UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2018

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: 001-35947

Digirad Corporation

(Exact Name of Registrant as Specified in its Charter)

Delaware	**33-0145723**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
1048 Industrial Court, Suwanee, GA	**30024**
(Address of Principal Executive Offices)	(Zip Code)

(858) 726-1600

(Registrant's Telephone Number, Including Area Code)

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

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, par value $0.0001 per share	**NASDAQ Global Market**

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 ☐ No ☒

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 ☐ No ☒

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 requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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. ☐

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

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer	x	Smaller reporting company	x
		Emerging growth company	o

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

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

The aggregate market value of the voting common stock held by non-affiliates based on the closing stock price on June 30, 2018, was $29.7 million. For purposes of this computation only, all executive officers and directors have been deemed affiliates.

The number of outstanding shares of the registrant's common stock, par value $0.0001 per share, as of February 22 , 2019 was 20,271,057.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after registrant's fiscal year ended December 31, 2018 are incorporated by reference into Part III of this report.

DIGIRAD CORPORATION

FORM 10-K—ANNUAL REPORT
For the Fiscal Year Ended December 31, 2018

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PART I

Cautionary Statement Regarding Forward-Looking Statements

Portions of this Annual Report on Form 10-K (including information incorporated by reference) include "forward-looking statements" based on our current beliefs, expectations, and projections regarding our business strategies, market potential, future financial performance, industry, and other matters. This includes, in particular, "Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Annual Report on Form 10-K, as well as other portions of this Annual Report on Form 10-K. The words "believe," "expect," "anticipate," "project," "could," "would," and similar expressions, among others, generally identify "forward-looking statements," which speak only as of the date the statements were made. The matters discussed in these forward-looking statements are subject to risks, uncertainties, and other factors that could cause our actual results to differ materially from those projected, anticipated, or implied in the forward-looking statements. The most significant of these risks, uncertainties, and other factors are described in "Item 1A — Risk Factors" of this Annual Report on Form 10-K. Except to the limited extent required by applicable law, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Corporate Information

Digirad Corporation was incorporated in Delaware in 1997. Unless the context requires otherwise, in this report the terms "we," "us," and, "our" refer to Digirad Corporation and our wholly-owned subsidiaries.

ITEM 1. BUSINESS

Overview

Digirad delivers convenient, effective, and efficient healthcare solutions on an as needed, when needed, and where needed basis. Our diverse portfolio of mobile healthcare solutions and diagnostic imaging equipment and services provides hospitals, physician practices, and imaging centers throughout the United States access to technology and services necessary to provide patient care in the rapidly changing healthcare environment.

We have grown both organically and through acquisitions over the last three years. Prior to the year ended December 31, 2016, we were organized as two reportable segments: Diagnostic Services and Diagnostic Imaging. With the acquisition of DMS Health on January 1, 2016, we added two additional reportable segments: Mobile Healthcare and Medical Device Sales and Services ("MDSS"). In February of 2018, we completed the sale of our customer contracts relating to our MDSS post-warranty service business to Philips North America LLC ("Philips"). On October 31, 2018, we sold our Telerhythmics business to G Medical Innovations USA, Inc., for $1.95 million in cash. As of December 31, 2018, our business was organized into three reportable segments: Diagnostic Services, Mobile Healthcare, and Diagnostic Imaging.

On September 10, 2018, we announced that our board of directors approved the conversion of Digirad into a diversified holding company, and the potential acquisition of ATRM Holdings, Inc., ("ATRM") as an initial "kick-off" transaction (the "ATRM Acquisition"). ATRM is a modular building company consisting of two divisions, KBS Builders and EdgeBuilder. The KBS division manufactures and distributes modular housing units. EdgeBuilder manufactures engineered wood products used in modular construction, as well as distributes building materials through its Glenbrook unit. Both divisions serve the residential and commercial segments of the market.

Our aim is to continue to grow our business into an integrated healthcare services company while simultaneously converting into a diversified holding company through the acquisition of businesses that meet our internally developed financially disciplined approach for acquisitions.

Our Competitive Strengths

We believe that our competitive strengths are our streamlined and cost-efficient approach to providing healthcare solutions to our customers at the point of need as well as providing an array of industry-leading, technologically-relevant healthcare imaging and monitoring services:

Imaging Services and Products

- *Broad Portfolio of Imaging Services.* Approximately 88% of our revenues are derived from diagnostic imaging services to our customers. We have developed and continue to refine an industry-leading, customer-service focused approach to our customers. We have found our focus in this area is a key factor in acquiring and keeping our service-based customers.
- *Unique Dual Sales and Service Offering.* For the majority of our businesses, we offer a service-based model to our customers, allowing them to avoid making costly capital and logistical investments required to offer these services internally. Further, for a portion of our business, we have the ability to sell the underlying capital equipment directly to our customers should their needs change and they desire to provide services on their own with the underlying capital

equipment. This ability to serve our customers in a variety of capacities from selling equipment directly, or providing more flexibility through a service-based model, allows us to serve our customers according to their exact needs, as well as the ability to capture both ends of the revenue spectrum.

- *Utilization of Highly Trained Staff.* We recruit and maintain highly trained staff for our clinical and repair services, which in turn allows us to provide superior and more efficient services.
- *Leading Solid-State Technology.* Our solid-state gamma cameras utilize proprietary photo detector modules that enable us to build smaller and lighter cameras that are portable with a degree of ruggedness that can withstand the vibration associated with transportation. Our dedicated cardiac imagers require a floor space of as little as seven feet by eight feet, can generally can be installed without facility renovations, and use standard power. Our portable cameras are ideal for mobile operators or practices desiring to service multiple office locations or imaging facilities.

Strategy

We seek to grow our business by, among other things:

- ***Organic growth from our core businesses.*** We believe that we operate in markets and geographies that will allow us to continue to grow our core businesses, allowing us to benefit from our scale and strengths. We plan to focus our efforts on markets in which we already have a presence in order to take advantage of personnel, infrastructure, and brand recognition we have in these areas.
- ***Introduction of new services.*** We plan to continue to focus on healthcare solutions related businesses that deliver necessary assets, services and logistics directly to the customer site. We believe that over time we can either purchase or develop new and complementary businesses and take advantage of our customer loyalty and distribution channels.
- ***Acquisition of complementary businesses.*** We plan to continue to look at complementary businesses that meet our internally developed financially disciplined approach for acquisitions to grow our company. We believe there are many potential targets in the range of $3 million to $10 million in annual revenues that can be acquired over time and integrated into our businesses. We will also look at larger, more transformational acquisitions if we believe the appropriate mix of value, risk and return is present for our shareholders. The timing of these potential acquisitions will always depend on market conditions, available capital, and the value for each transaction. In general, we want to be “value” buyers, and will not pursue any transaction unless we believe the post-transaction potential value is high for shareholders.

We continue to explore strategic alternatives to improve the market position and profitability of our product offerings in the marketplace, generate additional liquidity, and enhance our valuation. We may pursue our goals during the next twelve months through organic growth and through strategic alternatives. Some of these alternatives have included, and could continue to include, selective acquisitions of business segments or entire businesses, divestitures of assets or divisions, or a restructuring of our company.

History of our Business

In January 2016 we acquired Project Rendezvous Holding Corporation (“PRHC”), the ultimate parent company of DMS Health Technologies, Inc. (collectively referred to hereinafter as “DMS Health Technologies” or “DMS Health”). DMS Health is a provider of mobile diagnostic imaging services and provides medical product sales and service. DMS Health is a provider of mobile diagnostic imaging services and provides medical product sales and service. The acquisition resulted in two new reportable segments: Mobile Healthcare and Medical Device Sales and Services.

Business Segments

As of December 31, 2018, our business is organized into three reportable segments: Diagnostic Services, Mobile Healthcare, and Diagnostic Imaging. See Note 14. *Segments*, within the notes to our accompanying consolidated financial statements for financial data relating to our segments. For discussion purposes, we categorized our Diagnostic Services and Mobile Healthcare reportable segments as “Services,” and our Diagnostic Imaging reportable segment as “Product and Product-Related.” For the last two fiscal years, Services and Product and Product-Related activities had the following relative contribution to consolidated revenues:

	Year ended December 31,	
	2018	2017
Revenues:		
Services	88.5%	88.5%
Product and product-related	11.5%	11.5%
Total revenues	100.0%	100.0%

Prior to the year ended December 31, 2018, we were organized as four reportable segments: Diagnostic Services, Diagnostic Imaging, Mobile Healthcare, and Medical Device Sales and Service. On February 1, 2018, we sold our Medical Device Sales and Service business.

Diagnostic Services

Through Diagnostic Services, we offer a convenient and economically efficient imaging and monitoring services program as an alternative to purchasing equipment or outsourcing the procedures to another physician or imaging center. For physicians who wish to perform nuclear imaging, echocardiography, vascular or general ultrasound tests, we provide imaging systems, qualified personnel, radiopharmaceuticals, licensing services, and the logistics required to perform imaging in their own offices, and thereby the ability to bill Medicare, Medicaid, or one of the third-party healthcare insurers directly for those services, which are primarily cardiac in nature. We provide imaging services primarily to cardiologists, internal medicine physicians, and family practice doctors who typically enter annual contracts for a set number of days ranging from once per month to five times per week. Many of our physician customers are reliant on reimbursements from Medicare, Medicaid, and third-party insurers. Although reimbursement for procedures provided by our services have been stable during the last several years, any future changes to underlying reimbursements may require modifications to our current business model in order for us to maintain a viable economic model.

Our portable nuclear and ultrasound imaging operations utilize a “hub and spoke” model in which centrally located regional hubs anchor multiple van routes in the surrounding metropolitan areas. At these hubs, clinical personnel load the equipment, radiopharmaceuticals, and other supplies onto specially equipped vans for transport to customer locations, where they set up the equipment for the day. After quality assurance testing, a technologist under the physician’s supervision will gather patient information, inject the patient with a radiopharmaceutical, and then acquire images for interpretation by the physician. At the conclusion of the day of service, all equipment and supplies are removed from the customer location and transported back to the central hub location. Our model relies on density and customer concentration to allow for efficiencies and maximum profitability, and therefore we are only located in geographies where there is a high concentration of people, cardiac disease and associated likely customer locations.

For our nuclear imaging services, we have obtained Intersocietal Accreditation Commission (“IAC”) and Intersocietal Commission for Echocardiography Laboratories (“ICAEL”) accreditation for our services. Our licensing infrastructure provides radioactive materials licensing, radiation safety officer services, radiation safety training, monitoring and compliance policies and procedures, and quality assurance functions, to ensure adherence to applicable state and federal nuclear regulations.

Mobile Healthcare

Through Mobile Healthcare, we provide contract diagnostic imaging, including computerized tomography (“CT”), magnetic resonance imaging (“MRI”), positron emission tomography (“PET”), PET/CT, and nuclear medicine and healthcare expertise to hospitals, integrated delivery networks (“IDNs”), and federal institutions on a long-term contract basis, as well as provisional (short-term) services to institutions that are in transition. These services are provided primarily when there is a cost, ease, and efficiency component of providing the services directly rather than owning and operating the related services and equipment directly by our customers.

Our Mobile Healthcare operations operate throughout the United States, with a heavier concentration in rural areas, particularly in the Upper Midwest region of the United States. We have a range of customer types, but our most typical customer is a small or regional hospital that does not have enough volume of activity to justify owning a piece of imaging equipment on a full-time basis. Our services typically offer the diagnostic imaging equipment, placed in a large patient friendly coach or tractor-trailer, coupled with either an owned or operator-owned tractor, that is then transported to each customer location. Our mobile routes are designed to provide for maximum utilization and efficiency by allowing our units to travel to the next customer location during non-working hours of a typical imaging clinic, meeting our technical staff at each location. Our customers commit to annual contracts ranging from service once every two weeks to up to two days of service per week, depending on modality type and their local demand for services.

Diagnostic Imaging

Through Diagnostic Imaging, we sell our internally developed solid-state gamma cameras, imaging systems and camera maintenance contracts. Our imaging systems include nuclear cardiac imaging systems, as well as general purpose nuclear imaging systems. We sell our imaging systems to physician offices and hospitals primarily in the United States, although we have sold a small number of imaging systems internationally. Our imaging systems are sold in both portable and fixed configurations, provide enhanced operability and improved patient comfort, fit easily into floor spaces as small as seven feet by eight feet, and facilitate the delivery of nuclear medicine procedures in a physician's office, an outpatient hospital setting, or within multiple departments of a hospital (e.g., emergency and operating rooms). Our Diagnostic Imaging segment revenues derive primarily from selling solid-state gamma cameras and post-warranty camera maintenance contracts.

The central component of a nuclear camera is the detector, which ultimately determines the overall clinical quality of images a camera produces. Our nuclear cameras feature detectors with advanced proprietary solid-state technology developed by us. Solid-state systems have a number of benefits over conventional photomultiplier tube-based camera designs typically offered by our competitors. Our solid-state technology systems are typically 2 to 5 times lighter and considerably more compact than most traditional nuclear systems, making them far easier and less costly to build, very reliable, and able to be utilized for mobile applications. We are a market leader in the mobile solid-state nuclear camera segment.

We believe our current imaging systems, with their state-of-the-art technology and robust underlying patents, will continue to be relevant for the foreseeable future. We will continue to enhance and adjust our existing systems for the changing nuclear imaging market, including software updates and smaller enhancements. However, to accomplish any significant changes and enhancements, we will utilize what we believe is a deep available pool of contract engineers on a flexible, as needed basis and do not maintain a staff research and development department, thereby eliminating the fixed costs of a fully staffed research and development department.

Market Opportunity

Diagnostic imaging depictions of the internal anatomy or physiology are generated primarily through non-invasive means. Diagnostic imaging facilitates the early diagnosis of diseases and disorders, often minimizing the scope, cost, and amount of care required and reducing the need for more invasive procedures. Currently, the major types of non-invasive diagnostic imaging technologies available are: x-ray, MRI, CT, ultrasound, PET, and nuclear imaging. The most widely used imaging acquisition technology utilizing gamma cameras is single photon emission computed tomography, or SPECT. All our current internally-developed cardiac gamma cameras employ SPECT technology.

Diagnostic imaging is the standard of care in diagnosis of diseases and disorders. We offer, through our businesses, the majority of these diagnostic imaging modalities. All of the diagnostic imaging modalities that we offer (both from provision of services and product sales) have been consistently utilized in clinical applications for many years, and are stable in their use and need. By offering a wide array of these modalities, we believe that we have strategically diversified our operations in possible changing trends of utilization of one diagnostic imaging modality from another.

Competition

The market for diagnostic products and services is highly competitive. Our business, which is focused primarily on the private practice and hospital sectors, continues to face challenges of demand for diagnostic services and imaging equipment, which we believe is due in part to the impact of the Deficit Reduction Act on the reimbursement environment and the 2010 Healthcare Reform laws, as well as general uncertainty in overall healthcare and legislative changes in healthcare, such as the Affordable Care Act. These challenges have impacted, and will likely continue to impact, our operations. We believe that the principal competitive factors in our market include acceptance by hospitals and physicians, relationships that we develop with our customers, budget availability for our capital equipment, requirements for reimbursement, pricing, ease-of-use, reliability, and mobility.

Diagnostic Services. In providing diagnostic services, we compete against many smaller local and regional nuclear and/or ultrasound providers, often owner-operators that may have lower operating costs. The fixed-installation operators often utilize older, used equipment, and the mobile operators may use older Digirad single-head cameras or newer dual-head cameras. We are the only mobile provider with our own exclusive source of triple-head mobile systems. Some competing operators place new or used cameras into physician offices and then provide the staffing, supplies, and other support as an alternative to a Diagnostic Services service contract. In addition, we compete against imaging centers that install fixed nuclear gamma cameras and make them available to referring physicians in their geographic vicinity. In these cases, the physician sends their patients to the imaging center.

Diagnostic Imaging. In selling our imaging systems, we compete against several large medical device manufacturers who offer a full line of imaging cameras for each diagnostic imaging technology, including x-ray, MRI, CT, ultrasound, nuclear medicine, or SPECT/CT and PET/CT hybrid imagers. The existing nuclear imaging systems sold by these competitors have been in use for a longer period of time than internally developed nuclear gamma cameras, and are more widely recognized and used by physicians

and hospitals for nuclear imaging; however, they are generally not solid-state, lightweight, as flexible, or portable. Additionally, certain medical device companies have developed a version of solid-state gamma cameras that may directly compete with our product offerings. Many of the larger multi-modality competitors enjoy significant competitive advantages over us, including greater brand recognition, greater financial and technical resources, established relationships with healthcare professionals, broader distribution networks, more resources for product development and marketing and sales, and the ability to bundle products to offer discounts.

Mobile Healthcare. The market for selling, servicing, and operating diagnostic imaging services, patient monitoring equipment, and imaging systems is highly competitive. In providing our Mobile Healthcare services, we compete against a few large national and regional providers. In addition to direct competition from other providers of services similar to those offered by us, we compete with freestanding imaging centers and healthcare providers that have their own diagnostic imaging systems, as well as with equipment manufacturers that sell imaging equipment directly to healthcare providers for permanent installation. Some of the direct competitors, which provide contract MRI and PET/CT services, have access to greater financial resources than we do. In addition, some of our customers are capable of providing the same services we provide to their patients directly, subject only to their decision to acquire a high-cost diagnostic imaging system, assume the financial and technology risk, and employ the necessary technologists, rather than obtain equipment and services from us. We may also experience greater competition in states that currently have certificate of need laws if such laws were repealed, thereby reducing barriers to entry and competition in those states. We also compete against other similar providers in quality of services, quality of imaging systems, relationships with healthcare providers, knowledge and service quality of technologists, price, availability, and reliability.

Intellectual Property

We rely on a combination of patent, trademark, copyright, trade secret, and other intellectual property laws, nondisclosure agreements, and other measures to protect our intellectual property. We require our employees, consultants, and advisors to execute confidentiality agreements and to agree to disclose and assign to us all inventions conceived during the workday, using our property, or which relate to our business. Despite any measures taken to protect our intellectual property, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. As discussed herein, our intellectual property is currently subject to a security interest to Comerica.

Patents

We have developed a patent portfolio that covers our products, components, and processes. We have 15 non-expired U.S. patents. The patents cover, among other things, aspects of solid-state radiation detectors that make it possible for Digirad to provide mobile imaging services, and our scan technology that provides for lower patient doses and more specific cardiac images. Our patents expire between 2020 and 2030. We have entered into royalty-bearing licenses for several U.S. patents with third parties, where we are the licensee, for exclusive or non-exclusive use in nuclear imaging (subject to certain reservation of rights by the U.S. Government), such license agreements include but are not limited to licenses between Digirad corporation and Cedars-Sinai Health System. While each of our patents applies to nuclear medicine, many also apply to the construction of area detectors for other types of medical and non-medical imagers and imaging methods.

Trademarks and Copyrights

Our registered trademark portfolio consists of registrations in the United States for Digirad® and CARDIUS®. Digirad has produced proprietary software for Digirad Imaging systems including: nSPEED™ 3D-OSEM Reconstruction, SEEQUANTA™ acquisition, and STASYS™ motion correction software. We also license certain software products, and their related copyrights, on a nonexclusive basis from Cedars-Sinai Health System. The license includes updates to the software. The license may be terminated at any time by either party upon notice if the other party materially breaches the agreement. Non-payment to licensor is considered a material breach. The license may also be automatically terminated by licensor if (i) an “event of default” occurs under indebtedness for borrowed money of licensee; (ii) licensee ceases business operations; (iii) licensee dissolves or (iv) licensee commences bankruptcy proceedings. On May 23, 2018, the parties entered into an amendment to the license agreement to, among other things, extend the term of license through July 1, 2023.

Raw Materials

Diagnostic Imaging. We and our contract manufacturers use a wide variety of materials, metals, and mechanical and electrical components for production of our nuclear imaging gamma cameras. These materials are primarily purchased from external suppliers, some of which are single-source suppliers. Materials are purchased from selected suppliers based on quality assurance, cost effectiveness, and constraints resulting from regulatory requirements, and we work closely with our suppliers to assure continuity of supply while maintaining high quality and reliability. Global commodity supply and demand can ultimately affect pricing of certain of these raw materials. Though we believe we have adequate available sources of raw materials, there can be no guarantee that we will be able to access the quantity of raw material needed to sustain operations, as well as at a cost-effective price.

Diagnostic Services and Mobile Healthcare. Our Diagnostic Services and Mobile Healthcare operations utilize radiopharmaceuticals for our nuclear services. The underlying raw material for creation of the array of doses utilized in nuclear medicine is produced from a total of five main production facilities throughout the world, typically from highly enriched uranium resources. These resources have been and are expected to continue to produce enough raw materials to address the global market, but there continues to be pressure to utilize low or non-enriched uranium resources to produce the underlying nuclear doses.

Manufacturing

Diagnostic Imaging. We manufacture our nuclear imaging gamma cameras by employing a strategy that combines using internal manufacturing resources for devices requiring specific expertise due to our proprietary design coupled with qualified contract manufacturers. Mechanical and electronic components of our systems are produced by contract manufacturers, whereas the most complex components, final assembly and final system performance tests are performed at our facility. All of our suppliers of critical materials, components, and subassemblies undergo supplier qualifications and ongoing quality audits in accordance with our supplier quality process.

We and our contract manufacturers are subject to FDA Quality System Regulations, state regulations, and standards set by the International Organization for Standardization, or ISO. We are currently certified to the EN ISO 13485:2012 quality standard. We have received U.S. Food and Drug Administration ("FDA") 510(k) clearance for our complete nuclear imaging camera product line (Cardius® XPO, Cardius® X-ACT, and Ergo™ gamma cameras). In addition, the X-ACT camera utilizes an x-ray technology to provide attenuation correction information for the SPECT reconstruction. We also have received additional FDA clearance of our Ergo™ large-field-of-view General Purpose Imager for use in intraoperative and molecular breast imaging.

Reimbursement

All of our customers typically rely primarily on the Medicare and Medicaid programs and private payors for reimbursement. As a result, demand for our products and services are dependent in part on the coverage and reimbursement policies of these payors. Third party coverage and reimbursement is subject to extensive federal, state, local, and foreign regulation, and private payor rules and policies. In many instances, the applicable regulations, policies, and rules have not been definitively interpreted by regulatory authorities or the courts, are open to a variety of interpretations, and are subject to change without notice.

The scope of coverage and payment policies vary among third-party private payors. For example, some payors will not reimburse a provider unless the provider has a contract with the payor, and in many instances such payors will not enter into such contracts without the approval of a third party "radiology benefit manager" that the payor compensates based on reducing the payor's imaging expense. Other payors prohibit reimbursement unless physicians own or lease our cameras on a full-time basis, or meet certain accreditation or privileging standards. Such payor requirements and limitations can significantly restrict the types of business models we can successfully utilize.

Medicare reimbursement rules are subject to annual changes that may affect payment for services that our customers provide. In addition, Congress has passed healthcare reform proposals that are intended to expand the availability of healthcare coverage and reduce the growth in healthcare spending in the U.S. Many of these laws affect the services that our customers provide, and could change further over time.

Medicare reimbursement rules impose many standards and policies on the payment of services that our customers provide. For instance, physicians billing for the technical component of nuclear imaging tests must be accredited by a government-approved independent accreditation body and many private payors are adopting similar requirements. We offer our customers a service to assist them in obtaining and maintaining the required accreditation. We believe we have structured our contracts in a manner that allows our customers to seek reimbursement from third-party payors in compliance with Medicare reimbursement rules. Our physician customers typically bill for both the technical and professional components of the tests. Assuming they meet certain requirements including, but not limited to, performing and documenting bona fide interpretations and providing the requisite supervision of the non-physician personnel performing the tests, they may bill and be paid by Medicare. If the failure to comply is deemed to be "knowing" or "willful," the government could seek to impose fines or penalties, and we may be required to restructure our agreements and/or respond to any resultant claims by such customers or the government. Our hospital customers typically seek reimbursement by Medicare for outpatient services under the Medicare Hospital Outpatient Prospective Payment System.

Sales

We maintain separate sales organizations that are aligned with each of our business units, which operate independently but in cooperation with each other. Mobile Healthcare sales efforts are throughout the United States and Canada, though there typically is more effort expended in rural and smaller hospital areas, as these are the primary customers that we sell our services to and provide the most value. Diagnostic Services concentrates its efforts on twelve regional areas where the majority of our business is concentrated based on concentrations of people and cardiac disease. Diagnostic Imaging sales efforts are conducted throughout the United States and certain foreign countries, and are not concentrated to any particular region or area within the United States

as the customer profile for this business can be at any hospital or physician practice. Diagnostic Services and Diagnostic Imaging, though separate sales teams, work collaboratively to help fulfill customer needs in either small practice mobile nuclear cardiac imaging services, or the potential to provide capital equipment sales should the customer decide to own the equipment in house.

Government Regulation

We and our medical professional customers and must comply with an array of federal and state laws and regulations. Violations of such laws and regulations can be punishable by criminal, civil, and/or administrative sanctions, including, in some instances, exclusion from participation in healthcare programs such as Medicare and Medicaid. Accordingly, we maintain a vigorous compliance program and a hotline that permits our personnel to report violations anonymously if they wish.

The following is a summary of some of the laws and regulations applicable to our business:

- *Anti-Kickback Laws.* The Medicare/Medicaid Patient Protection Act of 1987, as amended, which is commonly referred to as the Anti-Kickback Statute, prohibits us from knowingly and willingly offering, paying, soliciting, or receiving any form of remuneration in return for the referral of items or services, or to purchase, lease, order, or arrange for or recommend purchasing, leasing, or ordering any good, facility, service, or item, for which payment may be made under a federal healthcare program. Violation of the federal anti-kickback law is a felony, punishable by criminal fines and imprisonment, or both, and can result in civil penalties and exclusion from participation in healthcare programs such as Medicare and Medicaid. Many states have adopted similar statutes prohibiting payments intended to induce referrals of products or services paid by Medicaid or other nongovernmental third-party payors.
- *Physician Self-Referral Laws.* Federal regulations commonly referred to as the "Stark Law" prohibit physician referrals of Medicare or Medicaid patients to an entity for certain designated health services if the physician or an immediate family member has an indirect or direct financial relationship with the entity, unless a statutory exception applies. We believe that referrals made by our physician customers are eligible to qualify for the "in-office ancillary services" exception to the Stark Law, provided that the services are provided or supervised by the physician or a member of his or her "Group Practice," as that term is defined under the law, the services are performed in the same building in which the physician regularly practices medicine, and the services are billed by or for the supervising physician or Group Practice. Violations of the Stark Law may lead to the imposition of penalties and fines, the exclusion from participation in federal healthcare programs, and liability under the federal False Claims Act and its whistleblower provisions. Many states have adopted similar statutes prohibiting self-referral arrangements that cover all patients and not just Medicare and Medicaid patients.
- *HIPAA.* The Health Insurance Portability and Accountability Act of 1996, or HIPAA, prohibits schemes to defraud healthcare benefit programs and fraudulent conduct in connection with the delivery of, or payment for, healthcare benefits, items, or services. HIPAA also establishes standards governing electronic healthcare transactions and protecting the security and privacy of individually identifiable health information. Some states have also enacted privacy and security statutes or regulations that, in some cases, are more stringent than those issued under HIPAA.

  The American Recovery and Reinvestment Act of 2009, enacted February 17, 2009, made significant changes to HIPAA privacy and security regulations. Effective February 17, 2010, we are regulated directly under all of the HIPAA rules protecting the security of electronic individually identifiable health information and many of the rules governing the privacy of such information.
- *Medical Device Regulation.* The FDA classifies medical devices, such as our cameras, into one of three classes, depending on the degree of risk associated with the device and the extent of control needed to ensure safety and effectiveness. Devices deemed to pose lower risk are placed in either class I or II, which generally requires the manufacturer to submit to the FDA a pre-market notification requesting permission for commercial distribution. This process is known as 510(k) clearance. Devices deemed to pose the greatest risk, such as life-sustaining, life-supporting, or implantable devices, are placed in Class III, requiring an approved Premarket Approval Application ("PMA"). Our cameras are Class II medical devices that have been cleared for marketing by the FDA. We are also subject to post-market regulatory requirements relating to our manufacturing process, marketing and sales activities, product performance, and medical device reports should there be deaths and serious injuries associated with our products.
- *Pharmaceutical Regulation.* Federal and state agencies, including the FDA and state pharmacy boards, regulate the radiopharmaceuticals used in our Diagnostic Services business.
- *Radioactive Materials Laws.* We must maintain licensure under, and comply with, federal and state radioactive materials laws, or RAM laws. RAM laws require, among other things, that radioactive materials are used by, or that their use be supervised by, individuals with specified training, expertise, and credentials and include specific provisions applicable to the medical use of radioactive materials.
- *Environmental Matters.* The facilities we operate or manage generate hazardous and medical waste subject to federal and state requirements regarding handling and disposal. We believe that the facilities that we operate and manage are currently

in compliance in all material respects with applicable federal, state and local statutes and ordinances regulating the handling and disposal of such materials. We do not believe that we will be required to expend any material additional amounts in order to remain in compliance with these laws and regulations or that compliance will materially affect our capital expenditures, earnings or competitive position.

Employees

As of December 31, 2018, we had a total of 452 full time employees, of which 316 were employed in clinical-related positions, 80 in operational roles, 37 in general and administrative functions, and 19 in marketing and sales. All positions are in the United States. We also utilize varying amounts of temporary workers as necessary to fulfill customer requirements. We have not experienced any work stoppages and consider our employee relations to be good.

Available Information

We file electronically with the Securities and Exchange Commission (the "SEC"), our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 ("Exchange Act"). The public may read and copy any materials filed by us with the SEC at the SEC's Public Reference Room at 100 F Street, NW, Washington, D.C. 20549. The public may obtain information on the operation of the SEC's Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (www.sec.gov), which contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

The Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports are available free of charge on our website at www.digirad.com as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. Such reports will remain available on our website for at least 12 months and are also available free of charge by written request or by contacting the Investor Relations Department at 858-726-1600.

The contents of our website or any other website are not incorporated by reference into this Annual Report on Form 10-K.

ITEM 1A. RISK FACTORS

Risks Related to Our Business and Industry

We may not be able to achieve the anticipated synergies and benefits from business acquisitions.

Part of our business strategy is to acquire businesses that we believe can complement our current business activities, both financially and strategically. On January 1, 2016, we acquired PRHC and its subsidiaries, including DMS Health Technologies, Inc. ("DMS Health"), with these synergistic benefits in mind. Previously, we acquired MD Office on March 5, 2015, and Telerhythmics on March 13, 2014, which we subsequently sold on October 31, 2018. Acquisitions involve many complexities, including, but not limited to, risks associated with the acquired business' past activities, loss of customers, regulatory changes that are not anticipated, difficulties in integrating personnel and human resource programs, integrating ERP systems and other infrastructures, general under performance of the business under Digirad control versus the prior owners, unanticipated expenses and liabilities, and the impact on our internal controls and compliance with the regulatory requirements under the Sarbanes-Oxley Act of 2002. There is no guarantee that our acquisitions will increase the profitability and cash flow of Digirad, and our efforts could cause unforeseen complexities and additional cash outflows, including financial losses. As a result, the realization of anticipated synergies or benefits from acquisitions may be delayed or substantially reduced, and could potentially result in the impairment of our investment in these businesses.

There can be no assurances that we will successfully complete our planned conversion into a diversified holding company or complete our possible acquisition of ATRM Holdings, Inc.

Part of our strategy is to become a diversified holding company through the acquisition of businesses that, we believe, will realize a material benefit from being part of a larger holding company structure, both financially and strategically. There can be no assurances that we will find suitable acquisition targets that will enable us to successfully realize our conversion into a diversified holding company, and even if such targets are identified, there can be no assurances that we can negotiate and complete such acquisitions on attractive terms, including with regard to the possible acquisition of ATRM.

If we are unable to make successful acquisitions, our ability to grow our business could be adversely affected and our conversion to a diversified holding company structure may not succeed. If we succeed in making suitable acquisitions, we may not be able to obtain the expected profitability or other benefits in the short or long term from such acquisitions.

Acquisitions, including the possible ATRM acquisition, involve many complexities, including, but not limited to, risks associated with the acquired business' past activities, loss of customers, regulatory changes that are not anticipated, difficulties in integrating personnel and human resource programs, integrating ERP systems and other infrastructures under Company control, unanticipated expenses and liabilities, and the impact on our internal controls and compliance with the regulatory requirements under the Sarbanes-Oxley Act of 2002. There is no guarantee that our acquisitions will increase the profitability and cash flow of the Company, and our efforts could cause unforeseen complexities and additional cash outflows, including financial losses. As a result, the realization of anticipated benefits from acquisitions may be delayed or substantially reduced. In addition, our leadership team's attention may also be diverted by any historical or potential acquisitions.

We conduct certain operations through a joint venture and may enter into additional joint ventures in the future. We may not be able to achieve anticipated benefits from joint ventures and disagreements with joint venture partners could adversely affect our interest in the joint ventures and lead to an unwinding of joint ventures.

On December 14, 2018, Digirad and ATRM entered into a joint venture and formed Star Procurement, LLC ("Star Procurement"), with Digirad and ATRM each holding a 50% interest. We may enter into additional joint ventures in the future. Joint ventures involve many complexities and there is no guarantee that our joint ventures will increase the profitability and cash flow of the Company. Our efforts could also cause unforeseen complexities and additional cash outflows, including financial losses. As a result, the realization of anticipated benefits from joint ventures may be delayed or substantially reduced.

Additionally, joint venture partners may have interests that are different from ours, which may result in conflicting views as to the conduct of the business of the joint venture. In the event that we have a disagreement with a joint venture partner as to the resolution of a particular issue to come before the joint venture, or as to the management or conduct of the business of the joint venture in general, we may not be able to resolve such disagreement in our favor and such disagreement could have a material adverse effect on our interest in the joint venture or the business of the joint venture in general.

Our revenues may decline due to reductions in Medicare and Medicaid reimbursement rates.

The success of our business is largely dependent upon our medical professional customers' ability to provide diagnostic care to their patients in an economically sustainable manner, either through the purchase of our imaging systems or using our diagnostic services, or both. Our customers are directly impacted by changes (decreases and increases) in governmental and private payor reimbursements for diagnostic services. We are directly and indirectly impacted by changes in reimbursements. In our businesses, where we are indirectly affected by reimbursement changes, we make every effort to act as business partners with our physician

customers. For example, in 2010, we proactively adjusted our diagnostic imaging services rates down due to the dramatic reimbursement declines that our customers experienced from the Centers for Medicare & Medicaid Services. Reimbursements remain a source of concern for our customers and downward pressure on reimbursements causes greater pricing pressure on our services and influences the buying decisions of our customers. Although the gap is closing, hospital reimbursements remain higher than in-office reimbursements. Our Diagnostic Imaging segment's products are targeted to serve the hospital market. A smaller portion of our Diagnostic Services business segment operates in the hospital market.

Reductions in reimbursements could significantly impact the viability of in-office imaging performed by independent physicians, as well as the viability of our cardiac event monitoring services business. The historical decline in reimbursements in diagnostic imaging has resulted in cancellations of imaging days in our Diagnostic Services business and the delay of purchase and service decisions by our existing and prospective customers in our Diagnostic Imaging business.

Our Diagnostic Services revenues may decline due to changes in diagnostic imaging regulations and the use of third party benefit managers by states and private payors to drive down diagnostic imaging volumes.

Nuclear medicine is a "designated health service" under the federal physician self-referral prohibition law known as the "Stark Law," which states that a physician may not refer designated health services to an entity with which the physician or an immediate family member has a financial relationship, unless a statutory exception applies. Our business model and service agreements are structured to enable our physician customers to meet the statutory in-office ancillary services ("IOAS") exception to the Stark Law, allowing them to perform nuclear diagnostic imaging services on their patients in the convenience of their own office. From time-to-time, the Centers for Medicare and Medicaid Services and Congress have proposed to modify the IOAS to further limit or eliminate this exception. Various lobbying organizations, including the Medicare Payment Advisory Commission ("MedPAC"), in the past have pushed for, discussed, and recommended that Congress limit the availability of the IOAS exception in order to reduce federal healthcare costs. Legislation has been introduced in prior Congresses to modify or eliminate the exception, but has not been enacted. The outcome of these efforts is uncertain at this time; however, the limitation or elimination of the IOAS exception could significantly impact our Diagnostic Services business segment as currently structured.

Our customers who perform imaging services in their office also experience the continuing efforts by some private insurance companies to reduce healthcare expenditures by hiring radiology benefit managers to help them manage and limit imaging. The federal government has also set aside monies in the 2009 recession recovery acts to hire radiology benefit managers to provide image management services to Medicare/Medicaid and MedPAC has recommended and the Centers for Medicare & Medicaid Services has, in the past, proposed legislation requiring Medicare physicians who engage in a relatively high volume of medical imaging be required to obtain pre-authorization through a radiology benefit manager. A radiology benefit manager is an unregulated entity that performs various functions for private payors and managed care organizations. Radiology benefit manager activities can include pre-authorization for imaging procedures, setting and enforcing standards, approving which contracted physicians can perform the services, such as requiring even the most experienced and highly qualified cardiologists to obtain additional board certifications, or interfering with the financial decision of the private practitioner by requiring them to own their own imaging system and not allowing them to lease the system. The radiology benefit managers often do not provide written documentation of their decisions or an appeals process, leaving leasing physicians unable to challenge their decisions with the carrier or the state insurance department. Unregulated radiology benefit manager activities have and could continue to adversely affect our physician customers' ability to receive reimbursement, therefore impacting our customers' decision to utilize our Diagnostic Services imaging services.

