
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934**

Date of Report:
May 1, 2018
(Date of earliest event reported)

DIGIRAD CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation)

001-35947
(Commission File Number)

33-0145723
(IRS Employer
Identification No.)

**1048 Industrial Court,
Suwanee, GA 30024**
(Address of principal executive offices, including zip code)

(858) 726-1600
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§232.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

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

Item 2.02. Results of Operations and Financial Condition

On May 1, 2018, Digirad Corporation issued a press release announcing financial results for the three months ended March 31, 2018. A copy of the press release is furnished as Exhibit 99.1 to this Current Report on Form 8-K.

Item 9.01. Financial Statements and Exhibits**(a) Financial statements:**

None

(b) Pro forma financial information:

None

(c) Shell company transactions:

None

(d) Exhibits:

[99.1](#) Press Release of Digirad Corporation dated May 1, 2018

[99.2](#) Information Related to the Use of Non-GAAP Financial Measures

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

DIGIRAD CORPORATION

By: /s/ MATTHEW G. MOLCHAN

Matthew G. Molchan
President, Chief Executive Officer and Interim Chief Financial Officer
(Principal Executive Officer and Financial Officer)

Date: May 1, 2018

Exhibit Index

Exhibit No.	Description
99.1	Press Release of Digirad Corporation dated May 1, 2018
99.2	Information Related to the Use of Non-GAAP Financial Measures

News Release

For immediate release
May 1, 2018

For more information contact:
Matthew G. Molchan
Chief Executive Officer
858-726-1600
ir@digirad.com

Digirad Corporation Reports Financial Results for the First Quarter Ended March 31, 2018

- *Debt paydown of \$6.5 million during the quarter*
- *Announces 2018 financial guidance*
- *Company to pay regular quarterly cash dividend of \$0.055 cents per share*

Suwanee, GA. - May 1, 2018 - Digirad Corporation (Nasdaq: DRAD) today reported its financial results for the first quarter ended March 31, 2018.

Total revenues from continuing operations for the first quarter were \$25.5 million, compared to \$25.8 million in the first quarter of the prior year.

Net loss from continuing operations for the first quarter was \$1.4 million, or \$0.07 net loss per diluted share from continuing operations, compared to net loss of \$2.3 million, or \$0.11 net loss per diluted share in the same period in the prior year. Non-GAAP adjusted net loss from continuing operations for the first quarter was \$1.4 million, or \$0.07 adjusted net loss from continuing operations per diluted share, compared to \$1.3 million, or \$0.06 adjusted net loss per diluted share in the same period in the prior year.

Non-GAAP adjusted EBITDA from continuing operations for the first quarter was \$1.0 million, compared to \$1.1 million in the same period in the prior year.

Digirad President and CEO Matt Molchan said, "Overall, our business performed within our expectations. Despite some harsh weather conditions in the Midwest and the Northeast, our service businesses, Diagnostic Services and Mobile Healthcare, continued to deliver convenient, effective and efficient healthcare solutions on an as needed, when needed, and where needed basis across the country during the quarter." Molchan continued, "Our Diagnostic Imaging business continued to see improvements, exceeding revenue for the quarter on a year over year basis. Also, in the quarter, as previously announced - we sold our service contracts in our MDSS business unit to Philips - effectively discontinuing operations in this unit. We also completed some operational and personnel changes in our core business areas as a result of the divestiture of the MDSS business. Finally, we were able to pay down our debt from \$19.5 million at the beginning of the quarter to \$13.0 million at the end of the quarter. We expect our business to continue to generate free cash flow, which we will use to pay down debt and fund our ongoing dividend, both of which we believe deliver value to our shareholders."

The Company also announces a cash dividend of \$0.055 cents per share that will be paid on May 30, 2018, to shareholders of record on May 15, 2018.

2018 Financial Guidance

The Company announced its financial guidance for 2018, which is to generate revenues from continuing operations of between \$100 and \$105 million, non-GAAP adjusted EBITDA of between \$8.5 and \$9.5 million, and free cash flow between \$4 and \$5 million.

Conference Call Information

A conference call is scheduled for 11:00 a.m. EDT on May 1, 2018 to discuss the results and management's outlook. The call may be accessed by dialing 1-877-407-9039 (international callers: +1-201-689-8470) five minutes prior to the scheduled start time and referencing Digirad. A simultaneous webcast of the call may be accessed online from the Events & Presentations link on the

Investor Relations page at <http://drad.client.shareholder.com>; an archived replay of the webcast will be available within 15 minutes of the end of the conference call.

