

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2019

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)

1048 Industrial Court, Suwanee, GA

(Address of Principal Executive Offices)

33-0145723

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

30024

(Zip Code)

(858) 726-1600

(Registrant's Telephone Number, Including Area Code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.0001 per share	DRAD	NASDAQ Global Market

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 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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

As of April 29, 2019 the registrant had 20,309,908 shares of Common Stock (\$0.0001 par value) outstanding.

DIGIRAD CORPORATION
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Important Information Regarding Forward-Looking Statements

Portions of this Quarterly Report on Form 10-Q (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 2 — Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Quarterly Report on Form 10-Q, as well as other portions of this Quarterly Report on Form 10-Q. 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 Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the U.S. Securities and Exchange Commission on March 1, 2019. 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.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended March 31,	
	2019	2018
Revenues:		
Services	\$ 21,389	\$ 22,623
Product and product-related	2,523	2,842
Total revenues	23,912	25,465
Cost of revenues:		
Services	18,194	19,261
Product and product-related	1,737	1,597
Total cost of revenues	19,931	20,858
Gross profit	3,981	4,607
Operating expenses:		
Marketing and sales	1,143	1,467
General and administrative	3,690	4,392
Amortization of intangible assets	283	357
Total operating expenses	5,116	6,216
Loss from operations	(1,135)	(1,609)
Other expense:		
Other expense, net	(198)	(17)
Interest expense, net	(181)	(217)
Loss on extinguishment of debt	(151)	—
Total other expense	(530)	(234)
Loss before income taxes	(1,665)	(1,843)
Income tax benefit	8	455
Net loss from continuing operations	(1,657)	(1,388)
Net income from discontinued operations	—	5,494
Net (loss) income	\$ (1,657)	\$ 4,106
Net (loss) income per share—basic and diluted		
Continuing operations	\$ (0.08)	\$ (0.07)
Discontinued operations	—	0.27
Net (loss) income per share—basic and diluted	\$ (0.08)	\$ 0.20
Dividends declared per common share	\$ —	\$ 0.055
Net (loss) income	\$ (1,657)	\$ 4,106
Other comprehensive (loss) income:		
Reclassification of tax provision impact	22	—
Reclassification of unrealized gains on equity securities to retained earnings	—	(17)
Total other comprehensive income (loss)	22	(17)
Comprehensive (loss) income	\$ (1,635)	\$ 4,089

See accompanying notes to the unaudited condensed consolidated financial statements.

DIGIRAD CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands)

	March 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 797	\$ 1,545
Equity securities	17	153
Accounts receivable, net	13,361	12,642
Inventories, net	5,483	5,402
Restricted cash	168	167
Other current assets	1,522	1,285
Total current assets	21,348	21,194
Property and equipment, net	20,575	21,645
Operating lease right-of-use assets, net	3,681	—
Intangible assets, net	4,944	5,228
Goodwill	1,745	1,745
Restricted cash	101	101
Deferred tax assets	16	—
Other assets	2,183	681
Total assets	\$ 54,593	\$ 50,594
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 4,808	\$ 5,206
Accrued compensation	3,246	3,862
Accrued warranty	230	197
Deferred revenue	1,414	1,687
Operating lease liabilities	1,251	—
Other current liabilities	2,474	2,265
Total current liabilities	13,423	13,217
Long-term debt	12,517	9,500
Deferred tax liabilities	121	121
Operating lease liabilities, net of current portion	2,564	—
Other liabilities	1,715	1,956
Total liabilities	30,340	24,794
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Preferred stock, \$0.0001 par value: 10,000,000 shares authorized; no shares issued or outstanding	—	—
Common stock, \$0.0001 par value: 80,000,000 shares authorized; 20,309,908 and 20,249,786 shares issued and outstanding (net of treasury shares) at March 31, 2019 and December 31, 2018, respectively	2	2
Treasury stock, at cost; 2,588,484 shares at March 31, 2019 and December 31, 2018	(5,728)	(5,728)
Additional paid-in capital	145,516	145,428
Accumulated other comprehensive loss	—	(22)
Accumulated deficit	(115,537)	(113,880)
Total stockholders' equity	24,253	25,800
Total liabilities and stockholders' equity	\$ 54,593	\$ 50,594

See accompanying notes to the unaudited condensed consolidated financial statements.

DIGIRAD CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Three Months Ended March 31,	
	2019	2018
Operating activities		
Net (loss) income	\$ (1,657)	\$ 4,106
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,526	1,910
Amortization of intangible assets	283	370
Amortization of operating lease right-of-use assets	276	—
Provision for bad debt	75	13
Gain on disposal of discontinued operations	—	(6,261)
Stock-based compensation	112	200
Amortization of loan issuance costs	8	54
Debt issuance costs write-off	151	—
(Gain) loss on sale of assets	(42)	5
Deferred income taxes	(16)	107
Other, net	(28)	17
Changes in operating assets and liabilities:		
Accounts receivable	(794)	3,119
Inventories	8	(177)
Other assets	(454)	185
Accounts payable	(664)	21
Accrued compensation	(616)	(2,299)
Deferred revenue	(273)	(568)
Operating lease liabilities	(287)	—
Other liabilities	207	(382)
Net cash (used in) provided by operating activities	<u>(2,185)</u>	<u>420</u>
Investing activities		
Purchases of property and equipment	(387)	(201)
Proceeds from sale of property and equipment	257	40
Purchases of equity securities	—	(14)
Proceeds from sales of equity securities	140	—
Proceeds from sale of discontinued operations	—	6,844
Payments to acquire interest in joint ventures	(1,000)	—
Net cash (used in) provided by investing activities	<u>(990)</u>	<u>6,669</u>
Financing activities		
Proceeds from long-term borrowings	23,517	7,758
Repayment of long-term debt	(20,500)	(14,257)
Loan issuance costs	(381)	(4)
Dividends paid	—	(1,105)
Taxes paid related to net share settlement of equity awards	(24)	(70)
Repayment of obligations under finance leases	(184)	(254)
Net cash provided by (used in) financing activities	<u>2,428</u>	<u>(7,932)</u>
Net decrease in cash and cash equivalents and restricted cash	<u>(747)</u>	<u>(843)</u>
Cash, cash equivalents, and restricted cash at beginning of period	1,813	2,220
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 1,066</u>	<u>\$ 1,377</u>

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Common stock		Treasury Stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total stockholders' equity
	Shares	Amount					
Balance at December 31, 2018	20,250	\$ 2	\$ (5,728)	\$ 145,428	\$ (22)	\$ (113,880)	\$ 25,800
Stock-based compensation	—	—	—	112	—	—	112
Shares issued under stock incentive plans, net of shares withheld for employee taxes	60	—	—	(24)	—	—	(24)
Net loss	—	—	—	—	—	(1,657)	(1,657)
Reclassification of tax provision impact	—	—	—	—	22	—	22
Balance at March 31, 2019	<u>20,310</u>	<u>\$ 2</u>	<u>\$ (5,728)</u>	<u>\$ 145,516</u>	<u>\$ —</u>	<u>\$ (115,537)</u>	<u>\$ 24,253</u>

	Common stock		Treasury Stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total stockholders' equity
	Shares	Amount					
Balance at December 31, 2017	20,060	\$ 2	\$ (5,728)	\$ 148,163	\$ (5)	\$ (114,633)	\$ 27,799
Stock-based compensation	—	—	—	200	—	—	200
Shares issued under stock incentive plans, net of shares withheld for employee taxes	59	—	—	(69)	—	—	(69)
Dividends paid	—	—	—	(1,105)	—	—	(1,105)
Net income	—	—	—	—	—	4,106	4,106
Unrealized loss on securities available-for-sale	—	—	—	—	(17)	17	—
Balance at March 31, 2018	<u>20,119</u>	<u>\$ 2</u>	<u>\$ (5,728)</u>	<u>\$ 147,189</u>	<u>\$ (22)</u>	<u>\$ (110,510)</u>	<u>\$ 30,931</u>

See accompanying notes to consolidated financial statements.

DIGIRAD CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Presentation

Basis of Presentation

The unaudited condensed consolidated financial statements included in this Form 10-Q have been prepared in accordance with the U.S. Securities and Exchange Commission (“SEC”) instructions for Quarterly Reports on Form 10-Q. Accordingly, the condensed consolidated financial statements are unaudited and do not contain all the information required by U.S. generally accepted accounting principles (“GAAP”) to be included in a full set of financial statements. The unaudited condensed consolidated balance sheet at December 31, 2018 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by GAAP for a complete set of financial statements. The audited consolidated financial statements for our fiscal year ended December 31, 2018, filed with the SEC on Form 10-K on March 1, 2019, include a summary of our significant accounting policies and should be read in conjunction with this Form 10-Q. In the opinion of management, all material adjustments necessary to present fairly the results of operations, cash flows, and balance sheets for such periods have been included in this Form 10-Q. All such adjustments are of a normal recurring nature. The results of operations for interim periods are not necessarily indicative of the results of operations for the entire year.

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 condensed 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 10 *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 are disclosed in Note 2 *Discontinued Operations*. Unless otherwise noted, amounts and disclosures throughout these notes to condensed 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 (“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 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.

Use of Estimates

Preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results could differ from management’s estimates.

Leases

We determine if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (“ROU”) assets, operating lease liabilities, and operating lease liabilities, net of current portion in our condensed consolidated balance sheets. Finance leases are included in property and equipment, other current liabilities, and other long-term liabilities in our condensed consolidated balance sheets.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. We use the implicit discount rate when readily determinable; however, as most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Our lease valuation may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Company elected to not separate lease and non-lease components of its operating leases in which it is the lessee and lessor. Additionally, The Company elected not to recognize right-of-use assets and leases liabilities that arise from short-term leases of twelve months or less.

Recently Adopted Accounting Standards

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 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. The Company adopted 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. In connection with the adoption, the Company has elected to utilize the package of practical expedients, including: (1) not reassess the lease classification for any expired or existing leases, (2) not reassess the treatment of initial direct costs as they related to existing leases, and (3) not reassess whether expired or existing contracts are or contain leases. Upon adoption, the Company recorded right-of-use assets and lease liabilities on its condensed consolidated balance sheet \$3.8 million and \$3.9 million, respectively, primarily related to real estate and vehicle leases. See Note 6 *Leases* for further detail.

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. The Company early adopted ASU 2018-15 beginning January 1, 2019, and applied the guidance prospectively to the implementation costs incurred in the Net-Suite ERP implementation. As of March 31, 2019, the Company has capitalized \$29 thousand of implementation costs.

Note 2. 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 were 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 condensed consolidated statement of operations for all periods presented.

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 previous revolving credit facility with Comerica Bank, a Texas banking association ("Comerica Bank") under that certain Revolving Credit Agreement, dated June 21, 2017, by and between the Company and Comerica Bank (the "Comerica Credit Agreement"). 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 presents financial results of the MDSS business (in thousands):

	Three Months Ended March 31,	
	2019	2018
Total revenues	\$ —	\$ 624
Total cost of revenues	—	516
Gross profit	—	108
Operating expenses:		
Marketing and sales	—	85
General and administrative	—	172
Amortization of intangible assets	—	13
Gain on sale of discontinued operations	—	(6,261)
Total operating expenses	—	(5,991)
Income from discontinued operations	—	6,099
Interest expense	—	(26)
Income from discontinuing operations before income taxes	—	6,073
Income tax expense	—	(579)
Income from discontinuing operations	\$ —	\$ 5,494

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

	Three Months Ended March 31,	
	2019	2018
Operating activities:		
Depreciation	\$ —	\$ 2
Amortization of intangible assets	\$ —	\$ 13
Gain on sale of discontinued operations	\$ —	\$ (6,261)
Stock-based compensation	\$ —	\$ (1)
Investing activities:		
Proceeds from the sale of discontinued operations	\$ —	\$ 6,844

Note 3. 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 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. 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 required for as variable consideration when estimating the amount of revenue to be recognized.

Disaggregation of Revenue

The following tables present our revenues for the three months ended March 31, 2019 and 2018, disaggregated by major source (in thousands):

	Three Months Ended March 31, 2019			
	Diagnostic Services	Diagnostic Imaging	Mobile Healthcare	Total
Major Goods/Service Lines				
Mobile Imaging and Cardiac Monitoring	\$ 11,585	\$ —	\$ 7,494	\$ 19,079
Camera	—	804	—	804
Camera Support	—	1,719	—	1,719
Revenue from Contracts with Customers	11,585	2,523	7,494	21,602
Lease Income	141	—	2,169	2,310
Total Revenues	\$ 11,726	\$ 2,523	\$ 9,663	\$ 23,912
Timing of Revenue Recognition				
Services and goods transferred over time	\$ 11,726	\$ 1,551	\$ 9,525	\$ 22,802
Services and goods transferred at a point in time	—	972	138	1,110
Total Revenues	\$ 11,726	\$ 2,523	\$ 9,663	\$ 23,912

Three Months Ended March 31, 2018

	<u>Diagnostic Services</u>	<u>Diagnostic Imaging</u>	<u>Mobile Healthcare</u>	<u>Total</u>
Major Goods/Service Lines				
Mobile Imaging and Cardiac Monitoring	\$ 11,898	\$ —	\$ 8,079	\$ 19,977
Camera	—	1,070	—	1,070
Camera Support	—	1,744	—	1,744
Revenue from Contracts with Customers	11,898	2,814	8,079	22,791
Lease Income	127	28	2,519	2,674
Total Revenues	<u>\$ 12,025</u>	<u>\$ 2,842</u>	<u>\$ 10,598</u>	<u>\$ 25,465</u>
Timing of Revenue Recognition				
Services and goods transferred over time	\$ 10,964	\$ 1,720	\$ 10,491	\$ 23,175
Services and goods transferred at a point in time	1,061	1,122	107	2,290
Total Revenues	<u>\$ 12,025</u>	<u>\$ 2,842</u>	<u>\$ 10,598</u>	<u>\$ 25,465</u>

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 three months ended March 31, 2019, is as follows (in thousands):

Balance at December 31, 2018	\$	1,713
Revenue recognized that was included in balance at beginning of the year		(541)
Deferred revenue, net, related to contracts entered into during the year		262
Balance at March 31, 2019	\$	1,434

Included in the balances above as of March 31, 2019 and December 31, 2018 is non-current deferred revenue of \$20 thousand and \$26 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 4. Basic and Diluted Net Income (Loss) Per Share

For the three months ended March 31, 2019 and 2018, basic net income (loss) per common share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted net income per common share is calculated to give effect to all dilutive securities, if applicable, using the treasury stock method. In periods for which there is a net loss, diluted loss per common share is equal to basic loss per common share, since the effect of including any common stock equivalents would be antidilutive.

The following table sets forth the reconciliation of shares used to compute basic and diluted net (loss) income per share for the periods indicated (in thousands):

	Three Months Ended March 31,	
	2019	2018
Loss from continuing operations	\$ (1,657)	\$ (1,388)
Income from discontinued operations	—	5,494
Net (loss) income	\$ (1,657)	\$ 4,106
Weighted-average shares outstanding—basic and diluted	20,278	20,092
(Loss) income per common share—basic and diluted		
Continuing operations	\$ (0.08)	\$ (0.07)
Discontinued operations	—	0.27
Net (loss) income per common share—basic and diluted	\$ (0.08)	\$ 0.20

The computation of diluted earnings per share excludes stock options and stock units that are anti-dilutive. The following common stock equivalents were anti-dilutive (in thousands):

	Three Months Ended March 31,	
	2019	2018
Stock options	1,000	207
Restricted stock units	287	129
Total	1,287	336

Note 5. Supplementary Balance Sheet Information

The components of inventories are as follows (in thousands):

	March 31, 2019	December 31, 2018
Inventories:		

Raw materials	\$	2,425	\$	2,419
Work-in-process		2,285		2,307
Finished goods		1,154		1,056
Total inventories		5,864		5,782
Less reserve for excess and obsolete inventories		(381)		(380)
Total inventories, net	\$	5,483	\$	5,402

Property and equipment consist of the following (in thousands):

		March 31, 2019		December 31, 2018
Property and equipment:				
Land	\$	550	\$	550
Buildings and leasehold improvements		1,989		1,989
Machinery and equipment		52,138		52,409
Computer hardware and software		4,489		4,490
Total property and equipment		59,166		59,438
Less accumulated depreciation		(38,591)		(37,793)
Total property and equipment, net	\$	20,575	\$	21,645

Note 6. Leases

We have operating and finance leases for corporate offices, vehicles, and certain equipment. Our leases have remaining lease terms of 1 year to 6 years, some of which include options to extend the leases and some of which include options to terminate the leases within 1 year. Operating leases are included separately in the condensed consolidated balance sheets and finance leases are included in other current liabilities and other liabilities in the condensed consolidated balance sheets.