Manufacturing and providing service for our nuclear imaging cameras is highly dependent upon the availability of certain suppliers, thereby making us vulnerable to supply problems that could harm our business.

Our manufacturing process within Diagnostic Imaging, and our warranty and post-warranty camera support business, rely on a limited number of third parties to supply certain key components and manufacture our products. Alternative sources of production and supply may not be readily available or may take several months to scale-up and develop effective production processes. If a disruption in the availability of parts or in the operations of our suppliers were to occur, our ability to have gamma cameras built as well as our ability to provide support could be materially adversely affected. In certain cases, we have developed backup plans and have alternative procedures should we experience a disruption. However, if these plans are unsuccessful or if we have a single source, delays in the production and support of our gamma cameras for an extended period of time could cause a loss of revenue and/or higher production and support costs, which could significantly harm our business and results of operations.

Our Diagnostic Services and portions of our Mobile Healthcare operations are highly dependent upon the availability of certain radiopharmaceuticals, thereby making us vulnerable to supply problems and price fluctuations that could harm our business.

Both our Diagnostic Service business and portions of our Mobile Healthcare business involve the use of radiopharmaceuticals. There is a limited number of major nuclear reactors supplying medical radiopharmaceuticals worldwide and there is no guarantee that the reactors will remain in good repair or that our supplier will have continuing access to ample supply of our

radiopharmaceutical product. If we are unable to obtain an adequate supply of the necessary radiopharmaceuticals, we may be unable to utilize our personnel and equipment through our in-office service operations, or the volume of our services could decline and our business may be adversely affected. Shortages can also cause price increases that may not be accounted for in third party reimbursement rates, thereby causing us to lose margin or require us to pass increases on to our physician customers.

Our business is not widely diversified.

We currently provide our mobile diagnostic services and sell our products primarily into the cardiac nuclear and ultrasound imaging private practice, in-office markets and hospitals. We may not be able to leverage our assets and technology to diversify our products and services in order to generate revenue beyond these. If we are unable to diversify our product and service offerings, our financial condition may suffer.

We compete against businesses that have greater resources and different competitive strengths.

The market for mobile diagnostic services and diagnostic imaging systems is limited and has experienced some declines in the past. Some of our competitors have greater resources and a more diverse product offering than we do. Some of our competitors also enjoy significant advantages over us, including greater brand recognition, greater financial and technical resources, established relationships with healthcare professionals, larger distribution networks, and greater resources for product development and capital expenditures, as well as more extensive marketing and sales resources. If we are unable to expand our current market share, our revenues and related financial condition could decline.

Our quarterly and annual financial results are difficult to predict and are likely to fluctuate from period to period.

We have historically experienced seasonality in all of our businesses, volatility due to the changing healthcare environment, the variable supply of radiopharmaceuticals, and downturns based on the changing U.S. economy. While our customers are typically obligated to pay us for imaging days to which they have committed, our contracts permit some flexibility in scheduling when services are to be performed. We cannot predict with certainty the degree to which seasonal circumstances such as the summer slowdown, winter holiday vacations, and weather conditions may affect the results of our operations. We have also experienced fluctuations in demand of our diagnostic imaging product sales due to economic conditions, capital budget availability, and other financial or business reasons. In addition, due to the way that customers in our target markets acquire our products, a large percentage of our products are booked during the last month of each quarterly accounting period, and often there can be a large amount in the last month of the year. As such, a delivery delay of only a few days may significantly impact quarter-to-quarter comparisons of our results of operations. Moreover, the sales cycle for all of our capital products is typically lengthy, particularly in the hospital market, which may cause us to experience significant revenue fluctuations.

We spend considerable time and money complying with federal and state laws, regulations, and other rules, and if we are unable to fully comply with such laws, regulations, and other rules, we could face substantial penalties.

We are directly, or indirectly through our customers, subject to extensive regulation by both the federal government and the states in which we conduct our business, including: the federal Medicare and Medicaid anti-kickback laws and other Medicare laws, regulations, rules, manual provisions, and policies that prescribe requirements for coverage and payment for services performed by us and our physician customers; the federal False Claims statutes; the federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, as amended in 2009 under the HITECH Act that places direct legal obligations and higher liability on us with respect to the security and handling of personal health information; the Stark Law; the federal Food, Drug and Cosmetic Act; federal and state radioactive materials laws; state food and drug and pharmacy laws and regulations; state laws that prohibit the practice of medicine by non-physicians and fee-splitting arrangements between physicians and non-physicians; state scope-of-practice laws; and federal rules prohibiting the mark-up of diagnostic tests to Medicare under certain circumstances. If our customers are unable or unwilling to comply with these statutes, regulations, rules, and policies, rates of our services and products could decline and our business could be harmed. Additionally, new government mandates will require us to provide a certain baseline of health benefits and premium contribution for our employees and their families or pay governmental penalties. Some of these costs are not tax deductible. We have opted to provide this coverage to our employee base in order to maintain retention of qualified medical technicians and other professionals rather than plan to pay penalties to the government. Either option will result in additional costs to us and could negatively impact our cash reserves.

We maintain a compliance program to identify and correct any compliance issues and remain in compliance with all applicable laws, to train employees, to audit and monitor our operations, and to achieve other compliance goals. Like most companies with compliance programs, we occasionally discover compliance concerns. In such cases, we take responsive action, including corrective measures when necessary. There can be no assurance that our responsive actions will insulate us from liability associated with any detected compliance concerns.

If our past or present operations are found to be in violation of any of the laws, regulations, rules, or policies described above or the other laws or regulations to which we or our customers are subject, we may be subject to civil and criminal penalties, damages, fines, exclusion from federal or state healthcare programs, or the curtailment or restructuring of our operations. Similarly,

if our physician customers are found to be non-compliant with applicable laws, they may be subject to sanctions that could have a negative impact on us. Any penalties, damages, fines, curtailment, or restructuring of our operations could adversely affect our ability to operate our business and our financial results. Any action against us for violation of these laws, even if we successfully defend against it, could cause us to incur significant legal expenses, divert our management's attention from the operation of our business, and damage our reputation. Although compliance programs can mitigate the risk of investigation and prosecution for violations of these laws, regulations, rules, and policies, the risks cannot be entirely eliminated. Moreover, achieving and sustaining compliance with applicable federal and state privacy, security, and fraud laws may prove costly.

Healthcare policy changes could have a material adverse effect on our business.

In response to perceived increases in healthcare costs in recent years, there have been and continue to be proposals by the federal government, state governments, regulators, and third-party payers to control these costs and, more generally, to reform the U.S. healthcare system. Certain of these proposals could limit the prices we are able to charge for our products or the amounts of reimbursement available for our products, and could limit the acceptance and availability of our products. The adoption of some or all of these proposals could have a material adverse effect on our financial position and results of operations.

Any intrusions or attacks on our information technology infrastructure could impact our ability to conduct operations and could subject us to fines, penalties, and lawsuits related to healthcare privacy laws.

The operation of our business includes use of complex information technology infrastructures, access to the information technology networks of our customers, as well as the collection of storing of patient information that is subject to HIPAA. In recent years, attacks on corporate information technology infrastructures have become more common and more sophisticated. Attacks can range from attempts that are routinely blocked by security and related infrastructure, to intrusions that disrupt activity temporarily, to extensive intrusions that severely impact or disable a network, including "ransom" ware that holds a network hostage until the impacted company pays a fee to the attacker. Further, attacks can specifically impact patient information stored on such networks, requiring a widespread notice to the affected population, which can be very costly. Any successful attack on our network could severely impact our ability to conduct operations and could result in lost customers. Though we carry customary insurance for notification events in the event of a patient information breach under HIPAA, our coverage may not be sufficient to cover every situation, and any notification could severely impact our customer confidence and operations.

We are subject to risks associated with self-insurance related to health benefits.

To help control our overall long-term costs associated with employee health benefits, we are self-insured up to certain limits for our health plans. As such, we are subject to risks associated with self-insurance of these health plan benefits. To limit our exposure, we have third party stop-loss insurance coverage for both individual and aggregate claim costs. However, we could still experience unforeseen and potentially significant fluctuations in our healthcare costs based on a higher than expected volume of claims below these stop-loss levels. These fluctuations could have a material adverse effect on our financial position and results of operations.

A portion of our operations are located in a facility that may be at risk from fire, earthquakes, or other disasters.

Final assembly in our manufacturing process and significant portions of our inventory are located in a single facility in Poway, California, near known fire areas and earthquake fault zones. Future natural disasters could cause substantial delays in our operations and cause us to incur additional expenses. Although we have taken precautions to insure our facilities and continuing operations, as well as provide for offsite back-up of our information systems, this may not be adequate to cover our losses in any particular case. A disaster could significantly harm our business and results of operations.

The medical device industry is litigious, which could result in the diversion of our management's time and efforts, and require us to incur expenses and pay damages that may not be covered by our insurance.

Our operations entail risks of claims or litigation relating to product liability, radioactive contamination, patent infringement, trade secret disclosure, warranty claims, vendor disputes, product recalls, property damage, misdiagnosis, breach of contract, personal injury, and death. Any litigation or claims against us, or claims we bring against others, may cause us to incur substantial costs, could place a significant strain on our financial resources, divert the attention of our management from our core business, and harm our reputation. We may incur significant liability in the event of any such litigation, regardless of the merit of the action. If we are unable to obtain insurance, or if our insurance is inadequate to cover claims, our cash reserves and other assets could be negatively impacted. Additionally, costs associated with maintaining our insurance could become prohibitively expensive, and our ability to become or remain profitable could be diminished.

If we cannot provide quality technical and applications support, we could lose customers and our business and prospects will suffer.

The placement of our products and the introduction of our technology at new customer sites requires the services of highly trained technical support personnel. Hiring technical support personnel is very competitive in our industry due to the limited number of people available with the necessary scientific and technical backgrounds and ability to understand our technology at a technical level. To effectively support potential new customers and the expanding needs of current customers, we will need to expand our technical support staff. If we are unable to attract, train or retain the number of highly qualified technical services personnel that our business needs, our business and prospects will suffer.

Our long-term results depend upon our ability to improve existing products and services and introduce and market new products and services successfully.

Our business is dependent on the continued improvement of our existing products and services and our development of new products and services utilizing our current or other potential future technology. As we introduce new products and services or refine, improve or upgrade versions of existing products and services, we cannot predict the level of market acceptance or the amount of market share these products and services will achieve, if any. We cannot assure you that we will not experience material delays in the introduction of new products or services in the future.

We generally sell our products and services in industries that are characterized by rapid technological changes, frequent new product introductions and changing industry standards. If we do not develop new products and services and product enhancements based on technological innovation on a timely basis, our products and services may become obsolete over time and our revenues, cash flow, profitability and competitive position may suffer. Our success will depend on several factors, including our ability to:

- correctly identify customer needs and preferences and predict future needs and preferences;
- allocate our research and development funding to products and services with higher growth prospects;
- anticipate and respond to our competitors' development of new products, services, and technological innovations;
- innovate and develop new technologies and applications, and acquire or obtain rights to third-party technologies that may have valuable applications in the markets we serve;
- recruit, train, retain, motivate, and integrate key personnel, including our research and development, manufacturing, and sales and marketing personnel; and
- successfully commercialize new technologies in a timely manner, price them competitively and manufacture and deliver sufficient volumes of new products of appropriate quality on time.

Even if we successfully innovate and develop new products, services and product enhancements, we may incur substantial costs in doing so, and our profitability may suffer.

If we do not successfully manage the development and launch of new products and services, our financial results could be adversely affected.

We may face risks associated with launching new products and services. If we encounter development or manufacturing challenges or discover errors during our product development cycle, the product launch dates of new products and services may be delayed. The expenses or losses associated with unsuccessful product development or launch activities or lack of market acceptance of our new products and services could adversely affect our business or financial condition.

Undetected errors or defects in our products could harm our reputation or decrease market acceptance of our products.

Our products may contain undetected errors or defects when first introduced or as new versions or new products are released. Disruptions affecting the introduction or release of, or other performance problems with, our products may damage our customers' businesses and could harm their and our reputation. If that occurs, we may incur significant costs, the attention of our key personnel could be diverted, or other significant customer relations problems may arise. We may also be subject to warranty and liability claims for damages related to errors or defects in our products. In addition, if we do not meet industry or quality standards, if applicable, our products may be subject to recall. A material liability claim, recall, or other occurrence that harms our reputation or decreases market acceptance of our products could harm our business and operating results.

Our ability to protect our intellectual property and proprietary technology through patents and other means is uncertain.

We rely on patent protection as well as trademark, copyright, trade secret and other intellectual property rights protection and contractual restrictions to protect our proprietary technologies, all of which provide limited protection and may not adequately protect our rights or permit us to gain or keep any competitive advantage. Our success depends, in part, on our ability to protect our proprietary rights to the technologies used in our products. If we fail to protect and/or maintain our intellectual property, third parties may be able to compete more effectively against us, we may lose our technological or competitive advantage, and/or we may incur substantial litigation costs in our attempts to recover or restrict use of our intellectual property.

We do not have any pending patent applications. We cannot assure investors that we will continue to innovate and file new patent applications, or that if filed any future patent applications will result in granted patents. Further, we cannot predict how long it will take for such patents to issue, if at all. It is possible that, for any of our patents that have issued or that may issue in the future, our competitors may design their products around our patented technologies. Further, we cannot assure investors that other parties will not challenge any patents granted to us, or that courts or regulatory agencies will hold our patents to be valid, enforceable, and/or infringed. We cannot guarantee investors that we will be successful in defending challenges made against our patents and patent applications. Any successful third-party challenge or challenges to our patents could result in the unenforceability or invalidity of such patents, or such patents being interpreted narrowly and/or in a manner adverse to our interests. Our ability to establish or maintain a technological or competitive advantage over our competitors and/or market entrants may be diminished because of these uncertainties. For these and other reasons, our intellectual property may not provide us with any competitive advantage. For example:

- we may not have been the first to make the inventions claimed or disclosed in our issued patents;
- we may not have been the first to file patent applications for these inventions. To determine the priority of these inventions, we may have to participate in interference proceedings or derivation proceedings declared by the U.S. Patent and Trademark Office ("USPTO"), which could result in substantial cost to us, and could possibly result in a loss or narrowing of patent rights. No assurance can be given that our granted patents will have priority over any other patent or patent application involved in such a proceeding, or will be held valid as an outcome of the proceeding;
- other parties may independently develop similar or alternative products and technologies or duplicate any of our products and technologies, which can potentially impact our market share, revenue, and goodwill, regardless of whether intellectual property rights are successfully enforced against these other parties;
- it is possible that our issued patents may not provide intellectual property protection of commercially viable products or product features, may not provide us with any competitive advantages, or may be challenged and invalidated by third parties, patent offices, and/or the courts;
- we may be unaware of or unfamiliar with prior art and/or interpretations of prior art that could potentially impact the validity or scope of our patents or patent applications that we may to file;
- we take efforts and enter into agreements with employees, consultants, collaborators, and advisors to confirm ownership and chain of title in intellectual property rights. However, an inventorship or ownership dispute could arise that may permit one or more third parties to practice or enforce our intellectual property rights, including possible efforts to enforce rights against us;
- we may elect not to maintain or pursue intellectual property rights that, at some point in time, may be considered relevant to or enforceable against a competitor;
- we may not develop additional proprietary products and technologies that are patentable, or we may develop additional proprietary products and technologies that are not patentable;
- the patents or other intellectual property rights of others may have an adverse effect on our business; and
- we apply for patents relating to our products and technologies and uses thereof, as we deem appropriate. However, we or our representatives or their agents may fail to apply for patents on important products and technologies in a timely fashion or at all, or we or our representatives or their agents may fail to apply for patents in potentially relevant jurisdictions.

To the extent our intellectual property offers inadequate protection, or is found to be invalid or unenforceable, we would be exposed to a greater risk of direct or indirect competition. If our intellectual property does not provide adequate coverage of our competitors' products, our competitive position could be adversely affected, as could our business.

The measures that we use to protect the security of our intellectual property and other proprietary rights may not be adequate, which could result in the loss of legal protection for, and thereby diminish the value of, such intellectual property and other rights.

In addition to pursuing patents on our technology, we also rely upon trademarks, trade secrets, copyrights and unfair competition laws, as well as license agreements and other contractual provisions, to protect our intellectual property and other proprietary rights. Despite these measures, any of our intellectual property rights could be challenged, invalidated, circumvented or misappropriated. In addition, we take steps to protect our intellectual property and proprietary technology by entering into confidentiality agreements and intellectual property assignment agreements with our employees, consultants, corporate partners and, when needed, our advisors. Such agreements may not be enforceable or may not provide meaningful protection for our trade secrets and/or other proprietary information in the event of unauthorized use or disclosure or other breaches of the agreements, and we may not be able to prevent such unauthorized disclosure. Moreover, if a party having an agreement with us has an overlapping or conflicting obligation to a third party, our rights in and to certain intellectual property could be undermined. Monitoring unauthorized and inadvertent disclosure is difficult, and we do not know whether the steps we have taken to prevent such disclosure

are, or will be, adequate. If we were to enforce a claim that a third party had illegally obtained and was using our trade secrets, it would be expensive and time consuming, the outcome would be unpredictable, and any remedy may be inadequate.

In addition, competitors could purchase our products and attempt to replicate and/or improve some or all of the competitive advantages we derive from our development efforts, willfully infringe our intellectual property rights, design their products around our protected technology or develop their own competitive technologies that fall outside of our intellectual property rights. If our intellectual property does not adequately protect our market share against competitors' products and methods, our competitive position could be adversely affected, as could our business.

We may need to enter into license agreements in the future.

We may need or may choose to obtain licenses and/or acquire intellectual property rights from third parties to advance our research or commercialization of our current or future products, and we cannot provide any assurances that third-party patents do not exist that might be enforced against our current or future products in the absence of such a license. We may fail to obtain any of these licenses or intellectual property rights on commercially reasonable terms. Even if we are able to obtain a license, it may be non-exclusive, thereby giving our competitors access to the same technologies licensed to us. In that event, we may be required to expend significant time and resources to develop or license replacement technology. If we are unable to do so, we may be unable to develop or commercialize the affected products, which could materially harm our business and the third parties owning such intellectual property rights could seek either an injunction prohibiting our sales, or, with respect to our sales, an obligation on our part to pay royalties and/or other forms of compensation.

If we are sued for infringing intellectual property rights of third parties, it would be costly and time consuming, and an unfavorable outcome in that litigation could have a material adverse effect on our business.

Our success also depends on our ability to develop, manufacture, market and sell our products and perform our services without infringing the proprietary rights of third parties. Numerous U.S. issued patents and pending patent applications owned by third parties exist in the fields in which we are developing products and services. As part of a business strategy to impede our successful commercialization and entry into new markets, competitors may allege that our products and/or services infringe their intellectual property rights.

We could incur substantial costs and divert the attention of our management and technical personnel in defending ourselves against claims of infringement made by third parties. Any adverse ruling by a court or administrative body, or perception of an adverse ruling, may have a material adverse impact on our ability to conduct our business and our finances. Moreover, third parties making claims against us may be able to obtain injunctive relief against us, which could block our ability to offer one or more products or services and could result in a substantial award of damages against us. Intellectual property litigation can be very expensive, and we may not have the financial means to defend ourselves.

Because patent applications can take many years to issue, there may be pending applications, some of which are unknown to us, that may result in issued patents upon which our products or proprietary technologies may infringe. Moreover, we may fail to identify issued patents of relevance or incorrectly conclude that an issued patent is invalid or not infringed by our technology or any of our products. If a third-party claims that we infringe upon a third-party's intellectual property rights, we may have to:

- seek to obtain licenses that may not be available on commercially reasonable terms, if at all;
- abandon any product alleged or held to infringe, or redesign our products or processes to avoid potential assertion of infringement;
- pay substantial damages including, in exceptional cases, treble damages and attorneys' fees, which we may have to pay if a court decides that the product or proprietary technology at issue infringes upon or violates the third-party's rights;
- pay substantial royalties or fees or grant cross-licenses to our technology; or
- defend litigation or administrative proceedings that may be costly whether we win or lose, and which could result in a substantial diversion of our financial and management resources.

Our issued patents could be found invalid or unenforceable if challenged in court or at the Patent Office or other administrative agency, which could have a material adverse impact on our business.

Any patents we have obtained or do obtain may be challenged by re-examination or otherwise invalidated or eventually found unenforceable. Both the patent application process and the process of managing patent disputes can be time consuming and expensive. If we were to initiate legal proceedings against a third party to enforce a patent related to one of our products or services, the defendant in such litigation could counterclaim that our patent is invalid and/or unenforceable. In patent litigation in the U.S., defendant counterclaims alleging invalidity and/or unenforceability are commonplace, as are validity challenges by the defendant against the subject patent or other patents before the USPTO. Grounds for a validity challenge could be an alleged failure to meet any of several statutory requirements, including lack of novelty, obviousness or non-enablement, failure to meet the written description requirement, indefiniteness, and/or failure to claim patent eligible subject matter. Grounds for an unenforceability

assertion could be an allegation that someone connected with prosecution of the patent intentionally withheld material information from the USPTO, or made a misleading statement, during prosecution. Additional grounds for an unenforceability assertion include an allegation of misuse or anticompetitive use of patent rights, and an allegation of incorrect inventorship with deceptive intent. Third parties may also raise similar claims before the USPTO even outside the context of litigation. The outcome is unpredictable following legal assertions of invalidity and unenforceability. With respect to the validity question, for example, we cannot be certain that no invalidating prior art existed of which we and the patent examiner were unaware during prosecution. These assertions may also be based on information known to us or the Patent Office. If a defendant or third party were to prevail on a legal assertion of invalidity and/or unenforceability, we would lose at least part, and perhaps all, of the claims of the challenged patent. Such a loss of patent protection would or could have a material adverse impact on our business.

We may be involved in lawsuits to protect or enforce our patents, which could be expensive, time-consuming and unsuccessful.

Competitors may attempt to challenge or invalidate our patents, or may be able to design alternative techniques or devices that avoid infringement of our patents that have issued or that may issue in the future, or develop products with functionalities that are comparable to ours. In the event a competitor infringes upon our patent or other intellectual property rights, litigation to enforce our intellectual property rights or to defend our patents against challenge, even if successful, could be expensive and time consuming and could require significant time and attention from our management. We may not have sufficient resources to enforce our intellectual property rights or to defend our patents against challenges from others.

An adverse result in any such litigation proceedings could put one or more of our patents at risk of being invalidated, being found to be unenforceable, and/or being interpreted narrowly and could impact the validity or enforceability positions of our other patents. Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. In addition, an adverse outcome in such litigation or proceedings may expose us to loss of our proprietary position, expose us to significant liabilities, or require us to seek licenses that may not be available on commercially acceptable terms, if at all.

We may make financial investments in other businesses that may lose value.

As we look for the best ways to deploy our capital and maximize our returns for our businesses and shareholders, we may make financial investments in other businesses or processes for purposes of enhancing our supply chain, creating financial returns, strategic developments, or other purposes. These investments may be speculative in nature, and there is no guarantee that we will experience a financial return and we may lose our entire principal balance if not successful.

Our mobile healthcare fleet is highly utilized; any downtime in our assets could have a material impact on our revenues and costs.

Our Mobile Healthcare business unit utilizes a fleet of highly sophisticated imaging and related transportation assets that require nearly 100% uptime to service our customer needs. Though we utilize an array of highly competent service providers to support our imaging fleet, imaging and related transportation machines can experience unproductive downtime. Any downtime of our imaging fleet could have near term impacts on our revenues and underlying costs.

Our goodwill and other long-lived assets are subject to potential impairment that could negatively impact our earnings.

A significant portion of our assets consists of goodwill and other long-lived assets, the carrying value of which may be reduced if we determine that those assets are impaired. At December 31, 2018, goodwill and net intangible assets represented $7.0 million, or 13.8% of our total assets. In addition, net property, plant and equipment assets totaled $21.6 million, or 42.8% of our total assets. If actual results differ from the assumptions and estimates used in our goodwill and long-lived asset valuation calculations, we could incur impairment charges, which could negatively impact our earnings.

We review our reporting units for potential goodwill impairment annually or more often if events or circumstances indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. In addition, we test the recoverability of long-lived assets if events or circumstances indicate the carrying values may not be recoverable. Recoverability of long-lived assets is measured by comparison of their carrying amounts to future undiscounted cash flows the assets are expected to generate. We conduct impairment testing based on our current business strategy in light of present industry and economic conditions, as well as future expectations. There are numerous risks that may cause the fair value of a reporting unit to fall below its carrying amount and/or the value of long-lived assets to not be recoverable, which could lead to the measurement and recognition of goodwill and/or long-lived asset impairment. These risks include, but are not limited to, significant negative variances between actual and expected financial results, lowered expectations of future financial results, failure to realize anticipated synergies from acquisitions, adverse changes in the business climate, and the loss of key personnel. If we are not able to achieve projected performance levels, future impairments could be possible, which could negatively impact our earnings.

During the year ended December 31, 2018, the Company derecognized $1.1 million of goodwill related to the termination of the Philips Agreements with DMS Health effective December 31, 2017. During the years ended December 31, 2018 and 2017, the Company recorded a $0.5 million and $0.2 million goodwill impairment loss, respectively, related to Telerhythmics, the Company's cardiac event monitoring services business that was acquired on March 13, 2014. On October 31, 2018, the Company entered into a membership interest purchase agreement (the "Telerhythmics Purchase Agreement") with G Medical Innovations USA, Inc. ("G Medical"), pursuant to which we sold all the outstanding membership interests in Telerhythmics to G Medical. No other significant impairment losses on long-lived assets were recognized during the years ended December 31, 2018 and 2017. See Note 2. *Basis of Presentation* and Note 7. *Goodwill*, within the notes to our accompanying consolidated financial statements for further discussion regarding goodwill and long-lived assets.

Risks Related to our Indebtedness

On June 21, 2017, we entered into a Revolving Credit Agreement, as amended from time to time (the "Comerica Credit Agreement"), with Comerica Bank, a Texas banking association ("Comerica"). The Comerica Credit Agreement is a five-year revolving credit facility (maturing in June 2022), which, as amended, has a maximum credit amount of $20.0 million (the "Comerica Credit Facility"). We used a portion of the financing made available under the Comerica Credit Facility to refinance and terminate, effective as of June 21, 2017, a certain Credit Agreement, dated January 1, 2016, by and among the Company, the subsidiaries of the Company, the lenders party thereto and Wells Fargo Bank, National Association, as administrative agent.

Our indebtedness could restrict our operations and make us more vulnerable to adverse economic conditions.

Our indebtedness could have important consequences for us and our stockholders. For example, the Comerica Credit Agreement requires a balloon payment at the termination of the facility in June 2022, which may require us to dedicate a substantial portion of our cash flow from operations to this future payment if we feel we cannot be successful in our ability to refinance in the future, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, and acquisitions, and for other general corporate purposes. In addition, our indebtedness could:

- increase our vulnerability to adverse economic and competitive pressures in our industry;
- place us at a competitive disadvantage compared to our competitors that have less debt;
- limit our flexibility in planning for, or reacting to, changes in our business and our industry; and
- limit our ability to borrow additional funds on terms that are acceptable to us or at all.

The Comerica Credit Agreement governing our indebtedness contains restrictive covenants that will restrict our operating flexibility and require that we maintain specified financial ratios. We were not in compliance with certain covenants as of September 30, 2018 and although a waiver and an amendment to the Comerica Credit Agreement were obtained to address this noncompliance, we may be unable to obtain a waiver and or an amendment to the Comerica Credit Agreement for subsequent periods. If we cannot comply with these covenants, we may be in default under the Comerica Credit Agreement.

The Comerica Credit Agreement governing our indebtedness contains restrictions and limitations on our ability to engage in activities that may be in our long-term best interests. The Comerica Credit Agreement contains affirmative and negative covenants that limit and restrict, among other things, our ability to:

- incur additional debt;
- sell assets;
- incur liens or other encumbrances;
- make certain restricted payments and investments;
- acquire other businesses; and
- merge or consolidate.

Though the Comerica Credit Agreement does not limit our ability to pay dividends, if there is insufficient cash generation of our business to satisfy our required financial covenants, or if there is a default or event of default under the Comerica Credit Agreement that has occurred and is continuing, the Company may be required to reduce or eliminate its quarterly cash dividend until compliance with the financial covenants can be met.

The Comerica Credit Agreement contains a fixed charge coverage ratio covenant and a leverage ratio covenant. At September 30, 2018, we were not in compliance with the fixed charge coverage ratio covenant, and although a waiver and amendment was obtained to address noncompliance for this period, we may be unable to obtain a waiver and/or amendment if we are not in compliance in subsequent periods. Going forward, we may not have the ability to meet these and other covenants under the Comerica Credit Agreement depending on a number of factors including, without limitation, the performance of our business, capital allocation decisions made by the Company, or events beyond our control.

Our failure to comply with our covenants and other obligations under the Comerica Credit Agreement may result in an event of default thereunder. A default, if not cured or waived, may permit acceleration of our indebtedness. If our indebtedness is accelerated, we cannot be certain that we will have sufficient funds available to pay the accelerated indebtedness (together with accrued interest and fees), or that we will have the ability to refinance the accelerated indebtedness on terms favorable to us or at all. This could have serious consequences to our financial condition, operating results, and business, and could cause us to become insolvent or enter bankruptcy proceedings, and shareholders may lose all or a portion of their investment because of the priority of the claims of our creditors on our assets.

Substantially all of our assets have been pledged to Comerica as security for our indebtedness under the Comerica Credit Agreement.

In connection with the Comerica Credit Agreement, and pursuant to a separate Security Agreement dated June 21, 2017, between the Company, its subsidiaries and Comerica, the Comerica Credit Agreement is secured by a first-priority security interest in substantially all of the assets (excluding real estate) of the Company and its subsidiaries and a pledge of all shares and membership interests of the Company's subsidiaries. Upon the occurrence and during the continuation of an event of default under the Comerica Credit Agreement, Comerica Bank may, among other things, declare the loans and all other obligations under the Comerica Credit Agreement immediately due and payable and increase the interest rate at which loans and obligations under the Comerica Credit Agreement bear interest. The exercise by Comerica of remedies provided under the Comerica Credit Agreement in the event of a default thereunder may have a material adverse effect on the liquidity, financial condition and results of operations of the Company and could cause the Company to become bankrupt or insolvent. In the event of any bankruptcy, liquidation, dissolution, reorganization or similar proceeding against us, the assets that are pledged as collateral securing any unpaid amounts under the Comerica Credit Agreement must first be used to pay such amounts, as well as any other obligation secured by the pledged assets, in full, before making any distributions to our stockholders. In the event of any of the foregoing, our stockholders could lose all or a part of their investment.

If we are unable to generate or borrow sufficient cash to make payments on our indebtedness, our financial condition would be materially harmed, our business could fail, and shareholders may lose all of their investment.

Our ability to make scheduled payments on or to refinance our obligations will depend on our financial and operating performance, which will be affected by economic, financial, competitive, business, and other factors, some of which are beyond our control. We cannot assure you that our business will generate sufficient cash flow from operations to service our indebtedness or to fund our other liquidity needs. If we are unable to meet our debt obligations or fund our other liquidity needs, we may need to restructure or refinance all or a portion of our indebtedness on or before maturity or sell certain of our assets. We cannot assure you that we will be able to restructure or refinance any of our indebtedness on commercially reasonable terms, if at all, which could cause us to default on our debt obligations and impair our liquidity. Any refinancing of our indebtedness could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business operations.

Increases in interest rates could adversely affect our results from operations and financial condition.

The Comerica Credit Facility interest rate floats with market interest rates. An increase in prevailing interest rates would have an effect on the interest rates charged on our variable rate debt, which rise and fall upon changes in interest rates. If prevailing interest rates or other factors result in higher interest rates, the increased interest expense would adversely affect our cash flow and our ability to service our indebtedness.

Risks Related to our Common Stock

Our common stock may be subject to delisting from the Nasdaq Global Market if we do not meet Nasdaq's Minimum Bid Price Requirement.

On January 8, 2019, we received a deficiency letter from the Nasdaq Listing Qualifications Department notifying us that, for the prior thirty consecutive business days, the closing bid price for our common stock had closed below the minimum $1.00 per share requirement for continued listing on the Nasdaq Global Market pursuant to Nasdaq Listing Rule 5450(a)(1) (the "Minimum Bid Price Requirement"). In accordance with Nasdaq Listing Rules, we have been given 180 calendar days, or until July 8, 2019 to regain compliance with the Minimum Bid Price Requirement. If we do not regain compliance by July 8, 2019, we may transfer from The Nasdaq Global Market to The Nasdaq Capital Market and may be eligible for an additional compliance period of 180 days. To qualify for the additional compliance period, we will have to: (i) submit a transfer application and related application fees; (ii) meet the continued listing requirement for market value of publicly held shares and all other initial listing standards of The Nasdaq Capital Market (except for the bid price requirement); and (iii) provide written notice to Nasdaq of our intention to cure the deficiency during the additional 180-day compliance period by effecting a reverse stock split if necessary. If we do not qualify for an additional compliance period, or should we determine not to submit a transfer application or make the required representation, or if Nasdaq concludes that we will not be able to cure the deficiency, Nasdaq will provide written notice to us that our common stock will be subject to delisting.

If we choose to implement a reverse stock split, it must be completed no later than ten business days prior to July 8, 2019. There can be no assurance that our stockholders will approve a reverse stock split or that the reverse stock split will result in a sustained increase in the per share market price for the common stock so we can regain compliance with the Minimum Bid Price Requirement.

If we do not regain compliance with the Minimum Bid Price Requirement by July 8, 2019 and we are not eligible for an additional compliance period at that time, the staff will provide written notification to us that our common stock will be subject to delisting. At that time, we may appeal the staff's decision to a Nasdaq Listing Qualifications Panel (the "Panel"). We would remain listed pending the Panel's decision. There can be no assurance that, if we do appeal a subsequent delisting determination by the staff to the Panel, that such an appeal would be successful.

If we are not able to regain compliance with the Minimum Bid Price Requirement or do not transfer to The Nasdaq Capital Market, our common stock could be traded on an electronic bulletin board established for unlisted securities such as the Pink Sheets or the OTC Bulletin Board. In such event, it would become more difficult to dispose of, or obtain accurate price quotations for, our common stock, and there would likely be a reduction in our coverage by security analysts and the news media, which could cause the price of our common stock to decline further. Additionally, the sale or purchase of our common stock would likely be made more difficult and the trading volume and liquidity of our common stock would likely decline. A delisting from the Nasdaq would also result in negative publicity and would negatively impact our ability to raise capital in the future.

The market price of our common stock may be volatile, and the value of your investment could decline significantly.

The trading price of our common stock has been, and we expect it to continue to be, volatile. The price at which our common stock trades depends upon a number of factors, including our historical and anticipated operating results, our financial situation, announcements of new products by us or our competitors, our ability or inability to raise the additional capital we may need and the terms on which we raise it, and general market and economic conditions. Some of these factors are beyond our control. Broad market fluctuations may lower the market price of our common stock and affect the volume of trading in our stock, regardless of our financial condition, results of operations, business, or prospects. It is impossible to assure you that the market price of our shares of common stock will not fall in the future.

Our common stock has a low trading volume and shares available under our equity compensation plans could affect the trading price of our common stock.

Our common stock historically has had a low trading volume. Any significant sales of our common stock may cause volatility in our stock price. We also have registered shares of common stock that we may issue under our employee benefit plans or from our treasury stock. Accordingly, these shares can be freely sold in the public market upon issuance, subject to restrictions under the securities laws. If any of these stockholders, or other selling stockholders, cause a large number of securities to be sold in the public market without a corresponding demand, the sales could reduce the trading price of our common stock. One or more stockholders holding a significant amount of our common stock might be able to significantly influence matters requiring approval by our stockholders, possibly including the election of directors and the approval of mergers or other business combination transactions.

The protective amendment contained in our Restated Certificate of Incorporation, which is intended to help preserve the value of certain income tax assets, primarily tax net operating loss carryforwards ("NOLs"), may have unintended negative effects.

Pursuant to Internal Revenue Code Sections 382 and 383, use of our NOLs may be limited by an "ownership change" as defined under Section 382 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. In order to protect the Company's significant NOLs, we filed an amendment to the Restated Certificate of Incorporation of the Company (as amended and extended, the "Protective Amendment") with the Delaware Secretary of State on May 5, 2015. The Protective Amendment was approved by the Company's stockholders at the Company's 2015 Annual Meeting of Stockholders held on May 1, 2015.

On April 27, 2018, we filed a Certificate of Amendment to the Company's Restated Certificate of Incorporation with the Secretary of State of the State of Delaware, which was approved by our stockholders at our 2018 Annual Meeting (the "Extended Protective Amendment"). The Extended Protective Amendment effects a three-year extension to the provisions of the Protective Amendment. The Extended Protective Amendment leaves the Protective Amendment unchanged in all respects, other than to extend the expiration date from May 1, 2018 to May 1, 2021, and to make revisions necessary as a result of the enactment of Public Law 115-97 (commonly referred to as the Tax Cut and Jobs Act) on December 22, 2017.

