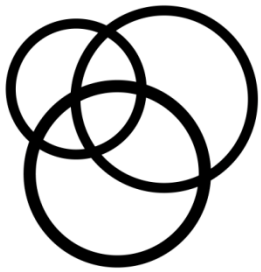


Digirad

2017 ANNUAL REPORT

Dear Fellow Shareholders,

2017 was a year of change and renewed focus for Digirad. During the year, we encountered many new opportunities and faced many new challenges. We felt the impact of the uncertainty associated with changes to the Affordable Care Act, we had to revitalize and refocus our DMS sales and executive staff, and we saw the end of our relationship as a manufacturer representative for Philips. Despite these many obstacles, we were able to put together a very solid year in terms of performance while increasing our dividend to our shareholders. Throughout the year, we continued to build upon our company's solid foundation as we prepare for greater things to come in the future.

More than anything - we were very focused on our core business in 2017. Ensuring that Digirad continues to generate significant cash flow which allows us to continue to pay our dividend as well as pay down debt, both which increase overall value to you. We will continue to focus on this approach, never losing sight that cash generation continues to be key for our company.

We have a bright future ahead of us. As we review our business and market moving forward, we are very excited about our prospects and our potential for growth. As we look to the future, we continue to look to execute on our three-tier growth strategy at Digirad:

1. **Acquisitions.** Our goal is to acquire companies that fit within our business model of healthcare solutions on an as needed, when needed and where needed basis in a very financially disciplined manner.

2. **New Services.** Adding new services that we can provide to our extensive service distribution channels.

3. **Organic Growth.** Within our existing core business service lines and products.

The entire Executive Team at Digirad is dedicated to this growth plan strategy, and we are working hard to ensure its continued deployment and continued value to YOU, our shareholder.

In 2018, Digirad will continue to move towards our vision of Making Healthcare Convenient. It is through our mission of creating value by being the market leader in delivering effective and efficient healthcare solutions on an As Needed, When Needed and Where Needed basis that will make our vision a reality.

Thank you to our shareholders, our employees, our board and our executive team - with your continued support, we have accomplished many things, and this will continue into the future.

Sincerely,

Matthew G. Molchan
President and Chief Executive Officer

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, 2017

or

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

For the transition period from to

Commission file number: 001-35947

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark 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 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	☐	Accelerated filer	☒
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐
		Emerging growth company	☐

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

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

The aggregate market value of the voting common stock held by non-affiliates based on the closing stock price on June 30, 2017, was $74,298,000. 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 23, 2018 was 20,094,282.

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, 2017 are incorporated by reference into Part III of this report.

DIGIRAD CORPORATION

FORM 10-K—ANNUAL REPORT
For the Fiscal Year Ended December 31, 2017

Table of Contents

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 exceptional patient care in the rapidly changing healthcare environment.

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 78% of our revenues are derived from provision of diagnostic imaging services to our customers. Based on this, we have developed and continue to refine an industry leading, customer service focused approach to all 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:

1. ***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.

2. ***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.

3. ***Acquisition of similar or complementary businesses.*** We plan to continue to look at similar or 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.

History of our Business

We have grown both organically and through acquisitions over the last three years. The following table provides a summary of the acquisitions over the last three years:

Name	Date	Descriptions
MD Office Solutions ("MD Office")	March 2015	Acquired MD Office, a provider of mobile nuclear imaging in Northern and Central California and included operations in our Diagnostic Services reportable segment.
Project Rendezvous Holding Corporation ("PRHC")	January 2016	Acquired 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. The acquisition resulted in two new reportable segments: Mobile Healthcare and Medical Device Sales and Services.

Business Segments

As of December 31, 2017, our business is organized into four reportable segments: Diagnostic Services, Mobile Healthcare, Diagnostic Imaging and Medical Device Sales and Services. See Note 13 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 and Medical Devices Sales and Services reportable segments as "Product and Product-Related." For the last three fiscal years, Services and Product and Product-Related activities had the following relative contribution to consolidated revenues:

	Year ended December 31,		
	2017	2016	2015
Revenues:			
Services	77.6%	76.1%	76.3%
Product and product-related	22.4%	23.9%	23.7%
Total revenues	100.0%	100.0%	100.0%

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.

Diagnostic Services

Nuclear and Ultrasound Imaging 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.

Cardiac Event Monitoring Services

We also offer within Diagnostic Services remote cardiac event monitoring services through our Telerhythmics business. These services include provision of a monitor, remote monitoring by registered nurses, and 24 hours a day, 7 days a week monitoring support for our patients and physician customers. We offer modalities of mobile cardiac telemetry ("MCT"), mobile cardiac event monitoring (both in wireless and analog versions), holter monitoring, and pacemaker analysis. Providing these services offers flexibility and convenience to our customers who do not have to incur the costs of staffing, equipment, and logistics to monitor patients as part of their standard of care.

Our monitoring service operates out of a centralized monitoring center located near Memphis, Tennessee. From this location, the majority of monitoring equipment is shipped directly to patient homes once they are enrolled in our service. Patients hook up the equipment with easy to follow instructions, as well as assistance from our monitoring center. Once they are hooked up to the monitoring device, patients are monitored for a period of time ranging from 7 to 30 days. At the conclusion of the monitoring period, the equipment is packaged up and sent back to our monitoring center, after which the equipment is redeployed to the next patient.

Our cardiac event monitoring services are provided primarily through an independent diagnostic testing facility model that allows us to bill Medicare, Medicaid, or one of the third-party healthcare insurers directly for services provided, and is the only business at Digirad that bills Medicare, Medicaid, and private insurance directly. As such, our cardiac event monitoring services are directly subject to reimbursements from these entities which are subject to change on a periodic basis. Typically, our contracts can be canceled at any time, and are generally present to create understanding on billing responsibilities.

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.

Medical Device Sales and Services

Through Medical Device Sales and Service ("MDSS"), we provided: (a) contract sales services and (b) warranty and post-warranty services, under our contracts with Philips Healthcare ("Philips"), within a defined region in the upper Midwest region of the United States. Under the contract sales services, we primarily sold Philips branded imaging and patient monitoring systems, including CT, MRI, PET, PET/CT systems, ultrasound and patient and monitoring systems, and received a commission on these sales. For our equipment contract sales services, we did not take title to the underlying equipment; it was delivered directly to the end user by Philips. Under our warranty and post-warranty services, we provided warranty and post-warranty services on certain Philips equipment within this territory related to equipment we sold or other equipment sold in the territory.

On September 28, 2017, we received a notice of termination (the "Termination Notice") from Philips that the Consolidated Agreement, dated April 1, 2014, as amended on June 9, 2015, between Philips and DMS Health Technologies ("DMS"), and the Remote Inside Sales Services Agreement dated March 23, 2016 (collectively, the "Philips Agreements"), were terminated upon the close of business on December 31, 2017 (the "Philips Termination"). The impact of the Termination Notice was to (a) end our contract sales services relationship with Philips as of December 31, 2017, effectively ending revenue associated with these services, and (b) end our relationship and support under our warranty and post-warranty services in the upper Midwest territory with Philips. However, the Philips Termination did not impact our ability to continue to service our existing contracts and allowed us opportunities to enter into new service contracts with customers outside the territory we were previously constrained to.

Based on the Philips Termination, we carefully considered the opportunity to run the post-warranty service business outside the relationship with Philips, but determined that ultimately due to pricing challenges and logistics, the best economic decision was to sell the business to Philips. Therefore, on December 22, 2017, we entered into an Asset Purchase Agreement (the "Philips Purchase Agreement") with Philips to sell all of our MDSS customer contracts relating to the post-warranty service business for $8.0 million (the "Philips Transaction"). The Philips Transaction is subject to certain post-closing adjustments. In connection with entering into the Philips Purchase Agreement, we entered into an agreement with Philips pursuant to which we continued to provide installation and warranty services pursuant to an existing Service Agreement until January 31, 2018. On February 1, 2018, the Philips Transaction was closed. Following the closing, the Company's MDSS reportable segment ceased to exist. As a result, in 2018, the MDSS reportable segment is expected to be reported as discontinued operations.

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.

Cardiac event monitoring is a diagnostic test that allows physicians to see the electrocardiogram ("ECG") of a patient's heart rhythm over a period of time or related to a specific event. The test includes a small monitor that is worn on the patient's waist and is connected to lead wires affixed to the patient's chest. The purpose of this test is to capture infrequent heart conditions that may only be experienced outside a physician's office, as well as to observe the state of the heart in various resting and active situations.

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 imaging 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.

In providing cardiac event monitoring services, we compete against many smaller local and regional service providers, as well as a few larger, more well established medical device companies that provide devices and a service model similar to ours. We believe our advantage in this market is our ability to utilize almost any cardiac event device on the market in the United States, and not being constrained by using any particular device. However, our larger competitors have larger sales forces and deeper financial resources that may allow them to be more cost effective. Further, larger competitors may develop devices that may make our owned devices obsolete, causing us to suffer financial losses as we attempt to change our technology and service model to adapt.

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 health care 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 health care providers, knowledge and service quality of technologists, price, availability, and reliability.

Medical Device Sales and Services. Through our relationship with Philips Healthcare, we provided contract sales services of larger imaging systems and patient monitoring systems, as well as certain post warranty service contracts within a defined region in the upper Midwest region of the United States. For the imaging systems, we competed directly with other well-established healthcare products companies in the United States and throughout the world that sell similar devices that may have had a differing array of features and benefits that exceed the Philips products that we sold. Further, these competitors may have had a greater manufacturing capacity, reach and sales forces relative to the region we sold in, providing a competitive advantage.

For our post warranty service contracts, we compete with a variety of smaller and larger independent service providers that may pay their field staff lower wages, utilize used parts instead of OEM parts and fail to provide the training we provide. Competing with these entities sometimes puts us at a cost and price disadvantage.

See discussion above under “Medical Device Sales and Services” related changes with the MDSS reportable segment.

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.

Patents

We have developed a patent portfolio that covers our products, components, and processes. We have 28 issued U.S. patents. The patents cover, among other things, aspects of solid-state radiation detectors, including our photodiodes, signal processing, and system configuration. Our issued patents expire between July 3, 2017 and August 27, 2030. We have multiple patents covering unique aspects and improvements for many of our products. 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). 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

We hold a variety of trademark registrations and copyrights in the United States for our product sales and mobile operations.

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. Prior to 2016, there were a total of six of these world sources; one source, Chalk River, Canada, ceased its production of these raw materials as planned in 2016. The remaining 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

Our only businesses that bills Medicare, Medicaid and private payors directly is our cardiac event monitoring services business; however, 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. Traditionally, Medical Device Sales and Services concentrated its sales efforts in the Upper Midwest area of the United States based on our sales and service agreement with Philips. Similar to Diagnostic Imaging and Diagnostic Services, the sales teams of Mobile Healthcare and Medical Device Sales and Services worked collaboratively to field opportunities that could result in both the sale of capital equipment and/or an opportunity for mobile services to provide solutions for our customers in large imaging modalities to fit their needs. See discussion above under "Medical Device Sales and Services" related changes with the MDSS reportable segment.

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, 2017, we had a total of 515 full time employees, of which 319 were employed in clinical-related positions, 103 in operational roles, 63 in general and administrative functions, and 30 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. 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.

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 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 health care 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 which 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 health care 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.

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

Our success depends, in part, on our ability to protect our proprietary rights to the technologies used in our products. 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. 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, 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.

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.

The termination of the Philips Agreements will adversely impact our operations, revenues and costs, and the size of such impact may be beyond our current estimates.

On October 4, 2017, we filed a Current Report on Form 8-K with the SEC reporting that on September 28, 2017, we received a notice of termination (the "Termination Notice") from Philips that the Consolidated Agreement, dated April 1, 2014, as amended on June 9, 2015, between Philips and DMS Health Technologies ("DMS"), and the Remote Inside Sales Services Agreement dated March 23, 2016 (collectively, the "Philips Agreements"), were terminated upon the close of business on December 31, 2017 (the "Philips Termination"). On December 22, 2017, we entered into an Asset Purchase Agreement (the "Philips Purchase Agreement") with Philips to sell all of our MDSS customer contracts relating to the post-warranty service business for $8.0 million (the "Philips Transaction"), subject to certain post-closing adjustments. On February 1, 2018, the Philips Transaction was closed. Following the closing, the Company's MDSS reportable segment ceased to exist.

Because we are still evaluating the overall impact that the termination of the Philips Agreements and Philips Transaction will have on our operations, we may experience additional adverse operational or cost structure impacts in the near-term and long-

term that are currently unforeseeable or otherwise unknown. Any adverse changes in our operations or cost structure could adversely impact our profitability beyond our current estimates and the market price of shares of our common stock.

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 which 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, 2017, goodwill and net intangible assets represented $12.0 million, or 17.9% of our total assets. In addition, net property, plant and equipment assets totaled $28.4 million, or 42.5% 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, 2017, the Company recorded a $2.6 million goodwill impairment loss related to the termination of the Philips Agreements with DMS Health effective December 31, 2017. During the years ended December 31, 2017 and 2016, the Company recorded a $0.2 million and $0.3 million goodwill impairment loss, respectively, related to Telerhythmics, the Company's cardiac event monitoring services business that was acquired on March 13, 2014. No goodwill impairment charges were recognized during the year ended 2015. No other significant impairment losses on long-lived assets were recognized during the years ended December 31, 2017, 2016, and 2015. See Notes 2 and 6 to the 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 (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 operational flexibility and require that we maintain specified financial ratios. 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 was 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. Events beyond our control could affect our ability to meet these and other covenants under the Comerica Credit Agreement. Our failure to comply with our covenants and other obligations under the 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.

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

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 shelf registration statement and our option plan 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 shelf registration statement, 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 (the "Protective Amendment") with the Delaware Secretary of State on May 5, 2015.

The Protective Amendment was approved by the Company's shareholders at the Company's 2015 Annual Meeting of Shareholders held on May 1, 2015.

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 27 small hub locations in the various states in which we operate, which primarily house our fleet of cameras and vans. Diagnostic Services also operates a cardiac event monitoring center which is located in an approximately 8,078 square foot facility in Collierville, Tennessee. In addition to our leased properties, we own a 36,310 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 8 to the 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.

	Year ended December 31,			
	2017		2016	
	High	Low	High	Low
First Quarter	$ 5.68	$ 4.55	$ 5.74	$ 4.22
Second Quarter	5.45	3.75	6.12	4.78
Third Quarter	4.45	3.15	6.15	4.84
Fourth Quarter	3.50	1.90	5.18	4.15

As of February 23, 2018, there were approximately 177 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, 2016, we paid four quarterly cash dividends of $0.05 per common share for total dividends paid of $0.20 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. On February 1, 2018, we announced a dividend of $0.055 per common share payable on February 28, 2018 to shareholders of record as of February 15, 2018.

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

There were no issuer purchases of equity securities during the fiscal year 2017.

On February 27, 2013, our board of directors modified our stock buyback program originally adopted in February 2009 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. The timing of stock repurchases and the number of shares of common stock to be repurchased are in compliance with Rule 10b-18 under the Exchange Act. The timing and extent of the repurchase depends upon market conditions, applicable legal and contractual requirements, and other factors.

