MCALEE LAWRENCE E JR
Form 4
March 21, 2019

# FORM 4

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

(Print or Type Responses)

1. Name and Address of Reporting Person *
MCALEE LAWRENCE E JR

(Last) (First) (Middle)

C/O ESSENT GROUP LTD., CLARENDON HOUSE, 2 CHURCH STREET

(Street)

HAMILTON, D0 HM11

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
Essent Group Ltd. [ESNT]

3. Date of Earliest Transaction (Month/Day/Year)
03/19/2019

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
SVP & Chief Financial Officer

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

| 1.Title of Security (Instr. 3) | 2. Transaction Date (Month/Day/Year) | 2A. Deemed Execution Date, if any (Month/Day/Year) | 3. Transaction Code (Instr. 8) | | 4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) | | | 5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4) | 6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4) | 7. Nature of Indirect Beneficial Ownership (Instr. 4) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Code | V | Amount | (A) or (D) | Price | | | |
| Common shares, par value $0.015 | 03/19/2019 | | S[(1)] | | 10,000 | D | $ 47.61 [(2)] | 219,883 | D | |
| Common shares, par value $0.015 | 03/20/2019 | | A | | 7,321 [(3)] | A | $ 45.32 | 227,204 | D | |

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**
**(*e.g.*, puts, calls, warrants, options, convertible securities)**

| 1. Title of Derivative Security (Instr. 3) | 2. Conversion or Exercise Price of Derivative Security | 3. Transaction Date (Month/Day/Year) | 3A. Deemed Execution Date, if any (Month/Day/Year) | 4. Transaction Code (Instr. 8) | | 5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5) | | 6. Date Exercisable and Expiration Date (Month/Day/Year) | | 7. Title and Amount of Underlying Securities (Instr. 3 and 4) | | 8. Price of Derivative Security (Instr. 5) | 9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Code | V | (A) | (D) | Date Exercisable | Expiration Date | Title | Amount or Number of Shares | | |

# Reporting Owners

| Reporting Owner Name / Address | Relationships | | | |
|---|---|---|---|---|
| | Director | 10% Owner | Officer | Other |
| MCALEE LAWRENCE E JR<br>C/O ESSENT GROUP LTD.<br>CLARENDON HOUSE, 2 CHURCH STREET<br>HAMILTON, D0 HM11 | | | SVP & Chief Financial Officer | |

# Signatures

| /s/ Lawrence E. McAlee | 03/21/2019 |
|---|---|
| **Signature of Reporting Person | Date |

# Explanation of Responses:

***** If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

****** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

**(1)** The sales reflected in this Form 4 were effected pursuant to a Rule 10b5-1 trading plan adopted by the reporting person on August 14, 2018.

**(2)** The price reported in Column 4 is a weighted average price. These shares were sold in multiple transactions at prices ranging from $47.52 to $47.77, inclusive. The reporting person undertakes to provide to Essent Group Ltd., any security holder of Essent Group Ltd., or the staff of the Securities and Exchange Commission, upon request, full information regarding the number of shares sold at each separate price within the ranges set forth in this footnote.

**(3)** Represents restricted shares granted under the issuer's 2013 Long-Term Incentive Plan, with any shares becoming earned based upon the issuer's compounded annual book value per share growth percentage during a three-year performance period commencing January 1,