The Protective Amendment is designed to assist the Company in protecting the long-term value of its accumulated NOLs by limiting certain transfers of the Company's common stock. The Protective Amendment's transfer restrictions generally restrict any direct or indirect transfers of the common stock if the effect would be to increase the direct or indirect ownership of the common stock by any person from less than 4.99% to 4.99% or more of the common stock, or increase the percentage of the

common stock owned directly or indirectly by a person owning or deemed to own 4.99% or more of the common stock. Any direct or indirect transfer attempted in violation of the Protective Amendment will be void as of the date of the prohibited transfer as to the purported transferee.

The Protective Amendment also requires any person attempting to become a holder of 4.99% or more of our common stock to seek the approval of our Board. This may have an unintended "anti-takeover" effect because our Board may be able to prevent any future takeover. Similarly, any limits on the amount of stock that a shareholder may own could have the effect of making it more difficult for shareholders to replace current management. Additionally, because the Protective Amendment may have the effect of restricting a shareholder's ability to dispose of or acquire our common stock, the liquidity and market value of our common stock might suffer.

Anti-takeover provisions in our organizational documents and Delaware law may prevent or delay removal of current management or a change in control.

Our restated certificate of incorporation and amended and restated bylaws contain provisions that may delay or prevent a change in control, discourage bids at a premium over the market price of our common stock, and adversely affect the market price of our common stock and the voting and other rights of the holders of our common stock. In addition, as a Delaware corporation, we are subject to Delaware law, including Section 203 of the Delaware General Corporation Law. In general, Section 203 prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that the stockholder became an interested stockholder unless certain specific requirements are met as set forth in Section 203. These provisions, alone or together, could have the effect of deterring or delaying changes in incumbent management, proxy contests, or changes in control.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal executive offices are located in Suwanee, Georgia, where we lease approximately 8,500 square feet of office space. We lease a 21,300 square foot facility in Poway, California that houses our Diagnostic Imaging operations. Our Diagnostic Services segment leases approximately 29 small hub locations in the various states in which we operate, which primarily house our fleet of cameras and vans. In February 2019, we entered into a lease for 1,344 square feet of office space in Old Greenwich, Connecticut. In addition to our leased properties, we own a 14,131 square foot facility in Fargo, North Dakota and a 16,769 square foot facility in Sioux Falls, South Dakota, both of which house our DMS Health businesses.

We believe that we have adequate space for our anticipated needs and that suitable additional space will be available at commercially reasonable prices as needed.

ITEM 3. LEGAL PROCEEDINGS

See Note 9. *Commitments and Contingencies*, within the notes to our accompanying consolidated financial statements for a summary of legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is traded on the NASDAQ Global Market under the symbol "DRAD". The following table presents the high and low per share sale prices of our common stock during the periods indicated, as reported on NASDAQ.

As of February 22, 2019, there were approximately 175 holders of record of our common stock. We believe that the number of beneficial owners is substantially greater than the number of record holders because a large portion of our common stock is held of record through brokerage firms in "street name."

Dividend Policy

During the year ended December 31, 2018, we paid 3 quarterly cash dividends of $0.055 per common share, for a total dividends paid of $0.165 per common share. During the first half of 2017, we paid two quarterly dividends of $0.05 per common share and paid two quarterly dividends of $0.055 per common share in the second half of the year, for total dividends paid of $0.21 per common share. We currently do not plan to pay dividends at this time.

Our ability to pay dividends could be affected by future business performance, liquidity, capital needs, and financial covenants under our Comerica Credit Agreement. Though the Comerica Credit Agreement does not limit our ability to pay dividends, if there was insufficient cash generation from our business to satisfy our required financial covenants, or if there is a default or event of default under the Comerica Credit Agreement that has occurred and is continuing, the Company may be required to reduce or eliminate its quarterly cash dividend until compliance with the financial covenants can be met.

Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased During the Period	Average Price Paid Per Share for Period Presented	Total Cumulative Number of Shares Purchased as Part of Publicly Announced Plan (1)	Maximum Number of Shares that May Yet Be Purchased Under the Plan (2)
October 1, 2018 – October 31, 2018	—	—	2,588,484	2,000,000
November 1, 2018 – November 30, 2018	—	—	2,588,484	2,000,000
December 1, 2018 – December 31, 2018	—	—	2,588,484	2,000,000
Total	—	—	2,588,484	2,000,000

(1) On February 27, 2013, our board of directors modified our stock buyback program originally adopted in February 2009 (the "2009 Buyback Program") to increase repurchases to an aggregate of $7.0 million, and subsequently, on March 13, 2013, increased the stock buyback program again for repurchases of up to an aggregate of $12.0 million. On October 31, 2018, our board of directors terminated the 2009 Buyback Program. The timing of stock repurchases and the number of shares of common stock repurchased under the 2009 Buyback Program were in compliance with Rule 10b-18 under the Exchange Act. The timing and extent of the repurchase depended upon market conditions, applicable legal and contractual requirements, and other factors.

Immediately prior to termination of the 2009 Buyback Program on October 31, 2018, there were 2,588,484 cumulative shares purchased as part of the 2009 Buyback Program.

On October 31, 2018, our board of directors approved a stock repurchase program that will enable us to repurchase up to 2,000,000 shares of our common stock from time to time in market or private transactions (the "2018 Buyback Program"). Under the 2018 Buyback Program, we may purchase shares of our common stock through various means, including open market transactions in compliance with Rule 10b-18 under the Exchange Act, privately negotiated transactions, tender offers or any combination thereof. The number of shares repurchased and the timing of repurchases will depend on a number of factors, including, but not limited to, stock price, trading volume and general market conditions, along with our working capital requirements, general business conditions and other factors. The stock repurchase program has no time limit and may be modified, suspended or terminated at any time by our board of directors. Repurchases under the stock repurchase program will be funded from our existing cash and cash equivalents or future cash flow and equity or debt financings.

(2) Immediately prior to termination of the 2009 Buyback Program on October 31, 2018, a maximum dollar value of $6.3 million of shares remained available for repurchase under the 2009 Buyback Program. No shares were available for repurchase under the 2009 Buyback Program following its termination on October 31, 2018.

As of December 31, 2018, there were 0 cumulative shares purchased as part of the 2018 Buyback Program and 2,000,000 shares that may yet be purchased under the 2018 Buyback Program.

Securities Authorized for Issuance Under Equity Compensation Plans

See Item 12. "*Security Ownership of Certain Beneficial Owners and Management Related Stockholders Matters*" for information with respect to our compensation plans under which equity securities are authorized for issuance.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth previously under the caption "Risk Factors." This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our audited consolidated financial statements and related notes included elsewhere in this report.

Overview

Digirad delivers convenient, effective, and efficient healthcare solutions on an as needed, when needed, and where needed basis. Digirad's diverse portfolio of mobile healthcare solutions and diagnostic imaging equipment and services, provides hospitals, physician practices, and imaging centers throughout the United States access to technology and services necessary to provide exceptional patient care in the rapidly changing healthcare environment.

We have grown both organically and through acquisitions over the last three years. Prior to the year ended December 31, 2016, we were organized as two reportable segments: Diagnostic Services and Diagnostic Imaging. With the acquisition of DMS Health on January 1, 2016, we added two additional reportable segments: Mobile Healthcare and Medical Device Sales and Services ("MDSS"). In February of 2018, we completed the sale of our customer contracts relating to our MDSS post-warranty service business to Philips North America LLC ("Philips"). On October 31, 2018, we sold our Telerhythmics business to G Medical Innovations USA, Inc., for $1.95 million in cash. As of December 31, 2018, our business was organized into three reportable segments: Diagnostic Services, Mobile Healthcare, and Diagnostic Imaging.

On September 10, 2018, we announced that our board of directors approved the conversion of Digirad into a diversified holding company, and the potential acquisition of ATRM Holdings, Inc., ("ATRM") as an initial "kick-off" transaction (the "ATRM Acquisition"). ATRM is a modular building company consisting of two divisions, KBS Builders and EdgeBuilder. The KBS division manufactures and distributes modular housing units. EdgeBuilder manufactures engineered wood products used in modular construction, as well as distributes building materials through its Glenbrook unit. Both divisions serve the residential and commercial segments of the market.

Strategy

Our main strategic focus is to continue to grow our business into an integrated healthcare services company while simultaneously converting into a diversified holding company through the acquisition of businesses that meet our internally developed financially disciplined approach for acquisitions. Within the healthcare industry, we believe that there are many opportunities to provide outsourced and mobile healthcare services and solutions in the current healthcare environment. We believe that our strategy within the healthcare industry will be accomplished by:

- Focused organic growth from our core businesses;
- Introducing new service offerings through our existing businesses or through acquisitions; and
- Acquiring complementary companies.

Discontinued Operations

On February 1, 2018, the Company completed the sale of its customer contracts relating to our MDSS post-warranty service business to Philips pursuant to an Asset Purchase Agreement, dated as of December 22, 2017 for $8.0 million. The Company deemed the disposition of our MDSS reportable segment in the first quarter of 2018 to represent a strategic shift that will have a major effect on our operations and financial results. In accordance with the provisions of FASB authoritative guidance on the presentation of financial statements we have classified the results of our MDSS segment as discontinued operations in our consolidated statement of operations for all periods presented. Additionally, the related assets and liabilities associated with the discontinued operations were reclassified as held for sale in our consolidated balance sheet.

Business Segments

As of December 31, 2018, we operate the Company in three reportable segments:

1. Diagnostic Services
2. Mobile Healthcare
3. Diagnostic Imaging

Diagnostic Services. Through Diagnostic Services, we offer a convenient and economically efficient imaging and monitoring services program as an alternative to purchasing equipment or outsourcing the procedures to another physician or imaging center. For physicians who wish to perform nuclear imaging, echocardiography, vascular or general ultrasound tests, we provide imaging

systems, qualified personnel, radiopharmaceuticals, licensing services, and the logistics required to perform imaging in their own offices, and thereby the ability to bill Medicare, Medicaid, or one of the third-party healthcare insurers directly for those services, which are primarily cardiac in nature. We provide imaging services primarily to cardiologists, internal medicine physicians, and family practice doctors who typically enter annual contracts for a set number of days ranging from once per month to five times per week.

Mobile Healthcare. Through Mobile Healthcare, we provide contract diagnostic imaging, including computerized tomography ("CT"), magnetic resonance imaging ("MRI"), positron emission tomography ("PET"), PET/CT, and nuclear medicine and healthcare expertise to hospitals, integrated delivery networks ("IDNs"), and federal institutions on a long-term contract basis, as well as provisional (short-term) services to institutions that are in transition. These services are provided primarily when there is a cost, ease, and efficiency component of providing the services directly rather than owning and operating the related services and equipment directly by our customers.

Diagnostic Imaging. Through Diagnostic Imaging, we sell our internally developed solid-state gamma cameras, imaging systems and camera maintenance contracts. Our imaging systems include nuclear cardiac imaging systems, as well as general purpose nuclear imaging systems. We sell our imaging systems to physician offices and hospitals primarily in the United States, although we have sold a small number of imaging systems internationally.

Our Market

The target market for our products and services is comprised of cardiologists, internal medicine physicians, family practice physicians, hospitals, IDNs, and federal institutions in the United States that perform or could perform a diagnostic imaging procedure, have a need for cardiac event monitoring, or have interest in purchasing a diagnostic imaging product. During the year ended December 31, 2018, through Diagnostic Services and Mobile Healthcare, we provided imaging services to 992 physicians, physician groups, hospitals, IDNs and federal institutions. Our Diagnostic Services and Mobile Healthcare businesses currently operate in approximately 40 states. In the past, our market has been negatively affected by lower reimbursements from the Center for Medicare and Medicaid Services ("CMS") and third-party insurance providers for the codes under which our customers bill for our services, although reimbursements have stabilized in the last several years. We have addressed, and will continue to address, these market pressures by modifying our Diagnostic Services and Mobile Healthcare business models, and by assisting our healthcare customers in complying with new regulations and requirements.

Trends and Drivers

The market for diagnostic services and products is highly competitive. Our business, which is focused primarily on the private practice and hospital sectors, continues to face uncertainty in the demand for diagnostic services and imaging equipment, which we believe is due in part to the impact of the Deficit Reduction Act on the reimbursement environment and the 2010 Healthcare Reform laws, as well as general uncertainty in overall healthcare and legislative changes in healthcare, such as the Affordable Care Act. These challenges have impacted, and will likely continue to impact, our operations. We believe that the principal competitive factors in our market include budget availability for our capital equipment, qualifications for reimbursement, pricing, ease-of-use, reliability, and mobility.

Diagnostic Services. In providing Diagnostic Services imaging services, we compete against many smaller local and regional nuclear and ultrasound providers that may have lower operating costs. The fixed-installation operators often utilize older, used equipment, and the mobile operators may use older Digirad single-head cameras or newer dual-head cameras. We are the only mobile provider with our own exclusive source of triple-head mobile systems. Some competing operators place new or used cameras into physician offices and then provide the staffing, supplies, and other support as an alternative to a Diagnostic Services service contract. In addition, we compete against imaging centers that install fixed nuclear gamma cameras and make them available to referring physicians in their geographic vicinity. In these cases, the physician sends their patients to the imaging center.

Diagnostic Imaging. In selling our imaging systems, we compete against several large medical device manufacturers who offer a full line of imaging cameras for each diagnostic imaging technology, including x-ray, MRI, CT, ultrasound, nuclear medicine, or SPECT/CT and PET/CT hybrid imagers. The existing nuclear imaging systems sold by these competitors have been in use for a longer period of time than our internally developed nuclear gamma cameras, and are more widely recognized and used by physicians and hospitals; however, they are generally not solid-state, light-weight, as flexible, or portable. Additionally, certain medical device companies have developed a version of solid-state gamma cameras that may directly compete with our product offerings. Many of the larger multi-modality competitors enjoy significant competitive advantages over us, including greater brand recognition, greater financial and technical resources, established relationships with healthcare professionals, broader distribution networks, more resources for product development and marketing and sales, and the ability to bundle products to offer discounts.

Mobile Healthcare. The market for selling, servicing, and operating diagnostic imaging services, and imaging systems is highly competitive. In addition to direct competition from other providers of services similar to those offered by us, we compete with freestanding imaging centers and healthcare providers that have their own diagnostic imaging systems, as well as with equipment manufacturers that sell imaging equipment directly to healthcare providers for permanent installation. Some of the

direct competitors, which provide contract MRI and PET/CT services, have access to greater financial resources than we do. In addition, some of our customers are capable of providing the same services we provide to their patients directly, subject only to their decision to acquire a high-cost diagnostic imaging system, assume the financial and technology risk, and employ the necessary technologists, rather than obtain equipment and services from us. We may also experience greater competition in states that currently have certificate of need laws if such laws were repealed, thereby reducing barriers to entry and competition in those states. We also compete against other similar providers in quality of services, quality of imaging systems, relationships with healthcare providers, knowledge and service quality of technologists, price, availability, and reliability.

Proposed Acquisition of ATRM Holdings, Inc.

On September 10, 2018, we announced that our board of directors approved the conversion of Digirad Corporation into a diversified holding company, and the potential acquisition of ATRM as an initial "kick-off" transaction. ATRM is a modular building company consisting of two divisions, KBS Builders and EdgeBuilder. The KBS division manufactures and distributes modular housing units. EdgeBuilder manufactures engineered wood products used in modular construction, as well as distributes building materials through its Glenbrook unit. Both divisions serve the residential and commercial segments of the market.

As currently contemplated by the non-binding letter of intent with ATRM (the "LOI"), ATRM stockholders would receive consideration consisting of 0.4 shares of Digirad common stock for each share of outstanding ATRM common stock we acquire in the ATRM Acquisition. The issuance of Digirad common stock in connection with the ATRM Acquisition is expected to increase the number of shares of outstanding Digirad common stock by less than 5%. Proceeding with the ATRM Acquisition is subject to, among other things, ATRM becoming current with its filings with the Securities and Exchange Commission and the negotiation and execution of definitive documentation. The ATRM Acquisition has been approved by a special committee of independent directors of ATRM. The final terms of the ATRM Acquisition are subject to change depending on the outcome of our due diligence investigation and may differ from those reflected in the LOI, and there can be no assurance that we will complete the ATRM Acquisition or the conversion into a diversified holding company.

Jeffrey E. Eberwein, the Chairman of our board of directors and the Chairman of the board of directors of ATRM, owns approximately 17.4% of the outstanding common stock of ATRM. Mr. Eberwein is also the Chief Executive Officer of Lone Star Value Management, LLC, which is the investment manager of Lone Star Value Investors, LP ("LSVI"). LSVI owns 222,577 shares of ATRM's 10.00% Series B Cumulative Preferred Stock (the "Series B Stock") and another 374,562 shares of Series B Stock are owned directly by Lone Star Value Co-Invest I, LP ("LSV Co-Invest I"). Through these relationships and other relationships with affiliated entities, Mr. Eberwein may be deemed the beneficial owner of the securities owned by LSVI and LSV Co-Invest I. Mr. Eberwein disclaims beneficial ownership of Series B Stock, except to the extent of his pecuniary interest therein. All transactions between Digirad and ATRM have been reviewed and approved by a special committee composed of independent directors of Digirad.

Star Procurement Joint Venture

On December 14, 2018, Digirad and ATRM entered into a joint venture and formed Star Procurement, LLC ("Star Procurement"), with Digirad and ATRM each holding a 50% interest. The purpose of the joint venture is to provide the service of purchasing and selling building materials and related goods to KBS Builders, Inc., a wholly owned subsidiary of ATRM with which Star Procurement entered into a Services Agreement on January 2, 2019. Digirad's capital contribution to the joint venture is $1.0 million.

2018 Financial Highlights

Revenues for continuing operations were $104.2 million for the year ended December 31, 2018. This is a decrease of $0.5 million, or 0.4%, compared to the prior year due to the following:

- Mobile Healthcare segment revenues decreased $0.6 million, or 1.4% primarily due to lower scan volume as an result of an increase in mobile imaging cancellations.
- Diagnostic Imaging segment revenues decreased $0.1 million, or 0.8%, primarily due to a decrease in the number of cameras sold and a lower blended average selling price per camera year over year, and lower revenue associated with camera maintenance time and material services.
- These decreases in revenue were partially offset by an increase in our Diagnostic Services segment revenue of $0.2 million, or 0.5%, primarily due to an increase in the volume of total imaging days ran.

Gross profit for continuing operations decreased $2.9 million, or 13.8%, compared to the prior year mainly due to a $2.5 million decrease in Mobile Healthcare segment, which was driven by lower utilization of the owned assets and higher equipment maintenance costs.

Total operating expenses decreased $3.7 million, or 13.9%, for the year ended December 31, 2018 compared to the prior year, primarily due to lower litigation-related costs of $1.5 million related to the settlement of a wage and hour lawsuit in the prior year, lower employee related costs of $0.7 million due to reductions in headcount, higher gains on equipment and vehicle sales of $0.5

million from the disposal of mobile healthcare assets, as well as lower depreciation expense and stock-based compensation costs. Company headcount has decreased from 515 employees at the end of 2017 compared to 452 as of December 31, 2018.

Net loss for continuing operations for the year ended December 31, 2018 was $3.8 million, which is an improvement of $31.2 million compared to our net loss of $35.0 million during the prior year. This was driven primarily by year-over-year changes in the income tax provision due to valuation allowance changes. We recognized an income tax benefit of $1.6 million during the year ended December 31, 2018, compared to an income tax expense of $28.0 million during the year ended December 31, 2017.

For the year ended December 31, 2018, Diagnostic Services operated 95 nuclear gamma cameras and 55 ultrasound imaging systems, and Mobile Healthcare operated 98 PET/CT, MRI, and ultrasound diagnostic imaging systems. We continue to strive to improve our overall profitability through more efficient utilization of our fleet of nuclear gamma cameras, ultrasound equipment, and PET, CT and MRI imaging systems. We measure efficiency by tracking system utilization, which is based on the percentage of days that our cameras, equipment and imaging systems are used to deliver services to customers out of the total number of days that they are available to deliver such services. System utilization for Diagnostic Services for the year ended December 31, 2018, was consistent at 63% compared to the prior year. System utilization for Mobile Healthcare was 82% for the year ended December 31, 2018, compared to 84% in the prior year, due to a decrease in interim system utilization.

Critical Accounting Policies

Management's discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which are prepared in accordance with United States generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, related disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. We evaluate our estimates and judgments, the most critical of which are those related to revenue recognition, reserves for contractual allowances and doubtful accounts, inventory valuation, goodwill valuation, share-based compensation, self-insured health insurance benefits, valuation of long-lived assets and income taxes. We base our estimates and judgments on historical experience and other factors that we believe to be reasonable under the circumstances. Materially different results can occur as circumstances change and additional information becomes known.

- revenue recognition
- reserves for contractual allowances and doubtful accounts
- inventory valuation
- goodwill valuation
- share-based compensation
- self-insured health insurance benefits
- valuation of long-lived assets
- income taxes

See Note 2. *Basis of Presentation and Significant Accounting Policies*, within the notes to our accompanying consolidated financial statements for discussion of each of these accounting policies.

New Accounting Pronouncements

See Note 2. *Basis of Presentation and Significant Accounting Policies*, within the notes to our accompanying consolidated financial statements for discussion of our discussion of new accounting pronouncements.

Results of Operations

Comparison of Years Ended December 31, 2018 and 2017

The following table sets forth our results from operations for the years ended December 31, 2018 and 2017 (in thousands):

	Year ended December 31,				Change from Prior Year	
	2018	% of Revenues	2017	% of Revenues	Dollars	Percent
Total revenues	$ 104,180	100.0 %	$ 104,632	100.0 %	$ (452)	(0.4)%
Total cost of revenues	85,909	82.5 %	83,436	79.7 %	2,473	3.0 %
Gross profit	18,271	17.5 %	21,196	20.3 %	(2,925)	(13.8)%
Operating expenses:						
Marketing and sales	5,418	5.2 %	6,249	6.0 %	(831)	(13.3)%
General and administrative	15,038	14.4 %	18,586	17.8 %	(3,548)	(19.1)%
Amortization of intangible assets	1,377	1.3 %	1,494	1.4 %	(117)	(7.8)%
Goodwill impairment	476	0.5 %	166	0.2 %	310	186.7 %
Loss on sale of buildings	507	0.5 %	—	— %	507	100.0 %
Total operating expenses	22,816	21.9 %	26,495	25.3 %	(3,679)	(13.9)%
Loss from operations	(4,545)	(4.4)%	(5,299)	(5.1)%	754	(14.2)%
Other expense, net	(61)	(0.1)%	(311)	(0.3)%	250	(80.4)%
Interest expense, net	(751)	(0.7)%	(730)	(0.7)%	(21)	2.9 %
Loss on extinguishment of debt	(43)	— %	(709)	(0.7)%	666	(93.9)%
Total other expense	(855)	(0.8)%	(1,750)	(1.7)%	895	(51.1)%
Loss before income taxes	(5,400)	(5.2)%	(7,049)	(6.7)%	1,649	(23.4)%
Income tax benefit (expense)	1,561	1.5 %	(27,987)	(26.7)%	29,548	(105.6)%
Net loss from continuing operations	(3,839)	(3.7)%	(35,036)	(33.5)%	31,197	(89.0)%
Income (loss) from discontinued operations, net of tax	4,575	4.4 %	(694)	(0.7)%	5,269	(759.2)%
Net income (loss)	$ 736	0.7 %	$ (35,730)	(34.1)%	$ 36,466	(102.1)%

Revenues

Services Revenue

Services revenue by segment is summarized as follows (in thousands):

	Year Ended December 31,			
	2018	2017	$ Change	% Change
Diagnostic Services	$ 49,256	$ 49,016	$ 240	0.5 %
Mobile Healthcare	42,941	43,535	(594)	(1.4)%
Total Services Revenue	$ 92,197	$ 92,551	$ (354)	(0.4)%

Service revenue overall is consistent with prior year. The increase in Diagnostic Services revenue was primarily due to higher volume of imaging days ran and studies performed, and an increase in the average mobile imaging rate per day, partially offset by a loss of revenues due to the sale of our Telerhythmics business as of October 1, 2018.

The decrease in Mobile Healthcare revenue was primarily due to cancellations. The increased cancellation resulted in a $2.0 million decrease in scan volumes. Added to this decrease was $0.3 million of lower supplies and accessories sales. The decrease was partially offset by a $1.7 million increase in interim rentals due to higher utilization. The utilization of our interim rentals can vary in each period based on customers that are in the midst of new construction or refurbishing their current facilities. Overall, services revenue accounted for 88.5% of total revenues for each of the two years ended December 31, 2018 and December 31, 2017. We expect our Services revenue to continue to represent the larger percentage of our consolidated revenue and expect that percentage to increase in 2019; however, the percentage will fluctuate quarter by quarter given the significant variability in the timing and volume of product sales associated with our Diagnostic Imaging segment.

Product and Product-Related Revenue

Product and product-related revenue by segment is summarized as follows (in thousands):

	Year Ended December 31,			
	2018	2017	$ Change	% Change
Diagnostic Imaging	$11,983	$12,081	$(98)	(0.8)%

The decrease in Diagnostic Imaging revenue was due to a decrease in camera revenue sales resulting from a lower volume of cameras sold, partially offset by an increase in camera support time and material activities, which are variable in nature and based on customer needs.

Gross Profit

Services Gross Profit

Services gross profit and gross margin is summarized as follows (in thousands):

	Year Ended December 31,		
	2018	2017	% Change
Services gross profit	$13,129	$16,160	(18.8)%
Services gross margin	14.2%	17.5%	

Diagnostic Services gross profit decreased $0.5 million, or 5.0%, to $9.4 million in the current year compared to $9.9 million in the prior year, and the gross margin percentage was 19.2% in the current year compared to 20.3% in the prior year. The decrease in gross margin percentage was mainly due to higher labor costs as a percentage of revenue.

Mobile Healthcare gross profit decreased $2.5 million, or 40.8%, to $3.7 million in the current year compared to $6.2 million in the prior year, and gross margin percentage was 8.6% in the current year compared to 14.3% in the prior year. The decrease in gross margin percentage was primarily due to an unfavorable mix of services provided, as well as higher equipment and trailer maintenance and health insurance costs.

Product and Product-Related Gross Profit

Product and product-related gross profit and gross margin is summarized as follows (in thousands):

	Year Ended December 31,		
	2018	2017	% Change
Product and product-related gross profit	$5,142	$5,036	2.1%
Product and product-related gross margin	42.9%	41.7%	

The increase in Diagnostic Imaging gross margin percentage was primarily due to lower service part costs and product royalty fees, partially offset by lower revenue.

Operating Expenses

Operating expense are summarized as follows (in thousands):

	Year Ended December 31,				Percent of Revenues	
	2018	2017	$ Change	% Change	2018	2017
Marketing and sales	$ 5,418	$ 6,249	$ (831)	(13.3)%	5.2%	6.0%
General and administrative	15,038	18,586	(3,548)	(19.1)%	14.4%	17.8%
Amortization of intangible assets	1,377	1,494	(117)	(7.8)%	1.3%	1.4%
Goodwill impairment	476	166	310	186.7 %	0.5%	0.2%
Loss on sale of building	507	—	507	100.0 %	0.5%	—%
Total operating expenses	$ 22,816	$ 26,495	$ (3,679)	(13.9)%	21.9%	25.3%

The decrease in marketing and sales expenses was primarily attributable to lower headcount in the related departments.

The decrease in general and administrative expenses was primarily due to lower litigation-related costs of $1.5 million, which includes the settlement of a wage and hour lawsuit in the prior year, lower employee related costs of $1.2 million due to reductions in headcount, lower depreciation expense of $0.6 million, and lower stock-based compensation of $0.2 million.

The decrease in amortization of intangible assets was primarily due to intangible assets related to customer relationships becoming fully amortized during 2018 and the sale of Telerhythmics in the fourth quarter of 2018.

The goodwill non-cash impairment charge related to derecognize Telerhythmics business. See Note 7. *Goodwill*, within the notes to our accompanying consolidated financial statements for further information.

During the year we completed the sale of buildings and land in Fargo, North Dakota with a net book value of $1.5 million for net cash proceeds of approximately $1.0 million, resulting in a loss on sale of $0.5 million.

Other (Expense) Income

Total other expense is summarized as follows (in thousands):

	Year Ended December 31,	
	2018	**2017**
Other expense, net	$ (61)	$ (311)
Interest expense, net	(751)	(730)
Loss on extinguishment of debt	(43)	(709)
Total other expense	$ (855)	$ (1,750)

Other expense, net consists of impairment losses recognized on our equity investments deemed to be other-than-temporarily impaired.

Interest expense, net is predominantly comprised of cash interest costs and related amortization of deferred issuance costs on our debt. A portion of interest costs has been allocated to discontinued operations in both periods since the proceeds received in the sale were required to be used to reduce our borrowings under our revolving credit facility with Comerica Bank, a Texas banking association (“Comerica”).

Loss on extinguishment of debt for the year ended December 31, 2018, is related to the write-off of unamortized deferred financing costs related to the amendment of the Comerica Credit Agreement on January 30, 2018. Loss on extinguishment of debt for the year ended December 31, 2017, is primarily related to the write-off of unamortized deferred financing costs related to the termination of the Wells Fargo Credit Agreement on June 21, 2017.

See Note 8. *Debt*, within the notes to our accompanying consolidated financial statements for further information regarding interest expense and loss on extinguishment of debt.

Income Tax (Expense) Benefit

Intraperiod allocation rules require us to allocate our provision for income taxes between continuing operations and other categories or comprehensive income such as discontinued operations. As described in Note 3. *Discontinued Operations*, the results of our MDSS reportable segment have been reported as discontinued operations for the current and prior year. As a result of the intraperiod allocation rules, for the year ended December 31, 2018, the Company recorded a tax expense of $1.5 million. For the year ended December 31, 2017, the Company recorded a benefit of $0.4 million to discontinued operations. In the fourth quarter of 2017, a full valuation allowance was established against our deferred tax assets due to a recent history of losses and uncertainties regarding our ability to utilize our net operating losses before expiration. Additionally, during the year ended December 31, 2017, as a result of the 2017 tax reform legislation impact we recognized $11.6 million of income tax expense due to the re-measurement of our deferred tax assets and liabilities at the new U.S. federal tax rate of 21% from the previous rate of 34%, for years subsequent to 2017. Moreover, we recognized $18.1 million of income tax expense due to an increase in our tax valuation allowance related to deferred tax assets, that prior to 2017, we believed were more likely than not to be realized.

See Note 11. *Income Taxes*, within the notes to our accompanying consolidated financial statements for further information.

Income from Discontinued Operations

As described in Note 3. *Discontinued Operations*, within the notes to our accompanying consolidated financial statements, the results of our MDSS reportable segment have been reported as discontinued operations for all periods presented. During the year ended December 31, 2018, discontinued operations includes a $6.2 million gain on the sale of our MDSS post-warranty service contracts to Philips that closed on February 1, 2018.

Liquidity and Capital Resources

Overview

We generated $5.1 million of positive cash flow from operations during the year ended December 31, 2018. Cash flows from operations primarily represent inflows from net income (adjusted for depreciation, amortization, and other non-cash items), as well as the net effect of changes in working capital. Cash flows from investing activities primarily represent our investment in capital equipment required to maintain and grow our business. Cash flows from financing activities primarily represent net proceeds from borrowings and receipt of cash related to the exercise of stock options, offset by outflows related to dividend payments and repayments of long-term borrowings.

Our principal sources of liquidity are our existing cash and cash equivalents, cash generated from operations, and availability on our revolving line of credit from our Comerica Credit Agreement. As of December 31, 2018, we had $1.5 million of cash and cash equivalents, as well as $10.3 million available under our revolving line of credit.

We require capital principally for capital expenditures, acquisition activity, and to finance accounts receivable and inventory. Our working capital requirements vary from period to period depending on inventory requirements, the timing of deliveries, and the payment cycles of our customers. Our capital expenditures consist primarily of medical imaging and diagnostic devices utilized in the provision of our services, as well as vehicles and information technology hardware and software. Based upon our current level of expenditures, we believe our current working capital, together with cash flows from operating activities, will be more than adequate to meet our anticipated cash requirements for at least the next 12 months from the issuance of this Annual Report.

Cash Flows

The following table shows cash flow information for the years ended December 31, 2018 and 2017 (in thousands):

	Year Ended December 31,	
	2018	**2017**
Net cash provided by operating activities	$ 5,064	$ 6,069
Net cash provided by (used in) by investing activities	$ 8,685	$ (1,465)
Net cash used in financing activities	$ (14,156)	$ (8,063)

Operating Activities

The decrease in net cash provided by operating activities for the year ended December 31, 2018 compared to the prior year was due to reduced operating loss for the period off-set by changes in working capital.

Investing Activities

The increase in net cash provided by investing activities for the year ended December 31, 2018 compared to the prior year was primarily attributable to $6.8 million of proceeds received from the sale of our MDSS service contract business to Philips, $2.1 million of proceeds received from the sale of property and equipment, and $1.9 million of proceeds received from our sale of Telerhythmics, partially offset by $2.2 million of purchases of property and equipment and a decrease of $0.9 million in cash provided by maturities of available-for-sale securities.

Financing Activities

The increase in net cash used in financing activities for the year ended December 31, 2018 compared to the prior year was primarily due to higher net principal repayments of $10.0 million in 2018 compared to $2.5 million in 2017, as a result of proceeds from the sale of our MDSS service contract business used to pay down outstanding borrowings on our revolving credit facility.

Comerica Revolving Credit Facility

On June 21, 2017, the Company entered into a Revolving Credit Agreement with Comerica, as amended from time to time (the”Comerica Credit Agreement”). The Comerica Credit Agreement provides for a five-year revolving credit facility with a maximum credit amount of $20.0 million (reduced from $25.0 million) maturing in June 2022, upon which a balloon payment on the balance is due. Under the Comerica Credit Facility, the Company can request the issuance of letters of credit in an aggregate amount not to exceed $1.0 million at any one time.

In connection with the sale of our post-warranty service customer contracts to Philips, the Company entered into Amendment No. 1 to the Comerica Credit Agreement, dated January 30, 2018 (the “First Amendment”). The First Amendment, among other things, (a) reduced the revolving credit commitment from $25.0 million to $20.0 million and (b) modified the definitions of

“Adjusted EBITDA,” “FCCR Capital Expenditures,” and “Revolving Credit Commitment” as used under the Comerica Credit Agreement.

On November 1, 2018, the Company entered into the Amendment No. 2 to the Comerica Credit Agreement (the “Second Amendment”). The Second Amendment, among other things, (a) modified the definition of “Fixed Charge Coverage Ratio” to change how the Fixed Charge Coverage Ratio is calculated, (b) modified the definition of “FCCR Capital Expenditure” to reduce a threshold amount and (c) modified the definitions of “Permitted Acquisition” and “Permitted Investments.”

As of December 31, 2018, the Company had $0.2 million of letters of credit outstanding and had additional borrowing capacity under the Comerica Credit Agreement of $10.3 million.

In connection with the Amendment, the Company recognized a $43 thousand loss on extinguishment due to the write off of unamortized deferred financing costs associated with the original Comerica Credit Agreement. In the year ended December 31, 2017, the Company used a portion of the financing made available under the Comerica Credit Agreement to repay and terminate the previous credit agreement with Wells Fargo Bank. The Company recognized a $0.7 million loss on extinguishment due to the write off of unamortized deferred financing costs associated with the previous credit facility.

At the Company’s option, the Comerica Credit Facility will bear interest at either (i) the LIBOR Rate, as defined in the Comerica Credit Agreement, plus a margin of 2.35%; or (ii) the PRR-based Rate, plus a margin of 0.5%. As further defined in the Comerica Credit Agreement, the “PRR-based Rate” means the greatest of (a) the Prime Rate in effect on such day (as defined in the Comerica Credit Agreement) plus 0.5%, or (b) the daily adjusting LIBOR Rate plus 2.50%. In addition to interest on outstanding borrowings under the Comerica Credit Facility, the revolving credit note bears an unused line fee of 0.25%, which is presented as interest expense.

The Comerica Credit Agreement contains certain representations, warranties, events of default, as well as certain affirmative and negative covenants customary for credit agreements of this type. These covenants include restrictions on borrowings, investments and divestitures, as well as limitations on the Company’s ability to make certain restricted payments. The Comerica Credit Agreement requires us to comply with certain financial covenants, including a Fixed Charge Coverage Ratio and a Funded Debt to Adjusted EBITDA Ratio (each as defined in the Comerica Credit Agreement). The Fixed Charge Coverage Ratio is calculated based on the ratio of (a) Adjusted EBITDA, less (i) cash income taxes paid for such period, less (ii), FCCR Capital Expenditures (as defined in the Comerica Credit Agreement) made during such period, less (iii) payments, repurchases or redemptions of stock made during such period, less (iv) Distributions and Purchases (each as defined in the Comerica Credit Agreement) made during such period, to (b) (i) the Current Maturities of Long Term Debt (each as defined in the Comerica Credit Agreement) as of the last day of such period plus (ii) interest paid during such period. The Fixed Charge Coverage ratio is measured on a quarterly basis as of the most recent fiscal quarter end. Under the Comerica Credit Agreement, we must maintain a fixed charge ratio of at least 1.25 to 1.00 for each trailing twelve-month period as of the end of each fiscal quarter. The funded debt to Adjusted EBITDA ratio (as defined in the Comerica Credit Agreement) must be not more than 2.25 to 1.00 measured at each fiscal quarter.

