18 below, in writing after the Award is issued, a grantee's rights in all Dividend Equivalent Rights shall automatically terminate upon the grantee's termination of employment (or cessation of service relationship) with the Company and its Subsidiaries for any reason.

SECTION 14. TRANSFERABILITY OF AWARDS

(a) Transferability. Except as provided in Section 14(b) below, during a grantee's lifetime, his or her Awards shall be exercisable only by the grantee, or by the grantee's legal representative or guardian in the event of the grantee's incapacity. No Awards shall be sold, assigned, transferred or otherwise encumbered or disposed of by a grantee other than by will or by the laws of descent and distribution or pursuant to a domestic relations order. No Awards shall be subject, in whole or in part, to attachment, execution, or levy of any kind, and any purported transfer in violation hereof shall be null and void.

(b) Administrator Action. Notwithstanding Section 14(a), the Administrator, in its discretion, may provide either in the Award Certificate regarding a given Award or by subsequent written approval that the grantee (who is an employee or director) may transfer his or her Non-Qualified Options to his or her immediate family members, to trusts for the benefit of such family members, or to partnerships in which such family members are the only partners, provided that the transferee agrees in writing with the Company to be bound by all of the terms and conditions of this Plan and the applicable Award. In no event may an Award be transferred by a grantee for value.

(c) Family Member. For purposes of Section 14(b), "family member" shall mean a grantee's child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships, any person sharing the grantee's household (other than a tenant of the grantee), a trust in which these persons (or the grantee) have more than 50 percent of the beneficial interest, a foundation in which these persons (or the grantee) control the management of assets, and any other entity in which these persons (or the grantee) own more than 50 percent of the voting interests.

(d) Designation of Beneficiary. To the extent permitted by the Company, each grantee to whom an Award has been made under the Plan may designate a beneficiary or beneficiaries to exercise any Award or receive any payment under any Award payable on or after the grantee's death. Any such designation shall be on a form provided for that purpose by the Administrator and shall not be effective until received by the Administrator. If no beneficiary has been designated by a deceased grantee, or if the designated beneficiaries have predeceased the grantee, the beneficiary shall be the grantee's estate.

SECTION 15. TAX WITHHOLDING

(a) Payment by Grantee. Each grantee shall, no later than the date as of which the value of an Award or of any Stock or other amounts received thereunder first becomes includable in the gross income of the grantee for Federal income tax purposes, pay to the Company, or make arrangements satisfactory to the Administrator regarding payment of, any Federal, state, or local taxes of any kind required by law to be withheld by the Company with respect to such income. The Company and its Subsidiaries shall, to the extent permitted by law, have the rights to deduct any such taxes from any payment of any kind otherwise due to the grantee and/or to direct that the proceeds from a sale of Stock on behalf of a grantee be paid over to the Company to satisfy any such tax withholding obligations. The Company's obligation to deliver evidence of book entry (or stock certificates) to any grantee is subject to and conditioned on tax withholding obligations being satisfied by the grantee.

(b) Payment in Stock. In the Administrator's discretion, the Company's minimum required tax withholding obligation may be satisfied, in whole or in part, by authorizing the Company to withhold from shares of Stock to be issued pursuant to any Award a number of shares with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due. The Administrator may also require Awards to be subject to mandatory share withholding up to the required withholding amount. For purposes of share withholding, the Fair Market Value of withheld shares shall be determined in the same manner as the value of Stock includible in income of the Participants.

SECTION 16. SECTION 409A AWARDS

To the extent that any Award is determined to constitute "nonqualified deferred compensation" within the meaning of Section 409A (a "409A Award"), the Award shall be subject to such additional rules and requirements as specified by the Administrator from time to time in order to comply with Section 409A. In this regard, if any amount under a 409A Award is payable upon a "separation from service" (within the meaning of Section 409A) to a grantee

who is then considered a “specified employee” (within the meaning of Section 409A), then no such payment shall be made prior to the date that is the earlier of (i) six months and one day after the grantee’s separation from service, or (ii) the grantee’s death, but only to the extent such delay is necessary to prevent such payment from being subject to interest, penalties and/or additional tax imposed pursuant to Section 409A. Further, the settlement of any such Award may not be accelerated except to the extent permitted by Section 409A.

SECTION 17. TERMINATION OF EMPLOYMENT, TRANSFER, LEAVE OF ABSENCE, ETC.

(a) Termination of Employment. If the grantee’s employer ceases to be a Subsidiary, the grantee shall be deemed to have terminated employment for purposes of the Plan.

(b) For purposes of the Plan, the following events shall not be deemed a termination of employment:

(i) a transfer to the employment of the Company from a Subsidiary or from the Company to a Subsidiary, or from one Subsidiary to another; or

(ii) an approved leave of absence for military service or sickness, or for any other purpose approved by the Company, if the employee’s right to re-employment is guaranteed either by a statute or by contract or under the policy pursuant to which the leave of absence was granted or if the Administrator otherwise so provides in writing.