The components of lease expense are as follows (in thousands):

		Three Months Ended March 31, 2019
Operating lease cost	\$	326
Finance lease cost:		
Amortization of finance lease assets	\$	53
Interest on finance lease liabilities		33
Total finance lease cost	\$	86

Supplemental cash flow information related to leases was as follows (in thousands):

	Three Months Ended March 31, 2019
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	\$ 287
Operating cash flows from finance leases	\$ 33
Financing cash flows from finance leases	\$ 184
Right-of-use assets obtained in exchange for lease obligations	
Operating leases	\$ 323
Finance leases	\$ 145

Supplemental balance sheet information related to leases was as follows (in thousands):

	March 31, 2019
Operating lease right-of-use assets, net	<u>\$ 3,681</u>
Operating lease liabilities	\$ 1,251
Operating lease liabilities, net of current	2,564
Total operating lease liabilities	<u>\$ 3,815</u>
Finance lease assets	\$ 3,702
Finance lease accumulated amortization	(1,100)
Finance lease assets, net	<u>\$ 2,602</u>
Finance lease liabilities	\$ 809
Finance lease liabilities, net of current	1,607
Total finance lease liabilities	<u>\$ 2,416</u>
Weighted-Average Remaining Lease Term (in years)	
Operating leases	3.4
Finance leases	2.9
Weighted-Average Discount Rate	
Operating leases	5.00%
Finance leases	6.00%

We are committed to making future cash payments on non-cancelable operating leases and finance leases (including interest). The future minimum lease payments due under both non-cancelable operating leases and finance leases having initial or remaining lease terms in excess of one year as of March 31, 2019 were as follows (in thousands):

	Operating Leases	Finance Leases
2019 (excludes the three-months ended March 31, 2019)	\$ 1,066	\$ 696
2020	1,317	842
2021	953	817
2022	552	258
2023	259	10
Thereafter	4	—
Total future minimum lease payments	<u>\$ 4,151</u>	<u>\$ 2,623</u>
Less amounts representing interest	336	207
Present value of lease obligations	<u>\$ 3,815</u>	<u>\$ 2,416</u>

Note 7. Financial Instruments

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents information about our financial assets that are measured at fair value on a recurring basis, and indicates the fair value hierarchy of the valuation techniques we utilize to determine such fair value at March 31, 2019 and December 31, 2018 (in thousands).

	Fair Value as of March 31, 2019			
	Level 1	Level 2	Level 3	Total
Equity securities	<u>\$ 17</u>	<u>\$ 31</u>	<u>\$ —</u>	<u>\$ 48</u>

	Fair Value as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Equity securities	<u>\$ 153</u>	<u>\$ 6</u>	<u>\$ —</u>	<u>\$ 159</u>

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 condensed consolidated balance sheet. The fair value of these securities is based on the closing prices observed on March 31, 2019. During the three months ended March 31, 2019 the Company recorded in the condensed consolidated statement of operations an unrealized gain of \$28 thousand and immaterial unrealized losses.

We did not reclassify any investments between levels in the fair value hierarchy during the three months ended March 31, 2019.

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

Note 8. Debt

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

	March 31, 2019		December 31, 2018	
	Amount	Weighted-Average Interest Rate	Amount	Weighted-Average Interest Rate
Revolving Credit Facility - SNB	\$ 12,517	5.00%	\$ —	—%
Revolving Credit Facility - Comerica	\$ —	—%	\$ 9,500	4.87%

On March 29, 2019, the Company entered into a Loan and Security Agreement (the “Loan Agreement”) by and among certain subsidiaries of the Company, as borrowers (collectively, the “Borrowers”); the Company, as guarantor; and Sterling National Bank, a national banking association, as lender (“SNB”).

The Loan Agreement is a five-year credit facility maturing in March 2024, with a maximum credit amount of \$20.0 million for both revolving loans and outstanding letter of credit obligations (the “SNB Credit Facility”). Under the SNB Credit Facility, Borrowers can request the issuance of letters of credit in an aggregate amount not to exceed \$0.5 million at any one time outstanding. As of March 31, 2019, the Company had \$0.1 million of letters of credit outstanding and had additional borrowing capacity of \$7.5 million.

At the Borrowers’ option, the SNB Credit Facility will bear interest at either (i) a Floating LIBOR Rate, as defined in the Loan Agreement, plus a margin of 2.50% per annum; or (ii) a Fixed LIBOR Rate, as defined in the Loan Agreement, plus a margin of 2.25% per annum.

The Company used a portion of the financing made available under the SNB Credit Facility to refinance and terminate, effective as of March 29, 2019, its previous credit facility under the Comerica Credit Agreement.

The Loan Agreement includes certain representations, warranties of Borrowers, as well as events of default and certain affirmative and negative covenants by the Borrowers that are customary for loan agreements of this type. These covenants include restrictions on borrowings, investments and dispositions by Borrowers, as well as limitations on the Borrowers’ ability to make certain distributions. Upon the occurrence and during the continuation of an event of default under the Loan Agreement, SNB may, among other things, declare the loans and all other obligations under the Loan Agreement immediately due and payable and increase the interest rate at which loans and obligations under the Loan Agreement bear interest. The SNB Credit Facility is secured by a first-priority security interest in substantially all of the assets of the Company and the Borrowers and a pledge of all shares of the Borrowers.

On March 29, 2019, in connection with the Company’s entry into the SNB Loan Agreement, Mr. Eberwein, the Chairman of the Company’s board of directors, entered into Limited Guaranty Agreement (the “Limited Guaranty”) with SNB pursuant to which he guaranteed to SNB the prompt performance of all the Borrowers’ obligations to SNB under the SNB Loan Agreement, including the full payment of all indebtedness owing by Borrowers to SNB under or in connection with the Loan Agreement and related SNB Credit Facility documents. Mr. Eberwein’s obligations under the Limited Guaranty are limited in the aggregate to the amount of (a) \$1.5 million, plus (b) reasonable costs and expenses of SNB incurred in connection with the Limited Guaranty. Mr. Eberwein’s obligations under the Limited Guaranty terminate upon the Company and Borrowers achieving certain milestones set forth therein.

In connection with the SNB Credit Facility, in the three months ended March 31, 2019, the Company recognized a \$0.2 million loss on extinguishment due to the write off of unamortized deferred financing costs associated with the Comerica Credit Agreement.

At March 31, 2019, the Company was in compliance with all covenants.

Note 9. Commitments and Contingencies

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. 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. 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 forecasted income, we concluded that a full valuation allowance was necessary to offset our deferred tax assets. We continue to record a full valuation allowance against our deferred tax assets and intend to maintain a valuation allowance until sufficient positive evidence exists to support its reversal.

Intraperiod tax allocation rules require us to allocate our provision for income taxes between continuing operations and other categories of comprehensive income, such as discontinued operations. In periods in which we have a year-to-date pre-tax loss from continuing operations and pre-tax income in other categories of comprehensive income, such as discontinued operations, we must consider that income in determining the amount of tax benefit that results from a loss in continuing operations and that shall be allocated to continuing operations.

For the three months ended March 31, 2019, the Company recorded an income tax benefit of \$8 thousand within continuing operations. As a result of the intraperiod tax allocation rules, for the three months ended March 31, 2018, the Company recorded an income tax benefit of \$0.5 million and \$0.6 million of income tax expense within continuing operations and discontinued operations, respectively.

As of March 31, 2019, we had unrecognized tax benefits of approximately \$3.6 million related to uncertain tax positions. Included in the unrecognized tax benefits were \$3.2 million of tax benefits that, if recognized, would reduce our annual effective tax rate, subject to the valuation allowance.

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.

Note 11. Segments

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). The Company does not identify or allocate its assets by operating segments.

Segment information is as follows (in thousands):

	Three Months Ended March 31,	
	2019	2018
Revenue by segment:		
Diagnostic Services	\$ 11,726	\$ 12,025
Diagnostic Imaging	2,523	2,842
Mobile Healthcare	9,663	10,598
Condensed consolidated revenue	<u>\$ 23,912</u>	<u>\$ 25,465</u>
Gross profit by segment:		
Diagnostic Services	\$ 2,581	\$ 2,247
Diagnostic Imaging	786	1,245
Mobile Healthcare	614	1,115
Condensed consolidated gross profit	<u>\$ 3,981</u>	<u>\$ 4,607</u>
Loss from continuing operations by segment:		
Diagnostic Services	\$ 1,736	\$ 993
Diagnostic Imaging	343	619
Mobile Healthcare	(623)	(51)
Unallocated corporate and other expenses	(2,591)	(3,170)
Condensed consolidated loss from continuing operations	<u>\$ (1,135)</u>	<u>\$ (1,609)</u>
Depreciation and amortization by segment:		
Diagnostic Services	\$ 304	\$ 596
Diagnostic Imaging	78	74
Mobile Healthcare	1,427	1,592
Total depreciation and amortization	<u>\$ 1,809</u>	<u>\$ 2,262</u>

Note 12. Related Party Transactions

Perma-Fix

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. The investment in Perma-Fix is included in other assets in the condensed consolidated balance sheets.

Limited Guaranty

On March 29, 2019, in connection with the Company's entry into the Loan Agreement, Mr. Eberwein, the Chairman of the Company's board of directors, entered into Limited Guaranty Agreement (the "Limited Guaranty") with SNB pursuant to which he guaranteed to SNB the prompt performance of all the Borrowers' obligations to SNB under the Loan Agreement, including the full payment of all indebtedness owing by Borrowers to SNB under or in connection with the Loan Agreement and related SNB Credit Facility documents. Mr. Eberwein's obligations under the Limited Guaranty are limited in the aggregate to the amount of (a) \$1.5 million, plus (b) reasonable costs and expenses of SNB incurred in connection with the Limited Guaranty. Mr. Eberwein's obligations under the Limited Guaranty terminate upon the Company and Borrowers achieving certain milestones set forth therein.

ATRM

Jeffrey E. Eberwein, the Chairman of our board of directors and the Chairman of the board of directors of ATRM Holdings, Inc., ("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 10.0% 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.

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. 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. The investment in Star Procurement is included in other assets in the condensed consolidated balance sheets.

Note Receivable

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% per annum for the first 12 months of its term, and at 12% 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. The ATRM Note is included in other assets in the condensed consolidated balance sheets.

Note 13. Subsequent Events

Acquisitions and Leases of Maine Facilities

As part of the Company's previously announced conversion into a diversified holding company (the "HoldCo Conversion"), we formed a real estate subsidiary named Star Real Estate Holdings USA, Inc. ("SRE"). SRE will hold any significant real estate assets we acquire. We expect SRE to be substantially self-funded over time by raising its own capital in the form of commercial mortgages on the properties it owns or by raising other forms of external capital. As an initial transaction to create our real estate division under SRE and launch that aspect of the HoldCo Conversion, we purchased three plants in Maine that manufacture modular buildings and leased these three properties, as further described below.

Oxford

On March 27, 2019, 56 Mechanic Falls Road, LLC ("56 Mechanic"), a wholly-owned subsidiary of SRE, entered into a Purchase and Sale Agreement (the "Oxford Purchase Agreement") with RJF - Keiser Real Estate, LLC ("RJF"), pursuant to which 56 Mechanic will purchase certain real property and related improvements and personal property (including buildings, fixtures, and other improvements on the land, and all machinery and equipment and other personal property, if any, owned by RJF and located on the property) located in Oxford, Maine (the "Oxford Facility") from RJF (the "Oxford Transaction"). The Oxford Transaction was closed on April 25, 2019. The purchase price of the Oxford Facility was \$1.2 million (the "Oxford Purchase Price"), subject to adjustment for taxes and other charges and assessments.

Waterford

On April 3, 2019, 947 Waterford Road, LLC (“947 Waterford”), a wholly-owned subsidiary of SRE, entered into a Purchase and Sale Agreement (the “Waterford Purchase Agreement”) with KBS Builders, Inc. (“KBS”), a wholly-owned subsidiary of ATRM, pursuant to which 947 Waterford closed on the purchase of certain real property and related improvements (including buildings) located in Waterford, Maine (the “Waterford Facility”) from KBS, and acquired the Waterford Facility. The purchase price of the Waterford Facility was \$1.0 million, subject to adjustment for taxes and other charges and assessments.

Paris

On April 3, 2019, 300 Park Street, LLC (“300 Park”), a wholly-owned subsidiary of SRE, entered into a Purchase and Sale Agreement (the “Park Purchase Agreement”) with KBS, pursuant to which 300 Park closed on the purchase of certain real property and related improvements and personal property (including buildings, machinery and equipment) located in Paris, Maine (the “Park Facility”) from KBS, and acquired the Park Facility. The purchase price of the Park Facility was \$2.9 million, subject to adjustment for taxes and other charges and assessments.

Lease of Maine Facilities

On April 3, 2019, KBS entered into a separate lease agreement with each of 947 Waterford (the “Waterford Lease”) and 300 Park (the “Park Lease”). The Waterford Lease has an initial term of 120 months, which is subject to extension. The base rental payments associated with the initial term under the Waterford Lease are estimated to be between \$1.2 million and \$1.3 million in the aggregate. The Park Lease has an initial term of 120 months, which is subject to extension. The base rental payments associated with the initial term under the Park Lease are estimated to be between \$3.3 million and \$3.6 million in the aggregate. ATRM has unconditionally guaranteed the performance of all obligations under the Waterford Lease and Park Lease to be performed by KBS under each lease, including, without limitation, the payment of all required rent.

On April 3rd and 18th of 2019, KBS signed a lease and an amendment, respectively, with 56 Mechanic (the “Oxford Lease”), which became effective upon the closing of the Oxford Transaction. The initial term under the Oxford Lease will commence upon delivery of the Oxford Facility to KBS. The Oxford Lease has an initial term of 120 months, which is subject to extension. The base rental payments associated with the initial term under the Oxford Lease are estimated to be between \$1.4 million and \$1.5 million in the aggregate. ATRM has unconditionally guaranteed the performance of all obligations under the Oxford Lease to be performed by KBS, including, without limitation, the payment of all required rent.

Series A Preferred Stock Offering

The Company has filed a registration statement on Form S-1 and Form S-1/A with the SEC for a potential offering (the “Preferred Offering”) of nonconvertible Series A Cumulative Term Preferred Stock (the “Series A Preferred Stock”) on March 12, 2019 and April 09, 2019, respectively. However, it is unlikely that the Company will proceed with its proposed offering of nonconvertible preferred stock on substantially the terms described in the registration statement.

Fargo Building Sale

The Company completed the sale on the remaining Fargo building for \$0.8 million on May 1, 2019. On the same day, we entered into an agreement with JS2L Partners, LLP, to lease this property for a term of 12 months. The base rental payments associated with the lease are \$0.1 million in aggregate.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This management's discussion and analysis of financial condition and results of operations ("MD&A"), contains forward-looking statements that involve risks and uncertainties. Please see "Important Information Regarding Forward-Looking Statements" for a discussion of the uncertainties, risks, and assumptions that may cause our actual results to differ materially from those discussed in the forward-looking statements. This discussion should be read in conjunction with our unaudited condensed consolidated financial statements and related notes thereto and the other disclosures contained elsewhere in this Quarterly Report on Form 10-Q, and the audited consolidated financial statements and related notes thereto for the fiscal year ended December 31, 2018, which were included in our Form 10-K, filed with the SEC on March 1, 2019.