Use of Non-GAAP Financial Measures by Digirad Corporation

This Digirad news release presents the non-GAAP financial measures “adjusted net income(loss),” “adjusted net income(loss) per diluted share,” “free cash flow”, and “adjusted EBITDA.” The most directly comparable measure for these non-GAAP financial measures are net income and diluted net income per share. The Company has included below unaudited adjusted financial information, which presents the Company's results of operations after excluding acquired intangible asset amortization, acquisition related contingent consideration adjustments, unrealized gain(loss) on available-for-sale securities, and non-recurring related income tax adjustments. Further excluded in the measure of adjusted EBITDA are interest, taxes, depreciation, amortization and stock-based compensation.

A discussion of the reasons why management believes that the presentation of non-GAAP financial measures provides useful information to investors regarding Digirad's financial condition and results of operations is included as Exhibit 99.2 to Digirad's report on Form 8-K filed with the Securities and Exchange Commission on May 1st, 2018.

About Digirad Corporation

Digirad delivers convenient, effective, and efficient healthcare solutions on an as needed, when needed, and where needed basis. Digirad’s diverse portfolio of mobile healthcare solutions and medical equipment and services, including diagnostic imaging and patient monitoring, provides hospitals, physician practices, and imaging centers through the United States access to technology and services necessary to provide exceptional patient care in the rapidly changing healthcare environment. For more information, please visit www.digirad.com.

Forward-Looking Statements

This press release contains statements that are forward-looking statements as defined within the Private Securities Litigation Reform Act of 1995. Some of these forward-looking statements can be identified by the use of forward-looking words such as “believes,” “expects,” “may,” “will,” “should,” “seek,” “approximately,” “intends,” “plans,” “estimates,” or “anticipates,” or the negative of those words or other comparable terminology, or in specific statements such as the Company's ability to deliver value to customers, the ability to grow and generate positive cash flow, the ability to execute on restructuring activities, and ability to successfully execute acquisitions. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from the statements made. These risks are detailed in Digirad's filings with the U.S. Securities and Exchange Commission, including the Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other reports. Readers are cautioned to not place undue reliance on these forward-looking statements, which speak only as of the date hereof. All forward-looking statements are qualified in their entirety by this cautionary statement, and Digirad undertakes no obligation to revise or update the forward-looking statements contained herein.

(Financial tables follow)

Digirad Corporation
Consolidated Statements of Operations
(Unaudited)

(in thousands, except per share amounts)	Three Months Ended	
	March 31,	
	2018	2017
Revenues		
Services	\$ 22,623	\$ 23,057
Product and product-related	2,842	2,783
Total revenues	25,465	25,840
Cost of revenues:		
Services	19,261	18,583
Product and product-related	1,597	1,655
Total cost of revenues	20,858	20,238
Gross profit	4,607	5,602
<i>Total gross profit percentage</i>	<i>18.1%</i>	<i>21.7%</i>
<i>Services gross profit percentage</i>	<i>14.9%</i>	<i>19.4%</i>
<i>Product and product-related gross profit percentage</i>	<i>43.8%</i>	<i>40.5%</i>
Operating expenses:		
Marketing and sales	1,467	1,783
General and administrative	4,392	4,896
Amortization of intangible assets	357	374
Total operating expenses	6,216	7,053
Loss income from operations	(1,609)	(1,451)
Other expense:		
Other expense, net	(17)	—
Interest expense, net	(217)	(193)
Total other expense	(234)	(193)
Loss from continuing operations before income taxes	(1,843)	(1,644)
Income tax benefit (expense)	455	(607)
Net loss from continuing operations	(1,388)	(2,251)
Income from discontinued operations	5,494	175
Net income (loss)	\$ 4,106	\$ (2,076)
Net income (loss) per share - basic and diluted		
Continuing operations	\$ (0.07)	\$ (0.11)
Discontinued operations	\$ 0.27	\$ 0.01
Net income (loss) per share - basic and diluted	\$ 0.20	\$ (0.10)
Dividends declared per common share	\$ 0.055	\$ 0.05
Weighted average shares outstanding – basic and diluted	20,092	19,933

Digirad Corporation
Consolidated Balance Sheets
(Unaudited)