2019 and vesting on March 1, 2022.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. nent 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 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 timing requirements. WE MAY BE UNABLE TO SECURE COOPERATION FROM MANUFACTURERS OF DIGITAL MAMMOGRAPHY EQUIPMENT NECESSARY FOR US TO DEVELOP AND OFFER CAD SYSTEMS FOR USE WITH SUCH DIGITAL MAMMOGRAPHY SYSTEMS. We require cooperation from the manufacturer of digital mammography systems to modify our CAD software for use with and display in connection with digital mammography systems produced by these manufacturers. As potential customers supplement or replace current film-based mammography devices with digital mammography systems the refusal or unwillingness of any such manufacturer of digital mammography systems to cooperate with us could adversely affect our ability to market our products. PROVISIONS OF OUR CORPORATE CHARTER DOCUMENTS AND DELAWARE LAW COULD DELAY OR PREVENT A CHANGE OF CONTROL. Our certificate of incorporation authorizes our 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. There are two series of preferred stock currently outstanding which have dividend and liquidation preferences over our common stock. In addition, specific rights granted to future holders of preferred stock could be used to restrict our ability to merge with, or sell our assets to a third party. In addition, our certificate of incorporation provides for the classification of our board of directors into three classes, as nearly equal in number as possible. One class of directors is elected at each annual meeting to serve a term of three years. At least two annual meetings of stockholders, instead of one, will be required to effect a change in a majority of our board of directors. The ability of our board of directors to issue preferred stock and the classification of our board into three separate classes, could discourage, delay, or prevent a takeover of us thereby preserving control by the current stockholders. As a Delaware corporation, we are subject to the General Corporation Law of the State of Delaware, including Section 203, an anti-takeover law enacted in 1988. In general, Section 203 restricts the ability of a public Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder. Subject to exceptions, an interested stockholder is a person who, together with affiliates and associates, owns, or within three years did own, 15% or more of a corporation's voting stock. As a result of the application of Section 203, potential acquirers may be discouraged from attempting to acquire us, thereby possibly depriving our stockholders of acquisition opportunities to sell or 6 otherwise dispose of our stock at above-market prices typical of acquisitions. THE PRICE OF OUR COMMON STOCK COULD BE VOLATILE. Our common stock is quoted on the Nasdaq SmallCap Market which has experienced, and is likely to experience in the future, significant price and volume fluctuations which could adversely affect the market price of our common stock without regard to the operating performance. In addition, the trading price of our common stock could be subject to significant fluctuations 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 our competitors' or industry's future performance or general market conditions. The market price of our common stock could also be affected 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. RISKS RELATING TO THE MEDICAL DEVICE INDUSTRY WE ARE SUBJECT TO EXTENSIVE REGULATION WITH POTENTIALLY SIGNIFICANT COSTS FOR COMPLIANCE. The iCAD system for computer aided detection of breast cancer is a medical device subject to extensive regulation by the FDA under the Federal Food, Drug, and Cosmetic Act. 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. Unanticipated changes in existing regulatory requirements or adoption of new requirements could adversely affect our business,

financial condition and results of operations. The FDA's Quality System Regulation requires that our manufacturing operations follow elaborate design, testing, control, documentation and other quality assurance procedures during the manufacturing process. We are subject to FDA regulations covering labeling regulations, adverse event reporting, and the FDA's general prohibition against promoting products for unapproved or off-label uses. Our manufacturing facilities are subject to periodic unannounced inspections by the FDA and corresponding state agencies and international regulatory authorities for compliance with extensive regulatory requirements. Although we believe our manufacturing facilities are currently in compliance with applicable requirements, there can be no assurance that the FDA, following an inspection of these manufacturing facilities, would determine that they are in full compliance. 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. In order to market and sell our CAD products in certain countries outside of the United States we must obtain and maintain regulatory approvals and comply with the regulations of those countries. These regulations, including the requirements for approvals, and the time required for regulatory review, 7 vary from country to country. 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 plans to market our CAD products, and if we fail to receive such approvals, our ability to generate revenue may be significantly diminished. 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 will require us to comply with complex standards for research and development, testing, manufacturing, quality control, labeling, and promotion of products. OUR PRODUCTS MAY BE RECALLED EVEN AFTER THEY HAVE RECEIVED FDA APPROVAL OR CLEARANCE. If the safety or efficacy of our products are called into question, the FDA and similar governmental authorities in other countries may require us to recall our products. This is true even if our products have previously received approval or clearance by the FDA or a similar governmental body. Such a recall could be the result of component failures, manufacturing errors or design defects, including defects in labeling. Such a recall would divert the focus of our management and our financial resources and could materially and adversely affect our reputation with customers. REFORMS IN REIMBURSEMENT PROCEDURES BY MEDICARE OR OTHER THIRD-PARTIES 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 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. 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. Acceptance of our products outside of the United States depends, in part, upon the availability of similar reimbursements in the markets in which we intend to focus our international marketing activities. Reimbursements and health insurance systems in markets outside of the United States vary from country to country. If we are unable to qualify our products for reimbursement outside of the United States, we may not be able to gain international market acceptance for our products. There is no guaranty that any of the products which we contemplate developing will become eligible for reimbursements or health insurance coverage in the United States or abroad at favorable rates or even at all or maintain eligibility. 8 THE SALES CYCLE FOR OUR PRODUCTS IS LENGTHY AND UNPREDICTABLE AND ITS QUARTERLY RESULTS WILL BE UNPREDICTABLE. Many of the customers of our medical imaging products are institutional organizations, such as hospitals, with significant purchasing power and cyclical ordering practices. Although our CAD system is currently less expensive than the devices of our competitors, the purchase of the iCAD CAD system requires a material capital expenditure that will likely require approval of our customers' senior management and result in a lengthy sales and purchase order cycle. Consequently, we may be unable to accurately estimate our manufacturing and support requirements. Our larger institutional customers may also demand discounted prices on our products. As a result, our actual sales may differ significantly from our estimated sales and we may incorrectly allocate our resources. If we are unable to accurately project sales and allocate corresponding resources, we may incur substantial fluctuations in our