The results of operations for the periods reflected herein are not necessarily indicative of results that may be expected for future periods.

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 patient care in the rapidly changing healthcare environment.

In February of 2018, we completed the sale of our customer contracts relating to our MDSS post-warranty service business to Philips. On October 31, 2018, we sold our Telerhythmics business to G Medical Innovations USA, Inc., for \$1.95 million cash. Our business is 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 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 of 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 condensed consolidated statement of operations for all periods presented.

Business Segments

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

- Diagnostic Services
- Mobile Healthcare
- 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.

As described above, on September 10, 2018, we announced a potential acquisition of ATRM. 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 SEC 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 HoldCo Conversion.

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% per annum for the first 12 months of its term, and at 12% 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.

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 10.0% 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.

Series A Preferred Stock Offering

The Company has filed a registration statement on Form S-1 with the SEC for a potential offering of nonconvertible Series A Preferred Stock. However, it is unlikely that the Company will proceed with its proposed offering of nonconvertible preferred stock on substantially the terms described in the registration statement.

Acquisitions and Leases of Maine Facilities

As part of the HoldCo Conversion, we formed a real estate subsidiary named Star Real Estate Holdings USA, Inc. (“SRE”). SRE will hold any significant real estate assets we acquire. We expect SRE to be substantially self-funded over time by raising its own capital in the form of commercial mortgages on the properties it owns or by raising other forms of external capital. As an initial transaction to create our real estate division under SRE and launch that aspect of the HoldCo Conversion, we purchased three plants in Maine that manufacture modular buildings and leased these three properties, as further described below.

Oxford

On March 27, 2019, 56 Mechanic Falls Road, LLC (“56 Mechanic”), a wholly-owned subsidiary of SRE, entered into a Purchase and Sale Agreement (the “Oxford Purchase Agreement”) with RJF - Keiser Real Estate, LLC (“RJF”), pursuant to which 56 Mechanic will purchase certain real property and related improvements and personal property (including buildings, fixtures, and other improvements on the land, and all machinery and equipment and other personal property, if any, owned by RJF and located on the property) located in Oxford, Maine (the “Oxford Facility”) from RJF (the “Oxford Transaction”). The Oxford Transaction was closed on April 25, 2019. The purchase price of the Oxford Facility was \$1.2 million (the “Oxford Purchase Price”), subject to adjustment for taxes and other charges and assessments.

Waterford

On April 3, 2019, 947 Waterford Road, LLC (“947 Waterford”), a wholly-owned subsidiary of SRE, entered into a Purchase and Sale Agreement (the “Waterford Purchase Agreement”) with KBS Builders, Inc. (“KBS”), a wholly-owned subsidiary of ATRM, pursuant to which 947 Waterford closed on the purchase of certain real property and related improvements (including buildings) located in Waterford, Maine (the “Waterford Facility”) from KBS, and acquired the Waterford Facility. The purchase price of the Waterford Facility was \$1.0 million, subject to adjustment for taxes and other charges and assessments.

Paris

On April 3, 2019, 300 Park Street, LLC (“300 Park”), a wholly-owned subsidiary of SRE, entered into a Purchase and Sale Agreement (the “Park Purchase Agreement”) with KBS, pursuant to which 300 Park closed on the purchase of certain real property and related improvements and personal property (including buildings, machinery and equipment) located in Paris, Maine (the “Park Facility”) from KBS, and acquired the Park Facility. The purchase price of the Park Facility was \$2.9 million, subject to adjustment for taxes and other charges and assessments.

Lease of Maine Facilities

On April 3, 2019, KBS entered into a separate lease agreement with each of 947 Waterford (the “Waterford Lease”) and 300 Park (the “Park Lease”). The Waterford Lease has an initial term of 120 months, which is subject to extension. The base rental payments associated with the initial term under the Waterford Lease are estimated to be between \$1.2 million and \$1.3 million in the aggregate. The Park Lease has an initial term of 120 months, which is subject to extension. The base rental payments associated with the initial term under the Park Lease are estimated to be between \$3.3 million and \$3.6 million in the aggregate. ATRM has unconditionally guaranteed the performance of all obligations under the Waterford Lease and Park Lease to be performed by KBS under each lease, including, without limitation, the payment of all required rent.

On April 3rd and 18th of 2019, KBS signed a lease and an amendment, respectively, with 56 Mechanic (the “Oxford Lease”), which became effective upon the closing of the Oxford Transaction. The initial term under the Oxford Lease will commence upon delivery of the Oxford Facility to KBS. The Oxford Lease has an initial term of 120 months, which is subject to extension. The base rental payments associated with the initial term under the Oxford Lease are estimated to be between \$1.4 million and \$1.5 million in the aggregate. ATRM has unconditionally guaranteed the performance of all obligations under the Oxford Lease to be performed by KBS, including, without limitation, the payment of all required rent.

Critical Accounting Policies and Estimates

In preparing our financial statements, we make estimates, assumptions and judgments that can have a significant impact on our revenue and net income or loss, as well as on the value of certain assets and liabilities on our balance sheet. We believe that the estimates, assumptions, and judgments involved in the accounting policies described in *Management’s Discussion and Analysis of Financial Condition and Results of Operations* in Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 have the greatest potential impact on our financial statements, so we consider them to be our critical accounting policies and estimates.

Results of Operations

Comparison of the Three Months Ended March 31, 2019 and 2018

The following table summarizes our results for the three months ended March 31, 2019 and 2018 (in thousands):

	Three Months Ended March 31,					
	2019	Percent of Revenues	2018	Percent of Revenues	Change from Prior Year Dollars	Percent
Total revenues	\$ 23,912	100.0 %	\$ 25,465	100.0 %	\$ (1,553)	(6.1)%
Total cost of revenues	19,931	83.4 %	20,858	81.9 %	(927)	(4.4)%
Gross profit	3,981	16.6 %	4,607	18.1 %	(626)	(13.6)%
Total operating expenses	5,116	21.4 %	6,216	24.4 %	(1,100)	(17.7)%
Loss from operations	(1,135)	(4.7)%	(1,609)	(6.3)%	474	(29.5)%
Total other expense	(530)	(2.2)%	(234)	(0.9)%	(296)	126.5 %
Loss before income taxes	(1,665)	(7.0)%	(1,843)	(7.2)%	178	(9.7)%
Income tax benefit	8	— %	455	1.8 %	(447)	(98.2)%
Net loss from continuing operations	(1,657)	(6.9)%	(1,388)	(5.5)%	(269)	19.4 %
Net income from discontinued operations	—	— %	5,494	21.6 %	(5,494)	(100.0)%
Net (loss) income	\$ (1,657)	(6.9)%	\$ 4,106	16.1 %	\$ (5,763)	(140.4)%

Revenues

Services Revenue

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

	Three Months Ended March 31,			
	2019	2018	Change	% Change
Diagnostic Services	\$ 11,726	\$ 12,025	\$ (299)	(2.5)%
Mobile Healthcare	9,663	10,598	(935)	(8.8)%
Total Services Revenue	\$ 21,389	\$ 22,623	\$ (1,234)	(5.5)%

The decrease in Diagnostic Services revenue compared to the prior year quarter was due to the sale of our Telerhythmics business as of October 31, 2018 resulting in a loss of revenues of \$1.1 million, partially offset by a higher volume of days ran and studies performed and an increase in the average mobile imaging rate per day.

The decrease in Mobile Healthcare revenue compared to the prior year quarter was primarily due to an increase in cancellations, resulting in a \$0.6 million decrease in scan volumes, as well as a \$0.3 million decrease in interim rentals due to lower utilization of owned units. 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.

Product and Product-Related Revenue

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

	Three Months Ended March 31,			
	2019	2018	Change	% Change
Diagnostic Imaging	\$ 2,523	\$ 2,842	\$ (319)	(11.2)%

The decrease in Diagnostic Imaging revenue was due to a lower volume and less favorable mix of cameras sold.

Gross Profit

Services Gross Profit

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

	Three Months Ended March 31,		
	2019	2018	% Change
Diagnostic Services gross profit	\$ 2,581	\$ 2,247	14.9%
Diagnostic Services gross margin	22.0%	18.7%	
Mobile Healthcare gross profit	\$ 614	\$ 1,115	(44.9)%
Mobile Healthcare gross margin	6.4%	10.5%	
Total Services gross profit	\$ 3,195	\$ 3,362	(5.0)%
Total Services gross margin	14.9%	14.9%	

Diagnostic Services gross profit increased \$0.3 million, or 14.9%, to \$2.6 million compared to \$2.2 million in the prior year quarter, and the gross margin percentage was 22.0% in the current quarter compared to 18.7% in the prior year quarter. The increase in gross margin percentage was mainly due to lower equipment repair costs and professional services fees, as well as the sale of our Telerhythmics business which typically had narrow or negative gross margins.

Mobile Healthcare gross profit decreased \$0.5 million, or 44.9%, to \$0.6 million in the current year quarter compared to \$1.1 million in the prior year quarter, and gross margin percentage was 6.4% in the current quarter compared to 10.5% in the prior year quarter. The decrease in gross margin percentage was primarily due to an unfavorable mix of services provided, as well as higher equipment and vehicle leasing costs of \$0.3 million compared to the prior year quarter.

Product and Product-Related Gross Profit

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

	Three Months Ended March 31,		
	2019	2018	% Change
Diagnostic Imaging gross profit	\$ 786	\$ 1,245	(36.9)%
Diagnostic Imaging gross margin	31.2%	43.8%	

The decrease in Diagnostic Imaging gross margin percentage was primarily due to lower revenue, a less favorable mix of cameras sold during the period, and higher service and camera part costs of approximately \$0.2 million compared to the prior year quarter.

Operating Expenses

Operating expenses are summarized as follows (in thousands):

	Three Months Ended March 31,				Percent of Revenues	
	2019	2018	Change		2019	2018
			Dollars	Percent		
Marketing and sales	\$ 1,143	\$ 1,467	\$ (324)	(22.1)%	4.8%	5.8%
General and administrative	3,690	4,392	(702)	(16.0)%	15.4%	17.2%
Amortization of intangible assets	283	357	(74)	(20.7)%	1.2%	1.4%
Total operating expenses	\$ 5,116	\$ 6,216	\$ (1,100)	(17.7)%	21.4%	24.4%

The decrease in marketing and sales expenses was primarily due to lower headcount, as well as the sale of our Telerhythmics which resulted in approximately \$0.1 million in savings.

The decrease in general and administrative expenses of \$0.7 million was primarily due to lower employee related costs of \$0.6 million due to lower headcount and \$0.1 million of non-recurring restructuring costs incurred in the prior year quarter related to the sale of our MDSS reportable segment on February 1, 2018.

The decrease in amortization of intangible assets was due to the sale of Telerhythmics.

Total Other Expense

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

	Three Months Ended March 31,	
	2019	2018
Other expense, net	\$ (198)	\$ (17)
Interest expense, net	(181)	(217)
Loss on extinguishment of debt	(151)	—
Total other expense	\$ (530)	\$ (234)

Other expense, net for three months ended March 31, 2019, is predominantly comprised of one-time costs related to the potential acquisition of ATRM, of which \$0.2M related to costs paid on behalf of ATRM, and partially offset by unrealized gains on available-for-sale equities.

Interest expense, net, for the three months ended March 31, 2019 and 2018 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 2018 because the proceeds received in the sale were required to be used to reduce our borrowings under our previous revolving credit facility with Comerica Bank.

Loss on extinguishment of debt is related to the write-off of unamortized deferred financing costs related to the termination of the Comerica Credit Agreement on March 29, 2019. See Note 8 *Debt* to the unaudited consolidated financial statements for further information.

Income Tax Expense

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 2 *Discontinued Operations*, of the unaudited consolidated financial statements, the results of our MDSS reportable segment have been reported as discontinued operations for the prior year quarter. As a result of the intraperiod tax allocation rules, for the three months ended March 31, 2019, the Company recorded an income tax benefit of \$8 thousand within continuing operations. For the three months ended March 31, 2018, the Company recorded an income tax benefit of \$0.5 million within continuing operations and \$0.6 million of tax expense within discontinued operations.

See Note 10 *Income Taxes* to the unaudited condensed consolidated financial statements for further information related to the Company's income taxes.

Income from Discontinued Operations

As described in Note 2 *Discontinued Operations* of the unaudited condensed consolidated financial statements, the results of our MDSS reportable segment have been reported as discontinued operations for all periods presented. During the three months ended March 31, 2018, discontinued operations includes a \$6.3 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 used cash of \$2.2 million from operations during the three months ended March 31, 2019. Cash flows from operations primarily represents net loss (adjusted for depreciation, amortization, and other non-cash items), as well as the net effect of changes in working capital. Cash flows from investing activities primarily represent our investment in capital equipment required to maintain and grow our business, as well as acquisitions and dispositions. 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 Sterling Credit Agreement. As of March 31, 2019, we had \$0.8 million of cash and cash equivalents, as well as \$7.5 million available under our revolving line of credit.

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

Cash Flows

The following table shows cash flow information for the three months ended March 31, 2019 and 2018 (in thousands):

	Three Months Ended March 31,	
	2019	2018
Net cash (used in) provided by operating activities	\$ (2,185)	\$ 420
Net cash (used in) provided by investing activities	\$ (990)	\$ 6,669
Net cash provided by (used in) financing activities	\$ 2,428	\$ (7,932)

Operating Activities

The decrease in cash compared to the prior year quarter was primarily due to lower net income adjusted for non-cash items as a result of higher accounts receivable and lower accounts payable.

Investing Activities

The decrease in cash provided by investing activities compared to the prior year quarter was primarily attributable to \$6.8 million of proceeds received from the sale of our MDSS service contract business to Philips during the prior year quarter.

Financing Activities

The increase in cash flows from financing activities is primarily due to net borrowings of approximately \$3.0 million compared to net principal repayments in the prior year quarter of \$6.5 million as we used proceeds from the Sterling National Bank credit facility to refinance and terminate the Comerica Credit Agreement (see further discussion below).

Sterling Credit Facility

On March 29, 2019, the Company entered into a Loan and Security Agreement (the "Loan Agreement") by and among certain subsidiaries of the Company, as borrowers (collectively, the "Borrowers"); the Company, as guarantor; and Sterling National Bank, a national banking association, as lender ("SNB").

The Loan Agreement is a five-year credit facility maturing in March 2024, with a maximum credit amount of \$20.0 million for both revolving loans and outstanding letter of credit obligations (the "SNB Credit Facility"). Under the SNB Credit Facility, Borrowers can request the issuance of letters of credit in an aggregate amount not to exceed \$0.5 million at any one time outstanding.

At the Borrowers' option, the SNB Credit Facility will bear interest at either (i) a Floating LIBOR Rate, as defined in the Loan Agreement, plus a margin of 2.50% per annum; or (ii) a Fixed LIBOR Rate, as defined in the Loan Agreement, plus a margin of 2.25% per annum.

The Company used a portion of the financing made available under the SNB Credit Facility to refinance and terminate, effective as of March 29, 2019, its previous credit facility under the Comerica Credit Agreement.

The Loan Agreement includes certain representations, warranties of Borrowers, as well as events of default and certain affirmative and negative covenants by the Borrowers that are customary for loan agreements of this type. These covenants include restrictions on borrowings, investments and dispositions by Borrowers, as well as limitations on the Borrowers' ability to make certain distributions. Upon the occurrence and during the continuation of an event of default under the Loan Agreement, SNB may, among other things, declare the loans and all other obligations under the Loan Agreement immediately due and payable and increase the interest rate at which loans and obligations under the Loan Agreement bear interest. The SNB Credit Facility is secured by a first-priority security interest in substantially all of the assets of the Company and the Borrowers and a pledge of all shares of the Borrowers.

In connection with the SNB Credit Facility, in the three months ended March 31, 2019, the Company recognized a \$0.2 million loss on extinguishment due to the write off of unamortized deferred financing costs associated with the Comerica Credit Agreement.

