ICAD INC
Form 10-K
March 17, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2007

OR

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

For the transition period from _____ to _____

Commission file number 1-9341

iCAD, INC.

(Exact name of registrant as specified in its charter)

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

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

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

Title of Class	Name of each exchange on which registered
Common Stock, $.01 par value	The Nasdaq Stock Market LLC

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x.

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 x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large Accelerated filer o	Accelerated filer x
Non-accelerated filer o (do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act.) Yes o No x.

The aggregate market value of the voting stock held by non-affiliates of the registrant, based upon the closing price for the registrant's Common Stock on June 30, 2007 was $127,780,279. Shares of voting stock held by each officer and director and by each person who, as of June 30, 2007, may be deemed to have beneficially owned more than 5% of the outstanding voting stock have been excluded. This determination of affiliate status is not necessarily a conclusive determination of affiliate status for any other purpose.

As of March 10, 2008, the registrant had 39,171,332 shares of Common Stock outstanding.

Documents Incorporated by Reference: Certain portions of the registrant’s definitive proxy statement for its Annual Meeting of Stockholders to be held in 2008 to be filed with the Commission are incorporated by reference into Part III of this report.

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995:

Certain information included in this report on Form 10-K that are not historical facts contain forward looking statements that involve a number of known and unknown risks, uncertainties and other factors that could cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievement expressed or implied by such forward looking statements. These risks and uncertainties include, but are not limited to, uncertainty of future sales levels, protection of patents and other proprietary rights, the impact of supply and manufacturing constraints or difficulties, product market acceptance, possible technological obsolescence of products, increased competition, 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 this report and in the Company's other filings with the United States Securities and Exchange Commission ("SEC"). The words "believe", "demonstrate", "intend", "expect", "estimate", "anticipate", "like and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date the statement was made. Unless the context otherwise requires, the terms "iCAD", "Company", "we", "our" and "us" means iCAD, Inc. and its consolidated subsidiaries.

PART I

Item 1. Business.

General

iCAD was founded in 1984 as Howtek, Inc. ("Howtek"). Howtek developed, manufactured and marketed digitizing systems, also referred to as scanners. The scanners converted printed, photographic and other hard copy images to digital form for use in the graphic arts, photo finishing and medical industries. In 1987 Howtek began development of its first scanner with the goals of delivering a smaller, easier to use and less costly alternative to traditional scanners on the market at that time. Howtek followed with a series of products further improving the quality of digital imaging while reducing the price and complexity of digitizing systems.

In 2001, foreseeing a decline in the graphic arts and photo finishing industries, the Company elected to focus its efforts solely on the medical imaging industry with increased product offerings. This goal was advanced in June 2002 with the Company's acquisition of Intelligent Systems Software, Inc. ("ISSI"), a privately held company based in Florida offering an approved Computer-Aided Detection system ("CAD") for breast cancer. In December 2003, the Company also acquired Qualia Computing, Inc. ("Qualia"), a privately held company based in Ohio, and its subsidiaries, including CADx Systems, Inc. (together "CADx"). These acquisitions brought together two of the three companies with clearance by the United States Food and Drug Administration ("FDA") to market CAD solutions for breast cancer in the United States.

Today the Company is an industry-leading provider of CAD solutions that enable radiologists and other healthcare professionals to better serve patients by identifying pathologies and pinpointing cancer earlier. Early detection of cancer is the key to better prognosis, less invasive and lower treatment costs, and higher survival rates. Performed as an adjunct to mammography screening, CAD has quickly become the standard of care in breast cancer detection, helping radiologists improve clinical outcomes while enhancing workflow. CAD is also reimbursable in the United States under federal and most third-party insurance programs. Since receiving FDA clearance for its first breast cancer detection product in January 2002, over eighteen hundred of iCAD's CAD systems have been placed in mammography facilities worldwide. We are also developing CAD solutions for use with virtual colonoscopy to improve the detection of colonic polyps while delivering improved workflow for the radiologists, and higher quality patient care.

Our website is www.icadmed.com. At this website the following documents are available at no charge: our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 ("Exchange Act"), as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The information on the website listed above, is not and should not be considered part of this annual report on Form 10-K and is not incorporated by reference in this document.

We are headquartered in Nashua, New Hampshire, and our principal research and development center is located in Beavercreek, Ohio.

Strategy

The Company intends to continue to expand its core competencies in pattern recognition and algorithm development in disease detection. The Company's focus is on the development and marketing of cancer detection solutions for disease states where there are established or emerging protocols for screening as a standard of care. The Company expects to pursue the development of CAD products for select disease states that demonstrate one or more of the following: it is clinically proven that screening has a significant impact on patient outcomes, there is an opportunity to lower health care costs, screening is non-invasive or minimally invasive, and public awareness of the disease is high or growing.

The Company believes that the steady advancement of digital imaging bolsters its efforts to develop additional commercially viable CAD products. Its intention is to broaden the Company's extensive CAD capabilities across multiple imaging modalities to develop or enhance products that will help clinicians detect disease earlier, enhance patient care, and improve patient outcomes. The Company is currently applying its patented detection technology and algorithm platform to other disease states, such as colon and lung cancer, where it believes pattern recognition, artificial intelligence, and image processing will play a pivotal role. For mammography, the Company is developing CAD solutions for tomosynthesis (3-D mammography) that assist radiologists in detecting more cancers earlier, while also analyzing the tremendous volume of data generated by 3-D imaging. CAD solutions are also in development for use with virtual colonoscopy to improve the detection of colonic polyps while delivering improved workflow for the radiologist, and higher quality patient care. The Company expects to have a commercial CAD product for use with virtual colonoscopy available for sale in Europe by the end of 2008.

Network connectivity, clinical workflow and timely processing of patient information are critical issues for radiology departments. Healthcare providers are working to stay competitive in a healthcare environment experiencing significant budget constraints. iCAD will continue to provide powerful and flexible Digital Imaging and Communication in Medicine ("DICOM") connectivity solutions. Seamless integration of CAD with leading image processing systems, review workstations, and Picture Archiving and Communication Systems ("PACS"), from multiple vendors, will remain a focal point of its product development efforts. Simpler and easier integration with existing clinical systems and connectivity benefits that support tele-radiology and remote viewing also remain focal points of its product development efforts. The Company expects to continue to deliver digital technology workflow advantages by improving the efficiencies of key processes, from the ease in which radiologists can read and interpret studies to the speed at which high-priority images are processed through the system.