operating results for any given quarter. Even if we are able to achieve profitability in future fiscal periods, it may occur in a quarter with concentrated revenue. In that case, we would expect reduced revenue in the following quarter or quarters, and possibly a quarterly loss or quarterly losses. As a result, stockholders may not be able to rely upon our operating results in any particular period as an indication of future performance. THE MEDICAL EQUIPMENT INDUSTRY IS LITIGIOUS, WE HAVE IN THE PAST BEEN AND MAY IN THE FUTURE BE SUED FOR ALLEGEDLY VIOLATING THE INTELLECTUAL PROPERTY RIGHTS OF OTHERS. The medical technology industry is characterized by a substantial amount of litigation and related administrative proceedings regarding patents and intellectual property rights. In addition, major medical device companies have used litigation against emerging growth companies as a means of gaining a competitive advantage. Should third parties file patent applications or be issued patents claiming technology also claimed by us in pending applications, we may be required to participate in interference proceedings in the U.S. Patent and Trademark Office to determine the relative priorities of our inventions and the third parties' inventions. We could also be required to participate in interference proceedings involving any patents which may be issued to us and pending applications of another entity. An adverse outcome in an interference proceeding could require us to cease using the technology or to license rights from prevailing third parties. We are also aware of third parties whose business involves the use of CAD systems. Certain of these parties have issued patents or pending patent applications on technology that they may assert against us. There may be other patent rights of which we are presently unaware. Third parties may claim we are using their patented inventions and may go to court to stop us from engaging in our normal operations and activities. These lawsuits are expensive to defend and conduct and would also consume and divert the time and attention of our management. A court may decide that we are infringing a third party's patents and may order us to cease the infringing activity. The court could also order us to pay damages for the infringement. These damages could be substantial and could harm our business, financial condition and operating results. 9 If we are unable to obtain any necessary license following a determination of infringement or an adverse determination in litigation or in interference or other administrative proceedings, we would have to redesign our products to avoid infringing a third party's patent and could temporarily or permanently have to discontinue manufacturing and selling some of our products. If this were to occur, it would negatively impact future revenue and would have a material adverse effect on our business, financial condition and results of operations. WE MAY BE UNABLE TO PROTECT OUR INTELLECTUAL PROPERTY RIGHTS AND, CONSEQUENTLY, OUR COMPETITORS MAY BENEFIT FROM OUR EFFORTS AND COMPETE DIRECTLY AGAINST US. Presently, patent applications have been filed for aspects of the proprietary technology employed by us in our CAD and medical digitizer products. Our patent applications, or any patents which may be issued to us, may be challenged, invalidated or circumvented by third parties. Any patent ultimately issued to us may not be in a form that will be beneficial to us. To the extent that we are unable to adequately protect any of the intellectual property used in connection with our current or any future products, competitors may take advantage of the situation and produce competing products, which could harm our competitive position and ultimately harm its operating results. We also rely on a combination of copyright, trade secret and trademark laws, and nondisclosure, confidentiality agreements and other contractual restrictions to protect our proprietary technology. However, these legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep any competitive advantage. We may not be able to prevent the unauthorized disclosure or misappropriation of its technical knowledge or other trade secrets by employees. If that were to occur, our proprietary technologies and software applications would lose value and our business, results or operations and financial condition could be materially adversely affected. Adverse events could undermine our efforts to protect our intellectual property. Our competitors may be able to develop competing technologies or products that do not infringe any of our intellectual property rights. Even if a competitor infringes our intellectual property rights, we may be unable to bring, or prevail in, a suit to protect our rights. Furthermore, the laws of some foreign countries may not adequately protect our intellectual property rights. As a result of all of these factors, our efforts to protect our intellectual property may not be adequate, and our competitors may independently develop similar competing technologies or products, duplicate our products, or design around our intellectual property rights. This would harm our competitive position, decrease its market share, or otherwise harm our business. WE MAY BE UNABLE TO SECURE LICENSES FOR ANY TECHNOLOGY WHICH MAY BE NECESSARY TO IMPROVE CURRENT OR FUTURE PRODUCTS It is likely that the technology underlying our existing and planned products may be fundamentally improved and that the resulting technology may be owned by third parties. As a result, we may be required to obtain licenses to this new technology to improve our current or future products. The cost of 10