At March 31, 2019, the Company was in compliance with all covenants.

Off-Balance Sheet Arrangements

As of March 31, 2019, we did not have any off-balance sheet arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act of 1934 (the "Exchange Act") reports is recorded, processed, summarized, and reported within the time periods specified in the SEC'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. See Item 5. (Other Information) for a discussion of the security breach that occurred following March 31, 2019.

As required by Rules 13a-15(e) and 15d-15(e) of the Exchange Act, 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 of the end of the period covered by this report. Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of March 31, 2019.

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 control system, no matter how well designed and operated, is based upon certain assumptions and 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.

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 Exchange Act 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.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

In evaluating us and our common stock, we urge you to carefully consider the risks and other information in this Quarterly Report on Form 10-Q, as well as the risk factors disclosed in Item 1A to Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, which we filed with the SEC on March 1, 2019, and in our registration statement on Form S-1/A filed with the SEC for the Preferred Offering on April 9, 2019. Except as noted below, the risks and uncertainties described in “Item 1A - Risk Factors” of our Annual Report on Form 10-K have not materially changed. Any of the risks discussed in this Quarterly Report on Form 10-Q or any of the risks disclosed in Item 1A to Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, as well as additional risks and uncertainties not currently known to us or that we currently deem immaterial, could materially and adversely affect our results of operations or financial condition.

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.

On March 8, 2019, our board of directors unanimously approved, subject to stockholder approval, an amendment to our Restated Certificate of Incorporation to effect a reverse stock split of our outstanding common stock by a ratio of not less than 1-for-5 and not more than 1-for-10 at any time within 12 months following the date of stockholder approval of the reverse stock split, with the exact ratio to be set within this range by our board of directors at its sole discretion (the “Reverse Stock Split”), and a reduction of the number of authorized shares of common stock to 30 million shares authorized. Our board of directors may alternatively elect to abandon such proposed amendment and not effect the Reverse Stock Split authorized by stockholders, in its sole discretion. As proposed to our stockholders, our board of directors will have 12 months following stockholder approval to implement the Reverse Stock Split, and if we implement the Reverse Stock Split to regain compliance with the Minimum Bid Price Requirement by the July 8, 2019 deadline, we must complete the Reverse Split no later than ten business days prior to such deadline. The Reverse Stock Split (which includes the reduction of the number of authorized shares of common stock), if approved by our stockholders, would become effective at the time and date set forth in a certificate of amendment to our Restated Certificate of Incorporation to be filed with the Secretary of State of the State of Delaware. The form of the proposed certificate of amendment to our Restated Certificate of Incorporation to effect the Reverse Stock Split is attached as Appendix A to our preliminary proxy statement filed on March 8, 2019. If we choose to implement a reverse stock split, it must be completed no later than ten business days prior to July 8, 2019.

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.

Risks Related to our Business and Industry

Our HoldCo Conversion and related acquisitions or investments could involve unknown risks that could harm our business and adversely affect our financial condition.

We are in the process of becoming a diversified holding company with interests in a variety of industries and market sectors. The real estate acquisitions that we have made under our SRE real estate division and the pending and future acquisitions that we consummate will involve unknown risks, some of which will be particular to the industry in which the acquisition target operates. Although we intend to conduct extensive business, financial and legal due diligence in connection with the evaluation of all our acquisition and investment opportunities, there can be no assurance our due diligence investigations will identify every matter that could have a material adverse effect on us. We may be unable to adequately address the financial, legal and operational risks raised by such acquisitions or investments, especially if we are unfamiliar with the industry in which we invest. The realization of any unknown risks could prevent or limit us from realizing the projected benefits of the acquisitions or investments, which could adversely affect our financial condition and liquidity. In addition, our financial condition, results of operations and the ability to service our debt will be subject to the specific risks applicable to any company we acquire or in which we invest.

We are subject to particular risks associated with real estate ownership, which could result in unanticipated losses or expenses.

Following our recent acquisition of real estate, our business is subject to many risks that are associated with the ownership of real estate. For example, if our tenants do not renew their leases or default on their leases, we may be unable to re-lease the facilities at favorable rental rates. Other risks that are associated with real estate acquisition and ownership include, without limitation, the following:

- general liability, property and casualty losses, some of which may be uninsured;
- the inability to purchase or sell our assets rapidly to respond to changing economic conditions, due to the illiquid nature of real estate and the real estate market;
- leases which are not renewed or are renewed at lower rental amounts at expiration;
- the default by a tenant or guarantor under any lease;
- costs relating to maintenance and repair of our facilities and the need to make expenditures due to changes in governmental regulations, including the Americans with Disabilities Act;
- environmental hazards created by prior owners or occupants, existing tenants, mortgagors or other persons for which we may be liable;
- acts of God affecting our properties; and
- acts of terrorism affecting our properties.

We rely on information technology in our operations, and any material failure, inadequacy, interruption or security failure of that technology could materially harm our business.

We rely on information technology and systems, including the Internet, commercially available software, and other applications, to process, transmit, store, and safeguard information and to manage or support a variety of our business processes, including financial transactions and maintenance of records, which may include personal identifying information and other valuable or confidential information. If we experience material failures, inadequacies, or interruptions or security failures of our information technology, we could incur material costs and losses. Further, third-party vendors could experience similar events with respect to their information technology and systems that impact the products and services they provide to us or to our customers. We rely on commercially available systems, software, tools, and monitoring, as well as other applications and internal procedures and personnel, to provide security for processing, transmitting, storing, and safeguarding confidential information such as personally identifiable information related to our employees and others, information regarding financial accounts, and information regarding customers and vendors. We take various actions, and we incur significant costs, to maintain and protect the operation and security of our information technology and systems, including the data maintained in those systems. However, it is possible that these measures will not prevent the systems' improper functioning or a compromise in security, such as in the event of a cyberattack or the improper disclosure of information. Security breaches, computer viruses, attacks by hackers, online fraud schemes, and similar breaches can create significant system disruptions, shutdowns, fraudulent transfer of assets, or unauthorized disclosure of confidential information. For example, in April 2019, we became aware that we had been a victim of criminal fraud commonly referred to as "business email compromise fraud." The incident involved the impersonation of an officer of the Company and improper access to his email, resulting in the transfer by the Company of funds to a third-party account.

Despite any defensive measures we take to manage threats to our business, our risk and exposure to these matters remain heightened because of, among other things, the evolving nature of such threats in light of advances in computer capabilities, new discoveries in the field of cryptography, new and sophisticated methods used by criminals including phishing, social engineering, or other illicit acts, or other events or developments that we may be unable to anticipate or fail to adequately mitigate. Any failure to maintain the security, proper function and availability of our information technology and systems, or certain third-party vendors' failure to similarly protect their information technology and systems that are relevant to our operations, or to safeguard our business processes, assets, and information could result in financial losses, interrupt our operations, damage our reputation, cause us to be in default of material contracts, and subject us to liability claims or regulatory penalties, any of which could materially and adversely affect us.

Risks Related to our Indebtedness

On March 29, 2019, we entered into the SNB Loan Agreement, with Sterling National Bank, a national banking association. The SNB Loan Agreement is a five-year revolving credit facility (maturing in March 2024), which, as amended, has a maximum credit amount of \$20 million. We used a portion of the financing made available under the SNB Loan Agreement to refinance and terminate, effective as of March 29, 2019, our previous credit facility under the Comerica Credit Agreement.

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 SNB Loan Agreement requires a balloon payment at the termination of the facility in March 2024, 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 SNB Loan Agreement governing our indebtedness contains restrictive covenants that will restrict our operating flexibility and require that we maintain specified financial ratios. If we cannot comply with these covenants, we may be in default under the SNB Loan Agreement.

The SNB Loan 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 SNB Loan 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.

The SNB Loan Agreement limits our ability to pay dividends and to redeem our equity securities if such dividend or redemption would result in our non-compliance with the financial covenants in the SNB Loan Agreement, there is insufficient borrowing availability under the SNB Loan Agreement, or if there is a default or event of default under the SNB Loan Agreement that has occurred and is continuing. The Company may, therefore be required to reduce or eliminate its dividends, if any, including on the Series A Preferred Stock (if any outstanding), and/or may be unable to redeem shares of the Series A Preferred Stock (if any outstanding) until compliance with such financial covenants can be met.

The SNB Loan Agreement contains a fixed charge coverage ratio covenant and a leverage ratio covenant. Going forward, we may not have the ability to meet these and other covenants under the SNB Loan 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 SNB Loan 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 stockholders 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 SNB as security for our indebtedness under the SNB Loan Agreement.

Pursuant to the SNB Loan Agreement, the SNB Loan Agreement is secured by a first-priority security interest in substantially all of the assets of the Company and its subsidiaries and a pledge of all shares and equity interests of the Company's subsidiaries. Upon the occurrence and during the continuation of an event of default under the SNB Loan Agreement, SNB may, among other things, declare the loans and all other obligations under the SNB Loan Agreement immediately due and payable and increase the interest rate at which loans and obligations under the SNB Loan Agreement bear interest. The exercise by SNB of remedies provided under the SNB Loan 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 SNB Loan 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 stockholders 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 SNB Loan Agreement allows the Company to elect for amounts borrowed under the SNB Loan Agreement to be subject to a floating interest rate which may change 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.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

On April 22, 2019, the Company determined that it had been the victim of a criminal security breach commonly referred to as “business email compromise fraud.” The Company self-discovered this fraudulent activity and promptly initiated contact with its bank and federal law enforcement authorities. As a result of these efforts, the Company has recovered the full amount of the funds transferred. The Company’s internal investigation of this matter and law enforcement actions are ongoing.

While the Company’s internal controls were followed, this incident of email compromise fraud indicates that the design of the Company’s controls needs to be improved. The Company is in the process of enhancing controls relating to electronic transfers, as well as the ability of our personnel to identify and block attempts by third parties to fraudulently receive electronic payments from us. Our management believes that the foregoing actions will improve our internal controls regarding the detection of fraudulent activities and the safeguarding of our assets.

ITEM 6. EXHIBITS

Exhibit Number	Description
10.1	<u>Purchase and Sale Agreement, dated March 27, 2019, by and between RJF – Keiser Real Estate, LLC and 56 Mechanic Falls Road, LLC (incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed with the Commission on April 3, 2019).</u>
10.2	<u>Purchase and Sale Agreement, dated April 3, 2019, by and between KBS Builders, Inc. and 947 Waterford Road, LLC (incorporated by reference to Exhibit 10.2 to the Company’s Current Report on Form 8-K filed with the Commission on April 3, 2019).</u>
10.3	<u>Purchase and Sale Agreement, dated April 3, 2019, by and between KBS Builders, Inc. and 300 Park Street, LLC (incorporated by reference to Exhibit 10.3 to the Company’s Current Report on Form 8-K filed with the Commission on April 3, 2019).</u>
10.4	<u>Lease Agreement, dated April 3, 2019, by and between KBS Builders, Inc. and 947 Waterford Road, LLC (incorporated by reference to Exhibit 10.4 to the Company’s Current Report on Form 8-K filed with the Commission on April 3, 2019).</u>
10.5	<u>Lease Agreement, dated April 3, 2019, by and between KBS Builders, Inc. and 300 Park Street, LLC (incorporated by reference to Exhibit 10.5 to the Company’s Current Report on Form 8-K filed with the Commission on April 3, 2019).</u>
10.6*	<u>Lease Agreement, dated April 3, 2019, by and between KBS Builders, Inc. and 56 Mechanic Falls Road, LLC</u>
10.7*	<u>First Amendment to Lease, dated April 18, 2019, by and between 56 Mechanic Falls Road, LLC and KBS Builders, Inc.</u>
10.8	<u>Loan and Security Agreement, dated March 29, 2019, by and among Digirad Corporation, certain subsidiaries of the Digirad Corporation identified on the signature pages thereto, and Sterling National Bank (incorporated by reference to Exhibit 10.6 to the Company’s Current Report on Form 8-K filed with the Commission on April 3, 2019).</u>
31.1*	<u>Certification of the Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated pursuant to the Securities Exchange Act of 1934, as amended.</u>
31.2*	<u>Certification of the Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated pursuant to the Securities Exchange Act of 1934, as amended.</u>
32.1**	<u>Certification of the Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2**	<u>Certification of the Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
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 Extension Presentation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase

* Filed herewith.

** This certification is being furnished solely to accompany this quarterly report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of Digirad Corporation, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

SIGNATURES

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

Date: May 8, 2019

DIGIRAD CORPORATION

By: /s/ MATTHEW G. MOLCHAN

Matthew G. Molchan
President and Chief Executive Officer
(Principal Executive Officer, Duly Authorized Officer)

LEASE AGREEMENT

THIS LEASE AGREEMENT (this "Lease") is made this 3rd day of April, 2019, by and between **56 MECHANIC FALLS ROAD, LLC**, a Delaware limited liability company with a mailing address of 53 Forest Avenue, Old Greenwich, Connecticut 06870 ("Landlord"), and **KBS BUILDERS, INC.**, a Delaware corporation with a mailing address of 300 Park Street, Paris, Maine 04271 ("Tenant"). The parties hereby agree as follows:

LEASE INFORMATION AND DEFINITIONS

The following information and definitions are incorporated into and made a part of this Lease:

- Leased Premises:** The "Leased Premises" means certain land located in the Town of Oxford, County of Oxford, and State of Maine, and being more particularly described on **Exhibit A**, attached hereto and made a part hereof, together with all improvements thereon and all rights and easements appurtenant thereto (the "Real Property"), together with those certain items of personal property listed on **Exhibit A-1**, attached hereto and made a part hereof (the "Leased Personal Property").
- Term:** The "Term" means:
- (a) an "Initial Term," being a period commencing on the Acquisition Date (as defined in Section 28) (the "Commencement Date") and ending at 5:00 p.m. on March 31, 2029, subject to adjustment and earlier termination as provided in the Lease; and
 - (b) if Tenant duly exercises its option to extend the term of this Lease for one or both Extension Terms as provided in the Lease, then also each such Extension Term for which Tenant has duly exercised such option.
- Extension Terms:** The Extension Terms shall be two (2) separate, consecutive sixty (60) month periods (hereinafter referred to as "First Extension Term" and the "Second Extension Term," respectively, and also referred to in the singular as an "Extension Term" and in the plural as the "Extension Terms"), all on the terms and conditions set forth in the Lease.
- Rent Commencement Date:** Tenant's obligations to pay Base Rent shall commence on August 1, 2019 (the "Rent Commencement Date"), provided, however, that Tenant shall have the right, exercisable only by giving written notice to Landlord prior to June 1, 2019 (the "Rent Commencement Extension Notice"), to elect to defer the Rent Commencement Date until November 1, 2019.

Base Rent:

(a) In the event that Tenant does not give Landlord a timely Rent Commencement Extension Notice as provided herein, the Base Rent for the Leased Premises during the Initial Term shall be as set forth on **Exhibit B**, attached hereto and made a part hereof.

(b) In the event that Tenant gives Landlord a timely Rent Commencement Extension Notice as provided herein, the Base Rent for the Leased Premises during the Initial Term shall be as set forth on **Exhibit C**, attached hereto and made a part hereof.

(c) The Base Rent for the Leased Premises for each year of each Extension Term shall be an amount which is equal to 100% of the prevailing market rates in effect at the time of Tenant's exercise of its extension right for property comparable to the Leased Premises in the vicinity of the Leased Premises (and, for clarity, shall include annual escalators consistent with such prevailing market), all as determined by a licensed commercial real estate broker or appraiser doing business in the greater Portland, Maine vicinity and chosen by Landlord, but in no event shall Base Rent for any year of any Extension Term be less than the Base Rent payable for the immediately preceding year of the Term.

Rent:

The term "Rent" means Base Rent and all other sums payable by Tenant under this Lease.

Taxes:

Without limiting the "net" nature of this Lease as provided in herein, Tenant shall pay all Taxes (as defined in this Lease).