The Company has also increased its emphasis on the development and growth of residual and continuing revenue sources. Fee per procedure purchase options have been implemented for the delivery of CAD solutions and the Company is also pursuing additional revenue sources related to service and extended maintenance revenue.

Virtual colonoscopy ("CTC") is a technology that has evolved rapidly in recent years. The Company expects that the market for virtual colonoscopy will grow worldwide. The anticipated growth is due to the increased demand for the procedures for early detection of colon cancer, combined with the recent results of the National CT Colonography Trial demonstrating that CTC is highly accurate for the detection of intermediate and large polyps and that the accuracy of CTC is similar to colonoscopy.

Market and Market Opportunities

CAD systems use sophisticated algorithms to analyze image data and mark suspicious areas in the image that may indicate cancer. The locations of the abnormalities are marked in a manner that allows the reader of the image to reference the same areas in the original mammogram for further review. The intent of CAD is to aid in the detection of potential abnormalities for the radiologist to review. After initially reviewing the case films or digital images a radiologist reviews the CAD results and subsequently re-examines suspicious areas that warrant a second look before making a final interpretation of the study. The radiologist determines if a clinically significant abnormality exists and whether further diagnostic evaluation is warranted. CAD is most prevalent as an adjunct to mammography given the documented success of CAD. Other major clinical applications where CAD technology is of value include breast MRI, virtual colonoscopy and chest and lung screening.

Approximately 35 million mammograms are performed annually in the United States. Although mammography is the most effective method for early detection of breast cancer; studies have shown that an estimated 20% or more of all breast cancers go undetected in the screening stage. More than half of the cancers missed are due to observational errors. CAD, when used in conjunction with mammography, has been proven to help reduce the risk of these observational errors by as much as 20%. Earlier cancer detection typically leads to more effective, less invasive, and less costly treatment options which ultimately should translate into improved patient survival rates. CAD as an adjunct to mammography screening is reimbursable in the United States under federal and most third party insurance programs. This reimbursement provides economic support for the acquisition of CAD products by women's healthcare providers. Market growth has also been driven in recent years by the introduction of full field digital mammography ("FFDM") systems. According to the January 2007 National Electrical Manufacturers Association Forecast Report, the mammography market in the United States was forecasted to exceed $400 million in 2007 and projected to grow at least 10% in 2008.

In the United States, approximately 8,800 facilities (with approximately 14,000 mammography systems) are certified to provide mammography screening. Historically, these centers have used conventional film-based medical imaging technologies to capture and analyze breast images. Of the 8,800 certified facilities, approximately 30% have acquired FFDM systems. A FFDM system generates a digital image eliminating film used in conventional mammography. The number of facilities converting to digital mammography systems continues to grow and has been fueled by the results reported in 2005 in the *New England Journal of Medicine* from the American College of Radiology Imaging Network's ("ACRIN") Digital Mammographic Imaging Screening Trial ("DMIST"). The trial showed that there was no difference in accuracy between the two modalities for screening asymptomatic women in general. But for three subgroups of women (which represent over 60% of the population), digital mammography performed better than film-based mammography.

While double reading protocol is currently advocated as a standard of care in most European countries this is not the case in the United States. Double reading requires substantially more resources, which are often not available considering the shortage of mammographers across the country. In view of the frequency of missed cancers and of the lack of resources for double reading as a standard of care, CAD in combination with review by a single radiologist is an alternative to double reading of mammography and possibly further reduce breast cancer mortality.

Breast cancer is one of the most prevalent forms of cancer and also responsible for the most number of cancer-related deaths among women in the European Union ("EU"). The number of expected cancer cases will continue to rise as the incidence of cancer increases steeply with age and life expectancy. According to the European Parliamentary Group on Breast Cancer, they expect approximately 269,000 new breast cancer cases will be reported and over 87,000 deaths per year. On average 1 out of every 10 women in the EU is expected to develop breast cancer at some point in their life. As a result, most countries in western Europe have or are planning to implement Mammography screening programs resulting in an expected increase in the number of mammograms performed in the coming years.

Market Size and Share

The total CAD mammography market in the United States was projected to exceed $100 million in 2007 according to a 2006 Market Report from the Millennium Research Group ("MRG"). According to this same report, iCAD had 45% of the U.S. digital mammography CAD market with Hologic/R2 holding a 54% share. Frost and Sullivan projects the CAD mammography market in the United States will reach $333.5 million in 2012, growing at a compounded rate of approximately 20.2 percent between 2005 and 2012.

New Market Opportunities

Computed Tomography Applications and Colonic Polyp Detection

Computed Tomography ("CT") is a well-established and widely used imaging technology that has evolved rapidly over the last few years. CT equipment is used to image cross sectional slices of various parts of the human body. When combined, these "slices" provide detailed volumetric representations of the imaged areas. The use of multi-detectors in CT equipment has progressed in just a few years from 4 slices to 8, 16, 64 slices and beyond resulting in vastly improved image quality. The image quality improvements resulting from the increased number of slices per procedure and greatly increased imaging speeds have expanded the use of CT imaging in both the number of procedures performed as well as the applications for which it is utilized. It was estimated by Frost and Sullivan that over 70 million CT procedures would be performed in 2006 in the United States alone with an installed base of approximately 9,600 machines. While the increased number of cross sectional slices provides important and valuable diagnostic information, it adds to the challenge of managing and interpreting the large volume of data generated. These challenges in CT imaging present opportunities for automated image analysis and CAD products that the Company believes it is well positioned to develop and promote.

According to the American Cancer Society, colorectal cancer is the fourth most common type of cancer in men and women in the United States, and 140,000 people will be diagnosed with colon cancer this year. It is also the second leading cause of cancer deaths in spite of being highly preventable with early identification and removal of colorectal polyps. Several techniques including optical colonoscopy, which involves visualizing the inside of the colon with a specialized scope, exist for the early identification of polyps. More than 82 million Americans are over age 50 and are eligible for colorectal cancer screening however this technique remains highly under utilized, due at least in part to the invasive nature of this screening procedure.