licensing such technology may significantly increase the unit cost of our products. We may be unable to obtain favorable terms for licenses for this new technology or, alternatively, the owners of the technology may refuse to license it to us in order to maintain their own competitive advantage. In either case, our products may not be competitive with the products manufactured by others. Even if we were able to obtain rights to a third party's patented intellectual property, these rights may be non-exclusive, thereby giving our competitors access to the same intellectual property. SOME STUDIES HAVE QUESTIONED THE EFFICACY OF USING MAMMOGRAPHY AS A METHOD TO REDUCE MORTALITY. IF MAMMOGRAPHY PROVES TO BE LESS EFFECTIVE, OUR BUSINESS WOULD BE SERIOUSLY HARMED. IN ADDITION, COMPETING TECHNOLOGIES COULD REPLACE MAMMOGRAPHY AS THE PREFERRED METHOD FOR SCREENING FOR BREAST CANCER. We are aware that the efficacy of screening mammography to reduce mortality has been questioned in several publications. Even if unproven, this could lead to a reduction in the use of mammography as a tool to detect breast cancer in the United States and abroad. If mammography is ultimately proven to be ineffective, or if recommendations for regular mammograms were eliminated or reduced, our business would certainly be seriously harmed. We are also aware of companies that are developing alternatives to traditional breast cancer detection, including refractive light, thermal technologies, breast ultrasound, magnetic resonance imaging and non-imaging tests. 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 imaging devices. If available at all, product liability insurance for the medical device industry generally is expensive. Currently, we have liability insurance coverage which we deem appropriate for our current stage of development. No assurance can be given that this level of coverage will be adequate or that adequate insurance coverage will be available in sufficient amounts or at a reasonable cost in the future, or that a product liability claim would not have a material adverse effect on us. WE MAY NOT BE ABLE TO SUCCESSFULLY IMPLEMENT OUR CURRENT BUSINESS MODEL OR EFFECTIVELY MANAGE OUR GROWTH. We only commenced generating revenue from the sale of MammoReaderTM, our first CAD product, in 2002. Sales of our products may not generate sufficient cash to support our future operations. There can be no assurance that adequate funds for our operations, whether from our revenues, financial markets, collaborative or other arrangements with corporate partners, if any, or from other sources, will be available when needed or on terms attractive to us. The inability to obtain sufficient funds may require us to delay, scale back or eliminate some or all of our development activities, clinical studies and/or regulatory activities or to license third parties to commercialize products or technologies that we would otherwise seek to internally develop. No assurance 11 can be given that any future technologies or products that may be developed by us will be successfully developed, commercialized or accepted by the marketplace or that sufficient revenues will be realized to support our operations or future research and development programs. To address these risks, we must, among other things, establish, maintain and increase our relationships with radiologists and other members of the health care industry, implement and successfully execute our business and marketing strategies, respond to competitive developments, and attract, retain and motivate qualified personnel. There can be no assurance that we will be successful in addressing such risks, and the failure to do so could have a material adverse effect on our business, financial condition and results of operations. 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 abilities and 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. SOME OF OUR COMPETITORS HAVE SIGNIFICANTLY GREATER RESOURCES AND MAY PREVENT US FROM ACHIEVING OR MAINTAINING SIGNIFICANT MARKET SHARE. AS THE MARKET FOR CAD GROWS, COMPETITION FOR MAMMOGRAPHY PRODUCTS WILL LIKELY INCREASE. The medical equipment market is highly competitive and changes rapidly. Competitors in this market are highly sensitive to the introduction of new products and competitors. Other well known

