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 JUNE 30, 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	**33-0145723**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
1048 Industrial Court, Suwanee, GA	**30024**
(Address of Principal Executive Offices)	**(Zip Code)**

(858) 726-1600
(Registrant's Telephone Number, Including Area Code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	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	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☐

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

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

As of July 30, 2019 the registrant had 2,042,493 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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Revenues:				
Services	$ 22,749	$ 24,324	$ 44,138	$ 46,947
Product and product-related	3,049	2,756	5,572	5,598
Real estate operations	—	—	—	—
Total revenues	25,798	27,080	49,710	52,545
Cost of revenues:				
Services	18,648	20,023	36,842	39,284
Product and product-related	1,969	1,490	3,706	3,087
Real estate operations	177	—	177	—
Total cost of revenues	20,794	21,513	40,725	42,371
Gross profit	5,004	5,567	8,985	10,174
Operating expenses:				
Marketing and sales	1,215	1,461	2,358	2,928
General and administrative	3,652	3,522	7,342	7,914
Amortization of intangible assets	283	356	566	713
Goodwill impairment	—	476	—	476
Merger and finance costs	1,000	—	1,000	—
Total operating expenses	6,150	5,815	11,266	12,031
Loss from operations	(1,146)	(248)	(2,281)	(1,857)
Other expense:				
Other expense, net	(5)	(19)	(203)	(36)
Interest expense, net	(254)	(189)	(435)	(363)
Loss on sale of building	(232)	—	(232)	—
Loss on extinguishment of debt	—	—	(151)	(43)
Total other expense	(491)	(208)	(1,021)	(442)
Loss before income taxes	(1,637)	(456)	(3,302)	(2,299)
Income tax benefit	162	106	170	561
Net loss from continuing operations	(1,475)	(350)	(3,132)	(1,738)
Net income from discontinued operations	266	—	266	5,494
Net (loss) income	$ (1,209)	$ (350)	$ (2,866)	$ 3,756
Net (loss) income per share—basic and diluted				
Continuing operations	$ (0.72)	$ (0.17)	$ (1.54)	$ (0.86)
Discontinued operations	0.13	—	0.13	2.73
Net (loss) income per share—basic and diluted	$ (0.59)	$ (0.17)	$ (1.41)	$ 1.87
Dividends declared per common share	$ —	$ 0.55	$ —	$ 1.10
Net (loss) income	$ (1,209)	$ (350)	$ (2,866)	$ 3,756
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	$ (1,209)	$ (350)	$ (2,844)	$ 3,739

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	June 30, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 864	$ 1,545
Restricted cash	168	167
Equity securities	17	153
Accounts receivable, net	12,783	12,642
Inventories, net	5,781	5,402
Other current assets	1,456	1,285
Total current assets	21,069	21,194
Property and equipment, net	24,324	21,645
Operating lease right-of-use assets, net	3,973	—
Intangible assets, net	4,662	5,228
Goodwill	1,745	1,745
Restricted cash	—	101
Deferred tax assets	75	—
Investments in and receivables from related parties	1,275	275
Other assets	728	406
Total assets	$ 57,851	$ 50,594
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 4,584	$ 5,206
Accrued compensation	4,121	3,862
Accrued warranty	283	197
Deferred revenue	1,455	1,687
Operating lease liabilities	1,427	—
Other current liabilities	2,939	2,265
Total current liabilities	14,809	13,217
Long-term debt	15,314	9,500
Deferred tax liabilities	121	121
Operating lease liabilities, net of current portion	2,674	—
Other liabilities	1,721	1,956
Total liabilities	34,639	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: 30,000,000 shares authorized; 2,042,493 and 2,024,979 shares issued and outstanding (net of treasury shares) at June 30, 2019 and December 31, 2018, respectively	2	2
Treasury stock, at cost; 258,849 shares at June 30, 2019 and December 31, 2018	(5,728)	(5,728)
Additional paid-in capital	145,706	145,428
Accumulated other comprehensive loss	—	(22)
Accumulated deficit	(116,768)	(113,880)
Total stockholders' equity	23,212	25,800
Total liabilities and stockholders' equity	$ 57,851	$ 50,594

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2019	**2018**
Operating activities		
Net (loss) income	$ (2,866)	$ 3,756
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,094	3,842
Amortization of intangible assets	566	727
Amortization of operating lease right-of-use assets	604	—
Provision for bad debt	109	82
Stock-based compensation	302	371
Goodwill impairment	—	476
Gain on disposal of discontinued operations	(350)	(6,261)
Amortization of loan issuance costs	28	21
Debt issuance costs write-off	151	43
Financing costs write-off	273	—
Loss (gain) on sale of assets	24	(238)
Deferred income taxes	(75)	120
Other, net	(23)	36
Changes in operating assets and liabilities:		
Accounts receivable	(348)	3,219
Inventories	(290)	(463)
Other assets	(529)	339
Accounts payable	(694)	(73)
Accrued compensation	262	(1,385)
Deferred revenue	159	(844)
Operating lease liabilities	(625)	—
Other liabilities	596	(727)
Net cash provided by operating activities	368	3,041
Investing activities		
Purchases of property and equipment	(1,446)	(919)
Purchase of real estate from related and third parties	(5,180)	—
Proceeds from sale of property and equipment	1,320	325
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	(6,166)	6,236
Financing activities		
Proceeds from long-term borrowings	40,982	18,125
Repayment of long-term debt	(35,168)	(25,125)
Loan issuance costs	(404)	(7)
Dividends paid	—	(2,212)
Taxes paid related to net share settlement of equity awards	(24)	(74)
Repayment of obligations under finance leases	(369)	(450)
Net cash provided by (used in) financing activities	5,017	(9,743)
Net decrease in cash, cash equivalents, and restricted cash	(781)	(466)
Cash, cash equivalents, and restricted cash at beginning of period	1,813	2,220
Cash, cash equivalents, and restricted cash at end of period	$ 1,032	$ 1,754

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Common stock						
	Shares	**Amount**	**Treasury Stock**	**Additional paid-in capital**	**Accumulated other comprehensive income (loss)**	**Accumulated deficit**	**Total stockholders' equity**
Balance at December 31, 2018	2,025	$ 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	6	—	—	(24)	—	—	(24)
Net loss	—	—	—	—	—	(1,657)	(1,657)
Reclassification of tax provision impact	—	—	—	—	22	—	22
Balance at March 31, 2019	2,031	$ 2	$ (5,728)	$ 145,516	$ —	$ (115,537)	$ 24,253
Stock-based compensation	—	—	—	190	—	—	190
Shares issued under stock incentive plans, net of shares withheld for employee taxes	9	—	—	—	—	—	—
Shares issued for fractional shares in conjunction with reverse stock split	2	—	—	—	—	—	—
Net loss	—	—	—	—	—	(1,209)	(1,209)
Reclassification of tax provision impact	—	—	—	—	—	(22)	(22)
Balance at June 30, 2019	2,042	$ 2	$ (5,728)	$ 145,706	$ —	$ (116,768)	$ 23,212

	Common stock						
	Shares	**Amount**	**Treasury Stock**	**Additional paid-in capital**	**Accumulated other comprehensive income (loss)**	**Accumulated deficit**	**Total stockholders' equity**
Balance at December 31, 2017	2,006	$ 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	6	—	—	(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	2,012	$ 2	$ (5,728)	$ 147,189	$ (22)	$ (110,510)	$ 30,931
Stock-based compensation	—	—	—	171	—	—	171
Shares issued under stock incentive plans, net of shares withheld for employee taxes	—	—	—	(6)	—	—	(6)
Dividends paid	—	—	—	(1,107)	—	—	(1,107)
Net loss	—	—	—	—	—	(350)	(350)
Balance at June 30, 2018	2,012	$ 2	$ (5,728)	$ 146,247	$ (22)	$ (110,860)	$ 29,639

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.