	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	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plan
October 1, 2017 – October 31, 2017	-	-	2,588,484	$ 6,271,789
November 1, 2017 – November 30, 2017	-	-	2,588,484	6,271,789
December 1, 2017 – December 31, 2017	-	-	2,588,484	6,271,789
As of December 31, 2017			2,588,484	$ 6,271,789

Securities Authorized for Issuance Under Equity Compensation Plans

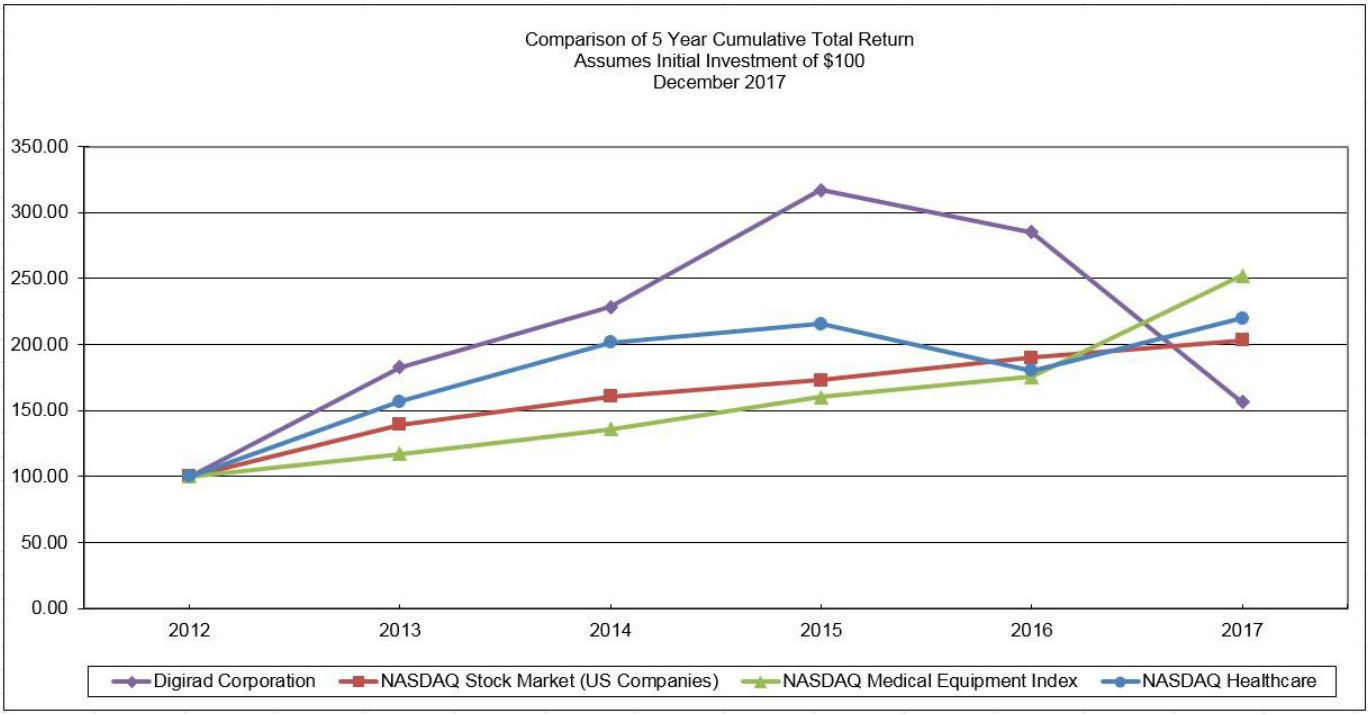
See Item 12, "Security Ownership of Certain Beneficial Owners and Management Related Stockholders Matters" for information with respect to our compensation plans under which equity securities are authorized for issuance.

Stock Performance Graph

The following information relating to the price performance of our common stock shall not be deemed "filed" with the SEC or "Soliciting Material" under the Exchange Act, or subject to Regulation 14A or 14C, or to liabilities of Section 18 of the Exchange Act except to the extent we specifically request that such information be treated as soliciting material or to the extent we specifically incorporate this information by reference.

The graph below compares the cumulative total stockholder return on our common stock with the cumulative total return on the NASDAQ Stock Market Index, the NASDAQ Medical Equipment Index, and the NASDAQ Healthcare Index. The period shown commences on December 31, 2012 and ends on December 31, 2017, the end of our most recent fiscal year. The graph assumes an investment of $100 on December 31, 2012, and the reinvestment of any dividends, if any. The comparisons shown in the graph below are based upon historical data.

The comparisons in the graph below are required by the Securities and Exchange Commission and are not intended to forecast or be indicative of possible future performance of our common stock.



	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017
Digirad Corporation	$ 100.00	$ 182.99	$ 228.54	$ 317.19	$ 285.08	$ 156.44
NASDAQ Stock Market (US Companies)	$ 100.00	$ 139.38	$ 160.72	$ 173.11	$ 190.07	$ 203.16
NASDAQ Medical Equipment Index	$ 100.00	$ 117.20	$ 135.96	$ 160.27	$ 175.57	$ 252.44
NASDAQ Healthcare	$ 100.00	$ 157.04	$ 201.75	$ 215.59	$ 180.19	$ 219.87

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with our Audited Consolidated Financial Statements and related disclosures and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," which are included elsewhere in this Form 10-K. Amounts are presented in thousands, except per share amounts.

	Year Ended December 31,				
	2017 [1]	2016 [2][3]	2015 [2][4]	2014 [5][6]	2013 [6]
Consolidated Statements of Operations Data:					
Revenues:					
Services	$ 91,865	$ 95,511	$ 46,407	$ 42,170	$ 37,171
Product and product-related	26,474	29,956	14,419	13,438	12,205
Total revenues	118,339	125,467	60,826	55,608	49,376
Cost of revenues:					
Services	75,833	75,515	35,968	31,721	27,828
Product and product-related	14,104	14,179	6,949	7,247	7,432
Total cost of revenues	89,937	89,694	42,917	38,968	35,260
Gross profit	28,402	35,773	17,909	16,640	14,116
Operating expenses:					
Research and development	—	—	—	—	1,025
Marketing and sales	9,154	10,049	4,741	4,730	4,411
General and administrative	19,360	19,988	9,888	8,344	8,118
Amortization of intangible assets	3,161	2,313	506	356	231
Restructuring loss	—	—	—	692	1,728
Gain on sale of assets and license agreement	—	—	—	—	(1,568)
Goodwill impairment	2,746	338	—	—	—
Total operating expenses	34,421	32,688	15,135	14,122	13,945
(Loss) income from operations	(6,019)	3,085	2,774	2,518	171
Other (expense) income:					
Other (expense) income, net	(311)	212	(233)	58	63
Interest expense, net	(1,068)	(1,412)	(24)	(39)	(15)
Loss on extinguishment of debt	(709)	—	—	—	—
Total other (expense) income	(2,088)	(1,200)	(257)	19	48
(Loss) income before income taxes	(8,107)	1,885	2,517	2,537	219
Income tax (expense) benefit	(27,623)	12,417	19,123	(62)	45
Net (loss) income	$ (35,730)	$ 14,302	$ 21,640	$ 2,475	$ 264
Net (loss) income per share:					
Basic	$ (1.79)	$ 0.73	$ 1.13	$ 0.13	$ 0.01
Diluted	$ (1.79)	$ 0.71	$ 1.10	$ 0.13	$ 0.01
Shares used in per share calculations:					
Basic	19,995	19,594	19,210	18,571	18,789
Diluted	19,995	20,067	19,690	18,878	19,159
Dividends declared per common share	$ 0.21	$ 0.20	$ 0.20	$ 0.20	$ 0.05

	December 31,				
	2017	2016	2015	2014	2013
Consolidated Balance Sheets Data:					
Cash and cash equivalents	$ 1,877	$ 2,203	$ 15,868	$ 14,051	$ 18,744
Working capital	8,606	4,406	23,041	24,659	29,044
Total assets	66,703	106,263	64,113	41,901	41,451
Capital lease obligations	2,690	1,119	1,567	767	488
Long-term debt, net of current portion	19,500	16,070	—	—	—
Total stockholders' equity	27,799	66,481	54,155	32,645	33,386

(1) Included in net loss for 2017 is an income tax expense of $27.6 million, as a result of impacts of the 2017 tax reform legislation and 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. The valuation allowance recorded in 2017 was established as a result of weighing all positive and negative evidence, including our recent history of cumulative losses over at least the past three years. See Note 10 to the accompanying consolidated financial statements for further information.

(2) Included in net income for 2016 and 2015 is an income tax benefit of $12.4 million and $19.1 million, respectively, primarily related to the release of the valuation allowance associated with a portion of our deferred tax assets. See Note 10 to the accompanying consolidated financial statements for further information.

(3) On January 1, 2016, we acquired DMS Health. The results of DMS Health are included in the results since the acquisition date. See Note 3 to the accompanying consolidated financial statements.

(4) On March 5, 2015, we acquired MD Office. The results of MD Office are included in Diagnostic Services since the acquisition date.

(5) On March 13, 2014, we acquired 100% of the membership interest of Telerhythmics. The results of Telerhythmics are included in Diagnostic Services since the acquisition date.

(6) On January 27, 2014 and February 28, 2013, we entered into the Facilities restructuring initiative and the Diagnostic Imaging restructuring initiative, respectively.

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

The following discussion contains forward-looking statements which 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.

Strategy

Our main strategic focus is to grow our business into an integrated healthcare services company that addresses the rapidly changing healthcare environment. We believe that there are many opportunities to provide outsourced and mobile healthcare services and solutions in the current healthcare environment. We believe this strategy will be accomplished by:

1. Focused organic growth from our core businesses;
2. Introducing new service offerings through our existing businesses or through acquisitions; and
3. Acquiring similar or complementary healthcare service companies.

Recent Acquisitions

On March 5, 2015, we acquired MD Office Solutions ("MD Office"), a provider of in-office nuclear cardiology imaging in the northern and central California regions, which broadened our footprint in California and was incorporated into our Diagnostic Services segment.

On January 1, 2016, we acquired Project Rendezvous Holding Corporation, the holding company of DMS Health Technologies. DMS Health Technologies ("DMS Health") offers mobile diagnostic imaging across multiple imaging modalities, including Positron Emission Tomography ("PET"), Computed Tomography ("CT"), Magnetic Resonance Imaging ("MRI") as well as other imaging and healthcare services. These services are provided to regional and rural hospitals and institutions throughout the United States. In addition, DMS Health, through an exclusive relationship with Philips Healthcare, services and sells Philips' imaging and patient monitoring equipment within a defined region of the upper Midwest region of the United States. With the addition of DMS Health, we added two new reportable segments to Digirad: Mobile Healthcare and Medical Device Sales and Service.

Business Segments

As of December 31, 2017, we operate the Company in four reportable segments:

1. Diagnostic Services
2. Mobile Healthcare
3. Diagnostic Imaging
4. Medical Device Sales and Service

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.

Diagnostic Services also offers remote cardiac event monitoring services through our Telerhythmics business. These services include provision of a monitor, remote monitoring by registered nurses, and 24 hours a day, 7 days a week monitoring support for our patients and physician customers. We offer modalities of mobile cardiac telemetry ("MCT"), mobile cardiac event monitoring (both in wireless and analog versions), holter monitoring, and pacemaker analysis. These services offer flexibility and convenience to our customers who do not have to incur the costs of staffing, equipment, and logistics to monitor patients as part of their standard

of care. Our cardiac event monitoring services are provided primarily through an independent diagnostic testing facility model that allows us to bill Medicare, Medicaid, or one of the third-party healthcare insurers directly for our services, and is the only business at Digirad that bills Medicare, Medicaid, and private insurance directly.

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.

Medical Device Sales and Service. Through Medical Device Sales and Service ("MDSS"), we provided: (a) contract sales services and (b) warranty and post-warranty services, under our contracts with Philips Healthcare ("Philips"), within a defined region in the upper Midwest region of the United States. Under the contract sales services, we primarily sold Philips branded imaging and patient monitoring systems, including CT, MRI, PET, PET/CT systems, ultrasound and patient and monitoring systems, and received a commission on these sales. For our equipment contract sales services, we did not take title to the underlying equipment; it was delivered directly to the end user by Philips. Under our warranty and post-warranty services, we provided warranty and post-warranty services on certain Philips equipment within this territory related to equipment we sold or other equipment sold in the territory.

On September 28, 2017, we received a notice of termination (the "Termination Notice") from Philips that the Consolidated Agreement, dated April 1, 2014, as amended on June 9, 2015, between Philips and DMS Health Technologies ("DMS"), and the Remote Inside Sales Services Agreement dated March 23, 2016 (collectively, the "Philips Agreements"), were terminated upon the close of business on December 31, 2017 ("Termination Date"). The impact of the Termination Notice was to (a) end our contract sales services relationship with Philips as of December 31, 2017, effectively ending revenue associated with these services, and (b) end our relationship and support under our warranty and post-warranty services in the upper Midwest territory with Philips. However, the Philips Termination did not impact our ability to continue to service our existing contracts and allowed us opportunities to enter into new service contracts with customers outside the territory we were previously constrained to.

Based on the Philips Termination, we carefully considered the opportunity to run the post-warranty service business outside the relationship with Philips, but determined that ultimately due to pricing challenges and logistics, the best economic decision was to sell the business to Philips. Therefore, on December 22, 2017, we entered into an Asset Purchase Agreement (the "Philips Purchase Agreement") with Philips to sell all of our MDSS customer contracts relating to the post-warranty service business for $8.0 million (the "Philips Transaction"). The Philips Transaction is subject to certain post-closing adjustments. In connection with entering into the Philips Purchase Agreement, we entered into an agreement with Philips pursuant to which we continued to provide installation and warranty services pursuant to an existing Service Agreement until January 31, 2018. On February 1, 2018, the Philips Transaction was closed. Following the closing, the Company's MDSS reportable segment ceased to exist. As a result, in 2018, the MDSS reportable segment is expected to be reported as discontinued operations.

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, 2017, through Diagnostic Services and Mobile Healthcare, we provided imaging services to 1,025 physicians, physician groups, hospitals, IDNs and federal institutions, and cardiac event monitoring services to 415 physicians and physician groups. 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/or 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.

In providing cardiac event monitoring services, we compete against many smaller local and regional service providers, as well as a few larger, more well-established medical device companies, that provide devices and a service model similar to ours. We believe our advantage in this market is our ability to utilize almost any cardiac event device on the market in the United States, and not being constrained by using any particular device. However, our larger competitors have larger sales forces and deeper financial resources that may allow them to be more cost effective. Further, larger competitors may develop devices that may make our owned devices obsolete, causing us to suffer financial losses as we attempt to change our technology and service model to adapt.

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, patient monitoring equipment, and imaging systems is highly competitive. Mobile Healthcare competes 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.

Medical Device Sales and Services. Through our relationship with Philips Healthcare, we provided contract sales services of larger imaging systems and patient monitoring systems, as well as certain post warranty service contracts within a defined region in the upper Midwest region of the United States. For the imaging systems, we competed directly with other well-established healthcare products companies in the United States and throughout the world that sell similar devices that may have had a differing array of features and benefits that exceed the Philips products that we sold. Further, these competitors may have had a greater manufacturing capacity, reach and sales forces relative to the region we sold in, providing a competitive advantage.

For our post-warranty service contracts, we competed with a variety of smaller and larger independent service providers that may pay their field staff lower wages, utilize used parts instead of OEM parts and fail to provide the training we provided. Competing with these sources sometimes put us at a cost and price disadvantage.

See discussion above under “Business Segment” related changes with the MDSS reportable segment.

2017 Financial Highlights

Consolidated revenues were $118.3 million for the year ended December 31, 2017. This is a decrease of $7.1 million, or 5.7%, compared to the prior year due to the following:

- Mobile Healthcare segment revenues decreased $4.4 million, or 9.2% primarily due to lower provisional revenue resulting from lower utilization, and lower mobile revenue due to an increase in mobile imaging cancellations.
- Diagnostic Imaging segment revenues decreased $1.8 million, or 12.9%, 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.
- MDSS segment revenue decreased $1.7 million, or 10.5%, primarily due to lower revenue associated with imaging system service contracts, a decrease in number of imaging system service contracts, and lower time and material services revenue.
- These decreases in revenue were partially offset by an increase in our Diagnostic Services segment revenue of $0.7 million, or 1.5%, primarily due to an increase in the volume of total imaging days ran, partially offset by a lower average mobile imaging rate per day and lower enrollments in our Telerhythmics business.

Consolidated gross profit decreased $7.4 million, or 20.6%, compared to the prior year due to a decrease in revenue noted previously, as well as higher labor and employee related costs, and a lower benefit from a release of excess inventory reserves due to the sale of previously reserved inventory compared to the prior year.

Total operating expenses increased $1.7 million, or 5.3%, for the year ended December 31, 2017 compared to the prior year due to a non-cash impairment charge of goodwill of $2.6 million and accelerated amortization of intangible assets of $0.8 million, both recognized related to our MDSS reporting unit due to the termination of the Philips distribution agreement, and a $1.3 million litigation charge recorded during the period relating to a settlement of a wage and hour lawsuit, partially offset by $1.9 million in legal and professional fees incurred in the prior year related to the acquisition and integration of DMS Health, lower sales commissions of $0.5 million as a result of lower sales, and lower headcount and professional marketing costs of $0.6 million associated with changes made in leadership, operational, and sales approach to address lower provisional sales utilization in Mobile Healthcare.