medical imaging equipment manufacturers have explored the possibility of introducing their own versions of CAD products into the market. Because many of these companies have significantly greater resources than we have, they may be able to respond more quickly to the evolving and emerging technologies in the market and they may be better suited to respond the changing needs of their customers. The financial strength of many of these companies may enable them to develop their own proprietary CAD products or acquire our competitors to bring competing products to market more quickly. Additionally, some of these companies benefit from name recognition, established relationships with healthcare professionals, diversified product lines, established distribution channels, and greater product development, manufacturing, and sales and marketing resources. We currently face direct competition from R2 Technology, Inc. and CADx Medical Systems. Each of those competitors has received FDA approval to market their respective CAD systems for use in mammography screening and diagnostics. We also expect that Scanis, Inc. will receive FDA approval to market our CAD 12 product within the next 12 months. We expect that as the market for CAD grows, other competitors may seek to introduce CAD products priced even lower than ours. Customers seeking a low-cost CAD solution may prefer a competitor's lower-priced product to us and may result in pricing cutting by us which will reduce our profit margin. WE HAVE HISTORICALLY RELIED ON ONE DISTRIBUTOR IN THE UNITED STATES FOR THE SALE, SERVICE, INSTALLATION AND DISTRIBUTION OF OUR CAD PRODUCTS, AND THAT DISTRIBUTOR HAS ENTERED INTO AN AGREEMENT TO BE ACQUIRED BY GENERAL ELECTRIC CORPORATION. IF THAT DISTRIBUTOR OR OUR OTHER DISTRIBUTORS FAIL, OR ARE UNABLE, TO ALLOCATE SUFFICIENT RESOURCES TO SELL, SERVICE, INSTALL AND DISTRIBUTE OUR PRODUCTS, OR OTHERWISE ALTER THEIR COMMITMENT AND EFFORTS TO SELL, SERVICE, INSTALL AND DISTRIBUTE OUR PRODUCTS, OUR FINANCIAL CONDITION WILL SUFFER. We have appointed Instrumentarium Imaging, Inc. and other companies as distributors in the United States for the sale, service, installation and distribution of our MammoReader products. If these distributors become subject to financial difficulty or otherwise do not commit the resources necessary to sell, service, and install our products, or otherwise fail to perform to our satisfaction, it could have a material adverse effect on our business, financial condition and results of operations. In addition, if our distribution relationship with Instrumentarium is reduced in scope or terminated in advance of the current August 15, 2004 termination date of our distribution agreement with Instrumentarium, we may be required to reduce the value previously attributed to the distribution agreement which would result in a charge to our earnings in the period the diminished value was determined. FUTURE SALES OF SHARES OF OUR COMMON STOCK COULD AFFECT THE MARKET PRICE OF OUR COMMON STOCK AND 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, and may become freely tradable. We have also registered a substantial number of shares of common stock that are issuable upon the exercise of options. If holders of options choose to exercise their purchase rights and sell shares of common stock in the public market, or if holders of currently restricted shares choose to sell such shares in the public market under Rule 144 or otherwise, the prevailing market price for our common stock may decline. Future public sales of shares of common stock may adversely affect the market price of our common stock or our future ability to raise capital by offering equity securities. USE OF PROCEEDS We will not receive any proceeds from the sale by the selling stockholder named in this prospectus. We have agreed to pay certain expenses in connection with the registration of the shares being offered by the selling stockholder. 13 SELLING STOCKHOLDER Based on information provided by the selling stockholder, the following table sets forth certain information regarding the selling stockholder: The table below assumes for calculating the stockholder's beneficial and percentage ownership that options, warrants or convertible securities that are held by such stockholder (but not held by any other person) and are exercisable within 60 days from the date this prospectus have been exercised and converted. The table also assumes the sale of all of the shares being offered. Common Stock Beneficially Owned After the Offering Number of Shares of Common Stock Percent of Beneficially Owned Shares Number Outstanding Selling Security Holder Prior to the Offering Being Offered of Shares Shares ---------- ---------- ---------- --------- ------ R2 Technology, Inc. 250,954 250,954 0 0 The 250,954 shares of iCAD common stock being offered hereby were issued by the Company to R2 Technology, Inc. in September 2003 as part of a settlement of patent infringement litigation filed by each party against the other. As part of the settlement R2 Technology agreed with the Company not to sell 107,910 of the shares being offered hereby until March 30, 2004 and not to engage in any short sale or similar transaction with respect to the Company's Common Stock until March 30, 2004. Among other things, under the settlement agreement the Company