Reverse Stock Split

On May 31, 2019, the Company filed a Certificate of Amendment to its Restated Certificate of Incorporation (the "Amendment") in order to effect a reverse stock split of the issued and outstanding shares of its common stock at a ratio of 1-for-10 (the "Reverse Stock Split") and to reduce of the number of authorized shares of common stock to 30 million shares authorized (the "Share Reduction"). The Reverse Stock Split was implemented for the purpose of regaining compliance with the minimum bid price requirement for continued listing of the Company's common stock on the Nasdaq Global Market.

The Reverse Stock Split and the Share Reduction became effective on June 4, 2019, at which time (a) every ten shares of the Company's issued and outstanding common stock were automatically combined into one issued and outstanding share of common stock and (b) the number of authorized shares of common stock under the Company's Restated Certificate of Incorporation, as amended, was automatically reduced to 30 million shares authorized. No fractional shares were issued in connection with the Reverse Stock Split. Instead, the Company issued one full share of the post-Reverse Stock Split common stock to any stockholder who would have been entitled to receive a fractional share as a result of the Reverse Stock Split. The Amendment did not affect the par value of the Company's common stock. The Company's common stock began trading on a split-adjusted basis on June 5, 2019.

The Amendment, effecting the Reverse Stock Split and the Share Reduction, was approved by the stockholders of the Company at the Company's 2019 Annual Meeting of Stockholders held on May 1, 2019. In connection with approving the Reverse Stock Split, the Company's stockholders granted authority to the Company's board of directors to determine, at its discretion, a ratio within the range of 1-for-5 to 1-for-10, at which to effectuate the Reverse Stock Split. The Reverse Stock Split was approved by the Company's board of directors on March 8, 2019, and the ratio of 1-for-10 was approved by the Company's board of directors on May 15, 2019.

The terms of equity awards under the Company’s incentive plans, including the per share exercise price of options and the number of shares issuable under outstanding awards, were converted on the effective date of the Reverse Stock Split in proportion to the reverse split ratio (subject to adjustment for fractional interests). In addition, the total number of shares of common stock that may be the subject of future grants under the Company’s incentive plans were adjusted and proportionately decreased as a result of the Reverse Stock Split.

All authorized, issued, and outstanding stock and per share amounts contained in the accompanying condensed consolidated financial statements have been adjusted to reflect the 1-for-10 Reverse Stock Split for all prior periods presented. The Reverse Stock Split was effective June 4, 2019.

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

Lessee Accounting

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.

Lessor Accounting

We determine lease classification at the commencement date. Leases not classified as sales-type or direct financing leases are classified as operating leases. The primary accounting criteria we use for lease classification are (a) review to determine if the lease transfers ownership of the underlying asset to the lessee by the end of the lease term, (b) review to determine if the lease grants the lessee a purchase option that the lessee is reasonably certain to exercise, (c) determine, using a seventy-five percent or more threshold, if the lease term is for a major part of the remaining economic life of the underlying asset (however, we do not use this classification criterion when the lease commencement date falls within the last 25 percent of the total economic life of the underlying asset) and (d) determine, using a ninety percent or more threshold, if the present value of the sum of the lease payments and any residual value guarantees equal or exceeds substantially all of the fair value of the underlying asset. We do not lease equipment of such a specialized nature that it is expected to have no alternative use to the lessor at the end of the lease term. Each of the Company’s leases is classified as an operating lease.

The Company elected the operating lease practical expedient for its leases to not separate non-lease components of regular maintenance services from associated lease components. This practical expedient is available when both of the following are met: (i) the timing and pattern of transfer of the non-lease components and associated lease component are the same and (ii) the lease component, if accounted for separately, would be classified as an operating lease.

Property taxes paid by the lessor that are reimbursed by the lessee are considered to be lessor costs of owning the asset, and are recorded gross with revenue included in other non-interest income and expense recorded in operating expenses.

The Company selected a lessor accounting policy election to exclude from revenue and expenses sales taxes and other similar taxes assessed by a governmental authority on lease revenue-producing transactions and collected by the lessor from a lessee.

Operating lease equipment is carried at cost less accumulated depreciation. Operating lease equipment is depreciated to its estimated residual value using the straight-line method over the lease term or estimated useful life of the asset.

Rental revenue on operating leases is recognized on a straight-line basis over the lease term unless collectibility is not probable. In these cases rental revenue is recognized as payments are received.

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 of $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 its NetSuite ERP implementation. As of June 30, 2019, the Company has capitalized $0.1 million 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 sale of the customer contracts, we received notification from Philips on September 28, 2017, 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.

For the six months ended June 30, 2019, Digirad recognized a $0.4 million gain for the remaining settlement of the warranty claims in regards to equipment sold to Phillips.

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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Total revenues	$ —	$ 165	$ —	$ 789
Total cost of revenues	—	30	—	546
Gross profit	—	135	—	243
Operating expenses:				
Marketing and sales	—	—	—	85
General and administrative	—	—	—	172
Amortization of intangible assets	—	—	—	13
Gain on sale of discontinued operations	(350)	—	(350)	(6,261)
Total operating expenses	(350)	—	(350)	(5,991)
Income from discontinued operations	350	135	350	6,234
Interest expense	—	—	—	(26)
Income from discontinuing operations before income taxes	350	135	350	6,208
Income tax expense	(84)	(135)	(84)	(714)
Income from discontinuing operations	$ 266	$ —	$ 266	$ 5,494

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

	Six Months Ended June 30,	
	2019	2018
Operating activities:		
Depreciation	$ —	$ 2
Amortization of intangible assets	$ —	$ 13
Gain on sale of discontinued operations	$ (350)	$ (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 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 when an observable price is not available, we use a cost plus margin approach.