Consolidated net loss for the year ended December 31, 2017 was $35.7 million, which is a decrease of $50.0 million compared to our net income of $14.3 million during the prior year. We recognized income tax expense of $27.6 million during the year ended December 31, 2017 compared to an income tax benefit of $12.4 million during the year ended December 31, 2016. Of this year over year change, $40.0 million was related to changes in income tax expense and benefit, primarily related to impacts of the 2017 tax reform legislation and changes in recognition of our deferred income assets associated with our net operating losses. The remaining changes was related to the previously discussed decrease in revenue and gross profit and increase in operating expenses.

For the year ended December 31, 2017, Diagnostic Services operated 93 nuclear gamma cameras and 59 ultrasound imaging systems, and Mobile Healthcare operated 99 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 decreased to 63% for the year ended December 31, 2017, compared to 64% in the prior year, due to fewer mobile imaging days ran and a greater number of business days compared to 2016. System utilization for Mobile Healthcare was 84% for the year ended December 31, 2017, compared to 87% in the prior year, due to a decrease in provisional system utilization and an increase in mobile imaging cancellations.

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

We recognize 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 and collection is reasonably assured.

We also offer remote cardiac event monitoring services within our Diagnostic Services reportable segment, through our Telerhythmics business. Our cardiac event monitoring services are provided primarily through an independent diagnostic testing facility model which allows us to bill Medicare, Medicaid, or one of the third-party healthcare insurers directly for services provided. We also receive reimbursement directly from patients through co-pays and self-pay arrangements. Billings for services reimbursed by third party payors, including Medicare and Medicaid, are recorded as revenue net of contractual allowances. Contractual allowances are estimated based on historical collections by Current Procedural Terminology ("CPT") code for specific payors or class of payors. Adjustments to the estimated receipts, based on final settlement with the third-party payors, are recorded upon settlement.

Product and Product-Related Revenue Recognition. We generate revenue from product and product-related sales, primarily from the sale of gamma cameras and Phillips medical equipment and supplies, and related services, which consist primarily of support and maintenance services on products we sell directly or through our relationship with Philips.

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 and collection is reasonably assured. Neither installation nor training is essential to the functionality of the product. Finally, we offer camera maintenance service contracts which 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.

Medical Device Sales and Service product revenues are derived from equipment sales and warranty and post-warranty service efforts, under our exclusive contract with Philips Healthcare. Revenue from equipment sales primarily consists of commission income, which represents the commission the Company earns for selling Philips equipment and supplies to end users, and is reported on a net basis upon delivery. Revenue related to warranty and service contracts that extend over multiple months is accounted for on the proportional-performance method, which the Company deems to be on a straight-line basis. Finally, revenue related to time-and-materials service contracts is recognized in the month services are performed and collection is reasonably assured.

Allowance for Doubtful Accounts and Billing Adjustments

We provide reserves for doubtful accounts and billing adjustments. We regularly evaluate the collectability of our trade receivables and make reserves and adjustments based on our historical experience rate and known collectability issues and disputes. We also consider our bad debt write-off and billing adjustments 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. We also record a provision for billing adjustments and allowances as the related revenues are recorded. These estimates are based on specific facts and specific circumstances of particular orders, analysis of credit memo data or other known factors. If the data we use to calculate these estimates do not properly reflect reserve requirements, then a change in the reserve would be made in the period in which such a determination is made and revenues in that period could be adversely affected.

Contractual Allowances

Our cardiac event monitoring services are provided primarily through an independent diagnostic testing facility model which allows us to bill Medicare, Medicaid, or one of the third-party healthcare insurers directly for services provided. Accounts receivable for cardiac event monitoring are recorded at the time revenue is recognized, net of contractual allowances. Contractual allowances are estimated based on historical collections by CPT code for specific payors, or class of payors. The ultimate collection of accounts receivable may not be known for several months after services have been provided and billed. Because of continuing changes in the healthcare industry and third-party reimbursement, it is possible that our estimates could change, which could have a material impact on our operations and cash flows.

Business Combinations

Under the acquisition method of accounting, we allocate the fair value of the total consideration transferred to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values on the date of acquisition. The fair values assigned, defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants, are based on estimates and assumptions determined by management. We record the excess consideration over the aggregate fair value of tangible and intangible assets, net of liabilities assumed, as goodwill. These valuations require us to make significant estimates and assumptions, especially with respect to intangible assets.

In connection with certain of our acquisitions, additional contingent consideration is earned by the sellers upon completion of certain future performance milestones. In these cases, a liability is recorded on the acquisition date for an estimate of the acquisition date fair value of the contingent consideration by applying the income approach utilizing variable inputs such as anticipated future cash flows, risk-free adjusted discount rates, and nonperformance risk. Any change in the fair value of the contingent consideration subsequent to the acquisition date is recognized as general and administrative expense (income), in our consolidated statements of operations and comprehensive income. This method requires significant management judgment, including the probability of achieving certain future milestones and discount rates. Future changes in our estimates could result in expenses or gains.

Management typically uses the discounted cash flow method to value our acquired intangible assets. This method requires significant management judgment to forecast future operating results and establish residual growth rates and discount factors. The estimates we use to value and amortize intangible assets are consistent with the plans and estimates that we use to manage our business and are based on available historical information and industry estimates and averages. If the subsequent actual results and updated projections of the underlying business activity change compared with the assumptions and projections used to develop these values, we could experience impairment charges. In addition, we have estimated the economic lives of certain acquired assets and these lives are used to calculate depreciation and amortization expense. If our estimates of the economic lives change, depreciation or amortization expenses could be accelerated or slowed.

Inventory

We state inventories at the lower of cost (first-in, first-out) or market (net realizable value) and review our inventory balances for excess and obsolete inventory levels on a quarterly basis. Costs include material, labor, and manufacturing overhead and variance costs. We rely on historical information to support our reserve and utilize management's business judgment. 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.

Valuation of 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. 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 the nature of when we expect to receive cash inflows generated by the intangible assets.

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. When indicators of impairment exist, we perform a review of the carrying value of our long-lived assets to be held and used, including certain identifiable intangible assets. No impairment losses were recorded on long-lived assets to be held and used during the years ended December 31, 2017, 2016, or 2015. During the year ended December 31, 2015, an impairment loss of less than $0.1 million was recorded related to the excess of the carrying amount above fair value of certain assets held for sale. No impairment losses were recorded on long-lived assets held for sale during the years ended December 31, 2017, or 2016.

Valuation of Goodwill

We review goodwill for impairment on an annual basis during the fourth quarter, as well 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 our 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 step one of the two-step impairment analysis by quantitatively comparing the fair value of the reporting unit to the carrying value of the reporting unit, including goodwill. If the carrying value of the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment test, whereby the carrying value of the reporting unit's goodwill is compared to its implied fair value. If the carrying value of the goodwill exceeds the implied fair value, an impairment loss equal to the difference would be recorded.

On September 28, 2017, the Company received a termination notice from Philips that our agreement to provide contract sales and services on Philips equipment would be terminated, effective December 31, 2017. As a result, the Company reduced its forecasted revenue, gross margin and operating profit within its MDSS reporting unit. These factors are considered indicators of potential impairment and as a result, the Company performed an interim goodwill impairment analysis during the third quarter of 2017. As a result, the Company recorded an impairment loss of $2.6 million associated with the impairment assessment of the MDSS reporting unit during the year ended December 31, 2017.

During the years ended December 31, 2017 and 2016, we recorded goodwill impairment losses of $0.2 million and $0.3 million, respectively, within our Diagnostic Services segment related to our Telerhythmics business. The Company concluded that it was more likely than not that the carrying value of the Telerhythmics reporting unit were in excess of their respective values and therefore, updated its estimated fair value of these assets as of those dates. This conclusion was based on lower than expected operating results during the year ended December 31, 2016 and 2017, primarily as a result of lower sales volume and unfavorable mix in our cardiac event monitoring business.

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. The estimates and judgments described above 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.

Share-Based Compensation

We grant options to purchase our common stock and restricted stock units ("RSUs") to our employees and directors under our equity compensation plans. We estimate the fair value of the stock option awards using the Black-Scholes option-pricing model on the date of grant. The fair value of RSUs is based on the stock price on the date of grant. The fair value of equity instruments that are expected to vest are recognized using the straight-line method over the requisite service period.

Self-Insured Health Insurance Benefits

On January 1, 2017, we converted our employee health insurance plan from a fixed cost policy to a self-insured plan. The Company self-insures from the first dollar of loss up to specified retention levels. Eligible losses in excess of self-insurance retention levels and up to stated limits of liability are covered by a combination of a captive and third-party insurance programs.

For our policies under which we are responsible for losses, we record a liability that represents our estimated cost of claims incurred and unpaid as of the balance sheet date. Our estimated liability is not discounted and is based on a number of assumptions and factors, including historical trends, claim experience, and is closely monitored and adjusted when warranted by changing circumstances. Should a greater amount of claims occur compared to what was estimated or medical costs increase beyond what was expected, our accrued liabilities might not be sufficient and additional expenses may be recorded. Actual claims experience could also be more favorable than estimated resulting in expense reductions. Unanticipated changes may produce materially different amounts of expense than that reported under these programs. As of December 31, 2017, the reserve for estimated claims incurred and unpaid was $1.0 million.

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.

During the year ended December 31, 2015, we concluded that it was more likely than not that a portion of our deferred tax assets would be realized through future taxable income. This conclusion was based on our restructuring efforts in 2013 and 2014 and resulting sustained profitability for the second half of 2013, 2014, and 2015, as well as our projections of positive future earnings and other key operating factors. As of September 30, 2015, we had generated cumulative pretax income over the preceding twelve quarter period, and therefore the objective negative evidence of a history of operating losses was no longer present. The partial release of the valuation allowance associated with our deferred tax assets was the primary driver of the income tax benefit of $19.1 million for the year ended December 31, 2015. During the year ended December 31, 2016, as a result of the acquisition of DMS Health on January 1, 2016, we determined that it is more likely than not that additional deferred tax assets will be realized due to the increases in our forecasted taxable income. The partial release of the valuation allowance associated with our deferred tax assets was the primary driver of the income tax benefit of $12.4 million for the year ended December 31, 2016. During the year ended 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. A significant piece of objective negative evidence evaluated as of December 31, 2017, was the cumulative pretax loss incurred over the three-year period ended December 31, 2017. The increase of the valuation allowance associated with our deferred tax assets resulted in $18.1 million of income tax expense for the year ended December 31, 2017.

We will reassess the ability to realize the deferred tax assets on a quarterly basis. If it is more likely than not that we will not realize the recognized deferred tax assets, then all or a portion of the valuation allowance may need to be re-established, which would result in a charge to tax expense. Conversely, if new events indicate that it is more likely than not that we will realize additional deferred tax assets, then all or a portion of the remaining valuation allowance may be released, which would result in a tax benefit.

New Accounting Pronouncements

See Note 2 to the accompanying consolidated financial statements for our discussion of new accounting pronouncements.

Results of Operations

Comparison of Years Ended December 31, 2017 and 2016

The following table sets forth our results from operations for the years ended December 31, 2017 and 2016:

	Year ended December 31,				Change from Prior Year	
(in thousands)	2017	% of 2017 Revenues	2016	% of 2016 Revenues	Dollars	Percent
Total revenues	118,339	100.0 %	125,467	100.0 %	(7,128)	(5.7)%
Total cost of revenues	89,937	76.0 %	89,694	71.5 %	243	0.3 %
Gross profit	28,402	24.0 %	35,773	28.5 %	(7,371)	(20.6)%
Operating expenses:						
Marketing and sales	9,154	7.7 %	10,049	8.0 %	(895)	(8.9)%
General and administrative	19,360	16.4 %	19,988	15.9 %	(628)	(3.1)%
Amortization of intangible assets	3,161	2.7 %	2,313	1.8 %	848	36.7 %
Goodwill impairment	2,746	2.3 %	338	0.3 %	2,408	712.4 %
Total operating expenses	34,421	29.1 %	32,688	26.1 %	1,733	5.3 %
(Loss) income from operations	(6,019)	(5.1)%	3,085	2.5 %	(9,104)	(295.1)%
Other (expense) income, net	(311)	(0.3)%	212	0.2 %	(523)	(246.7)%
Interest expense, net	(1,068)	(0.9)%	(1,412)	(1.1)%	344	(24.4)%
Loss on extinguishment of debt	(709)	(0.6)%	—	— %	(709)	(100.0)%
Total other expense	(2,088)	(1.8)%	(1,200)	(1.0)%	(888)	74.0 %
(Loss) income before income taxes	(8,107)	(6.9)%	1,885	1.5 %	(9,992)	(530.1)%
Income tax (expense) benefit	(27,623)	(23.3)%	12,417	9.9 %	(40,040)	(322.5)%
Net (loss) income	$ (35,730)	(30.2)%	$ 14,302	11.4 %	$ (50,032)	(349.8)%

Revenues

Services Revenue

Services revenue by segment is summarized as follows:

	Year Ended December 31,			
(in thousands)	2017	2016	Change	% Change
Diagnostic Services	$ 49,016	$ 48,305	$ 711	1.5 %
Mobile Healthcare	42,849	47,206	(4,357)	(9.2)%
Total Services Revenue	$ 91,865	$ 95,511	$ (3,646)	(3.8)%

Diagnostic Services revenue increased $0.7 million, or 1.5%, compared to the prior year primarily due to higher volume of total imaging days ran, partially offset by a decrease in the average mobile imaging rate per day, as well as a decrease of $0.4 million in revenue from our Telerhythmics business due to lower enrollments resulting from lower in-stock inventory availability to service patients. Though we believe we generally have sufficient inventory to service patients at Telerhythmics, we occasionally experience high demand periods that put pressure on meeting customer demand until more inventory becomes available.

Mobile Healthcare revenue decreased $4.4 million, or 9.2%, compared to the prior year primarily due to a decrease in provisional revenue of $3.2 million mainly due to lower utilization, as well as a decrease in mobile imaging revenue of $1.3 million due to an increase in cancellations. The activity and utilization of provisional assets can vary in each period based on sales execution, the number of imaging unit installations in the period (which require a provisional unit for the transition period), and imaging volume. The decrease year over year is primarily due to sales execution. To address the decrease in provisional revenue we experienced in 2017, we made changes in March 2017 in leadership, operations and sales approach in our Mobile Healthcare business unit. Though we believe there has been a positive impact as a result of our changes, the impact of lower provisional sales will take several quarters to correct, and ultimately will still be subject to macro market conditions, associated need, and utilization of our provisional assets.

Overall, services revenue accounted for 77.6% of total revenues for the year ended December 31, 2017, compared to 76.1% for the prior year. We expect our Services revenue to continue to represent the larger percentage of our consolidated revenue and expect that percentage to increase in 2018 due to the impact of our Medical Device Sales and Services segment described below; 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:

	Year Ended December 31,			
(in thousands)	**2017**	**2016**	**Change**	**% Change**
Diagnostic Imaging	$ 12,081	$ 13,870	$ (1,789)	(12.9)%
Medical Device Sales and Service	14,393	16,086	(1,693)	(10.5)%
Total Product and Product-Related Revenue	$ 26,474	$ 29,956	$ (3,482)	(11.6)%

Diagnostic Imaging revenue decreased $1.8 million, or 12.9%, compared to the prior year primarily due to a decrease in product sales of $1.3 million due to both a lower volumes and unfavorable mix of cameras sold, as well a decrease of $0.2 million in camera rental revenue, and a $0.3 million decrease in camera maintenance service revenue. During the prior year, we sold a greater number of our Ergo cameras, which have a higher selling price than our Cardius line of cameras. In addition, we experienced lower overall revenue from camera maintenance services due to lower time and material activities, which are variable in nature and based on customer needs. Though the timing of Diagnostic Imaging product sales is impacted by customer budgets and overall healthcare market, we believe, since the second quarter of 2017, that we are seeing some delays in larger product purchases based on the current uncertainty of the Affordable Care Act and the potential repeal or replacement of the program. If this uncertainty continues, we believe our product sales could experience continued softness in future periods.

