

ICAD INC
Form 10-Q
May 15, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2018

OR

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

For the transition period from _____ to _____

Commission file number 001-09341

iCAD, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

03062
(Zip Code)

(603) 882-5200

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 (do not check if a smaller reporting company)

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

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As of the close of business on May 10, 2018 there were 16,662,993 shares outstanding of the registrant's Common Stock, \$.01 par value.

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iCAD, Inc.

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Table of Contents**iCAD, INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets**

(Unaudited)

(In thousands except for share data)

	March 31, 2018	December 31, 2017
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 8,662	\$ 9,387
Trade accounts receivable, net of allowance for doubtful accounts of \$142 in 2018 and \$107 in 2017	7,283	8,599
Inventory, net	2,197	2,123
Prepaid expenses and other current assets	1,158	1,100
Total current assets	19,300	21,209
Property and equipment, net of accumulated depreciation of \$5,985 in 2018 and \$5,889 in 2017	502	576
Other assets	53	53
Intangible assets, net of accumulated amortization of \$7,517 in 2018 and \$7,433 in 2017	1,829	1,931
Goodwill	8,362	8,362
Total assets	\$ 30,046	\$ 32,131
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities:		
Accounts payable	\$ 1,540	\$ 1,362
Accrued and other expenses	4,685	4,475
Lease payable – current portion	13	12
Notes payable – current portion	1,190	817
Deferred revenue	5,476	5,404
Total current liabilities	12,904	12,070
Other long-term liabilities	95	119
Lease payable, long-term portion	22	27
Notes payable, long-term portion	4,810	5,119
Deferred revenue, long-term portion	773	506
Deferred tax	6	14

Total liabilities	18,610	17,855
Commitments and Contingencies (Note 5, 6 and 8)		
Stockholders' equity:		
Preferred stock, \$.01 par value: authorized 1,000,000 shares; none issued.		
Common stock, \$.01 par value: authorized 30,000,000 shares; issued 16,848,824 in 2018 and 16,711,752 in 2017; outstanding 16,662,993 in 2018 and 16,525,681 in 2017		
	168	167
Additional paid-in capital	217,722	217,389
Accumulated deficit	(205,039)	(201,865)
Treasury stock at cost, 185,831 shares in 2018 and 2017	(1,415)	(1,415)
Total stockholders' equity	11,436	14,276
Total liabilities and stockholders' equity	\$ 30,046	\$ 32,131

See accompanying notes to condensed consolidated financial statements.

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

(Unaudited)

(In thousands except for per share data)

	Three Months Ended March 31,	
	2018	2017
Revenue:		
Products	\$ 3,014	\$ 3,131
Service and supplies	3,299	3,660
Total revenue	6,313	6,791
Cost of revenue:		
Products	458	420
Service and supplies	1,252	1,384
Amortization and depreciation	105	298
Total cost of revenue	1,815	2,102
Gross profit	4,498	4,689
Operating expenses:		
Engineering and product development	3,339	2,574
Marketing and sales	2,166	2,902
General and administrative	2,058	2,034
Amortization and depreciation	83	122
Gain on sale of MRI assets		(2,508)
Total operating expenses	7,646	5,124
Loss from operations	(3,148)	(435)
Interest expense	(142)	(5)
Other income	22	
Other expense, net	(120)	(5)
Loss before income tax expense	(3,268)	(440)
Tax expense	(13)	(17)
Net loss and comprehensive loss	\$ (3,281)	\$ (457)
Net loss per share:		
Basic	\$ (0.20)	\$ (0.03)

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Diluted	\$	(0.20)	\$	(0.03)
Weighted average number of shares used in computing loss per share:				
Basic		16,583		16,135
Diluted		16,583		16,135

See accompanying notes to consolidated financial statements.

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

(unaudited)

	For the three months ended March 31,	
	2018	2017
	(in thousands)	
Cash flow from operating activities:		
Net loss	\$ (3,281)	\$ (457)
Adjustments to reconcile net loss to net cash used for by operating activities:		
Amortization	92	133
Depreciation	96	287
Bad debt provision	85	37
Inventory obsolescence reserve	(2)	13
Stock-based compensation expense	391	969
Amortization of debt discount and debt costs	64	
Interest on settlement obligations		13
Deferred tax expense	(8)	
Loss on disposal of assets	12	
Gain on sale of MRI assets		(2,158)
Changes in operating assets and liabilities:		
Accounts receivable	1,262	(433)
Inventory	(72)	238
Prepaid and other current assets	59	85
Accounts payable	177	137
Accrued expenses	186	8
Deferred revenue	298	(483)
Total adjustments	2,640	(1,154)
Net cash used for operating activities	(641)	(1,611)
Cash flow from investing activities:		
Additions to patents, technology and other	(2)	(2)
Additions to property and equipment	(22)	(253)
Sale of MRI assets		2,850
Net cash (used for) provided by investing activities	(24)	2,595
Cash flow from financing activities:		
Stock option exercises		19
Taxes paid related to restricted stock issuance	(57)	(45)
Principal repayment of debt financing, net	(3)	

Net cash used for financing activities	(60)	(26)
(Decrease) increase in cash and equivalents	(725)	958
Cash and equivalents, beginning of period	9,387	8,585
Cash and equivalents, end of period	\$ 8,662	\$ 9,543
Supplemental disclosure of cash flow information:		
Interest paid	\$ 67	\$ 3
Taxes paid	\$ 23	\$ 29

See accompanying notes to consolidated financial statements.

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iCAD, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

March 31, 2018

Note 1 Basis of Presentation and Significant Accounting Policies

The accompanying condensed consolidated financial statements of iCAD, Inc. and subsidiaries (iCAD or the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP). In the opinion of management, these unaudited interim condensed consolidated financial statements reflect all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the financial position of the Company at March 31, 2018, the results of operations of the Company for the three month period ended March 31, 2018 and 2017, and cash flows of the Company for the three month period ended March 31, 2018 and 2017. Although the Company believes that the disclosures in these financial statements are adequate to make the information presented not misleading, certain information normally included in the footnotes prepared in accordance with US GAAP has been omitted as permitted by the rules and regulations of the Securities and Exchange Commission (SEC). The accompanying financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2017 filed with the SEC on March 30, 2018. The results for the three month period ended March 31, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2018, 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 our advanced image analysis and workflow products. The Therapy segment consists of our radiation therapy (Axxent) products, physics and management services, development fees, supplies, and fees for the AxxentHub software platform.

Revenue Recognition

Adoption of ASC Topic 606, Revenue from Contracts with Customers

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

Topic 605.

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

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

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

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

Table of Contents**iCAD, INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements****(Unaudited)****March 31, 2018**

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

	As of March 31, 2018		
	As	Balances without	Effect of Change
Selected Balance Sheet	Reported	Adoption of ASC	Increase (Decrease)
Assets		606	
Prepaid expenses and other current assets			