SECTION 18. AMENDMENTS AND TERMINATION

The Board may, at any time, amend or discontinue the Plan and the Administrator may, at any time, amend or cancel any outstanding Award for the purpose of satisfying changes in law or for any other lawful purpose, but no such action shall adversely affect rights under any outstanding Award without the holder’s consent. Except as provided in Section 3(c) or 3(d), without prior stockholder approval, in no event may the Administrator (a) exercise its discretion to reduce the exercise price of outstanding Stock Options or Stock Appreciation Rights; (b) effect repricing of Stock Options or Stock Appreciation Rights through cancellation and re-grants of Stock Options, Stock Appreciation Rights or other Awards; or (c) effect repricing through cancellation of Stock Options or Stock Appreciation Rights in exchange for cash. To the extent required under the rules of any securities exchange or market system on which the Stock is listed, to the extent determined by the Administrator to be required by the Code to ensure that Incentive Stock Options granted under the Plan are qualified under Section 422 of the Code, or to ensure that compensation earned under Awards qualifies as performance-based compensation under Section 162(m) of the Code, Plan amendments shall be subject to approval by the Company stockholders entitled to vote at a meeting of stockholders. Nothing in this Section 18 shall limit the Administrator’s authority to take any action permitted pursuant to Section 3(c) or 3(d).

SECTION 19. STATUS OF PLAN

With respect to the portion of any Award that has not been exercised and any payments in cash, Stock or other consideration not received by a grantee, a grantee shall have no rights greater than those of a general creditor of the Company unless the Administrator shall otherwise expressly determine in connection with any Award or Awards. In its sole discretion, the Administrator may authorize the creation of trusts or other arrangements to meet the Company’s obligations to deliver Stock or make payments with respect to Awards hereunder, provided that the existence of such trusts or other arrangements is consistent with the foregoing sentence.

SECTION 20. GENERAL PROVISIONS

(a) No Distribution. The Administrator may require each person acquiring Stock pursuant to an Award to represent to and agree with the Company in writing that such person is acquiring the shares without a view to distribution thereof.

(b) Delivery of Stock. Uncertificated Stock shall be deemed delivered for all purposes when the Company or a Stock transfer agent of the Company shall have given to the grantee by electronic mail (with proof of receipt) or by United States mail, addressed to the grantee, at the grantee’s last known address on file with the Company, notice of issuance and recorded the issuance in its records (which may include electronic “book entry” records). Notwithstanding anything herein to the contrary, the Company shall not be required to issue or deliver shares of

Stock pursuant to the exercise of any Award, unless and until the Administrator has determined, with advice of counsel (to the extent the Administrator deems such advice necessary or advisable), that such issuance and delivery is in compliance with all applicable laws, regulations of governmental authorities and, if applicable, the requirements of any exchange on which the shares of Stock are listed, quoted or traded. All Stock delivered pursuant to the Plan shall be subject to any stop-transfer orders and other restrictions as the Administrator deems necessary or advisable to comply with federal, state or foreign jurisdiction, securities or other laws, rules and quotation system on which the Stock is listed, quoted or traded. The Administrator may place legends on any Stock certificate to reference restrictions applicable to the Stock. In addition to the terms and conditions provided herein, the Administrator may require that an individual make such reasonable covenants, agreements, and representations as the Administrator, in its discretion, deems necessary or advisable in order to comply with any such laws, regulations, or requirements. The Administrator shall have the right to require any individual to comply with any timing or other restrictions with respect to the settlement or exercise of any Award, including a window-period limitation, as may be imposed in the discretion of the Administrator.

(c) Stockholder Rights. Until Stock is deemed delivered in accordance with Section 20(b), no right to vote or receive dividends or any other rights of a stockholder will exist with respect to shares of Stock to be issued in connection with an Award, notwithstanding the exercise of a Stock Option or any other action by the grantee with respect to an Award.

(d) Other Compensation Arrangements; No Employment Rights. Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, including trusts, and such arrangements may be either generally applicable or applicable only in specific cases. The adoption of this Plan and the grant of Awards do not confer upon any employee any right to continued employment with the Company or any Subsidiary.

(e) Trading Policy Restrictions. Option exercises and other Awards under the Plan shall be subject to the Company's insider trading policies and procedures, as in effect from time to time.

(f) Clawback Policy. Awards under the Plan shall be subject to the Company's clawback policy, as in effect from time to time.

(g) Awards Granted Under Prior Plans. Notwithstanding anything herein to the contrary, equity awards granted under the Company's prior equity incentive plans, including, without limitation, 2002 Stock Option Plan, 2004 Stock Incentive Plan, 2005 Stock Incentive Plan, 2007 Stock Incentive Plan, as amended, and 2012 Stock Incentive Plan, as amended (collectively, the "Prior Plans"), shall continue to be governed by the terms and conditions of the Prior Plan under which such awards were granted.

SECTION 21. EFFECTIVE DATE OF PLAN

This Plan shall become effective upon stockholder approval in accordance with applicable state law, the Company's bylaws and articles of incorporation, and applicable stock exchange rules. No grants of Stock Options and other Awards may be made hereunder after the tenth anniversary of the Effective Date and no grants of Incentive Stock Options may be made hereunder after the tenth anniversary of the date the Plan is approved by the Board.

SECTION 22. GOVERNING LAW

This Plan and all Awards and actions taken thereunder shall be governed by, and construed in accordance with, the laws of the State of Delaware, applied without regard to conflict of law principles.

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, 2021 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.
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 6, 2021

/s/ Michael Klein

Name: Michael Klein

Title: Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Charles R. Carter, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2021 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.

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 6, 2021

/s/ Charles R. Carter

Name: Charles R. Carter

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, 2021 (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 6, 2021

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, 2021 (the "Report"), I, Charles R. Carter, 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/ Charles R. Carter

Name: Charles R. Carter

Title: Chief Financial Officer
(Principal Financial Officer)

Date: August 6, 2021