

**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 SEPTEMBER 30, 2018

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

FOR THE TRANSITION PERIOD FROM TO

Commission file number: 001-35947



Digirad Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

1048 Industrial Court, Suwanee, GA

(Address of Principal Executive Offices)

33-0145723

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

30024

(Zip Code)

(858) 726-1600

(Registrant's Telephone Number, Including Area Code)

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 October 23, 2018 the registrant had 20,230,628 shares of Common Stock (\$0.0001 par value) outstanding.

DIGIRAD CORPORATION
TABLE OF CONTENTS

<u>IMPORTANT INFORMATION REGARDING FORWARD-LOOKING STATEMENTS</u>	<u>3</u>
<u>PART I. FINANCIAL INFORMATION</u>	<u>4</u>
<u>Item 1. Financial Statements (Unaudited)</u>	<u>4</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>19</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>28</u>
<u>Item 4. Controls and Procedures</u>	<u>29</u>
<u>PART II. OTHER INFORMATION</u>	<u>30</u>
<u>Item 1. Legal Proceedings</u>	<u>30</u>
<u>Item 1A. Risk Factors</u>	<u>30</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>31</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>31</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>31</u>
<u>Item 5. Other Information</u>	<u>31</u>
<u>Item 6. Exhibits</u>	<u>32</u>
EXHIBIT 10.1	
EXHIBIT 10.2	
EXHIBIT 10.3	
EXHIBIT 31.1	
EXHIBIT 32.1	
EXHIBIT 101.INS XBRL Instance Document	
EXHIBIT 101.SCH XBRL Taxonomy Extension Schema Document	
EXHIBIT 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document	
EXHIBIT 101.LAB XBRL Taxonomy Extension Label Linkbase Document	
EXHIBIT 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document	
EXHIBIT 101.DEF XBRL Taxonomy Extension Definition Linkbase Document	

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, 2017 filed with the Securities and Exchange Commission on February 28, 2018. 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 per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
Services	\$ 22,904	\$ 22,820	\$ 69,851	\$ 69,619
Product and product-related	2,803	2,975	8,401	8,701
Total revenues	25,707	25,795	78,252	78,320
Cost of revenues:				
Services	19,700	18,768	58,984	56,456
Product and product-related	1,649	1,657	4,736	5,204
Total cost of revenues	21,349	20,425	63,720	61,660
Gross profit	4,358	5,370	14,532	16,660
Operating expenses:				
Marketing and sales	1,281	1,383	4,209	4,762
General and administrative	3,504	3,718	11,418	14,331
Amortization of intangible assets	356	374	1,069	1,121
Goodwill impairment	—	—	476	—
Loss on sale of buildings	507	—	507	—
Total operating expenses	5,648	5,475	17,679	20,214
Loss from operations	(1,290)	(105)	(3,147)	(3,554)
Other expense:				
Other expense, net	(76)	(237)	(112)	(237)
Interest expense, net	(200)	(154)	(563)	(574)
Loss on extinguishment of debt	—	—	(43)	(709)
Total other expense	(276)	(391)	(718)	(1,520)
Loss before income taxes	(1,566)	(496)	(3,865)	(5,074)
Income tax benefit (expense)	379	(6,838)	940	(7,357)
Loss from continuing operations, net of tax	(1,187)	(7,334)	(2,925)	(12,431)
(Loss) income from discontinued operations, net of tax	(239)	(1,565)	5,255	(1,316)
Net (loss) income	\$ (1,426)	\$ (8,899)	\$ 2,330	\$ (13,747)
Net (loss) income per share - basic and diluted				
Continuing operations	\$ (0.06)	\$ (0.37)	\$ (0.15)	\$ (0.62)
Discontinued operations	\$ (0.01)	\$ (0.08)	\$ 0.26	\$ (0.07)
Net (loss) income per share - basic and diluted ⁽¹⁾	\$ (0.07)	\$ (0.44)	\$ 0.12	\$ (0.69)
Dividends declared per common share	\$ 0.055	\$ 0.055	\$ 0.165	\$ 0.155
Net (loss) income	\$ (1,426)	\$ (8,899)	\$ 2,330	\$ (13,747)
Other comprehensive (loss) income:				
Reclassification of unrealized gains on available-for-sale securities to retained earnings	—	—	(17)	—
Reclassification of other-than-temporary losses on available-for-sale securities in net (loss) income	—	83	—	52
Total other comprehensive loss (income)	—	83	(17)	52
Comprehensive (loss) income	\$ (1,426)	\$ (8,816)	\$ 2,313	\$ (13,695)

⁽¹⁾ Earnings per share may not add due to rounding.