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 and six months ended June 30, 2019 and 2018, disaggregated by major source (in thousands):

	Three Months Ended June 30, 2019			
	Diagnostic Services	Diagnostic Imaging	Mobile Healthcare	Total
Major Goods/Service Lines				
Mobile Imaging	$ 12,148	$ —	$ 8,085	$ 20,233
Camera	—	1,494	—	1,494
Camera Support	—	1,555	—	1,555
Revenue from Contracts with Customers	12,148	3,049	8,085	23,282
Lease Income - Equipment	170	—	2,346	2,516
Total Revenues	$ 12,318	$ 3,049	$ 10,431	$ 25,798
Timing of Revenue Recognition				
Services and goods transferred over time	$ 12,318	$ 1,500	$ 10,268	$ 24,086
Services and goods transferred at a point in time	—	1,549	163	1,712
Total Revenues	$ 12,318	$ 3,049	$ 10,431	$ 25,798

	Six Months Ended June 30, 2019			
	Diagnostic Services	Diagnostic Imaging	Mobile Healthcare	Total
Major Goods/Service Lines				
Mobile Imaging	$ 23,733	$ —	$ 15,579	$ 39,312
Camera	—	2,298	—	2,298
Camera Support	—	3,274	—	3,274
Revenue from Contracts with Customers	23,733	5,572	15,579	44,884
Lease Income - Equipment	311	—	4,515	4,826
Total Revenues	$ 24,044	$ 5,572	$ 20,094	$ 49,710
Timing of Revenue Recognition				
Services and goods transferred over time	$ 24,044	$ 3,051	$ 19,793	$ 46,888
Services and goods transferred at a point in time	—	2,521	301	2,822
Total Revenues	$ 24,044	$ 5,572	$ 20,094	$ 49,710

	Three Months Ended June 30, 2018			
	Diagnostic Services	Diagnostic Imaging	Mobile Healthcare	Total
Major Goods/Service Lines				
Mobile Imaging	$ 13,075	$ —	$ 8,554	$ 21,629
Camera	—	913	—	913
Camera Support	—	1,809	—	1,809
Revenue from Contracts with Customers	13,075	2,722	8,554	24,351
Lease Income - Equipment	192	34	2,503	2,729
Total Revenues	$ 13,267	$ 2,756	$ 11,057	$ 27,080
Timing of Revenue Recognition				
Services and goods transferred over time	$ 12,123	$ 1,630	$ 10,986	$ 24,739
Services and goods transferred at a point in time	1,144	1,126	71	2,341
Total Revenues	$ 13,267	$ 2,756	$ 11,057	$ 27,080

	Six Months Ended June 30, 2018			
	Diagnostic Services	Diagnostic Imaging	Mobile Healthcare	Total
Major Goods/Service Lines				
Mobile Imaging	$ 24,973	$ —	$ 16,633	$ 41,606
Camera	—	1,983	—	1,983
Camera Support	—	3,553	—	3,553
Revenue from Contracts with Customers	24,973	5,536	16,633	47,142
Lease Income - Equipment	319	62	5,022	5,403
Total Revenues	$ 25,292	$ 5,598	$ 21,655	$ 52,545
Timing of Revenue Recognition				
Services and goods transferred over time	$ 23,087	$ 3,350	$ 21,477	$ 47,914
Services and goods transferred at a point in time	2,205	2,248	178	4,631
Total Revenues	$ 25,292	$ 5,598	$ 21,655	$ 52,545

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 our real estate division under Star Real Estate Holdings USA, Inc. ("SRE"), we generate income from the lease of commercial properties and equipment. As an initial transaction to create our real estate division under SRE and launch that aspect of the Company's conversion into a diversified holding company (the "HoldCo Conversion"), we purchased three plants in Maine that manufacture modular buildings and leased these three properties.

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.

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 six months ended June 30, 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	(929)
Deferred revenue, net, related to contracts entered into during the year	690
Balance at June 30, 2019	$ 1,474

Included in the balances above as of June 30, 2019 and December 31, 2018 is non-current deferred revenue included in other liabilities of $19 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 and six months ended June 30, 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 June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
Loss from continuing operations	$ (1,475)	$ (350)	$ (3,132)	$ (1,738)
Income from discontinued operations	266	—	266	5,494
Net (loss) income	$ (1,209)	$ (350)	$ (2,866)	$ 3,756
Weighted-average shares outstanding—basic and diluted	2,038	2,012	2,034	2,011
(Loss) income per common share—basic and diluted				
Continuing operations	$ (0.72)	$ (0.17)	$ (1.54)	$ (0.86)
Discontinued operations	0.13	—	0.13	2.73
Net (loss) income per common share—basic and diluted	$ (0.59)	$ (0.17)	$ (1.41)	$ 1.87

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 June 30,		Six Months Ended June 30,	
	2019	**2018**	**2019**	**2018**
Stock options	111	36	106	26
Restricted stock units	34	23	32	17
Total	145	59	138	43

Note 5. Supplementary Balance Sheet Information

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

	June 30, 2019	December 31, 2018
Raw materials	$ 2,904	$ 2,419
Work-in-process	2,133	2,307
Finished goods	1,121	1,056
Total inventories	6,158	5,782
Less reserve for excess and obsolete inventories	(377)	(380)
Total inventories, net	$ 5,781	$ 5,402

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

	June 30, 2019	December 31, 2018
Land	$ 604	$ 550
Buildings and leasehold improvements	5,445	1,989
Machinery and equipment	53,011	52,409
Computer hardware and software	4,471	4,490
Total property and equipment	63,531	59,438
Less accumulated depreciation	(39,207)	(37,793)
Total property and equipment, net	$ 24,324	$ 21,645

In April 2019, Digirad purchased three manufacturing facilities, including land, in Maine that manufacture modular buildings (two of which were purchased from KBS Builders, Inc., a wholly-owned subsidiary of ATRM ("KBS") for $5.2 million and leased those three properties to KBS. Refer to lease income discussed in *Note 3. Revenue.*

Note 6. Leases

Lessee

We have operating and finance leases for corporate offices, vehicles, and certain equipment. Our leases have remaining lease terms of 1 year to 5 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 lease assets are included in property and equipment with the related liabilities 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 June 30, 2019	Six Months Ended June 30, 2019
Operating lease cost	$ 391	$ 717
Finance lease cost:		
Amortization of finance lease assets	$ 269	$ 322
Interest on finance lease liabilities	32	65
Total finance lease cost	$ 301	$ 387

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

	Six Months Ended June 30, 2019
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	$ 625
Operating cash flows from finance leases	$ 67
Financing cash flows from finance leases	$ 369
Right-of-use assets obtained in exchange for lease obligations	
Operating leases	$ 868
Finance leases	$ 422

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

		June 30, 2019
Operating lease right-of-use assets, net	$	3,973
Operating lease liabilities	$	1,427
Operating lease liabilities, net of current		2,674
Total operating lease liabilities	$	4,101
Finance lease assets	$	3,978
Finance lease accumulated amortization		(1,266)
Finance lease assets, net	$	2,712
Finance lease liabilities	$	858
Finance lease liabilities, net of current		1,638
Total finance lease liabilities	$	2,496
Weighted-Average Remaining Lease Term (in years)		
Operating leases		3.2
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 June 30, 2019 were as follows (in thousands):

		Operating Leases		Finance Leases
2019 (excludes the six-months ended June 30, 2019)	$	813	$	498
2020		1,524		924
2021		1,144		895
2022		643		336
2023		299		54
Thereafter		21		—
Total future minimum lease payments	$	4,444	$	2,707
Less amounts representing interest		343		211
Present value of lease obligations	$	4,101	$	2,496

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 June 30, 2019 and December 31, 2018 (in thousands).

	Fair Value as of June 30, 2019							
		Level 1		Level 2		Level 3		Total
Equity securities	$	17	$	25	$	—	$	42

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

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 June 30, 2019. During the six months ended June 30, 2019 the Company recorded in the condensed consolidated statement of operations an unrealized gain of $24 thousand and immaterial unrealized losses. During the year ended December 31, 2018 the Company recorded unrealized gains of $43 thousand and unrealized losses of $105 thousand.