Utilities:

Without limiting the "net" nature of this Lease as provided herein, Tenant shall contract for and pay for all Utilities (as defined in this Lease).

Operating Expenses; Maintenance and Repairs:

Without limiting the "net" nature of this Lease as provided herein, Tenant shall pay 100% of all costs and expenses associated with the use, occupancy, operation, maintenance, repair, and/or replacement of the Leased Premises.

Permitted Use:

Subject in all events to the terms and conditions of the Lease, the Leased Premises shall be used only for purposes of a facility for the manufacture of modular homes and other components of modular home construction and associated administrative and general business offices of Tenant in connection therewith.

1. Leased Premises. Landlord leases to Tenant, in consideration of the Rent to be paid by Tenant and subject to the terms and conditions set forth herein, the Leased Premises. Tenant agrees that Tenant accepts and is leasing the Leased Premises in their "as is" condition.

2. Commencement and Term. The term of this Lease shall commence on the Commencement Date and shall be the Lease Term, unless earlier terminated or extended by mutual agreement of the parties or as otherwise provided in this Lease.

3. Rent; Net Lease.

(a) Tenant covenants and agrees to pay to Landlord at its address as set forth in the preamble to this Lease or at such other place as Landlord shall from time to time designate in writing, during the Lease Term, the Base Rent, without holdback or set-off, in advance, commencing on the Rent Commencement Date and continuing thereafter on the first day of each calendar month during the Lease Term. All other items of Rent shall be paid, without holdback or set-off, in accordance with the terms of this Lease. If any payment of Rent is received by Landlord more than five (5) days after the date when such payment is due, a late charge of five percent (5%) of the past due payment shall be assessed, due and payable immediately and without notice.

(b) Landlord and Tenant acknowledge and agree that this Lease is intended to constitute, and shall constitute, an absolutely 'net' Lease such that the Rent shall provide Landlord with a "net" return for the Term, free of all expenses and charges with respect to the Leased Premises, all of which shall be Tenant's responsibility. Accordingly, Tenant shall pay as additional Rent and discharge, at the times specified herein, or if no time is specified, before failure to pay the same shall give rise to any interest or penalty or create any risk of lien or forfeiture, each and every item of expense, of every kind and nature whatsoever, foreseen or unforeseen, ordinary or extraordinary, related to or arising from the Leased Premises, or by reason of, or in any manner connected with or arising from, the development, leasing, operation, management, maintenance, repair, replacement, use, and/or occupancy of the Leased Premises.

4. (Reserved.)

5. (Reserved.)

6. Permitted Use; Compliance with Laws.

(a) Tenant agrees to use and occupy the Leased Premises for the Permitted Use, and for no other purpose without the written consent of Landlord, and further agrees not to use the Leased Premises for any purpose deemed extra hazardous or not covered by insurance. Tenant acknowledges and agrees that Landlord shall have the right to adopt reasonable rules and regulations for the use and/or occupancy of the Leased Premises and Tenant agrees that it shall at all times observe and comply with such rules and regulations.

(b) Tenant agrees to abide by and comply with all Laws (as hereafter defined) applicable to the Leased Premises and/or the use or occupancy of the Leased Premises. It is the responsibility of Tenant to determine all zoning information and secure all necessary permits, licenses, and approvals for Tenant's use and occupancy of the Leased Premises. Without limiting the generality of the foregoing, Tenant agrees to maintain in full force and effect, during the Lease Term, at Tenant's cost and expense, all permits, licenses, registrations, and approvals required under applicable Laws for the use and/or occupancy of the Leased Premises. Without limiting the "AS IS" nature of this Lease, Tenant acknowledges and agrees that Landlord has not made and is not making any representations or warranties as to the suitability of, or the ability to obtain any permits or approvals for, Tenant's intended use of the Leased Premises.

(c) As used in this Lease, the term "Laws" means all federal, state, municipal or similar statute, law, ordinance, regulation, rule, code, order, requirement or rule of law (including common law).

7. Taxes.

(a) Tenant shall be responsible for the prompt payment of all taxes, levies, betterments, and assessments, and governmental impositions of every kind or nature, whether now existing or hereafter created, general or special, ordinary or extraordinary, foreseen or unforeseen, that may be charged, assessed, laid, levied, or imposed upon, or become a lien or liens against, the Leased Premises (including the Real Property and the Leased Personal Property) or this Lease, including any amount that Landlord may be required to pay to any governmental authority as sales tax, gross receipt tax, or any tax of like nature specifically measured as a percentage of, or fraction of, or other factors based upon the all or any portion of the Rent payable hereunder (whether in lieu of, or in addition to the current system of real estate taxation) (all amounts payable under this Section being referred to herein as "Taxes").

(b) Tenant shall pay all Taxes, at Landlord's option, either (i) to Landlord as additional Rent in estimated monthly installments, with the actual amount of Taxes reconciled against such estimated monthly installments annually and, within thirty (30) days of such reconciliation, Landlord remitting to Tenant the amount by which the payment of estimated Taxes exceeds the actual Taxes for such annual period (provided Tenant is not then in breach of this Lease), or Tenant paying to Landlord the amount by which the actual Taxes for such annual period exceeds the estimated payments made by Tenant to Landlord; or (ii) to Landlord within thirty (30) days after Landlord makes demand therefor, with copies of any bills for Taxes; or (iii) directly to the taxing authority, in which event Tenant shall provide to Landlord evidence of the prompt payment of all Taxes prior to the date the same are due without the accrual of any interest on such Taxes.

8. Utilities.

(a) Tenant shall make arrangements for, and pay on or before the date the same become due, all charges for or relating to gas, oil, electricity, water, sewer, septic, telecommunications, and all other services used at or supplied to the Leased Premises (collectively, "Utilities").

(b) Landlord shall in no way be liable for any loss, expense, or damage (whether direct or indirect) that Tenant may sustain or incur by reason of any change, failure, interference, disruption, interruption, or defect in the supply or character of any Utilities serving the Leased Premises, regardless of its duration, or if the quantity or character of Utilities become unavailable to the Leased Premises or no longer suitable for Tenant's requirements. Additionally, any such change, failure, interference, disruption, interruption, defect, unavailability, or unsuitability mentioned in this Section shall not: (i) constitute an actual or constructive eviction of Tenant, in whole or in part; (ii) entitle Tenant to any abatement or diminution of Rent, or any other costs due from Tenant pursuant to this Lease; (iii) relieve or release Tenant from any of its obligations under this Lease; or (iv) entitle Tenant to terminate this Lease.

9. Operation, Maintenance and Repairs.

(a) Tenant agrees that from and after the Commencement Date, Tenant will keep neat and clean and maintain in good and safe order, condition and repair, and in compliance with all Laws the entirety of the Leased Premises, including any and all alterations or improvements to the Leased Premises occurring after the date of this Lease. Tenant agrees to pay the costs for cleaning and janitorial services relating to the Leased Premises (including trash removal and trash hauling), which services shall be provided or caused to be provided by Tenant. Tenant shall be responsible for the plowing, shoveling, and treatment of snow and ice and all grounds keeping, including all landscaping and sweeping of pavement and other hardscaped surfaces. Tenant shall be responsible for all items of maintenance and all repairs to and replacements (except as otherwise provided in Section 18) of all buildings and improvements and all Building Systems (as hereafter defined), and all foundations, structural supports, walls, ceilings, windows (including plate glass), siding, roof structure, roofing materials, doors, plate glass, driveways, parking areas, fences and signs located in, on or at the Leased Premises) that the Leased Premises may require from time to time during the Term, whether interior or exterior, structural or non-structural, ordinary or extra-ordinary, foreseen or unforeseen, all to keep the Leased Premises in good and safe order, condition, and repairs, and in at least as good condition as the Leased Premises are in on the Commencement Date. The term "Building Systems" means all heating systems, ventilating systems, air conditioning systems, fire alarm systems, sprinkler systems, and other life safety systems, septic systems, water supply systems (including any water treatment or filtration systems), plumbing systems, electrical systems, storm water management facilities, and all other systems located at or serving the Real Property.

(b) Without limiting the generality of sub-section (a) of this Section, Tenant shall procure and maintain, with qualified vendors reasonably acceptable to Landlord, contracts providing for periodic inspections and maintenance of the heating, ventilating, and air conditioning (HVAC) systems, fire alarm, sprinkler, and life safety systems, the septic system (if any), the crane(s) and related appurtenances in the building, and the Hundegger saw, at such intervals as are reasonably required by Landlord, but in all events at least annually.

10. Alterations, Renovations and Improvements. Tenant shall not make any alterations, renovations or improvements to the Leased Premises without obtaining Landlord's prior written consent to the plans and specifications therefor and the contractor(s) to be retained by Tenant to perform such work, which shall not be unreasonably withheld, conditioned, or delayed in the case of cosmetic renovations that do not affect the structural elements of the improvements, the roof(s) of any buildings, or any of the Building Systems, but otherwise shall be in Landlord's sole discretion. Prior to any contractor or subcontractor (of any tier) providing or furnishing any labor, materials, or services in connection with any alterations, renovations, or improvements, Tenant shall obtain and furnish to Landlord the name and address of each such contractor and subcontractor. In addition, prior to any such labor, materials, or services being provided or furnished, Tenant shall furnish to Landlord a mechanic's lien waiver and notice to prevent lien in a form prescribed by Landlord, duly executed by each such contractor or subcontractor who will furnish or provide labor, materials, and/or services. Tenant shall ensure that all such alterations, renovations and improvements are performed in a good and workmanlike and in compliance with all applicable Laws. In the event any lien is filed against the Leased Premises in connection with or arising out of any work performed at or materials, labor or other services supplied to the Leased Premises, Tenant shall cause the same to be discharged within thirty (30) days after such lien is filed. Tenant shall indemnify and hold Landlord harmless from and against all claims, demands, liabilities, liens, losses, costs and expenses (including reasonable attorneys' fees) which may arise or be incurred by Landlord as a direct or indirect result of or in connection with such alterations, renovations and improvements, and Tenant shall be responsible for all costs, liabilities, and expenses arising out of such alterations, renovations and/or improvements. All alterations, renovations and improvements which may be made or installed by or on behalf of Tenant upon the Leased Premises and which in any manner are attached to the floors, walls or ceilings shall, at Landlord's option, remain upon the Leased Premises, and, upon termination of this Lease, shall be surrendered with the Leased Premises as a part thereof without disturbance, molestation or injury, provided, however, that Tenant's furniture, equipment, other personal property, and trade fixtures (which, for avoidance of doubt, shall in no event include the Leased Personal Property or the crane(s) or related appurtenances located at the Leased Premises) may be removed by Tenant from the Leased Premises upon the expiration or termination of this Lease, subject to the provisions relating to removal thereof as provided in this Lease.

11. Signs. Tenant shall have the right to maintain the existing signage at the Real Property as of the Commencement Date and shall have the right to install additional signage that does not affect the structural elements of the improvements, the roof(s) of any buildings, or any of the Building Systems, provided, however, that all signage shall be at Tenant's sole cost and expense, and shall comply with all applicable Laws.

12. Surrender; Holdover. Tenant shall vacate and surrender the Leased Premises to Landlord at the expiration or sooner termination of the Lease Term and the same shall be in the same condition as Tenant is required to maintain the same during the Lease Term, free of all of Tenant's personal property except as may otherwise be provided herein, "broom clean," and otherwise in accordance with the provisions of the Lease. Tenant shall have no right to holdover beyond the expiration of the Lease Term. If Tenant continues to occupy the Leased Premises after the end of the Lease Term, such continued occupancy shall be deemed a tenancy-at-sufferance even if Landlord accepts any payment from Tenant, but in the event that a court of competent jurisdiction deems such acceptance of a payment to constitute acceptance of "rent", such acceptance shall create no rights in Tenant beyond a tenancy-at-will under the terms and conditions stated herein but at a Base Rent rate equal to one hundred fifty percent (150%) of the Base Rent applicable immediately preceding the end of the Lease Term, plus all additional Rent, until (i) Tenant shall vacate the Leased Premises; (ii) the termination of the tenancy-at-will; or (iii) Landlord shall give notice of a different rental amount. Nothing contained in this Section shall be deemed to (a) constitute consent by Landlord to such occupancy or holdover by Tenant; (b) confer any rights on Tenant as more than a tenant-at-sufferance or, if Landlord accepts any rental payments applicable to such period of holding over, a tenant-at-will; or (c) relieve Tenant from liability for damages suffered by Landlord as a result of such holding over.

13. Removal of Tenant's Property. Tenant's trade fixtures, personal property, furniture and equipment, other than those items which are to remain or which Landlord elects to have remain at the Leased Premises as provided in Section 10 of this Lease, may be removed by Tenant at the termination of this Lease, provided (a) Tenant is not then in breach of any provision of this Lease; (b) such removal shall not cause any material damage to any portion of the Leased Premises, and any other damage created by such removal shall be repaired by Tenant at Tenant's expense prior to the expiration of the Lease Term to at least as good condition as existed when possession of the Leased Premises was delivered to Tenant; and (c) such removal shall be made before the termination of the Lease Term.

14. Subletting and Assignment. Tenant shall not assign this Lease, in whole or in part, or sublet the Leased Premises or any portion thereof, or encumber the leasehold interest created by this Lease in any manner (including the creation of any security interest in or other pledge of or lien upon the Leased Personal Property) without the prior written consent of Landlord, which may be withheld in Landlord's sole discretion during the first twenty-four full calendar months of the Term, and thereafter will not be unreasonably withheld. No assignment or sublease shall operate to release Tenant from any of its obligations under this Lease. Each sublease of the Leased Premises or any portion thereof must contain a release of and waiver of claims against Landlord and the other Releasees (as that term is defined in this Lease), in form and content acceptable to Landlord, and must require the subtenant's property insurer to issue in favor of Landlord and the other Releasees waiver of subrogation rights endorsements to all policies of property insurance carried in connection with the Leased Premises and the contents thereof. Every transfer by levy or sale on execution, or other legal process, every transfer in bankruptcy, every transfer by merger, consolidation, or by operation of Law, every transfer of a controlling interest in Tenant, and every transfer under any compulsory procedure or order of court shall be deemed to constitute an "assignment" within the meaning of this Lease. Any attempted assignment or sublease in violation of this Section shall, at Landlord's option, be void and shall constitute a default under this Lease. Consent by Landlord to an assignment or sublease in one instance shall not operate to release the requirement that consent from Landlord be obtained for any further or subsequent assignment or sublease. Tenant shall pay all fees and expenses, including reasonable attorneys' fees, incurred by Landlord in connection with any proposed subletting or assignment, irrespective of whether Landlord's consent is in fact granted.

15. Indemnification and Insurance.

(a) Tenant agrees to maintain in full force during the Lease Term insurance as follows:

(i) commercial general liability insurance, written on an occurrence basis, with a deductible in an amount not to exceed \$10,000.00, and providing:

(A) minimum limits of (y) \$1,000,000.00 per occurrence with \$3,000,000.00 annual aggregate limit for bodily injury (including death) and property damage; and (z) \$3,000,000.00 in the annual aggregate with respect to products and completed operations;

(B) coverage for damages arising out of bodily injury (including death) sustained by any person or persons or arising out of damage to or destruction of property;

(C) coverage for damages arising out of premises liability, personal injury and advertising injury;

(D) pollution liability coverage for sudden and accidental pollution;

(E) for extension of such coverage to include liability for the operation of non-owned motor vehicles;

(F) specific coverage for Tenant's indemnification obligations under this Lease (but neither this provision nor such coverage shall be deemed to limit any of Tenant's obligations under this Lease);

(G) that Tenant's commercial general liability insurance is provided on a primary and non-contributory basis;

(H) that Landlord, Landlord's mortgagee(s) of the Leased Premises from time-to-time (if any), and any other persons reasonably designated in writing by Landlord from time-to-time are named as additional insureds by an endorsement provided on ISO Form 2026 (1185) or its equivalent, without modification, or such other endorsement as is acceptable to Landlord, acting reasonably; and

(I) for waiver of subrogation in favor of Landlord, Landlord's mortgagee(s) of the Leased Premises from time-to-time (if any), and any other persons reasonably designated in writing by Landlord from time-to-time.

