



# **2018 ANNUAL REPORT**

Dear Fellow Shareholders,

The year 2018 was an exciting one of change for Digirad Corporation (“Digirad” or the “Company”). During the year, we launched our new strategy to become a multi-industry holding company, (“Holdco”). This new strategy was announced on September 10, 2018, at which time we also announced our proposed acquisition of ATRM Holdings, Inc.(“ATRM”) as an initial “kick-off” transaction. The acquisition of ATRM continues to progress and we would like to close the transaction by midyear 2019, if possible. As previously stated, HoldCo, once it is formed, expects to make high-return internal investments as well as look for attractive acquisition opportunities in addition to repurchasing shares. Share repurchases will be evaluated against organic growth investments and acquisitions, and the Company expects to continually allocate capital to its highest and best use. We believe this new strategy is the best path forward to maximize stockholder value over the long term.

Additionally, Digirad has approximately \$84 million of useable net operating losses (“NOL”) in the U.S., which the Company considers to be a very valuable asset for its stockholders. Protecting the value of this NOL asset limits the amount of stock than can be repurchased over a given time period. In order to protect the value of the NOL for all stockholders, the Company has a charter amendment in place that limits beneficial ownership of Digirad common stock to 4.99%. Stockholders who wish to own more than 4.99% of Digirad common stock, or already own more than 4.99% of Digirad common stock and wish to buy more, may only acquire additional shares with the prior written approval of our Board of Directors.

We have a bright future ahead of us. As we review our business and strategy going forward, we are very excited about our prospects and our potential for growth through our new Holdco strategy. The entire Executive Team at Digirad is dedicated to this new plan and growth strategy, and we are working hard to ensure its continued deployment and continued value to YOU, our shareholders.

Thank you to our shareholders, employees, and clients - with your continued support, we have accomplished many things, and will continue to do so in the future.

Sincerely,

A handwritten signature in black ink, appearing to read 'MGM', with a stylized flourish at the end.

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, 2018

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-35947

**Digirad Corporation**

(Exact Name of Registrant as Specified in its Charter)

**Delaware**

(State or Other Jurisdiction of  
Incorporation or Organization)

**33-0145723**

(I.R.S. Employer  
Identification No.)

**1048 Industrial Court, Suwanee, GA**

(Address of Principal Executive Offices)

**30024**

(Zip Code)

**(858) 726-1600**

(Registrant's Telephone Number, Including Area Code)

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
<b>Common Stock, par value \$0.0001 per share</b>	<b>NASDAQ Global Market</b>

**Securities registered pursuant to Section 12(g) of the Act: None**

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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

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

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

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

**DOCUMENTS INCORPORATED BY REFERENCE**

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

**DIGIRAD CORPORATION**  
**FORM 10-K—ANNUAL REPORT**  
**For the Fiscal Year Ended December 31, 2018**  
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## PART I

### Cautionary Statement Regarding Forward-Looking Statements

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

### Corporate Information

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

## ITEM 1. BUSINESS

### Overview

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

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

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

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

### Our Competitive Strengths

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

#### *Imaging Services and Products*

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

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

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

## Strategy

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

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

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

## History of our Business

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

## Business Segments

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

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

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

### **Diagnostic Services**

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

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

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

### **Mobile Healthcare**

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

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

### **Diagnostic Imaging**

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

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

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

## **Market Opportunity**

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

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

## **Competition**

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

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

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

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



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

## **Intellectual Property**

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

### ***Patents***

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

### ***Trademarks and Copyrights***

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

## **Raw Materials**

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

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

## **Manufacturing**

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

critical materials, components, and subassemblies undergo supplier qualifications and ongoing quality audits in accordance with our supplier quality process.