We did not reclassify any investments between levels in the fair value hierarchy during the six months ended June 30, 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):

	June 30, 2019		December 31, 2018	
	Amount	Weighted-Average Interest Rate	Amount	Weighted-Average Interest Rate
Revolving Credit Facility - SNB	$ 15,314	4.90%	$ —	—%
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 June 30, 2019, the Company had $0.1 million of letters of credit outstanding and had additional borrowing capacity of $4.7 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 six months ended June 30, 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 June 30, 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.

As a result of the intraperiod tax allocation rules, for the six months ended June 30, 2019, the Company recorded an income tax benefit of $0.2 million and an income tax expense of $0.1 million within continuing operations and discontinued operations, respectively. For the six months ended June 30, 2018, the Company recorded an income tax benefit of $0.6 million and $0.7 million of income tax expense within continuing operations and discontinued operations, respectively.

As of June 30, 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 June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Revenue by segment:				
Diagnostic Services	$ 12,318	$ 13,267	$ 24,044	$ 25,292
Diagnostic Imaging	3,049	2,756	5,572	5,598
Mobile Healthcare	10,431	11,057	20,094	21,655
Real Estate Holdings	—	—	—	—
Consolidated revenue	$ 25,798	$ 27,080	$ 49,710	$ 52,545
Gross profit by segment:				
Diagnostic Services	$ 2,805	$ 2,969	$ 5,386	$ 5,216
Diagnostic Imaging	1,080	1,266	1,866	2,511
Mobile Healthcare	1,296	1,332	1,910	2,447
Real Estate Holdings	(177)	—	(177)	—
Consolidated gross profit	$ 5,004	$ 5,567	$ 8,985	$ 10,174
(Loss) income from operations by segment:				
Diagnostic Services	$ 1,957	$ 1,096	$ 3,693	$ 2,089
Diagnostic Imaging	565	1,035	908	1,654
Mobile Healthcare	439	72	(184)	21
Real Estate Holdings	(199)	—	(199)	—
Unallocated corporate and other expenses	(2,908)	(1,975)	(5,499)	(5,145)
Segment (loss) income from operations	(146)	228	(1,281)	(1,381)
Goodwill impairment	—	(476)	—	(476)
Merger and finance costs	$ (1,000)	$ —	$ (1,000)	$ —
Consolidated loss from operations	$ (1,146)	$ (248)	$ (2,281)	$ (1,857)
Depreciation and amortization by segment:				
Diagnostic Services	$ 305	$ 936	$ 609	$ 1,240
Diagnostic Imaging	73	74	151	152
Mobile Healthcare	1,438	1,750	2,865	3,177
Real Estate Holdings	35	—	35	—
Total depreciation and amortization	$ 1,851	$ 2,760	$ 3,660	$ 4,569

The Company formed a real estate segment through its Star Real Estate Holdings USA, Inc. (“SRE”) segment. SRE will hold significant real estate assets with the intent to create revenues through its leasing operations.

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 2.7% of our outstanding common stock and 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 "ATRM Preferred Stock") and another 374,562 shares of ATRM Preferred 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 ATRM Preferred Stock, except to the extent of his pecuniary interest therein.

Financial Assistance

On May 1, 2019, the special committee of the Company's board of directors (the "Special Committee") approved financial assistance by the Company to ATRM, in the form of advances or cash payments on behalf of ATRM, in order assist ATRM in becoming current with its financial statements and filings with the SEC. Under the terms of this approval, the Company was authorized to advance or spend up to an aggregate maximum amount of $0.4 million, with subsequent increments of $0.01 million subject to further approval by a designated member of the Special Committee. On July 30, 2019, the Special Committee increased the amount of financial assistance that the Company is authorized to provide to $0.8 million. The Company has entered into an agreement with ATRM pursuant to which ATRM has agreed to repay all financial assistance to ATRM if the proposed acquisition of ATRM was not consummated. As of June 30, 2019, the Company has made cash payments on behalf of ATRM of approximately $0.4 million.

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 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.

Acquisitions and Leases of Maine Facilities

Through its SRE subsidiary the Company purchased from KBS Builders, Inc. ("KBS"), a wholly-owned subsidiary of ATRM, two plants in Maine that manufacture modular buildings and leased these properties back to KBS, as further described below.

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 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 March 27, 2019, 56 Mechanic Falls Road, LLC ("56 Mechanic"), a wholly-owned subsidiary of SRE, purchased from a third party certain property and equipment located in Oxford, Maine (the "Oxford Facility"). The transaction closed on April 25, 2019. The purchase price of the Oxford Facility was $1.2 million, subject to adjustment for taxes and other charges and assessments. 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 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.

Note 13. Subsequent Events

Merger Agreement

On July 3, 2019, the Company), Digirad Acquisition Corporation, a newly formed Minnesota corporation and wholly-owned subsidiary of the Company ("Merger Sub"), and ATRM Holdings, Inc., a Minnesota corporation ("ATRM") entered into an Agreement and Plan of Merger (the "Merger Agreement"). The Merger Agreement provides for, among other things, a business combination whereby Merger Sub will merge with and into ATRM, with ATRM as the surviving entity (the "Merger"). As a result of the Merger, the separate corporate existence of Merger Sub will cease and ATRM will continue as the surviving corporation and a wholly-owned subsidiary of the Company.

At the effective time of the Merger, (i) each share of ATRM common stock, par value $0.001 per share ("ATRM Common Stock") issued and outstanding immediately prior to the effective time of the Merger will be converted into the right to receive three one-hundredths (0.03) of a share of 10.0% Series A Cumulative Perpetual Preferred Stock, par value $0.0001 per share, of the Company ("Company Preferred Stock") and (ii) each share of ATRM Preferred Stock, issued and outstanding immediately prior to the effective time of the Merger will be converted into the right to receive two and one-half (2.5) shares of Company Preferred Stock.

As set forth in the proposed Certificate of Designation for the Company Preferred Stock contemplated under the Merger Agreement, the terms of the Company Preferred Stock will include, among other things: (i) dividends will be cumulative from (but excluding) the date of issue, and will be payable quarterly in arrears, at a rate of 10.0% per annum per $10.00 of stated liquidation preference per share (or $1.00 per share of Company Preferred Stock per year); (ii) following the fifth anniversary of issuance, the Company may redeem (at its option, in whole or in part) the Company Preferred Stock at a cash redemption price of $10.00 per share, plus any accumulated and unpaid dividends; (iii) upon a Change of Control Triggering Event, as defined in the Certificate of Designation, holders of the Company Preferred Stock may require the Company to redeem the Company Preferred Stock at a price of $10.00 per share, plus any accumulated and unpaid dividends; (iv) the Company Preferred Stock will not be subject to any sinking fund and will not be convertible into or exchangeable for any of other securities; and (v) holders of the Company Preferred Stock generally will have no voting rights except for certain limited voting rights, including in circumstances where dividends payable on the outstanding Company Preferred Stock are in arrears for six or more consecutive quarterly dividend periods and to amend the terms of the Company Preferred Stock if it would materially and adversely alter the rights of holders of the Company Preferred Stock.