CTC, also known as Virtual Colonoscopy, is a relatively new and less invasive technique than traditional colonoscopy for imaging the colon. CTC is performed with standard CT imaging of the abdomen while the colon is distended after subjecting the patient to a colon cleansing regimen. Specialized software from third party display workstation and PACS vendors is then used to reconstruct and visualize the internal surface of the colon and review the CT slices; CAD is then used to identify potential polyps. Results from the ACRIN National CT Colonography Trial recently announced at the ACRIN 2007 fall meeting, demonstrated that CTC is highly accurate for the detection of intermediate and large polyps and that the accuracy of CTC is similar to colonoscopy. The Company believes that this study coupled with recent legislation introduced to establish Medicare reimbursement for the procedure are likely to expand the options available for colorectal cancer screening and increase utilization of Virtual Colonoscopy.

CTC is becoming more readily available and has gained health insurance coverage for some diagnostic applications and in some limited cases for the screening application in the United States. The process of reading a CTC exam can be lengthy and tedious as the interpreting physician is often required to traverse the entire length of the colon multiple times. CAD technology can play an important role in improving the accuracy and efficiency of reading CTC cases by automatically identifying potential polyps. The Company is in the process of developing solutions for the detection of colonic polyps in CTC exams. The Company initially plans to deliver its solution to end users through integration with leading vendors who provide image display and visualization technology specifically designed for CTC images.

Products and Product Development

The table below presents the revenue and percentage of revenue attributable to our different product and services, in 2007, 2006 and 2005:

	For the year ended December 31,					
	2007	**%**	**2006**	**%**	**2005**	**%**
Digital revenue	$ 16,429,450	62%	$ 10,287,510	52%	$ 6,303,373	32%
Film based analog revenue	6,768,846	25%	6,519,503	33%	11,685,454	59%
Service & supply revenue	3,414,116	13%	2,914,345	15%	1,780,995	9%
Total revenue	$ 26,612,412		$ 19,721,358		$ 19,769,822	

Products for Computer Aided Detection (CAD) in Mammography

iCAD develops and actively markets a comprehensive range of high-performance CAD solutions for both digital and film-based mammography systems. iCAD's SecondLook systems are based on sophisticated patented algorithms that analyze the data; automatically identifying and marking suspicious regions in the images. The system provides the radiologist with a "second look" which helps the radiologist detect up to 72% of actionable missed cancers an average of 15 months earlier than screening mammography alone. SecondLook detects and identifies suspicious masses and micro-calcifications utilizing image processing, pattern recognition and artificial intelligence techniques. Knowledge from thousands of mammography images are incorporated in these algorithms enabling the product to distinguish between characteristics of cancerous and normal tissues. The result is earlier detection of hard-to-find cancers, improved workflow for radiologists, and higher quality patient care.

The current version of the SecondLook product delivers the highest CAD performance in the Company's history and provides clinical and workflow enhancements by improving mass detection performance and reducing the number of false positive CAD marks.

In 2006, we initiated development of CAD products for additional digital imaging providers including Agfa Corporation, Sectra Medical Systems and Planmed Oy. We also initiated research and development activities to develop the next generation of SecondLook CAD. This next product will provide improved performance and increased ease of use to better support clinical decision making and improve workflow. Developmental work continues with PACS companies and is focused on developing new, more efficient ways of integrating CAD into PACS review workstations to create a streamlined workflow for mammography and potentially other specialties.

SecondLook Digital

The SecondLook Digital products are used in conjunction with digital mammography imaging systems from leading manufacturers of direct digital and computed radiography equipment - including GE Healthcare, Siemens Medical, Hologic, Inc., and IMS Giotto. In addition, iCAD is awaiting FDA approval for its CAD product for use with Fuji's Computer Radiography ("CR") system. iCAD believes it has strong development partnerships with leading imaging providers. The algorithms in SecondLook Digital products have been fine-tuned and optimized for each digital imaging provider based upon characteristics of their unique detectors. iCAD is also developing individualized product designs to enable customized CAD functionality unique to the products of each imaging partner.

SecondLook Digital is a computer server residing on a customer's network that receives patient studies from the imaging modality, performs CAD analysis and sends the CAD results to PACS and/or review workstations. Workflow and efficiency are critical in digital imaging environments therefore iCAD has developed flexible, powerful DICOM integration capabilities that enable SecondLook Digital to integrate seamlessly with leading PACS archives and review workstations from multiple providers. iCAD has worked with its partners to ensure CAD results are integrated and easily viewed using each review workstation's graphical user interface. To further improve efficiency and clinical efficacy, the most urgent or important patient studies can be prioritized and analyzed with CAD first.

SecondLook 300 and SecondLook 200

The SecondLook 300 and SecondLook 200 products are powerful film-based CAD systems combining patented Clinical Information System digitizer technology with industry-leading cancer detection algorithms. The compact design of these SecondLook systems provides flexibility and convenience to meet constrained space requirements. These systems install quickly on-site and are supported by iCAD's customer support and service teams. The SecondLook 300 viewer offers optional features such as PowerLook® and iReveal® technology that provide soft-copy reading and touch screen control of the image for fast, precise image assessment. Flexible DICOM integration options enable customized configurations with leading PACS and Radiology Information System ("RIS") systems.

The SecondLook 200 is a CAD solution providing early, accurate cancer detection for use at smaller facilities with lower case volumes. iCAD's ClickCAD program offers an alternative fee-per-procedure financing option for SecondLook 200 users, enabling facilities of all sizes to provide the benefits of CAD to their patients.

Products for Converting Mammography Films to Digital Images

The TotalLook MammoAdvantageÔ system converts prior mammography films to digital images delivering high resolution digitized images to meet the critical specifications required for conversion of prior films. TotalLook MammoAdvantage captures all of the detail without image artifacts for comparative review on a single digital workstation. In moving to one review workstation, users experience improvements in workflow, productivity and reduced discomfort associated with switching between a light box and a computer screen to view images.

The TotalLook MammoAdvantage provides a comprehensive film-to-digital solution making it easier for facilities to transition from film to digital mammography. iCAD's technology provides full image fidelity for more accurate digitized images, high reliability with no daily maintenance, and fast scan time for improved throughput. The comprehensive, flexible DICOM connectivity solutions delivered through TotalLook MammoAdvantage enable seamless integration with PACS and RIS systems, reducing redundant patient data entry. Intelligent image compression provides excellent image quality while substantially minimizing storage requirements and improving network transmission speed.