Upon the occurrence and during the continuation of an event of default under the Comerica Credit Agreement, Comerica may, among other things, declare the loans and all other obligations under the Comerica Credit Agreement immediately due and payable and increase the interest rate at which loans and obligations under the Comerica Credit Agreement bear interest. Pursuant to a separate Security Agreement dated June 21, 2017, between the Company, its subsidiaries and Comerica Bank, the Comerica Credit Facility is secured by a first-priority security interest in substantially all of the assets (excluding real estate) of the Company and its subsidiaries and a pledge of all shares and membership interests of the Company’s subsidiaries.

At December 31, 2018, the Company was in compliance with all covenants.

Off-Balance Sheet Arrangements

As of December 31, 2018, we did not have any off-balance sheet arrangements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

DIGIRAD CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors
Digirad Corporation
Poway, California

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Digirad Corporation (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of operations and comprehensive income (loss), stockholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended**,** in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Method Related to Revenue

As discussed in Notes 2 and 4 to the consolidated financial statements, the Company has changed its method of accounting for revenue during the year ended December 31, 2018 due to the adoption of the Accounting Standards Codification 606, "Revenue from Contracts with Customers."

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2015.
San Diego, California
March 1, 2019

DIGIRAD CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(In thousands, except per share amounts)

	Year ended December 31,	
	2018	**2017**
Revenues:		
Services	$ 92,197	$ 92,551
Product and product-related	11,983	12,081
Total revenues	104,180	104,632
Cost of revenues:		
Services	79,068	76,391
Product and product-related	6,841	7,045
Total cost of revenues	85,909	83,436
Gross profit	18,271	21,196
Operating expenses:		
Marketing and sales	5,418	6,249
General and administrative	15,038	18,586
Amortization of intangible assets	1,377	1,494
Goodwill impairment	476	166
Loss on sale of buildings	507	—
Total operating expenses	22,816	26,495
Loss from operations	(4,545)	(5,299)
Other expense:		
Other expense, net	(61)	(311)
Interest expense, net	(751)	(730)
Loss on extinguishment of debt	(43)	(709)
Total other expense	(855)	(1,750)
Loss before income taxes	(5,400)	(7,049)
Income tax benefit (expense)	1,561	(27,987)
Net loss from continuing operations	(3,839)	(35,036)
Net income (loss) from discontinued operations	4,575	(694)
Net income (loss)	$ 736	$ (35,730)
Net income (loss) per share — basic and diluted:		
Net loss from continuing operations	$ (0.19)	$ (1.75)
Net income (loss) from discontinued operations	0.23	(0.04)
Net income (loss) per share — basic and diluted:	$ 0.04	$ (1.79)
Dividends declared per common share	$ 0.165	$ 0.210
Net income (loss)	$ 736	$ (35,730)
Other comprehensive income (loss):		
Unrealized gain on available-for-sale marketable securities	—	17
Reclassification of unrealized gain on available-for-sale marketable securities to retained earnings	(17)	—
Reclassification of other-than-temporary losses on available-for-sale securities included in net (loss) income	—	52
Total other comprehensive (loss) income, before tax	(17)	69
Provision for income taxes	—	(22)
Total other comprehensive (loss) income, after tax	(17)	47
Comprehensive income (loss)	$ 719	$ (35,683)

See accompanying notes to consolidated financial statements.

DIGIRAD CORPORATION

CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	December 31,	
	2018	**2017**
Assets:		
Current assets:		
Cash and cash equivalents	$ 1,545	$ 1,877
Equity securities	153	97
Accounts receivable, net	12,642	15,887
Inventories, net	5,402	5,501
Restricted cash	167	242
Other current assets	1,285	1,972
Total current assets	21,194	25,576
Property and equipment, net	21,645	28,365
Intangible assets, net	5,228	7,830
Goodwill	1,745	2,393
Restricted cash	101	101
Non-current assets held for sale	—	1,735
Other assets	681	703
Total assets	$ 50,594	$ 66,703
Liabilities:		
Current liabilities:		
Accounts payable	$ 5,206	$ 5,207
Accrued compensation	3,862	5,507
Accrued warranty	197	204
Deferred revenue	1,687	2,302
Current liabilities held-for-sale	—	835
Other current liabilities	2,265	2,915
Total current liabilities	13,217	16,970
Long-term debt, net of current portion	9,500	19,500
Deferred tax liabilities	121	254
Other liabilities	1,956	2,180
Total liabilities	24,794	38,904
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, $0.0001 par value: 10,000,000 shares authorized; no shares issued or outstanding	—	—
Common stock, $0.0001 par value: 80,000,000 shares authorized; 20,249,786 and 20,060,311 shares issued and outstanding (net of treasury shares) at December 31, 2018 and 2017, respectively	2	2
Treasury stock, at cost; 2,588,484 shares at December 31, 2018 and 2017	(5,728)	(5,728)
Additional paid-in capital	145,428	148,163
Accumulated other comprehensive loss	(22)	(5)
Accumulated deficit	(113,880)	(114,633)
Total stockholders' equity	25,800	27,799
Total liabilities and stockholders' equity	$ 50,594	$ 66,703

See accompanying notes to consolidated financial statements.

DIGIRAD CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year ended December 31,	
	2018	**2017**
Operating activities		
Net income (loss)	$ 736	$ (35,730)
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation	7,331	7,903
Amortization of intangible assets	1,390	3,161
Provision for bad debts	53	174
Stock-based compensation	634	852
Amortization of loan fees	43	177
Loss on extinguishment of debt	43	709
Gain on disposal of discontinued operations	(6,161)	—
Gain on sale of Telerhythmics	(19)	—
Gain on sale of assets	(46)	(66)
Unrealized loss on available-for-sale securities	62	311
Goodwill impairment	476	2,746
Deferred income taxes	(133)	27,530
Other, net	—	(160)
Changes in operating assets and liabilities:		
Accounts receivable	3,026	(1,567)
Inventories	(12)	409
Other assets	686	(14)
Accounts payable	25	(1,244)
Accrued compensation	(1,645)	1,545
Deferred revenue	(749)	6
Other liabilities	(676)	(673)
Net cash provided by operating activities	5,064	6,069
Investing activities		
Purchases of property and equipment	(2,163)	(2,531)
Proceeds from sale of discontinued operations	6,844	—
Proceeds from sale of Telerhythmics	1,922	—
Proceeds from sale of property and equipment	2,095	167
Purchases of equity securities	(13)	(18)
Sales and maturities of securities available-for-sale	—	917
Net cash provided by (used in) investing activities	8,685	(1,465)
Financing activities		
Proceeds from long-term borrowings	33,347	37,569
Repayment of long-term borrowings	(43,347)	(40,032)
Loan issuance costs and extinguishment costs	24	(271)
Dividends paid	(3,321)	(4,195)
Issuances of common stock	26	5
Taxes paid related to net share settlement of equity awards	(74)	(195)
Cash paid for contingent consideration for acquisitions	—	(27)
Repayment of obligations under capital leases	(811)	(917)
Net cash used in financing activities	(14,156)	(8,063)
Net decrease in cash, cash equivalents, and restricted cash	(407)	(3,459)
Cash, cash equivalents, and restricted cash at beginning of year	2,220	5,679
Cash, cash equivalents, and restricted cash at end of year	$ 1,813	$ 2,220
Supplemental Information		
Cash paid during the period for interest	$ 702	$ 856
Cash paid during the period for income taxes	$ 52	$ 127
Non-Cash Investing Activities		
Assets acquired by entering into capital lease	$ 613	$ 2,422

See accompanying notes to consolidated financial statements.

DIGIRAD CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Common stock		Treasury Stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total stockholders' equity
	Shares	Amount					
Balance at December 31, 2016	19,892	$ 2	$ (5,728)	$ 151,696	$ (52)	$ (79,437)	$ 66,481
Stock-based compensation	—	—	—	852	—	—	852
Shares issued under stock incentive plans, net of shares withheld for employee taxes	168	—	—	(190)	—	—	(190)
Dividends paid	—	—	—	(4,195)	—	—	(4,195)
Net loss	—	—	—	—		(35,730)	(35,730)
Unrealized gain on securities available-for-sale	—	—	—	—	17	—	17
Reclassification of other-than-temporary losses on available-for-sale securities included in net income	—	—	—	—	52	—	52
Provision for income taxes	—	—	—	—	(22)	—	(22)
Cumulative effect of change in accounting principle	—	—	—	—	—	534	534
Balance at December 31, 2017	20,060	2	(5,728)	148,163	(5)	(114,633)	27,799
Stock-based compensation	—	—	—	634	—	—	634
Shares issued under stock incentive plans, net of shares withheld for employee taxes	190	—	—	(48)	—	—	(48)
Dividends paid	—	—	—	(3,321)	—	—	(3,321)
Net income	—	—	—	—		736	736
Reclassification of unrealized gain on available-for-sale marketable securities to retained earnings	—	—	—	—	(17)	17	—
Balance at December 31, 2018	20,250	$ 2	$ (5,728)	$ 145,428	$ (22)	$ (113,880)	$ 25,800

See accompanying notes to consolidated financial statements.

Note 1. The Company

Digirad Corporation, a Delaware holding corporation, together with its consolidated subsidiaries (collectively "Digirad" or the "Company") delivers convenient, effective, and efficient healthcare solutions on an as needed, when needed, and where needed basis. Digirad's diverse portfolio of mobile healthcare solutions and medical equipment and services, including diagnostic imaging and patient monitoring, provides hospitals, physician practices, and imaging centers throughout the United States access to technology and services necessary to provide exceptional patient care in the rapidly changing healthcare environment.

As of December 31, 2018, our business is organized into three reportable segments: Diagnostic Services, Mobile Healthcare, and Diagnostic Imaging. See Note 14. *Segments*, for more information relating to our segments. For discussion purposes, we categorized our Diagnostic Services and Mobile Healthcare reportable segments as "Services," and our Diagnostic Imaging reportable segment as "Product and Product-Related."

Note 2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The consolidated financial statements are prepared in conformity with United States generally accepted accounting principles ("GAAP") and include the financial statements of the Company and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated. Certain reclassifications have been made to the prior period financial statements to conform to the current period presentation.

Discontinued Operations

On February 1, 2018, the Company completed the sale of its customer contracts relating to the Medical Device Sales and Service ("MDSS") post-warranty service business to Philips North America LLC ("Philips") pursuant to an Asset Purchase Agreement, dated as of December 22, 2017 for $8.0 million. For all periods presented in our consolidated statements of operations, all sales, costs, expenses, and income taxes attributable to MDSS, except as related to the impact of the decrease in the federal statutory tax rate (see Note 11. *Income Taxes*), have been aggregated under the caption "earnings from discontinued operations, net of income taxes." Cash flows used in or provided by MDSS operations as part of discontinued operations and prior year results recasted to conform with the current presentation are disclosed in Note 3. *Discontinued Operations.* Unless otherwise noted, amounts and disclosures throughout these notes to consolidated financial statements relate to our continuing operations.

Sale of Telerhythmics, LLC

On October 31, 2018, the Company entered into a membership interest purchase agreement (the "Telerhythmics Purchase Agreement") with G Medical Innovations USA, Inc. ("G Medical"), pursuant to which we sold all the outstanding membership interests in Telerhythmics to G Medical. The total consideration related to the Telerhythmics Purchase Agreement was $1.95 million in cash, which was paid at the closing on October 31, 2018. In connection with the transaction, the Company has agreed to make partial monthly rent payments aggregating $0.2 million through January 2021. The Telerhythmics Purchase Agreement includes customary representations, warranties, covenants and indemnification obligations of the parties, including a non-competition covenant by the Company. The gain on the sale of Telerhythmics, LLC was approximately $19 thousand and is included in other income in the statement of operations and comprehensive income.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and disclosures made in the accompanying notes to the consolidated financial statements. Significant estimates and judgments include those related to revenue recognition, reserves for doubtful accounts and contractual allowances, self-insurance, inventory valuation, and income taxes. Actual results could materially differ from those estimates.

Revenue Recognition

We adopted Accounting Standards Codification ("ASC") Topic 606 effective January 1, 2018 using the modified retrospective method. We applied the practical expedient permitted under ASC Topic 606 to those contracts that were not completed as of the date of initial adoption. Results for reporting periods after January 1, 2018 are presented under ASC Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with legacy accounting guidance under ASC Topic 605. Our revenue recognition policies under ASC Topic 606 and Topic 605 are explained below.

Pursuant to ASC 606, Revenue from Contracts with Customers, the Company recognizes revenue when a customer obtains control of promised goods or services. The Company records the amount of revenue that reflects the consideration that it expects to receive in exchange for those goods or services. The Company applies the following five-step model in order to determine this amount: (i) identification of the promised goods or services in the contract; (ii) determination of whether the promised goods or services are performance obligations, including whether they are distinct in the context of the contract; (iii) measurement of the transaction price, including the constraint on variable consideration; (iv) allocation of the transaction price to the performance obligations; and (v) recognition of revenue when (or as) the Company satisfies each performance obligation.

Under ASC 605, we recognized revenue for all of our reportable segments in accordance with the authoritative guidance for revenue recognition, when all of the following four criteria are met: (i) a contract or sales arrangement exists; (ii) products have been shipped and title has transferred or services have been rendered; (iii) the price of the products or services is fixed or determinable; and (iv) collectability is reasonably assured. The timing of revenue recognition is based upon factors such as passage of title and risk of loss, the need for installation, and customer acceptance. These factors are based on the specific terms of each contract or sales arrangement.

Services Revenue Recognition. We generate service revenue primarily from providing diagnostic imaging and cardiac monitoring services to our customers. Service revenue within our Diagnostic Imaging and Mobile Healthcare reportable segments is derived from providing our customers with contract diagnostic imaging services, which includes use of our imaging systems, qualified personnel, radiopharmaceuticals, licensing, logistics and related items required to perform testing in their own offices. We bill customers either on a per-scan or fixed-payment methodology, depending upon the contract that is negotiated with the customer. Within our Mobile Healthcare segment, we also rent imaging systems to healthcare customers for use in their operations. Rental revenues are structured as either a weekly or monthly payment arrangement, and are recognized in the month services are provided. Revenue related to provision of our services is recognized at the time services are performed.

Product and Product-Related Revenue Recognition. We generate revenue from product and product-related sales, primarily from the sale of gamma cameras.

Diagnostic Imaging product revenues are generated from the sale of internally developed solid-state gamma camera imaging systems and camera maintenance service contracts. Revenue for sales of imaging systems is generally recognized upon delivery of systems and acceptance by customers. We also provide installation services and training on cameras we sell, primarily in the United States. Installation and initial training is generally performed shortly after delivery and revenue related to the provision of these services is recognized at the time services are performed. Neither installation nor training is essential to the functionality of the product. Finally, we offer camera maintenance service contracts that are sold beyond the term of the initial warranty, generally one year from the date of purchase. Revenue from these contracts is deferred and recognized ratably over the period of the obligation.

Concentration of Credit Risk

Financial instruments, which potentially subject us to concentrations of credit risk, consist primarily of cash and cash equivalents, investments, and accounts receivable. We limit our exposure to credit loss by generally placing our cash and investments in high credit quality financial institutions and investment grade corporate debt securities. Additionally, we have established guidelines regarding diversification of our investments and their maturities, which are designed to maintain principal and maximize liquidity.

Fair Value of Financial Instruments

The authoritative guidance for fair value measurements defines fair value for accounting purposes, establishes a framework for measuring fair value, and provides disclosure requirements regarding fair value measurements. The guidance defines fair value as an exit price, which is the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date. The degree of judgment utilized in measuring the fair value of assets and liabilities generally correlates to the level of pricing observability. Our financial instruments primarily consist of cash equivalents, securities available-for-sale, accounts receivable, other current assets, restricted cash, accounts payable, and other current liabilities. The carrying amount of these financial instruments generally approximate fair value due to their short-term nature. Securities available-for-sale are recorded at fair value.

Cash and Cash Equivalents

We consider all investments with a maturity of three months or less when acquired to be cash equivalents.

Equity Securities

As of December 31, 2018, securities consist of investments in equity securities that are publicly traded. Investments that are strategic in nature, with the intent to hold the investment over a several year period, are classified as other assets (non-current). Effective January 1, 2018, equity securities, with certain exceptions, are measured at fair value and changes in fair value are recognized in net income. During the year ended December 31, 2018, the Company recognized expenses related to changes in

fair value of $0.1 million in the statement of operations. During 2017, the Company recorded equity securities as available-for-sale and any change in fair value was recorded as part of other comprehensive income (loss). The Company recorded other than temporary impairment charges to earnings of $0.3 million in 2017.

Allowance for Doubtful Accounts, Billing Adjustments, and Contractual Allowances

Accounts receivable consist principally of trade receivables from customers and government or third-party healthcare insurance providers, and are generally unsecured and due within 30 days. We regularly evaluate the collectability of our trade receivables and provide reserves for doubtful accounts based on our historical experience rate, known collectability issues and disputes, and our bad debt write-off history. Our estimates of collectability could be impacted by material amounts due to changed circumstances, such as a higher number of defaults or material adverse changes in a payor's ability to meet its obligations. Expected credit losses related to trade accounts receivable are recorded as an allowance for doubtful accounts within accounts receivable, net in the consolidated balance sheets, and the related provision for doubtful accounts is charged to general and administrative expenses.

Within Diagnostic Services, we record adjustments and credit memos that represent billing adjustments subsequent to the performance of service. As such, we also record a provision for billing adjustments, which are based on our historical experience rate and billing adjustments history. The provision for billing adjustments is charged against Diagnostic Services revenues.

The following table summarizes our allowance for doubtful accounts, billing adjustments, and contractual allowances as of and for the years ended December 31, 2018, and 2017 (in thousands):

	Allowance for Doubtful Accounts [1]	Reserve for Billing Adjustments [2]	Reserve for Contractual Allowances [2]
Balance at December 31, 2016	$ 531	$ 13	$ 515
Provision adjustment	453	133	19,307
Write-offs and recoveries, net	(431)	(137)	(19,375)
Balance at December 31, 2017	553	9	447
Provision adjustment	180	219	19,221
Write-offs and recoveries, net	(301)	(210)	(19,668)
Balance at December 31, 2018	$ 432	$ 18	$ —

[1] The provision was charged against general and administrative expenses.

[2] The provision was charged against services revenue. Contractual allowance was written off due to sale of Telerhythmics.

Inventory

Our inventories are stated at the lower of cost (first-in, first-out) or market (net realizable value) and we review inventory balances for excess and obsolete inventory levels on a quarterly basis. Costs include material, labor, and manufacturing overhead costs. We rely on historical information to support our excess and obsolete reserves and utilize our business judgment with respect to estimated future demand. Per our policy, we generally reserve 100% of the cost of inventory quantities in excess of a defined period of demand. Once inventory is reserved, we do not adjust the reserve balance until the inventory is sold or disposed.

The following table summarizes our reserves for excess and obsolete inventory as of and for the years ended December 31, 2018 and 2017 (in thousands):

	Reserve for Excess and Obsolete Inventories [1]
Balance at December 31, 2016	$ 416
Provision adjustment	81
Write-offs and scrap	(44)
Balance at December 31, 2017	453
Provision adjustment	42
Write-offs and scrap [2]	(115)
Balance at December 31, 2018	$ 380

[1] The provision was charged against Product and product-related cost of revenues.

[2] Amount includes $90 thousand related to inventory sold during the year.

Long-Lived Assets including Finite Lived Purchased Intangible Assets

Long-lived assets consist of property and equipment and finite lived intangible assets. We record property and equipment at cost, and record other intangible assets based on their fair values at the date of acquisition. We calculate depreciation on property

and equipment using the straight-line method over the estimated useful life of the assets, which range from 5 to 20 years for buildings and improvements, 3 to 10 years for machinery and equipment, 3 to 10 years for computer hardware and software, and the lower of the estimated useful life or remaining lease term for leasehold improvements. Charges related to amortization of assets recorded under capital leases are included within depreciation expense. We calculate amortization on other intangible assets using either the accelerated or the straight-line method over the estimated useful life of the assets, based on when we expect to receive cash inflows generated by the intangible assets. Estimated useful lives for intangibles range from 3 years to 15 years.

Impairment losses on long-lived assets used in operations are recorded when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. No impairment losses were recorded on long-lived assets to be held and used during the years ended December 31, 2018 and 2017.

Valuation of Goodwill

We review goodwill for impairment on an annual basis during the fourth quarter, as well as when events or changes in circumstances indicate that the carrying value may not be recoverable. We begin the process by assessing qualitative factors in determining whether it is more likely than not that the fair value of its reporting unit is less than its carrying amount. After performing the aforementioned assessment and upon review of the results of such assessment, we may begin performing impairment analysis by quantitatively comparing the fair value of the reporting unit to the carrying value of the reporting unit, including goodwill. Impairment charge for goodwill is recognized for the amount by which the carrying value of the reporting unit exceeds its fair value and such loss should not exceed the total goodwill allocated to the reporting unit.

The Company recorded an impairment charge of $2.6 million associated with the impairment assessment of the MDSS reporting unit during the year ended December 31, 2017. The Company also recorded impairment charges of $0.5 million and $0.2 million during the years ended December 31, 2018 and 2017, respectively, associated with the impairment assessment of the Telerhythmics reporting unit. See Note 7. *Goodwill*, for further information.

Self-Insured Health Insurance Benefits

Effective January 1, 2017, the Company provided healthcare benefits to its employees through a self-insured plan with "stop loss" coverage. The Company records a liability that represents our estimated cost of claims incurred and unpaid as of the balance sheet date. Our estimated reserve is based on historical experience and trends related to both health insurance claims and payments. The ultimate cost of healthcare benefits will depend on actual costs incurred to settle the claims and may differ from the amounts reserved by the Company for those claims. As of December 31, 2018 and 2017, the reserve for estimated claims incurred and unpaid was $0.5 million and $1.0 million, respectively.

Restricted Cash

We maintain certain cash amounts restricted as to withdrawal or use. As of December 31, 2018 and 2017, restricted cash was $0.3 million, comprised of cash held for letters of credit for our real estate leases and certain minimum balance requirements on our banking arrangements.

Debt Issuance Costs

We incur debt issuance costs in connection with long-term debt financings. Debt issuance costs recorded in connection with our Comerica revolving credit facility are presented in other assets on the consolidated balance sheets and are amortized over the term of the revolving debt agreements using the straight-line method. Amortization of debt issuance costs are included in interest expense. As of December 31, 2018, we have $0.2 million of unamortized debt issuance costs.

Upon changes to our debt structure, we evaluate debt issuance costs in accordance with the Debt topic of the Codification. We adjust debt issuance costs as necessary based on the results of this evaluation, as discussed in Note 8. *Debt*.

Shipping and Handling Fees and Costs

We record all shipping and handling billings to customers as revenue earned for the goods provided. Shipping and handling costs are included in cost of revenues and totaled $0.8 million and $0.9 million for the years ended December 31, 2018 and 2017, respectively.

Share-Based Compensation

We account for share-based awards exchanged for employee services in accordance with the authoritative guidance for share-based compensation. Under this guidance, share-based compensation expense is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense, net of forfeitures, over the requisite service period.

Warranty

We generally provide a 12-month warranty on our gamma cameras. We accrue the estimated cost of this warranty at the time revenue is recorded and charge warranty expense to Product and product-related cost of revenues. Warranty reserves are established based on historical experience with failure rates and repair costs and the number of systems covered by warranty. Warranty reserves are depleted as gamma cameras are repaired. The costs consist principally of materials, personnel, overhead, and transportation. We review warranty reserves quarterly and, if necessary, make adjustments.

The activities related to our warranty reserve for the years ended December 31, 2018 and 2017 are as follows (in thousands):

	Year Ended December 31,	
	2018	2017
Balance at beginning of year	$ 204	$ 196
Charges to cost of revenues	279	351
Applied to liability	(286)	(343)
Balance at end of year	$ 197	$ 204

Advertising Costs

Advertising costs are expensed as incurred. Total advertising costs for each of the years ended December 31, 2018 and 2017 were $0.3 million and $0.3 million, respectively.

Basic and Diluted Net Income (Loss) Per Share

Basic earnings per share ("EPS") is calculated by dividing net (loss) income by the weighted-average number of common shares and vested restricted stock units outstanding. Diluted EPS is computed by dividing net (loss) income by the weighted-average number of common shares and vested restricted stock units outstanding and the weighted-average number of dilutive common stock equivalents, including stock options and non-vested restricted stock units under the treasury stock method. Common stock equivalents are only included in the diluted earnings per share calculation when their effect is dilutive.

The following table sets forth the computation of basic and diluted net (loss) income per share for the periods indicated (in thousands, except per share amounts):

	Year Ended December 31,	
	2018	2017
Numerator:		
Loss from continuing operations, net of tax	$ (3,839)	$ (35,036)
Income (loss) from discontinued operations, net of tax	4,575	(694)
Net income (loss)	$ 736	$ (35,730)
Denominator:		
Weighted average shares outstanding - basic	20,158	19,995
Dilutive potential common shares:		
Stock options	—	—
Restricted stock units	—	—
Weighted average shares outstanding - diluted	20,158	19,995
Net income (loss) per common share - basic and diluted		
Continuing operations	$ (0.19)	$ (1.75)
Discontinued operations	0.23	(0.04)
Net income (loss) per share - basic and diluted [(1)]	$ 0.04	$ (1.79)

[(1)] Earnings per share may not add due to rounding.

Antidilutive common stock equivalents are excluded from the computation of diluted earnings per share. Stock options and restricted stock units are antidilutive when the assumed proceeds per share are greater than the average market price of the common shares. In addition, in periods where net losses are incurred, stock options and restricted stock units with assumed proceeds per share less than the average market price of the common shares become antidilutive as well. The following weighted-average

outstanding common stock equivalents were not included in the calculation of diluted net income (loss) per share because their effect was antidilutive (in thousands):

	Year Ended December 31,	
	2018	2017
Stock options	340	220
Restricted stock units	157	33
Total	497	253

Other Comprehensive Loss

Other comprehensive loss is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources.

Income Taxes

We provide for income taxes under the asset and liability method. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of differences between the tax basis of assets or liabilities and their carrying amounts in the financial statements. We provide a valuation allowance for deferred tax assets if it is more likely than not that these items will expire before we are able to realize their benefit. We calculate the valuation allowance in accordance with the authoritative guidance relating to income taxes, which requires an assessment of both positive and negative evidence regarding the realizability of these deferred tax assets when measuring the need for a valuation allowance. Significant judgment is required in determining any valuation allowance against deferred tax assets.

The authoritative guidance for income taxes defines a recognition threshold and measurement attributes for financial statement recognition and measurement of a tax provision taken or expected to be taken in a tax return. The guidance also provides direction on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Under the guidance, the impact of an uncertain income tax position on the income tax return must be recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. We recognize interest and penalties related to uncertain tax positions as a component of the income tax provision.

Recently Adopted Accounting Standards

In November 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the total beginning and ending amounts for the periods shown on the statement of cash flows. We adopted ASU 2016-18 effective January 1, 2018 using the retrospective transition method, which resulted in an increase of $3.0 million in net cash flows used in financing activities that was previously reported for the year ended December 31, 2017.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which amended the existing accounting standards for the accounting for financial instruments. The amendments require equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income. We adopted ASU 2016-01 on January 1, 2018. As a result of the adoption, we recorded an increase to retained earnings of $17 thousand to recognize the unrealized gains previously recorded within accumulated other comprehensive income. Subsequent changes in the fair value of our marketable securities will be recorded to other expense, net. See Note 6. *Fair Value Measurements*, for further details.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* that outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers that supersedes current revenue recognition guidance, including most industry-specific guidance. We adopted Topic 606 as of January 1, 2018 using the modified retrospective transition method. Under the modified retrospective method, the Company recognized the cumulative effect of initially applying the standard as an adjustment to opening retained earnings at the date of initial application; however, we did not have any adjustments as of the date of the adoption. See Note 4. *Revenue*, for expanded revenue disclosures and updates to our revenue recognition policy.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which simplifies the subsequent measurement of goodwill by removing the second step of the two-step impairment test. We early adopted ASU 2017-04 effective April 1, 2018 on a prospective basis in conjunction with the interim impairment test of goodwill performed during that quarter. See Note 7. *Goodwill*, for additional information on our interim goodwill impairment test performed.

New Accounting Standards To Be Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which amended the existing accounting standards for the accounting for leases. Most significant among the changes in the standard is the recognition of right-of-use ("ROU") assets and lease liabilities by lessees for those leases classified as operating leases under current U.S. GAAP. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

In July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which offers a transition option to entities adopting ASC 842. The Company will adopt ASC 842 beginning January 1, 2019, using the modified-retrospective method, which will result in a cumulative effect adjustment to accumulated deficit at the beginning of 2019, rather than adjustments to the comparative prior periods presented in the financial statements.

The Company is finalizing its implementation related to policies, processes, and internal controls to comply with the guidance. The Company estimates that the right-of-use assets and lease liabilities to be recorded on its consolidated balance sheet for its lease portfolio as of January 1, 2019, to be within the range of $3.5 million to $4.5 million, primarily relating to real estate and vehicle leases.

In August 2018, the FASB issued ASU 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. ASU 2018-15 is effective for us beginning January 1, 2020. ASU 2018-15 is required to be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We are currently evaluating the impact adopting this guidance will have on our financial statements.

Note 3. Discontinued Operations

On February 1, 2018, the Company completed the sale of its customer contracts relating to our MDSS post-warranty service business to Philips pursuant to an Asset Purchase Agreement, dated as of December 22, 2017 for $8.0 million. The total cash proceeds were adjusted for deferred revenue liabilities assigned to Philips at the closing date, as well as $0.5 million of proceeds held in escrow, subject to claims for breaches of general representation and warranties, which was recorded in other current assets at the date of sale. All claims have been settled as of December 31, 2018**.**

Prior to the contemplation of the transaction entered into above, on September 28, 2017, we received notification from Philips that our distribution agreement to sell Philips imaging systems on a commission basis would be terminated, effective December 31, 2017. As a result, our product sales activities within our MDSS reportable segment were also discontinued effective in the first quarter of 2018.

The Company deemed the disposition of our MDSS reportable segment in the first quarter of 2018 to represent a strategic shift that will have a major effect on our operations and financial results, in accordance with the provisions of FASB authoritative guidance on the presentation of financial statements, we have classified the results of our MDSS segment as discontinued operations in our consolidated statement of operations for all periods presented. Therefore, the related assets and liabilities associated with the discontinued operations as of December 31, 2017 were reclassified as held for sale in our consolidated balance sheet.

The Company has allocated a portion of interest expense to discontinued operations since the proceeds received from the sale were required to be used to pay down outstanding borrowings under our revolving credit facility with Comerica Bank, a Texas banking association ("Comerica"). The allocation was based on the ratio of proceeds received in the sale to total borrowings for the period. In addition, certain general and administrative costs related to corporate and shared service functions previously allocated to the MDSS reportable segment are not included in discontinued operations.

The following table summarizes the MDSS results for each period (in thousands):

	Year ended December 31,	
	2018	2017
Total revenues	$ 789	$ 13,707
Total cost of revenues	555	6,501
Gross profit	234	7,206
Operating expenses:		
Marketing and sales	85	2,905
General and administrative	163	774
Amortization of intangible assets	13	1,667
Gain on sale of discontinued operations	(6,161)	—
Goodwill impairment	—	2,580
Total operating expenses	(5,900)	7,926
Income (loss) from operations	6,134	(720)
Interest expense, net	(26)	(338)
Income (loss) from discontinued operations before income taxes	6,108	(1,058)
Income tax (expense) benefit	(1,533)	364
Net income (loss) from discontinued operations	$ 4,575	$ (694)

The following table summarizes the major classes of assets and liabilities of discontinued operations that were included in the Company's balance sheet (in thousands):

	December 31,	
	2018	2017
Carrying amounts of assets included as part of discontinued operations		
Intangible assets, net	$ —	$ 637
Goodwill	—	1,098
Total assets classified as held for sale as part of discontinued operations	$ —	$ 1,735
Carrying amounts of liabilities included as part of discontinued operations		
Deferred revenue	$ —	$ 835
Total liabilities classified as held for sale in the consolidated balance sheet	$ —	$ 835

The following table presents supplemental cash flow information of discontinued operations (in thousands):

	December 31,	
	2018	2017
Operating activities		
Depreciation	$ 2	$ 34
Amortization of intangible assets	$ 13	$ 1,667
Gain on sale of discontinued operations	$ (6,161)	$ —
Share-based compensation	$ —	$ 18
Investing activities		
Proceeds from sale of discontinued operations	$ 6,844	$ —

Note 4. Revenue

Product and Product-Related Revenues and Services Revenue

Product and product-related revenue are generated from the sale of gamma cameras and post-warranty maintenance service contracts within our Diagnostic Imaging reportable segment.

Services revenue are generated from providing diagnostic imaging and cardiac monitoring services to customers within our Diagnostic Services and Mobile Healthcare reportable segments. Services revenue also includes lease income generated from interim rentals of imaging systems to our customers.

Revenue Recognition

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services. Taxes collected from customers, which are subsequently remitted to governmental authorities, are excluded from revenue.

The majority of our contracts have a single performance obligation, as we provide a series of distinct services that are substantially the same and are transferred with the same pattern to the customer. For contracts with multiple performance obligations, we allocate the total transaction price to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract. We use an observable price to determine the stand-alone selling price for separate performance obligations or a cost plus margin approach when one is not available.

Our products are generally not sold with a right of return and the Company does not provide significant credits or incentives, which may be variable consideration when estimating the amount of revenue to be recognized.

Disaggregation of Revenue

The following table presents our revenues disaggregated by major source (in thousands):

	Year Ended December 31, 2018			
	Diagnostic Services	**Diagnostic Imaging**	**Mobile Healthcare**	**Total**
Major Goods/Service Lines				
Mobile Imaging and Cardiac Monitoring	$ 48,694	$ —	$ 32,865	$ 81,559
Camera Sales	—	4,914	—	4,914
Camera Support	—	6,951	—	6,951
Revenue from Contracts with Customers	48,694	11,865	32,865	93,424
Lease Income	562	118	10,076	10,756
Total Revenues	$ 49,256	$ 11,983	$ 42,941	$ 104,180
Timing of Revenue Recognition				
Services and goods transferred over time	$ 45,862	$ 6,555	$ 42,477	$ 94,894
Services and goods transferred at a point in time	3,394	5,428	464	9,286
Total Revenues	$ 49,256	$ 11,983	$ 42,941	$ 104,180

Nature of Goods and Services

Mobile Imaging

Within our Diagnostic Services and Mobile Healthcare reportable segments, our sales are derived from providing services and materials to our customers, primarily physician practices and hospitals, that allow them to perform diagnostic imaging services at their site. We typically bundle our services in providing staffing, our imaging systems, licensing, radiopharmaceuticals, and supplies depending on our customers' needs. Our contracts with customers are typically entered into annually and are billed on a fixed rate per-day or per-scan basis, depending on terms of the contract. For the majority of these contracts, the Company has the right to invoice the customer in an amount that directly corresponds with the value to the customer of the Company's performance to date. The Company uses the practical expedient to recognize revenue corresponding with amounts we have the right to invoice for services performed.

Camera

Within our Diagnostic Imaging segment, camera revenues are generated from the sale of internally developed solid-state gamma camera imaging systems. We recognize revenue upon transfer of control to the customer, which is generally upon delivery and acceptance. We also provide installation services and training on cameras we sell, primarily in the United States. Installation and initial training is generally performed shortly after delivery. The Company recognizes revenues for installation and training over time as the customer receives and consumes benefits provided as the Company performs the installation services.

Our sale of imaging systems includes a one-year warranty that we account for as an assurance-type warranty. The expected costs associated with our standard warranties and field service actions continue to be recognized as expense when cameras are sold. Maintenance service contracts sold beyond the term of our standard warranties are accounted for as a service-type warranty and revenue is deferred and recognized ratably over the period of the obligation.

Camera Support

Within our Diagnostic Imaging segment, camera support revenue is derived from the sale of separately-priced extended maintenance contracts to camera owners, training, and the sale of parts to customers that do not have an extended warranty. Our separately priced service contracts range from 12 to 48 months. Service contracts are usually billed at the beginning of the contract period or at periodic intervals (e.g., monthly or quarterly) and revenue is recognized ratably over the term of the agreement.

Services and training revenues are recognized in the period the services and training are performed. Revenue for sales of parts are recognized when the parts are delivered to the customer and control is transferred.

Lease Income

Within primarily our Mobile Healthcare segment, we also generate income from interim rentals of our imaging systems to customers that are in the midst of new construction or refurbishing their current facilities. Rental contracts are structured as either a weekly or monthly payment arrangement and are accounted for as operating leases. Revenues are recognized on a straight-line basis over the term of the rental.