The Company and ATRM have made customary representations, warranties and covenants in the Merger Agreement, including ATRM agreeing not to solicit alternative transactions or, subject to certain exceptions, to enter into discussions concerning, or provide confidential information in connection with, an alternative transaction. The Merger Agreement contains certain termination rights for both the Company and ATRM, and further provides that, upon termination of the Merger Agreement under certain circumstances, ATRM may be obligated to pay the Company a termination fee of up to $725,000, as well as up to $225,000 of the Company's expenses.

The Merger is subject to various customary closing conditions, including, but not limited to, (i) approval by ATRM's shareholders, (ii) the absence of any order, injunction, statute, rule, regulation or decree prohibiting, precluding, restraining, enjoining or making illegal the consummation of the Merger, (iii) the accuracy of the representations and warranties of each party, (iv) performance, in all material respects, of all obligations and compliance with, in all material respects, agreements and covenants to be performed or complied with by each party, (v) declaration of effectiveness of the Registration Statement on Form S-4 filed by the Company on July 19, 2019, and (vi) the completion of the Private Placement and the Issuance Option (each as defined below).

Prior to the effective time of the Merger, the Company shall have completed a private placement of Company Preferred Stock for gross proceeds to the Company of no less than $3.0 million (the "Private Placement"). The net proceeds of the Private Placement, after the payment of any expenses incurred in connection with the negotiation and consummation of the Private Placement, will be applied toward the costs and expenses of the Merger, including the repayment of certain ATRM debt. In addition, prior to the effective time of the Merger, the Company shall have entered into an agreement with Jeffrey Eberwein, the Company's Chairman of the Board, pursuant to which the Company shall have the right to require Mr. Eberwein to acquire 100,000 shares of Company Preferred Stock at a price of $10 per share for aggregate proceeds of $1,000,000 at any time, in the Company's discretion, during the 12 calendar months following the effective time of the Merger (the "Issuance Option").

In addition, at the effective time of the Merger, each unvested share of restricted ATRM Common Stock or restricted ATRM Common Stock units that is outstanding under any ATRM stock plan shall be assumed by the Company and shall be converted automatically into a restricted share of Company Preferred Stock or restricted Company Preferred Stock units (as applicable), subject only to time-based vesting, and at an exchange ratio of three one-hundredths (0.03) of a share of Company Preferred Stock for each applicable share of ATRM Common Stock. Each share of restricted ATRM Common Stock or restricted ATRM Common Stock unit so adjusted shall otherwise be subject to the same terms and conditions which were applicable to the restricted ATRM Common Stock or restricted ATRM Common Stock unit under ATRM's stock plans and the agreements evidencing grants thereunder, including as to vesting and settlement.

Proxy/Prospectus

Digirad and ATRM filed a proxy statement/prospectus as part of a registration statement on Form S-4 with the SEC on July 19, 2019, and filed an amended S-4/A on August 7, 2019, which was effective as of August 9, 2019. These filings constitute a prospectus of Digirad under Section 5 of the Securities Act of 1933, as amended, and the rules thereunder, with respect to the shares of Company Preferred Stock to be issued to ATRM shareholders in the Merger. In addition, these filings constitute a proxy statement under Section 14(a) of the Securities Exchange Act of 1934, as amended, and the rules thereunder, and a notice of meeting with respect to the special meeting of ATRM shareholders at which (a) holders of ATRM Common Stock and ATRM Preferred Stock will consider and vote upon the proposal to approve the Merger Agreement and the transactions contemplated thereby, including the Merger, (b) holders of ATRM Common Stock will consider and vote upon the proposal to approve, by an advisory vote, the change in control payments to ATRM's President and Chief Executive Officer, and (c) holders of ATRM Common Stock will consider and vote upon the proposal to adjourn or postpone the ATRM special meeting, if necessary or appropriate, for, among other reasons, the solicitation of additional proxies.

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 four reportable segments: Diagnostic Services, Mobile Healthcare, Diagnostic Imaging, and Real Estate Holdings.

On September 10, 2018, we announced that our board of directors approved the conversion of Digirad into a diversified holding company (the "HoldCo Conversion"), 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, Inc. ("KBS") and EdgeBuilder, Inc. ("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 Building Supply, Inc. ("Glenbrook") unit. Both divisions serve the residential and commercial segments of the market. ATRM also wholly owns LSVM, a Connecticut investment advisor located in Greenwich, CT.

On December 14, 2018, Digirad and ATRM, entered into a joint venture and formed 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 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.

As part of the HoldCo Conversion, Digirad formed a real estate division under a newly formed subsidiary named Star Real Estate Holdings USA, Inc. ("SRE") for the purposes of holding significant real estate assets that Digirad acquires. As an initial transaction to create Digirad's real estate division under SRE and launch that aspect of the HoldCo Conversion, in April 2019, Digirad funded the initial purchase of three manufacturing facilities in Maine that manufacture modular buildings and leased those three properties. The funding of the assets acquisition was primarily through the revolver loan under our SNB Credit Facility. Digirad expects 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.

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. Additionally, the related assets and liabilities associated with the discontinued operations were reclassified as held for sale in Digirad's consolidated balance sheet.

Business Segments

As of June 30, 2019, our business is organized into four reportable segments:

- Diagnostic Services
- Mobile Healthcare
- Diagnostic Imaging
- Real Estate Holdings

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.

Real Estate Holdings. As part of the HoldCo Conversion, Digirad formed a real estate division under a newly formed subsidiary named Star Real Estate Holdings USA, Inc. ("SRE") for the purposes of holding significant real estate assets that Digirad acquires. As an initial transaction to create Digirad's real estate division under SRE and launch that aspect of the HoldCo Conversion, in April 2019, Digirad funded the initial purchase of three manufacturing facilities in Maine that manufacture modular buildings and leased those three properties. The funding of the assets acquisition was primarily through the revolver loan under our SNB Credit Facility. Digirad expects 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.

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.

Real Estate Holdings. As part of the HoldCo Conversion, Digirad formed a real estate division under a newly formed subsidiary named Star Real Estate Holdings USA, Inc. (“SRE”) for the purposes of holding significant real estate assets that Digirad acquires. As an initial transaction to create Digirad’s real estate division under SRE and launch that aspect of the HoldCo Conversion, in April 2019, Digirad funded the initial purchase of three manufacturing facilities in Maine that manufacture modular buildings and leased those three properties. The funding of the assets acquisition was primarily through the revolver loan under our SNB Credit Facility. Digirad expects 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.

Proposed Acquisition of ATRM Holdings, Inc.

On September 10, 2018, we announced a potential acquisition of ATRM pursuant to a non-binding letter of intent with ATRM. On July 3, 2019, we announced that we had entered into an Agreement and Plan of Merger (the Merger Agreement) by and among the Company, Digirad Acquisition Corporation, a newly formed Minnesota corporation and wholly-owned subsidiary of the Company (Merger Sub), and ATRM. The Merger Agreement provides for, among other things, a business combination whereby Merger Sub will merge with and into ATRM, with ATRM as the surviving entity (the Merger). As a result of the Merger, the separate corporate existence of Merger Sub will cease and ATRM will continue as the surviving corporation and a wholly-owned subsidiary of the Company.