(ii) Automobile liability insurance covering all motor vehicles owned, leased, or licensed by Tenant, covering injury to or death of one or more persons or damage to or destruction of property, with a minimum limit of liability of \$3,000,000.00 for each accident.

(iii) Workers compensation insurance in accordance with the requirements of all applicable Laws, and employers liability insurance with limits of at least \$1,000,000.00, with such workers compensation insurance and employers liability insurance providing for waiver of subrogation in favor of Landlord, its mortgagee(s) of the Leased Premises from time-to-time (if any), and any other persons reasonably designated in writing by Landlord from time-to-time.

(iv) Umbrella excess liability insurance in a minimum amount of \$10,000,000.00, on a following form basis over the insurance described in clauses (i) through (iii), above.

(v) Special causes of loss form (also sometimes known as “all risk”) property insurance insuring, on a replacement cost basis (without any deduction for depreciation), all personal property and trade fixtures owned by or within the care, custody or control of Tenant (including the Leased Personal Property), with limits in an amount of not less than one hundred percent (100%) of the full replacement cost of such property, without co-insurance provisions, and with a deductible of not more than \$10,000.00, and with Landlord (and Landlord’s mortgagee(s) of the Leased Premises from time-to-time) named as loss payee(s) with respect to the Leased Personal Property and additional insured(s). Such policy(ies) of property insurance must insure against fire, sprinkler leakages, and earthquake, flood and collapse, and all other perils as are from time to time included in the standard special causes of loss form (also sometimes known as “all risk”) coverage;

(vi) Until such time, if any, as Landlord elects to carry property insurance for the buildings and improvements located on the Leased Premises, special causes of loss form (also sometimes known as “all risk”) property insurance insuring, on a replacement cost basis (without any deduction for depreciation), all buildings and improvements (including fixtures) located on the Leased Premises, with limits in an amount of not less than one hundred percent (100%) of the full replacement cost of such buildings and improvements, and in all events sufficient at all times to avoid causing the insured to be or become a co-insurer, and with a deductible of not more than \$10,000.00, and with Landlord (and Landlord’s mortgagee(s) of the Leased Premises from time-to-time) named as loss payee(s) and additional insured(s). Such policy(ies) of property insurance must insure against fire, sprinkler leakages, and earthquake, flood and collapse, and all other perils as are from time to time included in the standard special causes of loss form (also sometimes known as “all risk”) coverage;

(vii) business interruption insurance covering all of Tenant’s obligations under this Lease with respect to the payment of Rent for a period of at least eighteen (18) months.

(viii) Such other insurance policies, such other endorsements, such other deductibles, and/or such other insurance policy limits as may from time to time be reasonably required by Landlord, provided that, at the time, such other insurance policies, endorsements, deductibles, and/or insurance policy limits are commonly carried for premises and/or buildings or improvements similar in construction, design, general location, use, operation, and occupancy to those located on or appurtenant to the Leased Premises or for operations similar to those conducted on or from the Leased Premises.

(b) Without limiting the exculpatory provisions of this Lease, each policy of property insurance maintained by Tenant under this Lease shall contain waivers of subrogation in favor of Landlord and all other Releasees.

(c) All insurance required to be obtained and maintained by Tenant pursuant to this Section must be with insurers authorized to transact insurance business and cover risks in the State of Maine and that are rated “A-“ or better by A.M. Best Company, Inc. or other insurance companies of recognized responsibility acceptable to Landlord, acting reasonably.

(d) The policies of insurance required to be maintained by Tenant under this Lease shall be endorsed to require that each policy will not be cancelled or materially changed without at least thirty (30) days prior written notice to Landlord.

(e) Tenant shall deliver to Landlord copies of each policy of insurance (including all endorsements) required to be maintained by Tenant under this Lease or such other evidence of each such policy of insurance (and all required endorsements) as is acceptable to Landlord, acting reasonably.

(f) If Tenant fails to obtain, maintain and/or pay for the insurance required by this Lease at the times and for the amounts and duration specified herein, Landlord has the right, but not the obligation, at any time and from time to time, to obtain such insurance and/or pay the premiums for such insurance, without limiting any other rights or remedies available to Landlord for such failure. In such event, Tenant shall repay Landlord, immediately upon demand, all sums so paid by Landlord and all costs and expenses incurred by Landlord in connection therewith (including reasonable attorneys' fees), all without prejudice to any other rights or remedies available to Landlord.

(g) Landlord shall have the right, at any time during the Term, to elect, by giving written notice to Tenant, to carry property insurance for the buildings and improvements located on the Leased Premises, in which event, Tenant shall pay to Landlord the amount of all premiums for such property insurance procured and maintained by Landlord with respect to the Real Property. Tenant shall pay such amounts to Landlord in estimated monthly installments, with the actual amount of incurred by Landlord for such premiums being reconciled against such estimated monthly installments annually and, within thirty (30) days of such reconciliation, Landlord remitting to Tenant the amount by which the payment of estimated premiums exceeds the actual premiums for such annual period (provided Tenant is not then in breach of this Lease), or Tenant paying to Landlord the amount by which the actual premiums for such annual period exceeds the estimated payments made by Tenant to Landlord.

(h) Tenant acknowledges and agrees that such property insurance as Landlord elects to purchase with respect to the Real Property shall be for the sole benefit of Landlord and that such insurance shall not cover any personal property, trade fixtures, leasehold improvements, or other property or appurtenances owned by or within the care, custody, or control of Tenant, or otherwise located in the Leased Premises (collectively, "Tenant's Property") and that in the event of damage to or loss of any of Tenant's Property, neither Landlord, its mortgagee(s) of the Leased Premises from time-to-time (if any), nor any of the shareholders, members, directors, managers, officers, employees, or agents of Landlord or any such mortgagee(s) (each in the singular "Releasee", and in the plural, "Releasees") shall have any obligation to repair or replace the same. Notwithstanding any exception to Tenant's indemnification obligations under this Lease, Tenant does hereby expressly release all Releasees of and from, and agrees to indemnify, hold harmless, and defend Releasees from and against, any and all claims for damages to or loss of any of Tenant's Property, regardless of the cause thereof, including, damage or loss due to any Releasee's negligence.

(i) Tenant shall indemnify and hold all Releasees harmless and, if requested by Landlord, defend such Releasee(s) with counsel reasonably satisfactory to Landlord, from and against any and all liabilities, losses, claims, causes of action, damages, costs, and expenses (including reasonable attorney's fees) incurred by or threatened against any Releasee arising out of (i) any occurrence on the Leased Premises or the use of the Leased Premises by Tenant, its employees, agents, licensees, or invitees, except to the extent caused by the negligence or willful misconduct of Landlord (but such exception shall not apply to limit the application of sub-section (h) of this Section); or (ii) Tenant's breach of any provision of this Lease. Tenant agrees that the foregoing agreement to indemnify, defend, and hold harmless extends to liabilities, losses, claims, causes of action, damages, costs and expenses (including reasonable attorney's fees) arising out of claims of Tenant's employees without regard to any immunity, statutory or otherwise, including any immunity under the workers compensation Laws of Maine or any other applicable jurisdiction, which immunity Tenant hereby waives, but only for the purposes of Tenant's obligations to the Releasees under this sub-section. Tenant's obligations under this sub-section shall survive the termination of this Lease.

16. Hazardous Materials. Tenant covenants and agrees that Tenant will not permit any Hazardous Substances (as hereafter defined) to be stored, generated, or released from the Leased Premises, other than Hazardous Substances incidental to Tenant's use, maintenance, and operation of the Leased Premises for the Permitted Use provided that Tenant shall store, generate, handle, and dispose of all such Hazardous Substances in full compliance with all applicable laws. Tenant hereby covenants and agrees to indemnify, hold harmless, and, if requested by Landlord, defend, Landlord from and from and against any and all demands, claims, causes, of action, losses, liabilities, damages, fines, costs, and expenses (including reasonable attorneys' fees, court costs and clean-up costs) that may arise out of any Hazardous Substances located at or generated or released from the Leased Premises, irrespective of whether first occurring prior to or after the Commencement Date. The term "Hazardous Substances" means any flammables, explosives, radioactive materials, gasoline, oil, other petroleum products, lead paint, urea formaldehyde (including urea formaldehyde foam insulation), asbestos, asbestos containing materials, polychlorinated biphenyls, and any other hazardous materials, hazardous waste, hazardous matter, hazardous or toxic substances, chemical pollutants, and other materials or substances defined in or regulated by Environmental Laws. The term "Environmental Laws" means (A) the Clean Water Act; (B) the Clean Air Act; (C) the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act; (D) the Toxic Substance Control Act; (E) the Resource Conservation and Recovery Act; (F) the Hazardous Materials Transportation Act; and/or (G) any similar state Laws regulating pollution or contamination of the environment. The obligations of Tenant under this Section shall survive the termination of this Lease.

17. Right to Enter. Tenant agrees to permit Landlord or its duly authorized agents to enter on the Leased Premises during Tenant's normal business hours, with reasonable prior notice, to examine the condition of said Leased Premises, exercise any rights of Landlord under this Lease, and/or to show the same to prospective tenants, lenders, or purchasers, provided such access to the Leased Premises shall not unnecessarily interfere with Tenant's use of the Leased Premises or the conduct of Tenant's business activities thereon. Notwithstanding the foregoing, Landlord shall have the right (but not the obligation) to enter the Leased Premises without prior notice in the event of an emergency in which prior notice is not practicable in the circumstances.

18. Total or Partial Destruction.

(a) In the event the improvements on the Real Property (including any Building Systems) are damaged or destroyed by fire or other peril (a "Casualty"), Tenant shall give Landlord notice of such Casualty as soon as reasonably possible after the Casualty. Landlord shall have the right to elect whether to have such improvements rebuilt or restored. In the event that Landlord elects not to have the improvements rebuilt or restored, and the nature of the Casualty is such as would, absent such rebuilding or restoration, materially impair Tenant's ability to use and occupy such Leased Premises in substantially the same manner as they were used prior to the Casualty, this Lease shall terminate effective as of the date of the Casualty. In the event that Landlord elects to have the improvements rebuilt or restored, this Lease shall remain in effect without reduction or abatement of Rent, and the following provisions shall apply:

(i) Landlord shall, with reasonable promptness rebuild or restore such improvements to at least substantially the same condition, quality, and class as existed prior to the Casualty, using the proceeds of insurance covering such improvements, provided, however, that in no event shall Landlord be obligated to expend for any such rebuilding or restoration an amount in excess of the insurance proceeds actually collected by Landlord on account of the Casualty, less the costs and expenses (including reasonable attorneys' fees) incurred by Landlord in collecting such proceeds.

(ii) Notwithstanding the preceding clause (i), Landlord shall have the right to elect, by giving written notice to Tenant, to have Tenant rebuild or restore the Leased Premises, in which event Tenant shall, with reasonable promptness, and in all events within twelve (12) months of the date of Landlord's election notice, rebuild or restore such improvements to at least substantially the same condition, quality, and class as existed prior to the Casualty, using the proceeds of insurance covering such improvements. The selection of all engineers, architects, and contractors engaged in connection with such rebuilding or restoration and all plans and specifications for such rebuilding or restoration, shall be subject to review and approval by Landlord. In the event that Landlord makes the election to have Tenant rebuild or restore as provided in this clause (ii), all proceeds payable by reason of any Casualty under all applicable policies of insurance (whether Tenant is carrying such insurance, or Landlord has elected to do so as provided in this Lease) shall be paid to Landlord or its mortgagee, and such proceeds will be held by Landlord or its mortgagee in an interest-bearing account and, provided Tenant is not in breach of this Lease, shall be made available for rebuilding or restoring the improvements, and shall be paid by Landlord (or such mortgagee) from time- to-time during the progress of construction for the costs of such reconstruction or repair, all subject to and in accordance with reasonable terms, conditions, and construction disbursement procedures specified by Landlord and/or such mortgagee. Any excess proceeds of insurance (and accrued interest) remaining after the completion of the restoration or reconstruction of the Leased Premises shall be paid to Landlord.

(b) Loss or Damage affecting Leased Personal Property. In the event of any loss or destruction of or damage to any of the Leased Personal Property, Tenant shall, unless Landlord or its mortgagee elects to retain any proceeds of insurance allocable to such Leased Personal Property, be responsible for the repair and replacement of such lost, destroyed, or damaged Leased Personal Property, with the restored or replacement items of at least equivalent condition, quality, class, and value to the item(s) of Leased Personal Property prior to such loss, destruction, or damage. All proceeds payable under all applicable policies of insurance by reason of any loss or destruction of or damage to any Leased Personal Property shall be paid to Landlord or its mortgagee. Unless Landlord or its mortgagee elect to retain such proceeds of insurance allocable to such Leased Personal Property, such proceeds will be held by Landlord or its mortgagee in an interest-bearing account and, provided Tenant is not in breach of this Lease, shall be made available for such repair or replacement, and shall be paid out by Landlord (or such mortgagee) from time to time during the progress of the repair or replacement for the reasonable costs of such repair or replacement, all subject to and in accordance with reasonable terms, conditions, and disbursement procedures specified by Landlord and/or such mortgagee. Any excess proceeds of insurance (and accrued interest) remaining after the completion of the repair or replacement of such Leased Personal Property shall be paid to Landlord. There shall be no abatement or reduction of Rent on account of any such loss, destruction, or damage.

(c) Tenant shall be responsible for all insurance deductibles applicable to any Casualty affecting any of the improvements on the Real Property (including Building Systems) and/or any loss or destruction of or damage to any of the Leased Personal Property.

(d) The provisions of this Section shall be subject and subordinate to the provisions of any mortgage now or hereafter placed upon the Real Property, the provisions of any security agreement now or hereafter affecting the Leased Personal Property, and the requirements of any mortgagee holding such mortgage or secured party holding the security interest under such security agreement.

19. Condemnation.

(a) "Condemnation" means any taking of title to or any interest in the Leased Premises or any part thereof or any other property used in connection with the Leased Premises (including for ingress, egress, parking, septic service, water supply or other services or utilities) by exercise of any right of eminent domain by, or by any similar proceeding or act of, any person having the power and legal authority to do so (or by purchase in lieu thereof). For the purposes of this definition, the effective date of any Condemnation shall be deemed to be the later of: (i) the date when title to the Leased Premises or part thereof or such other property is transferred by such proceeding or act of the condemning authority, and (ii) the date when Tenant is no longer permitted to occupy the Leased Premises or to use such other property.

(b) "Substantial Condemnation" means any Condemnation that affects all or a substantial portion of the Leased Premises or any Condemnation that has or is reasonably likely to have a materially adverse effect on any business operations then being conducted on the Leased Premises. Tenant may waive its right to treat as a Substantial Condemnation any Condemnation that would otherwise qualify as such.

(c) "Insubstantial Condemnation" means any Condemnation that is not a Substantial Condemnation.

(d) If a Substantial Condemnation occurs, this Lease shall terminate upon the effective date of the Substantial Condemnation.

(e) If an Insubstantial Condemnation occurs, then this Lease shall continue in full force and effect without reduction or abatement of Rent.

(f) In the event of any Condemnation, Landlord shall be entitled to receive and retain the amounts awarded for the Leased Premises, and Tenant shall be entitled to receive and retain any amounts which may be specifically awarded to it in any such condemnation proceedings because of its business loss or the taking of its trade fixtures, furniture, or other property.

20. Force Majeure. In any case where either party is required to perform any act pursuant to this Lease, except for Tenant's monetary obligations hereunder, the time for the performance thereof shall be extended by a period of time equal to the period of any delay caused by or resulting from an act of God, war, civil commotion, fire or other casualty, labor difficulties, shortages of energy or labor, government regulations, or delays caused by one party to the other, whether such period be designated by a fixed date, a fixed time, or as a reasonable date or time.