Deferred Revenues

We record deferred revenues when cash payments are received or due in advance of our performance, including amounts that are refundable. We have determined our contracts do not include a significant financing component. The majority of our deferred revenue relates to payments received on camera support post-warranty service contracts, which are billed at the beginning of the annual contract period or at periodic intervals (e.g., monthly or quarterly).

Changes in the deferred revenues for the year ended December 31, 2018, is as follows (in thousands):

Balance at December 31, 2017	$	2,375
Revenue recognized that was included in balance at beginning of the year		(1,380)
Deferred revenue, net, related to contracts entered into during the year		718
Balance at December 31, 2018	$	1,713

Included in the balances above as of December 31, 2018 and 2017 is non-current deferred revenue of $26 thousand and $73 thousand, respectively.

The Company has elected to use the practical expedient under ASC 606 to exclude disclosures of unsatisfied remaining performance obligations for (i) contracts having an original expected length of one year or less or (ii) contracts for which the practical expedient has been applied to recognize revenue at the amount for which it has a right to invoice.

Contract Costs

We recognize an asset for the incremental costs of obtaining a contract with a customer if we expect the benefit of those costs to be longer than one year. The Company applies a practical expedient to expense costs as incurred for costs to obtain a contract when the amortization period would have been one year or less. These costs mainly include the Company’s internal sales commissions; under the terms of these programs these are generally earned and the costs are recognized at the time the revenue is recognized.

Note 5. Supplementary Balance Sheet Information

The following tables show the Company's consolidated balance sheet details as of December 31, 2018 and 2017 (in thousands):

	December 31, 2018	December 31, 2017
Inventories:		
Raw materials	$ 2,419	$ 2,331
Work-in-process	2,307	2,094
Finished goods	1,056	1,529
Total inventories	5,782	5,954
Less reserve for excess and obsolete inventories	(380)	(453)
Total inventories, net	$ 5,402	$ 5,501

	December 31, 2018	December 31, 2017
Property and equipment, net:		
Land	$ 550	$ 1,170
Buildings and Leasehold improvements	1,989	2,946
Machinery and equipment	52,409	55,152
Computer hardware and software	4,490	4,615
Total property and equipment	59,438	63,883
Accumulated depreciation	(37,793)	(35,518)
Total property and equipment, net	$ 21,645	$ 28,365

Depreciation expense for the years ended December 31, 2018 and 2017 was $7.3 million and $7.9 million, respectively. In the third quarter of 2018, the Company completed the sale of buildings and a portion of land in its Fargo, North Dakota location with a net book value of $1.5 million, for net cash proceeds of approximately $1.0 million, resulting in a loss on sale of $0.5 million, which has been classified as a "Loss on sale of buildings" in the consolidated statement of operations.

	December 31, 2018			
	Weighted-Average Useful Life (years)	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, Net
Intangible assets with finite useful lives:				
Customer relationships	9.8	$ 8,453	$ (4,751)	$ 3,702
Trademarks	6.0	3,055	(1,577)	1,478
Patents	15.0	141	(136)	5
Covenants not to compete	5.0	181	(138)	43
Total intangible assets, net		$ 11,830	$ (6,602)	$ 5,228

	December 31, 2017			
	Weighted-Average Useful Life (years)	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, Net
Intangible assets with finite useful lives:				
Customer relationships	9.6	$ 10,363	$ (4,976)	$ 5,387
Trademarks	6.4	3,654	(1,314)	2,340
Distribution Agreement	3.3	2,165	(2,165)	—
Patents	15.0	141	(134)	7
Covenants not to compete	5.0	251	(155)	96
Total intangible assets, net		$ 16,574	$ (8,744)	$ 7,830

Amortization expense for intangible assets, net for the year ended December 31, 2018 and 2017 was $1.4 million, and $1.5 million respectively. Estimated amortization expense for intangible assets for 2019 is $1.1 million, for 2020 is $1.1 million, for 2021 is $1.0 million, for 2022 is $0.5 million, for 2023 is $0.5 million, and thereafter is $1.0 million.

	December 31, 2018	December 31, 2017
Other current liabilities:		
Professional fees	$ 358	$ 506
Sales and property taxes payable	324	404
Current portion of capital lease obligation	786	796
Facilities and related costs	259	153
Outside services and consulting	135	146
Payable to former DMS Health stockholders	—	170
Other accrued liabilities	403	740
Total other current liabilities	$ 2,265	$ 2,915

Note 6. Fair Value Measurements

We categorize our assets and liabilities measured at fair value into a three-level hierarchy in accordance with the authoritative guidance for fair value measurements. Assets and liabilities presented at fair value in our consolidated balance sheets are generally categorized as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Such assets and liabilities may have values determined using pricing models, discounted cash flow methodologies, or similar techniques, and include instruments for which the determination of fair value requires significant management judgment or estimation.

As required by the authoritative guidance for fair value measurements, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, which may affect the valuation of assets and liabilities and their placement within the fair value hierarchy levels. The following table sets forth by level within the fair value hierarchy our assets that were recorded at fair value (in thousands):

	At Fair Value as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Equity securities	$ 153	$ 6	$ —	$ 159

	At Fair Value as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Equity securities	$ 97	$ 111	$ —	$ 208

The investment in equity securities consists of common stock of publicly traded companies. The level 2 securities are included in other assets on the Company’s consolidated balance sheet. The fair value of these securities is based on the closing prices observed on December 31, 2018. During the year ended December 31, 2018 the Company recorded in the statement of operations unrealized gains of $43 thousand and unrealized losses of $105 thousand.

We did not reclassify any investments between levels in the fair value hierarchy during the year ended December 31, 2018.

The fair values of the Company’s revolving credit facility approximate carrying value due to the variable rate nature of these borrowings.

Note 7. Goodwill

The value of our goodwill has historically been derived from the acquisition of MD Office Solutions ("MD Office") in 2015, Telerhythmics, LLC ("Telerhythmics") in 2014, and substantially all of the assets of Ultrascan, Inc. ("Ultrascan") in 2007. As of December 31, 2018, Digirad Imaging Solutions is the only reporting unit that carried a goodwill balance.

Changes in the carrying amount of goodwill for the years ended December 31, 2018 and 2017, by reportable segment, are as follows (in thousands):

	Diagnostic Services	Medical Device Sales and Service	Total
Balance at December 31, 2016	$ 2,559	$ 3,678	$ 6,237
Impairment of DMS Health	—	(2,580)	(2,580)
Impairment of Telerhythmics	(166)	—	(166)
Balance at December 31, 2017	$ 2,393	$ 1,098	$ 3,491
Derecognition of DMS Health [1]	—	(1,098)	(1,098)
Impairment of Telerhythmics	(476)	—	(476)
Derecognition of Telerhythmics [2]	(172)	—	(172)
Balance at December 31, 2018	$ 1,745	$ —	$ 1,745

[1] On February 1, 2018, the Company's MDSS reportable segment ceased to exist as the Company sold its MDSS customer contracts related to the post-warranty service business. As a result, the MDSS reportable segment is reported as discontinued operations in these consolidated financial statements and related notes thereto.

[2] On October 31, 2018, the Company entered into a membership interest purchase agreement (the "Telerhythmics Purchase Agreement") with G Medical Innovations USA, Inc. ("G Medical"), pursuant to which we sold all the outstanding membership interests in Telerhythmics to G Medical.

Estimating the fair value of the reporting units requires the use of estimates and significant judgments regarding future cash flows that are based on a number of factors including actual operating results, forecasted billings, revenue, and spend targets, discount rate assumptions, and long-term growth rate assumptions. These estimates and judgments could adversely change in future periods and we cannot provide absolute assurance that all of the targets will be achieved, which could lead to future impairment charges.

Note 8. Debt

A summary of long-term debt is as follows (dollars in thousands):

	December 31, 2018		December 31, 2017	
	Amount	Interest Rate	Amount	Interest Rate
Revolving Credit Facility	$ 9,500	4.87%	$ 19,500	3.90%

On June 21, 2017, the Company entered into a Revolving Credit Agreement with Comerica, as amended from time to time (the"Comerica Credit Agreement"). The Comerica Credit Agreement provides for a five-year revolving credit facility with a maximum credit amount of $20.0 million (reduced from $25.0 million) maturing in June 2022, upon which a balloon payment on the balance is due. Under the Comerica Credit Facility, the Company can request the issuance of letters of credit in an aggregate amount not to exceed $1.0 million at any one time.

In connection with the sale of our post-warranty service customer contracts to Philips, the Company entered into Amendment No. 1 to the Comerica Credit Agreement, dated January 30, 2018 (the "First Amendment"). The First Amendment, among other things, (a) reduced the revolving credit commitment from $25.0 million to $20.0 million and (b) modified the definitions of "Adjusted EBITDA," "FCCR Capital Expenditures," and "Revolving Credit Commitment" as used under the Comerica Credit Agreement.

On November 1, 2018, the Company entered into the Amendment No. 2 to the Comerica Credit Agreement (the "Second Amendment"). The Second Amendment, among other things, (a) modified the definition of "Fixed Charge Coverage Ratio" to change how the Fixed Charge Coverage Ratio is calculated, (b) modified the definition of "FCCR Capital Expenditure" to reduce a threshold amount and (c) modified the definitions of "Permitted Acquisition" and "Permitted Investments."

As of December 31, 2018, the Company had $0.2 million of letters of credit outstanding and had additional borrowing capacity under the Comerica Credit Agreement of $10.3 million.

In connection with the Amendment No. 1, the Company recognized a $43 thousand loss on extinguishment due to the write off of unamortized deferred financing costs associated with the original Comerica Credit Agreement. In the year ended December 31, 2017, the Company used a portion of the financing made available under the Comerica Credit Agreement to repay and terminate the previous credit agreement with Wells Fargo Bank. The Company recognized a $0.7 million loss on extinguishment due to the write off of unamortized deferred financing costs associated with the previous credit facility.

At the Company's option, the Comerica Credit Facility will bear interest at either (i) the LIBOR Rate, as defined in the Comerica Credit Agreement, plus a margin of 2.35%; or (ii) the PRR-based Rate, plus a margin of 0.5%. As further defined in the Comerica Credit Agreement, the "PRR-based Rate" means the greatest of (a) the Prime Rate in effect on such day (as defined in the Comerica Credit Agreement) plus 0.5%, or (b) the daily adjusting LIBOR Rate plus 2.50%. In addition to interest on outstanding borrowings under the Comerica Credit Facility, the revolving credit note bears an unused line fee of 0.25%, which is presented as interest expense.

The Comerica Credit Agreement contains certain representations, warranties, events of default, as well as certain affirmative and negative covenants customary for credit agreements of this type. These covenants include restrictions on borrowings, investments and divestitures, as well as limitations on the Company's ability to make certain restricted payments. The Comerica Credit Agreement requires us to comply with certain financial covenants, including a Fixed Charge Coverage Ratio and a Funded Debt to Adjusted EBITDA Ratio (each as defined in the Comerica Credit Agreement). The Fixed Charge Coverage Ratio is calculated based on the ratio of (a) Adjusted EBITDA, less (i) cash income taxes paid for such period, less (ii), FCCR Capital Expenditures (as defined in the Comerica Credit Agreement) made during such period, less (iii) payments, repurchases or redemptions of stock made during such period, less (iv) Distributions and Purchases (each as defined in the Comerica Credit Agreement) made during such period, to (b) (i) the Current Maturities of Long Term Debt (each as defined in the Comerica Credit Agreement) as of the last day of such period plus (ii) interest paid during such period. The Fixed Charge Coverage ratio is measured on a quarterly basis as of the most recent fiscal quarter end. Under the Comerica Credit Agreement, we must maintain a fixed charge ratio of at least 1.25 to 1.00 for each trailing twelve-month period as of the end of each fiscal quarter. The funded debt to Adjusted EBITDA ratio (as defined in the Comerica Credit Agreement) must be not more than 2.25 to 1.00 measured at each fiscal quarter.

Upon the occurrence and during the continuation of an event of default under the Comerica Credit Agreement, Comerica may, among other things, declare the loans and all other obligations under the Comerica Credit Agreement immediately due and payable and increase the interest rate at which loans and obligations under the Comerica Credit Agreement bear interest. Pursuant to a separate Security Agreement dated June 21, 2017, between the Company, its subsidiaries and Comerica Bank, the Comerica Credit Facility is secured by a first-priority security interest in substantially all of the assets (excluding real estate) of the Company and its subsidiaries and a pledge of all shares and membership interests of the Company's subsidiaries.

At December 31, 2018, the Company was in compliance with all covenants.

Note 9. Commitments and Contingencies

Litigation Matters

In May 2016, Shaun Smith ("Smith"), a former employee of Digirad Imaging Solutions and MD Office Solutions, filed a lawsuit against Digirad Corporation, Digirad Imaging Solutions, Inc., and certain current and former officers of these companies, on behalf of himself and class members (collectively, the "Class Members") in Alameda County Superior Court. In October 2016, Smith filed a First Amended Complaint adding MD Office Solutions as a named defendant. Digirad Corporation, Digirad Imaging Solutions, Inc., and certain current and former officers of these companies and MD Office Solutions are collectively referred to as the "Defendants." In March 2017, Smith filed a Second Amended Complaint adding David Dolan ("Dolan") and Robert Erskine ("Erskine") as named plaintiffs. Smith, Dolan, and Erskine are collectively referred to as the "Plaintiffs."

The claim alleges that Defendants violated California laws by: failing to provide Class Members with off-duty meal and rest breaks, failing to furnish accurate wage statements, failing to timely pay all earned wages, and failing to pay all wages due upon a Class Member's separation from Digirad Imaging Solutions, Inc. and MD Office Solutions, among other claims. In addition, Mr. Smith asserted individual claims for racial discrimination, retaliation and wrongful termination.

The parties to this action participated in a voluntary mediation and reached a tentative settlement of the case and all claims. Preliminary court approval was received in September 2017. In the fourth quarter of 2017, final court approval and acceptance by Class Members was reached. The parties to this action agreed to a final settlement amount of approximately $1.3 million, which was paid by the Company in December 2017.

Leases

We currently lease facilities and certain automotive equipment under non-cancelable operating leases expiring through July 2023. Rent expense is recognized on a straight-line basis over the initial lease term and those renewal periods that are reasonably assured as determined at lease inception. The difference between rent expense and rent paid is recorded as deferred rent and is included in other current and long-term liabilities. Rent expense was approximately $4.5 million and $4.2 million for the years ended December 31, 2018 and 2017, respectively.

As of December 31, 2018, we financed certain information technology and medical equipment and vehicles under capital leases. These obligations are secured by the specific equipment financed under each lease and will be repaid monthly over the remaining lease terms through January 2023.

We are committed to making future cash payments on non-cancelable operating leases and capital leases (including interest). The future minimum lease payments due under both non-cancelable operating leases and capital leases having initial or remaining lease terms in excess of one year as of December 31, 2018 are as follows (in thousands):

	Operating Leases	Capital Leases
2019	$ 2,147	$ 899
2020	1,245	804
2021	881	778
2022	582	219
2023	343	27
Thereafter	—	—
Total future minimum lease payments	$ 5,198	2,727
Less amounts representing interest		222
Present value of obligations		2,505
Less: current capital lease obligations		786
Total long-term capital lease obligations		$ 1,719

Other Matters

In the normal course of business, we have been, and will likely continue to be, subject to litigation or administrative proceedings incidental to our business, such as claims related to customer disputes, employment practices, wage and hour disputes, product liability, professional liability, commercial disputes, licensure restrictions or denials, and warranty or patent infringement. Responding to litigation or administrative proceedings, regardless of whether they have merit, can be expensive and disruptive to normal business operations. We are not able to predict the timing or outcome of these matters.

Note 10. Share-Based Compensation

At December 31, 2018, we have two active equity incentive plans, the 2011 Inducement Stock Incentive Plan (the “2011 Plan”), and the 2018 Incentive Plan (the “2018” Plan and together with the 2011 Plan, “the Plans”), under which stock options, restricted stock units, and other stock-based awards may be granted to employees and non-employees, including members of our Board of Directors. Terms of any equity instruments granted under the Plans are approved by the Board of Directors. Stock options typically vest over the requisite service period of one to four years and have a contractual term of seven to ten years. Restricted stock units generally vest over one to four years. Under the Plans, we are authorized to issue an aggregate of 1,850,000 shares of common stock. As of December 31, 2018, the Plans had 2,066,965 shares available for future issuance. The number of shares reserved for issuance under the 2018 Plan is subject to increase by (i) the number of shares of common stock that remained available for grant under the 2014 Equity Incentive Award Plan (the “2014 Plan”) as of the effective date of the 2018 Plan, plus (ii) any shares of common stock under the 2014 Plan that are forfeited, expire, or are canceled. As of December 31, 2018, the number of shares provided for issuance under the 2018 Plan due to unissued, forfeited, expired, and canceled shares under the 2014 Plan was 359,272 shares.

Stock Options

The estimated fair value of our stock options is determined using the Black-Scholes model. All stock options were granted with an exercise price equal to the fair value of the common stock on the grant date. There were no employee stock options granted during the years ended December 31, 2018 and 2017.

A summary of our stock option award activity as of and for the year ended December 31, 2018 is as follows (in thousands, except per share data):

	Number of Shares	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Options exercisable at December 31, 2017	824	$ 2.84		
Options outstanding at December 31, 2017	902	$ 3.03		
Options granted	—	$ —		
Options forfeited	(17)	$ 5.12		
Options expired	(290)	$ 2.68		
Options exercised	(37)	$ 0.70		
Options outstanding at December 31, 2018	558	$ 3.31	2.7	$ —
Options exercisable at December 31, 2018	523	$ 3.18	2.4	$ —

At December 31, 2018, total unrecognized compensation cost related to unvested stock options was $25 thousand, which is expected to be recognized over a weighted-average period of 1.1 years.

Upon exercise, we issue new shares of common stock. Cash received from stock option exercises was $26 thousand and $5 thousand during the years ended December 31, 2018 and 2017, respectively. The total intrinsic value of stock options exercised was $36 thousand and $12 thousand during the years ended December 31, 2018 and 2017, respectively.

Restricted Stock Units

Under guidance for share-based payments, the fair value of our restricted stock awards is based on the grant date fair value of our common stock. All restricted stock units were granted with no purchase price. Vesting of the restricted stock awards is subject to service conditions, as well as the attainment of additional performance objectives for certain of the awards. The weighted-average grant date fair value of the restricted stock units was $1.92 and $4.77 per share during the years ended December 31, 2018 and 2017, respectively.

A summary of our restricted stock unit activity as of and for the year ended December 31, 2018 is as follows (in thousands, except per share data):

	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
Non-vested restricted stock units outstanding at December 31, 2017	341	$4.73
Granted	498	$1.92
Forfeited	(285)	$2.66
Vested	(187)	$4.03
Non-vested restricted stock units outstanding at December 31, 2018	367	$2.88

The following table summarizes information about restricted stock units that vested during the years ended December 31, 2018 and 2017 based on service conditions (in thousands):

	Year Ended December 31,	
	2018	2017
Fair value on vesting date of vested restricted stock units	$ 364	$ 798

At December 31, 2018, total unrecognized compensation cost related to non-vested restricted stock units was $0.7 million, which is expected to be recognized over a weighted-average period of 2.2 years.

Allocation of Share-Based Compensation Expense

Total share-based compensation expense related to all of our share-based units for the years ended December 31, 2018 and 2017 was allocated as follows (in thousands):

	Year Ended December 31,	
	2018	2017
Cost of revenues:		
Services	$ 34	$ 40
Product and product-related	16	19
Marketing and sales	101	157
General and administrative	483	636
Total share-based compensation expense	$ 634	$ 852

Note 11. Income Taxes

Significant components of the provision (benefit) for income taxes from continuing operations are as follows (in thousands):

	Year Ended December 31,	
	2018	2017
Current provision:		
Federal	$ —	$ —
State	80	30
Foreign	45	63
Total current provision	125	93
Deferred (benefit) provision:		
Federal	(1,398)	26,737
State	(288)	1,157
Foreign	—	—
Total deferred (benefit) provision	(1,686)	27,894
Total income tax (benefit) provision	$ (1,561)	$ 27,987

Intraperiod allocation rules require us to allocate our provision for income taxes between continuing operations and other categories or comprehensive income such as discontinued operations. As described in Note 3. *Discontinued Operations*, the results of our MDSS reportable segment have been reported as discontinued operations for the current and prior year. As a result of the intraperiod allocation rules, for the year ended December 31, 2018, the Company recorded a tax expense of $1.5 million. For the year ended December 31, 2017, the Company recorded a benefit of $0.4 million (see Note 3. *Discontinued Operations)*.

Differences between the provision (benefit) for income taxes and income taxes at the statutory federal income tax rate for continuing operations are as follows:

	Year Ended December 31,	
	2018	2017
Income tax expense (benefit) at statutory federal rate	21.0 %	34.0 %
State income tax expense, net of federal benefit	1.7 %	2.6 %
Permanent differences and other	(4.6)%	— %
Goodwill	— %	(9.5)%
Withholding costs	(0.8)%	(0.9)%
Tax credit	(0.1)%	— %
Impact of 2017 Tax Act	— %	(165.0)%
Change in effective federal and state tax rates	(2.0)%	0.4 %
Expiration of net operating loss and tax credit carryovers	— %	(0.1)%
Stock compensation expense	(2.4)%	(1.1)%
Reserve for uncertain tax positions and other reserves	— %	0.7 %
Change in valuation allowance	16.1 %	(258.0)%
Provision (benefit) for income taxes	28.9 %	(396.9)%

Our net deferred tax assets consisted of the following (in thousands):

	December 31,	
	2018	2017
Deferred tax assets:		
Net operating loss carryforwards	$ 22,043	$ 23,451
Research and development and other credits	72	44
Reserves	336	567
Intangibles	—	—
Other, net	1,013	1,232
Total deferred tax assets	23,464	25,294
Deferred tax liabilities:		
Fixed assets and other	(2,588)	(3,489)
Intangibles	(756)	(891)
Total deferred tax liabilities	(3,344)	(4,380)
Valuation allowance for deferred tax assets	(20,241)	(21,168)
Net deferred tax liabilities	$ (121)	$ (254)

The Company recognizes federal and state deferred tax assets or liabilities based on the Company's estimate of future tax effects attributable to temporary differences and carryovers. The Company records a valuation allowance to reduce any deferred tax assets by the amount of any tax benefits that, based on available evidence and judgment, are not expected to be realized. In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. The Company considers projected future taxable income and planning strategies in making this assessment. As of December 31, 2017, as a result of a three-year cumulative loss and recent events, such as the unanticipated termination of the Philips distribution agreement and its effect on our near term forecasted income, we concluded that a full valuation allowance was necessary to offset our deferred tax assets. We intend to maintain a valuation allowance until sufficient positive evidence exists to support its reversal. The Company continues to be in a cumulative pretax loss for the three year period ended December 31, 2018. Accordingly, the full valuation allowance was maintained for the year ended December 31, 2018. The Company's valuation allowance balance at December 31, 2018 is $20.2 million, offsetting the Company's deferred tax assets. The Company will continue to evaluate its deferred tax balances to determine any assets that are more likely than not to be realized.

As of December 31, 2018, we had federal and state income tax net operating loss carryforwards of $83.7 million and $26.7 million, respectively. Pre-2018 federal loss carryforwards will begin to expire in 2019 unless previously utilized. State loss carryforwards of approximately $0.2 million expired in 2018, and approximately $30 thousand is set to expire in 2019, unless

previously utilized. We also have federal and California research and other credit carryforwards of approximately $1.5 million and $2.1 million, respectively, as of December 31, 2018. The federal credits will begin to expire in 2019. The California research credits have no expiration. Pursuant to Internal Revenue Code Sections 382 and 383, use of our net operating loss and credit carryforwards may be limited because of a cumulative change in ownership greater than 50%. As of December 31, 2018, Digirad Corporation has not experienced a change in ownership greater than 50%; however, some of the tax attributes acquired with the DMS Health businesses are subject to such limitations due to ownership changes of greater than 50% that may have occurred or which may occur in the future. A valuation allowance has been recognized to offset the deferred tax assets, as realization of such assets has not met the "more likely than not" threshold required under the authoritative guidance of accounting for income taxes.

The following table summarizes the activity related to our unrecognized tax benefits (in thousands):

	December 31,	
	2018	2017
Balance at beginning of year	$ 3,936	$ 4,134
Expiration of the statute of limitations for the assessment of taxes	(326)	(198)
Balance at end of year	$ 3,610	$ 3,936

Included in the unrecognized tax benefits of $3.6 million at December 31, 2018 was $3.2 million of tax benefits that, if recognized, would reduce our annual effective tax rate, subject to the valuation allowance. We do not expect our unrecognized tax benefits to change significantly over the next 12 months.

We file income tax returns in the U.S. and in various state jurisdictions with varying statutes of limitations. We are no longer subject to income tax examination by tax authorities for years prior to 2014; however, our net operating loss carryforwards and research credit carryforwards arising prior to that year are subject to adjustment. Our policy is to recognize interest expense and penalties related to income tax matters as a component of income tax expense. The accrued interest as of December 31, 2018 and 2017, and interest and penalties recognized during the years ended December 31, 2018 and 2017 were of insignificant amounts.

Tax Cuts and Jobs Act

The Company applied the guidance in SAB 118 when accounting for the enactment-date effects of the Tax Cuts and Jobs Act (the "Tax Act") in 2017 and throughout 2018. At December 31, 2017, the Company had not completed its accounting for all of the enactment-date income tax effects of the Tax Act under ASC 740, Income Taxes, related to the recognition of the provisional tax impacts related to its Internal Revenue Code Section 162(m) limitations and the potential impact on its equity compensation deferred tax assets. At December 31, 2018, the Company has now completed its accounting for all of the enactment-date income tax effects of the Tax Act and no net tax adjustments were made to the provisional amounts recorded at December 31, 2017.

Note 12. Employee Retirement Plan

We have a 401(k) retirement plan under which employees may contribute up to 100% of their annual salary, within IRS limits. The Company contributions to the retirement plans totaled $0.3 million and $0.4 million for the years ended December 31, 2018 and 2017, respectively.

Note 13. Related Party Transactions

Mr. John Climaco currently serves as a Director of the Company and a member of the Corporate Governance and Strategic Advisory committees of the Board. Until July 11, 2017, Mr. Climaco also served as a Director of Perma-Fix Environmental Services, Inc. (NASDAQ: PESI). Further, from June 2, 2015 until July 11, 2017, Mr. Climaco served as the Executive Vice President of Perma-Fix Medical S.A., a majority-owned Polish subsidiary of Perma-Fix Environmental Services, Inc. On July 27, 2015, we entered into a Stock Subscription Agreement (the "Subscription Agreement") and Tc-99m Supplier Agreement (the "Supply Agreement") with Perma-Fix Medical. Under the terms of the Subscription Agreement, we invested $1.0 million USD in exchange for 71,429 shares of Perma-Fix Medical. Pursuant to the Supply Agreement, should Perma-Fix Medical successfully complete development of the new Tc-99m resin, Perma-Fix Medical will supply us or our preferred nuclear pharmacy supplier with Tc-99m at a preferred rate and we will purchase agreed upon quantities of such Tc-99m for our nuclear imaging operations, either directly or in conjunction with our preferred nuclear pharmacy supplier. In addition, in connection with the Subscription Agreement, the Company's President and CEO was appointed to the Supervisory Board of Perma-Fix Medical.

Jeffrey E. Eberwein, the Chairman of our board of directors and the Chairman of the board of directors of ATRM, owns approximately 17.4% of the outstanding common stock of ATRM. Mr. Eberwein is also the Chief Executive Officer of Lone Star Value Management, LLC, which is the investment manager of Lone Star Value Investors, LP ("LSVI"). LSVI owns 222,577 shares of ATRM's 10.00% Series B Cumulative Preferred Stock (the "Series B Stock") and another 374,562 shares of Series B Stock are owned directly by Lone Star Value Co-Invest I, LP ("LSV Co-Invest I"). Through these relationships and other relationships with affiliated entities, Mr. Eberwein may be deemed the beneficial owner of the securities owned by LSVI and LSV Co-Invest I. Mr. Eberwein disclaims beneficial ownership of Series B Stock, except to the extent of his pecuniary interest therein.

On December 14, 2018, Digirad and ATRM, entered into a joint venture and formed Star Procurement, LLC (“Star Procurement”), with Digirad and ATRM each holding a 50% interest. The purpose of the joint venture is to provide the service of purchasing and selling building materials and related goods to KBS Builders, Inc., a wholly-owned subsidiary of ATRM with which Star Procurement entered into a Services Agreement on January 2, 2019. In accordance with the terms of the Star Procurement Limited Liability Company Agreement, Digirad made a $1.0 million capital contribution to the joint venture, which was made in January 2019.

On December 14, 2018, the Company received an unsecured promissory note from ATRM in the principal amount of $0.3 million (the “ATRM Note”) in exchange for a loan to ATRM in the same amount. The ATRM Note bears interest at 10.0% per annum for the first 12 months of its term, and at 12.0% per annum for the remaining 12 months. All unpaid principal and interest is due on December 14, 2020. ATRM may prepay the note at any time after a specified amount of advance notice to the Company. The ATRM Note provides for customary events of default, the occurrence of any of which may result in the principal and unpaid interest then outstanding becoming immediately due and payable.

Note 14. Segments

As of December 31, 2018, our business is organized into three reportable segments:

1. Diagnostic Services
2. Diagnostic Imaging
3. Mobile Healthcare

For discussion purposes, we categorized our Diagnostic Services and Mobile Healthcare reportable segments as “Services,” and our Diagnostic Imaging reportable segment as “Product and Product-Related.”

Diagnostic Services. Through Diagnostic Services, we offer a convenient and economically efficient imaging and monitoring services program as an alternative to purchasing equipment or outsourcing the procedures to another physician or imaging center. For physicians who wish to perform nuclear imaging, echocardiography, vascular or general ultrasound tests, we provide the ability for them to engage our services, which includes the use of our imaging system, qualified personnel, and related items required to perform imaging in their own offices and bill Medicare, Medicaid, or one of the third-party healthcare insurers directly for those services. These services are primarily provided to smaller cardiology and related physician practice customers, though we do provide some services to hospital systems.

Diagnostic Imaging. Through Diagnostic Imaging, we sell our internally developed solid-state gamma cameras and camera maintenance contracts. Our systems include nuclear cardiac imaging and general purposes nuclear imaging as well. We sell our imaging systems to physician offices and hospitals primarily in the United States, although we have sold a small number of imaging systems internationally.

Mobile Healthcare. Through Mobile Healthcare, we provide contract diagnostic imaging, including PET, CT, MRI, and healthcare expertise to hospitals, integrated delivery networks (“IDNs”), and federal institutions on a long-term contract basis, but can also provide provisional services to institutions that are in transition. These services are provided primarily when there is a cost, ease, and efficiency component of providing the services directly rather than owning and operating the related services and equipment directly by our customers.

Our reporting segments have been determined based on the nature of the products and services offered to customers or the nature of their function in the organization.

We evaluate performance based on the gross profit and operating income (loss) excluding litigation reserve expense, goodwill impairment, and transaction and integration costs. The Company does not identify or allocate its assets by operating segments. Accordingly, assets are not being reported by segment because the information is not available by segment and is not reviewed in the evaluation of performance or making decisions in the allocation of resources. Our operating costs included in our shared service functions, which primarily consist of senior executive officers, finance, human resources, legal, and information technology, are allocated to our segments. During the first quarter of 2018, we have classified the results of our MDSS segment as discontinued operations in our consolidated statement of operations for all periods presented. Accordingly, segment results have been recast for all periods presented to reflect MDSS as discontinued operations. As costs of shared service functions previously allocated to MDSS are not allocable to discontinued operations, prior period corporate costs have been reallocated amongst the continuing reportable segments.

Segment information for the years ended December 31, 2018 and 2017 is as follows (in thousands):

	Year ended December 31,	
	2018	2017
Revenue by segment:		
Diagnostic Services	$ 49,256	$ 49,016
Diagnostic Imaging	11,983	12,081
Mobile Healthcare	42,941	43,535
Consolidated revenue	$ 104,180	$ 104,632
Gross profit by segment:		
Diagnostic Services	$ 9,447	$ 9,942
Diagnostic Imaging	5,142	5,036
Mobile Healthcare	3,682	6,218
Consolidated gross profit	$ 18,271	$ 21,196
Income (loss) from operations by segment:		
Diagnostic Services	$ 732	$ (134)
Diagnostic Imaging	(304)	(1,097)
Mobile Healthcare	(3,990)	(2,563)
Segment loss from operations	$ (3,562)	$ (3,794)
Loss on sale of buildings [1]	(507)	—
Goodwill impairment [2]	(476)	(166)
Litigation reserve [3]	—	(1,339)
Consolidated loss from operations	$ (4,545)	$ (5,299)

[1] Reflects loss on sale of land and buildings in our Fargo, North Dakota location. See Note 5. *Supplementary Balance Sheet Information*, for further information

[2] See Note 7. *Goodwill*, for further information.

[3] See Note 9. *Commitments and Contingencies*, for further information.

Geographic Information. The Company's sales to customers located outside the United States for the years ended December 31, 2018 and 2017 was $1.2 million and $1.0 million, respectively. All of our long-lived assets are located in the United States.

Note 15. Quarterly Financial Information (Unaudited)

The following financial information reflects all normal recurring adjustments, which are, in the opinion of management, necessary for a fair statement of the results of the interim periods. Summarized quarterly data for fiscal 2018 and 2017 are as follows (in thousands, except per share data):

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Fiscal 2018				
Revenues	$ 25,465	$ 27,080	$ 25,707	$ 25,928
Gross profit	$ 4,607	$ 5,567	$ 4,358	$ 3,739
Loss from operations	$ (1,609)	$ (248)	$ (1,290)	$ (1,398)
Loss from continuing operations	$ (1,388)	$ (350)	$ (1,187)	$ (914)
Income (loss) from discontinued operations	$ 5,494	$ —	$ (239)	$ (680)
Net income (loss) [2]	$ 4,106	$ (350)	$ (1,426)	$ (1,594)
Net income (loss) per share — basic and diluted:				
Net loss from continuing operations [1]	$ (0.07)	$ (0.02)	$ (0.06)	$ (0.05)
Net income (loss) from discontinued operations [1]	$ 0.27	$ —	$ (0.01)	$ (0.03)
Net income (loss) per share — basic and diluted [1]	$ 0.20	$ (0.02)	$ (0.07)	$ (0.08)
Fiscal 2017				
Revenues	$ 25,840	$ 26,685	$ 25,795	$ 26,312
Gross profit	$ 5,602	$ 5,688	$ 5,370	$ 4,536
Loss from operations	$ (1,451)	$ (1,998)	$ (105)	$ (1,745)
Loss from continuing operations	$ (2,251)	$ (2,846)	$ (7,334)	$ (22,605)
Income (loss) from discontinued operations	$ 175	$ 74	$ (1,565)	$ 622
Net loss [3]	$ (2,076)	$ (2,772)	$ (8,899)	$ (21,983)
Net income (loss) per share — basic and diluted:				
Net loss from continuing operations [1]	$ (0.11)	$ (0.14)	$ (0.37)	$ (1.13)
Net income (loss) from discontinued operations [1]	$ 0.01	$ —	$ (0.08)	$ 0.03
Net loss per share — basic and diluted [1]	$ (0.10)	$ (0.14)	$ (0.44)	$ (1.10)

[1] Earnings per share are computed independently for each of the quarters presented. Therefore, the sum of the quarterly net earnings per share will not necessarily equal the total for the year.

[2] In the third quarter of 2018, the Company completed the sale of buildings and a portion of land in its Fargo, North Dakota location with a net book value of $1.5 million, for net cash proceeds of approximately $1.0 million, resulting in a loss on sale of $0.5 million, which has been classified as a “Loss on sale of buildings” in the consolidated statement of operations.

[3] In the third and fourth quarters of 2017, the Company has increased its valuation allowance for deferred tax assets associated with net operating losses based on an estimated forecast of business operation profitability as well as material changes in business operations from business events. In the fourth quarter of 2017, the remaining deferred tax assets related to net operating losses were fully reserved. In addition, the fourth quarter of 2017 includes the impact of tax rate changes from enacted tax legislation signed in December 2017.

Note 16. Subsequent Events

On January 8, 2019, we received a deficiency letter from the Nasdaq Listing Qualifications Department notifying us that, for the prior thirty consecutive business days, the closing bid price for our common stock had closed below the minimum $1.00 per share requirement for continued listing on the Nasdaq Global Market pursuant to Nasdaq Listing Rule 5450(a)(1) (the “Minimum Bid Price Requirement”). In accordance with Nasdaq Listing Rules, we have been given 180 calendar days, or until July 8, 2019 to regain compliance with the Minimum Bid Price Requirement. If we do not regain compliance by July 8, 2019, we may transfer from The Nasdaq Global Market to The Nasdaq Capital Market and may be eligible for an additional compliance period of 180 days. To qualify for the additional compliance period, we will have to: (i) submit a transfer application and related application fees; (ii) meet the continued listing requirement for market value of publicly held shares and all other initial listing standards of The Nasdaq Capital Market (except for the bid price requirement); and (iii) provide written notice to Nasdaq of our intention to cure the deficiency during the additional 180-day compliance period by effecting a reverse stock split if necessary. If we do not

qualify for an additional compliance period, or should we determine not to submit a transfer application or make the required representation, or if Nasdaq concludes that we will not be able to cure the deficiency, Nasdaq will provide written notice to us that our common stock will be subject to delisting.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

ITEM 9A. CONTROLS AND PROCEDURES

(1) Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities and Exchange Commission Act of 1934 reports is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As further discussed below, we carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2018.

Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives as specified above. Management does not expect, however, that our disclosure controls and procedures will prevent or detect all errors and fraud. Any internal control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

(2) Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Based on our evaluation under the framework in *Internal Control—Integrated Framework (2013)*, our management concluded that our internal control over financial reporting was effective as of December 31, 2018.

(3) Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 under the Securities Exchange Act of 1934 that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

Pursuant to Paragraph G(3) of the General Instructions to Form 10-K, the information required by Part III (Items 10, 11,12, 13, and 14) is being incorporated by reference to the applicable information in our definitive proxy statement (or an amendment to our Annual Report on Form 10-K) to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2018 in connection with our Annual Meeting of Stockholders to be held in 2019.

Code of Ethics

We have adopted a Code of Business Ethics and Conduct ("Ethics Code") that applies to all our officers, directors, employees, and contractors. The Ethics Code contains general guidelines for conducting our business consistent with the highest standards of business ethics and compliance with applicable law, and is intended to qualify as a "code of ethics" within the meaning of Section 406 of the Sarbanes-Oxley Act of 2002 and Item 406 of Regulation S-K. Day-to-day compliance with the Ethics Code is overseen by the Company compliance officer appointed by our Board of Directors. If we make any substantive amendments to the Ethics Code or grant any waiver from a provision of the Ethics Code to any director or executive officer, we will promptly disclose the nature of the amendment or waiver on our website at *www.digirad.com*.

ITEM 11. EXECUTIVE COMPENSATION

See Item 10.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

See Item 10.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDENPENDENCE

See Item 10.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

See Item 10.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as part of this report:

1. Financial Statements

The financial statements of Digirad Corporation listed below are set forth in Item 8 of this report for the year ended December 31, 2018:

- Report of Independent Registered Public Accounting Firm
- Consolidated Statements of Operations and Comprehensive Income (Loss) for the years ended December 31, 2018 and 2017
- Consolidated Balance Sheets at December 31, 2018 and 2017
- Consolidated Statements of Cash Flows for the years ended December 31, 2018 and 2017
- Consolidated Statements of Stockholders' Equity for the years ended December 31, 2018 and 2017
- Notes to Consolidated Financial Statements

2. Financial Statement Schedules

All other schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

3. Exhibits required by Item 601 of Regulation S-K

The information required by this Section (a)(3) of Item 15 is set forth on the exhibit index below.

EXHIBIT INDEX

Exhibit Number	Description
2.1†	Asset Purchase Agreement, by and between Digirad Corporation, Digirad Imaging Solutions, Inc., Digirad Ultrascan Solutions, Inc. and Ultrascan, Inc. dated May 1, 2007 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed with the Commission on May 7, 2007).
2.2†	Asset Purchase Agreement, dated February 2, 2009, by and among the Company, Digirad Imaging Solutions, Inc. and MD Office Solutions (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on February 6, 2009).
2.3	Membership Interest Purchase Agreement, dated March 13, 2014, by and among Digirad Imaging Solutions, Inc., Digirad Corporation and the members of Telerhythmics, LLC (as Sellers) party thereto and TD Properties, LLC in its capacity as Seller Representative (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on March 14, 2014).
2.4	Agreement of Merger and Plan of Reorganization, dated March 5, 2015 by and between Digirad Corporation, Maleah Incorporated, MD Office Solutions and the Stockholders party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on March 6, 2015). Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company hereby agrees to furnish supplementary copies of any of the omitted schedules or exhibits upon request by the Securities and Exchange Commission.
2.5	Stock Purchase Agreement dated as of October 13, 2015, by and among Digirad Corporation, Project Rendezvous Holding Corporation, the stockholders of Project Rendezvous Holding Corporation, and Platinum Equity Advisors, LLC as the stockholder representative (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed with the Commission on January 7, 2016). Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company hereby agrees to furnish supplementary copies of any of the omitted schedules or exhibits upon request by the Securities and Exchange Commission.
2.6	Amendment to Stock Purchase Agreement dated as of December 31, 2015, by and between Digirad Corporation and Platinum Equity Advisors, LLC as the stockholder representative (incorporated by reference to Exhibit 2.2 to the Current Report on Form 8-K filed with the Commission on January 7, 2016).
2.7	Second Amendment to Stock Purchase Agreement dated as of June 7, 2016, by and between Digirad Corporation and Platinum Equity Advisors, LLC as the stockholder representative (incorporated by reference to Exhibit 2.1 to the Company's Quarterly Report on Form 10-Q filed with the Commission on August 1, 2016).
2.8	Asset Purchase Agreement by and between DMS Health Technologies, Inc., as Seller, and Philips North America LLC, as Buyer dated as of December 22, 2017 (incorporated by reference to Exhibit 2.8 to the Company's Annual Report on Form 10-K filed with the Commission on February 28, 2018). Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company hereby agrees to furnish supplementary copies of any of the omitted schedules or exhibits upon request by the Securities and Exchange Commission.
3.1	Restated Certificate of Incorporation of Digirad Corporation (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Commission on May 3, 2006).
3.2	Certificate of Designation of Rights, Preferences and Privileges of Series B Participating Preferred Stock (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Commission on May 24, 2013).
3.3	Certificate of Amendment of the Restated Certificate of Incorporation of Digirad Corporation (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Commission on May 5, 2015).
3.4	Certificate of Amendment of the Restated Certificate of Incorporation of Digirad Corporation (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Commission on May 1, 2018).
3.5	Amended and Restated Bylaws of Digirad Corporation dated May 4, 2007 and Amendment No. 1 to the Amended and Restated Bylaws of Digirad Corporation dated April 5, 2017 (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q filed with the Commission on May 1, 2017).
4.1	Form of Specimen Stock Certificate (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-1 (File No. 333-113760) filed with the Commission on March 19, 2004).
4.2	Preferred Stock Rights Agreement, by and between Digirad Corporation and American Stock Transfer and Trust Company, dated November 22, 2005 (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form 8-A filed with the Commission on November 29, 2005).

Exhibit Number	Description
4.3	Tax Benefit Preservation Plan by and between Digirad Corporation and American Stock Transfer & Trust Company, dated as of May 23, 2013 (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission on May 24, 2013).
4.4	Tax Benefit Preservation Plan Amendment, dated November 11, 2013, by and between the Company and American Stock Transfer & Trust Company, LLC (incorporated by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K filed with the Commission on March 20, 2014).
4.5	First Amendment to Preferred Stock Rights Agreement, dated as of March 5, 2015, by and between the Company and American Stock Transfer & Trust Company, LLC (incorporated by reference to Exhibit 4.5 to the Company's Annual Report on Form 10-K filed with the Commission on March 6, 2015).
10.1†	License Agreement, by and between Digirad Corporation and the Regents of the University of California dated May 19, 1999 (incorporated by reference to Exhibit 10.1 to the Amended Registration Statement on Form S-1/A (File No. 333-113760) filed with the Commission on April 20, 2004).
10.2†	Amendment to License Agreement by and between Digirad Corporation and the Regents of the University of California, dated May 24, 2001 (incorporated by reference to Exhibit 10.1 to the Company's Amended Registration Statement on Form S-1/A (File No. 333-113760) filed with the Commission on April 20, 2004).
10.3†	Amendment No. 2 to License Agreement by and between Digirad Corporation and the Regents of the University of California, dated October 1, 2003 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the Commission on August 11, 2004).
10.4†	License Agreement, by and between Digirad Corporation and Cedars-Sinai Health System, dated May 22, 2001, as amended (incorporated by reference to Exhibit 10.3 to the Company's Amended Registration Statement on Form S-1/A (File No. 333-113760) filed with the Commission on April 20, 2004).
10.5†	License Agreement, by and between Digirad Corporation and Cedars-Sinai Health System, dated April 1, 2003, as amended (incorporated by reference to Exhibit 10.4 to the Company's Amended Registration Statement on Form S-1/A (File No. 333-113760) filed with the Commission on April 20, 2004).
10.6#	Digirad Corporation 2004 Stock Incentive Plan, as Amended and Restated on August 2, 2007 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the Commission on August 7, 2007).
10.7#	Form of Notice of Stock Option Award and Stock Option Award Agreement for 2004 Stock Incentive Plan (incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K filed with the Commission on March 3, 2005).
10.8#	2004 Non-Employee Director Option Program (incorporated by reference to Exhibit 10.19 to the Company's Amended Registration Statement on Form S-1/A (File No. 333-113760) filed with the Commission on May 24, 2004).
10.9#	Form of Notice of Non-Qualified Stock Option Award and Stock Option Award Agreement for 2004 Non-Employee Director Option Program (incorporated by reference to Exhibit 10.24 to the Company's Annual Report on Form 10-K filed with the Commission on March 3, 2005).
10.10#	Form of Indemnification Agreement (incorporated by reference to Exhibits 10.20 to the Registration Statement on Form S-1/A (File No. 333-113760) filed with the Commission on April 29, 2004).
10.11#	Executive Employment Agreement, by and between Digirad Corporation and Jeffry R. Keyes, dated March 4, 2013 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Commission on March 5, 2013).
10.12#	Employment Agreement, dated as of May 1, 2007, as amended on September 30, 2010, by and between the Company and Matthew G. Molchan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on March 5, 2013).
10.13#	Severance Agreement, dated December 31, 2010, by and between the Company and Virgil Lott (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the Commission on January 3, 2011).
10.14#	Form of 2011 Inducement Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on July 29, 2011).
10.15#	Form of 2011 Inducement Stock Incentive Plan Stock Option Agreement (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Commission on July 29, 2011).

Exhibit Number	Description
10.16#	Form of 2011 Inducement Stock Incentive Plan Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the Commission on July 29, 2011).
10.17#	Digirad Corporation 2014 Equity Incentive Award Plan (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 filed with the Commission on June 6, 2014).
10.18#	Form Indemnification Agreement of the Company for directors and officers (incorporated by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K filed with the Commission on March 6, 2015).
10.19	Registration Rights Agreement, dated March 5, 2015, by and among the Company, Keenan - Thornton Family Trust, David Keenan and Samia Arram (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the Commission on May 1, 2015).
10.20	Credit Agreement dated January 1, 2016, by and among Digirad Corporation, certain subsidiaries of the Digirad Corporation identified on the signature pages thereto, the lenders from time to time party thereto, Wells Fargo Bank, National Association, as agent and as sole lead arranger and sole book runner (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Commission on January 7, 2016).
10.21	Revolving Credit Agreement, dated June 21, 2017, by and among Digirad Corporation and Comerica Bank (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on June 23, 2017).
10.22	Amendment No. 1 To Revolving Credit Agreement, dated January 30, 2018 by and between Digirad Corporation and Comerica Bank (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on February 2, 2018).
10.23	Consolidated Agreements, dated April 1, 2014, between DMS Health Technologies, Inc. and Philips Healthcare, a Division of Philips Electronics North America Corporation (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the Commission on November 3, 2017).
10.24	Amendment, dated June 9, 2015, to the Consolidated Agreements between DMS Health Technologies, Inc. and Philips Healthcare, a Division of Philips Electronics North America Corporation (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 10-Q filed with the Commission on November 3, 2017).
10.25#	Digirad Corporation 2018 Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on May 5, 2018).
10.26#	Form of 2018 Incentive Plan Restricted Stock Unit Agreement. (incorporated by reference to Exhibit 99.2 to the Company's Registration Statement on Form S-8 filed with the Commission on November 6, 2018).
10.27#	Form of 2018 Incentive Plan Restricted Stock Unit Agreement (Performance Based) (incorporated by reference to Exhibit 99.3 to the Company's Registration Statement on Form S-8 filed with the Commission on November 6, 2018).
10.28	Amendment No. 2 To Revolving Credit Agreement, dated November 1, 2018 by and between Digirad Corporation and Comerica Bank (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the Commission on November 5, 2018).
10.29#	Employment Agreement, by and between Digirad Corporation and David Noble, dated October 31, 2018 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed with the Commission on November 5, 2018).
10.30#	Indemnification Agreement, by and between Digirad Corporation and David Noble, dated October 25, 2018 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed with the Commission on November 5, 2018).
10.31*	Limited Liability Company Agreement for Star Procurement, LLC, dated December 14, 2018, by and among Star Procurement LLC, Digirad Corporation and ATRM Holdings, Inc.
21.1*	Subsidiaries of Digirad Corporation
23.1*	Consent of BDO USA, LLP, Independent Registered Public Accounting Firm
24.1*	Power of Attorney (included on the signature page of this Form 10-K)
31.1*	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit Number	Description
31.2*	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*+	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*+	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.LAB*	XBRL Taxonomy Extension Labels Linkbase
101.PRE*	XBRL Taxonomy Presentation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase

† Digirad Corporation has been granted confidential treatment with respect to certain portions of this exhibit (indicated by asterisks), which have been filed separately with the Commission.

# Indicates management contract or compensatory plan.

* Filed herewith.

+ The certifications attached as Exhibits 32.1 and 32.2 that accompany this Annual Report on Form 10-K are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Digirad Corporation under the Securities and Exchange Act of 1933, as amended, or the Securities and Exchange Act of 1934, as amended, whether made before or after the date of this 10-K, irrespective of any general incorporation language contained in such filings.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DIGIRAD CORPORATION

Dated: March 1, 2019

By: /s/ MATTHEW G. MOLCHAN

Name: **Matthew G. Molchan**

Title: ***President and Chief Executive Officer (Principal Executive Officer)***

Power of Attorney

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Matthew G. Molchan and David Noble, and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, to sign any and all amendments (including post-effective amendments) to this Annual Report on Form 10-K and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto each of said attorneys-in-fact and agents, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that each of said attorneys-in-facts and agents, or his substitute or substitutes, or any of them, shall do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Name	Title	Date
/S/ MATTHEW G. MOLCHAN **Matthew G. Molchan**	Director, President, and Chief Executive Officer *(Principal Executive Officer)*	March 1, 2019
/S/ DAVID NOBLE **David Noble**	Interim Chief Financial Officer and Chief Operating Officer (*Principal Financial and Accounting Officer*)	March 1, 2019
/S/ JEFFREY E. EBERWEIN **Jeffrey E. Eberwein**	Director *(Chairman of the Board of Directors)*	March 1, 2019
/S/ JOHN M. CLIMACO **John M. Climaco**	Director	March 1, 2019
/S/ MITCH QUAIN **Mitch Quain**	Director	March 1, 2019
/S/ MICHAEL A. CUNNION **Michael A. Cunnion**	Director	March 1, 2019
/S/ JOHN W. SAYWARD **John W. Sayward**	Director	March 1, 2019
/S/ DIMITRIOS J. ANGELIS **Dimitrios J. Angelis**	Director	March 1, 2019

LIMITED LIABILITY

COMPANY AGREEMENT

FOR

STAR PROCUREMENT, LLC

THE MEMBERSHIP INTERESTS ISSUED PURSUANT TO THIS LIMITED LIABILITY COMPANY AGREEMENT HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "***1933 ACT***"), OR UNDER ANY OTHER APPLICABLE SECURITIES LAWS. SUCH MEMBERSHIP INTEREST MAY NOT BE SOLD, TRANSFERRED, ASSIGNED, PLEDGED OR OTHERWISE DISPOSED OF AT ANY TIME WITHOUT EFFECTIVE REGISTRATION UNDER THE 1933 ACT AND OTHER APPLICABLE LAW OR EXEMPTION THEREFROM, AND COMPLIANCE WITH THE OTHER RESTRICTIONS ON TRANSFERABILITY SET FORTH HEREIN. CERTAIN OF THE MEMBERSHIP INTERESTS REPRESENTED BY THIS LIMITED LIABILITY COMPANY AGREEMENT ARE SUBJECT TO ADDITIONAL RESTRICTIONS ON TRANSFERABILITY SET FORTH IN THIS AGREEMENT.

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(continued)

This LIMITED LIABILITY COMPANY AGREEMENT (this "***Agreement***") for **STAR PROCUREMENT, LLC**, a Delaware limited liability company (the "***Company***"), dated as of December __, 2018, is by and among the Persons listed on Exhibit A.

RECITALS

WHEREAS,

A. The Company was formed as a Delaware limited liability company on December 14, 2018, by the filing of the Certificate of Formation with the Secretary of State of the State of Delaware.

B. The Members desire to enter into this Agreement on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the mutual agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

ARTICLE I

DEFINITIONS

Section 1.1 Certain Definitions. For purposes of this Agreement, the following terms shall have the meanings set forth below:

"***1933 Act***" means the Securities Act of 1933, as amended.

"***Affiliate***" means, with respect to any Person, any other Person Controlling, Controlled by or under common Control with such Person and any equity owner (including, but not limited to, any partner, member, or a shareholder) of such Person.

"***Agreement***" has the meaning given to such term in the introductory paragraph.

"***ATRM Manager***" means the Manager appointed by ATRM Holdings, Inc. and identified on Exhibit B.

"***Available Cash***" means all cash funds (and any other property treated as cash in accordance with Section 5.2) of the Company on hand from time to time after payment or provision for (a) all operating and other expenses of the Company as of such time, (b) all outstanding and unpaid current obligations of the Company as of such time, and (c) as determined by the Board in its sole discretion from time to time, any working capital, expense, capital expenditure or other reserve.

"***Board***" has the meaning set forth in Section 7.1(b).

"***Business***" means the purchasing and sale of building materials and related goods and entry into the Services Agreement attached hereto as Exhibit C.

"***Business Day***" means any day except a Saturday, Sunday or other day on which commercial banks in New York City are authorized by law to close.

"***Capital Account***" means the individual accounts established and maintained pursuant to Section 4.4.

"***Capital Contribution***" means, with respect to any Holder, the aggregate amount of cash and the initial Gross Asset Value of any other property contributed (or required to be contributed) to the Company by or on behalf of that Holder (or any predecessor-in-interest of such Holder).

"***Chairman***" has the meaning given to such term in Section 7.6(b).

"***Chief Executive Officer***" has the meaning given to such term in Section 7.6(c).

"***Code***" means the Internal Revenue Code of 1986, as amended. All references in this Agreement to sections of the Code shall include any corresponding provision or provisions of any succeeding law.

"***Company***" has the meaning given to such term in the introductory paragraph.

"***Confidential Information***" means any and all information, statements, reports, trade secrets, documents, and other items prepared or produced by or on behalf of the Company, any Subsidiary, the Board, any Member or any of their respective Affiliates and any and all information, statements, reports, trade secrets, documents, and other items concerning the Company, any Subsidiary, any Member or any of their respective Affiliates that any Holder may receive (as a Holder and not as a Manager or Officer) or that may be disclosed, distributed or disseminated (whether in writing, orally, electronically or by other means) by or to such Holder or any representative of such Holder, or otherwise as a result of such Holder's ownership of a Membership Interest other than (a) any information such Holder can establish was already in such Holder's possession at the time of its disclosure or which becomes available to such Holder from a source other than the Company or a representative of the Company and was lawfully obtained and is not known by such Holder to be the subject to another confidentiality agreement with, or obligation of secrecy or confidentiality to, the Company, any Member or any of their respective Affiliates, or (b) such information that becomes generally available to the public other than directly or indirectly as a result of the disclosure by such Holder or a representative of such Holder in violation of Section 3.2 or other provision hereof.

"***Control***" means, with respect to any Person, the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether by agreement, contract or law or through any ownership of voting securities, power-of-attorney, proxy, or other arrangement or mechanism.

"***Counsel"*** means Olshan Frome Wolosky LLP.

"***Delaware Act***" has the meaning given such term in Section 2.1.

"***Depreciation***" means, for each Fiscal Year, an amount equal to the federal income tax depreciation, amortization or other cost recovery deduction allowable with respect to an asset for such Fiscal Year; provided, that if the Gross Asset Value of an asset differs from its adjusted basis for federal income tax purposes at the beginning of such Fiscal Year, Depreciation shall be an amount which bears the same ratio to such beginning Gross Asset Value as the federal income tax depreciation, amortization, or other cost recovery deduction for such Fiscal Year bears to such beginning adjusted Tax basis; and, provided, further, that if the adjusted basis for federal income tax purposes of an asset at the beginning of such Fiscal Year is zero, Depreciation shall be determined with reference to such beginning Gross Asset Value using any reasonable method selected by the Board.

"***Digirad Manager***" means the Manager appointed by Digirad Corporation and identified on Exhibit B.

"***Exchange Act***" means the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder, in each case as amended from time to time, or any successor thereto.

"***Fiscal Year***" means, except as otherwise determined by the Board in accordance with this Agreement, the calendar year, or any portion thereof for which the Company is required to allocate Profits, Losses and other items of income, gain, loss or deduction pursuant to Article VI hereof.

"***Gross Asset Value***" means, with respect to any asset, the asset's adjusted basis for federal income tax purposes, except as follows:

(a) the initial Gross Asset Value of any asset contributed to the Company (other than cash contributed by a Holder to the Company) shall be the gross fair market value of such asset at the time of contribution, as agreed by the contributing Holder and the Board;

(b) as determined in good faith by the Board, the Gross Asset Values of all of the Company's assets shall be adjusted to equal their respective gross fair market values as of the following events: (i) immediately before the acquisition of any Membership Interest by any new or existing Holder in exchange for more than a *de minimis* Capital Contribution or as consideration for the performance of services to or for the benefit of the Company, (ii) immediately before the distribution by the Company to a Holder of more than a *de minimis* amount of property as consideration for any Membership Interest (or portion thereof), (iii) immediately before the liquidation of the Company within the meaning of Treasury Regulation Section 1.704-1(b)(2)(ii)(g), (iv) in connection with the grant of an interest in the Company (other than a de minimis interest), as consideration for the provision of services to or for the benefit of the Company by an existing Member acting in a member capacity, or by a new member acting in a member capacity or in anticipation of being a member (v) immediately before the Company's issuance of a noncompensatory option (as defined in Treasury Regulation Section 1.721-2(g)) to acquire a Membership Interest (other than a *de minimis* Membership Interest), (vi) immediately after the

exercise of a noncompensatory option (as defined in Treasury Regulation Section 1.721-2(g)) issued by the Company to acquire a Membership Interest (other than a *de minimis* Membership Interest), and (vii) such other times as may be required under Treasury Regulation Section 1.704-1(b)(2)(iv)(f)(5)(v); provided that no adjustment described in this subparagraph (b) shall be made if the Board determines in good faith that such adjustment is neither necessary nor appropriate to reflect the relative economic interests of the Holders in the Company;

(c) the Gross Asset Value of any asset distributed by the Company (other than cash distributed to any Holder) shall be the gross fair market value of such asset, as determined immediately prior to the distribution in good faith by the Board;

(d) the Gross Asset Values of the Company's assets shall be increased (or decreased) to reflect any adjustments to the adjusted basis of such assets pursuant to Code Section 734(b) or Section 743(b), but only to the extent that such adjustments are taken into account in determining Capital Accounts pursuant to Treasury Regulations Section 1.704-1(b)(2)(iv)(m); provided, however, that Gross Asset Values shall not be adjusted pursuant to this subparagraph (d) to the extent that an adjustment pursuant to subparagraph (b) is required in connection with a transaction that would otherwise result in an adjustment pursuant to this subparagraph (d); and

(e) if the Gross Asset Value of an asset has been determined or adjusted pursuant to subparagraph (a), (b) or (d), such Gross Asset Value shall thereafter be adjusted by the Depreciation (and not the depreciation, amortization or other cost recovery deductions allowable with respect to that asset for federal income tax purposes) taken into account with respect to such asset for purposes of computing Profits and Losses.

"***Holder***" means any Member or any other Person owning a Membership Interest, regardless of whether and to what extent such Member or other Person has been, is or will be admitted to the Company as a member in accordance with the provisions of this Agreement and applicable law.

"***Indemnitee***" means any Person that is or was a Manager, Member, or Officer, or any Person that is serving or served at the Company's request as a director, manager, officer, employee or agent of another Person.

"***IRS***" means the United States Internal Revenue Service.

"***Major Decision***" means any decision, contract, agreement, or other material activity on the part of the Company or any of its Affiliates relating to any of the following:

(a) except as otherwise specifically described and provided in this definition, any contract or agreement or activity if the Board determines that, over the course of and in connection with such contract, agreement or activity, the Company and/or any of its Affiliates is or will be or can reasonably expected to be required to pay, reserve or otherwise expend more than $50,000;

(b) except for any debt incurred in the ordinary course of business to trade creditors or a draw-down on a revolving debt or other similar credit line facility, the incurrence of any new debt, the addition of any principal to an existing debt, or any increase in the available credit under a revolving loan or other similar credit line facility, where such principal, additional principal, or increase in available credit exceeds or will exceed $50,000;

(c) the payment, refinancing, modification or settlement of any debt with an outstanding principal amount in excess of $50,000, other than the payment of debt incurred in the ordinary course of business to trade creditors or the repayment (other than as part of a refinancing) of a debt in accordance with its terms;

(d) any Proceeding (or other action relating to a Proceeding) that (i) the Board reasonably determines is necessary to avoid a default judgment against the Company, any Manager, any Member or any of their respective Affiliates or to prevent or ameliorate any adverse or emergency condition, or that is covered by insurance; (ii) involves a claim (without any offset for any counterclaim or otherwise) for damages (or settlement thereof) of $25,000 or more; (iii) involves or includes a claim for any material equitable relief by any party; or (iv) involves or includes any claim or allegation of fraud, illegality or criminality on the part of the Company, any Manager, or any of their respective Affiliates;

(e) on the part of the Company, the issuance, exchange, modification, recapitalization or other Transfer of any Membership Interest or other equity interest in the Company or any of its Affiliates or any right to acquire any of the foregoing (including, but not limited to, any warrants, options, convertible debt or other instruments);

(f) any agreement related to a Sale of the Company on the part of the Company, any Affiliate of the Company, any Holder, any of their respective Affiliates or any combination of the foregoing;

(g) the selection or removal (for any reason or no reason) of any Person as a Manager;

(h) any increase or decrease in the number of Managers on the Board;

(i) the selection, retention or dismissal of (i) any accounting firm engaged or to be engaged for the purpose of preparing any material financial statements and/or federal income tax return for or inclusive of the Company or any of its Affiliates or (ii) any law firm retained or to be retained with respect to any Proceeding subject to approval under clause (d) of this definition;

(f) any material transaction involving any Affiliate of any Holder or any Manager;

(g) with respect to the Company or any of its Affiliates, any change in the Fiscal Year for purposes of preparing any financial statement or the preparation of any material federal or state income Tax return;

(h) any voluntary election or other action by the Company or any of its Affiliates to liquidate or dissolve or wind-up (or make any assignment for the benefit of creditors) or to commence bankruptcy or insolvency proceedings under applicable law or causing or permitting the adoption of a plan of liquidation with respect to the Company or any of its Affiliates; and

(i) subject to Section 13.2, any amendment to this Agreement, the Company's Certificate of Formation or any corresponding organizational document in the case of any of the Company's Affiliates.

"***Member***" means a Person admitted to the Company as a member in accordance with the provisions of this Agreement and applicable law. If a Person admitted as a Member with respect to a Membership Interest acquires an additional Membership Interest, such Person shall not be treated as Member with respect to such additional Membership Interest, unless and until such Person is admitted as a Member in accordance with this Agreement with respect to and to the extent of such additional Membership Interest.

"***Membership Interest***" means, as provided in this Agreement, the entire equity interest in the Company of a Person (whether or not such Person is or has been admitted as a Member), including, but not limited to, the number of Units, any share of Profits and Losses, any right to participate in liquidating and non-liquidating distributions from the Company, any obligation to make capital contributions, and any and all other rights, obligations and duties associated with such equity interest.

"***Nonrecourse Deductions***" has the meaning set forth in Treasury Regulation Section 1.704-2(b)(1).

"***Note***" means a non-negotiable, unsecured promissory note, which note shall (a) bear interest at a fixed rate per annum equal to the applicable Federal rate (as such term is defined in Code Section 1274) in effect for the calendar month including the date of issuance (payable annually) and (b) have a five-year term with all principal due at maturity. Principal may be pre-paid at any time without penalty.

"***Notice 2005-43***" means IRS Notice 2005-43, or any similar future guidance of the IRS, including any final pronouncement in respect thereof.

"***Officer***" means any Person validly and properly appointed and acting as a Chief Executive Officer, President, Vice-President, Treasurer, Assistant Treasurer, Secretary, Assistant Secretary, Partnership Representative or other officer described in Section 7.1(f).

"***Partner Nonrecourse Debt***" has the meaning set forth in Treasury Regulations Section 1.704-2(b)(4).

"***Partner Nonrecourse Debt Minimum Gain***" has the meaning set forth in Treasury Regulations Section 1.704-2(i)(2).

"***Partner Nonrecourse Deductions***" has the meaning set forth in Treasury Regulations Sections 1.704-2(i)(1) and 1.704-2(i)(2).

"***Partnership Minimum Gain***" has the meaning set forth in Treasury Regulation Sections 1.704-2(b)(2) and 1.704-2(d).

"***Partnership Representative***" means the Person designated on Exhibit B as such or (b) if the Person so designated on Exhibit B cannot serve in the capacity of "partnership representative," "tax matters partner" or other similar capacity, a Person (which Person may include any Manager) designated by the Board.

"***Person***" means any individual, partnership, corporation, limited liability company, joint venture, trust, association or other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

"***Preferred Return***" means, as determined with respect to a Holder, an amount that, when combined with all prior distributions made under Section 5.1(b) to such Holder, yields a cumulative return of fifteen percent (15%) per annum, compounded quarterly, on the Unrecovered Capital (as outstanding from time to time) of such Holder, which return shall accrue daily and shall be computed on the basis of a 365 day or a 366 day year, as applicable.

"***President***" has the meaning given to such term in Section 7.6(d).

"***Proceeding***" means (a) any threatened, pending or completed administrative or judicial action, audit, suit, hearing, review deposition or other proceeding, whether civil or criminal, (b) any appeal or other administrative or judicial review of any item described in clause (a), and (c) any investigation or other inquiry that will or could potentially result in or give rise to any item described in clause (a).

"***Profits***" and "***Losses"*** means, for each Fiscal Year, an amount equal to the Company's taxable income or loss, respectively, for such Fiscal Year, determined in accordance with Code Section 703(a) (for this purpose, all items of income, gain loss, expense, or deduction required to be stated separately pursuant to Code Section 703(a)(1) shall be included in taxable income or loss), with the following adjustments:

(a) income of the Company that is exempt from federal income tax and not otherwise taken into account in computing Profits and Losses pursuant to this definition shall be taken into account in computing Profits;

(b) any expenditures of the Company described in Code Section 705(a)(2)(B) (or treated as Code Section 705(a)(2)(B) expenditures pursuant to Treasury Regulations Section 1.704-1(b)(2)(iv)(i)) and not otherwise taken into account in computing Profits or Losses pursuant to this definition shall be taken into account in computing Profits and Losses;

(c) in the event the Gross Asset Value of any Company asset is adjusted pursuant to subparagraph (b) or (d) of the definition of Gross Asset Value, the amount of such adjustment

shall be taken into account as gain or loss from the disposition of such asset for purposes of computing Profits and Losses;

(d) any gain or loss resulting from any disposition of any Company asset with respect to which gain or loss is recognized for federal income tax purposes shall be determined by reference to the Gross Asset Value of such asset, notwithstanding that the adjusted tax basis of such asset differs from its Gross Asset Value;

(e) in lieu of the depreciation, amortization and other capital cost recovery deductions taken into account in computing taxable income or loss, there shall be taken into account Depreciation for such Fiscal Year;

(f) the computation of all items of income, gain, loss, expense, and deduction shall be made without regard to any election under Code Section 754 which may be made by the Company (except to the extent required by Treasury Regulations Section 1.704-1(b)(2)(iv)(m));

(g) notwithstanding any other provision in any clause of this definition, any items of income, gain, loss, expense or deduction that are specially allocated pursuant to Section 6.2 or Section 6.3 shall not be taken into account in computing Profits and Losses; and

(h) items of Company income, gain, loss, expense or deduction available to be specially allocated pursuant to Article VI shall be determined by applying rules analogous to those set forth in subparagraphs (a) through (f) above.

"***Regulatory Allocations***" has the meaning set forth in Section 6.3.

"***Sale of the Company***" means (a) any merger, consolidation or other combination of the Company with another Person, if the Members, as determined immediately prior to the relevant transaction, would own less than fifty percent (50%) (as measured immediately after the consummation of the relevant transaction in terms of either voting power or fair market value) of the equity interests of the surviving Person; (b) any sale or exchange or any series of related or coordinated sales or exchanges of Membership Interests, if the Members, as determined immediately prior to such sale or exchange or series of sales or exchanges, would own less than fifty percent (50%) (as measured immediately after such sale or exchange or series of sales or exchanges in terms of either Voting Units or fair market value) of the Membership Interests; (c) any issue or any series of related or coordinated issues of Membership Interests, if the Members, as determined immediately prior to such issue or series of issues, would own less than fifty percent (50%) (as measured immediately after such issue or series of issues in terms of either Voting Units or fair market value) of the Membership Interests; or (d) any direct or indirect sale or exchange of all or substantially all of the assets of the Company (including, but not limited to, any assets held directly or indirectly through an Affiliate of the Company). No transaction shall be taken into account so as to cause a Sale of the Company to occur, if and to the extent such transaction occurs between or among the Company, any Affiliate of the Company or any combination of the foregoing or if and to the extent such transaction is a Transfer was made in accordance with Section 10.2.

"***SEC***" means the Securities and Exchange Commission.

"***Secretary***" has the meaning given to such term in Section 7.6(f).

"***State Tax***" means any Tax other than U.S. federal income tax.

"***Subsidiary***" means any Person of which the Company owns fifty percent (50%) or more of the equity interests therein (either by vote or value).

"***Services Agreement***" means the Services Agreement, dated the date hereof, by and between the Company and KBS Builders, Inc.

"***Tax***" means any federal, state, county, local, franchise or foreign income, payroll, employment, excise, environmental, customs, franchise, windfall profits, withholding, social security (or similar), unemployment, real property, personal property (tangible or intangible), sales, use, transfer, registration, value added, gross receipts, net proceeds, turnover, license, ad valorem, capital stock, disability, stamp, leasing, lease, excess profits, occupational and interest equalization, fuel, severance, alternative or add-on minimum or estimated tax, charge, fee, levy, duty or other assessment, and other obligations of the same or of a similar nature to any of the foregoing due or claimed to be due by or to any governmental or quasi-governmental authority, including any interest, penalty or addition thereto, whether disputed or not.

"***Tax Proceeding***" means any Proceeding to which the Company is a party if and when such Proceeding involves to any significant extent any issue or other matter (including, but not limited to, any adjustment to or other determination of any nexus, permanent establishment or item of income, gain, expense or loss) relating to (a) any U.S. federal, state or local income Tax, (b) the Company's obligation to withhold or collect any Tax if any Manager, Member, or Officer could be held personally liable for any failure to collect or withhold such Tax and/or (c) any other domestic or foreign Tax if there is possibility that, as result of the Proceeding, any Member could either (i) become subject to Tax in a jurisdiction where such Member was not otherwise subject to Tax during the time period at issue or (ii) through the issuance of a revised Schedule K-1 or other similar mechanism, any adjustment or other determination resulting from such Proceeding would flow through to and would be required to be taken into account on any separate domestic or foreign Tax return of any Member.

"Total Equity Value" means, as determined from time to time as specified in this Agreement, the aggregate proceeds that would be received by the Holders if: (a) all of the assets of the Company were sold at their Gross Asset Value pursuant to a liquidation of the Company and (b) the Company satisfied and paid in full all of its respective obligations and liabilities (including all Taxes, costs and expenses incurred in connection with such transaction and any amounts reserved by the Board with respect to any contingent or other liabilities) all as determined by the Board in its sole discretion.

"***Transfer***" means, whether direct or indirect, any transfer, sale, redemption, option grant, swap or other derivative transaction, assignment, issuance, gift, abandonment, termination, withdrawal, bequest, pledge, lien, mortgage or other encumbrance or disposition (irrespective of whether any of the foregoing is effected voluntarily, by operation of law or otherwise, or whether *inter vivos* or upon death), including, but not limited to, (a) any issuance, redemption or abandonment

of a Membership Interest, (b) any exchange or conversion of any Membership Interest as a result of or in connection with any incorporation, merger, consolidation, combination or other similar transaction involving the Company or any Affiliate of the Company, and (c) any transaction similar to any of foregoing transactions with respect to any Holder that is an entity or any equity interest in any such Holder.

"***Treasurer***" has the meaning given to such term in Section 7.6(g).

"***Treasury Regulations***" means the final or temporary regulations that have been promulgated under the Code by the U.S. Department of the Treasury, and any successor regulations.