<u>(in thousands, except share data)</u>	March 31, 2018	December 31, 2017
Assets:		
Current assets:		
Cash and cash equivalents	\$ 1,033	\$ 1,877
Securities available-for-sale	116	97
Accounts receivable, net	12,752	15,887
Inventories, net	5,755	5,501
Restricted cash	243	242
Other current assets	2,287	1,972
Total current assets	22,186	25,576
Property and equipment, net	27,176	28,365
Intangible assets, net	7,473	7,830
Goodwill	2,392	2,392
Restricted cash	101	101
Non-current assets held for sale	—	1,736
Other assets	634	703
Total assets	\$ 59,962	\$ 66,703
Liabilities:		
Current liabilities:		
Accounts payable	\$ 5,712	\$ 5,207
Accrued compensation	3,208	5,507
Accrued warranty	182	204
Deferred revenue	1,922	2,302
Current liabilities held for sale	—	835
Other current liabilities	2,666	2,915
Total current liabilities	13,690	16,970
Long-term debt	13,001	19,500
Deferred tax liabilities	361	254
Other liabilities	1,979	2,180
Total liabilities	29,031	38,904
Stockholders' equity:		
Preferred stock, \$0.0001 par value: 10,000,000 shares authorized; no shares issued or outstanding	—	—
Common stock, \$0.0001 par value: 80,000,000 shares authorized; 20,118,336 and 20,060,311 shares issued and outstanding (net of treasury shares) at March 31, 2018 and December 31, 2017, respectively	2	2
Treasury stock, at cost; 2,588,484 shares at March 31, 2018 and December 31, 2017	(5,728)	(5,728)
Additional paid-in capital	147,189	148,163
Accumulated other comprehensive loss	(22)	(5)
Accumulated deficit	(110,510)	(114,633)
Total stockholders' equity	30,931	27,799
Total liabilities and stockholders' equity	\$ 59,962	\$ 66,703

Digirad Corporation
Reconciliation of Non-GAAP Financial Measures
(Unaudited)

<u>(in thousands, except per share amounts)</u>	Three Months Ended March 31,	
	2018	2017
Net loss from continuing operations	\$ (1,388)	\$ (2,251)
Acquired intangible amortization	357	374
Acquisition related contingent consideration valuation adjustment ⁽¹⁾	—	(57)
Unrealized loss on available-for-sale securities ⁽²⁾	17	—
Restructuring costs ⁽³⁾	97	—
Income tax items ⁽⁴⁾	(455)	607
Non-GAAP adjusted net loss from continuing operations	<u>\$ (1,372)</u>	<u>\$ (1,327)</u>
Net loss per diluted share from continuing operations ⁽⁵⁾	\$ (0.07)	\$ (0.11)
Acquired intangible amortization	0.02	0.02
Unrealized loss on available-for-sale securities ⁽²⁾	—	—
Acquisition related contingent consideration valuation adjustment ⁽¹⁾	—	—
Restructuring costs ⁽³⁾	—	—
Income tax items ⁽⁴⁾	(0.02)	0.03
Non-GAAP adjusted net loss per diluted share from continuing operations ⁽⁵⁾	<u>\$ (0.07)</u>	<u>\$ (0.06)</u>

<u>(in thousands)</u>	Three Months Ended March 31,	
	2018	2017
Net loss from continuing operations	\$ (1,388)	\$ (2,251)
Acquisition related contingent consideration valuation adjustment ⁽¹⁾	—	(57)
Unrealized loss on available-for-sale securities ⁽²⁾	17	—
Restructuring costs ⁽³⁾	97	—
Depreciation and amortization	2,265	2,366
Stock-based compensation	201	255
Interest expense, net	217	193
Income tax expense (benefit)	(455)	607
Non-GAAP adjusted EBITDA from continuing operations	<u>\$ 954</u>	<u>\$ 1,113</u>

⁽¹⁾ Reflects fair value adjustment to estimate of contingent consideration related to acquisitions.

⁽²⁾ Reflects change in fair value on equity investments classified as available-for-sale.

⁽³⁾ Reflects severance related costs.

⁽⁴⁾ The Company has a significant tax NOL that is offset by a full valuation allowance recorded in the fourth quarter of 2017 in the GAAP consolidated financial statements. As a result, for purposes of non-GAAP measures, we utilized a 0% effective tax rate.

⁽⁵⁾ Per share amounts are computed independently for each discrete item presented. Therefore, the sum of the quarterly per share amounts will not necessarily equal to the total for the year, and sum of individual items may not equal the total.