In the proposed Merger, each issued and outstanding share of common stock, par value $0.001 per share, of ATRM ("ATRM Common Stock") will be converted into the right to receive 0.03 validly issued, fully paid and nonassessable shares of 10.0% Series A Cumulative Perpetual Preferred Stock, par value $0.0001 per share, of Digirad ("Company Preferred Stock") and each issued and outstanding share of 10.0% Series B Cumulative Preferred Stock, par value $0.001 per share, of ATRM ("ATRM Preferred Stock") will be converted into the right to receive 2.5 validly issued, fully paid and nonassessable shares of Company Preferred Stock, in each case subject to certain exceptions and with the rounding up of any fractional shares to the nearest whole share of Company Preferred Stock. Upon the effectiveness of the Merger, each share of ATRM Common Stock and each share of ATRM Preferred Stock issued and outstanding will no longer be outstanding and shall automatically be canceled and retired and shall cease to exist. ATRM will hold a special meeting of its shareholders at which the holders of ATRM Common Stock and ATRM Preferred Stock, voting as separate classes, will each be asked to approve the Merger Agreement and the transactions contemplated thereby, including the Merger. 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 2.7% of our outstanding common stock and 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 "ATRM Preferred Stock") and another 374,562 shares of ATRM Preferred 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 ATRM Preferred Stock, except to the extent of his pecuniary interest therein.

Acquisitions and Leases of Maine Facilities

As an initial transaction to create our real estate division under SRE and launch that aspect of the Company's conversion into a diversified holding company, 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, 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 June 30, 2019 and 2018

The following table summarizes our results for the three months ended June 30, 2019 and 2018 (in thousands):

	Three Months Ended June 30,					
					Change from Prior Year	
	2019	Percent of Revenues	2018	Percent of Revenues	Dollars	Percent
Total revenues	$ 25,798	100.0 %	$ 27,080	100.0 %	$ (1,282)	(4.7)%
Total cost of revenues	20,794	80.6 %	21,513	79.4 %	(719)	(3.3)%
Gross profit	5,004	19.4 %	5,567	20.6 %	(563)	(10.1)%
Total operating expenses	6,150	23.8 %	5,815	21.5 %	335	5.8 %
Loss from operations	(1,146)	(4.4)%	(248)	(0.9)%	(898)	362.1 %
Total other expense	(491)	(1.9)%	(208)	(0.8)%	(283)	136.1 %
Loss before income taxes	(1,637)	(6.3)%	(456)	(1.7)%	(1,181)	259.0 %
Income tax benefit	162	0.6 %	106	0.4 %	56	52.8 %
Net loss from continuing operations	(1,475)	(5.7)%	(350)	(1.3)%	(1,125)	321.4 %
Net income from discontinued operations	266	1.0 %	—	— %	266	100.0 %
Net loss	$ (1,209)	(4.7)%	$ (350)	(1.3)%	$ (859)	245.4 %

Revenues

Services Revenue

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

	Three Months Ended June 30,			
	2019	2018	Change	% Change
Diagnostic Services	$ 12,318	$ 13,267	$ (949)	(7.2)%
Mobile Healthcare	10,431	11,057	(626)	(5.7)%
Total Services Revenue	$ 22,749	$ 24,324	$ (1,575)	(6.5)%

The decrease in Diagnostic Services revenue compared to the prior year quarter was primarily due to the sale of our Telerhythmics business in October 2018, resulting in a loss of revenues of $1.1 million, as well as a lower volume of days ran and studies performed, partially offset by a higher 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 lower revenue of $0.6 million, and lower owned rental revenue of $0.3 million, partially offset by higher sublease rentals of $0.2 million and higher accessories sales. 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 June 30,			
	2019	2018	Change	% Change
Diagnostic Imaging	$ 3,049	$ 2,756	$ 293	10.6%

The increase in Diagnostic Imaging revenue was due to an increase in the number of camera sales, partially offset by lower average selling prices.

Gross Profit

Services Gross Profit

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

	Three Months Ended June 30,		
	2019	2018	% Change
Diagnostic Services gross profit	$ 2,805	$ 2,969	(5.5)%
Diagnostic Services gross margin	22.8%	22.4%	
Mobile Healthcare gross profit	$ 1,296	$ 1,332	(2.7)%
Mobile Healthcare gross margin	12.4%	12.0%	
Total Services gross profit	$ 4,101	$ 4,301	(4.7)%
Total Services gross margin	18.0%	17.7%	

The increase in Diagnostic Services gross margin percentage was mainly due to sale of our Telerhythmics business in October 2018, which typically had narrow or negative gross margins.

The increase in Mobile Healthcare gross margin percentage was primarily due to a favorable mix of services provided, and $0.7 million lower of equipment maintenance costs.

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 June 30,		
	2019	2018	% Change
Diagnostic Imaging gross profit	$ 1,080	$ 1,266	(14.7)%
Diagnostic Imaging gross margin	35.4%	45.9%	

The decrease in Diagnostic Imaging gross margin percentage was primarily due to higher material costs, and lower average selling prices compared to the prior year quarter.

Star Real Estate Holding Gross Profit

Star Real Estate Holding gross profit and margin is summarized as follows (in thousands):

	Three Months Ended June 30,		
	2019	2018	% Change
Star Real Estate gross profit	$ (177)	$ —	(100.0)%
Star Real Estate gross margin	(100.0)%	—%	

The Star Real Estate gross profit relates to depreciation expense and the write-off of some of the assets included with the three manufacturing facilities acquired in April 2019.

Operating Expenses

Operating expenses are summarized as follows (in thousands):

	Three Months Ended June 30,				Percent of Revenues	
			Change			
	2019	2018	Dollars	Percent	2019	2018
Marketing and sales	$ 1,215	$ 1,461	$ (246)	(16.8)%	4.7%	5.4%
General and administrative	3,652	3,522	130	3.7 %	14.2%	13.0%
Amortization of intangible assets	283	356	(73)	(20.5)%	1.1%	1.3%
Goodwill impairment	—	476	(476)	(100.0)%	—%	1.8%
Merger and financing	1,000	—	1,000	100.0 %	3.9%	—%
Total operating expenses	$ 6,150	$ 5,815	$ 335	5.8 %	23.8%	21.5%

The decrease in marketing and sales expenses was primarily due to $0.2 million in savings from lower salaries and benefits resulting from lower headcount, as well as the sale of our Telerhythmics business in October 2018, which resulted in approximately $0.1 million in savings.

The increase in general and administrative expenses was primarily due to transaction costs related to bonus accrual and headcount variations.

The decrease in amortization of intangible assets was due to the sale of our Telerhythmics business in October 2018. Prior to the sale of Telerhythmics, the Company had recognized an approximately $0.5 million impairment on Telerhythmics related goodwill.

Merger and financing costs for three months ended June 30, 2019, is predominantly comprised of one-time costs related to the potential acquisition of ATRM, including an increase of $0.7 million in ATRM related expenses and a write-off of approximately $0.3 million of capitalized costs related to the Preferred Offering described below under “Liquidity and Capital Resources” in this MD&A.

Total Other Expense

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

	Three Months Ended June 30,	
	2019	2018
Other expense, net	$ (5)	$ (19)
Interest expense, net	(254)	(189)
Loss on sale of building	(232)	—
Total other expense	$ (491)	$ (208)

Interest expense, net, for the three months ended June 30, 2019 and 2018 is predominantly comprised of cash interest costs and related amortization of deferred issuance costs on our debt.