"***Underpayment Amount***" means, as determined with respect to a Holder, (a) any "imputed underpayment" determined under Code Section 6225, (b) any similar or corresponding amount determined under any similar or corresponding provision of any State Tax, (c) any other similar or corresponding amount if and to the extent such amount represents the payment or collection of any Tax that would otherwise be paid or payable by such Holder as a result of the pass-through (or similar treatment) of any item of Profit or Loss to such Holder, and (d) any withholding, estimated or other Tax required by law to be withheld or paid by the Company with respect to or on behalf of such Holder.

"***Unit***" means any unit associated with any Membership Interest under this Agreement.

"***Unpermitted Deficit***" has the meaning set forth in Section 6.2(c).

"***Unrecovered Capital***" means, as determined with respect to a Holder, the excess of (a) the total aggregate Capital Contributions made by the Holder with respect to the Units of such Holder over (b) the aggregate distributions made under Section 5.1(a) to such Holder.

"***Vice-President***" has the meaning given to such term in Section 7.6(b).

"***Voting Unit***" means any Unit entitled to a vote under the terms of this Agreement.

ARTICLE II
ORGANIZATIONAL MATTERS

Section 2.1 Legal Status. The Company is a limited liability company formed and existing under the Delaware Limited Liability Company Act, as amended (the "***Delaware Act***"). The Company shall be governed by the Delaware Act. The Board and the Holders shall take such steps as are necessary to maintain the Company's status as a limited liability company formed under the laws of the State of Delaware and qualification to conduct business in any jurisdiction where the Company does business and is required to be so qualified.

Section 2.2 Name. The name of the Company is STAR PROCUREMENT, LLC. The Board may change the name of the Company at any time and from time to time. The Company's business may be conducted under its name and/or any other name or names deemed advisable by the Board.

Section 2.3 Purpose. The purpose of the Company is to engage in any lawful act or activity that may be conducted by a limited liability company formed under the Delaware Act related to the Business, and to engage in any other activities and transactions necessary or incidental to the foregoing. The Company shall possess and may exercise all the powers and privileges granted by the Delaware Act or by any other law or by this Agreement, together with any powers incidental thereto, insofar as such powers and privileges are necessary or convenient to the conduct, promotion or attainment of the foregoing objectives and purposes of the Company.

Section 2.4 Term. The term of the Company commenced on the date specified in the Certificate of Formation filed for record in the Office of the Secretary of State of the State of Delaware and shall continue until the Company is dissolved pursuant to this Agreement.

ARTICLE III
MEMBERS AND MEMBERSHIP INTERESTS

Section 3.1 Holders. Exhibit A sets forth the name of each Holder, along with certain specified characteristics of the Membership Interest of such Holder. From time to time, the Board may amend Exhibit A (without the consent of any Person) to reflect any change in ownership, redemption, forfeiture, cancellation or issuance of or other event affecting any Membership Interest; provided, that, except as otherwise specifically provided in this Agreement, no such amendment shall increase the Capital Contribution of any Holder.

Section 3.2 Confidentiality. To the maximum extent permitted by law and as permitted pursuant to this Agreement, (a) each Holder (in such ownership capacity and not as a Manager or Officer) agrees to hold all Confidential Information in confidence and not to disclose any Confidential Information to any Person (other than the Company, any other Holder, any Manager or any Officer) and (b) the Company agrees to hold all Confidential Information concerning any Member or any Affiliate of a Member in confidence and not to disclose any such Confidential Information to any Person (other than the Company, any Manager or any Officer), in each case other than (i) to the financial, legal or other professional advisors or translators of a Holder, or where such Person is an entity, to those employees, partners (general or limited), Affiliates, members, managers, shareholders, officers or directors of such Person or any lender or prospective lender of the Company or any Subsidiary, as reasonably required by such lender, provided that such Persons have been previously informed of the confidential nature of the Confidential Information, and, in any event, the Person disclosing such Confidential Information shall be liable for any failure by any Person to whom or which such Confidential Information has been disclosed to abide by the provisions of this Section 3.2, (ii) as required under applicable law or regulation (including, but not limited to, the preparation of any Tax return) or by court or governmental order, subpoena or legal process, (iii) as permitted by the Board or any affected Holder, if applicable or (iv) as permitted to any permitted assignee of any Membership Interest pursuant to Article X. Each Holder and the Company acknowledge that disclosure of Confidential Information in violation of the provisions of this Section 3.2 may cause irreparable injury to the Company and/or the Members for which monetary damages are inadequate, difficult to compute, or both. Accordingly, each Holder and the Company agree that such Holder’s and the Company’s obligations under this Section 3.2 may be

enforced by specific performance and that breaches or prospective breaches of this Section 3.2 may be preliminarily and/or permanently enjoined.

Section 3.3 Certification. No Membership Interest shall be certificated unless otherwise directed by the Board. From time to time, the Board may cause any or all of the Membership Interests to be certificated, and may place one or more legends on any of such certificates. Without limitation of the foregoing, the Board may place the following legend on such certificates:

> The securities represented hereby have not been registered under the Securities Act of 1933, as amended (the "***Act***") or any applicable states securities laws, and may not be resold unless they are registered under the Act and those securities laws or an exemption from registration is available thereunder. The securities represented hereby are subject to the Limited Liability Company Agreement of the issuer of such securities dated as of [DATE], as amended from time to time, including the transfer restrictions set forth therein. A copy of that agreement may be obtained at the Company's principal executive offices without charge.

ARTICLE IV
CONTRIBUTIONS AND CAPITAL ACCOUNTS

Section 4.1 Capital Contributions. Each Holder has made or promptly shall make a Capital Contribution (if any) to the Company as set forth opposite such Person' name on Exhibit A hereto. No other Capital Contributions have been made or shall be made to the Company other than as set forth on Exhibit A. Except as otherwise specifically provided in this Agreement, no Holder shall be required to make any additional Capital Contribution.

Section 4.2 Loans. Any Member may make loans to the Company at such times and on such terms as are mutually agreed upon by the Board and such Member, and any loan by a Member to the Company shall not be considered to be a Capital Contribution for any purpose and shall not result in an increase in the amount of the Capital Account of such Member.

Section 4.3 Return of Capital Contributions; Interest. No Holder shall be paid interest on any Capital Contribution to the Company or on such Person's Capital Account, and no Person shall have any right (a) except upon dissolution of the Company pursuant to the terms of this Agreement, to demand the return of such Person's Capital Contribution or any other distribution from the Company (whether upon resignation, withdrawal or otherwise) or (b) to cause a partition of the Company's assets.

Section 4.4 Capital Accounts. An individual Capital Account shall be established and maintained for each Holder, in the manner provided by Treasury Regulations Section 1.704-1(b)(2)(iv) and the following provisions:

(a) to such Holder's Capital Account there shall be credited such Holder's Capital Contributions, such Holder's distributive share of Profits and other items of income or gain specially

allocated hereunder and the amount of any Company liabilities that are assumed by such Holder or that are secured by any Company assets distributed to such Holder;

(b) to such Holder's Capital Account there shall be debited the amount of cash and the Gross Asset Value of any other asset of the Company distributed to such Holder pursuant to any provision of this Agreement, such Holder's distributive share of Losses and other items of loss, expense and deduction specially allocated hereunder and the amount of any liabilities of such Holder that are assumed by the Company or that are secured by any asset contributed by such Holder to the Company;

(c) in determining the amount of any liability for purposes of this Section 4.4, there shall be taken into account Code Section 752(c) and any other applicable provisions of the Code or the Treasury Regulations; and

(d) in the event that ownership of (all or a portion of) any Membership Interest is acquired by a Person in accordance with the terms of this Agreement, such Person shall succeed to the Capital Account associated with the acquired Membership Interest.

Section 4.5 Limitation on Liability. Except as otherwise required by applicable law, no Holder shall have any personal liability whatsoever in such Holder's capacity as a Holder, whether to the Company or any of its Affiliates, to any of the other Holders, to the creditors of the Company or any of its Affiliates or to any other Person, for the debts, liabilities, commitments or any other obligations of the Company or any of its Affiliates. Each Holder shall be liable only to make such Holder's Capital Contribution and for any other obligations provided expressly herein and shall not be required to pay to the Company or any other Holder any deficit or negative balance which may exist from time to time in such Holder's Capital Account including, but not limited to, upon or after dissolution of the Company.

ARTICLE V
DISTRIBUTIONS

Section 5.1 General. Subject to Section 5.2 and Section 5.3, as determined by the Board in its sole discretion from time to time, the Company may make distributions of Available Cash to the Holders as follows:

(a) First, to the Holders, *pro rata* in accordance with their respective amounts of Unrecovered Capital, until each such Holder's Unrecovered Capital equals zero;

(b) Second, to the Holders, *pro rata* in accordance with their respective amounts of Preferred Return, until each such Holder has received an amount equal to the Preferred Return of such Holder; and

(c) Third, to the Holders, *pro rata* in accordance with their respective total Units.

Section 5.2 In-Kind Distributions. Distributions of property other than cash may be made in the discretion of the Digirad Manager. All distributions of property in kind shall be made

as Available Cash under and in accordance with Section 5.1 and/or Section 11.3, as applicable. Property distributed in kind shall be unencumbered and, for purposes of determining Available Cash, shall be treated as cash in an amount equal to its Gross Asset Value. Except explicitly provided under this Agreement or as otherwise required under the Delaware Act, no Holder shall be entitled to distributions of property other than cash.

Section 5.3 Tax Distributions.

(a) Notwithstanding anything herein to the contrary, during each Fiscal Year or within ninety (90) days thereafter, to the extent of Available Cash and to the extent permitted by the Delaware Act, the Company shall, before any distributions are made under Section 5.1, distribute, in cash, to each Member an amount sufficient to enable such Member to satisfy such Member's federal, state and local Tax liabilities attributable to the items of income, gain, loss or deduction allocated to such Member by the Company with respect to such Fiscal Year. The amount to be distributed shall be determined by the Board in consultation with the Company's accountants and shall be computed for each Member (i) as if such Member were taxable at the highest applicable federal, state and local income Tax rates applicable to an individual domiciled in New York City, New York; provided that such rate may be increased or decreased from time to time as reasonably determined by the Board to take into account increases or decreases in applicable federal, state and local income tax rates for such location; (ii) as if allocations from the Company were, for such year, the sole source of income and loss for such Member (but determined without regard to allocations of any Company items deductible by individuals only under Code Section 212); and (iii) without regard to the carryover of items of loss, deduction and expense previously allocated by the Company to such Member. The Board may cause the Company to make Tax distributions to Members during any year to cover estimated Taxes based on good-faith estimates of their respective tax liabilities attributable to Company Tax items for such year.

(b) Any distributions under Section 5.3(a) to and any Underpayment Amount required by law to be withheld or paid by the Company with respect to or on behalf of or that is otherwise allocable to a Holder shall be treated as an advance and offset against and shall reduce any amount otherwise distributable to a Member under Section 5.1 or Section 5.2. Promptly upon demand from the Company, a Holder shall pay to the Company an amount equal to any Underpayment Amount (to the extent not previously offset against any distributions under Section 5.1 or otherwise reimbursed to the Company by the Holder) that the Company has paid with respect to or on behalf of such Holder. Each Holder shall indemnify and hold harmless the Company and the other Holders from and against any liability arising out of the failure to deduct and withhold any Underpayment Amount.

ARTICLE VI
ALLOCATIONS

Section 6.1 Allocations of Profit or Loss. For each Fiscal Year, after adjusting each Holder's Capital Account for all capital contributions and distributions during such Fiscal Year and making all allocations pursuant to Section 6.2 or Section 6.3 with respect to such Fiscal Year, items of Profit and Loss shall be allocated to each Holder such that, as of the end of such Fiscal Year, the Capital Account of each Holder shall equal:

(a) the amount that would be distributed under Section 5.1 to such Holder, determined as if the Company were to sell (as of the last day of the Fiscal Year) all of its assets for cash equal to their Gross Asset Values pursuant to a liquidation of the Company and distribute all of such cash in accordance with Section 11.3 (with the assumption that the amount paid in satisfaction of any nonrecourse obligation is limited to the Gross Asset Value of any property securing the nonrecourse obligation), minus

(b) the sum of (i) the amount, if any, which each Holder is or would be obligated to contribute to capital in connection with a liquidation of the Company or otherwise in accordance with the Agreement or applicable law, (ii) such Holder's share of Partnership Minimum Gain and (iii) such Holder's share of Partner Nonrecourse Debt Minimum Gain.

Section 6.2 Special Allocations. The following special allocations shall be made in the following order:

(a) Except as otherwise provided in Treasury Regulations Section 1.704-2(f), notwithstanding any other provision of this Article VI, if there is a net decrease in Partnership Minimum Gain during any Fiscal Year, each Holder shall be specially allocated items of Company income and gain for such Fiscal Year (and, if necessary, subsequent Fiscal Years) in an amount equal to such Holder's share of the net decrease in Partnership Minimum Gain, determined in accordance with Treasury Regulations Section 1.704-2(g). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Holder pursuant thereto. The items to be so allocated shall be determined in accordance with Treasury Regulations Sections 1.704-2(f)(6) and 1.704-2(j)(2). This Section 6.2(a) is intended to comply with the minimum gain chargeback requirement in Treasury Regulations Section 1.704-2(f) and shall be interpreted consistently therewith.

(b) Except as otherwise provided in Treasury Regulations Section 1.704-2(i)(4), notwithstanding any other provision of this Article VI, if there is a net decrease in Partner Nonrecourse Debt Minimum Gain attributable to a Partner Nonrecourse Debt during any Fiscal Year, each Holder who has a share of the Partner Nonrecourse Debt Minimum Gain attributable to such Partner Nonrecourse Debt, determined in accordance with Treasury Regulations Section 1.704-2(i)(5), shall be specially allocated items of Company income and gain for such Fiscal Year (and, if necessary, subsequent Fiscal Years) in an amount equal to such Holder's share of the net decrease in Partner Nonrecourse Debt Minimum Gain attributable to such Partner Nonrecourse Debt, determined in accordance with Treasury Regulations Section 1.704-2(i)(4). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Holder pursuant thereto. The items to be so allocated shall be determined in accordance with Treasury Regulations Sections 1.704-2(i)(4) and 1.704-2(j)(2). This Section 6.2(b) is intended to comply with the partner nonrecourse debt minimum gain chargeback requirement in Treasury Regulations Section 1.704 2(i)(4) and shall be interpreted consistently therewith.

(c) In the event any Holder unexpectedly receives any adjustments, allocations, or distributions described in Treasury Regulations Sections 1.704-1(b)(2)(ii)(d)(4), 1.704-1(b)(2)(ii)(d)(5) or 1.704-1(b)(2)(ii)(d)(6) that cause such Holder's Capital Account to be reduced below

zero by an amount greater than such Holder's obligation to restore deficits on the dissolution of the Company (including deemed obligations to restore deficits under Treasury Regulations Sections 1.704-2(g)(1) and 1.704-2(i)(5)) (such excess, an "***Unpermitted Deficit***"), items of Company income and gain shall be specially allocated to such Holder in an amount and manner sufficient to eliminate the Unpermitted Deficit of such Holder as quickly as possible, provided that an allocation pursuant to this Section 6.2(c) shall be made only if and to the extent that such Holder would have an Unpermitted Deficit after all other allocations provided for in this Article VI have been tentatively made as if this Section 6.2(c) were not in the Agreement. This Section 6.2(c) is intended to constitute a "qualified income offset" within the meaning of Treasury Regulations Section 1.704-1(b)(2)(ii)(d) and shall be interpreted and applied in a manner consistent therewith.

(d) Notwithstanding any other provision of this Agreement to the contrary, for any Fiscal Year, Nonrecourse Deductions and any items required to be allocated for purposes of Code Section 199A shall be allocated among the Holders *pro rata* in accordance with their economic interests.

(e) Notwithstanding any other provision of this Agreement to the contrary, any Partner Nonrecourse Deductions for any Fiscal Year shall be allocated to the Holder who (in its capacity, directly or indirectly, as lender, guarantor or otherwise) bears the economic risk of loss with respect to the Partner Nonrecourse Debt to which such Partner Nonrecourse Deductions are attributable in accordance with Treasury Regulations Section 1.704-2(i)(1).

(f) To the extent an adjustment to the adjusted Tax basis of any Company asset pursuant to Code Section 734(b) or Code Section 743(b) is required pursuant to Treasury Regulations Sections 1.704-1(b)(2)(iv)(m)(2) or 1.704-1(b)(2)(iv)(m)(4) to be taken into account in determining Capital Accounts as the result of a distribution to a Holder in complete liquidation of the Holder's Membership Interest, the amount of such adjustment to Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis), and such gain or loss shall be specially allocated to the Holders in a manner consistent with the manner in which their Capital Accounts are required to be adjusted pursuant to such sections of the Treasury Regulations.

Section 6.3 Curative Allocations. The allocations set forth in Sections 6.2(a) through 6.2(f) hereof (the "***Regulatory Allocations***") are intended to comply with certain requirements of the Treasury Regulations. It is the intent of the Holders that, to the extent possible, all Regulatory Allocations shall be offset either with other Regulatory Allocations or with special allocations of other items of Company income, gain, loss or deduction pursuant to this Section 6.3. Therefore, notwithstanding any other provision of this Article VI (other than the Regulatory Allocations), the Holders shall make such offsetting special allocations of Company income, gain, loss, or deduction so that, after such offsetting allocations are made, each Holder's Capital Account balance is, to the extent possible, equal to the Capital Account balance such Holder would have had if the Regulatory Allocations were not part of the Agreement and all Company items were allocated pursuant to Section 6.1 and Section 6.5.

Section 6.4 Section 704(c) and Capital Account Revaluation Allocations. In accordance with Code Section 704(c) and the Treasury Regulations thereunder, income, gain, loss,

expense, and deduction shall, solely for income Tax purposes, be allocated among the Holders so as to take account of any variation between the adjusted basis for federal income tax purposes of property contributed to the capital of the Company and such contributed property's initial Gross Asset Value; provided that such allocations shall be based upon the "traditional method" described in the Treasury Regulations Section 1.704-3(b). In the event that the Gross Asset Value of any Company asset is adjusted pursuant to subparagraph (ii) of the definition of Gross Asset Value, subsequent allocations of income, gain, loss, expense, and deduction with respect to such asset shall take account of any variation between the adjusted basis of such asset for federal income tax purposes and its Gross Asset Value in the same manner as under Code Section 704(c) and the Treasury Regulations thereunder; provided that such allocations shall be based upon the "traditional method" described in the Treasury Regulations Section 1.704-3(b). Allocations pursuant to this Section 6.4 are solely for federal, state, and local income Tax purposes and shall not affect, or in any way be taken into account in computing, any Holder's Capital Account or share of Profits, Losses, other items, or distributions pursuant to any provision of this Agreement.

Section 6.5 Additional Allocation Rules.

(a) For purposes of determining the Profits, Losses or any other items allocable to any period, Profits, Losses and any such other items shall be determined on a daily, monthly or other basis (but no less frequently than once annually), as reasonably determined in good faith by the Board using any method that is permissible under the Code (including, but not limited to, Code Section 706) and the Treasury Regulations thereunder. In the event there is a change in any Holder's interest in the Company during a Fiscal Year, Profits, Losses and other items of income, gain, loss, expense, and deduction shall be appropriately allocated among the Holders to take into account the varying interests of the Holders so as to comply with Code Section 706(d).

(b) Except as otherwise provided in this Agreement, all items of income, gain, loss, expense and deduction and any other allocations not otherwise provided for shall be allocated among the Holders in the same manner as is applicable to Profits and Losses for the Fiscal Year in question.

Section 6.6 Tax Filings, Elections and Cooperation.

(a) Except as otherwise set forth herein, the Company shall properly prepare and timely file or shall cause to be properly prepared and timely filed all Tax returns required to be filed for or on behalf of the Company, which Tax returns shall be prepared, except as otherwise provided herein, in such manner (including, but not limited to, the making of any election or the taking of any position) as the Board may determine in good faith to be in the best interests of the Members. Unless otherwise required by applicable law, the Company shall use the Fiscal Year as the Tax period on all income Tax returns.

(b) The Company shall (a) use reasonable efforts to cause to be delivered within seventy-five (75) days after the end of each Fiscal Year (but in no event later than September 15 of the Fiscal Year immediately following each such Fiscal Year), a Schedule K-1 with respect to each such Fiscal Year to each Person that was a Holder at any time during each such Fiscal Year; and (b) make available to each Holder such other information as may be necessary for the preparation of

any Tax return for or including such Holder or the making of any estimated Tax payment for or on behalf of such Holder (or if such Holder is a flow-through entity for federal income tax purposes, its direct or indirect owners).

(c) To the maximum extent permitted by the Code, the Treasury Regulations and other applicable law, the Company shall make or cause to be made and shall maintain or cause to be maintained:

(i) in the case of any Fiscal Year with respect to which the Company is eligible to make an election under Code Section 6221(b), an election to apply Code Section 6221(b), and

(ii) in the case of any Fiscal Year with respect to which the Company fails or is ineligible to make an election under Code Section 6221(b), an election to apply Code Section 6226.

(d) Except as provided in Section 7.1(e), the Company shall take and shall cause to be taken any and all actions (including, but not limited to, the providing of all notices required under Code Section 6221(b)(1)(E) and all statements required under Code Section 6226(a)(2)) necessary to allow the making and maintenance of any election in accordance with Section 6.6(c). As determined by the Digirad Manager, the Company may apply any reasonable method for the purpose of determining (i) a Holder's share of any adjustment described in Code Section 6226(a)(2) (including, but not limited to, for the purpose of providing any statement described in Code Section 6226(a)(2)) or for any other Tax purpose or (ii) the extent to which any Underpayment Amount has been withheld or paid by the Company with respect to or on behalf of or is otherwise attributable to a Holder. Any determination under the preceding sentence shall be final and binding on the Company and all Holders and neither the Company nor any Holder shall take any position for any purpose that is inconsistent with such determination.

(e) To the extent permitted by a State Tax, the Company shall take such actions as may be reasonably necessary to reduce, prevent or otherwise mitigate the Company's liability for any Underpayment Amount under the State Tax, including, but not limited to, making elections similar to and in the same order of preference as the elections described in each of Section 6.6(c) and Section 6.6(d).

(f) As determined by the Digirad Manager in its sole discretion, the Company may elect in a timely manner pursuant to Code Section 754 and pursuant to any corresponding provisions of applicable state and local Tax laws to adjust the bases of the assets of the Company pursuant to Code Sections 734 and 743 and pursuant to any corresponding provisions of applicable state and local Tax laws.

(g) Neither the Company, any Manager, any Officer, nor any Holder shall take any action (including, but not limited to, the filing of any Tax return or the making of any election on or in connection with any Tax return) or permit or cause any action to be taken by or on behalf of the Company that would cause or otherwise result in:

(i) the classification of the Company or any of its Affiliates as an association taxable as a corporation for any income Tax purpose,

(ii) the exclusion of the Company from the application of the provisions of subchapter K of chapter 1 of subtitle A of the Code or any similar provisions of other applicable Tax law,

(iii) the taking by any Holder of any position for any purpose that is inconsistent with the treatment of such position on any U.S. federal income tax return of the Company or any of its Affiliates, and

(iv) the amendment, revocation, lapse or termination of any election under Code Section 6221(b) or Code Section 6226, each as in effect with respect to a Fiscal Year.

(h) When and as requested by the Company, each Holder, at the Holder's own expense, shall preserve and furnish to the Company all documents and information (including, but not limited to, any change in mailing address or other contact information, any change in residency for any Tax purpose, and any social security, employer identification or other taxpayer identification number), and shall take such other action (including, but not limited to, a Holder's filing of one or more amended Tax returns) as may be necessary to enable the Company or the Board (or any Person on behalf of the Company or the Board) to (i) prepare, amend and/or file any Tax return (including, but not limited to, any making, amendment, rescission or revocation of any election on or with respect to any Tax return), (ii) eliminate, settle, limit, reduce, modify or otherwise determine any liability for any Underpayment Amount (including, but not limited to, any "imputed underpayment amount" under Code Section 6225(c)), (iii) register to do business, collect Tax, or comply with any similar prerequisite to doing business or conducting any other activity in any jurisdiction, or (iv) pursue, defend, settle or otherwise respond to any Proceeding. In the case of any Fiscal Year with respect to which an election under Code Section 6226 (or under any other similar or corresponding provisions of any State Tax) is or will be in effect, each Holder shall comply with all provisions of Code Section 6226 (and any other similar or corresponding provisions of any State Tax), including, but not limited to, taking such Holder's share of any adjustment under Code Section 6226 into account on any separate Tax return of such Holder, the amendment of all Tax returns affected by such adjustment, and the payment of any increased or additional Tax resulting therefrom.

(i) Without the consent of the Digirad Manager, which consent shall be at the sole discretion of the Digirad Manager, no Holder shall take any action (including, but not limited to, converting from an entity described in Code Section 6221(b)(1)(C) to an entity not described in Code Section 6221(b)(1)(C) and any gift, bequest or other Transfer) that, either alone or in conjunction with any other action or other circumstance, can or will revoke, amend, terminate or otherwise adversely affect any election under Code Section 6221(b) or the Company's present or future ability or eligibility to make any election under Code Section 6221(b).

Section 6.7 Partnership Representative.

(a) The Partnership Representative shall act and serve in the capacity as the "partnership representative" within the meaning of Code Section 6223 and, if and to the extent

permitted by an applicable State Tax, as the "partnership representative" or "tax matters partner" or in any other similar capacity for purposes of such State Tax. If the Partnership Representative for federal income tax purposes cannot also serve in the capacity of a "partnership representative" or "tax matters partner" or in any other similar capacity for purposes of a State Tax, the Partnership Representative designated by the Board for purposes of such State Tax shall act in such capacity for purposes of such State Tax (and only for purposes of such State Tax). No more than one Person at any time may serve as the Partnership Representative with respect to the same Tax in the same Fiscal Year. No Person shall be selected as the Partnership Representative with respect to a Fiscal Year, unless (i) for federal income tax purposes, such Person is qualified to serve as the "partnership representative" within the meaning of Code Section 6223 and (ii) in the case of any State Tax for any Fiscal Year, such Person is qualified to serve in the requisite capacity under the State Tax. During any time that a Partnership Representative is not also a Manager, the Partnership Representative shall act at all times only under the supervision of and at the direction of the Digirad Manager and, except as otherwise provided in this Agreement, the Partnership Representative shall not and shall not have the authority to bind the Company, any Manager, any Holder or any Officer in any Proceeding. The Partnership Representative (and any designee of the Partnership Representative in its role as a "designated individual" (as such term is defined in Treasury Regulations Section 301.6223-1(b)(3))) shall be an Officer for all purposes of this Agreement.

(b) Within ten (10) days after the receipt of any notice from the IRS (or other Tax authority) relating to any Tax Proceeding, the Company shall mail or cause to be mailed a copy of such notice to each Member. Thereafter, the Company shall deliver or cause to be delivered to each Member in writing (or in such other form as may be necessary to preserve any applicable attorney-client privilege) a report setting forth in reasonable detail the status of the Tax Proceeding, no later than ten (10) days after the close of each calendar quarter or an occurrence of any significant change, progress or other development in the Tax Proceeding (including, but not limited to, copies of all material written communications relating to the Tax Proceeding that the Company, any Manager or any Officer may send or receive).

(c) Neither the Company, any Manager nor any Officer, either directly or through any of their respective Affiliates, shall take any material direct or indirect action or make any material decision with respect to any Tax Proceeding, or any of Code Sections 6221 through 6241, unless (i) (A) the Company has first given the Members written notice of the contemplated action or decision at least ten (10) Business Days prior to the taking such action and (B) the Company has received the written consent of the Members holding more than fifty percent (50%) of the Voting Units to such contemplated action or decision or (ii) the Board determines in good faith that obtaining the written consent of the Members in accordance with the immediately preceding clause would result, in the interim required to obtain such consent, in a default judicial or administrative judgment against the Company, any Manager, any Member or any of their respective Affiliates. Neither the Company, any Manager nor any Officer shall bind any Member to a settlement agreement with respect to any Tax without first obtaining the written consent of such Member.

Section 6.8 Survival. If a Person, in whole or in part, makes a Transfer of a Membership Interest or otherwise ceases to be a Holder (including, but not limited to, as a result of any abandonment of a Membership Interest), then such Person shall remain obligated and subject

to the terms and conditions of each of Section 5.3(b), Section 6.6 and Section 6.8, along with any other provisions of this Agreement necessary or ancillary to implementation of any of Section 5.3(b), Section 6.6 and Section 6.8, in the same manner as if such Transfer or cessation never occurred.

ARTICLE VII
MANAGEMENT

Section 7.1 Management of the Company.

(a) Each Voting Unit shall be entitled one (1) vote.

(b) There shall be a board of managers (the "***Board***") with at least one Person selected as a Manager (as defined below). Except as provided below in this Section 7.1, a Person shall serve as a Manager until the effective date of such Person's resignation or removal (for any reason or no reason) as a Manager by the Members in accordance with Section 7.1(c). As of the date hereof and unless otherwise altered by the Members in accordance with Section 7.1(c), the Board shall consist of two managers (each, a "***Manager***") (as identified on Exhibit B). Digirad Corporation may, in its sole discretion, replace the Digirad Manager, and ATRM Holdings, Inc. may, in its sole discretion, replace the ATRM Manager.

(c) Subject to Section 7.1(b), upon a vote of Members owning more than fifty percent (50%) of the Voting Units, the Members may (i) for any reason or no reason, remove any Person as a Manager (including, but not limited to, any removal necessary as a result of any decrease in the number of Managers on the Board) and/or (ii) fill any vacancy on the Board (whether occurring as a result of a resignation, an increase in the number of Managers on the Board or otherwise).

(d) The business and affairs of the Company shall be managed exclusively by the Board and by such Officers as may be appointed from time to time by the Board. Except as provided in Section 7.1(e) or a non-waivable provision of the Delaware Act, the Board shall have full and complete authority, power and discretion to direct, manage and control the business, affairs and properties of the Company and its Affiliates.

(e) Notwithstanding anything to the contrary contained herein, each of the Company, the Board, any Manager, any Officer and any of their respective Affiliates shall not take and shall not cause or allow any of their respective Affiliates to take any action or other activity (other than any non-binding and reasonable activity that is exploratory, investigatory or similar in nature) regarding any Major Decision without the consent of the Digirad Manager.

(f) Except as provided on Exhibit B or as otherwise provided in this Agreement, the Board may appoint one or more Officers with the rights and duties set forth in this Agreement and such other officers and agents of the Company with such titles, rights and duties as the Board may from time to time determine. For any reason or no reason, at any time, the Board may remove a Person as an Officer (provided that such removal shall have no effect on such Person's status, if any, as a Member). A Person shall serve as an Officer shall serve until such Person's successor is appointed by the Board, or until such Person's earlier death, incapacity, resignation or removal by the Board.

Section 7.2 Resignation. A Person may resign as a Manager at any time by giving written notice to the Company. The resignation of a Person as a Manager shall not affect any rights or obligations of such Person and shall not constitute a withdrawal of such Person as a Member.

Section 7.3 Vacancies. Any vacancy occurring for any reason on the Board shall be filled by the Members, in accordance with the provisions of Section 7.1.

Section 7.4 Action by the Board. The Board may act by vote, resolution or other action approved or adopted at a meeting held in accordance with this Section 7.4, or by a written consent signed in accordance with this Section 7.4. The rules for the conduct of meetings of the Board and for action by written consent of the Board are as follows:

(a) A meeting of the Board may be called by any Manager. A meeting of the Board shall be called upon delivery to the Managers of notice of a special meeting of the Board given in accordance with Section 7.4(b) below.

(b) The Company shall send written notice stating the date, time, and place of any meeting of the Board and a description of the purpose for which the meeting is called, to each Manager, at such address as appears in the records of the Company at least three (3) Business Days, but no more than thirty (30) Business Days, before the date of the meeting.

(c) A Manager may waive notice of any meeting, before or after the date and time of the meeting as stated in the notice, by delivering a signed waiver to the Company for inclusion in the minutes. A Manager's presence at any meeting (i) waives objection to lack of notice or defective notice of the meeting, unless the Manager at the beginning of the meeting objects to holding the meeting or transacting business at the meeting, and (ii) waives objection to consideration of a particular matter at the meeting that is not within the purposes described in the meeting notice, unless the Manager objects to considering the matter when it is presented.

(d) Any or all Managers may participate in any meeting by, or through the use of, any means of communication by which all Managers participating may simultaneously hear each other during the meeting, and such means of communication shall be made available to each Manager in connection with each annual or special meeting of the Board. A Manager so participating is deemed to be present in person at the meeting.

(e) The presence of both Managers at any meeting is necessary for a quorum. Any action proposed to be taken by the Board shall be approved upon the affirmative vote of both Managers present at the meeting, with each Manager having one vote.

(f) Any action required or permitted to be taken at a meeting of the Board may be taken without a meeting if the action is consented to in writing and is signed by all of the Managers. The written consent shall be delivered to the Company for inclusion in the minutes.

Section 7.5 Action by the Members. The Members may act by vote, resolution or other action approved or adopted at a meeting held in accordance with this Section 7.5, or by a

written consent signed in accordance with this Section 7.5. The rules for the conduct of meetings of the Members and for action by written consent of the Members are as follows:

(a) Meetings of the Members may be called only by (i) the Board or (ii) Members owning at least ten percent (10%) of the Voting Units. Meetings of the Members shall be called upon delivery to the Members of notice of a meeting of the Members given in accordance with Section 7.5(b) below.

(b) Upon the request of the Board or the Members calling a meeting of the Members under Section 7.5(a)(ii), the Company shall send written notice stating the date, time, and place of any meeting of the Members and a description of the purpose for which the meeting is called, including any matter to be voted on by the Members (and no other matter may be so presented for a vote of the Members without first complying with the notice provisions in this Section 7.5(b)), to each Member, at such address as appears in the records of the Company at least ten (10), but no more than thirty (30), days before the date of the meeting.

(c) A Member may waive notice of any meeting, before or after the date and time of the meeting as stated in the notice, by delivering a signed waiver to the Company for inclusion in the minutes. A Member's presence at any meeting (i) waives objection to lack of notice or defective notice of the meeting, unless the Member at the beginning of the meeting objects to holding the meeting or transacting business at the meeting, and (ii) waives objection to consideration of a particular matter at the meeting that is not within the purposes described in the meeting notice, unless the Member objects to considering the matter when it is presented.

(d) Any or all Members may participate in any meeting by, or through the use of, any means of communication by which all Members participating may simultaneously hear each other during the meeting, and such means of communication shall be made available to each Member in connection with each annual or special meeting of the Members. A Member so participating is deemed to be present in person at the meeting.

(e) The presence of Members holding a majority of the Voting Units at a meeting is necessary for a quorum. Except as provided in Section 7.1(e), any action proposed to be taken by the Members shall be approved upon the affirmative vote of holders of a majority of the Voting Units represented at the meeting.

(f) Any action required or permitted to be taken at a meeting of the Members may be taken without such meeting, without prior notice and without a vote, by written consent, setting forth the action so taken, signed by holders of a majority of the Voting Units consented to in writing.

Section 7.6 Officers.

(a) Except as set forth on Exhibit B, in this Agreement, or in any employment or other applicable agreement, the Board, in its sole discretion, may designate and appoint one or more Officers on the terms and conditions set forth herein or on such other terms and conditions that the Board, in its sole discretion, may determine from time to time (including, but not limited to, any

addition, restriction or other modification to any power, duty and/or responsibility set forth in this Section 7.6). No Officer may act as a Partnership Representative or have any power, right, duty or obligation of a Partnership Representative, in whole or in part, unless such Officer meets the qualifications for a Partnership Representative and is explicitly designated and appointed as such by the Board.

(b) The Chairman of the Board (the ***"Chairman***") shall preside at all meetings of the Members and the Board and shall see that the orders and resolutions of the Board are carried into effect.

(c) Subject to the powers and oversight of the Board and the Chairman, the chief executive officer (the "***Chief Executive Officer***") shall have general charge of the Company's business, affairs and property (including, but not limited to, responsibility for the Company's day-to-day operations of the Company and control over its Officers, agents and employees) and shall see that all orders and resolutions of the Board are carried into effect. The Chief Executive Officer shall execute bonds, mortgages and other contacts requiring a seal, under the seal of the Company, except where required or permitted by law to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the Board to some other Officer. Whenever the President is unable to serve, by reason of sickness, absence or otherwise, the Chief Executive Officer shall perform all the duties and responsibilities and exercise all the powers of the President.

(d) Subject to the powers of the Board and the Chairman and the terms, the president (the "***President***") shall devote such time and attention as is necessary to discharge the responsibilities of the office of the President. The President may execute contracts in the name of the Company and appoint and discharge agents and employees of the Company. The President may sign, with the secretary, assistant secretary, treasurer or assistant treasurer, certificates (if any) for any Membership Interest, and may sign any policies, deeds, mortgages, bonds, contracts, or other instruments that the Board has authorized to be executed except in cases where the signing and execution thereof shall be expressly delegated by the Board or by this Agreement to some other Officer, or shall be required by law to be otherwise signed or executed.

(e) In the absence of the Chief Executive Officer and the President or in the event of the Chief Executive Officer's or President's inability or refusal to act, a vice-president (each, a "***Vice President***") (if there be any or in the event there be more than one Vice-President, the Vice-Presidents in the order designated, or in the absence of any designation, then in the order of their election) shall perform the duties of the Chief Executive Officer or President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Chief Executive Officer or President.