Products for Computer Aided Detection of Colonic Polyps

iCAD is currently engaged in the development of a CAD solution to support detection of colonic polyps in conjunction with CTC (CT Colonography or Virtual Colonoscopy). iCAD believes that CAD for CTC is a natural extension of iCAD's core competencies in image analysis and image processing. iCAD expects this system will likely be offered in conjunction with third party display workstations and PACS vendors. iCAD expects to begin field testing the product in 2008 and has executed an agreement with ACR Image Metrix to conduct a multi-reader clinical study of our CT Colon product, for use with Virtual Colonoscopy. With this partnership, iCAD will work with ACR Image Metrix to develop and execute a clinical study to support FDA approval of CT Colon CAD. ACR Image Metrix was launched by the American College of Radiology ("ACR") to leverage their thirty years of experience in conducting clinical research in part through the ACRIN. The ACR and ACRIN have a proven history in developing trials that standardize the use of imaging technologies, image transmission and archive, reduce the size and cost of trials and produce more reliable results.

iCAD believes this partnership represents a major step forward in the development and commercialization of its Colon CAD product. Our expectation is that working with ACR Image Metrix, a group with significant expertise in radiology clinical trial management, will put the Company in an optimal position to submit solid clinical data to the FDA and meet the Company goals for this proposed product line.

Sales and Marketing

iCAD's products for digital mammography are sold through its direct regional sales organization in the United States as well as through its OEM partners, including GE Healthcare, Siemens Medical, Agfa in Europe, and through IMS Giotto's network of distributors. In 2006, iCAD entered into a supplier agreement with Fuji Medical to supply their SecondLook Digital CAD product for use with Fuji's CR system. The Company is currently awaiting FDA approval of the Company's product for use with the Fuji CR system. Additionally, Siemens Medical expanded their agreement to distribute the TotalLook MammoAdvantage digitizer solution for comparative reading of prior films and GE Healthcare and Fuji Medical are adding TotalLook MammoAdvantage to their product portfolios.

The iCAD analog product line is sold direct through our regional sales managers and through select distributor and manufacturer representative organizations.

The Company's expanded domestic sales team is comprised of experienced healthcare sales professionals with significant track records of success within the diagnostic imaging market. In early 2007 an experienced healthcare sales manager with significant CAD experience based in Europe, was hired by the Company to run iCAD's European sales and marketing operation.

The Company's products are marketed on the basis of their clinical superiority and their ability to help radiologists detect more cancers earlier, while seamlessly integrating into the clinical workflow of the radiologist. In 2007 the Company continued to build upon the re-branding campaign launched at the end of 2006. The Company developed and executed a variety of public relations and local outreach programs with numerous iCAD customers including a Video News release package. Further investments were made in cultivating relationships with the leaders in Mammography, Colon, and Lung CAD at national trade shows through round table discussions about the future of CAD in these modalities. Funding supported attendance at more regional trade shows that focused on mammography. The Company expanded and further enhanced its presence at the RSNA (Radiological Society of North America) 2007 while also establishing a presence in the booths of the Company's OEM partners.

Competition

The Company currently faces direct competition in its CAD business from Hologic, Inc. (which acquired R2 Technology, Inc. in July 2006) and, to a lesser extent from Kodak Carestream. Imaging equipment manufacturers such as GE Medical, Siemens Medical, Philips Healthcare and other medical imaging equipment manufacturers have explored the possibility of introducing their own versions of CAD and comparative reading products into the market, but thus far have not had a significant impact in the market. The Company believes that current regulatory requirements present a significant barrier to entry in this market.

The Company anticipates additional competition in the CT Colon solutions market. It expects competition will come from the traditional imaging CT equipment manufacturers, 3D Rendering and Analysis firms, as well as from emerging CAD companies. Siemens Medical, GE Healthcare, and Philips Medical Systems currently offer or are in the process of developing polyp detection products. The Company expects that these companies will offer a colonic polyp detection solution as an advanced feature of their image management and display products typically sold with their CT equipment. Several emerging CAD companies have also introduced solutions for colorectal polyp detection.

iCAD operates in highly competitive and rapidly changing markets with competitive products available from nationally and internationally recognized companies. Many of these competitors have significantly greater financial, technical and human resources than iCAD and they are well established in the healthcare market. In addition, some companies have developed or may develop technologies or products that could compete with the products we manufacture and distribute or that would render our products obsolete or noncompetitive. Moreover, competitors may achieve patent protection, regulatory approval, or product commercialization prior to us that would limit our ability to compete with them. These and other competitive pressures could have a material adverse effect on the Company's business.

Manufacturing and Customer and Professional Service

The Company's products are manufactured and assembled for it by a contract manufacturer of medical devices. The Company's manufacturing efforts are generally limited to purchasing and supply chain management, planning/scheduling, manufacturing engineering, service repairs, quality assurance, inventory management, and warehousing. Once the product has shipped, it is usually installed by one of the Company's OEM partners at the customer site. When a product sale is taken direct from the end customer by iCAD, the product is installed by iCAD personnel at the customer site.

The Professional services organization of iCAD is comprised of a team of trained and specialized individuals providing comprehensive support on a pre-sales and post-sales basis. This includes pre-sale product demonstrations, product installations, applications training, and call center management (or technical support). The support center is the single point of contact for the customer, providing remote diagnostics, troubleshooting, training, and service dispatch. Service repair efforts are generally performed at the customer site by third party service organizations or in the Company's repair depot by their repair technicians .

Government Regulation

The Company's CAD systems are medical devices subject to extensive regulation by the FDA under the Federal Food, Drug, and Cosmetic Act with potentially significant costs for compliance. The FDA's regulations govern, among other things, product development, product testing, product labeling, product storage, pre-market clearance or approval, advertising and promotion, and sales and distribution. The Company's devices are subject to FDA clearance or approval before they can be marketed in the United States and may be subject to additional regulatory approvals before they can be marketed outside the United States. There is no guarantee that future products or product modifications will receive the necessary approvals.

The FDA's Quality System Regulations require that the Company's manufacturing operations follow extensive design, testing, control, documentation and other quality assurance procedures during the manufacturing process. The Company is subject to FDA regulations covering labeling regulations and adverse event reporting including the FDA's general prohibition of promoting products for unapproved or off-label uses.

The Company's manufacturing facilities are subject to periodic unannounced inspections by the FDA and corresponding state agencies. Compliance with international regulatory authorities with extensive regulatory requirements is required. Failure to fully comply with applicable regulations could result in the Company receiving warning letters, non-approvals, suspensions of existing approvals, civil penalties and criminal fines, product seizures and recalls, operating restrictions, injunctions, and criminal prosecution.