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

## **Reimbursement**

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

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

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

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

## **Sales**

We maintain separate sales organizations that are aligned with each of our business units, which operate independently but in cooperation with each other. Mobile Healthcare sales efforts are throughout the United States and Canada, though there typically is more effort expended in rural and smaller hospital areas, as these are the primary customers that we sell our services to and provide the most value. Diagnostic Services concentrates its efforts on twelve regional areas where the majority of our business is concentrated based on concentrations of people and cardiac disease. Diagnostic Imaging sales efforts are conducted throughout the United States and certain foreign countries, and are not concentrated to any particular region or area within the United States as the customer profile for this business can be at any hospital or physician practice. Diagnostic Services and Diagnostic Imaging, though separate sales teams, work collaboratively to help fulfill customer needs in either small practice mobile nuclear cardiac imaging services, or the potential to provide capital equipment sales should the customer decide to own the equipment in house.

## **Government Regulation**

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

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

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

The American Recovery and Reinvestment Act of 2009, enacted February 17, 2009, made significant changes to HIPAA privacy and security regulations. Effective February 17, 2010, we are regulated directly under all of the HIPAA rules protecting the security of electronic individually identifiable health information and many of the rules governing the privacy of such information.

- *Medical Device Regulation.* The FDA classifies medical devices, such as our cameras, into one of three classes, depending on the degree of risk associated with the device and the extent of control needed to ensure safety and effectiveness. Devices deemed to pose lower risk are placed in either class I or II, which generally requires the manufacturer to submit to the FDA a pre-market notification requesting permission for commercial distribution. This process is known as 510(k) clearance. Devices deemed to pose the greatest risk, such as life-sustaining, life-supporting, or implantable devices, are placed in Class III, requiring an approved Premarket Approval Application (“PMA”). Our cameras are Class II medical devices that have been cleared for marketing by the FDA. We are also subject to post-market regulatory requirements relating to our manufacturing process, marketing and sales activities, product performance, and medical device reports should there be deaths and serious injuries associated with our products.
- *Pharmaceutical Regulation.* Federal and state agencies, including the FDA and state pharmacy boards, regulate the radiopharmaceuticals used in our Diagnostic Services business.
- *Radioactive Materials Laws.* We must maintain licensure under, and comply with, federal and state radioactive materials laws, or RAM laws. RAM laws require, among other things, that radioactive materials are used by, or that their use be supervised by, individuals with specified training, expertise, and credentials and include specific provisions applicable to the medical use of radioactive materials.
- *Environmental Matters.* The facilities we operate or manage generate hazardous and medical waste subject to federal and state requirements regarding handling and disposal. We believe that the facilities that we operate and manage are currently in compliance in all material respects with applicable federal, state and local statutes and ordinances regulating the handling and disposal of such materials. We do not believe that we will be required to expend any material additional amounts in order to remain in compliance with these laws and regulations or that compliance will materially affect our capital expenditures, earnings or competitive position.

## **Employees**

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

## **Available Information**

We file electronically with the Securities and Exchange Commission (the “SEC”), our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (“Exchange Act”). The public may read and copy any materials filed by us with the SEC at the SEC’s Public Reference Room at 100 F Street, NW, Washington, D.C. 20549. The public may obtain information on the operation of the SEC’s Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site ([www.sec.gov](http://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](http://www.digirad.com) as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. Such reports will remain available on our website for at least 12 months and are also available free of charge by written request or by contacting the Investor Relations Department at 858-726-1600.

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

## ITEM 1A. RISK FACTORS

### *Risks Related to Our Business and Industry*

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

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

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

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

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

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

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

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

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

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

The success of our business is largely dependent upon our medical professional customers’ ability to provide diagnostic care to their patients in an economically sustainable manner, either through the purchase of our imaging systems or using our diagnostic services, or both. Our customers are directly impacted by changes (decreases and increases) in governmental and private payor reimbursements for diagnostic services. We are directly and indirectly impacted by changes in reimbursements. In our businesses, where we are indirectly affected by reimbursement changes, we make every effort to act as business partners with our physician customers. For example, in 2010, we proactively adjusted our diagnostic imaging services rates down due to the dramatic