The loss on building relates to the completion of the sale of buildings and land in Fargo, North Dakota.

Income Tax Expense

For the three months ended June 30, 2019, the Company recorded an income tax benefit of $0.2 million within continuing 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

See Note 2 *Discontinued Operations* of the unaudited condensed consolidated financial statements for information regarding discontinued operations.

Results of Operations

Comparison of the Six Months Ended June 30, 2019 and 2018

The following table summarizes our results for the six months ended June 30, 2019 and 2018 (in thousands):

	Six Months Ended June 30,					
					Change from Prior Year	
	2019	Percent of Revenues	2018	Percent of Revenues	Dollars	Percent
Total revenues	$ 49,710	100.0 %	$ 52,545	100.0 %	$ (2,835)	(5.4)%
Total cost of revenues	40,725	81.9 %	42,371	80.6 %	(1,646)	(3.9)%
Gross profit	8,985	18.1 %	10,174	19.4 %	(1,189)	(11.7)%
Total operating expenses	11,266	22.7 %	12,031	22.9 %	(765)	(6.4)%
Loss from operations	(2,281)	(4.6)%	(1,857)	(3.5)%	(424)	22.8 %
Total other expense	(1,021)	(2.1)%	(442)	(0.8)%	(579)	131.0 %
Loss before income taxes	(3,302)	(6.6)%	(2,299)	(4.4)%	(1,003)	43.6 %
Income tax benefit	170	0.3 %	561	1.1 %	(391)	(69.7)%
Net loss from continuing operations	(3,132)	(6.3)%	(1,738)	(3.3)%	(1,394)	80.2 %
Net income from discontinued operations	266	0.5 %	5,494	10.5 %	(5,228)	(95.2)%
Net (loss) income	$ (2,866)	(5.8)%	$ 3,756	7.1 %	$ (6,622)	(176.3)%

Revenues

Services Revenue

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

	Six Months Ended June 30,			
	2019	2018	Change	% Change
Diagnostic Services	$ 24,044	$ 25,292	$ (1,248)	(4.9)%
Mobile Healthcare	20,094	21,655	(1,561)	(7.2)%
Total Services Revenue	$ 44,138	$ 46,947	$ (2,809)	(6.0)%

The decrease in Diagnostic Services revenue compared to the prior year quarter was primarily due to the sale of our Telerhythmics business in October 2018, resulting in a loss of revenues of $2.2 million, as well as a lower volume of days ran and studies performed, partially offset by a higher 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 decrease of $1.2 million, and lower owned rental revenue of $0.8 million due to lower utilization and fewer assets in the mobile healthcare fleet, partially offset by higher sublease rentals of $0.3 million and higher accessories sales. 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):

	Six Months Ended June 30,			
	2019	2018	Change	% Change
Diagnostic Imaging	$ 5,572	$ 5,598	$ (26)	(0.5)%

The decrease in Diagnostic Imaging revenue was due to less camera support revenue offset by an increase in number of cameras sold.

Gross Profit

Services Gross Profit

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

	Six Months Ended June 30,		
	2019	2018	% Change
Diagnostic Services gross profit	$ 5,386	$ 5,216	3.3 %
Diagnostic Services gross margin	22.4%	20.6%	
Mobile Healthcare gross profit	$ 1,910	$ 2,447	(21.9)%
Mobile Healthcare gross margin	9.5%	11.3%	
Total Services gross profit	$ 7,296	$ 7,663	(4.8)%
Total Services gross margin	16.5%	16.3%	

The increase in Diagnostic Services gross margin percentage was mainly due to the sale of our Telerhythmics business in October 2018, which typically had narrow or negative gross margins.

The decrease in Mobile Healthcare gross margin percentage was primarily due to an unfavorable mix of services provided, as well as higher equipment and vehicle leasing costs of compared to the prior year period.

Product and Product-Related Gross Profit

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

	Six Months Ended June 30,		
	2019	2018	% Change
Diagnostic Imaging gross profit	$ 1,866	$ 2,511	(25.7)%
Diagnostic Imaging gross margin	33.5%	44.9%	

The decrease in Diagnostic Imaging gross margin percentage was primarily due to lower revenue, higher cost of goods sold due in part to merit increases in salaries, and higher material variance costs from scrapped equipment.

Star Real Estate Holding Gross Profit

Star Real Estate Holding gross profit and margin is summarized as follows (in thousands):

	Six Months Ended June 30,		
	2019	2018	% Change
Star Real Estate gross profit	$ (177)	$ —	(100.0)%
Star Real Estate gross margin	(100.0)%	—%	

The Star Real Estate gross profit relates to depreciation expense and the write-off of some of the assets included with the three manufacturing facilities acquired in April 2019.

Operating Expenses

Operating expenses are summarized as follows (in thousands):

	Six Months Ended June 30,				Percent of Revenues	
			Change			
	2019	2018	Dollars	Percent	2019	2018
Marketing and sales	$ 2,358	$ 2,928	$ (570)	(19.5)%	4.7%	5.6%
General and administrative	7,342	7,914	(572)	(7.2)%	14.8%	15.1%
Amortization of intangible assets	566	713	(147)	(20.6)%	1.1%	1.4%
Goodwill impairment	—	476	(476)	(100.0)%	—%	0.9%
Merger and financing	1,000	—	1,000	100.0 %	2.0%	—%
Total operating expenses	$ 11,266	$ 12,031	$ (765)	(6.4)%	22.7%	22.9%

The decrease in marketing and sales expenses was primarily due to $0.4 million in savings from lower salaries and benefits resulting from lower headcount, as well as the sale of our Telerhythmics business in October 2018, which resulted in approximately $0.2 million in savings.

The decrease in general and administrative expense is primarily due to lower salaries, benefits, and stock compensation expense of $0.8 million due to lower headcount, partially offset by higher professional fees of $0.5 million due to reduced finance and IT headcount.

The decrease in amortization of intangible assets was due to the sale of our Telerhythmics business in October 2018. Prior to the sale of Telerhythmics, the Company had recognized an approximately $0.5 million impairment on Telerhythmics related goodwill.

Merger and financing costs for six months ended June 30, 2019, is predominantly comprised of one-time costs related to the potential acquisition of ATRM, including an increase of $0.7 million in ATRM related expenses and a write-off of approximately $0.3 million of capitalized costs related to the Preferred Offering described below under “Liquidity and Capital Resources” in this MD&A.

The loss on building relates to the completion of the sale of buildings and land in Fargo, North Dakota.

Total Other Expense

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

	Six Months Ended June 30,	
	2019	2018
Other expense, net	$ (203)	$ (36)
Interest expense, net	(435)	(363)
Loss on sale of building	(232)	—
Loss on extinguishment of debt	(151)	(43)
Total other expense	$ (1,021)	$ (442)

Other expense, net for six months ended June 30, 2019, is predominantly comprised of one-time costs related to the proposed merger transaction.

Interest expense, net, for the six months ended June 30, 2019 and 2018 is predominantly comprised of cash interest costs and related amortization of deferred issuance costs on our debt.

The loss on building relates to the completion of the sale of buildings and land in Fargo, North Dakota.

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 condensed consolidated financial statements for further information.