MDSS revenue decreased $1.7 million, or 10.5%, compared to the prior year primarily due to a decrease in maintenance service revenue of $1.8 million. During the third quarter of 2016, we had a large customer transition their service contracts to other providers, which contributed $0.8 million to the decrease year over year. In addition, maintenance service revenue was also impacted by a decrease of $0.6 million in time and material revenue, which is variable in nature and based on customer needs. We do not expect to have further revenues and activities in our MDSS segment past the first quarter of 2018 as a result of a Philips contract cancellation as well as the sale of our MDSS service contracts. See further discussion in the "Business Segments" section above.

Gross Profit

Services Gross Profit

Services gross profit and gross margin is summarized as follows:

	Year Ended December 31,		
(in thousands)	**2017**	**2016**	**% Change**
Services gross profit	$ 16,032	$ 19,996	(19.8)%
Services gross margin	17.5%	20.9%	

Diagnostic Services gross profit decreased $0.5 million, or 5.2%, to $9.9 million in the current year compared to $10.5 million in the prior year, and the gross margin percentage was 20.3% in the current year compared to 21.7% in the prior year. The decrease in gross margin percentage was mainly due to lower revenue in our Telerhythmics business and $0.8 million higher employee related costs compared to the prior year period.

Mobile Healthcare gross profit decreased $3.4 million, or 36.0%, to $6.1 million in the current year compared to $9.5 million in the prior year, and gross margin percentage was 14.2% in the current year compared to 20.1% in the prior year. The decrease in gross margin percentage was primarily due to lower revenue and lower utilization of provisional assets compared to the prior year; partially offset by higher margins on provisional revenue compared to the prior year period.

Product and Product-Related Gross Profit

Product and product-related gross profit and gross margin is summarized as follows:

	Year Ended December 31,		
(in thousands)	2017	2016	% Change
Product and product-related gross profit	$ 12,370	$ 15,777	(21.6)%
Product and product-related gross margin	46.7%	52.7%	

Diagnostic Imaging gross profit decreased $2.1 million, or 29.2%, to $5.0 million in the current year compared to $7.1 million in the prior year, and the gross margin percentage was 41.7% in the current year compared to 51.3% in the prior year. The decrease in gross margin percentage was primarily due to lower product sales and camera maintenance revenue compared to the prior year.

MDSS gross profit decreased $1.3 million, or 15.3%, to $7.3 million in the current year compared to $8.7 million in the prior year, and the gross margin percentage was 51.0% in the current year compared to 53.8% in the prior year. The decrease in gross margin was primarily due to lower maintenance revenue.

Operating Expenses

Operating expense are summarized as follows:

	Year Ended December 31,		Change		Percent of Revenues	
(in thousands)	2017	2016	Dollars	Percent	2017	2016
Marketing and sales	$ 9,154	$ 10,049	(895)	(8.9)%	7.7%	8.0%
General and administrative	19,360	19,988	(628)	(3.1)%	16.4%	15.9%
Amortization of intangible assets	3,161	2,313	848	36.7 %	2.7%	1.8%
Goodwill impairment	2,746	338	2,408	712.4 %	2.3%	0.3%
Total operating expenses	$ 34,421	$ 32,688	1,733	5.3 %	29.1%	26.1%

Marketing and sales expenses decreased $0.9 million, or 8.9%, compared to the prior year, primarily due to lower variable compensation of $0.5 million as a result of lower sales, as well as lower headcount and professional marketing costs of $0.6 million associated with changes made in leadership, operational, and sales approach to address lower provisional sales utilization in Mobile Healthcare. Marketing and sales expenses as a percentage of total revenues were 7.7% and 8.0% for the years ended December 31, 2017 and 2016, respectively.

General and administrative expenses decreased by $0.6 million, or 3.1%, compared to the prior year. The decrease was primarily due to $1.9 million of legal and professional fees incurred in the prior year period related to the acquisition and integration of DMS Health, and lower bad debt expense of $0.4 million due to improved collections; partially offset by a $1.3 million litigation charge recorded during the current year relating to a settlement of a wage and hour lawsuit as further discussed in Note 8 of the consolidated financial statements.

Due to the termination of the Philips Agreement and the sale of our post-warranty contracts as discussed in "Business Segments" above, we anticipate a reduction of approximately $2.5 million to overall marketing, sales, general and administrative expenses annually related to a reduction in our sales force subsequent to December 31, 2017, excluding any potential one-time severance costs associated with elimination of these roles.

The amortization of intangible assets increased by $0.8 million, or 36.7%, compared to the prior year, due to accelerated amortization recorded in the fourth quarter of 2017 on our intangible related to our Philips Agreements, terminated effective December 31, 2017.

Goodwill non-cash impairment charges increased by $2.4 million compared to the prior year, primarily as a result of impairment recorded during the third quarter of 2017 in our MDSS reporting unit. See Note 6 of the consolidated financial statements for further information.

Other (Expense) Income

Total other expense is summarized as follows:

	Year Ended December 31,	
(in thousands)	**2017**	**2016**
Other income (expense), net	$ (311)	$ 212
Interest expense, net	(1,068)	(1,412)
Loss on extinguishment of debt	(709)	—
Total other expense	$ (2,088)	$ (1,200)

Other expense, net was $0.3 million for the year ended December 31, 2017 compared to other income of $0.2 million in the prior year. Other expense, net for the year ended December 31, 2017 consisted of impairment losses recognized on our equity investments deemed to be other-than-temporarily impaired. Other income, net for the year ended December 31, 2016 consisted of a $0.6 million favorable settlement of a pre-acquisition litigation matter during the fourth quarter of 2016, partially offset by a $0.4 million impairment loss on our equity investments.

Interest expense, net for the year ended December 31, 2017 and 2016 is predominantly comprised of cash interest costs and related amortization of deferred issuance costs on our debt. Interest expense, net decreased $0.3 million compared to the prior year due to lower amortization of deferred issuance costs of $0.1 million, as well as lower cash interest costs mainly due to lower average outstanding borrowings compared to the prior year. See "Liquidity and Capital Resources" for a more detailed description of our current outstanding debt.

Loss on extinguishment of debt in 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 7 of the consolidated financial statements for further information.

Income Tax (Expense) Benefit

Income tax expense was $27.6 million for the year ended December 31, 2017 compared to an income tax benefit of $12.4 million for the year ended December 31, 2016. 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. Additionally, 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. The valuation allowance recorded in 2017 was established as a result of weighing all positive and negative evidence, including our recent history of cumulative losses over at least the past three years. During the year ended December 31, 2016, as a result of the acquisition of DMS Health on January 1, 2016, we determined that it is more likely than not that additional deferred tax assets will be realized due to the increases in our forecasted taxable income. The partial release of the valuation allowance associated with our deferred tax assets was the primary driver of the income tax benefit of $12.4 million for the year ended December 31, 2016.

See Note 10 to the accompanying consolidated financial statements for further information.

Comparison of Years Ended December 31, 2016 and 2015

The following table sets forth our results from operations for the years ended December 31, 2016 and 2015:

	Year Ended December 31,				Change from Prior Year	
(in thousands)	2016	% of 2016 Revenues	2015	% of 2015 Revenues	Dollars	Percent
Total revenues	125,467	100.0 %	60,826	100.0 %	64,641	106.3 %
Total cost of revenues	89,694	71.5 %	42,917	70.6 %	46,777	109.0 %
Gross profit	35,773	28.5 %	17,909	29.4 %	17,864	99.7 %
Operating expenses:						
Marketing and sales	10,049	8.0 %	4,741	7.8 %	5,308	112.0 %
General and administrative	19,988	15.9 %	9,888	16.3 %	10,100	102.1 %
Amortization of intangible assets	2,313	1.8 %	506	0.8 %	1,807	357.1 %
Goodwill impairment	338	0.3 %	—	— %	338	100.0 %
Total operating expenses	32,688	26.1 %	15,135	24.9 %	17,553	116.0 %
Income from operations	3,085	2.5 %	2,774	4.6 %	311	11.2 %
Other income (expense), net	212	0.2 %	(233)	(0.4)%	445	(191.0)%
Interest expense, net	(1,412)	(1.1)%	(24)	— %	(1,388)	5,783.3 %
Total other (expense) income	(1,200)	(1.0)%	(257)	(0.4)%	(943)	366.9 %
Income before income taxes	1,885	1.5 %	2,517	4.1 %	(632)	(25.1)%
Income tax benefit	12,417	9.9 %	19,123	31.4 %	(6,706)	(35.1)%
Net income	$ 14,302	11.4 %	$ 21,640	35.6 %	$ (7,338)	(33.9)%

Revenues

Services Revenue

Services revenue by segment is summarized as follows:

	Year Ended December 31,			
(in thousands)	2016	2015	Change	% Change
Diagnostic Services	$ 48,305	$ 46,407	$ 1,898	4.1%
Mobile Healthcare	47,206	—	47,206	100.0%
Total Services Revenue	$ 95,511	$ 46,407	$ 49,104	105.8%

Services revenue increased $49.1 million, or 105.8%, compared to the prior year primarily due to the acquisition of DMS Health, and $0.6 million of incremental revenue associated with the MD Office acquisition, which occurred on March 5, 2015. Excluding the impact of acquisitions, revenue in the Diagnostic Services segment increased by $1.3 million, or 2.9%, compared to the prior year due to a greater number of imaging days provided, partially offset by a decrease in the average mobile imaging rate per day and decreased revenue from our Telerhythmics business due to less favorable mix compared to the prior year. In the year ended December 31, 2016, we experienced higher volume of imaging days ran for both new and existing customers as compared to the prior year. In addition, in the year ended December 31, 2015 we experienced a high rate of cancellations that did not occur in the year ended December 31, 2016. Including the acquisition of DMS Health, Services revenue accounted for 76.1% of total revenues for the year ended December 31, 2016, compared to 76.3% for the prior year.

Product and Product-Related Revenue

Product and product-related revenue by segment is summarized as follows:

	Year Ended December 31,			
(in thousands)	**2016**	**2015**	**Change**	**% Change**
Diagnostic Imaging	$ 13,870	$ 14,419	$ (549)	(3.8)%
Medical Device Sales and Service	16,086	—	16,086	100.0 %
Total Product and Product-Related Revenue	$ 29,956	$ 14,419	$ 15,537	107.8 %

Product and product-related revenue increased $15.5 million, or 107.8%, compared to the prior year primarily due to the acquisition of DMS Health. Excluding the impact of acquisition, Diagnostic Imaging segment revenues for the year ended December 31, 2016 decreased by $0.5 million, or 3.8%, compared to the prior year, primarily due to a decrease in the number of cameras sold and lower revenue associated with camera maintenance contracts, as well as a less favorable product mix during the year ended December 31, 2016 as compared to the prior year, which led to a lower blended average selling price per camera year over year.

Gross Profit

Services Gross Profit

Services gross profit and gross margin is summarized as follows:

	Year Ended December 31,		
(in thousands)	**2016**	**2015**	**% Change**
Services gross profit	$ 19,996	$ 10,439	91.6%
Services gross margin	20.9%	22.5%	

Services gross profit increased $9.6 million, or 91.6%, to $20.0 million in the year ended December 31, 2016 compared to $10.4 million in the prior year primarily due to the acquisitions of DMS Health and MD Office, and the gross margin percentage was 20.9% for the year ended December 31, 2016 compared to 22.5% in the prior year. The decrease in gross margin percentage was attributable to the acquisition of DMS Health and its relative contribution to gross profit, as well as slight unfavorability in our Diagnostic Services segment gross profit percentage due to the decrease in the average mobile imaging rate per day with the associated service costs remaining relatively consistent, as well as an unfavorable mix of services provided in our Telerhythmics business.

Product and Product-Related Gross Profit

Product and product-related gross profit and gross margin is summarized as follows:

	Year Ended December 31,		
(in thousands)	**2016**	**2015**	**% Change**
Product and product-related gross profit	$ 15,777	$ 7,470	111.2%
Product and product-related gross margin	52.7%	51.8%	

Product and product-related gross profit increased $8.3 million, or 111.2%, to $15.8 million in the year ended December 31, 2016 compared to $7.5 million in the prior year primarily due to the acquisition of DMS Health, and the gross margin percentage was 52.7% for the year ended December 31, 2016 compared to 51.8% in the prior year. Excluding the impact of the acquisition, Product gross margin percentage decreased slightly due to a less favorable mix of camera sales and a lower benefit from the release of excess inventory reserves related to the sale of previously reserved inventory.

Operating Expenses

Operating expense are summarized as follows:

(in thousands)	Year Ended December 31, 2016	2015	Change Dollars	Change Percent	Percent of Revenues 2016	2015
Marketing and sales	$ 10,049	$ 4,741	5,308	112.0%	8.0%	7.8%
General and administrative	19,988	9,888	10,100	102.1%	15.9%	16.3%
Amortization of intangible assets	2,313	506	1,807	357.1%	1.8%	0.8%
Goodwill impairment	338	—	338	100.0%	0.3%	—%
Total operating expenses	$ 32,688	$ 15,135	17,553	116.0%	26.1%	24.9%

Marketing and sales expenses increased $5.3 million, or 112.0%, compared to the prior year, primarily as a result of the acquisition of DMS Health. Marketing and sales expenses as a percentage of total revenues were 8.0% and 7.8% for the years ended December 31, 2016 and 2015, respectively.

General and administrative expenses increased of $10.1 million, or 102.1%, compared to the prior year, primarily as a result of the acquisition of DMS Health, as well as an increase in legal and professional fees related to the acquisition and integration of DMS Health, and to a lesser extent, an increase in stock-based compensation and higher professional fees due to the impact of DMS Health. During the year ended December 31, 2016, we incurred acquisition and integration related costs of $1.9 million, compared to $1.3 million during the prior year. General and administrative expenses were 15.9% of total revenue for the year ended December 31, 2016 compared to 16.3% for the prior year.

The amortization of intangible assets resulted in $2.3 million of expenses for the year ended December 31, 2016, an increase of $1.8 million or 357.1%, compared to the prior year, primarily as the result of intangibles acquired as part of the acquisition of DMS Health.

During the year ended December 31, 2016, we recognized a $0.3 million goodwill impairment charge related to our Telerhythmics cardiac monitoring business.

Other (Expense) Income

Total other expense is summarized as follows:

(in thousands)	Year Ended December 31, 2016	2015
Other income (expense), net	$ 212	$ (233)
Interest expense, net	(1,412)	(24)
Total other expense	$ (1,200)	$ (257)

Other income, net was $0.2 million for the year ended December 31, 2016 compared to Other expense of $0.2 million in the prior year. The increase was due to a $0.6 million favorable settlement of a pre-acquisition litigation matter during the fourth quarter of 2016, partially offset by an increase of $0.2 million of impairment losses on our investment in Perma-Fix Medical, S.A. compared to the prior year.

Interest expense, net was $1.4 million for the year ended December 31, 2016, an increase of $1.4 million compared to the prior year, due interest and amortization of debt issuance costs related to our Credit Facility entered into on January 1, 2016.

Income Tax Benefit

Income tax benefit was $12.4 million for the year ended December 31, 2016, a decrease of $6.7 million compared to the prior year. During the year ended December 31, 2015, we concluded that it was more likely than not that a portion of our deferred tax assets would be realized through future taxable income. This conclusion was based on our restructuring efforts in 2013 and 2014 and resulting sustained profitability for the second half of 2013, 2014, and 2015, as well as our projections of positive future earnings and other key operating factors. As of September 30, 2015, we had generated cumulative pretax income over the preceding twelve quarter period, and therefore the objective negative evidence of a history of operating losses was no longer present. The partial release of the valuation allowance associated with our deferred tax assets was the primary driver of the income tax benefit of $19.1 million for the year ended December 31, 2015. During the year ended December 31, 2016, as a result of the acquisition of DMS Health on January 1, 2016, we determined that it is more likely than not that additional deferred tax assets will be realized

due to the increases in our forecasted taxable income. The partial release of the valuation allowance associated with our deferred tax assets was the primary driver of the income tax benefit of $12.4 million for the year ended December 31, 2016.

Liquidity and Capital Resources

Overview

We generated $6.2 million of positive cash flow from operations during the year ended December 31, 2017. 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, as well as acquisitions. 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, 2017, we had $1.9 million of cash and cash equivalents, as well as $5.4 million available under our revolving line of credit. We expect in future periods to utilize most of our available cash to reduce our outstanding balances under our Comerica Credit Agreement in order to minimize interest expense. We also have available a shelf registration statement that provides us with increased capital flexibility to pursue corporate objectives by allowing us to offer and sell up to $20.0 million of securities.