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

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

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

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

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

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

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

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

Both our Diagnostic Service business and portions of our Mobile Healthcare business involve the use of radiopharmaceuticals. There is a limited number of major nuclear reactors supplying medical radiopharmaceuticals worldwide and there is no guarantee that the reactors will remain in good repair or that our supplier will have continuing access to ample supply of our radiopharmaceutical product. If we are unable to obtain an adequate supply of the necessary radiopharmaceuticals, we may be

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

**Our business is not widely diversified.**

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

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

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

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

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

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

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

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

If our past or present operations are found to be in violation of any of the laws, regulations, rules, or policies described above or the other laws or regulations to which we or our customers are subject, we may be subject to civil and criminal penalties, damages, fines, exclusion from federal or state healthcare programs, or the curtailment or restructuring of our operations. Similarly, if our physician customers are found to be non-compliant with applicable laws, they may be subject to sanctions that could have a negative

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

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

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

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

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

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

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

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

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

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

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

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

The placement of our products and the introduction of our technology at new customer sites requires the services of highly trained technical support personnel. Hiring technical support personnel is very competitive in our industry due to the limited number of people available with the necessary scientific and technical backgrounds and ability to understand our technology at a technical



level. To effectively support potential new customers and the expanding needs of current customers, we will need to expand our technical support staff. If we are unable to attract, train or retain the number of highly qualified technical services personnel that our business needs, our business and prospects will suffer.

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

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

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

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

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

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

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

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

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

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

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

We do not have any pending patent applications. We cannot assure investors that we will continue to innovate and file new patent applications, or that if filed any future patent applications will result in granted patents. Further, we cannot predict how long it will take for such patents to issue, if at all. It is possible that, for any of our patents that have issued or that may issue in the future, our competitors may design their products around our patented technologies. Further, we cannot assure investors that other parties will not challenge any patents granted to us, or that courts or regulatory agencies will hold our patents to be valid, enforceable,

and/or infringed. We cannot guarantee investors that we will be successful in defending challenges made against our patents and patent applications. Any successful third-party challenge or challenges to our patents could result in the unenforceability or invalidity of such patents, or such patents being interpreted narrowly and/or in a manner adverse to our interests. Our ability to establish or maintain a technological or competitive advantage over our competitors and/or market entrants may be diminished because of these uncertainties. For these and other reasons, our intellectual property may not provide us with any competitive advantage. For example:

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

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

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

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

In addition, competitors could purchase our products and attempt to replicate and/or improve some or all of the competitive advantages we derive from our development efforts, willfully infringe our intellectual property rights, design their products around our protected technology or develop their own competitive technologies that fall outside of our intellectual property rights. If our

intellectual property does not adequately protect our market share against competitors' products and methods, our competitive position could be adversely affected, as could our business.

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

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

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

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

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

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

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

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

Any patents we have obtained or do obtain may be challenged by re-examination or otherwise invalidated or eventually found unenforceable. Both the patent application process and the process of managing patent disputes can be time consuming and expensive. If we were to initiate legal proceedings against a third party to enforce a patent related to one of our products or services, the defendant in such litigation could counterclaim that our patent is invalid and/or unenforceable. In patent litigation in the U.S., defendant counterclaims alleging invalidity and/or unenforceability are commonplace, as are validity challenges by the defendant against the subject patent or other patents before the USPTO. Grounds for a validity challenge could be an alleged failure to meet any of several statutory requirements, including lack of novelty, obviousness or non-enablement, failure to meet the written description requirement, indefiniteness, and/or failure to claim patent eligible subject matter. Grounds for an unenforceability assertion could be an allegation that someone connected with prosecution of the patent intentionally withheld material information from the USPTO, or made a misleading statement, during prosecution. Additional grounds for an unenforceability assertion include an allegation of misuse or anticompetitive use of patent rights, and an allegation of incorrect inventorship with deceptive intent. Third parties may also raise similar claims before the USPTO even outside the context of litigation. The outcome is unpredictable following legal assertions of invalidity and unenforceability. With respect to the validity question, for example, we cannot be certain

that no invalidating prior art existed of which we and the patent examiner were unaware during prosecution. These assertions may also be based on information known to us or the Patent Office. If a defendant or third party were to prevail on a legal assertion of invalidity and/or unenforceability, we would lose at least part, and perhaps all, of the claims of the challenged patent. Such a loss of patent protection would or could have a material adverse impact on our business.