See accompanying notes to the unaudited condensed consolidated financial statements.

DIGIRAD CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

<u>(in thousands, except share data)</u>	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 963	\$ 1,877
Securities available-for-sale	90	97
Accounts receivable, net	13,455	15,887
Inventories, net	5,884	5,501
Restricted cash	167	242
Other current assets	1,987	1,972
Total current assets	22,546	25,576
Property and equipment, net	23,404	28,365
Intangible assets, net	6,760	7,830
Goodwill	1,916	2,392
Restricted cash	101	101
Non-current assets held for sale	—	1,736
Other assets	462	703
Total assets	\$ 55,189	\$ 66,703
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 4,645	\$ 5,207
Accrued compensation	3,257	5,507
Accrued warranty	151	204
Deferred revenue	1,561	2,302
Current liabilities held for sale	—	835
Other current liabilities	2,692	2,915
Total current liabilities	12,306	16,970
Long-term debt	13,592	19,500
Deferred tax liabilities	191	254
Other liabilities	1,795	2,180
Total liabilities	27,884	38,904
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, \$0.0001 par value: 10,000,000 shares authorized; no shares issued or outstanding	—	—
Common stock, \$0.0001 par value: 80,000,000 shares authorized; 20,230,628 and 20,060,311 shares issued and outstanding (net of treasury shares) at September 30, 2018 and December 31, 2017, respectively	2	2
Treasury stock, at cost; 2,588,484 shares at September 30, 2018 and December 31, 2017	(5,728)	(5,728)
Additional paid-in capital	145,339	148,163
Accumulated other comprehensive loss	(22)	(5)
Accumulated deficit	(112,286)	(114,633)
Total stockholders' equity	27,305	27,799
Total liabilities and stockholders' equity	\$ 55,189	\$ 66,703

See accompanying notes to the unaudited condensed consolidated financial statements.

DIGIRAD CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

<u>(in thousands)</u>	Nine Months Ended September 30,	
	2018	2017
Operating activities		
Net income (loss)	\$ 2,330	\$ (13,747)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	5,651	5,928
Amortization of intangible assets	1,082	1,734
Provision for bad debt	60	119
Stock-based compensation	545	829
Amortization of loan fees	32	165
Loss on extinguishment of debt	43	709
Gain on disposal of discontinued operation	(6,208)	—
Gain on sale of assets	(51)	(71)
Unrealized loss on available-for-sale securities	112	237
Goodwill impairment	476	2,580
Deferred income taxes	(63)	6,707
Other, net	—	(159)
Changes in operating assets and liabilities:		
Accounts receivable	2,367	373
Inventories	(355)	7
Other assets	447	(102)
Accounts payable	(706)	(940)
Accrued compensation	(2,250)	(396)
Deferred revenue	(930)	(362)
Other liabilities	(364)	490
Net cash provided by operating activities	2,218	4,101
Investing activities		
Purchases of property and equipment	(1,919)	(1,567)
Proceeds from sale of discontinued operations	6,844	—
Proceeds from sale of property and equipment	1,780	174
Purchases of securities available-for-sale	(14)	(17)
Maturities of securities available-for-sale	—	917
Net cash provided by (used in) investing activities	6,691	(493)
Financing activities		
Proceeds from long term borrowings	29,296	31,819
Repayments of long term borrowings	(35,203)	(35,282)
Loan issuance costs and extinguishment costs	(7)	(271)
Dividends paid	(3,321)	(3,092)
Issuances of common stock	26	—
Taxes paid related to net share settlement of equity awards	(74)	(192)
Cash paid for contingent consideration for acquisitions	—	(27)
Repayment of obligations under capital leases	(615)	(680)
Net cash used in financing activities	(9,898)	(7,725)
Net decrease in cash, cash equivalents and restricted cash	(989)	(4,117)
Cash, cash equivalents and restricted cash at beginning of period	2,220	5,679
Cash, cash equivalents and restricted cash at end of period	\$ 1,231	\$ 1,562
Non-Cash Investing Activities		
Assets acquired by entering into capital leases	\$ 282	\$ 2,047

See accompanying notes to the unaudited condensed 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, 2017 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, 2017, filed with the SEC on Form 10-K on February 28, 2018, 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.

As discussed in Note 2, the results of our Medical Device Sales and Services ("MDSS") reportable segment are presented as discontinued operations and, as such, are excluded from both continuing operations and segment results for all periods presented.

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.