Additionally, in order to market and sell its CAD products in certain countries outside of the United States, the Company must obtain and maintain regulatory approvals and comply with the regulations of each specific country. These regulations, including the requirements for approvals, and the time required for regulatory review vary by country.

Intellectual Property

The Company primarily relies on a combination of patents, trade secrets and copyright law, third-party and employee confidentiality agreements, and other protective measures to protect its intellectual property rights pertaining to our products and technologies.

Currently the Company has 22 issued patents covering its CAD and scanner technologies in the United States expiring between 2019 and 2026. These patents help the Company maintain a proprietary position in these markets. Additionally, the Company has 18 patent applications pending domestically, some of which have been also filed internationally, and it plans to file additional domestic and foreign patent applications when it believes such protection will benefit the Company. These patents and patent applications relate to current and future uses of iCAD’s CAD and digitizer technologies and products, including CAD for CT colon and lung. In June 2006, the Company secured a non-exclusive patent license from the National Institute of Health (“NIH”) which relates broadly to CAD in colonography. In February 2003 the Company secured a patent license to United States, European, Canadian, and Japanese patents owned by Scanis, Inc., which relate broadly to CAD for breast cancer.

The Company believes it has all the necessary licenses from third parties for software and other technologies in its current products.

Sources and Availability of Materials

The Company depends upon a limited number of suppliers and manufacturers for its products, and certain components in its products may be available from a sole or limited number of suppliers. The Company's products are generally either manufactured and assembled for it by a sole manufacturer, by a limited number of manufacturers or assembled by it from supplies it obtains from a limited number of suppliers. Critical components required to manufacture these products, whether by outside manufacturers or directly, may be available from a sole or limited number of component suppliers. The Company generally does not have long-term arrangements with any of its manufacturers or suppliers. The loss of a sole or key manufacturer or supplier would impair its ability to deliver products to customers in a timely manner and would adversely affect its sales and operating results. The Company’s business would be harmed if any of its manufacturers or suppliers could not meet its quality and performance specifications and quantity and timing requirements.

Major Customers

The Company's major customer in 2007 was GE Healthcare with revenues of $7,609,313 or 29% of its revenues. During the year ended December 31, 2006 the Company had revenues of $5,077,091 and $2,462,225, or 26% and 12% of revenues, to GE Healthcare and Hologic, Inc., respectively. These were the Company's two major customers in 2006. For the year ended December 31, 2005 the Company's two major customers were SourceOne Healthcare and GE Healthcare with revenues of $3,725,065 and $2,913,493 or 19% and 15% of revenues in 2005.

Engineering and Product Development

The Company spent $4,504,000, $5,260,893, and $4,785,092 on research and development activities during the years ended December 2007, 2006 and 2005, respectively. The research and development expenses for 2007 are primarily attributed to the development of the Company's next generation SecondLook digital mammography CAD product, support of additional digital mammography devices on our current SecondLook CAD product, development of the Company's CAD product for CT Colon, development of the TotalLook MammoAdvantageÔ system for comparative reading and patent development.

Employees

At March 1, 2008 the Company had 106 employees, 99 full-time, 5 co-ops and 2 part-time employees, with 32 involved in sales and marketing, 34 in research and development, 24 in service, technical support and operations functions, and 16 in administrative functions. None of the Company's employees are represented by labor organizations. The Company believes its relations with its employees are good.

Backlog

The Company's product backlog (excluding service and supplies) was approximately $1,731,000 at December 31, 2007 as compared to $2,566,000 on the corresponding date in 2006 and $1,716,000 at September 30, 2007. The Company expects that the majority of the backlog at December 31, 2007 will be shipped within the 2008 fiscal year. Backlog as of any particular period should not be relied upon as indicative of the Company's net revenues for any future period as a large amount of the Company's product is booked and shipped within the same quarter.

Environmental Protection

Compliance with federal, state and local provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had a material effect upon the capital expenditures, earnings (losses) and competitive position of the Company.

Financial Geographic Information

The Company markets its products for digital mammography in the United States through its direct regional sales organization as well as through its OEM partners, including GE Healthcare and Siemens Medical. Outside the United States the Company markets its products for digital mammography generally through its OEM partners, GE Healthcare and Siemens Medical. Total export sales increased to approximately $2,655,000 or 10% of sales in 2007 as compared to $1,022,000 or 5% of total sales in 2006 and $1,747,000 or 9% of total sales in 2005.

The Company's principal concentration of export sales is in Europe, which accounted for 81% of the Company's export sales in 2007, 91% of export sales in 2006, and 44% of export sales is 2005. Of these sales 70% in 2007, 77% in 2006 and 47% in 2005 were in France. The balance of the export sales in 2007 were primarily into Asia, Canada, Spain and Mexico.

Foreign Regulations

International sales of the Company's products are subject to foreign government regulation, the requirements of which vary substantially from country to country. The time required to obtain approval by a foreign country may be longer or shorter than that required for FDA approval, and the requirements may differ. Obtaining and maintaining foreign regulatory approvals is an expensive and time consuming process. The Company cannot be certain that it will be able to obtain the necessary regulatory approvals timely or at all in any foreign country in which it plans to market its CAD products, and if it fails to receive such approvals, its ability to generate revenue may be significantly diminished.

Product Liability Insurance

The Company believes that it maintains appropriate product liability insurance with respect to its products. The Company cannot be certain that with respect to its current or future products, such insurance coverage will continue to be available on terms acceptable to the Company or that such coverage will be adequate for liabilities that may actually be incurred.

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. The following highlights some of the factors that have affected, and/or in the future could affect, our operations.

We have incurred significant losses since inception and there can be no assurance that we will be able to achieve and sustain future profitability.

We have incurred significant losses since our inception, much of which were attributable to our former business lines. We incurred a net loss of $1,538,532 and a net loss available to common stockholders of $1,606,292 during the fiscal year ended December 31, 2007. We may not be able to achieve profitability.

A limited number of customers account for a significant portion of our total revenues. The loss of a principal customer could seriously hurt our business.

Our principal sales distribution channel for our digital products is through our OEM partners. Our digital product revenue accounted for 61.7% and 52.2% of our total revenue for the years ended December 31, 2007 and 2006, respectively. Our principal sales distribution channel for our analog products is through our direct regional sales organization and distributors. Our analog products accounted for 25.4% and 33.1% of our total revenue for the years ended December 31, 2007 and 2006, respectively. A limited number of large customers may continue to account for a significant portion of our future revenues. The loss of our relationships with principal customers or a decline in sales to principal customers could materially adversely affect our business and operating results.