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

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

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

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

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

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

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

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

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

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

During the year ended December 31, 2018, the Company derecognized \$1.1 million of goodwill related to the termination of the Philips Agreements with DMS Health effective December 31, 2017. During the years ended December 31, 2018 and 2017, the Company recorded a \$0.5 million and \$0.2 million goodwill impairment loss, respectively, related to Telerhythmics, the Company's cardiac event monitoring services business that was acquired on March 13, 2014. On October 31, 2018, the Company entered into a membership interest purchase agreement (the "Telerhythmics Purchase Agreement") with G Medical Innovations USA, Inc. ("G Medical"), pursuant to which we sold all the outstanding membership interests in Telerhythmics to G Medical. No other significant

impairment losses on long-lived assets were recognized during the years ended December 31, 2018 and 2017. See Note 2. *Basis of Presentation* and Note 7. *Goodwill*, within the notes to our accompanying consolidated financial statements for further discussion regarding goodwill and long-lived assets.

### ***Risks Related to our Indebtedness***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***Risks Related to our Common Stock***

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

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

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

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

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

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

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

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

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

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

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

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

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

transfer attempted in violation of the Protective Amendment will be void as of the date of the prohibited transfer as to the purported transferee.

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

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

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

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

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

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

**ITEM 3. LEGAL PROCEEDINGS**

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

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.



## PART II

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

#### Market Information

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

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

#### Dividend Policy

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

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

#### Sales of Unregistered Securities

None.

#### Issuer Purchases of Equity Securities

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

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

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

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

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

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

#### **Securities Authorized for Issuance Under Equity Compensation Plans**

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

#### **ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA**

Not applicable.

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

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

### Overview

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

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

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

### Strategy

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

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

### Discontinued Operations

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

### Business Segments

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

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

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

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

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

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

## **Our Market**

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

## **Trends and Drivers**

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

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

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

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

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

### ***Proposed Acquisition of ATRM Holdings, Inc.***

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

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

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

### ***Star Procurement Joint Venture***

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

### **2018 Financial Highlights**

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

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

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

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

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

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

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

### **Critical Accounting Policies**

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

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

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

### **New Accounting Pronouncements**

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

## Results of Operations

### Comparison of Years Ended December 31, 2018 and 2017

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

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

## Revenues

### Services Revenue

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

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

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

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

### Product and Product-Related Revenue

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

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

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

### Gross Profit

#### Services Gross Profit

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

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

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

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

#### Product and Product-Related Gross Profit

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

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

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

### Operating Expenses

Operating expense are summarized as follows (in thousands):

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

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



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

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

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

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

### ***Other (Expense) Income***

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

	<b>Year Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Other expense, net .....	\$ (61)	\$ (311)
Interest expense, net .....	(751)	(730)
Loss on extinguishment of debt.....	(43)	(709)
Total other expense .....	<u>\$ (855)</u>	<u>\$ (1,750)</u>

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

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

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

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

### ***Income Tax (Expense) Benefit***

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

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

### ***Income from Discontinued Operations***

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

## Liquidity and Capital Resources

### Overview

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

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

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

### Cash Flows

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

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

#### Operating Activities

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

#### Investing Activities

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

#### Financing Activities

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

#### Comerica Revolving Credit Facility

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

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

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

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

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

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

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

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

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

### ***Off-Balance Sheet Arrangements***

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

### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

ITEM 8.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA  
DIGIRAD CORPORATION  
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors  
Digirad Corporation  
Poway, California

### Opinion on the Consolidated Financial Statements

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

### Change in Accounting Method Related to Revenue

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

### Basis for Opinion

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

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

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

/s/ BDO USA, LLP

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

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

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

See accompanying notes to consolidated financial statements.