Digirad Corporation
Reconciliation of Operating Cash Flow to Free Cash Flow
(Unaudited)

<u>(in thousands)</u>	Three Months Ended March 31,	
	2018	2017
Net cash provided by operating activities	\$ 420	\$ 1,924
Purchases of property and equipment, net of dispositions	(161)	(485)
Free cash flow	<u>\$ 259</u>	<u>\$ 1,439</u>

Digirad Corporation
Supplemental Debt Information
(Unaudited)

The following table reflects outstanding principal balances and interest rates for the Company's debt at March 31, 2018 and December 31, 2017:

<u>(in thousands)</u>	March 31, 2018		December 31, 2017	
	Balance	Interest Rate	Balance	Interest Rate
Revolving Credit Facility ⁽¹⁾	\$ 13,001	4.25%	\$ 19,500	3.90%
Total borrowings	<u>\$ 13,001</u>		<u>\$ 19,500</u>	

⁽¹⁾ A Revolving Credit Agreement was entered into with Comerica Bank on June 21, 2017. The agreement consists of a revolving credit facility with a five-year term, maturing on June 21, 2022.

Digirad Corporation
Supplemental Segment Information
(Unaudited)

<u>(in thousands)</u>	Three Months Ended March 31,	
	2018	2017 ⁽¹⁾
Revenue by segment:		
Diagnostic Services	\$ 12,025	\$ 12,202
Diagnostic Imaging	2,842	2,783
Mobile Healthcare	10,598	10,855
Condensed consolidated revenue	<u>\$ 25,465</u>	<u>\$ 25,840</u>
Gross profit by segment:		
Diagnostic Services	\$ 2,247	\$ 2,836
Diagnostic Imaging	1,245	1,128
Mobile Healthcare	1,115	1,638
Condensed consolidated gross profit	<u>\$ 4,607</u>	<u>\$ 5,602</u>
Income (loss) from continuing operations by segment:		
Diagnostic Services	\$ (290)	\$ 16
Diagnostic Imaging	(204)	(437)
Mobile Healthcare	(1,115)	(1,030)
Condensed consolidated loss from continuing operations	<u>\$ (1,609)</u>	<u>\$ (1,451)</u>

(1) Segment information has been recast for all periods presented to reflect the MDSS disposition as discontinued operations. As certain shared function costs previously allocated to MDSS are not allocable to discontinued operations, prior period corporate costs have been re-allocated amongst the continuing reportable segments.

Use of Non-GAAP Financial Measures

In addition to financial results calculated in accordance with U.S. generally accepted accounting principles ("GAAP"), information containing non-GAAP financial measures for Digirad Corporation (the "Company") was disclosed in the Company's press release (the "Press Release") dated May 1, 2018 announcing results for the three months ended March 31, 2018 that accompanied a conference call held by the Company on May 1, 2018. The non-GAAP financial measures disclosed by the Company should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP, and the financial results calculated in accordance with GAAP and reconciliations to those financial statements should be carefully evaluated. The non-GAAP financial measures used by the Company may be calculated differently from, and therefore may not be comparable to, similarly titled measures used by other companies. The Company has provided reconciliations of the non-GAAP financial measures to the most directly comparable GAAP financial measures. Management encourages readers to rely upon the GAAP numbers, but includes the non-GAAP financial measures as supplemental metrics to assist readers. Definitions of the non-GAAP financial measures are included in the Press Release.

In the Press Release, the Company presented the non-GAAP financial measures "adjusted net income (loss)," "adjusted net income (loss) per diluted share," "adjusted EBITDA," and "free cash flow." Company management uses these non-GAAP financial measures to evaluate the Company's performance. As the Company's core business is providing healthcare services and products to the healthcare industry, Company management finds it useful to use financial measures that do not include acquired intangible asset amortization, acquisition related contingent consideration adjustments, unrealized gain(loss) on available-for-sale securities, and non-recurring related income tax adjustments. While we may have these types of items and charges in the future, Company management believes that they are not reflective of the day-to-day offering of its products and services and relate more to strategic, multi-year corporate actions, without predictable trends, and that may obscure the trends and financial performance of the Company's core business. In the case of "adjusted EBITDA," Company management believes the exclusion of interest, taxes, depreciation, amortization, and stock-based compensation is a very common measure utilized in the investment community and it helps Company management benchmark its operations and results with the industry.

The limitation associated with using these non-GAAP financial measures is that these measures exclude items that impact the Company's current period operating results. This limitation is best addressed by using these non-GAAP financial measures in combination with "net income (loss)," "net income (loss) per diluted share," and "operating cash flow" (the most comparable GAAP measures) because these non-GAAP financial measures do not reflect items that impact current period operating results and may be higher or lower than the most comparable GAAP measure.