New Accounting Pronouncements

Recently Adopted Accounting Standards

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the total beginning and ending amounts for the periods shown on the statement of cash flows. The pronouncement is effective for fiscal years beginning after December 15, 2017, and for interim periods within those periods, using a retrospective transition method to each period presented. We adopted ASU 2016-18 effective January 1, 2018 which resulted in an increase of \$3.0 million in net cash flows used in financing activities that was previously reported for the nine months ended September 30, 2017.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which amended the existing accounting standards for the accounting for financial instruments. The amendments require equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income. The new standard is effective prospectively for fiscal years beginning after December 15, 2017. We adopted ASU 2016-01 on January 1, 2018. As a result of the adoption, we recorded an increase to retained earnings of \$17 thousand to recognize the unrealized gains previously recorded within accumulated other comprehensive income. Subsequent changes in the fair value of our marketable securities will be recorded to other expense, net. See Note 8 for further details.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* that outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers which supersedes current revenue recognition guidance, including most industry-specific guidance. The guidance provides that an entity recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments, and assets recognized from costs incurred to obtain or fulfill a contract. We adopted Topic 606 as of January 1, 2018 using the modified retrospective transition method. Under the modified retrospective method, the Company would recognize the cumulative effect of initially applying the standard as an adjustment to opening retained earnings at the date of initial application; however, we did not have any material adjustments as of the date of the adoption. The comparative periods have not been restated and continue to be reported under the accounting standards in effect for those periods. See Note 3 for expanded revenue disclosures and updates to our revenue recognition policy.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which simplifies the subsequent measurement of goodwill by removing the second step of the two-step impairment test. The amendment requires an entity to perform its annual, or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendment should be applied on a prospective basis. The pronouncement is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We early adopted ASU 2017-04 effective April 1, 2018 in conjunction with the interim impairment test of goodwill performed during the quarter. See Note 7 for additional information on or interim goodwill impairment test performed.

New Accounting Standards To Be Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which amends the existing accounting standards for leases. The new standard requires lessees to record a right-of-use ("ROU") asset and a corresponding lease liability on the balance sheet (with the exception of short-term leases). The new standard also requires expanded disclosures regarding leasing arrangements. The guidance is effective for annual reporting periods beginning after December 15, 2018, and interim periods within those years. Early adoption is permitted for all entities. We will adopt ASU 2016-02 as of January 1, 2019 and will apply certain practical expedients offered in the guidance, such as those that state that we need not reassess whether expired or existing contracts contain leases, reevaluate the classification of expired or existing leases, or reassess initial direct costs for existing leases. We have substantially completed the process of identifying existing lease contracts and are currently performing detailed evaluations of the leases under the new accounting requirements. We believe the most significant changes to the financial statements relate to the recognition of right-of-use assets and offsetting lease liabilities in the condensed consolidated balance sheet for operating leases. The actual impact on the condensed consolidated balance sheet will be contingent upon our population of operating leases at adoption; however, we do not expect the standard to have a material impact on cash flows or results of operations.

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 North America LLC ("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. In September 2018, Philips notified the Company of claims against the escrow relating to alleged pre-existing conditions for certain equipment under service contracts at the time of sale. The Company is currently in discussion with Philips and expects to reach a final settlement during the fourth quarter of 2018. During the three months ended September 30, 2018, we recorded a reserve of approximately \$0.1 million against such escrowed amounts, reflecting management's best estimate for the potential claim settlement with Philips.

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

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

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

The following table presents financial results of the MDSS business:

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018 ⁽¹⁾	2017	2018	2017
Total revenues	\$ —	\$ 2,760	\$ 789	\$ 9,101
Total cost of revenues	—	1,490	555	4,981
Gross profit	—	1,270	234	4,120
Operating expenses:				
Marketing and sales	—	609	85	1,899
General and administrative	—	160	163	588
Amortization of intangible assets	—	204	13	613
Gain on sale of discontinued operations	53	—	(6,208)	—
Goodwill impairment	—	2,580	—	2,580
Total operating expenses	53	3,553	(5,947)	5,680
(Loss) income from operations	(53)	(2,283)	6,181	(1,560)
Interest expense	—	(70)	(26)	(268)
Income from discontinuing operations before income taxes	(53)	(2,353)	6,155	(1,828)
Income tax expense	(186)	788	(900)	512
Income from discontinuing operations, net of tax	\$ (239)	\$ (1,565)	\$ 5,255	\$ (1,316)

(1) Loss from operations for the three months ended September 30, 2018 relates to reserve recorded for claims against funds held in escrow.