**DIGIRAD CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share amounts)

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

See accompanying notes to consolidated financial statements.

**DIGIRAD CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)

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

See accompanying notes to consolidated financial statements.



**DIGIRAD CORPORATION**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(In thousands)

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

See accompanying notes to consolidated financial statements.

**DIGIRAD CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. The Company**

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

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

**Note 2. Basis of Presentation and Significant Accounting Policies**

***Basis of Presentation***

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

***Discontinued Operations***

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

***Sale of Telerhythmics, LLC***

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

***Use of Estimates***

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

***Revenue Recognition***

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

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

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

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

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

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

#### ***Concentration of Credit Risk***

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

#### ***Fair Value of Financial Instruments***

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

#### ***Cash and Cash Equivalents***

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

#### ***Equity Securities***

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

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

### ***Allowance for Doubtful Accounts, Billing Adjustments, and Contractual Allowances***

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

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

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

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

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

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

### ***Inventory***

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

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

	Reserve for Excess and Obsolete Inventories <sup>(1)</sup>
Balance at December 31, 2016.....	\$ 416
Provision adjustment.....	81
Write-offs and scrap.....	(44)
Balance at December 31, 2017.....	453
Provision adjustment.....	42
Write-offs and scrap <sup>(2)</sup> .....	(115)
Balance at December 31, 2018.....	<u>\$ 380</u>

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

(2) Amount includes \$90 thousand related to inventory sold during the year.

### ***Long-Lived Assets including Finite Lived Purchased Intangible Assets***

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

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

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

### ***Valuation of Goodwill***

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

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

### ***Self-Insured Health Insurance Benefits***

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

### ***Restricted Cash***

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

### ***Debt Issuance Costs***

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

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

### ***Shipping and Handling Fees and Costs***

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

### ***Share-Based Compensation***

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

## Warranty

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

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

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

## Advertising Costs

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

## Basic and Diluted Net Income (Loss) Per Share

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

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

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

<sup>(1)</sup> Earnings per share may not add due to rounding.

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

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

	<b>Year Ended December 31,</b>	
	<b>2018</b>	<b>2017</b>
Stock options.....	340	220
Restricted stock units.....	157	33
<b>Total .....</b>	<b>497</b>	<b>253</b>

### ***Other Comprehensive Loss***

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

### ***Income Taxes***

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

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

### ***Recently Adopted Accounting Standards***

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

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

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

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

### ***New Accounting Standards To Be Adopted***

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

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

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

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

### **Note 3. Discontinued Operations**

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

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

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

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



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

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

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

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

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

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

#### Note 4. Revenue

##### *Product and Product-Related Revenues and Services Revenue*

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

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

### **Revenue Recognition**

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

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

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

### **Disaggregation of Revenue**

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

	<b>Year Ended December 31, 2018</b>			
	<b>Diagnostic Services</b>	<b>Diagnostic Imaging</b>	<b>Mobile Healthcare</b>	<b>Total</b>
<b>Major Goods/Service Lines</b>				
Mobile Imaging and Cardiac Monitoring.....	\$ 48,694	\$ —	\$ 32,865	\$ 81,559
Camera Sales.....	—	4,914	—	4,914
Camera Support.....	—	6,951	—	6,951
Revenue from Contracts with Customers .....	48,694	11,865	32,865	93,424
Lease Income .....	562	118	10,076	10,756
<b>Total Revenues .....</b>	<b>\$ 49,256</b>	<b>\$ 11,983</b>	<b>\$ 42,941</b>	<b>\$ 104,180</b>

### **Timing of Revenue Recognition**

Services and goods transferred over time.....	\$ 45,862	\$ 6,555	\$ 42,477	\$ 94,894
Services and goods transferred at a point in time .....	3,394	5,428	464	9,286
<b>Total Revenues .....</b>	<b>\$ 49,256</b>	<b>\$ 11,983</b>	<b>\$ 42,941</b>	<b>\$ 104,180</b>