was granted a non-exclusive license to the patents named in the lawsuit filed by R2 Technology and agreed to pay R2 Technology an aggregate of $1.25 million. The Company also agreed to make certain royalty payments to R2 which are based upon the category and configuration of products sold by the Company and granted R2 a partial credit against any purchases made by R2 Technology over a five year period of digitizers sold by the Company. Investment and voting control over the shares of iCAD common stock beneficially owned by R2 Technology, Inc is held by Mr. Michael S. Klein, R2 Technology's Chairman of the Board, Chief Executive Officer and President. PLAN OF DISTRIBUTION We have been advised that the selling stockholder, which may include pledgees, donees, other permitted transferees or other successors-in-interest who have received shares from a selling stockholder after the date of this prospectus, may from time to time, sell all or a portion of the shares in privately negotiated transactions or otherwise, at fixed prices that may be changed, at market prices prevailing at the time of sale, at prices related to these market prices or at negotiated prices. 14 All costs, expenses and fees in connection with the registration of the shares offered by this prospectus shall be borne by us. Brokerage costs, if any, attributable to the sale of shares will be borne by the selling stockholder. Subject to certain contractual restrictions noted above, the shares may be sold by the selling stockholder by one or more of the following methods: o under a 10b5-1 trading plan; o block trades in which the broker or dealer so engaged will attempt to sell the shares as agent but may position and resell a portion of the shares as principal to facilitate the transaction; o purchases by a broker or dealer as principal and resale by such broker dealer for its account pursuant to this prospectus; o an exchange distribution in accordance with the rules of the applicable exchange; o ordinary brokerage transactions and transactions in which the broker solicits purchasers; o through put and call options relating to the shares; o negotiated transactions; o a combination of any such methods of sale at market prices prevailing at the time of the sale or at negotiated prices; and o any other method permitted pursuant to applicable law. The transactions described above may or may not involve brokers or dealers. A selling stockholder will not be restricted as to the price or prices at which the selling stockholder may sell its shares. Sales of shares by the selling stockholder may depress the market price of our common stock since the number of shares which may be sold by the selling stockholder is relatively large compared to the historical average weekly trading of our common stock. Accordingly, if the selling stockholder were to sell, or attempt to sell, all of such shares at once or during a short time period, we believe such a transaction could adversely affect the market price of our common stock. From time to time a selling stockholder may pledge its shares under margin provisions of customer agreements with its brokers or under loans with third parties. Upon a default by the selling stockholder, the broker or such third party may offer and sell any pledged shares from time to time. 15 In effecting sales, brokers and dealers engaged by a selling stockholder may arrange for other brokers or dealers to participate in the sales as agents or principals. Brokers or dealers may receive commissions or discounts from the selling stockholder or, if the broker-dealer acts as agent for the purchaser of such shares, from the purchaser in amounts to be negotiated, which compensation as to a particular broker dealer might be in excess of customary commissions which are not expected to exceed those customary in the types of transactions involved. Broker-dealers may agree with the selling stockholder to sell a specified number of such shares at a stipulated price per share, and to the extent the broker-dealer is unable to do so acting as agent for a selling stockholders, to purchase as principal any unsold shares at the price required to fulfill the broker-dealer commitment to the selling stockholder. Broker-dealers who acquire shares as principal may then resell those shares from time to time in transactions o in the over-the counter market or otherwise; o at prices and on terms prevailing at the time of sale; o at prices related to the then-current market price; or o in negotiated transactions. These resales may involve block transactions or sales to and through other broker-dealers, including any of the transactions described above. In connection with these sales, these broker-dealers may pay to or receive from the purchasers of those shares commissions as described above. The selling stockholder may also sell the shares in open market transactions under Rule 144 under the Securities Act, rather than under this prospectus. The selling stockholder and any broker-dealers or agents that participate with the selling stockholder in sales of the shares may be deemed to be "underwriters" within the meaning of the Securities Act in connection with these sales. In this event, any commissions received by these broker-dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act. The selling stockholder may agree to indemnify any agent, dealer or broker-dealer that participates in transactions involving sales of the shares against certain liabilities, including liabilities arising under the Securities Act. The selling stockholder is subject to applicable provisions of the Securities Exchange Act of 1934 and the SEC's rules and regulations, including Regulation M, which provisions may limit the timing of purchases and sales of the shares by the selling stockholder. In order to comply with certain states'