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

(in thousands)	September 30, 2018	December 31, 2017
Carrying amounts of assets included as part of discontinued operations:		
Intangible assets, net	\$ —	\$ 637
Goodwill	—	1,099
Total assets classified as held for sale in the condensed consolidated balance sheet	\$ —	\$ 1,736
Carrying amounts of liabilities included as part of discontinued operations:		
Deferred revenue	\$ —	\$ 835
Total liabilities classified as held for sale in the condensed consolidated balance sheet	\$ —	\$ 835

The following table presents supplemental cash flow information of discontinued operations:

(in thousands)	Nine Months Ended September 30,	
	2018	2017
Operating activities:		
Depreciation	\$ 2	\$ 25
Amortization of intangible assets	\$ 13	\$ 613
Gain on sale of discontinued operations	\$ (6,208)	\$ —
Stock-based compensation	\$ (1)	\$ 20
Investing activities:		
Proceeds from the sale of discontinued operations	\$ 6,844	\$ —
Purchases of property, plant and equipment	\$ —	\$ —

Note 3. Revenue

Product and Product-Related Revenues and Services Revenue

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

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

Revenue Recognition

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

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

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

Disaggregation of Revenue

The following table presents our revenues disaggregated by major source:

<u>(in thousands)</u>	Three Months Ended September 30, 2018			
	Diagnostic Services	Diagnostic Imaging	Mobile Healthcare	Total
Major Goods/Service Lines				
Mobile Imaging and Cardiac Monitoring	\$ 12,284	\$ —	\$ 8,026	\$ 20,310
Camera	—	1,105	—	1,105
Camera Support	—	1,670	—	1,670
Revenue from Contracts with Customers	12,284	2,775	8,026	23,085
Lease Income	128	28	2,466	2,622
Total Revenues	<u>\$ 12,412</u>	<u>\$ 2,803</u>	<u>\$ 10,492</u>	<u>\$ 25,707</u>
Timing of Revenue Recognition				
Services and goods transferred over time	\$ 11,542	\$ 1,583	\$ 10,372	\$ 23,497
Services and goods transferred at a point in time	870	1,220	120	2,210
Total Revenues	<u>\$ 12,412</u>	<u>\$ 2,803</u>	<u>\$ 10,492</u>	<u>\$ 25,707</u>

Nine Months Ended September 30, 2018

(in thousands)	Nine Months Ended September 30, 2018			
	Diagnostic Services	Diagnostic Imaging	Mobile Healthcare	Total
Major Goods/Service Lines				
Mobile Imaging and Cardiac Monitoring	\$ 37,257	\$ —	\$ 24,659	\$ 61,916
Camera	—	3,088	—	3,088
Camera Support	—	5,223	—	5,223
Revenue from Contracts with Customers	37,257	8,311	24,659	70,227
Lease Income	447	90	7,488	8,025
Total Revenues	\$ 37,704	\$ 8,401	\$ 32,147	\$ 78,252

Timing of Revenue Recognition

Services and goods transferred over time	\$ 34,629	\$ 4,933	\$ 31,849	\$ 71,411
Services and goods transferred at a point in time	3,075	3,468	298	6,841
Total Revenues	\$ 37,704	\$ 8,401	\$ 32,147	\$ 78,252

Nature of Goods and Services

Mobile Imaging and Cardiac Monitoring

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.

Diagnostic Services also offers remote cardiac event monitoring services. These services include provision of a monitor, remote monitoring by registered nurses, and 24 hours a day, 7 days a week monitoring support for our patients and physician customers. We provide our services under contracts with our customers that typically allow for direct billing to Medicare, Medicaid, or third-party private payors once the monitoring cycle is complete. Typically, our contracts can be canceled at any time, and are generally used to define billing responsibilities amongst the parties.

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

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 which 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 paid service arrangements when a customer does not have an extended warranty and parts that are sold by the service department. Our separately priced service contracts range from 12 to 48 months. Service contracts are usually billed at the beginning of the contract period or at periodic intervals (e.g. monthly or quarterly) and revenue is recognized ratably over the term of the agreement.

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

Lease Income

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

Deferred Revenues

We record deferred revenues when cash payments are received or due in advance of our performance, including amounts which 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).

At December 31, 2017, the Company deferred revenues balance was \$2.4 million, of which \$0.9 million and \$2.7 million of this was recognized as revenue during the three and nine months ended September 30, 2018. As of September 30, 2018, deferred revenue was \$1.6 million. The decrease of \$0.8 million was mainly due to the timing of when customer payments are received in relation to the service contract period.