Income Tax Expense

For the six months ended June 30, 2019, the Company recorded an income tax benefit of $0.2 million within continuing operations. During the six months ended June 30, 2018, an income tax benefit of $0.6 million was recorded in continuing operations in accordance with the intraperiod allocation rules as a result of income generated from the gain on the sale of one of our business segments recorded in 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

See Note 2 *Discontinued Operations* of the unaudited condensed consolidated financial statements for information regarding discontinued operations.

Liquidity and Capital Resources

Overview

We provided cash of $0.4 million from operations during the six months ended June 30, 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 June 30, 2019, we had $0.9 million of cash and cash equivalents, as well as $4.7 million available under our revolving line of credit.

The Company has filed a registration statement on Form S-1, as amended on 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 9, 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.

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 six months ended June 30, 2019 and 2018 (in thousands):

	Six Months Ended June 30,	
	2019	**2018**
Net cash provided by operating activities	$ 368	$ 3,041
Net cash (used in) provided by investing activities	$ (6,166)	$ 6,236
Net cash provided by financing activities	$ 5,017	$ (9,743)

Operating Activities

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

Investing Activities

The decrease in investing activities cash flow compared to the prior year period 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 and $5.2 million investment in the acquisition of three Maine properties.

Financing Activities

The increase in cash flows from financing activities is primarily due to net borrowings of approximately $5.8 million compared to net principal repayments in the prior year quarter of $7.0 million as we used proceeds from the Sterling National Bank credit facility to finance the purchase of three Maine properties.

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 six months ended June 30, 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 June 30, 2019, the Company was in compliance with all covenants.

Off-Balance Sheet Arrangements

As of June 30, 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.

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 June 30, 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-4 filed with SEC on July 19, 2019, which has not yet been declared effective by the SEC, in connection with the proposed merger transaction with ATRM. 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 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.

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

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

There can be no assurances that we will successfully complete our planned conversion into a diversified holding company or complete its proposed acquisition of ATRM

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

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

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

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.

The ability of Digirad to use net operating loss carryforwards to offset future taxable income for U.S. income tax purposes may be limited.

As of December 31, 2018, Digirad had federal NOLs of approximately $83.7 million and state NOLs of approximately $26.7 million. Significant changes that impact Digirad in the 2017 Tax Cut and Jobs Act (the "TCJA") include a limitation on the utilization of NOLs arising after December 31, 2017 to 80% of taxable income with an indefinite carryforward. The TCJA also reduced the corporate income tax rate to 21%, from a prior rate of 35%, which may cause a reduction in the economic benefit of its NOLs and other deferred tax assets available to us. In addition, at the state level, there may be periods during which the use of NOLs is suspended or otherwise limited, which could accelerate or permanently increase state taxes owed. Further, the ability of Digirad to use NOLs to offset future taxable income will depend on the amount of taxable income Digirad generates in future periods and whether Digirad becomes subject to annual limitations on the amount of taxable income that may be offset by its NOLs.

Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"), imposes an annual limitation on the amount of taxable income that may be offset by a corporation's NOLs if the corporation experiences an "ownership change" as defined in Section 382 of the Code. An ownership change occurs when the corporation's "5-percent shareholders" (as defined in Section 382 of the Code) collectively increase their ownership in the corporation by more than 50 percentage points (by value) over a rolling three-year period. Additionally, various states have similar limitations on the use of state NOLs following an ownership change. As of December 31, 2018, ATRM had federal net operating loss carryforwards ("NOLs") of approximately $104.7 million and state NOLs of approximately $23.3 million. The completion of the Merger will result in an ownership change under Section 382 with respect to ATRM.

The Merger should not result in an ownership change with respect to Digirad's NOLs because Digirad believes that the Company Preferred Stock issued to ATRM shareholders in the Merger should be treated as "plain vanilla" or "pure preferred stock" within the meaning of Section 1504(a)(4) of the Code and would, therefore, be excluded for the purposes of determining whether an ownership change under Section 382 has occurred. However, if the Company Preferred Stock issued in the Merger is not considered "plain vanilla" or "pure preferred stock" within the meaning of Section 1504(a)(4) of the Code, the Company Preferred Stock will be treated as "stock" for purposes of Section 382 of the Code. In such event, an ownership change under Section 382 will likely occur with respect to Digirad's NOLs.

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

Not applicable.

ITEM 6. EXHIBITS

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of July 3, 2019, by and among Digirad Corporation, ATRM Holdings, Inc. and Digirad Acquisition Corporation (incorporated by reference to Exhibit 10.1 to Digirad's Current Report on Form 8-K filed with the SEC on July 3, 2019).
3.1	Certificate of Amendment of the Restated Certificate of Incorporation of Digirad Corporation (incorporated by reference to Exhibit 3.1 to Digirad's Current Report on Form 8-K filed with the SEC on May 31, 2019).
10.1	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 Digirad's Current Report on Form 8-K filed with the SEC on April 3, 2019).
10.2	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 Digirad's Current Report on Form 8-K filed with the SEC on April 3, 2019).
10.3	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 Digirad's Current Report on Form 8-K filed with the SEC on April 3, 2019).
10.4	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 Digirad's Current Report on Form 8-K filed with the SEC on April 3, 2019).
10.5	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 Digirad's Current Report on Form 8-K filed with the SEC on April 3, 2019).
10.6	Lease Agreement, dated April 3, 2019, by and between KBS Builders, Inc. and 56 Mechanic Falls Road, LLC (incorporated by reference to Exhibit 10.6 to Digirad's Quarterly Report on Form 10-Q filed with the SEC on May 8, 2019).
10.7	First Amendment to Lease, dated April 18, 2019, by and between 56 Mechanic Falls Road, LLC and KBS Builders, Inc. (incorporated by reference to Exhibit 10.7 to Digirad's Quarterly Report on Form 10-Q filed with the SEC on May 8, 2019).
10.8	Voting and Support Agreement, by and among Digirad Corporation, Lone Star Value General Partner, Lone Star Value Investors, LP, Lone Star Value Co-Invest I, LP and Jeffrey Eberwein, dated July 3, 2019 (incorporated by reference to Exhibit 10.1 to Digirad's Current Report on Form 8-K filed with the SEC on July 3, 2019).
31.1*	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.
31.2*	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.
32.1**	Certification of the Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of the Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.LAB*	XBRL Taxonomy Extension Labels Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase

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* 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.

DIGIRAD CORPORATION

Date: August 13, 2019

By: /s/ MATTHEW G. MOLCHAN

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

EXHIBIT 31.1

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.

August 13, 2019

/s/ Matthew G. Molchan

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

EXHIBIT 31.2

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

I, David 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.

August 13, 2019

/s/ David J. Noble

David J. Noble
Chief Financial Officer and Chief Operating Officer
(Principal Financial and Accounting Officer)

EXHIBIT 32.1

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 June 30, 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 June 30, 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 June 30, 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.

August 13, 2019

/s/ Matthew G. Molchan

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

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

EXHIBIT 32.2

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

In connection with the accompanying Quarterly Report on Form 10-Q of Digirad Corporation for the period ended June 30, 2019, I, David J. Noble, 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 June 30, 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 June 30, 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.

August 13, 2019

/s/ David J. Noble

David J. Noble
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.