We require capital principally for capital expenditures, acquisition activity, dividend payments, 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.

Cash Flows

The following table shows cash flow information for the years ended December 31, 2017, 2016, and 2015 (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Net cash provided by operating activities	$ 6,185	$ 10,834	$ 3,720
Net cash (used in) provided by investing activities	$ (1,465)	$ (29,111)	$ 2,199
Net cash (used in) provided by financing activities	$ (5,046)	$ 4,612	$ (4,102)

Operating Activities

Net cash provided by operating activities decreased by $4.6 million for the year ended December 31, 2017 compared to the prior year. The decrease in cash compared to the prior year period was primarily due to lower net income adjusted for non-cash items as a result of reduced revenues, partially offset by favorable working capital changes, primarily due to decreases in inventory and increases in accrued compensation.

Net cash provided by operating activities increased by $7.1 million for the year ended December 31, 2016 compared to the prior year. The increase is attributable to higher net income adjusted for non-cash items, partially offset by slightly unfavorable changes in working capital, primarily due to decreases in accrued compensation and deferred revenue compared to the prior year.

Investing Activities

Net cash used in investing activities decreased by $27.6 million for the year ended December 31, 2017 compared to the prior year. The decrease in cash used in investing activities compared to the prior year period was primarily attributable to the outlay of $25.5 million of cash to acquire DMS Health in the prior year, a decrease of $3.7 million in purchases of capital equipment, partially offset by a decrease of $1.4 million in cash provided by maturities of available-for-sale securities.

Net cash provided by investing activities increased by $31.3 million for the year ended December 31, 2016 compared to net cash used in the prior year. The increase in cash used in investment activities was primarily attributable to the outlay of $25.5 million of cash to acquire DMS Health, as well as an increase of $4.8 million in purchases of capital equipment compared to the prior year. See Note 3 to the accompanying consolidated financial statements for further information related to the acquisition of DMS Health.

Financing Activities

Net cash provided by financing activities decreased by $9.7 million for the year ended December 31, 2017 compared to the prior year. The decrease was primarily due to a decrease of $14.7 million in net principal borrowings as a result of initial borrowings received in the prior year for the acquisition of DMS Health Technologies and a decrease of $0.8 million in cash provided by option exercises; partially offset by a $6.2 million increase due to the release of restricted cash collateral balances as a result of the termination of our former credit facility under the Wells Fargo Credit Agreement.

Net cash provided by financing activities increased by $8.7 million for the year ended December 31, 2016 compared to net cash used in the prior year. The increase in cash provided by financing activities was primarily attributable to proceeds under our Credit Facility, net of issuance costs, consisting of initial proceeds received of $32.8 million used to finance the acquisition of DMS Health, and $3.7 million of borrowings during the year from our revolving credit facility, partially offset by $24.8 million of repayments of long-term borrowings (including approximately $9.4 million for the repayment of outstanding debt acquired in the DMS Health acquisition), as well as an increase of restricted cash of $3.1 million associated with the maintenance of cash collateral requirements under the former Wells Fargo Credit Agreement.

Capital Resources

Comerica Revolving Credit Facility

On June 21, 2017, the Company entered into a Revolving Credit Agreement (the "Comerica Credit Agreement") with Comerica Bank, a Texas banking association ("Comerica"). The Comerica Credit Agreement provides for a five-year revolving credit facility with a maximum credit amount of $25.0 million maturing in June 2022 (the "Comerica Credit Facility"). As described below, on January 30, 2018 we entered into an amendment to the Comerica Credit Agreement, that, among other things, reduced maximum credit amount under the Comerica Credit Agreement to $20.0 million. The Company's subsidiaries are guarantors under the Comerica Credit Agreement. Under the Comerica Credit Agreement, the Company can request the issuance of letters of credit in an aggregate amount not to exceed $1.0 million at any one time. As of December 31, 2017, we had outstanding borrowings under the Comerica Credit Agreement of $19.5 million at a weighted average interest rate of 3.90%.

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 borrowing availability under the Comerica Credit Agreement at December 31, 2017 was $5.4 million.

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. These restrictions do not prevent or prohibit the payment of dividends by the Company consistent with past practice. 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.

In connection with the Philips Transaction in which we sold our post-warranty service customer contracts to Philips, the Company entered into an Amendment No. 1 to the Comerica Credit Agreement, dated January 30, 2018. The Amendment to the Comerica Credit Agreement reduced the revolving credit commitment from $25.0 million to $20.0 million and modified the

definitions of "Adjusted EBITDA," "FCCR Capital Expenditures" and "Revolving Credit Commitment" as used under the Comerica Credit Agreement. The Company will use the proceeds of $8.0 million in cash (subject to certain adjustments) received from the Philips Transaction to pay down its outstanding borrowings under the Comerica Credit Facility. See further discussion under "Business Segments" above.

At December 31, 2017, the Company was in compliance with all covenants.

Off-Balance Sheet Arrangements

As of December 31, 2017, we did not have any off-balance sheet arrangements.

Contractual Obligations

The following table provides a summary of certain information concerning our obligations and commitments to make future payments, and is based on conditions in existence as of December 31, 2017 (amounts in thousands):

	Payments Due by Period [1]				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Long-term debt	$ 19,500	—	$ —	$ 19,500	$ —
Interest on long-term debt [1]	3,451	771	1,545	1,135	—
Operating lease obligations	4,277	1,873	1,963	441	—
Capital lease obligations [2]	2,957	915	1,361	681	—
Purchase obligations [3]	4,876	2,997	1,879	—	
Total Contractual Obligations	$ 35,061	$ 6,556	$ 6,748	$ 21,757	$ —

[1] Interest on variable rate debt was estimated using rates in effect as of December 31, 2017.

[2] Capital lease obligations include related interest obligations.

[3] Amounts include noncancellable service agreements to maintain portions of the fleet of imaging machines in our Mobile Healthcare segment and inventory purchase commitments in our Diagnostic Imaging segment.

In the schedule of estimated future payments related to our contractual obligations, we excluded unrecognized tax benefits due to the uncertainty of the amount and the period of payment. As of December 31, 2017, we had unrecognized tax benefits of approximately $3.9 million.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is subject to interest rate volatility with regard to existing and future issuances of debt. Borrowings under the Company's Credit Facility bear interest at floating rates plus an applicable margin, based on LIBOR or prime rate. Accordingly, we are exposed to market risk for fluctuations in interest rates. As of December 31, 2017, we had outstanding borrowings under the Comerica Credit Agreement of $19.5 million.

Based on outstanding borrowings as of December 31, 2017, the effect of a 100 basis point change in current interest rates on annualized interest expense would be approximately $0.2 million.

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, 2017 and 2016, the related consolidated statements of operations and comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2017, 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, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017**,** in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report dated February 28, 2018 expressed an unqualified opinion thereon.

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 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.

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

February 28, 2018

DIGIRAD CORPORATION

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

	Year ended December 31,		
	2017	2016	2015
Revenues:			
Services	$ 91,865	$ 95,511	$ 46,407
Product and product-related	26,474	29,956	14,419
Total revenues	118,339	125,467	60,826
Cost of revenues:			
Services	75,833	75,515	35,968
Product and product-related	14,104	14,179	6,949
Total cost of revenues	89,937	89,694	42,917
Gross profit	28,402	35,773	17,909
Operating expenses:			
Marketing and sales	9,154	10,049	4,741
General and administrative	19,360	19,988	9,888
Amortization of intangible assets	3,161	2,313	506
Goodwill impairment	2,746	338	—
Total operating expenses	34,421	32,688	15,135
(Loss) income from operations	(6,019)	3,085	2,774
Other (expense) income:			
Other (expense) income, net	(311)	212	(233)
Interest expense, net	(1,068)	(1,412)	(24)
Loss on extinguishment of debt	(709)	—	—
Total other expense	(2,088)	(1,200)	(257)
(Loss) income before income taxes	(8,107)	1,885	2,517
Income tax (expense) benefit	(27,623)	12,417	19,123
Net (loss) income	$ (35,730)	$ 14,302	$ 21,640
Net (loss) income per share:			
Basic	$ (1.79)	$ 0.73	$ 1.13
Diluted	$ (1.79)	$ 0.71	$ 1.10
Dividends declared per common share	$ 0.21	$ 0.20	$ 0.20
Net (loss) income	$ (35,730)	$ 14,302	$ 21,640
Other comprehensive income (loss):			
Unrealized gain (loss) on marketable securities	17	(42)	(221)
Reclassification of other-than-temporary losses on available-for-sale securities included in net (loss) income	52	230	—
Total other comprehensive income (loss), before tax	69	188	(221)
Provision for income taxes	(22)	—	—
Total other comprehensive income (loss), after tax	47	188	(221)
Comprehensive (loss) income	$ (35,683)	$ 14,490	$ 21,419

See accompanying notes to consolidated financial statements.

DIGIRAD CORPORATION

CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	December 31,	
	2017	2016
Assets:		
Current assets:		
Cash and cash equivalents	$ 1,877	$ 2,203
Securities available-for-sale	97	917
Accounts receivable, net	15,887	14,503
Inventories, net	5,501	5,987
Restricted cash	242	1,376
Other current assets	1,972	2,093
Total current assets	25,576	27,079
Property and equipment, net	28,365	31,407
Intangible assets, net	8,467	11,628
Goodwill	3,491	6,237
Deferred tax assets	—	27,019
Restricted cash	101	2,100
Other assets	703	793
Total assets	$ 66,703	$ 106,263
Liabilities:		
Current liabilities:		
Accounts payable	$ 5,207	$ 6,514
Accrued compensation	5,507	3,962
Accrued warranty	204	196
Deferred revenue	3,137	3,123
Current portion of long-term debt	—	5,358
Other current liabilities	2,915	3,520
Total current liabilities	16,970	22,673
Long-term debt, net of current portion	19,500	16,070
Deferred tax liabilities	254	—
Other liabilities	2,180	1,039
Total liabilities	38,904	39,782
Commitments and contingencies (Note 8)		
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; 20,060,311 and 19,892,557 shares issued and outstanding (net of treasury shares) at December 31, 2017 and 2016, respectively	2	2
Treasury stock, at cost; 2,588,484 shares at December 31, 2017 and 2016	(5,728)	(5,728)
Additional paid-in capital	148,163	151,696
Accumulated other comprehensive loss	(5)	(52)
Accumulated deficit	(114,633)	(79,437)
Total stockholders' equity	27,799	66,481
Total liabilities and stockholders' equity	$ 66,703	$ 106,263

See accompanying notes to consolidated financial statements.

DIGIRAD CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year ended December 31,		
	2017	2016	2015
Operating activities			
Net (loss) income	$ (35,730)	$ 14,302	$ 21,640
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	7,903	7,576	1,935
Amortization of intangible assets	3,161	2,313	506
Provision for bad debts, net of recoveries	174	542	266
Goodwill impairment	2,746	338	—
Stock-based compensation	852	1,024	616
Amortization of loan fees	177	368	—
Loss on extinguishment of debt	709	—	—
(Gain) loss on sale of assets	(66)	(83)	67
Impairment of investment	311	413	233
Amortization of premium on investments	—	30	115
Deferred income taxes	27,530	(12,479)	(18,599)
Other, net	(160)	—	—
Changes in operating assets and liabilities:			
Accounts receivable	(1,567)	(1,144)	(1,246)
Inventories	409	(1,349)	(811)
Other assets	(14)	1,384	197
Accounts payable	(1,244)	439	(203)
Accrued compensation	1,545	(1,100)	(889)
Deferred revenue	6	(347)	29
Other liabilities	(673)	(1,393)	(380)
Restricted cash	116	—	244
Net cash provided by operating activities	6,185	10,834	3,720
Investing activities			
Purchases of property and equipment	(2,531)	(6,185)	(1,424)
Proceeds from sale of property and equipment	167	266	18
Purchases of securities available-for-sale	(18)	—	—
Maturities of securities available-for-sale	917	2,290	4,602
Investment in stock	—	—	(1,000)
Cash paid for acquisitions, net of cash acquired	—	(25,482)	3
Net cash (used in) provided by investing activities	(1,465)	(29,111)	2,199
Financing activities			
Proceeds from long-term borrowings	37,569	37,007	—
Repayment of long term debt	(40,032)	(24,794)	—
Change in restricted cash	3,017	(3,143)	—
Loan issuance costs	(271)	(504)	(300)
Dividends paid	(4,195)	(3,913)	(3,833)
Issuance of common stock	5	822	624
Taxes paid related to net share settlement of equity awards	(195)	(97)	—
Cash paid for contingent consideration for acquisitions	(27)	(27)	—
Repayment of obligations under capital leases	(917)	(739)	(593)
Net cash (used in) provided by financing activities	(5,046)	4,612	(4,102)
Net (decrease) increase in cash and cash equivalents	(326)	(13,665)	1,817
Cash and cash equivalents at beginning of year	2,203	15,868	14,051
Cash and cash equivalents at end of year	$ 1,877	$ 2,203	$ 15,868
Supplemental Information			

Cash paid during the period for interest	$ 856	$ 936	$ —
Cash paid during the period for income taxes	$ 127	$ 286	$ 62
Non-Cash Investing Activities			
Assets acquired by entering into capital lease	$ 2,422	$ 329	$ 1,393
Issuances of common stock for acquisitions	$ —	$ —	$ 2,684

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, 2014	18,616	$ 2	$ (5,728)	$ 153,769	$ (19)	$ (115,379)	$ 32,645
Stock-based compensation	—	—	—	616	—	—	616
Issuances of common stock for acquisition	610	—	—	2,684	—	—	2,684
Shares issued under stock incentive plans	190	—	—	624	—	—	624
Dividends paid	—	—	—	(3,833)	—	—	(3,833)
Net income	—	—	—	—	—	21,640	21,640
Unrealized loss on securities available-for-sale	—	—	—	—	(221)	—	(221)
Balance at December 31, 2015	19,416	2	(5,728)	153,860	(240)	(93,739)	54,155
Stock-based compensation	—	—	—	1,024	—	—	1,024
Issuances of common stock for acquisition	—	—	—	—	—	—	—
Shares issued under stock incentive plans	476	—	—	725	—	—	725
Dividends paid	—	—	—	(3,913)	—	—	(3,913)
Net income	—	—	—	—	—	14,302	14,302
Unrealized loss on securities available-for-sale	—	—	—	—	(42)	—	(42)
Reclassification of other-than-temporary losses on available-for-sale securities included in net income	—	—	—	—	230	—	230
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 income	—	—	—	—	—	(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

See accompanying notes to consolidated financial statements.

NOTE 1. The Company

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 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.

On January 1, 2016, we acquired Project Rendezvous Holding Corporation, the holding company of DMS Health Technologies. DMS Health Technologies ("DMS Health") offers mobile diagnostic imaging across multiple imaging modalities, including Positron Emission Tomography ("PET"), Computed Tomography ("CT"), Magnetic Resonance Imaging ("MRI") as well as other imaging and healthcare services. These services are provided to regional and rural hospitals and institutions throughout the United States. In addition, DMS Health, through an exclusive relationship with Philips Healthcare which was terminated effective December 31, 2017, provided contract sales and services on Philips' imaging and patient monitoring equipment within a defined region of the upper Midwest region of the United States.

With the acquisition of DMS Health, we operate in four reportable segments: Diagnostic Services, Diagnostic Imaging, Mobile Healthcare, and Medical Device Sales and Services ("MDSS"). These four reportable segments are collectively referred to herein as the "Company." See Note 13 to the consolidated financial statements for more information related to the Company's segments.

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.

The financial results for the years ended December 31, 2017 and 2016 include the financial results of DMS Health. See Note 3 to the consolidated financial statements for more information related to the acquisition of DMS Health.

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 recognize 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 and collection is reasonably assured.

We also offer remote cardiac event monitoring services within our Diagnostic Services reportable segment, through our Telerhythmics business. Our cardiac event monitoring services are provided primarily through an independent diagnostic testing

facility model which allows us to bill Medicare, Medicaid, or one of the third-party healthcare insurers directly for services provided. We also receive reimbursement directly from patients through co-pays and self-pay arrangements. Billings for services reimbursed by third-party payors, including Medicare and Medicaid, are recorded as revenue net of contractual allowances. Contractual allowances are estimated based on historical collections by Current Procedural Terminology ("CPT") code for specific payors or class of payors. Adjustments to the estimated receipts, based on final settlement with the third party payors, are recorded upon settlement.