### **Nature of Goods and Services**

#### **Mobile Imaging**

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

#### **Camera**

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

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

*Camera Support*

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

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

*Lease Income*

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

**Deferred Revenues**

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

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

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

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

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

**Contract Costs**

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

## Note 5. Supplementary Balance Sheet Information

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

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

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

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

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

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

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

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

## Note 6. Fair Value Measurements

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

- Level 1: Quoted prices in active markets for identical assets or liabilities.
- Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Such assets and liabilities may have values determined using pricing models, discounted cash flow methodologies, or similar techniques, and include instruments for which the determination of fair value requires significant management judgment or estimation.

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

	At Fair Value as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Equity securities.....	\$ 153	\$ 6	\$ —	\$ 159
<b>At Fair Value as of December 31, 2017</b>				
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Equity securities .....	\$ 97	\$ 111	\$ —	\$ 208

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

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

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

## Note 7. Goodwill

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

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

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

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

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

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

## Note 8. Debt

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

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

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

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

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

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

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

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

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

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

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

## **Note 9. Commitments and Contingencies**

### ***Litigation Matters***

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

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

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

## Leases

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

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

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

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

## Other Matters

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

## Note 10. Share-Based Compensation

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



## Stock Options

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

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

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

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

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

## Restricted Stock Units

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

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

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

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

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

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

### Allocation of Share-Based Compensation Expense

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

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

### Note 11. Income Taxes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### ***Tax Cuts and Jobs Act***

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

#### **Note 12. Employee Retirement Plan**

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

#### **Note 13. Related Party Transactions**

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

Jeffrey E. Eberwein, the Chairman of our board of directors and the Chairman of the board of directors of ATRM, owns approximately 17.4% of the outstanding common stock of ATRM. Mr. Eberwein is also the Chief Executive Officer of Lone Star Value Management, LLC, which is the investment manager of Lone Star Value Investors, LP (“LSVI”). LSVI owns 222,577 shares of ATRM’s 10.00% Series B Cumulative Preferred Stock (the “Series B Stock”) and another 374,562 shares of Series B Stock are owned directly by Lone Star Value Co-Invest I, LP (“LSV Co-Invest I”). Through these relationships and other relationships with

affiliated entities, Mr. Eberwein may be deemed the beneficial owner of the securities owned by LSVI and LSV Co-Invest I. Mr. Eberwein disclaims beneficial ownership of Series B Stock, except to the extent of his pecuniary interest therein.

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

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

#### **Note 14. Segments**

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

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

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

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

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

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

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

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

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

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

<sup>(1)</sup> Reflects loss on sale of land and buildings in our Fargo, North Dakota location. See Note 5. *Supplementary Balance Sheet Information*, for further information

<sup>(2)</sup> See Note 7. *Goodwill*, for further information.

<sup>(3)</sup> See Note 9. *Commitments and Contingencies*, for further information.

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

## Note 15. Quarterly Financial Information (Unaudited)

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

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

- (1) Earnings per share are computed independently for each of the quarters presented. Therefore, the sum of the quarterly net earnings per share will not necessarily equal the total for the year.
- (2) In the third quarter of 2018, the Company completed the sale of buildings and a portion of land in its Fargo, North Dakota location with a net book value of \$1.5 million, for net cash proceeds of approximately \$1.0 million, resulting in a loss on sale of \$0.5 million, which has been classified as a “Loss on sale of buildings” in the consolidated statement of operations.
- (3) In the third and fourth quarters of 2017, the Company has increased its valuation allowance for deferred tax assets associated with net operating losses based on an estimated forecast of business operation profitability as well as material changes in business operations from business events. In the fourth quarter of 2017, the remaining deferred tax assets related to net operating losses were fully reserved. In addition, the fourth quarter of 2017 includes the impact of tax rate changes from enacted tax legislation signed in December 2017.