21. Quiet Enjoyment. Tenant, on paying the Rent and performing and observing the covenants in this Lease, may hold and enjoy the Leased Premises for the Term without unreasonably interference from any person claiming by, through, or under Landlord, subject and subordinate to all provisions of this Lease.

22. Default.

(a) In the event that:

(i) Tenant shall fail to pay when due the Rent or any other sums payable hereunder when due and such failure remains uncured for five (5) days after Landlord delivers a default notice to Tenant for such failure to pay rent; or

(ii) any petition in bankruptcy shall be filed by Tenant or any guarantor hereof or other petition or proceeding shall be filed or commenced by Tenant or any guarantor hereof to declare Tenant insolvent, or to delay, reduce or modify Tenant's or any such guarantor's debts or obligations, or Tenant or any such guarantor admits its inability to pay its debts, or Tenant or any such guarantor makes an assignment for the benefit of creditors; or

(iii) any bankruptcy petition or proceeding shall be filed against Tenant or any guarantor hereof or to otherwise declare Tenant or any guarantor hereof bankrupt or insolvent or to delay, reduce or modify Tenant's or any such guarantor's debts or obligations or a receiver, trustee or other similar type of appointment or court appointee or nominee is appointed for Tenant or any such guarantor or any of the property of Tenant or any such guarantor, and such petition, appointment or proceeding is not dismissed within sixty (60) days after it is commenced; or

(iv) the leasehold interest of Tenant is levied upon or attached by process of law, including the filing of any mechanic's lien, and such levy, lien, or attachment is not dissolved within thirty (30) days after it is made; or

(v) Tenant shall abandon the Leased Premises during the Lease Term; or

(vi) Tenant shall assign this Lease or sublet any portion of the Leased Premises, or attempt to do either of the foregoing, in violation of this Lease; or

(vii) Tenant violates or fails to observe or comply with any Laws applicable to the Leased Premises, Tenant's use thereof, or Tenant's operations, activities or conduct of business at or from the Leased Premises; or

(viii) any other event, occurrence, act, or omission described in any provision of this Lease as constituting a "default" or an "Event of Default" occurs;

(ix) Tenant shall neglect or fail to perform or observe any of the other covenants, terms, provisions or conditions contained in this Lease and, if the neglect or failure is capable of being cured, such neglect or failure continues for more than thirty (30) days after written notice thereof (provided, however, that if such neglect or failure is capable of being cured, but is not capable of being cured within said thirty (30) day period, then Tenant shall have such additional period of time, not to exceed an additional sixty (60) days, as is reasonably necessary to cure the same provided Tenant commences to cure within said thirty (30) day period and diligently and continuously prosecutes the cure to completion); or

(x) there is a default by Tenant under (A) that certain Lease Agreement of even or near date herewith between Tenant and 947 Waterford Road, LLC pertaining to property located in the Town of Waterford, County of Oxford, and State of Maine; and/or (B) that certain Lease Agreement of even or near date herewith between Tenant and 300 Park Street, LLC pertaining to property located in the Town of Paris, County of Oxford and State of Maine, and any such default continues beyond the expiration of applicable notice and cure periods (if any), then, and in any of said cases (notwithstanding any license of any former breach of covenant or waiver of the benefit hereof or consent in a former instance), and without limitation of any other remedies that might be available to Landlord under this Lease, at law, or in equity, Landlord lawfully may, immediately or at any time thereafter, terminate this Lease by sending written notice of termination to Tenant, or, subject to compliance with applicable Laws, enter into and upon the Leased Premises or any part thereof in the name of the whole and repossess the same as of its former estate, and expel Tenant and those claiming through or under it and remove it or their effects without being deemed guilty of any manner of trespass, in each case without prejudice to any rights or remedies which might otherwise be available to Landlord for collection of Rent and other damages for breach of covenant, and upon entry as aforesaid or upon sending of such notice, this Lease shall terminate.

(b) Without limiting other remedies of Landlord at law or in equity for any breach of or on account of termination of this Lease, Tenant covenants that in case of such termination under sub-section (a) of this Section, Tenant shall pay to Landlord the unpaid Rent owed to Landlord through the time of termination, plus interest thereon at the rate of 18% per annum from the date the same was due until paid; and (ii) at the election of Landlord, either:

(1) the present value of a sum which, at the time of such termination of this Lease is equal to (A) the aggregate of the Rent which would have been payable by Tenant for the period commencing upon such termination of this Lease and continuing through the date this Lease would have terminated had there been no default by Tenant; minus (B) the fair market rental value of the Leased Premises (after deducting reasonable projections for Landlord's costs and expenses of re-letting the Leased Premises, including advertising expenses, brokerage commissions, reasonable attorneys' fees, and commercially reasonable costs of repairing, renovating, or otherwise altering the Leased Premises to suit the new tenant); or

(2) for the period of time commencing upon such termination of this Lease and continuing through the date this Lease would have terminated had there been no default by Tenant hereunder, the difference, if any, between the Rent which would have been due had there been no such termination and the amount being received by Landlord as rent from a replacement Tenant of Leased Premises, if any. In addition, Tenant shall pay to Landlord all costs and expenses of such re-letting, including advertising expenses, brokerage commissions, reasonable attorneys' fees, and commercially reasonable costs of repairing, renovating, or otherwise altering the Leased Premises to suit the new tenant.

(c) If Tenant shall default in the performance or observance of any covenant, agreement, or condition in this Lease contained on its part to be performed or observed and shall not cure any such default as provided herein, Landlord may, at its option, without waiving any claim for damages or any other right or remedy for breach of this Lease, at any time thereafter, cure such default. Any amount paid or any liability incurred by Landlord in so doing shall be deemed paid or incurred for the account of Tenant, and Tenant agrees to immediately reimburse Landlord therefor, as additional Rent.

(d) Tenant shall pay all reasonable attorneys' fees incurred by Landlord in connection with the enforcement of Tenant's obligations under this Lease.

(e) Landlord shall in no event be in default in the performance of any of its obligations hereunder unless and until Landlord shall have failed to perform, or failed diligently to attempt to perform, such obligations within thirty (30) days or such additional time as is reasonably required to correct any such default after notice by Tenant to Landlord properly specifying wherein Landlord has failed to perform any such obligation.

(f) In no event shall Landlord be liable to Tenant for incidental, consequential, or punitive damages in connection with any matter arising out of this Lease or the Leased Premises. Without in any way limiting or impairing the effect of the other provisions of this Lease, Tenant shall neither assert nor seek to enforce any claim arising out of this Lease or out of the use or occupancy of the Leased Premises against Landlord, its shareholders, directors, officers, employees, or agents, or any of its or their assets other than the value of Landlord's interest in the Leased Premises and Tenant agrees to look solely to such interest and insurance coverage for the satisfaction of any claim arising out of this Lease or out of the use or occupancy of the Leased Premises.

23. Sale or Mortgage; Estoppel; Subordination.

(a) Nothing contained in this Lease shall limit Landlord's right to sell, mortgage, or otherwise encumber its fee interest in the Leased Premises, or affect Landlord's right to assign this Lease or the Rent payable under this Lease, whether as further security under a fee mortgage or otherwise. Any such assignment of this Lease or of the Rent payable under this Lease shall be honored by Tenant.

(b) In the event Landlord shall sell, transfer, or otherwise convey the Leased Premises, Landlord, upon the written assumption by the transferee of the obligations arising hereunder after the date of such transfer, shall be entirely freed and relieved of all covenants and obligations of Landlord hereunder. Nothing in the preceding sentence shall be construed to impair Tenant's leasehold interest under this Lease so long as Tenant performs and observes the covenants and terms of this Lease on its part to be performed and observed.

(c) This Lease shall, at Landlord's option, be subordinate to any ground lease, mortgage, deed of trust, or any other hypothecation or security now or hereafter placed upon the Leased Premises, and to any and all advances made on the security thereof and to all renewals, modifications, consolidations, replacements and extensions thereof. Notwithstanding such subordination, Tenant's right to quiet possession of the Leased Premises shall not be disturbed if Tenant is not in default and so long as Tenant shall pay the Rent and observe and perform all of the provisions of this Lease. If any mortgagee, trustee, or ground lessor shall elect to have this Lease made prior to the lien of its mortgage, deed of trust or ground lease, and shall give written notice thereof to Tenant, this Lease shall be deemed prior to such mortgage, deed of trust, or ground lease, whether this Lease is dated prior to or subsequent to the date of said mortgage, deed of trust, or ground lease or the date of recording thereof. Tenant agrees to execute any documents required to effectuate an attornment, a subordination, or to make this Lease prior to the lien of any mortgage, deed of trust or ground lease, as the case may be. Tenant's failure to execute such documents within ten (10) days after written demand shall constitute an Event of Default by Tenant hereunder.

(d) At any time, and from time to time, upon the written request of Landlord or any mortgagee or prospective purchaser of the Leased Premises, Tenant, within ten (10) business days after such written request, agrees to execute, acknowledge and deliver to Landlord and/or mortgagee, without charge, an estoppel certificate which shall contain (i) a certification that this Lease is unmodified and in full force and effect or, if modified, a statement of the nature of any such modification and a certification that this Lease, as so modified, is in full force and effect; (ii) a certification of the date to which the Rent payable by Tenant are paid (including any payments in advance); (iii) a certification that Tenant is not in default hereunder and that there are not, to Tenant's knowledge, any uncured events of default on the part of Landlord hereunder, or a specification of such events of default if any are claimed by Tenant; and (iv) such other commercially reasonable certifications as are identified in such request. Tenant's failure to deliver such estoppel certificate within the time frame set forth above shall, at Landlord's option, constitute an Event of Default hereunder and shall, at Landlord's option, be conclusive proof that this Lease is in full force and effect without modification except as may be represented by Landlord, that there are no uncured defaults in Landlord's performance of Landlord's obligations under this Lease, and that not more than one month's Rent has been paid in advance.

(e) If Landlord desires to finance, refinance, or sell the Leased Premises, Tenant hereby agrees to deliver to any lender or purchaser designated by Landlord, and cause any guarantor to so deliver, such financial statements and other financial information pertaining to Tenant and such guarantor as may be reasonably required by such lender or purchaser. Tenant's failure to provide such information or cause such information to be provided within ten (10) days after written demand shall constitute an Event of Default by Tenant hereunder.

24. Notices. Any notice, request, demand, approval or consent given or required to be given under this Lease shall be, unless otherwise stated, in writing and shall be deemed to have been given (i) when hand delivered to the other party; or (ii) on the day on which the same shall have been mailed by United States registered or certified mail, return receipt requested, with all postage prepaid, or by Federal Express or similar nationally-recognized overnight courier service that provides evidence of delivery, to the address of the party to receive such notice as set forth in the preamble hereof, provided that either party may, by such manner of notice, add or substitute one or more persons or addresses for provision of such notice.

25. Tenant Representations.

(a) Neither Tenant nor any key personnel of Tenant nor any of Tenant's underlying beneficial owners have engaged in any dealings or transactions, directly or indirectly, (i) in contravention of any U.S., international or other anti-money laundering regulations or conventions, including without limitation the United States Bank Secrecy Act, the United States Money Laundering Control Act of 1986, the United States International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001, Trading with the Enemy Act (50 U.S.C. §1 et seq., as amended), any foreign asset control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) or any enabling legislation or executive order relating thereto, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Public Law 107-56 and the regulations promulgated thereunder (collectively, the "Patriot Act"), or any order issued with respect to anti-money laundering by the U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC"); or (ii) in contravention of Executive Order No. 13224 issued by the President of the United States on September 24, 2001 (Executive Order Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism), as may be amended or supplemented from time to time ("Executive Order 13224"); or (iii) on behalf of terrorists or terrorist organizations, including those persons or entities that are included on any relevant lists maintained by the United Nations, North Atlantic Treaty Organization, Organization of Economic Cooperation and Development, OFAC, Financial Action Task Force, U.S. Securities & Exchange Commission, U.S. Federal Bureau of Investigation, U.S. Central Intelligence Agency, U.S. Internal Revenue Service, or any country or organization, all as may be amended from time to time.

(b) Neither Tenant nor any key personnel of Tenant nor any of the underlying beneficial owners of Tenant is or will be a person or entity (i) that is listed in the Annex to or is otherwise subject to the provisions of Executive Order 13224; or (ii) whose name appears on OFAC's most current list of "Specially Designated Nationals and Blocked Persons," (which list may be published from time to time in various mediums including, but not limited to, the OFAC website, <http://www.treas.gov/ofac/t11sdn.pdf>); or (iii) who commits, threatens to commit or supports "terrorism", as that term is defined in Executive Order 13224; or (iv) who has been associated with or is otherwise affiliated with any entity or person listed above.

(c) Tenant represents that it has all requisite power and authority to enter into this Lease and the person executing this Lease on behalf of Tenant represents that he or she has all requisite power and authority to do so.

26. Miscellaneous Provisions.

(a) Invalidity of Particular Provisions. If any term or provision of this Lease, or the application thereof to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder of this Lease, or the application of such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term and provision of this Lease shall be valid and be enforced to the fullest extent permitted by applicable Laws.

(b) Governing Law. This Lease, and all claims or causes of action (whether arising in contract, in tort, or by statute) that may be based upon, arise out of or relate to this Lease, shall be governed by and enforced in accordance with the internal Laws of the State of Maine, including its statutes of limitations, without regard or reference to conflicts of law principles.

(c) Interpretation. Whenever the word “include,” “includes,” or “including” is used in this Lease, it is deemed to be followed by the words “without limitation.” The terms “this Lease,” “hereof,” “herein,” “hereby,” “hereunder” and similar expressions refer to this Lease as a whole and not to any particular section of this Lease unless the context otherwise requires. The word “person” includes any individual, corporation, firm, association, partnership (general or limited), joint venture, limited liability company, trust, estate or other legal entity. The section and sub-section headings throughout this instrument are for convenience and reference only, and the words contained therein shall in no way be held to explain, modify, amplify, or aid in the interpretation, construction, or meaning of the provisions of this Lease. Whenever in this Lease provision is made for the doing of any act by any party, it is understood and agreed that said act shall be done by such party at its own cost and expense, unless a contrary intent is expressed.

(d) Entire Agreement; Binding Effect. All negotiations, considerations, representations, and understandings between Landlord and Tenant are incorporated herein and may be modified or altered only by agreement in writing between Landlord and Tenant, and no act or omission of any employee or agent of Landlord shall alter, change, or modify any of the provisions hereof. All rights, obligations and liabilities contained herein given to, or imposed upon, Landlord and Tenant shall extend to and bind the several respective administrators, trustees, receivers, legal representatives, successors, heirs and permitted assigns of Landlord and Tenant. If the “Tenant” under this Lease consists of more than one person or entity, each such person and/or entity shall be bound jointly and severally by the terms, covenants and agreements herein and jointly and severally liable for all obligations arising hereunder.

(e) Language. Words of any gender used in this instrument shall be held and construed to include any other gender, and words in the singular number shall be held to include the plural, unless the context otherwise requires.

(f) Recording; Notice of Lease. Landlord and Tenant agree that this Lease shall not be recorded. The parties agree that at the request of either party, they will execute, acknowledge, and deliver a notice or memorandum of this Lease in recordable form for recording in the Oxford County Registry of Deeds. The requesting party shall bear the expense of recording such notice or memorandum. The Memorandum of Lease shall not be construed to vary the terms and conditions hereof. Landlord and Tenant also agree that, upon the request of either party, they will execute, acknowledge, and deliver a commercially reasonable instrument in recordable form with respect to the termination date of this Lease.

(g) Timeliness of Landlord’s Notices. Landlord’s failure during the Lease Term to prepare or deliver any of the statements, notices, or bills, or invoices for any sum payable by Tenant under this Lease shall not in any way cause Landlord to forfeit or surrender its rights to collect any amount that may have become due and owing from Tenant during the Lease Term.