Product and Product-Related Revenue Recognition. We generate revenue from product and product-related sales, primarily from the sale of gamma cameras and Phillips medical equipment and supplies, and related services, which consist primarily of support and maintenance services on products we sell directly or through our relationship with Philips.

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 and collection is reasonably assured. Neither installation nor training is essential to the functionality of the product. Finally, we offer camera maintenance service contracts which 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.

Medical Device Sales and Service product revenues are derived from equipment sales and warranty and post-warranty service efforts, under our exclusive contract with Philips Healthcare which was terminated effective December 31, 2017. Revenue from equipment sales primarily consists of commission income, which represents the commission the Company earns for selling Philips equipment and supplies to end users, and is reported on a net basis upon delivery. Revenue related to warranty and service contracts that extend over multiple months is accounted for on the proportional-performance method, which the Company deems to be on a straight-line basis. Finally, revenue related to time-and-materials service contracts is recognized in the month services are performed and collection is reasonably assured.

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, contingent consideration, 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.

Securities Available-for-Sale

As of December 31, 2017, securities available-for-sale consist of investments in equity securities that are publicly traded. These investments include shares held in Birner Dental Management Services ("Birner Dental"), a publicly traded company whose board of directors include a current Director of the Company. We classify all debt securities and a portion of equity securities as available-for-sale and as current assets, as the sale of such securities may be required prior to maturity to execute management strategies. One of our equity securities, Perma-Fix Medical S.A. ("Perma-Fix Medical"), is classified as an other asset (non-current), as the investment is strategic in nature and our current intent is to hold the investment over a several year period. Securities available-for-sale are carried at fair value, with the unrealized gains and losses reported as a component of accumulated other comprehensive loss in stockholders' equity until realized. Realized gains and losses from the sale of available-for-sale securities, if any, are determined on a specific identification basis.

A decline in the market value of any available-for-sale security below cost that is determined to be other than temporary will result in an impairment charge to earnings and a new cost basis for the security is established. We review various factors in making this determination, including the duration and severity of the decline in relation to our cost basis. During the years ended December 31, 2017, 2016, and 2015 the Company recognized other-than-temporary impairment charges of $0.3 million, $0.4 million, and $0.2 million, respectively.

The following table sets forth the composition of securities available-for-sale as of December 31, 2017 and 2016 (in thousands):

As of December 31, 2017	Maturity in Years	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Corporate debt securities	Less than 1 year	$ —	$ —	$ —	$ —
Corporate debt securities	1-3 years	—	—	—	—
Equity securities	-	191	17	—	208
		$ 191	$ 17	$ —	$ 208

As of December 31, 2016	Maturity in Years	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Corporate debt securities	Less than 1 year	$ 917	$ —	$ —	$ 917
Corporate debt securities	1-3 years	—	—	—	—
Equity securities	-	$ 308	$ —	$ (53)	$ 255
		$ 1,225	$ —	$ (53)	$ 1,172

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 is based on our historical experience rate and billing adjustments history. The provision for billing adjustments is charged against Diagnostic Services revenues.

Our cardiac event monitoring services are provided primarily through an independent diagnostic testing facility model which allows us to bill Medicare, Medicaid, or one of the third-party healthcare insurers directly for services provided. Accounts receivable related to cardiac event monitoring are recorded at the time revenue is recognized, net of contractual allowances. Contractual allowances are estimated based on historical collections by Current Procedural Terminology (“CPT”) code for specific payors, or class of payors. A provision for contractual allowances is charged against 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, 2017, 2016, and 2015 (in thousands):

	Allowance for Doubtful Accounts [1]	Reserve for Billing Adjustments [2]	Reserve for Contractual Allowances [2]
Balance at December 31, 2014	$ 264	$ 7	$ 707
Provision adjustment	483	105	22,256
Write-offs and recoveries, net	(303)	(102)	(22,373)
Balance at December 31, 2015	444	10	590
Provision adjustment	740	182	24,280
Write-offs and recoveries, net	(653)	(179)	(24,355)
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

(1) The provision was charged against general and administrative expenses.
(2) The provision was charged against Services revenue.

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, 2017, 2016, and 2015 (in thousands):

	Reserve for Excess and Obsolete Inventories [1]
Balance at December 31, 2014	$ 1,913
Provision adjustment	(967)
Write-offs and scrap	(227)
Balance at December 31, 2015	719
Provision adjustment	(199)
Write-offs and scrap	(104)
Balance at December 31, 2016	416
Provision adjustment	81
Write-offs and scrap	(44)
Balance at December 31, 2017	$ 453

(1) The provision was charged against Product and product-related cost of revenues.

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, 2017, 2016 and 2015. During the year ended December 31, 2015, an impairment loss of $0.1 million was recorded related to the excess of the carrying amount above fair value of certain assets held for sale. No impairment losses were recorded on long-lived assets held for sale during the years ended December 31, 2017, or 2016, respectively.

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 step one of the two-step impairment analysis by quantitatively comparing the fair value of the reporting unit to the carrying value of the reporting unit, including goodwill. If the carrying value of the reporting unit's net assets exceeds the fair value of the reporting unit, then we must perform the second step of the impairment test, whereby the carrying value of the reporting unit's goodwill is compared to its implied fair value. If the carrying value of the goodwill exceeds the implied fair value, an impairment loss equal to the difference would be recorded.

The Company recorded an impairment loss 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 an impairment loss of $0.2 million and $0.3 million during the years ended December 31, 2017 and 2016, respectively, associated with the impairment assessment of the Telerhythmics reporting unit. No goodwill impairment losses were recorded December 31, 2015. See Note 6 to the consolidated financial statements for further information.

Self-Insured Health Insurance Benefits

Effective January 1, 2017, the Company provided health care 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 health care 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, 2017, the reserve for estimated claims incurred and unpaid was $1.0 million.

Restricted Cash

We maintain certain cash amounts restricted as to withdrawal or use. As of December 31, 2017, current and noncurrent 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. As of December 31, 2016, current and noncurrent restricted cash was $3.5 million, which included $3.1 million held as cash collateral under our former Wells Fargo Credit Facility, terminated effective June 21, 2017 (See Note 7).

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, 2017, 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 7 to the consolidated financial statements.

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 $0.9 million, $0.9 million, and $0.6 million, for the years ended December 31, 2017, 2016, and 2015, 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 estimated 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, 2017, 2016, and 2015 are as follows (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Balance at beginning of year	$ 196	$ 213	$ 176
Charges to cost of revenues	351	326	331
Applied to liability	(343)	(343)	(294)
Balance at end of year	$ 204	$ 196	$ 213

Advertising Costs

Advertising costs are expensed as incurred. Total advertising costs for each of the years ended December 31, 2017, 2016, and 2015 were $0.3 million, $0.3 million, and $0.3 million, respectively.

Basic and Diluted Net (Loss) Income 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. Shares used to compute basic net (loss) income per share include 5,499, and 10,240 vested restricted stock units for the years ended December 31, 2017, and 2016, respectively. There were no restricted stock units included in the shares used to compute basic net income per share for the year ended December 31, 2015.

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,		
	2017	2016	2015
Net (loss) income	$ (35,730)	$ 14,302	$ 21,640
Shares used to compute basic net (loss) income per share	19,995	19,594	19,210
Dilutive potential common shares:			
Stock options	—	398	449
Restricted stock units	—	75	31
Shares used to compute diluted net (loss) income per share	19,995	20,067	19,690
Basic net (loss) income per share	$ (1.79)	$ 0.73	$ 1.13
Diluted net (loss) income per share	$ (1.79)	$ 0.71	$ 1.10

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 (loss) income per share because their effect was antidilutive:

	Year Ended December 31,		
(shares in thousands)	2017	2016	2015
Stock options	220	16	1
Restricted stock units	33	—	—
Total	253	16	1

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. Comprehensive loss includes unrealized losses on our marketable securities.

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.

During the year ended December 31, 2015, we concluded that it was more likely than not that a portion of our deferred tax assets would be realized through future taxable income. This conclusion was based on our restructuring efforts in 2013 and 2014 and resulting sustained profitability for the second half of 2013, 2014, and 2015, as well as our projections of positive future earnings and other key operating factors. As of September 30, 2015, we had generated cumulative pretax income over the preceding twelve quarter period, and therefore the objective negative evidence of a history of operating losses was no longer present. The partial release of the valuation allowance associated with our deferred tax assets was the primary driver of the income tax benefit of $19.1 million for the year ended December 31, 2015. During the year ended December 31, 2016, as a result of the acquisition of DMS Health on January 1, 2016, we determined that it is more likely than not that additional deferred tax assets will be realized due to the increases in our forecasted taxable income. The partial release of the valuation allowance associated with our deferred tax assets was the primary driver of the income tax benefit of $12.4 million for the year ended December 31, 2016. During the year ended 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. A significant piece of objective negative evidence evaluated as of December 31, 2017, was the cumulative pretax loss incurred over the three-year period ended December 31, 2017. The increase of the valuation allowance associated with our deferred tax assets resulted in $18.1 million of income tax expense for the year ended December 31, 2017.

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 de-recognition, 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.

Acquisitions

The assets acquired and liabilities assumed in a business combination, including identifiable intangible assets and contingent consideration, are recorded at their estimated fair values as of the acquisition date. The excess of the purchase price over the estimated fair value of the identifiable net assets acquired is recorded as goodwill. We base the fair values of identifiable intangible assets on detailed valuations that require management to make significant judgments, estimates and assumptions. Contingent purchase considerations to be settled in cash are remeasured to estimated fair value at each reporting period with the change in

fair value recorded in general and administrative expense, a component of operating expenses. See Note 3 to the consolidated financial statements for further information regarding our acquisitions.

Recently Adopted Accounting Standards

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) 2016-09, Improvements to Employee Share-Based Payment Accounting, which simplifies the accounting for employee share-based payments. The new standard requires the immediate recognition of all excess tax benefits and deficiencies in the income statement, and requires classification of excess tax benefits as an operating activity as opposed to a financing activity in the statements of cash flows. This guidance will be applied either prospectively, retrospectively, or using a modified retrospective transition method, depending on the area covered in this update. We adopted this guidance during the first quarter of 2017. The primary impact of this guidance is the requirement to recognize all excess tax benefits and deficiencies on share-based payments in income tax expense. Upon the adoption of this requirement on a modified-retrospective basis, the previously unrecognized excess tax benefits on share-based compensation of $0.5 million were recorded through accumulated deficit and deferred tax assets as of January 1, 2017.

Recently Issued Accounting Standards

In January 2017, the Financial Accounting Standards Board ("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. The amendment requires an entity to perform its annual, or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendment should be applied on a prospective basis. The pronouncement is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We are currently evaluating the impact that implementation of this guidance will have on our financial statements.

In November 2016, the FASB issued 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. The pronouncement is effective for fiscal years beginning after December 15, 2017, and for interim periods within those periods, using a retrospective transition method to each period presented. Upon adoption, our consolidated statement of cash flows will present our restricted cash balance as part of cash and cash equivalents.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments,* related to the classification of certain cash receipts and cash payments on the statement of cash flows. The pronouncement provides clarification guidance on eight specific cash flow presentation issues that have developed due to diversity in practice. The issues include, but are not limited to, debt prepayment or extinguishment costs, settlement of zero-coupon debt, proceeds from the settlement of insurance claims, and cash receipts from payments on beneficial interests in securitization transactions. The pronouncement is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. We do not expect the impact on our consolidated financial statements to be material.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842),* which amended the existing accounting standards for the accounting for leases. The amendments are based on the principle that assets and liabilities arising from leases should be recognized within the financial statements. The Company is required to adopt the amendments beginning in 2019. Early adoption is permitted. The amendments must be applied using a modified retrospective transition approach and the FASB decided not to permit a full retrospective transition approach. We currently expect that most of our operating lease commitments will be subject to the update and recognized as operating lease liabilities and right-of-use assets upon adoption. However, we are currently evaluating the effect that implementation of this update will have upon adoption on our consolidated financial position and results of operations.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10),* 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. The new standard is effective prospectively for fiscal years beginning after December 15, 2017. We do not expect the impact on our consolidated financial statements to be material.

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 which supersedes current revenue recognition guidance, including most industry-specific guidance. The guidance provides that an entity recognize revenue

when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. The new standard is principle based and interpretation of those principles may vary from company to company based on their unique circumstances. It is possible that interpretation, industry practice, and guidance may evolve as companies and the accounting profession work to implement this new standard. The guidance allows for either full retrospective or modified retrospective adoption and becomes effective for the Company in the first quarter of 2018.

We will adopt this guidance under the modified retrospective method. Our analysis has consisted of reviewing the nature and terms of our existing contracts under the provisions of the new guidance and assessing any operational changes and process updates required for compliance. As of December 31, 2017, we do not expect the adoption of the amended guidance to have a material impact on the amount of reported revenue with respect to our product and product-related and service revenues. Under ASC 606, certain insignificant amounts previously presented as provision for doubtful accounts within our Telerhythmics cardiac monitoring business will be considered as implicit price concessions and will be recorded as a direct reduction of revenues. In addition, the new guidance will require expanded disclosures related to disaggregated revenue, contract balances and performance obligations.

While substantially complete, the Company is still in the process of finalizing its evaluation of the effect of the new standard on our financial statements and disclosures. The Company will finalize its accounting assessment and quantitative impact of the adoption of the new standard during the first quarter of fiscal year 2018.

NOTE 3. Acquisitions

On January 1, 2016, pursuant to the Stock Purchase Agreement, dated as of October 13, 2015 and as amended on December 31, 2015 and June 7, 2016 (the "Purchase Agreement"), we completed the acquisition of all issued and outstanding stock of 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 Technologies offers mobile diagnostic imaging across multiple imaging modalities as well as other imaging and healthcare services. These services are provided to regional and rural hospitals and institutions throughout the United States. In addition, DMS Health, through an exclusive relationship with Philips Healthcare, sells and services Philips' imaging and patient monitoring equipment within a defined region of the upper Midwest region of the United States.

The preliminary aggregate purchase price paid at closing was approximately $32.9 million, which included adjustments for pre-existing debt, cash and preliminary working capital adjustments. In June 2016, we agreed on the final working capital adjustment as outlined in the Purchase Agreement. As a result of the settlement, we received proceeds of $0.6 million which was recorded as a reduction to goodwill in the second quarter of 2016. The adjusted purchase price after settlement of the working capital adjustment was $32.3 million as of December 31, 2016, which consisted of the following:

(in thousands)		
Cash paid to DMS Health stockholders	$	31,368
Cash paid in settlement of share-based compensation awards		1,556
Working capital settlement		(600)
Total purchase price		32,324
Less: cash and cash equivalents acquired		(6,842)
Total purchase price, net of cash acquired	$	25,482

Under the terms of the Purchase Agreement, the Company paid $1.6 million to settle DMS Health's pre-existing employee stock award plan which included a provision for the acceleration of vesting of awards under certain circumstances in connection with a change in control. The amount paid was associated with pre-combination services and included as a component of the purchase price reflected in the table above.

The acquisition was funded with a combination of cash-on-hand and the financing made available under the credit facility with Wells Fargo Bank, National Association. At closing, we also paid off $9.4 million of long-term debt outstanding on DMS Health's balance sheet, which was recognized separately from the business combination and presented as a financing activity in the statement of cash flows for the year ended December 31, 2016. During the year ended December 31, 2016 and 2015, we incurred transaction and integration related costs of $1.9 million and $1.3 million, respectively, and $3.3 million cumulative. The integration of DMS Health was completed in the fourth quarter of 2016. These costs are classified as general and administrative expenses in the consolidated statements of operations and comprehensive income.

The following table summarizes the allocation of the purchase price to the fair values of the assets acquired and liabilities assumed on the closing date:

(in thousands)	Allocation of Purchase Price
Cash and cash equivalents	$ 6,842
Accounts receivable	6,686
Inventories	324
Income taxes receivable	2,062
Other current and non-current assets	706
Property and equipment	25,999
Intangible assets	10,862
Goodwill	3,678
Accounts payable	(4,514)
Accrued expenses	(2,946)
Payable to former stockholders [1]	(2,062)
Deferred revenue	(1,677)
Debt	(9,350)
Income taxes payable, noncurrent	(949)
Deferred tax liabilities, noncurrent	(3,337)
Total net assets acquired	$ 32,324

[1] Includes amounts payable to former PRHC stockholders related to tax refund receivables under the terms of the Purchase Agreement.