Our business is dependent upon future market growth and acceptance of digital mammography systems and other digital computer aided detection (CAD) products.

Our future business is substantially dependent on the continued growth in the market for digital mammography systems and digital computer aided detection (CAD) products. The market for these products may not continue to develop or may develop at a slower rate than we anticipate due to a variety of factors, including the large installed base of conventional film-based mammography systems in hospitals and imaging centers, the significant cost associated with the procurement of full field digital mammography systems and CAD products, and the reliance on third party insurance reimbursement.

We may not be able to obtain regulatory approval for any of the other products that we may consider developing.

We have received FDA approvals only for our currently offered CAD products. Before we are able to commercialize any other product, we must obtain regulatory approvals for each indicated use for that product. The process for satisfying these regulatory requirements is lengthy and costly and will require us to comply with complex standards for research and development, clinical trials, testing, manufacturing, quality control, labeling, and promotion of products. We may not be able to obtain FDA or other required regulatory approval and market any further products we may develop during the time we anticipate, or at all.

Our quarterly operating and financial results and our gross margins are likely to fluctuate significantly in future periods.

Our quarterly and annual operating and financial results are difficult to predict and may fluctuate significantly from period to period. Our revenues and results of operations may fluctuate as a result of a variety of factors that are outside of our control including, but not limited to, the timing of orders from our OEM partners, our OEM partners ability to manufacture and ship their digital mammography systems, our timely receipt by the FDA for the clearance to market our products, our ability to timely engage other OEM partners for the sale of our products, the timing of product enhancements and new product introductions by us or our competitors, the pricing of our products, changes in customers' budgets, competitive conditions and the possible deferral of revenue under our revenue recognition policies.-

We may need additional financing to implement our strategy and expand our business.

We may need additional debt or equity financing beyond any amounts generally available to us to pursue our strategy and increase revenue or to finance our business. Any additional financing that we need may not be available and, if available, may not be available on terms that are acceptable to us. Our failure to obtain any additional financing on a timely basis, or on economically favorable terms, could prevent us from continuing our strategy or from responding to changing business or economic conditions, and could cause us to experience difficulty in withstanding adverse operating results or competing effectively.

Changes in reimbursement procedures by Medicare or other third-party payers may adversely affect our business.

In the United States, Medicare and a number of commercial third-party payers provide reimbursements for the use of CAD in connection with mammography screening and diagnostics. In the future, however, these reimbursements may be unavailable, reduced or inadequate due to changes in applicable legislation or regulations, changes in attitudes toward the use of mammograms for broad screening to detect breast cancer or due to changes in the reimbursement policies of third-party payers. In 2006, the Center for Medicare Services announced an approximately 10% reduction for mammography CAD reimbursement beginning in 2007. We anticipate there is a risk of further reductions. As a result, healthcare providers may be unwilling to purchase our CAD products or any of our future products, which could significantly harm our business, financial condition and operating results.

There is no guaranty that any of the products which we contemplate developing will become eligible for reimbursements or health insurance coverage at favorable rates or even at all or maintain eligibility.

We cannot be certain of the future effectiveness of our internal controls over financial reporting or the impact of the same on our operations or the market price for our common stock.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002**,** we are required to include in our Annual Report on Form 10-K our assessment of the effectiveness of our internal controls over financial reporting**.** Furthermore, our independent registered public accounting firm is required to audit our assessment of the effectiveness of our internal controls over financial reporting and separately report on whether it believes we maintain, in all material respects, effective internal controls over financial reporting. We have dedicated a significant amount of time and resources to ensure compliance with this legislation for the year ended December 31, 2007 and will continue to do so for future fiscal periods. Although we believe that we currently have adequate internal control procedures in place, we cannot be certain that future material changes to our internal controls over financial reporting will be effective. If we cannot adequately maintain the effectiveness of our internal controls over financial reporting, we might be subject to sanctions or investigation by regulatory authorities, such as the SEC. Any such action could adversely affect our financial results and the market price of our common stock.

Our business is subject to The Health Insurance Portability and Accountability Act of 1996, or HIPAA, and changes to or violations of these regulations could negatively impact our revenues.

HIPAA mandates, among other things, the adoption of standards to enhance the efficiency and simplify the administration of the nation's healthcare system. HIPAA requires the United States Department of Health and Human Services, or DHHS to adopt standards for electronic transactions and code sets for basic healthcare transactions such as payment, eligibility and remittance advices, or "transaction standards," privacy of individually identifiable health information, or "privacy standards," security of individually identifiable health information, or "security standards," electronic signatures, as well as unique identifiers for providers, employers, health plans and individuals and enforcement. Final regulations have been issued by DHHS for the privacy standards, certain of the transaction standards and security standards. As a healthcare provider, we are required to comply in our operations with these standards and are subject to significant civil and criminal penalties for failure to do so. In addition, in connection with providing services to customers that also are healthcare providers, we are required to provide satisfactory written assurances to those customers that we will provide those services in accordance with the privacy standards and security standards. HIPAA has and will require significant and costly changes for us and others in the healthcare industry. Compliance with the privacy standards became mandatory in April 2003, compliance with the transaction standards became mandatory in October 2003 (although full implementation was delayed with respect to the Medicare program until October 2005), and compliance with the security standards became mandatory in April 2005.

Like other businesses subject to HIPAA regulations, we cannot fully predict the total financial or other impact of these regulations on us. The costs associated with our ongoing compliance could be substantial, which could negatively impact our profitability.

We do not anticipate paying cash dividends on our common stock.

We have not paid cash dividends on our common stock in the past, and we do not intend to do so in the foreseeable future. Any payment of dividends will be in the sole discretion of our Board of Directors.

The markets for many of our products are subject to changing technology.

The markets for many products we sell, are subject to changing technology, new product introductions and product enhancements, and evolving industry standards. The introduction or enhancement of products embodying new technology or the emergence of new industry standards could render our existing products obsolete or result in short product life cycles or our inability to sell our products without offering a significant discount. Accordingly, our ability to compete is in part dependent on our ability to continually offer enhanced and improved products.

We depend upon a limited number of suppliers and manufacturers for our products, and certain components in our products may be available from a sole or limited number of suppliers.