securities laws, if applicable, the shares may be sold in those jurisdictions only through registered or licensed brokers or dealers. In certain states the shares may not be sold unless the shares have been registered or qualified for sale in such state, or unless an exemption from registration or qualification is available and is obtained. 16 LEGAL MATTERS Blank Rome LLP of New York, New York will pass upon the validity of the shares of common stock being offered by this prospectus. Blank Rome LLP is the beneficial owner of 123,350 shares of iCAD's common stock. EXPERTS The financial statements and schedule of iCAD incorporated in this prospectus by reference to iCAD's Annual Report on Form 10-K for the year ended December 31, 2002 have been audited by BDO Seidman, LLP, independent certified public accountants. The financial statements and schedule referred to above have been so incorporated by reference herein in reliance upon the reports of such firm given upon its authority as experts in accounting and auditing. WHERE YOU CAN FIND MORE INFORMATION We are subject to the informational requirements of the Securities Exchange Act of 1934 and we file reports and other information with the SEC. You may read and copy any of the reports, statements, or other information we file with the SEC at the SEC's Public Reference Section at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains a Web site at http://www.sec.gov that contains reports, proxy statements and other information regarding issuers that file electronically with the SEC. The Nasdaq Stock Market maintains a Web site at http://www.nasdaq.com that contains reports, proxy statements and other information filed by us. INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE We have filed with the SEC, Washington, D.C., a registration statement on Form S-3 under the Securities Act of 1933, covering the securities offered by this prospectus. This prospectus does not contain all of the information that you can find in our registration statement and the exhibits to the registration statement. Statements contained in this prospectus as to the contents of any contract or other document referred to are not necessarily complete and in each instance such statement is qualified by reference to each such contract or document filed or incorporated by reference as an exhibit to the registration statement. The SEC allows us to "incorporate by reference" the information we file with them. This means that we can disclose important information to you by referring you to other documents that are legally considered to be part of this prospectus, and later information that we file with the SEC will automatically update and supersede the information in this prospectus and the documents listed below. We incorporate by reference the documents listed below, and any future filings made with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 until the selling stockholders sell all the shares. 1. Our Annual Report on Form 10-K for the fiscal year ended December 31, 2002; 17 2. Our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2003 and June 30, 2003; 3. Our Current Report on Form 8-K for the event dated September 8, 2003; 4. The description of our common stock contained in our registration statements on Form 8-A filed with the SEC and any amendments thereto; 5. Our Definitive Proxy Statement on Schedule 14A filed with the SEC on August 20, 2003, except the Compensation Committee Report on Executive Compensation and the performance graph included in the Proxy Statement; 6. All documents filed by us pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 subsequent to the date of this prospectus and prior to the termination of this offering, except the Compensation Committee Report on Executive Compensation and the performance graph included in any Proxy Statement filed by us pursuant to Section 14 of the Exchange Act; and 7. All documents filed by us pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 subsequent to the date of the initial filing of this registration statement and prior to the effectiveness of this registration statement, except the Compensation Committee Report on Executive Compensation and the performance graph included in any Proxy Statement filed by us pursuant to Section 14 of the Exchange Act. You may request and we will provide a copy of these filings to you at no cost, other than the exhibits, by writing or telephoning us at iCAD, Inc., 4 Townsend West, Suite 17, Nashua, New Hampshire 03063, telephone number (603) 882-5200. We have not authorized anyone else to provide you with information different from that contained or incorporated by reference in this prospectus. This prospectus is not an offer to sell nor is it a solicitation of an offer to buy any security in any jurisdiction where the offer or sale is not permitted. Neither the delivery of this prospectus nor any sale made under this prospectus shall, under any circumstances, imply that there has been no change in our affairs since the date of this prospectus or that the information contained in this prospectus or incorporated by reference herein is correct as of any time subsequent to its date. 18 PART II INFORMATION NOT REQUIRED IN PROSPECTUS ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION. The expenses payable by the Registrant in connection with the issuance and distribution of the securities being registered (estimated except for the SEC Registration fee)are as follows: SEC