Intangible assets are recorded at estimated fair value, as determined by management based on available information which includes a valuation prepared by an independent third party. The fair values assigned to identifiable intangible assets were determined through the use of the income approach. The major assumptions used in arriving at the estimated identifiable intangible asset values included management's preliminary estimates of future cash flows, discounted at an appropriate rate of return as well as projected customer attrition rates. The useful lives for intangible assets were determined based upon the remaining useful economic lives of the intangible assets that are expected to contribute directly or indirectly to future cash flows.

The goodwill arising from the acquisition relates to the synergies and economies of scale expected from combining the operations of Digirad and DMS Health. The goodwill has been allocated to our Medical Device Sales and Service segment and will not be deductible for federal and state tax reporting purposes.

DMS Health's operating results were included in the Company's consolidated results of operations beginning on January 1, 2016. The following table represents the unaudited pro forma consolidated results of operations for the year ended December 31, 2016 and 2015 as if the acquisition of DMS Health operations had occurred as of January 1, 2015.

	Year Ended December 31, (unaudited)	
(in thousands, except per share data)	2016	2015
Revenues	$ 125,467	$ 128,606
Net income	$ 2,360	$ 24,125
Net income per share:		
Basic	$ 0.12	$ 1.26
Diluted	$ 0.12	$ 1.23

The pro forma information has been adjusted to eliminate acquisition-related costs of $1.9 million and $1.3 million, respectively, during the year ended December 31, 2016 and 2015. The income tax benefit of $13.2 million related to the release of valuation allowance as a result of the DMS Health acquisition has also been excluded to give effect to pro forma results that are expected to have a continuing impact on the combined results; whereas no adjustment was made to the prior year valuation allowance release primarily contributing to the $19.1 million income tax benefit as it was not directly attributable to the acquisition.

The pro forma information for the year ended December 31, 2015 also include primarily adjustments for depreciation related to the fair value of property and equipment acquired, amortization expense related to acquired intangibles, and additional interest expense associated with the Company's financing arrangements relating to this acquisition.

The pro forma supplemental information is for informational purposes only, and is not necessarily indicative of what the combined company's results actually would have been had the acquisition been completed as of the beginning of the periods as indicated. In addition, the pro forma supplemental information does not purport to project the future results of the combined company.

NOTE 4. Supplementary Balance Sheet Information

The following tables show the Company's consolidated balance sheet details as of December 31, 2017 and 2016 (in thousands):

	December 31, 2017	December 31, 2016
Inventories:		
Raw materials	$ 2,331	$ 2,494
Work-in-process	2,094	1,483
Finished goods	1,529	2,426
Total inventories	5,954	6,403
Less reserve for excess and obsolete inventories	(453)	(416)
Total inventories, net	$ 5,501	$ 5,987

	December 31, 2017	December 31, 2016
Property and equipment:		
Land	$ 1,170	$ 1,170
Buildings and leasehold improvements	2,946	2,946
Machinery and equipment	55,152	50,689
Computer hardware and software	4,615	4,486
Total property and equipment	63,883	59,291
Less accumulated depreciation	(35,518)	(27,884)
Total property and equipment, net	$ 28,365	$ 31,407

Depreciation expense for the years ended December 31, 2017, 2016, and 2015 was $7.9 million, $7.6 million, and $1.9 million, respectively.

	December 31, 2017			
	Weighted Average Useful Life (years)	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, Net [1]
Intangible assets with finite useful lives:				
Customer relationships	9.6	$ 10,363	$ (4,976)	$ 5,387
Trademarks	6.3	4,610	(1,633)	2,977
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		$ 17,530	$ (9,063)	$ 8,467

	December 31, 2016			
	Weighted Average Useful Life (years)	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, Net [1]
Intangible assets with finite useful lives:				
Customer relationships	9.5	$ 10,363	$ (4,117)	$ 6,246
Trademarks	6.3	4,610	(891)	3,719
Distribution Agreement	3.3	2,165	(658)	1,507
Patents	15.0	141	(131)	10
Covenants not to compete	5.0	251	(105)	146
Total intangible assets, net		$ 17,530	$ (5,902)	$ 11,628

(1) Amortization expense for intangible assets, net for the year ended December 31, 2017, 2016, and 2015 was $3.2 million, $2.3 million, and $0.5 million respectively. Estimated amortization expense for intangible assets for 2018 is $1.6 million, for 2019 is $1.6 million, for 2020 is $1.5 million, for 2021 is $1.5 million, for 2022 is $0.8 million, and thereafter is $1.5 million.

	December 31, 2017	December 31, 2016
Other current liabilities:		
Professional fees	$ 506	$ 415
Sales and property taxes payable	404	440
Radiopharmaceuticals and consumable medical supplies	187	274
Current portion of capital lease obligation	796	640
Facilities and related costs	153	209
Outside services and consulting	146	300
Payable to former DMS Health stockholders	170	574
Other accrued liabilities	553	668
Total other current liabilities	$ 2,915	$ 3,520

NOTE 5. 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 as of December 31, 2017 and 2016 (in thousands):

	At Fair Value as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Corporate debt securities	$ —	$ —	$ —	$ —
Equity securities	97	111	—	208
Total	$ 97	$ 111	$ —	$ 208
Liabilities:				
Acquisition related contingent consideration	$ —	$ —	$ —	$ —

	At Fair Value as of December 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets:				
Corporate debt securities	$ —	$ 917	$ —	$ 917
Equity securities	—	255	—	255
Total	$ —	$ 1,172	$ —	$ 1,172
Liabilities:				
Acquisition related contingent consideration	$ —	$ —	$ 84	$ 84

The fair value of our corporate debt securities is determined using proprietary valuation models and analytical tools. These valuation models and analytical tools use market pricing or prices for similar instruments that are both objective and publicly available, including matrix pricing or reported trades, benchmark yields, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, and/or offers. We did not reclassify any investments between levels in the fair value hierarchy during the twelve months ended December 31, 2017.

The investment in equity securities consists of common stock of publicly traded companies. The fair value of these securities is based on the closing prices observed on December 31, 2017.

We reassess the fair value of the contingent consideration to be settled in cash related to our acquisitions using the income approach, which is a Level 3 measurement. As of December 31, 2017, the remaining contingent consideration that was valued was related to our acquisition of MD Office Solutions ("MD Office") on March 5, 2015, which included an earn-out opportunity of up to $0.4 million in cash over approximately three years based on meeting certain earnings before interest, taxes, depreciation, and amortization ("EBITDA") milestones. The milestones for the year ended December 31, 2017 were not met and the earn-out period has now expired. No contingent consideration was earned for Telerhythmics from the closing date of March 13, 2014 through December 31, 2016, at which point the earn-out period expired.

Changes in the estimated fair value of contingent consideration liabilities (Level 3 measurement) from December 31, 2015 to December 31, 2017 are as follows (in thousands):

	Telerhythmics Contingent Consideration	MD Office Solutions Contingent Consideration	Total Contingent Consideration
Balance at December 31, 2015	$ 22	$ 153	$ 175
Contingent consideration payments	—	(27)	(27)
Change in estimated fair value	(22)	(42)	(64)
Balance at December 31, 2016	—	84	84
Contingent consideration payments	—	(27)	(27)
Change in estimated fair value	—	(57)	(57)
Balance at December 31, 2017	$ —	$ —	$ —

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

NOTE 6. Goodwill

The value of our goodwill is primarily derived from the acquisitions of DMS Health in 2016, MD Office in 2015, Telerhythmics in 2014, and Ultrascan in 2007. During the year ended December 31, 2017, reporting units that carried goodwill balances included Digirad Imaging Solutions, Telerhythmics, and Medical Device Sales and Service. The combined Digirad Imaging Solutions and Telerhythmics reporting units make up the Diagnostic Services reportable segment.

Changes in the carrying amount of goodwill from December 31, 2015 to December 31, 2017, by reportable segment, are as follows (in thousands):

	Diagnostic Services	Medical Device Sales and Service	Total
Balance at December 31, 2015	$ 2,897	$ —	$ 2,897
Acquisition of DMS Health	—	3,678	3,678
Impairment of Telerhythmics	(338)	—	(338)
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

During the third quarter of 2017, the Company received notification from Philips Healthcare ("Philips") that our agreement to provide contract sales and services on Philips branded equipment would be terminated, effective December 31, 2017. As a result, the Company reduced its forecasted revenue, gross margin and operating profit within its Medical Device Sales and Services ("MDSS") reporting unit. These factors are considered indicators of potential impairment and as a result, the Company performed an interim goodwill impairment analysis during the third quarter of 2017. In performing the first step of the goodwill impairment assessment, the Company used both an income approach and market approach. The Company concluded that the carrying value of the MDSS reporting unit exceeded its enterprise value and performed the second step of the impairment test in which we allocated the enterprise fair value to the fair value of the reporting unit's net assets. As a result, the Company recorded an impairment loss of $2.6 million associated with the impairment assessment of the MDSS reporting unit during the year ended December 31, 2017.

During the fourth quarter of 2017, the Company concluded that it was more likely than not that the carrying value of the Telerhythmics reporting unit were in excess of their respective values and therefore, updated its estimated fair value of these assets as of that date. This conclusion was based on lower than expected operating results during the year ended December 31, 2017, primarily as a result of lower sales volume and unfavorable mix in our cardiac event monitoring business. In performing the first step of the goodwill impairment assessment, the Company used both an income approach and market approach. The Company concluded that the carrying value of the Telerhythmics reporting unit exceeded its enterprise value and performed the second step of the impairment test in which we allocated the enterprise fair value to the fair value of the reporting unit's net assets. As a result, the Company recorded an impairment loss of $0.2 million associated with the impairment assessment of the Telerhythmics reporting unit during the year ended December 31, 2017.

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. The estimates and judgments described above 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 7. Debt

A summary of long-term debt is as follows:

	December 31, 2017		December 31, 2016	
(in thousands)	Amount	Interest Rate	Amount	Interest Rate
Revolving Credit Facility	$ 19,500	3.90%	$ —	
Term Loan A (terminated June 21, 2017)	—		17,382	3.15%
Term Loan B (terminated June 21, 2017)	—		4,581	5.65%
Revolving Credit Facility (terminated June 21, 2017)	—		—	2.69%
Total borrowings	19,500		21,963	
Less: net unamortized debt issuance cost	—		(535)	
Less: current portion	—		(5,358)	
Long-term portion	$ 19,500		$ 16,070	

On June 21, 2017, the Company entered into a Revolving Credit Agreement (the "Comerica Credit Agreement") with Comerica Bank, a Texas banking association ("Comerica"). The Comerica Credit Agreement provides for a five-year revolving credit facility with a maximum credit amount of $25.0 million maturing in June 2022, upon which a balloon payment on the balance is due. The Company's subsidiaries are guarantors under the Comerica Credit Facility. 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. As of December 31, 2017, the Company had $0.1 million of letters of credit outstanding.

The Company used $22.1 million of the financing made available under the Comerica Credit Facility to repay and terminate, effective June 21, 2017, that 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 as administrative agent (the "Wells Fargo Credit Agreement"). The Wells Fargo Credit Agreement provided for a five-year credit facility with a maximum credit amount of $40.0 million. The Company recognized a $0.7 million loss on extinguishment due to the write off of unamortized deferred financing costs associated with the former credit facility under the Wells Fargo Credit Agreement.

The Company incurred and capitalized $0.2 million of costs in connection with the Comerica Credit Facility, which are being amortized on a straight-line basis to interest expense over the five-year term of the new revolving 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 borrowing availability under the Comerica Credit Agreement at December 31, 2017 was $5.4 million.

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. These restrictions do not prevent or prohibit the payment of dividends by the Company consistent with past practice. 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, 2017, the Company was in compliance with all covenants.

NOTE 8. 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 from January 31, 2018 through July 31, 2022. 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 $4.2 million, $5.8 million, and $1.3 million for the years ended December 31, 2017, 2016 and 2015, respectively.

As of December 31, 2017, 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 August 20, 2022.

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, 2017 are as follows (in thousands):

	Operating Leases	Capital Leases
2018	$ 1,873	$ 915
2019	1,143	728
2020	820	633
2021	364	608
2022	77	73
Thereafter	—	—
Total future minimum lease payments	$ 4,277	2,957
Less amounts representing interest		(267)
Present value of obligations		2,690
Less: current capital lease obligations		(796)
Total long-term capital lease obligations		$ 1,894

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 9. Share-Based Compensation

At December 31, 2017, we have two active equity incentive plans, the 2011 Inducement Stock Incentive Plan (the "2011 Plan") and the 2014 Equity Incentive Award Plan (the "2014 Plan"), (collectively "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 1,856,733 shares of common stock. As of December 31, 2017, the Plans had 437,619 shares available for future issuance. The number of shares reserved for issuance under the 2014 Plan is subject to increase by any shares under the 2004 Equity Incentive Award Plan (the "2004 Plan") that are forfeited, expire, or are canceled. As of December 31, 2017, the number of shares provided for issuance under the 2014 Plan due to forfeited, expired, and canceled shares under the 2004 Plan was 10,248 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. The weighted-average grant date fair value of employee stock options granted during the year ended December 31, 2016 was $1.34 per share, which was estimated using the following weighted-average assumptions. There were no employee stock options granted during the years ended December 31, 2017 and 2015.

	Year Ended December 31,		
	2017	2016	2015
Expected volatility	—%	40%	—%
Expected term (in years)	—	6	—
Risk-free interest rate	—%	1.5%	—%
Expected dividend yield	—%	3.9%	—%

The determination of the fair value of stock options using an option valuation model is affected by our stock price, as well as assumptions regarding a number of complex and subjective variables. The volatility assumption is based on the historical volatility of our common stock over a period of time equal to the expected term of the stock options. The expected term of our stock options is based on historical experience. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield in effect at the time of grant. The expected dividend yield is based on the current annualized dividend rate per share divided by the historical average stock price.

A summary of our stock option award activity as of and for the year ended December 31, 2017 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, 2016	804	$ 2.69		
Options outstanding at December 31, 2016	982	$ 3.01		
Options granted	—	$ —		
Options forfeited	(16)	5.12		
Options expired	(58)	2.28		
Options exercised	(6)	0.70		
Options outstanding at December 31, 2017	902	$ 3.03	3.34	$ 205
Options exercisable at December 31, 2017	824	$ 2.84	2.90	$ 205

As share-based compensation expense under the authoritative guidance for share-based payments is based on awards ultimately expected to vest, it is reduced for estimated forfeitures. The guidance requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

At December 31, 2017, total unrecognized compensation cost related to unvested stock options was $0.1 million, which is expected to be recognized over a weighted-average period of 2.1 years.

Upon exercise, we issue new shares of common stock. Cash received from stock option exercises was $5 thousand during the year ended December 31, 2017, $0.8 million during the year ended December 31, 2016, and $0.6 million for the year ended December 31, 2015. The total intrinsic value of stock options exercised was $12 thousand during the year ended December 31, 2017, $1.1 million during the year ended December 31, 2016, and $0.2 million during the year ended 2015.

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 $4.77, $5.28 and $4.14 per share during the years ended December 31, 2017, 2016, and 2015, respectively.