(h) Waiver of Jury Trial. Tenant, for itself and its heirs, successors, and assigns, does hereby **WAIVE THE RIGHT TO A TRIAL BY JURY** in any action or proceeding based upon, or related to, the subject matter of this Lease. This waiver is knowingly, intentionally, and voluntarily made by Tenant and Tenant acknowledges that neither Landlord nor any person acting on behalf of Landlord has made any representations of fact to induce this waiver of trial by jury or in any way to modify or nullify its effect. Tenant further acknowledges that it has been represented (or has had the opportunity to be represented) in the signing of this Lease and in the making of this waiver by independent legal counsel, selected of its own free will, and that it has had the opportunity to discuss this waiver with counsel. Tenant further acknowledges that it has read and understands the meaning and ramifications of this waiver provision.

27. Additional Provisions Pertaining to Leased Personal Property.

(a) Without limiting any other provision of this Lease, Tenant agrees that (i) title to the Leased Personal Property shall remain vested in Landlord; (ii) Tenant will not represent to any party that Tenant has title to the Leased Personal Property; (iii) the Leased Personal Property may not be used as collateral to secure any obligations of Tenant to any party; (iv) Tenant will not allow the Leased Personal Property to become encumbered in any way whatsoever; and (v) Tenant will not remove the Leased Personal Property from the Real Property without the written consent of Landlord. Tenant agrees that Landlord may file any financing statements or other documents Landlord deems reasonably necessary or desirable to protect or enforce its rights and interest in the Leased Personal Property and Tenant agrees to execute such documents as Landlord reasonably requests in connection therewith. In the event any of Leased Personal Property is lost, stolen, damaged, or destroyed, Tenant will be responsible for the full replacement of the same.

(b) ***THE LEASED PERSONAL PROPERTY IS BEING PROVIDED TO TENANT IN "AS IS, WHERE IS" CONDITION, WITH ALL FAULTS. LANDLORD MAKES NO WARRANTIES, EXPRESS OR IMPLIED, INCLUDING ANY WARRANTY OF FITNESS FOR A PARTICULAR PURPOSE OR ANY WARRANTY OF MERCHANTABILITY, WITH RESPECT TO THE LEASED PERSONAL PROPERTY, AND ALL SUCH WARRANTIES AND REPRESENTATIONS ARE EXPRESSLY DISCLAIMED BY LANDLORD.***

28. Contingency for Acquisition of Leased Premises. The parties acknowledge that Landlord does not yet own the Premises and agree that this Lease is contingent upon Landlord acquiring fee title to the Real Property by no later than May 31, 2019. In the event that Landlord has not acquired fee title to the Real Property on or before May 31, 2019 (or such later date as the parties may agree upon in writing), this Lease shall automatically terminate. If Landlord does acquire fee title to the Real Property on or before May 31, 2019, then the date upon which Landlord acquires fee title to the Real Property is referred to herein as the "Acquisition Date." Tenant shall not be entitled to possession of the Premises until the Acquisition Date (also referred to in this Lease as the Commencement Date).

[Signature Page(s) and Guaranty Follow]

IN WITNESS WHEREOF, Landlord and Tenant have caused this Lease to be executed by their duly authorized undersigned representatives as an instrument under seal as of the day and year first written above.

WITNESS:

LANDLORD:
56 MECHANIC FALLS ROAD, LLC

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

WITNESS:

TENANT:
KBS BUILDERS, INC.

By: /s/ Brenda M. Buchanan

By: /s/ Daniel M. Koch
Printed Name: Daniel M. Koch
Its: President

GUARANTY

For value received, and in consideration of and as an inducement to Landlord to enter into the foregoing Lease (the "Lease") with Tenant, the undersigned, **ATRM HOLDINGS, INC.** ("Guarantor"), does hereby unconditionally guaranty to Landlord the complete and due performance and observation of each and every agreement, covenant, term, and condition of the Lease to be performed or observed by Tenant, including, without limitation, the payment of all Rent required under the Lease. The validity of this Guaranty and the obligations of the Guarantor hereunder shall not be terminated, affected, or impaired by reason of the granting by the Landlord of any indulgences to the Tenant. This Guaranty shall remain and continue in full force and effect with respect to any and all renewals, modifications, or extensions of the Lease, irrespective of whether Guarantor shall have received any notice of or consented to such renewal, modification, or extension. The liability of the Guarantor hereunder shall be primary, and in any right of action that shall accrue to the Landlord under the Lease or applicable law, the Landlord may proceed against Guarantor without having commenced any action against or having obtained any judgment against Tenant and/or may proceed against Guarantor and Tenant, jointly and severally. Guarantor hereby waives all guaranty and suretyship defenses. All of the terms and provisions of this Guaranty shall inure to the benefit of the successors and assigns of the Landlord and shall be binding upon the successors and assigns of Guarantor. Capitalized terms that are used, but not defined, in this Guaranty shall have the meaning ascribed thereto in the Lease.

IN WITNESS WHEREOF, the Guarantor has executed this Guaranty as an instrument under seal as of the date of the Lease.

WITNESS:

GUARANTOR:
ATRM HOLDINGS, INC.

By: /s/ Brenda M. Buchanan

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

List of Exhibits

Exhibit A – Description of the Leased Premises

Exhibit B – Base Rent if Tenant does not give a timely Rent Commencement Extension Notice

Exhibit C – Base Rent if Tenant does give a timely Rent Commencement Extension Notice

EXHIBIT A

(Description of Leased Premises)

Parcel 1

A certain lot or parcel of land, together with the buildings and improvements thereon, located in the Town of Oxford, County of Oxford, and State of Maine, being more particularly bounded and described as follows:

Beginning at an iron pin set in the ground on the northerly side line of Route 121 in Oxford, Maine, said iron pin marking the southeasterly corner of land now or formerly of Kenneth Holmes; thence North 10° 01' 04" West 776.03 feet along land of said Holmes to an iron pipe; thence North 72° 50' 12" East 440.78 feet to an iron pipe; thence North 17° 54' 51" West 235.87 feet to a dead pine tree; thence North 83° 39' 58" East 469.49 feet to a 30-inch hemlock; thence South 19° 17' 52" East 543.77 feet to an iron rod with cap; thence South 15° 47' 52" East 282.13 feet to an iron rod with cap; thence South 83° 58' 04" West 101.61 feet to an iron pipe; thence South 15° 56' 38" East 202.46 feet to an iron pin to the apparent northerly road line of Route 121; thence South 85° 17' 57" West 123.90 feet along the apparent road line to an iron pin; thence South 82° 38' 43" West 209.29 feet along the apparent road line to an iron pin; thence South 75° 36' 19" West 432.78 feet along the apparent road line to an iron pin; thence North 09° 13' 24" West 148.83 feet to an iron pipe; thence South 79° 01' 36" West 129.03 feet to an iron pipe; thence South 09° 13' 24" East 156.59 feet to an iron pin on the apparent northerly road line of Route 121; thence South 75° 35' 36" West 14 feet to the point of beginning.

Reference is made to a plan entitled "Standard Boundary Survey for Edward K. Keiser, Jr. Located in Oxford, Maine," prepared by D. A. Maxfield, Jr., dated May, 1987 and recorded in the Oxford County Registry of Deeds in File No. 230 L.

Meaning and intending hereby to convey the same premises conveyed to RJF – Keiser Real Estate, LLC from Keiser Industries, Inc. by deed dated November 6, 2009 and recorded in the Oxford County Registry of Deeds at Book 4525, Page 153.

Parcel 2

A certain lot or parcel of land situated in Oxford, in the Village of Welchville, County of Oxford and State of Maine, and bounded and described as follows:

Bounded on the North by land now or formerly of John Rowe; on the East by land now or formerly of Celia Ryerson; on the South by Mechanic Falls Road to school house lot thereon; East and North of school house lot to road leading to Oxford Depot; on the West by said road leading to said Depot. Meaning to convey hereby the first parcel of land described in the deed from Charles A. Jordan to Clement Poland dated January 4, 1915 and recorded in the Oxford Registry of Deeds at Book 330, Page 28.

Being the same premises as conveyed to Edward K. Keiser, Jr. by warranty deed of Theodora Holmes dated May 20, 1987 and recorded May 20, 1987 in the Oxford County Registry of Deeds at Book 1478, Page 18.

EXHIBIT A-1
(Personal Property)

The "Leased Personal Property" means any personal property located at the Real Property and acquired by Landlord from the seller of the Real Property on the Acquisition Date, if any.

EXHIBIT B

(Base Rent if Tenant does not give a timely Rent Commencement Extension Notice)

<u>Months</u>	<u>Annual Base Rent (Real Property)</u>	<u>Annual Base Rent - (Leased Personal Property)</u>	<u>Total Monthly Installment of Base Rent</u>
Commencement Date through July 31, 2019	\$0.00	\$0.00	\$0.00
August 1, 2019 through March 31, 2020	\$132,000.00 (Annual Rate)	\$0.00 (Annual Rate)	\$11,000.00
April 1, 2020 through March 31, 2021	\$134,640.00	\$0.00	\$11,220.00
April 1, 2021 through March 31, 2022	\$137,332.80	\$0.00	\$11,444.40
April 1, 2022 through March 31, 2023	\$140,079.46	\$0.00	\$11,673.29
April 1, 2023 through March 31, 2024	\$142,881.05	\$0.00	\$11,906.75
April 1, 2024 through March 31, 2025	\$145,738.67	\$0.00	\$12,144.89
April 1, 2025 through March 31, 2026	\$148,653.44	\$0.00	\$12,387.79
April 1, 2026 through March 31, 2027	\$151,626.51	\$0.00	\$12,635.54
April 1, 2027 through March 31, 2028	\$154,659.04	\$0.00	\$12,888.25
April 1, 2028 through March 31, 2029	\$157,752.22	\$0.00	\$13,146.02

EXHIBIT C

(Base Rent if Tenant does give a timely Rent Commencement Extension Notice)

<u>Months</u>	<u>Annual Base Rent (Real Property)</u>	<u>Annual Base Rent - (Leased Personal Property)</u>	<u>Total Monthly Installment of Base Rent</u>
Commencement Date through October 31, 2019	\$0.00	\$0.00	\$0.00
November 1, 2019 through March 31, 2020	\$144,000.00 (Annual Rate)	\$0.00 (Annual Rate)	\$12,000.00
April 1, 2020 through March 31, 2021	\$146,880.00	\$0.00	\$12,240.00
April 1, 2021 through March 31, 2022	\$149,817.60	\$0.00	\$12,484.80
April 1, 2022 through March 31, 2023	\$152,813.95	\$0.00	\$12,734.50
April 1, 2023 through March 31, 2024	\$155,870.23	\$0.00	\$12,989.19
April 1, 2024 through March 31, 2025	\$158,987.63	\$0.00	\$13,248.97
April 1, 2025 through March 31, 2026	\$162,167.38	\$0.00	\$13,513.95
April 1, 2026 through March 31, 2027	\$165,410.73	\$0.00	\$13,784.23
April 1, 2027 through March 31, 2028	\$168,718.94	\$0.00	\$14,059.91
April 1, 2028 through March 31, 2029	\$172,093.32	\$0.00	\$14,341.11

FIRST AMENDMENT TO LEASE

THIS FIRST AMENDMENT TO LEASE (this “Amendment”) is made as of this 18th day of April, 2019, by and between **56 MECHANIC FALLS ROAD, LLC**, a Delaware limited liability company with a mailing address of 53 Forest Avenue, Old Greenwich, Connecticut 06870 (“Landlord”), and **KBS BUILDERS, INC.**, a Delaware corporation with a mailing address of 300 Park Street, Paris, Maine 04271 (“Tenant”).

WHEREAS, Landlord and Tenant are parties to a certain Lease Agreement dated April 3, 2019 (the “Lease”), which Lease pertains to certain property located at or about 56 Mechanic Falls Road in the Town of Oxford, County of Oxford, and State of Maine, as more fully described in the Lease (referred to herein as the “Leased Premises”); and

WHEREAS, the Commencement Date (as defined in the Lease) under the Lease is scheduled to occur on the Acquisition Date (as defined in the Lease) and parties desire to amend the Commencement Date.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained and other good and valuable consideration, the parties, intending to be legally bound, hereby agree as follows:

1. Amendment to Commencement Date. The term “Commencement Date,” as used in the Lease, is hereby amended to mean the later of (i) the Acquisition Date; or (ii) the date that Landlord is able to deliver possession of the Leased Premises to Tenant.

2. Capitalized Terms. Capitalized terms that are used but not defined in this Amendment but that are defined in the Lease have the meaning ascribed to such terms in the Lease.

3. Ratifications. The Lease, as amended by this Amendment, remains in full force and effect and is hereby ratified and confirmed.

4. Successors and Assigns. This Amendment is binding upon and inures to the benefit of the parties hereto and their respective successors and assigns (but the foregoing is not to be construed as consent on the part of Landlord to any assignment by Tenant of the Lease, as amended by this Amendment).

5. Governing Law. This Amendment and all claims and/or causes of action (whether arising in contract, in tort, or by statute) that may be based upon, arise out of, or relate to this Amendment, shall be governed by, and enforced in accordance with, the laws of the State of Maine, without regard or reference to conflicts of law principles.

6. Multiple Counterparts. This Amendment may be executed in multiple counterparts, each of which will constitute an original, and all of which, taken together, will constitute a single instrument.

{Signature Page Follows}

IN WITNESS WHEREOF, Landlord and Tenant have caused this Amendment to be executed by their duly authorized undersigned representatives as of the day and year first written above.

WITNESS:

LANDLORD:
56 Mechanic Falls Road, LLC

By: /s/ David J. Noble

Name: David J. Noble

Title: President

TENANT:

KBS Builders, Inc.

By: /s/ Erik Soderland

By: /s/ Daniel M. Koch

Name: Daniel M. Koch

Title: President

SEEN AND AGREED TO:

GUARANTOR

ATRM Holdings, Inc.

By: /s/ Erik Soderland

By: /s/ Daniel M. Koch

Name: Daniel M. Koch

Title: President & CEO

**CERTIFICATION OF
PRINCIPAL EXECUTIVE AND FINANCIAL OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Matthew G. Molchan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Digirad Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 8, 2019

/S/ Matthew G. Molchan

Matthew G. Molchan

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

**CERTIFICATION OF
PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, David J. Noble, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Digirad Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 8, 2019

/S/ David J. Noble

David J. Noble

*Interim Chief Financial Officer and Chief Operating Officer
(Principal Financial and Accounting Officer)*

**CERTIFICATION OF
PRINCIPAL EXECUTIVE AND FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350
(SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)**

In connection with the accompanying Quarterly Report on Form 10-Q of Digirad Corporation for the period ended March 31, 2019, I, Matthew G. Molchan, President and Chief Executive Officer of Digirad Corporation, hereby certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) such Quarterly Report on Form 10-Q of Digirad Corporation for the period ended March 31, 2019, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in such Quarterly Report on Form 10-Q of Digirad Corporation for the period ended March 31, 2019, fairly presents, in all material respects, the financial condition and results of operations of Digirad Corporation at the dates and for the periods indicated.

This certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

May 8, 2019

/S/ Matthew G. Molchan

Matthew G. Molchan

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

A signed copy of this written statement required by Section 906 has been provided to Digirad Corporation and will be retained by Digirad Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION OF
PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350
(SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)**

In connection with the accompanying Quarterly Report on Form 10-Q of Digirad Corporation for the period ended March 31, 2019, I, David J. Noble, Interim Chief Financial Officer of Digirad Corporation, hereby certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) such Quarterly Report on Form 10-Q of Digirad Corporation for the period ended March 31, 2019, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in such Quarterly Report on Form 10-Q of Digirad Corporation for the period ended March 31, 2019, fairly presents, in all material respects, the financial condition and results of operations of Digirad Corporation at the dates and for the periods indicated.

This certification has not been, and shall not be deemed, “filed” with the Securities and Exchange Commission.

May 8, 2019

/S/ David J. Noble

David J. Noble

*Interim Chief Financial Officer and Chief Operating Officer
(Principal Financial and Accounting Officer)*

A signed copy of this written statement required by Section 906 has been provided to Digirad Corporation and will be retained by Digirad Corporation and furnished to the Securities and Exchange Commission or its staff upon request.