Our products are generally either manufactured and assembled for us by a sole manufacturer, by a limited number of manufacturers or assembled by us from supplies we obtain from a limited number of suppliers. Critical components required to manufacture our products, whether by outside manufacturers or directly by us, may be available from a sole or limited number of component suppliers. We generally do not have long-term arrangements with any of our manufacturers or suppliers. The loss of a sole or key manufacturer or supplier would impair our ability to deliver products to our customers in a timely manner and would adversely affect our sales and operating results. Our business would be harmed if any of our manufacturers or suppliers could not meet our quality and performance specifications and quantity and delivery requirements.

Provisions in our corporate charter and in Delaware law could make it more difficult for a third party to acquire us, discourage a takeover and adversely affect existing stockholders.

Our certificate of incorporation authorizes the board of directors to issue up to 1,000,000 shares of preferred stock. The preferred stock may be issued in one or more series, the terms of which may be determined at the time of issuance by our board of directors, without further action by stockholders, and may include, among other things, voting rights (including the right to vote as a series on particular matters), preferences as to dividends and liquidation, conversion and redemption rights, and sinking fund provisions. Although there are currently no shares of preferred stock outstanding, future holders of preferred stock may have rights superior to our common stock and such rights could also be used to restrict our ability to merge with, or sell our assets to a third party.

We are also subject to the provisions of Section 203 of the Delaware General Corporation Law**,** which could prevent us from engaging in a "business combination" with a "15% or greater stockholder" for a period of three years from the date such person acquired that status unless appropriate board or stockholder approvals are obtained.

These provisions could deter unsolicited takeovers or delay or prevent changes in our control or management, including transactions in which stockholders might otherwise receive a premium for their shares over the then current market price. These provisions may also limit the ability of stockholders to approve transactions that they may deem to be in their best interests.

The market price of our common stock has been, and may continue to be, volatile which could reduce the market price of our common stock.

The publicly traded shares of our common stock have experienced, and may experience in the future, significant price and volume fluctuations**.** This market volatility could reduce the market price of our common stock without regard to our operating performance. In addition, the trading price of our common stock could change significantly in response to actual or anticipated variations in our quarterly operating results, announcements by us or our competitors, factors affecting the medical imaging industry generally, changes in national or regional economic conditions, changes in securities analysts' estimates for us or our competitors' or industry's future performance or general market conditions**,** making it more difficult for shares of our common stock to be sold at a favorable price or at all. The market price of our common stock could also be reduced by general market price declines or market volatility in the future or future declines or volatility in the prices of stocks for companies in our industry.

Our products and manufacturing facilities are subject to extensive regulation with potentially significant costs for compliance.

Our CAD systems for the computer aided detection of cancer are medical devices subject to extensive regulation by the FDA under the Federal Food, Drug, and Cosmetic Act. In addition, our manufacturing operations are subject to FDA regulation and we are also subject to FDA regulations covering labeling, adverse event reporting, and the FDA's general prohibition against promoting products for unapproved or off-label uses.

Our failure to fully comply with applicable regulations could result in the issuance of warning letters, non-approvals, suspensions of existing approvals, civil penalties and criminal fines, product seizures and recalls, operating restrictions, injunctions, and criminal prosecution. Moreover, unanticipated changes in existing regulatory requirements or adoption of new requirements could increase our application, operating and compliance burdens and adversely affect our business, financial condition and results of operations.

Sales of our CAD products in certain countries outside of the United States are also subject to extensive regulatory approvals. Obtaining and maintaining foreign regulatory approvals is an expensive and time consuming process. We cannot be certain that we will be able to obtain the necessary regulatory approvals timely or at all in any foreign country in which we plan to market our CAD products, and if we fail to receive such approvals, our ability to generate revenue may be significantly diminished.

Our products may be recalled even after we have received FDA or other governmental approval or clearance.

If the safety or efficacy of our products is called into question, the FDA and similar governmental authorities in other countries may require us to recall our products, even if our product received approval or clearance by the FDA or a similar governmental body. Such a recall would divert the focus of our management and our financial resources and could materially and adversely affect our reputation with customers and our financial condition and results of operations.

We rely on intellectual property and proprietary rights to maintain our competitive position and may not be able to protect these rights.

We rely heavily on proprietary technology that we protect primarily through licensing arrangements, patents, trade secrets, proprietary know-how and non-disclosure agreements. There can be no assurance that any pending or future patent applications will be granted or that any current or future patents, regardless of whether we are an owner or a licensee of the patent, will not be challenged, rendered unenforceable, invalidated, or circumvented or that the rights will provide a competitive advantage to us. There can also be no assurance that our trade secrets or non-disclosure agreements will provide meaningful protection of our proprietary information. There can also be no assurance that others will not independently develop similar technologies or duplicate any technology developed by us or that our technology will not infringe upon patents or other rights owned by others.

In addition, in the future, we may be required to assert infringement claims against third parties, and there can be no assurance that one or more parties will not assert infringement claims against us. Any resulting litigation or proceeding could result in significant expense to us and divert the efforts of our management personnel, whether or not such litigation or proceeding is determined in our favor. In addition, to the extent that any of our intellectual property and proprietary rights were ever deemed to violate the proprietary rights of others in any litigation or proceeding or as a result of any claim, we may be prevented from using them, which could cause a termination of our ability to sell our products. Litigation could also result in a judgment or monetary damages being levied against us.

We may be exposed to significant product liability for which we may not be able to procure sufficient insurance coverage.

Our business exposes us to potential product liability risks which are inherent in the testing, manufacturing, marketing and sale of medical devices. If available at all, product liability insurance for the medical device industry generally is expensive. Our product liability and general liability insurance coverage may not be adequate for us to avoid or limit our liability exposure and adequate insurance coverage may not be available in sufficient amounts or at a reasonable cost in the future. In any event, extensive product liability claims could be costly to defend and/or costly to resolve and could harm our reputation and business.

Our future prospects depend on our ability to retain current key employees and attract additional qualified personnel.

Our success depends in large part on the continued service of our executive officers and other key employees. We may not be able to retain the services of our executive officers and other key employees. The loss of executive officers or other key personnel could have a material adverse effect on us.

In addition, in order to support our continued growth, we will be required to effectively recruit, develop and retain additional qualified personnel. If we are unable to attract and retain additional necessary personnel, it could delay or hinder our plans for growth. Competition for such personnel is intense, and there can be no assurance that we will be able to successfully attract, assimilate or retain sufficiently qualified personnel. The failure to retain and attract necessary personnel could have a material adverse effect on our business, financial condition and results of operations.