## Note 16. Subsequent Events

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

deficiency during the additional 180-day compliance period by effecting a reverse stock split if necessary. If we do not qualify for an additional compliance period, or should we determine not to submit a transfer application or make the required representation, or if Nasdaq concludes that we will not be able to cure the deficiency, Nasdaq will provide written notice to us that our common stock will be subject to delisting.



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

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

**(1) Evaluation of Disclosure Controls and Procedures**

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

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

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

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

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

**(3) Changes in Internal Control over Financial Reporting**

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

**ITEM 9B. OTHER INFORMATION**

None.

## PART III

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE**

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

#### **Code of Ethics**

We have adopted a Code of Business Ethics and Conduct (“Ethics Code”) that applies to all our officers, directors, employees, and contractors. The Ethics Code contains general guidelines for conducting our business consistent with the highest standards of business ethics and compliance with applicable law, and is intended to qualify as a “code of ethics” within the meaning of Section 406 of the Sarbanes-Oxley Act of 2002 and Item 406 of Regulation S-K. Day-to-day compliance with the Ethics Code is overseen by the Company compliance officer appointed by our Board of Directors. If we make any substantive amendments to the Ethics Code or grant any waiver from a provision of the Ethics Code to any director or executive officer, we will promptly disclose the nature of the amendment or waiver on our website at [www.digirad.com](http://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, 2018:

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

##### 2. Financial Statement Schedules

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

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

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

## EXHIBIT INDEX

<b>Exhibit Number</b>	<b>Description</b>
2.1†	<a href="#"><u>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).</u></a>
2.2†	<a href="#"><u>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).</u></a>
2.3	<a href="#"><u>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).</u></a>
2.4	<a href="#"><u>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.</u></a>
2.5	<a href="#"><u>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.</u></a>
2.6	<a href="#"><u>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).</u></a>
2.7	<a href="#"><u>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).</u></a>
2.8	<a href="#"><u>Asset Purchase Agreement by and between DMS Health Technologies, Inc., as Seller, and Philips North America LLC, as Buyer dated as of December 22, 2017 (incorporated by reference to Exhibit 2.8 to the Company's Annual Report on Form 10-K filed with the Commission on February 28, 2018). Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company hereby agrees to furnish supplementary copies of any of the omitted schedules or exhibits upon request by the Securities and Exchange Commission.</u></a>
3.1	<a href="#"><u>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).</u></a>
3.2	<a href="#"><u>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).</u></a>
3.3	<a href="#"><u>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).</u></a>
3.4	<a href="#"><u>Certificate of Amendment of the Restated Certificate of Incorporation of Digirad Corporation (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Commission on May 1, 2018).</u></a>
3.5	<a href="#"><u>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).</u></a>
4.1	<a href="#"><u>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).</u></a>
4.2	<a href="#"><u>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).</u></a>

Exhibit Number	Description
4.3	<a href="#"><u>Tax Benefit Preservation Plan by and between Digirad Corporation and American Stock Transfer &amp; 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).</u></a>
4.4	<a href="#"><u>Tax Benefit Preservation Plan Amendment, dated November 11, 2013, by and between the Company and American Stock Transfer &amp; 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).</u></a>
4.5	<a href="#"><u>First Amendment to Preferred Stock Rights Agreement, dated as of March 5, 2015, by and between the Company and American Stock Transfer &amp; 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).</u></a>
10.1†	<a href="#"><u>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).</u></a>
10.2†	<a href="#"><u>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).</u></a>
10.3†	<a href="#"><u>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).</u></a>
10.4†	<a href="#"><u>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).</u></a>
10.5†	<a href="#"><u>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).</u></a>
10.6#	<a href="#"><u>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).</u></a>
10.7#	<a href="#"><u>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).</u></a>
10.8#	<a href="#"><u>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).</u></a>
10.9#	<a href="#"><u>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).</u></a>
10.10#	<a href="#"><u>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).</u></a>
10.11#	<a href="#"><u>Executive Employment Agreement, by and between Digirad Corporation and Jeffrey 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).</u></a>
10.12#	<a href="#"><u>Employment Agreement, dated as of May 1, 2007, as amended on September 30, 2010, by and between the Company and Matthew G. Molchan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on March 5, 2013).</u></a>
10.13#	<a href="#"><u>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).</u></a>
10.14#	<a href="#"><u>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).</u></a>
10.15#	<a href="#"><u>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).</u></a>