(f) The secretary (the "***Secretary***") shall attend all meetings of the Board and all meetings of the Members and record all the proceedings of the meetings of the Company and of the Board in a book to be kept for that purpose and shall perform like duties for the standing committees when required. The Secretary shall give, or cause to be given, notice of all meetings of the Members and special meetings of the Board. The Secretary shall have custody of the Company's seal (if any), and the Secretary shall have authority to affix the same to any instrument

requiring it and when so affixed, it may be attested by the Secretary's signature. The Board may give general authority to any other Officer to affix the Company's seal (if any) and to attest the affixing by the Secretary's signature.

(g) The treasurer (the "***Treasurer***") shall have the custody of the Company's funds and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Company and shall deposit all moneys and other valuable effects in the name and to the credit of the Company in such depositories as may be designated by the Board. The Treasurer shall disburse the funds of the Company as may be ordered by the Board, taking proper vouchers for such disbursements, and shall render to the Board, at its regular meetings, or when the Board so requires, an account of all transactions as Treasurer and of the financial condition of the Company.

Section 7.7 Limitation on Authority of Members. Notwithstanding anything to the contrary in the Act, no Holder in his capacity as a Holder shall have the authority to bind the Company. No Holder is an agent of the Company solely by virtue of being a Holder, and no Holder has authority to act for the Company solely by virtue of being a Holder. Any Holder who takes any action that binds the Company in violation of this Agreement shall be solely responsible for any loss and expense incurred by the Company as a result of the unauthorized action and shall indemnify and hold the Company harmless with respect to the loss or expense.

ARTICLE VIII
EXCULPATION AND INDEMNIFICATION

Section 8.1 Exculpation.

(a) Except as otherwise provided herein, to the maximum extent permitted by the Delaware Act, no Person who is or was a Manager or Officer or any of such Person's respective Affiliates, heirs, successors, assigns, agents or representatives shall be liable to the Company or to any Holder for any act or omission performed or omitted by such Person in such Person's capacity as a Manager or Officer or otherwise taken in good faith; provided that, except as otherwise provided herein, such limitation of liability shall not apply to the extent it shall have been finally adjudicated that such Person (i) did not act in good faith and in a manner that such Person reasonably believed to be in the best interest of the Company, (ii) was either grossly negligent or engaged in willful malfeasance, (iii) breached this Agreement in any material respect, or (iv) violated any material law. A Manager or Officer shall be entitled to rely upon the advice of legal counsel, independent public accountants and other experts, including financial advisors, and any act of or failure to act by such Manager or Officer in good faith reliance on such advice shall in no event subject such Manager or Officer or any of their respective Affiliates, heirs, successors, assigns, agents or representatives to liability to the Company or any Holder.

(b) Notwithstanding anything to the contrary contained herein, whenever in this Agreement or any other agreement contemplated herein or otherwise, a Manager is permitted or required to take any action or to make a decision in its "sole discretion" or "discretion" or that it deems "necessary," "necessary or appropriate," "necessary or desirable" or "necessary, appropriate or advisable," or under a grant of similar authority or latitude, such Manager shall, to the fullest extent permitted by applicable law, make such decision in its sole discretion (regardless of whether

there is a reference to "sole discretion" or "discretion"), shall be entitled to consider such interests and factors as it desires (including the interests of a Holder with which a Manager may be affiliated), and shall have no duty or obligation (fiduciary or otherwise) to give any consideration to any interest of or factors affecting the Company, its Affiliates or the Holders, and shall not be subject to any other or different standards imposed by this Agreement, any other agreement contemplated hereby, under the Delaware Act or under any other applicable law or in equity.

(c) Whenever in this Agreement a Manager is permitted or required to take any action or to make a decision in its "good faith" or under another express standard, such Manager shall act under such express standard and, to the extent permitted by applicable law, shall not be subject to any other or different standards imposed by this Agreement or any other agreement contemplated herein, and, notwithstanding anything contained herein to the contrary, so long as such Manager believes that the action taken or the decision made is in or not opposed to the best interests of the Company, the resolution, action or terms so made, taken or provided by such Manager shall not constitute a breach of this Agreement or any other agreement contemplated herein or impose liability upon such Manager or any of its Affiliates, heirs, successors, assigns, agents or representatives.

(d) To the maximum extent permitted by applicable law, except as provided and subject to Section 7.7, each Holder hereby waives any claim or cause of action against a Person who is or was a Manager (other than when acting solely in the capacity of an employee of the Company) or any of such Person's Affiliates, heirs, successors, assigns, agents and representatives for any breach of any fiduciary duty to the Company or its Holders by such Person, including as may result from a conflict of interest between the Company or any of its Affiliates and such Person, and any liability for breach of fiduciary duties as a Manager (other than when acting solely in the capacity of an employee of the Company) is hereby eliminated to the fullest extent permitted by applicable law. Subject to compliance with the express terms of this Agreement, a Person who is or was a Manager (other than when acting solely in the capacity of an employee of the Company) shall not be obligated to recommend or take any action as a Manager that prefers the interests of the Company or the other Holders over the interests of such Person (or the interest of a Holder with which such Person is affiliated) or its Affiliates, heirs, successors, assigns, agents or representatives.

Section 8.2 Indemnification.

(a) To the fullest extent permitted by law, the Company shall indemnify and hold harmless any Person that was or is a party or is threatened to be made a party to any Proceeding, by reason of the fact that such Person is or was an Indemnitee, against any loss, damage, liability or expense (including reasonable attorneys' fees, costs of investigation and amount paid in settlement) incurred by or imposed upon the Indemnitee in connection with such Proceeding.

(b) The Company shall pay the expenses incurred by an Indemnitee in defending any Proceeding, or in opposing any claim arising in connection with any potential or threatened Proceeding, in each case for which indemnification may be sought pursuant to this Section 8.2, in advance of the final disposition thereof, upon receipt of a written undertaking by such Indemnitee to repay such payment if it shall be determined that such Indemnitee is not entitled to indemnification under this Section 8.2 with respect to such Proceeding.

(c) The rights to indemnification and advancement of expenses conferred in this Section 8.2 shall (i) not be exclusive of any other right which any Indemnitee may have or hereafter acquire under any law, statute, rule, regulation, charter document, by-law, contract or agreement and shall inure to the benefit of the executors, administrators, personal representatives and successors of each such Indemnitee and (ii) continue as to an Indemnitee even if such Indemnitee is not or ceases to be a Holder, Member, Manager, or Officer.

(d) Rights and benefits conferred on an Indemnitee under this Section 8.2 shall be considered a contract right and shall not be retroactively abrogated or restricted without the written consent of the Indemnitee affected by the proposed abrogation or restriction.

(e) The Company, at the sole discretion of the Board, may indemnify and advance expenses to a non-Officer employee or agent of the Company to the same extent and subject to the same conditions under which it may indemnify and advance expenses to an Indemnitee under Section 8.2.

(f) Recourse by an Indemnitee for indemnity under Section 8.2(a) shall be only against the Company as an entity and no Member shall by reason of being a Member be liable for the Company's obligations under Section 8.2(a) or Section 8.2(c).

(g) Notwithstanding anything to the contrary in this Agreement or applicable law, an Indemnitee shall not have any right or benefit under this Section 8.2 or any other right to indemnification or reimbursement under this Agreement or applicable law with respect to a Proceeding if:

(i) the Indemnitee is or was a plaintiff in the Proceeding for which indemnification is being sought under this Section 8.2 (other than a Proceeding brought and maintained solely for the purpose of obtaining indemnification under this Section 8.2); or

(ii) it shall have been finally adjudicated that such Indemnitee (A) did not act in good faith and in a manner that such Indemnitee reasonably believed to be in the best interest of the Company, (B) was either grossly negligent or engaged in willful malfeasance, (C) breached this Agreement in any material respect, or (D) violated any material law applicable or relating to the Company or any of its Affiliates.

(h) If this Section 8.2 or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Company shall nevertheless indemnify and hold harmless each Person otherwise entitled to indemnification under this Section 8.2 to the full extent permitted by any portion of this Section 8.2 that shall not have been invalidated.

ARTICLE IX
BOOKS AND RECORDS

Section 9.1 Books and Records. Proper and complete books and records of the Company, in which shall be entered fully and accurately the transactions of the Company, shall be

kept and maintained at all times at the principal offices of the Company or, subject to the provisions of the Delaware Act, at such other place as the Board may from time to time determine.

Section 9.2 Bank Accounts. Funds of the Company shall be used only for Company purposes and shall be deposited in such accounts in banks or other financial institutions as may be established from time to time by the Board. Withdrawals shall be made by such Persons as are designated from time to time by the Board.

ARTICLE X
TRANSFERS

Section 10.1 Restrictions on Transfers. No Person shall Transfer any Membership Interest without the prior written consent of the Digirad Manager, which consent shall be at the sole discretion of the Digirad Manager. A Transfer of a Membership Interest shall remain subject to Section 6.8, Section 10.2 and Article XIII, without regard to the consent of the Digirad Manager to such Transfer.

Section 10.2 Other Transfer Conditions, Restrictions and Requirements.

(a) In the event of a Transfer of any Membership Interest, the Transferee of the Membership Interest shall take and hold such Membership Interest subject to this Agreement, shall assume all of the obligations arising under the Agreement (including, but not limited to, an obligation set forth in Section 6.8) or applicable law of the Transferor of the Membership Interest, and otherwise shall comply with this Agreement. Without any limitation on the foregoing, unless and to the extent admitted as a Member in accordance with this Agreement, a Holder shall not have any right to vote or consent or otherwise participate in management.

(b) Notwithstanding anything in this Agreement to the contrary, no Transfer of a Membership Interest shall be permitted and any such purported Transfer shall be void *ab initio*, and no Transferee of a Membership Interest shall be admitted to the Company as a Member, if (i) such Transfer violates any provision of this Agreement or (ii) the Transferee of such Membership Interest does not agree in writing to be bound by all of the provisions of this Agreement (such writing to be in form and substance reasonably satisfactory to the Digirad Manager) or fails to execute or provide any document required or requested by the Digirad Manager.

Section 10.3 Termination of Status. Upon a Transfer (other than a Transfer in the nature of a pledge, mortgage, lien or other encumbrance in the nature of a security interest) of all of a Holder's Membership Interest in a Transfer permitted by this Agreement, such Holder, if admitted as a Member, shall cease to be a Member, and all rights of such Holder as a Member or Holder shall terminate, except that Section 6.8, Article VIII and the representations and warranties made by such Member or Holder under Section 12.1, together with any other provisions of this Agreement necessary or ancillary to implementation of any of the foregoing provision, shall survive such termination.

ARTICLE XI
WITHDRAWAL AND DISSOLUTION

Section 11.1 Withdrawal. No Holder shall have the power or right to withdraw or otherwise resign from the Company prior to the dissolution and winding up of the Company pursuant to this Article XI without the prior written consent of the Digirad Manager (which consent may be withheld by the Digirad Manager in its sole discretion), except that, upon a Transfer (other than a Transfer in the nature of a pledge, mortgage, lien or other encumbrance in the nature of a security interest) of all of a Holder's Membership Interest in a Transfer permitted by this Agreement, and subject to Section 6.8, such Holder shall cease to be a Holder. Notwithstanding that payment on account of a withdrawal may be made after the effective time of such withdrawal, subject to Section 6.8, any completely withdrawing Holder will not be considered a Holder for any purpose after the effective time of such complete withdrawal, and, in the case of a partial withdrawal, such Holder's Capital Account (and corresponding voting and other rights) shall be reduced for all other purposes hereunder upon the effective time of such partial withdrawal.

Section 11.2 Events of Dissolution. The Company shall be dissolved and its affairs shall be wound up on the first to occur of the following:

(a) the consent of Members owning more than fifty percent (50%) (as determined without regard to any quorum or other similar requirement) of the Voting Units;

(b) the entry of a decree of judicial dissolution of the Company under the Delaware Act; or

(c) the sale of all or substantially all of the Company's assets.

Section 11.3 Liquidating Distributions. Upon the dissolution and winding-up of the Company, the assets shall be distributed as follows:

(a) First, to creditors, including Holders who are creditors, to the extent permitted by law, in the order of priority as provided by law to satisfy the liabilities of the Company whether by payment or by the establishment of adequate reserves, excluding liabilities for distributions to Holders pursuant to Article V; and

(b) Thereafter, the remaining assets will be distributed in accordance with Section 5.1.

Section 11.4 Conduct of Winding-Up. The winding-up of the business and affairs of the Company shall be conducted by the Board except as otherwise required by law.

Section 11.5 Deficit Capital Accounts. Notwithstanding any custom or rule of law to the contrary, to the extent that any Holder has a deficit Capital Account balance, upon dissolution of the Company such deficit shall not be an asset of the Company and no Holder shall be obligated to contribute such amount to the Company to bring the balance of any Holder's Capital Account to zero.

ARTICLE XII
REPRESENTATIONS, WARRANTIES,
AGREEMENTS AND OTHER MATTERS

Section 12.1 Holder Representations. In connection with the acquisition and/or ownership of any Membership Interest, the Person acquiring the Membership Interest represents and warrants to the Company and agrees and acknowledges that:

(a) any Membership Interest acquired by or for such Person is and shall be acquired solely for such Person's own account, for investment purposes only and not with a present view toward the distribution thereof and not with any present intention of distributing or reselling any such Membership Interest; provided that, irrespective of any other provisions of this Agreement, any Transfer of such Membership Interest by such Person shall be made only in compliance with all applicable federal and state securities laws, including, without limitation, the Securities Act;

(b) any Membership Interest acquired by or for such Person is not registered under the Securities Act nor qualified nor registered under state law and must be held by such Person until such Membership Interest or any successor security is so registered or qualified for an exemption from such registration or qualification is available; neither the Company nor any Member or Manager shall have any obligation to take any action to cause any Membership Interest to be registered under the Securities Act or qualified or registered under state law or to qualify any Membership Interest for an exemption from such registration or qualification; and the Company shall give to the party responsible for recording Transfers of Membership Interest or successor securities "stop transfer" directions prohibiting Transfers in violation of the foregoing provisions of this Section 12.1(b);

(c) the execution, delivery and performance of this Agreement by such Person does not and shall not conflict with, violate or cause a breach of any agreement, contract or instrument to which such Person is a party or any judgment, order or decree to which such Person is subject;

(d) such Person has no and shall not grant any proxy or become party to any voting trust or other agreement which is inconsistent with, conflicts with or violates any provision of this Agreement;

(e) if such Person is a corporation, partnership, limited liability company, trust, custodianship, estate or other entity, this Agreement has been duly executed by a duly authorized person on its behalf and constitutes the legally binding obligation of such Person, enforceable against such Person in accordance with its terms (except to the extent that enforcement may be affected by laws relating to bankruptcy, reorganization, insolvency and creditors' rights generally and by the availability of injunctive relief, specific performance and other equitable remedies);

(f) such Person has carefully reviewed this Agreement, has had the opportunity to ask questions and receive answers concerning such agreement and fully understands the provisions contained herein;

(g) with respect to the Tax and other consequences of acquiring, receiving, owning, holding, and disposing of any Membership Interest and the income and proceeds thereof, with the exception of such written opinions as may be given to a Person or for its benefit by counsel representing another Person or the Company, such Person is relying solely on its own Tax and other counsel and advisors and is not relying on the Company, or any person other than Person's own counsel and advisors;

(h) such Person is a "United States person" within the meaning of Code Section 7701(a)(30) (or a disregarded entity of such a United States person) and, with respect to any allocation or distribution under or any transaction contemplated by this Agreement, neither the Company, any Manager, any Officer, nor any Affiliate of any of the foregoing is or will be required to withhold or pay any Tax under Code Section 1445, Code Section 1446 or any other provision of any Tax law (other than the withholding or estimated payment of any state income Tax) with respect to or on behalf of such Person; and

(i) such Person is not a "tax-exempt entity" within the meaning of Code Section 168(h)(2)(A).

ARTICLE XIII
MISCELLANEOUS

Section 13.1 Counsel Clause. Each of the Company, each Holder and each Manager acknowledge that Counsel represents Digirad Corporation in connection with the preparation or negotiation of this Agreement.

Section 13.2 Amendment of Agreement. This Agreement may be amended by the Company with the written consent of Members owning more than fifty percent (50%) (as determined without regard to any quorum or other similar requirement) of the Voting Units, provided that in no event shall any amendment materially and adversely affect the economic or non-economic rights or obligations of any one Member without the prior written consent of such Member unless such amendment materially and adversely affects the same rights and obligations of all Members and in the same proportionate manner, except that any amendment which would require additional capital contributions from a Member shall require such Member's prior written consent.

Section 13.3 Remedies. In any action to enforce this Agreement or to seek damages on account of any breach hereof, the prevailing party shall be entitled to reimbursement for its costs of collection (including reasonable attorneys' fees and expenses). No remedy conferred upon any party to this Agreement is intended to be exclusive of any other remedy herein or by law provided or permitted, but each such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

Section 13.4 Waiver. None of the terms of this Agreement shall be deemed to have been waived by any party hereto, unless such waiver is in writing and signed by that party. The waiver by any party hereto of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any other provision of this Agreement or any further breach of the provision so waived.

Section 13.5 Notices.

(a) All notices and other communications which are required or permitted to be given under this Agreement shall be in writing and shall be delivered personally or by certified mail (return receipt requested), or telecopied (during normal business hours) and addressed, if to a Holder, to such Holder or such Holder's personal representative at such Holder's last address known as disclosed on the records of the Company, to the address set forth on Exhibit A or to such other address as any of the above shall have specified by notice hereunder. Each notice or other communication shall be deemed sufficiently given, served, sent, received or delivered for all purposes at such time as it is delivered to the addressee (with the return receipt, the delivery receipt or the affidavit of messenger being deemed conclusive, but not exclusive, evidence of such delivery) or at such time as delivery is refused by the addressee upon presentation.

(b) Each Holder shall be required to keep a current address on file with the Company at all times such Holder is a Holder, and for five years following such Holder's withdrawal from the Company. Each Holder shall indemnify and hold harmless the Company and the other Holders from and against any liability arising out of the failure to comply with this Section 13.5(b).

Section 13.6 Entire Agreement. This Agreement contains the entire agreement, and supersedes all prior agreements and understandings and arrangements, oral or written, among the parties hereto with respect to the subject matter hereof.

Section 13.7 Binding Effect; Benefits. All of the terms and provisions of this Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective legal representatives, successors and permitted assigns.

Section 13.8 Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be unenforceable or invalid under applicable law, such provision shall be ineffective only to the extent of such unenforceability or invalidity (and for purposes only of such applicable law), and the remaining provisions of this Agreement shall continue to be binding and in full force and effect.

Section 13.9 Headings. The section and other headings contained in this Agreement are for convenience only and shall not be deemed to limit, characterize or interpret any provisions of this Agreement.

Section 13.10 No Strict Construction. The parties hereto jointly participated in the negotiation and drafting of this Agreement. The language used in this Agreement shall be deemed to be the language chosen by the parties hereto to express their collective mutual intent. This Agreement shall be construed as if drafted jointly by the parties hereto, and no rule of strict construction shall be applied against any Person.

Section 13.11 Interpretation. As used in this Agreement, each of the masculine, feminine and neuter genders shall be deemed to import the others whenever the context so indicates or requires. Terms defined in the singular have a comparable meaning when used in the plural and

vice versa. Terms defined in the present tense shall have a comparable meaning when used in the past or future tense and vice versa. Terms defined as a noun shall have a comparable meaning when used as an adjective, adverb, or verb and vice versa. Whenever the term “include” or “including” is used in this Agreement, it shall mean “including, without limitation,” (whether or not such language is specifically set forth) and shall not be deeded to limit the range of possibilities to those items specifically enumerated. Unless otherwise limited, the words “hereof,” “herein” and “hereunder” and words of similar import refer to this Agreement as a whole and not to any particular provision.

Section 13.12 Counterparts. This Agreement may be executed in any number of counterparts, and by facsimile, pdf or other electronic method, each of which shall be effective only upon delivery and thereafter shall be deemed to be an original, and all of which shall be taken to be one and the same instrument with the same effect as if each of the parties hereto had signed the same signature page.

Section 13.13 Governing Law. This Agreement and the rights of the parties hereunder shall be construed and interpreted in accordance with the laws of the State of Delaware applicable to agreements made and to the performance wholly within that jurisdiction.

Section 13.14 Jurisdiction and Venue. Each party hereto irrevocably submits to the exclusive jurisdiction of any state or federal court within the State of Delaware with respect to any cause or claim arising under or relating to this Agreement. Each party hereto irrevocably consents to the service of process by registered mail or personal service, irrevocably waives any objection based on *forum non conveniens* with respect to such a court, and irrevocably waives any objection to venue of such court.

[SIGNATURES APPEAR ON FOLLOWING PAGE]

IN WITNESS WHEREOF, the parties hereto have executed this Limited Liability Company Agreement as of the date first above written.

"COMPANY"

STAR PROCUREMENT, LLC

By: /s/David J. Noble
Name: David J. Noble
Title: Manager

"MEMBERS"

DIGIRAD CORPORATION

By: /s/Matthew G. Molchan
Name: Matt Molchan
Title: CEO

ATRM HOLDINGS, INC.

By: /s/Daniel M. Koch
Name: Daniel M. Koch
Title: President & CEO

EXHIBIT A

Holder Name & Address	Units	Capital Contribution
DIGIRAD CORPORATION 1048 Industrial Court Suwanee, Georgia 30024	50	$1,000,000
ATRM HOLDINGS, INC. 5215 Gershwin Avenue, N. Oakdale, MN 55128	50	0
TOTAL	100	$1,000,000

EXHIBIT B

Managers on the Board (as per Section 7.1(b)):

David Noble (the "***Digirad Manager***")

Stephen Clark (the "***ATRM Manager***")

Partnership Representative:

An individual designated by Digirad Corporation.

(Optional) In the case of any State Tax:

An individual designated by Digirad Corporation.

EXHIBIT C

Services Agreement

SERVICES AGREEMENT

This SERVICES AGREEMENT (this "**Agreement**"), effective as of January 2, 2019 is entered into by and among STAR PROCUREMENT, LLC, a Delaware limited liability Company (the "**Company**") and KBS Builders, Inc. a Delaware Corporation ("**KBS**"). The Company and KBS are sometimes are referred to in this Agreement collectively as the "**Parties**" and individually as a "**Party**". Capitalized terms used in this Agreement but not otherwise defined in this Agreement will have the meanings set forth in the LLC Agreement (defined below).

RECITALS

WHEREAS, ATRM Holdings, Inc., a Minnesota corporation ("**ATRM**") and Digirad Corporation, a Delaware corporation ("**Digirad**") are the sole members of the Company, and together with the Company are parties to that certain Limited Liability Company Agreement of the Company dated the date hereof (the "**LLC Agreement**"); and

WHEREAS, the Company was formed for purposes of creating a joint venture in which the Company will purchase and sell building materials and related goods and entry into this Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing and the representations, warranties, covenants and agreements contained in this Agreement, and intending to be legally bound hereby, the Parties agree as follows:

1. DEFINITIONS

1.1 "**Services**" means the services, functions, and tasks to be provided by the Company to KBS pursuant to this Agreement as described in the Service Schedule, as such services, functions and tasks may be changed or supplemented pursuant to the terms of this Agreement.

1.2 "**Service Schedule**" means a Schedule to this Agreement, describing (among other things) the particular Services being provided and the timing for such Services.

2. SERVICES

2.1 Performance of Services. Subject to the other terms and conditions of this Agreement, KBS hereby grants the Company the right of first refusal to provide the Services to KBS (and, as necessary, its subsidiaries) during the Term (defined below) in accordance with and subject to the terms and conditions of this Agreement. Upon the mutual written agreement of the Parties, the Parties may modify the Services described on the existing Service Schedule or add additional Services to be performed by the Company. The Company has no obligation to provide any services other than the Services.

2.2 First Refusal Right. KBS shall provide written notice to the Company containing all of the terms and conditions of the required Services (a "**Service Notice**"), and the Company shall be entitled to provide such Services on such (or better) terms and conditions. If the Company intends to exercise its first refusal right, it must deliver to KBS a commitment (a "**Service Commitment**") to do so as soon as practicable and in no event later than thirty (30) days after receipt of the Service Notice from KBS or its subsidiaries. If the Company fails to provide a Service Commitment within the 30-day period or waives its first refusal right prior to that time, then KBS will be free to obtain such Services from any third party. All Services to be provided by the Company pursuant to this Agreement shall be provided by the Company in its sole discretion.

2.3 Affiliates and Subcontractors. The Company may use personnel of its Affiliates, or engage, consistent with past practice, the services of third parties to provide or assist the Company (or its Affiliates) to provide the Services.

2.4 Standard of Performance. Notwithstanding anything to the contrary in this Agreement, KBS understands and agrees that the standard of performance to which the Company and its Affiliates will be accountable under this Agreement will be to achieve a comparable level of service as KBS achieved with respect to the Services during the twelve (12) months prior to the date hereof.

2.5 Additional Resources and Consents. Notwithstanding anything to the contrary in this Agreement, the Company shall not be required to perform any Service if doing so would require the Company to violate any law or breach any contract by which the Company or its Affiliates are bound. In addition and without limiting the foregoing, if the Company reasonably believes that performance of a particular Service requires the Company to obtain any third-party licenses or consents, or any software, technology or other goods, services or materials not already in the Company's possession, then the Company shall promptly inform KBS, and KBS shall cooperate with the Company to obtain such licenses, consents or other or items at KBS's sole expense if so requested by KBS. If KBS does not agree to pay the costs associated with obtaining such licenses, consents or other items, the Company shall be under no obligation to obtain such licenses, consents or other or items.

2.6 Cooperation. In order to enable the Company to perform the Services, KBS shall provide the Company with such cooperation and assistance (including access to employees) as is reasonably necessary for the Company or its Affiliates or contractors to timely perform the Services, as well as such other cooperation and assistance as the Company reasonably requests in connection with the provision of the Services hereunder.

2.7 Employees. The Parties agree that the employees and contractors of the Company providing the Services are the employees and contractors of the Company alone, and are not the employees or contractors of KBS for any purpose whatsoever.

3. PAYMENT TERMS

3.1 Fees and Costs.

(a) Unless otherwise set forth in the Service Schedule, KBS shall reimburse the Company, on a monthly basis in accordance with Section 0, for the Company's actual cost (excluding the Materials Purchase Amounts (defined below)) in providing the Services (the "**Service Fees**").

(b) Unless otherwise set forth in the Service Schedule, KBS shall pay the Company for all Building Materials, on a monthly basis in accordance with Section 0, a purchase price equal to the full cost of Building Materials (as defined in the Service Schedule) (excluding any Service Fees) during such period, *plus* 3% of the cost of such Building Materials. The amount(s) payable pursuant to this Section 3.1(b) is referred to herein as the "**Materials Purchase Amount(s)**."

3.2 Invoicing and Payment. Each calendar month during the Term, the Company shall issue to KBS an invoice for the amount of the Service Fees and the Materials Purchase Amounts payable to Company for the Services rendered during that month. KBS shall pay the amount invoiced by the Company within thirty (30) days after receipt thereof. All payments made pursuant to this Section 3.2 must be made in U.S. Dollars, by wire transfer of immediately available funds to the bank account previously designated by the Company to KBS. The amount of any due but unpaid Service Fees and Materials Purchase Amounts shall bear interest from and including the due date of such fees to, and including, the date of payment at a rate per annum equal to 5%. Such interest shall be calculated daily on the basis of a 365-day year and the actual number of days elapsed, without compounding

3.3 Taxes. The fees for Services provided pursuant to this Agreement exclude all excise, sales, use, gross receipts, value added, goods and services or similar transaction or revenue-based taxes (excluding any income Taxes) applicable to the provision of the Services and imposed by any federal, state, or local taxing authority (such taxes, together with any applicable interest, penalties, or additions to tax imposed with respect to such taxes, "Taxes"), and KBS shall be responsible for payment of all such Taxes.

3.4 Expenses. Except as otherwise expressly provided in this Agreement, each Party shall bear its own costs and expenses incurred in the performance of this Agreement.

4. PROPRIETARY RIGHTS. This Agreement and the performance of this Agreement will not affect the ownership of any intellectual property rights. No Party will gain, by virtue of this Agreement, any rights of ownership of any rights related to the intellectual property owned by any other Party.

5. CONFIDENTIALITY. Each Party shall keep any confidential or proprietary information of the other Party acquired pursuant to or in connection with this Agreement strictly confidential.

6. INDEMNIFICATION; LIMITATIONS OF LIABILITY

6.1 Indemnification. Each Party agrees to protect, defend, indemnify and hold harmless each other Party from and against any and all losses, claims, suits and actions (whether threatened or pending) arising out of or related to any (a) breach of any covenant or obligation of such Party contained in this Agreement or (b) negligence or willful misconduct of such Party or its employees or agents in connection with the performance of the Services hereunder. The rights to indemnification hereunder shall be in addition to any rights to indemnification that a Party may have under the LLC Agreement.

7. TERM AND TERMINATION

7.1 Term of Agreement. The term of this Agreement begins on the date hereof and will continue until terminated in accordance with the terms hereof **(the "**Term**")**.

7.2 Termination of Service. This Agreement shall automatically terminate upon the dissolution and winding-up of the Company pursuant to the LLC Agreement, or upon the written agreement of all Parties to the termination of this Agreement or the Services. If a Party breaches this Agreement, the other Party may terminate upon 30 days prior written notice if such breach is not cured.

7.3 Effect of Termination. Upon expiration or termination of this Agreement for any reason, the Company shall no longer be obligated to provide the terminated Services, and KBS shall no longer be obligated to pay for such Services, except with respect to any Service Fees and Materials Purchase Amounts incurred up to the date of termination or expiration (all such fees, including any applicable late fees, will become immediately due and payable by KBS to the Company upon the effective date of such termination).

7.4 Survival. The following provisions of this Agreement will survive its termination or expiration: Sections 1, 3 (with respect to Services performed prior to termination or expiration), 4, 5, 6, 7.3, 7.4 and 8.

8. MISCELLANEOUS.

8.1 Notices. Any and all notices, requests, demands or other communications required to be given pursuant to this Agreement by any Party shall be in writing and shall be validly given or made to the applicable Party if served personally, by overnight mail, by nationally recognized overnight courier or sent by electronic mail, receipt confirmed. If the notice, request, demand or other communications are served personally, service shall be conclusively deemed made at the time of service. If the notice, request, demand or other communications are sent by electronic mail, service shall be conclusively deemed made the first (1st) business day following successful transmission or upon confirmation of receipt from the recipient. If the notice, demand or other communications are given by overnight mail, service shall be conclusively deemed made one (1) business day after sent in the United States mail, addressed to the applicable Party to whom the notice, demand or other communication is to be given, and when received if delivered by hand or

overnight courier service on any business day. Notices shall be provided to the following addresses (any of which may be changed upon like notice to the other Parties):

If to KBS to:

KBS BUILDERS, INC.
300 Park St.
South Paris, ME 04281
Attention: Matt Mosher
Telephone: (207) 744-0402
Fax: (207) 739-2223
Email: mmosher@kbs-homes.com

If to the Company to:

STAR PROCUREMENT, LLC
1048 Industrial Court
Suwanee, GA 30024
Attention: Matthew G. Molchan
Telephone: 858-726-1600
Fax: 858-726-1700
Email: Matt.Molchan@digirad.com

8.2 Assignment. No Party may assign this Agreement or its rights or obligations hereunder, in whole or in part, voluntarily or by operation of law, without the written consent of the other Party, and any attempted assignment without such consent shall be void and without legal effect.

8.3 Amendment and Modification; Waiver. This Agreement may only be amended, modified or supplemented by an agreement in writing signed by each Party hereto. No waiver by any Party of any of the provisions hereof shall be effective unless explicitly set forth in writing and signed by the Party so waiving. No waiver by any Party shall operate or be construed as a waiver in respect of any failure, breach or default not expressly identified by such written waiver, whether of a similar or different character, and whether occurring before or after that waiver. No failure to exercise, or delay in exercising, any right, remedy, power or privilege arising from this Agreement shall operate or be construed as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege.

8.4 Entire Agreement. This Agreement (including the schedule attached hereto) constitute the sole and entire agreement of the parties to this Agreement with respect to the subject matter contained herein and therein, and supersede all prior and contemporaneous understandings and agreements, both written and oral, with respect to such subject matter.

8.5 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall be deemed to be one and the same agreement.

A signed copy of this Agreement delivered by facsimile, e-mail or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Agreement.

8.6 Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of Delaware without giving effect to any choice or conflict of law provision or rule (whether of the State of Delaware or any other jurisdiction).

[**REST OF THIS PAGE INTENTIONALLY LEFT BLANK**]

IN WITNESS WHEREOF, the undersigned have caused this Services Agreement to be executed by their duly authorized representatives as of the day and year first set written above.

STAR PROCUREMENT, LLC

By: _____

Name:

Title:

KBS BUILDERS, INC.

By: _____

Name:

Title:

SERVICE SCHEDULE

1. Services.

KBS shall submit a Service Notice to the Company for ALL Building Materials required by KBS and is subsidiaries in the conduct of their respective businesses.

Subject to the Company's right of first refusal set forth on Section 2.2 of the Agreement, the Company shall source and purchase from a supplier (the "**Materials Supplier**") all Building Materials requested by KBS in Service Notices and arrange for such materials to be delivered directly to KBS or its subsidiaries, as directed.

For purposes of this Agreement, "**Building Materials**" shall mean any and all goods, products, raw materials and similar items used to manufacture, produce, construct and/or build modular building unites (including, but not limited to, single-family homes, apartment buildings, condominiums, and other commercial structures).

2. Additional Terms Related to Services.

KBS shall bear the risk of loss of all Building Materials upon any transfer of such risk by the Materials Supplier, even if related Materials Purchase Amounts are unpaid. In no event shall the Company bear the risk of loss for any Building Materials.

Exhibit 21.1

Subsidiaries of Registrant

Name: Digirad Health
State of Incorporation: Delaware

Name: Digirad Imaging Solutions, Inc.
State of Incorporation: Delaware

Name: MD Office Solutions, Inc.
State of Incorporation: California

Name: Project Rendezvous Holding Corporation
State of Incorporation: Delaware

Name: Project Rendezvous Acquisition Corporation
State of Incorporation: Delaware

Name: DMS Health Technologies, Inc.
State of Incorporation: North Dakota

Name: DMS Imaging, Inc.
State of Incorporation: North Dakota

Name: DMS Health Technologies - Canada, Inc.
State of Incorporation: North Dakota

EXHIBIT 23.1

Consent of Independent Registered Public Accounting Firm

Digirad Corporation
Poway, California

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-203785 and 333-201554) and Form S-8 (Nos. 333-228214. 333-196562, 333-175986, and 333-116345) of Digirad Corporation of our report dated March 1, 2019, relating to the consolidated financial statements, which appears in this Form 10-K.

/s/ BDO USA, LLP
San Diego, California

March 1, 2019

EXHIBIT 31.1

CERTIFICATION OF
PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Matthew G. Molchan, certify that:

1. I have reviewed this annual report on Form 10-K of Digirad Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 1, 2019

/s/ Matthew G. Molchan

Matthew G. Molchan
President and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION OF
PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, David Noble, certify that:

1. I have reviewed this annual report on Form 10-K of Digirad Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

March 1, 2019

/S/ David Noble

David Noble

Interim Chief Financial Officer and Chief Operating Officer
(Principal Financial and Accounting Officer)

EXHIBIT 32.1

CERTIFICATION OF
PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350
(SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)

In connection with the accompanying Annual Report on Form 10-K of Digirad Corporation for the year ended December 31, 2018, I, Matthew G. Molchan, President and Chief Executive Officer of Digirad Corporation, hereby certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) such Annual Report on Form 10-K of Digirad Corporation for the year ended December 31, 2018, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in such Annual Report on Form 10-K of Digirad Corporation for the year ended December 31, 2018, fairly presents, in all material respects, the financial condition and results of operations of Digirad Corporation at the dates indicated.

This certification has not been, and shall not be deemed, “filed” with the Securities and Exchange Commission.

March 1, 2019

/s/ Matthew G. Molchan

Matthew G. Molchan
President and Chief Executive Officer
(Principal Executive Officer)

A signed copy of this written statement required by Section 906 has been provided to Digirad Corporation and will be retained by Digirad Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATION OF
PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350
(SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)

In connection with the accompanying Annual Report on Form 10-K of Digirad Corporation for the year ended December 31, 2018, I, David Noble, Interim Chief Financial Officer of Digirad Corporation, hereby certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) such Annual Report on Form 10-K of Digirad Corporation for the year ended December 31, 2018, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in such Annual Report on Form 10-K of Digirad Corporation for the year ended December 31, 2018, fairly presents, in all material respects, the financial condition and results of operations of Digirad Corporation at the dates indicated.

This certification has not been, and shall not be deemed, “filed” with the Securities and Exchange Commission.

March 1, 2019

/S/ David Noble

David Noble
Interim Chief Financial Officer and Chief Operating Officer
(Principal Financial and Accounting Officer)

A signed copy of this written statement required by Section 906 has been provided to Digirad Corporation and will be retained by Digirad Corporation and furnished to the Securities and Exchange Commission or its staff upon request.