Registration Fee $ 55.32 Accounting Fees and Expenses $10,000.00 Legal Fees and Expenses $10,000.00 Miscellaneous Expenses $ 4,944.68 Total $25,000.00 ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS. Section 145 of the General Corporation Law of the State of Delaware ("GCL") provides for the indemnification of officers and directors under certain circumstances against expenses incurred in successfully defending against a claim and authorizes Delaware corporations to indemnify their officers and directors under certain circumstances against expenses and liabilities incurred in legal proceedings involving such persons because of their being or having been an officer or director. Section 102(b) of the GCL permits a corporation, by so providing in its certificate of incorporation, to eliminate or limit director's liability to the corporation and its shareholders for monetary damages arising out of certain alleged breaches of their fiduciary duty. Section 102(b)(7) of the GCL provides that no such limitation of liability may affect a director's liability with respect to any of the following: (i) breaches of the director's duty of loyalty to the corporation or its shareholders; (ii) acts or omissions not made in good faith or which involve intentional misconduct of knowing violations of law; (iii) liability for dividends paid or stock repurchased or redeemed in violation of the GCL; or (iv) any transaction from which the director derived an improper personal benefit. Section 102(b)(7) does not authorize any limitation on the ability of the corporation or its shareholders to obtain injunctive relief, specific performance or other equitable relief against directors. Article Tenth of the registrant's Certificate of Incorporation and the registrant's By-laws provide for indemnification to the fullest extent permitted or authorized by the GCL or judicial or administrative decisions of each person who was or is a party or threatened to be made a party, or was, or is a witness, to any threatened pending or completed action, suit, or proceeding against any liability or cost or expense asserted against him or incurred by him by reason of the fact that he is or was shall a director, officer or employee of the II-1 registrant or is or was an agent of the registrant to whom the registrant has agreed to grant such indemnity or is serving or was serving, at the registrant's request, as an officer , director or employee of another entity or is serving as an agent of another entity to whom the Corporation has agreed to grant indemnity. The foregoing right of indemnification shall not be deemed to be exclusive of any other rights to which those seeking indemnification may be entitled under any by-law, agreement, vote of shareholders or disinterested directors, or otherwise. Article Ninth of the registrant's Certificate of Incorporation provides that no director of the registrant shall be personally liable to the registrant or its stockholders for any monetary damages for breaches of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the registrant 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 GCL; or (iv) for any transaction from which the director derived an improper personal benefit. Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. ITEM 16. EXHIBITS. 5 Opinion of Blank Rome LLP 23.1 Consent of BDO Seidman, LLP 23.2 Consent of Blank Rome LLP (included in Exhibit 5) 24 Power of Attorney (included on the signature page of the Registration Statement) --------- ITEM 17. UNDERTAKINGS Undertaking Required by Regulation S-K, Item 512(a). The undersigned registrant hereby undertakes: (1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement: i. To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933, as amended (the "Securities Act"); ii. To reflect in the prospectus any facts or events arising after the effective date of the Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the Registration Statement; II-2 iii. To include any material information with respect to the plan of distribution not previously disclosed in the Registration Statement or any material change to such information in the Registration Statement; provided, however, that clauses (i) and (ii) do not apply if the Registration Statement is on Form S-3, Form S-8 or Form F-3, and the information required to be included in a post-effective amendment by such clauses is contained in periodic reports filed with or furnished to the Commission by the Registrant pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the Registration Statement; (2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. (3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering. Undertaking

Required by Regulation S-K, Item 512(b). The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be initial bona fide offering thereof. Undertaking required by Regulation S-K, Item 512(h). Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or controlling persons pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue. II-3 SIGNATURES Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Nashua, State of New Hampshire, on the 14th day of October 2003. ICAD, INC. By: /s/ W. Scott Parr ---------- W. Scott Parr Chief Executive Officer and President Each person whose signature appears below authorizes each of W. Scott Parr and Annette Heroux, or either of them acting individually, as his true and lawful attorney-in-fact, each with full power of substitution, to sign the Registration Statement on Form S-3 of iCAD, Inc., including any and all pre-effective and post-effective amendments, in the name and on behalf of each such person, individually and in each capacity stated below, and to file the same, with exhibits thereto and other documents in connection therewith with the Securities and Exchange Commission. In accordance with the requirements of the Securities Act of 1933, this Registration Statement was signed by the following person in the capacities and on the dates stated. Signature Title Date --------- ----- ---- /s/ Robert Howard Chairman of the Board and Director October 14, 2003 ---------- Robert Howard /s/ W. Scott Parr Chief Executive Officer, President and October 14, 2003 ---------- W. Scott Parr Director (Principal Executive Officer) /s/ Annette Heroux Vice President Finance, Chief Financial October 14, 2003 ---------- Annette Heroux Officer (Principal Financial and Accounting Officer) /s/ James Harlan Director October 14, 2003 ---------- James Harlan /s/ Maha Sallam Director October 14, 2003 ---------- Maha Sallam /s/ Brett Smith Director October 14, 2003 ---------- Brett Smith II-4 /s/ Elliot Sussman Director October 14, 2003 ---------- Elliot Sussman /s/ Kevin Woods Director October 14, 2003 ---------- Kevin Woods II-5