<b>Exhibit Number</b>	<b>Description</b>
10.16#	<a href="#"><u>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).</u></a>
10.17#	<a href="#"><u>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).</u></a>
10.18#	<a href="#"><u>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).</u></a>
10.19	<a href="#"><u>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).</u></a>
10.20	<a href="#"><u>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).</u></a>
10.21	<a href="#"><u>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).</u></a>
10.22	<a href="#"><u>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).</u></a>
10.23	<a href="#"><u>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).</u></a>
10.24	<a href="#"><u>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).</u></a>
10.25#	<a href="#"><u>Digirad Corporation 2018 Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on May 5, 2018).</u></a>
10.26#	<a href="#"><u>Form of 2018 Incentive Plan Restricted Stock Unit Agreement. (incorporated by reference to Exhibit 99.2 to the Company's Registration Statement on Form S-8 filed with the Commission on November 6, 2018).</u></a>
10.27#	<a href="#"><u>Form of 2018 Incentive Plan Restricted Stock Unit Agreement (Performance Based) (incorporated by reference to Exhibit 99.3 to the Company's Registration Statement on Form S-8 filed with the Commission on November 6, 2018).</u></a>
10.28	<a href="#"><u>Amendment No. 2 To Revolving Credit Agreement, dated November 1, 2018 by and between Digirad Corporation and Comerica Bank (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the Commission on November 5, 2018).</u></a>
10.29#	<a href="#"><u>Employment Agreement, by and between Digirad Corporation and David Noble, dated October 31, 2018 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed with the Commission on November 5, 2018).</u></a>
10.30#	<a href="#"><u>Indemnification Agreement, by and between Digirad Corporation and David Noble, dated October 25, 2018 (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed with the Commission on November 5, 2018).</u></a>
10.31*	<a href="#"><u>Limited Liability Company Agreement for Star Procurement, LLC, dated December 14, 2018, by and among Star Procurement LLC, Digirad Corporation and ATRM Holdings, Inc.</u></a>
21.1*	<a href="#"><u>Subsidiaries of Digirad Corporation</u></a>
23.1*	<a href="#"><u>Consent of BDO USA, LLP, Independent Registered Public Accounting Firm</u></a>
24.1*	Power of Attorney (included on the signature page of this Form 10-K)
31.1*	<a href="#"><u>Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u></a>

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

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

# Indicates management contract or compensatory plan.

\* Filed herewith.

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

#### ITEM 16. FORM 10-K SUMMARY

None.





**BOARD OF DIRECTORS**

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**Jeffrey E. Eberwein**  
Chairman of the Board

**Dimitrios J. Angelis**  
Director

**John M. Climaco**  
Director

**Michael A. Cunnion**  
Director

**Matthew G. Molchan**  
Director

**John W. Sayward**  
Director

**Mitch I. Quain**  
Director

**OFFICERS & EXECUTIVES**

---

**Matthew G. Molchan**  
President and  
Chief Executive Officer

**David J. Noble**  
Chief Operating Officer and  
Interim Chief Financial Officer

**Martin B. Shirley**  
President,  
Digirad Imaging Solutions

**SHAREOWNERS INFORMATION**

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**Headquarters**  
Digirad Corporation  
1048 Industrial Court, Suite E  
Suwanee, GA 30024  
TEL 770 813 8323  
FAX 770 813 0326  
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WEB [www.digirad.com](http://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**  
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FAX 212 451 2222