We distribute our products in highly competitive markets.

We operate in highly competitive and rapidly changing markets that contain competitive products available from nationally and internationally recognized companies. Many of these competitors have significantly greater financial, technical and human resources than us and are well established. In addition, some companies have developed or may develop technologies or products that could compete with the products we manufacture and distribute or that would render our products obsolete or noncompetitive. In addition, our competitors may achieve patent protection, regulatory approval, or product commercialization that would limit our ability to compete with them. These and other competitive pressures could have a material adverse effect on our business.

Future sales of shares of our common stock may cause the prevailing market price of our shares to decrease and could harm our ability to raise additional capital.

We have previously issued a substantial number of shares of common stock, which are eligible for resale under Rule 144 of the Securities Act of 1933, and may become freely tradable. In addition, shares of our common stock issuable upon conversion of our convertible debt are also eligible for sale under Rule 144. We have also registered shares that are issuable upon the exercise of options and warrants. If holders of options or warrants choose to exercise their purchase rights and sell shares of common stock in the public market, or if holders of currently restricted common stock or common stock issuable upon conversion of convertible debt choose to sell such shares of common stock in the public market under Rule 144 or otherwise, or attempt to publicly sell such shares all at once or in a short time period, the prevailing market price for our common stock may decline. The sale of shares of common stock issued upon the exercise of our securities could also dilute the holdings of our existing stockholders.

Our international operations expose us to various risks, any number of which could harm our business.

During the past year our sales of product outside of the United States has increased. We are subject to the risks inherent in conducting business across national boundaries, any one of which could adversely impact our business. In addition to currency fluctuations, these risks include, among other things: economic downturns; changes in or interpretations of local law, governmental policy or regulation; restrictions on the transfer of funds into or out of the country; varying tax systems; and government protectionism. One or more of the foregoing factors could impair our current or future operations and, as a result, harm our overall business.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

The Company's executive offices are leased pursuant to a five-year lease (the "Lease") that commenced on December 15, 2006, consisting of approximately 11,000 square feet of office space located at 98 Spit Brook Road, Suite 100 in Nashua, New Hampshire (the "Premises"). The Lease also provides for annual base rent of $161,568 for the first year; $187,272 for the second year; $198,288 for the third year; $209,304 for the fourth year and $220,320 for the fifth year. Additionally, the Company is required to pay its proportionate share of the building and real estate tax expenses and obtain insurance for the Premises. The Company also has the right to extend the term of the Lease for an additional three year period at the then current market rent rate (but not less than the last annual rent paid by the Company).

The Company leases an approximately 23,000 square foot facility for its research and development group located at 2689 Commons Blvd, Suite 100, Beavercreek, Ohio for approximately $445,000 per year pursuant to a lease which expires in December 2010. The lease may be renewed for two additional terms of five years each. In November 2005, the Company subleased approximately 6,000 square feet of office space at the facility at an average rate of approximately $93,000 per year through December 2010. In August 2007 the Company subleased approximately another 6,000 square feet of office space at the facility at an average rate of approximately $90,000 per year through December 2010.

In addition to the foregoing leases relating to its principal properties, the Company also has a lease for an additional facility in Nashua NH used for product repairs, manufacturing and warehousing.

If the Company is required to seek additional or replacement facilities, it believes there are adequate facilities available at commercially reasonable rates.

Item 3. Legal Proceedings

The Company is not currently party to any material legal proceedings.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company's common stock is traded on the NASDAQ Capital Market under the symbol “ICAD”. The following table sets forth the range of high and low sale prices for each quarterly period during 2007 and 2006.

	High	Low
Fiscal year ended December 31, 2007		
First Quarter	$ 5.06	$ 2.85
Second Quarter	4.24	2.47
Third Quarter	4.21	2.59
Fourth Quarter	3.35	1.65
Fiscal year ended December 31, 2006		
First Quarter	$ 2.05	$ 1.20
Second Quarter	2.45	1.31
Third Quarter	2.12	1.28
Fourth Quarter	3.38	2.00

As of March 1, 2008 there were 254 holders of record of the Company's common stock. In addition, the Company believes that there are in excess of 525 holders of its common stock whose shares are held in “street name”.

The Company has not paid any cash dividends on its common stock to date, and the Company does not expect to pay cash dividends in the foreseeable future. Future dividend policy will depend on the Company's earnings, capital requirements, financial condition, and other factors considered relevant to the Company's Board of Directors. There are no non-statutory restrictions on the Company's present or future ability to pay dividends.

During 2007 the Company had two outstanding Series of Preferred Stock that had dividend rights that were senior to holders of common stock. During the second and third quarters of 2007, 5,150 shares of the Company’s 7% Series A Convertible Preferred Stock and 1,145 shares of the Company 7% Series B Convertible Preferred Stock were converted by non-affiliate holders into 1,087,500 shares of the Company’s common stock, in accordance with the terms of a preferred stock agreement. No compensation or fees were paid to solicit or induce the conversion by the holders of the preferred stock. Issuance of the Company’s common stock upon conversion of the preferred stock was made pursuant to an exemption from registration under Section 3(a) (9) of the Securities Act of 1933, as amended. At December 31, 2007 the Company had no outstanding shares of its 7% Series A or Series B Preferred Stock.

See Item 12 of this Form 10-K for certain information with respect to the Company’s equity compensation plans in effect at December 31, 2007.

Item 6. **Selected Financial Data.**

The financial data set forth below should be read in conjunction with Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited financial statements as of and for the years ended December 31, 2007, 2006 and 2005 and the related notes included elsewhere in this report and in our prior reports on Form 10-K. The historical results of operations are not necessarily indicative of future results.

Selected Statement of Operations Data

	Year Ended December 31,				
	2007 (1)	**2006** (1)	**2005**	**2004**	**2003**
Total Revenue	$ 26,612,412	$ 19,721,358	$ 19,769,822	$ 23,308,462	$ 6,520,306
Gross margin	21,355,308	15,430,540	15,133,765	16,775,166	3,578,643
Gross margin %	80.2%	78.2%	76.5%	72.0%	54.9%
Total operating expenses	22,459,111	21,869,219	19,888,292	17,042,385	11,662,396
Loss from operations	(1,103,803)				