A summary of our restricted stock unit activity as of and for the year ended December 31, 2017 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, 2016	316	$ 4.97
Granted	375	4.77
Forfeited	(175)	4.92
Vested	(175)	5.06
Non-vested restricted stock units outstanding at December 31, 2017	341	$ 4.73

The following table summarizes information about restricted stock units that vested during the years ended December 31, 2017, 2016, and 2015 based on service conditions (in thousands):

	Year Ended December 31,		
	2017	2016	2015
Fair value on vesting date of vested restricted stock units	$ 798	$ 679	$ —

At December 31, 2017, total unrecognized compensation cost related to non-vested restricted stock units was $1.1 million, which is expected to be recognized over a weighted-average period of 2.34 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, 2017, 2016, and 2015 was allocated as follows (in thousands):

	Year Ended December 31,		
Cost of revenues:	2017	2016	2015
Services	$ 40	$ 27	$ 18
Product and product-related	19	14	47
Marketing and sales	157	237	98
General and administrative	636	746	453
Share-based compensation expense	$ 852	$ 1,024	$ 616

NOTE 10. Income Taxes

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

	Year Ended December 31,		
	2017	2016	2015
Current provision:			
Federal	$ —	$ —	$ —
State	30	18	23
Foreign	63	44	—
Total current provision	93	62	23
Deferred provision (benefit):			
Federal	26,411	(12,630)	(17,347)
State	1,119	151	(1,799)
Foreign	—	—	—
Total deferred provision (benefit)	27,530	(12,479)	(19,146)
Total income tax provision (benefit)	$ 27,623	$ (12,417)	$ (19,123)

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

	Year Ended December 31,		
	2017	2016	2015
Income tax expense (benefit) at statutory federal rate	34.0 %	34.0 %	34.0 %
State income tax expense, net of federal benefit	2.0 %	4.0 %	3.4 %
Permanent differences and other	(0.2)%	4.3 %	4.4 %
Goodwill	(8.3)%	— %	— %
Transaction costs	— %	2.6 %	23.1 %
Withholding costs	(0.8)%	2.2 %	— %
Tax credit	— %	(2.6)%	— %
Impact of 2017 Tax Act	(143.6)%	— %	— %
Change in effective federal and state tax rates	0.4 %	(0.4)%	37.6 %
Expiration of net operating loss and tax credit carryovers	(0.1)%	3.4 %	8.4 %
Stock compensation expense	(1.0)%	— %	— %
Reserve for uncertain tax positions and other reserves	0.6 %	(6.0)%	76.8 %
Change in valuation allowance	(223.7)%	(668.0)%	(947.5)%
Provision (benefit) for income taxes	(340.7)%	(626.5)%	(759.8)%

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

	December 31,	
	2017	2016
Deferred tax assets (liabilities):		
Net operating loss carryforwards	$ 23,399	$ 35,540
Research and development and other credits	44	89
Reserves	567	964
Intangibles	—	—
Other, net	1,231	1,980
Total deferred tax assets	25,241	38,573
Deferred tax liabilities		
Fixed assets and other	(3,489)	(6,221)
Intangibles	(891)	(2,335)
Total deferred tax liabilities	(4,380)	(8,556)
Valuation allowance for deferred tax assets	(21,115)	(2,998)
Net deferred tax (liabilities) assets	$ (254)	$ 27,019

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. A significant piece of objective negative evidence evaluated as of December 31, 2017, was the cumulative pretax loss incurred over the three-year period ended December 31, 2017. Accordingly, additional valuation allowance of $18.1 million was recorded during the year ended December 31, 2017 for a total valuation allowance amount of $21.1 million against 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, 2017, we had federal and state income tax net operating loss carryforwards of $89.2 million and $30.2 million, respectively. Federal loss carryforwards will begin to expire in 2019 unless previously utilized. State loss carryforwards of approximately $0.1 million expired in 2017, and less than $0.1 million is set to expire in 2018, unless previously utilized. We also have federal and California research and other credit carryforwards of approximately $1.8 million and $2.1 million, respectively, as of both December 31, 2017 and 2016. The federal credits will begin to expire in 2018. 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, 2017, 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% which 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,		
	2017	2016	2015
Balance at beginning of year	$ 4,134	$ 3,916	$ 1,553
Increases related to prior year tax positions	—	882	2,363
Settlements with taxing authorities	—	(187)	—
Expiration of the statute of limitations for the assessment of taxes	(198)	(477)	—
Balance at end of year	$ 3,936	$ 4,134	$ 3,916

Included in the unrecognized tax benefits of $3.9 million at December 31, 2017 was $3.5 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 2013; 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, 2017 and 2016, and interest and penalties recognized during the years ended December 31, 2017, 2016, and 2015 were of insignificant amounts.

Tax Cuts and Jobs Act

On December 2, 2017, the U.S. Senate joined the U.S. House of Representatives in passing tax reform legislation. Reconciliation of the provisions in the U.S. House of Representatives bill and the U.S. Senate bill concluded on December 20, 2017. On December 22, 2017, the President signed into law the Tax Cuts and Jobs Act. The impact of the legislation created a tax expense of approximately $11.6 million, 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.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 (“SAB 118”), which provides guidance on accounting for the tax effects of the Tax Act. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company’s accounting for certain income tax effects of the Tax Act is incomplete but it is able to determine a reasonable estimate, it must record and provisional estimate in the financial statements. The Company has recognized 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 and included these amounts in its consolidated financial statements for the year ended December 31, 2017. The ultimate impact may differ from these provisional amounts, possibly materially, due to among other things, changes in interpretations and assumptions the Company has made, additional regulatory guidance that may be issued, and actions the Company may take as a result of the Tax Act.

The Tax Cuts and Jobs Act allows for one hundred percent expensing of the cost of qualified property acquired and place in service after September 27, 2017 and before January 1, 2023. The Company does not plan to take advantage of this provision in the near term and has the option of opting out of this provision. In addition, net operating losses incurred in tax years beginning after December 31, 2017 are only allowed to offset a taxpayer's taxable income by eighty percent, but those net operating losses are allowed to be carried forward indefinitely with no expiration. Also as part of the Tax Cuts and Jobs Act, the Company's net interest expense deductions are limited to 30% of earnings before interest, taxes, depreciation, and amortization through 2021 and of earnings before interest and taxes thereafter. This provision also takes effect for tax years beginning after 2017 and isn't expected to have a material impact to the Company's deferred tax asset position.

The Tax Cuts and Jobs Act also incorporates changes to certain international tax provisions. There is a one-time transition tax on foreign income earned by subsidiaries at a rate of 15.5% for cash and cash equivalents and at a rate of 8% for the remainder of the foreign earnings. There is a provision for the current inclusion in US taxable income of global intangible low-tax income and also the imposition of a tax equal to its base erosion minimum tax amount. The new laws incorporate a potential benefit for foreign derived intangible income, but the benefit only applies if the foreign derived sales and services income exceeds a calculated 'routine return' and if the Company is in taxable income. The Company does not anticipate that any of the foreign provisions will have an impact to the Company's tax accounts.

NOTE 11. Employee Retirement Plan

We have 401(k) retirement plans under which employees may contribute up to 100% of their annual salary, within IRS limits. The Company contributions to the retirement plans totaled $0.4 million, $0.6 million, and $0.2 million for the years ended December 31, 2017, 2016 and 2015, respectively.

NOTE 12. Related Party Transaction

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.

NOTE 13. Segments

On January 1, 2016, we acquired DMS Health. With the acquisition of DMS Health, we now operate the Company in four reportable segments:

1. Diagnostic Services
2. Diagnostic Imaging
3. Mobile Healthcare
4. Medical Device Sales and Service

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.

Medical Device Sales and Service. Through Medical Device Sales and Service, we provide contract sales and service efforts with our exclusive contract with Philips Healthcare within a defined region in the upper Midwest region of the United States. We primarily sell Philips branded imaging and patient monitoring systems, and collect a commission on these sales, though we never take title to the underlying equipment. We also provide warranty and post-warranty services on certain Philips equipment within this territory related to equipment we have sold or other equipment sold in the territory.

Our reporting segments have been determined based on the nature of the products and/or services offered to customers or the nature of their function in the organization. For financial reporting purposes, our Digirad Imaging Solutions and Telerhythmics cardiac monitoring operating segments are aggregated within our Diagnostic Services reportable segment due to their similar economic and operational characteristics.

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 2017, as part of our continual evaluation of our segment reporting, as well as our experience of use of shared costs in relationship to our acquisition of DMS Health on January 1, 2016, we modified the methodology in allocating shared costs to our segments. Prior year results have been recast to be comparable to the current year presentation.

Segment information for the years ended December 31, 2017, 2016, and 2015 is as follows:

	Year ended December 31,		
(in thousands)	2017	2016 [1]	2015 [2]
Revenue by segment:			
Diagnostic Services	$ 49,016	$ 48,305	$ 46,407
Diagnostic Imaging	12,081	13,870	14,419
Mobile Healthcare	42,849	47,206	—
Medical Device Sales and Service	14,393	16,086	—
Consolidated revenue	$ 118,339	$ 125,467	$ 60,826
Gross profit by segment:			
Diagnostic Services	$ 9,942	$ 10,486	$ 10,439
Diagnostic Imaging	5,036	7,116	7,470
Mobile Healthcare	6,090	9,510	—
Medical Device Sales and Service	7,334	8,661	—
Consolidated gross profit	$ 28,402	$ 35,773	$ 17,909
Income (loss) from operations by segment:			
Diagnostic Services	$ 972	$ 946	$ 1,041
Diagnostic Imaging	(210)	2,116	3,071
Mobile Healthcare	(1,730)	711	—
Medical Device Sales and Service	(966)	1,571	—
Segment (loss) income from operations	(1,934)	5,344	4,112
Litigation reserve [3]	(1,339)	—	—
Goodwill impairment [4]	(2,746)	(338)	—
Transaction and integration costs of DMS Health [5]	—	(1,921)	(1,338)
Consolidated (loss) income from operations	(6,019)	3,085	2,774
Other (expense) income, net	(311)	212	(233)
Interest expense, net	(1,068)	(1,412)	(24)
Loss on extinguishment of debt	(709)	—	—
Consolidated (loss) income before income taxes	$ (8,107)	$ 1,885	$ 2,517
Depreciation and amortization of tangible and intangible assets by segment:			
Diagnostic Services	$ 2,769	$ 2,880	$ 2,150
Diagnostic Imaging	297	244	291
Mobile Healthcare	6,066	5,736	—
Medical Device Sales and Service	1,932	1,029	—
Consolidated depreciation and amortization	$ 11,064	$ 9,889	$ 2,441

(1) On January 1, 2016, we acquired DMS Health Technologies. The results of DMS Health Technologies are included in Mobile Healthcare and Medical Device Sales and Service since the acquisition date.

(2) On March 5, 2015, we acquired MD Office. The results of MD Office are included in Diagnostic Services since the acquisition date.

(3) See Note 8 for further information.

(4) See Note 6 for further information.

(5) Includes diligence, transaction, and integration costs related to the acquisition of DMS Health Technologies.

Geographic Information. The Company's sales to customers located outside the United States for the years ended December 31, 2017, 2016, and 2015 was $1.0 million, $0.8 million, and $0.7 million, respectively. All of our long-lived assets are located in the United States.

NOTE 14. 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 2017 and 2016 are as follows (in thousands, except per share data):

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Fiscal 2017				
Revenues	$ 29,080	$ 29,786	$ 28,555	$ 30,918
Gross profit	$ 7,107	$ 7,033	$ 6,640	$ 7,622
Loss from operations	$ (975)	$ (1,751)	$ (2,388)	$ (905)
Net loss [1]	$ (2,076)	$ (2,772)	$ (8,899)	$ (21,983)
Net loss per common share—basic [2]	$ (0.10)	$ (0.14)	$ (0.44)	$ (1.10)
Net loss per common share—diluted [2]	$ (0.10)	$ (0.14)	$ (0.44)	$ (1.10)
Fiscal 2016				
Revenues	$ 31,157	$ 32,090	$ 31,086	$ 31,134
Gross profit	$ 9,065	$ 9,765	$ 8,301	$ 8,642
Income (loss) from operations	$ (553)	$ 1,472	$ 689	$ 1,477
Net income (loss) [1]	$ 11,609	$ 998	$ (283)	$ 1,978
Net income (loss) per common share—basic [2]	$ 0.60	$ 0.05	$ (0.01)	$ 0.10
Net income (loss) per common share—diluted [2]	$ 0.58	$ 0.05	$ (0.01)	$ 0.10

(1) 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. Included in net income for the first quarter of 2016 is an income tax benefit of $12.5 million, primarily related to the release of the valuation allowance associated with a portion of our deferred tax assets.

(2) 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.

NOTE 15. Subsequent Events

On February 1, 2018, the Company announced a cash dividend of $0.055 per share payable on February 28, 2018 to shareholders of record on February 15, 2018.

On February 1, 2018, pursuant to the Asset Purchase Agreement, dated as of December 22, 2017 by and between DMS and Philips, the Company completed the sale to Philips of all of DMS' customer contracts relating to its post-warranty service business for $8.0 million in cash (subject to certain adjustments) (the "Philips Transaction"). Following the closing, the Company's MDSS reportable segment ceased to exist. As a result, in 2018, the MDSS reportable segment is expected to be reported as discontinued operations.

In connection with the closing of the Philips Transaction, the Company entered into Amendment No. 1 to Revolving Credit Agreement, dated January 30, 2018 with Comerica (the "Amendment"), in order to, among other things, reduce the revolving credit commitment from $25.0 million to $20.0 million and modify the definition of "Adjusted EBITDA," "FCCR Capital Expenditures" and "Revolving Credit Commitment" as used under the Comerica Credit Agreement.

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, 2017.

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, 2017.

The effectiveness of our internal control over financial reporting as of December 31, 2017 has been audited by BDO USA, LLP, an independent registered public accounting firm, as stated in its report, which we include herein.

(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.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors
Digirad Corporation
Poway, California

Opinion on Internal Control over Financial Reporting

We have audited Digirad Corporation's (the "Company's") internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2017 and 2016, the related consolidated statements of operations and comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and our report dated February 28, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect 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.

/s/ BDO USA, LLP

San Diego, California
February 28, 2018

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, 2017 in connection with our Annual Meeting of Stockholders to be held in 2018.

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 INDEPENDENCE

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, 2017:

Report of Independent Registered Public Accounting Firm

Consolidated Statements of Operations and Comprehensive Income (Loss) for the years ended December 31, 2017, 2016, and 2015

Consolidated Balance Sheets at December 31, 2017 and 2016

Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016, and 2015

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2017, 2016, and 2015

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 that follows the Signatures page of this Form 10-K.

ITEM 16. FORM 10-K SUMMARY

None.

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.

Exhibit Number	Description
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. 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	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).
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).

Exhibit Number	Description
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 August 7, 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).
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).

Exhibit Number	Description
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).
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
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.

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: February 28, 2018

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 Jeffry R. Keyes, 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)*	February 28, 2018
/S/ JEFFRY R. KEYES **Jeffry R. Keyes**	Chief Financial Officer *(Principal Financial Officer)*	February 28, 2018
/S/ JEFFREY E. EBERWEIN **Jeffrey E. Eberwein**	Director *(Chairman of the Board of Directors)*	February 28, 2018
/S/ JOHN M. CLIMACO **John M. Climaco**	Director	February 28, 2018
/S/ CHARLES M. GILLMAN **Charles M. Gillman**	Director	February 28, 2018
/S/ MICHAEL A. CUNNION **Michael A. Cunnion**	Director	February 28, 2018
/S/ JOHN W. SAYWARD **John W. Sayward**	Director	February 28, 2018
/S/ DIMITRIOS J. ANGELIS **Dimitrios J. Angelis**	Director	February 28, 2018

BOARD OF DIRECTORS

Jeffrey E. Eberwein
Chairman of the Board

Dimitrios J. Angelis
Director

John M. Climaco
Director

Michael A. Cunnion
Director

Charles M. Gillman
Director

Matthew G. Molchan
Director

John W. Sayward
Director

OFFICERS & EXECUTIVES

Matthew G. Molchan
President and
Chief Executive Officer

Jeffry R. Keyes
Chief Financial Officer and
Corporate Secretary

Virgil J. Lott
President, Diagnostic Imaging

Martin B. Shirley
President,
Digirad Imaging Solutions

Michael Debeauvernet
General Manager, Mobile Imaging

SHAREOWNERS INFORMATION

Headquarters
Digirad Corporation
1048 Industrial Court, Suite E
Suwanee, GA 30024
TEL 770 813 8323
FAX 770 813 0326
EMAIL ir@digirad.com
WEB www.digirad.com

Trading Market
Market: NASDAQ
Symbol: DRAD

Transfer Agent
American Stock Transfer
59 Maiden Lane
New York, NY 10038
TEL 718 921 8206
FAX 718 921 8336

Independent Auditors
BDO USA, LLP
4250 Executive Square
Suite 600
La Jolla CA 92037
TEL 858 404 9200
FAX 858 404 9201

Corporate Counsel
Olshan Frome Wolosky, LLP
1325 Avenue of the Americas
New York, NY 10019
TEL 212 451 2300
FAX 212 451 2222

DIGIRAD CORPORATION 1048 INDUSTRIAL COURT SUITE E SUWANEE GA T 800.947.6134 F 858.726.1700 WWW.DIGIRAD.COM