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 which the practical expedient has been applied to recognize revenue at the amount to 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 nine months ended September 30, 2018 and 2017, basic net income (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares and vested restricted stock units 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 income (loss) per share for the periods indicated:

(shares in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Numerator:				
Loss from continuing operations, net of tax	\$ (1,187)	\$ (7,334)	\$ (2,925)	\$ (12,431)
(Loss) income from discontinued operations, net of tax	(239)	(1,565)	5,255	(1,316)
Net (loss) income	\$ (1,426)	\$ (8,899)	\$ 2,330	\$ (13,747)
Denominator:				
Weighted average shares outstanding - basic	20,176	20,009	20,129	19,974
Dilutive potential common stock outstanding:				
Stock options	—	—	—	—
Restricted stock units	—	—	—	—
Weighted average shares outstanding - diluted	20,176	20,009	20,129	19,974
Net (loss) income per common share - basic				
Continuing operations	\$ (0.06)	\$ (0.37)	\$ (0.15)	\$ (0.62)
Discontinued operations	\$ (0.01)	\$ (0.08)	\$ 0.26	\$ (0.07)
Net (loss) income per common share - basic ⁽¹⁾	\$ (0.07)	\$ (0.44)	\$ 0.12	\$ (0.69)
Net (loss) income per common share - diluted				
Continuing operations	\$ (0.06)	\$ (0.37)	\$ (0.15)	\$ (0.62)
Discontinued operations	\$ (0.01)	\$ (0.08)	\$ 0.26	\$ (0.07)
Net (loss) income per common share - diluted ⁽¹⁾	\$ (0.07)	\$ (0.44)	\$ 0.12	\$ (0.69)

⁽¹⁾ Earnings per share may not add due to rounding.

The following weighted average outstanding common stock equivalents were not included in the calculation of diluted net income per share because their effect was anti-dilutive:

(shares in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Stock options	288	248	271	283
Restricted stock units	126	64	156	68
Total	414	312	427	351

Note 5. Inventories

The components of inventories are as follows:

<u>(in thousands)</u>	<u>September 30, 2018</u>	<u>December 31, 2017</u>
Inventories:		
Raw materials	\$ 2,771	\$ 2,331
Work-in-process	2,328	2,094
Finished goods	1,169	1,529
Total inventories	<u>6,268</u>	<u>5,954</u>
Less reserve for excess and obsolete inventories	(384)	(453)
Total inventories, net	<u>\$ 5,884</u>	<u>\$ 5,501</u>

Note 6. Property and Equipment

Property and equipment consists of the following:

<u>(in thousands)</u>	<u>September 30, 2018</u>	<u>December 31, 2017</u>
Property and equipment:		
Land	\$ 550	\$ 1,170
Buildings and leasehold improvements	1,947	2,946
Machinery and equipment	56,178	55,152
Computer hardware and software	<u>4,656</u>	<u>4,615</u>
Total property and equipment	63,331	63,883
Less accumulated depreciation	<u>(39,927)</u>	<u>(35,518)</u>
Total property and equipment, net	<u>\$ 23,404</u>	<u>\$ 28,365</u>

In September 2018, the Company completed the sale of buildings and a portion of land in our Fargo, North Dakota location with a net book value of \$1.5 million for net cash proceeds of approximately \$1.0 million, resulting in a loss on sale of \$0.5 million, which has been classified as a "Loss on sale of buildings" in our condensed consolidated statement of operations.

Note 7. Goodwill

The value of our goodwill is primarily derived from the acquisition of MD Office Solutions ("MD Office") in 2015, Telerhythmics, LLC ("Telerhythmics") in 2014, and substantially all of the assets of Ultrascan, Inc. ("Ultrascan") in 2007. During the nine months ended September 30, 2018, reporting units that carried goodwill balances included Digirad Imaging Solutions and Telerhythmics. The combined Digirad Imaging Solutions and Telerhythmics reporting units make up the Diagnostic Services reportable segment.

Changes in the carrying amount of goodwill from December 31, 2017 to September 30, 2018, by reportable segment, are as follows:

<u>(in thousands)</u>	<u>Diagnostic Services</u>	<u>Total</u>
Balance at December 31, 2017	\$ 2,392	\$ 2,392
Impairment of Telerhythmics	(476)	(476)
Balance at September 30, 2018	<u>\$ 1,916</u>	<u>\$ 1,916</u>

The Company tests goodwill for impairment annually during the fourth quarter of each year at the reporting unit level and on an interim basis if events or substantive changes in circumstances indicate that the carrying amount of a reporting unit may exceed its fair value.

During the second quarter of 2018, the Company's ongoing and continuous efforts to explore strategic alternatives across the entire business in order to maximize shareholder value triggered an interim impairment test during the quarter. As a result of additional market data and information that became available in connection with these efforts, the Company concluded that the carrying value of its Telerhythmics reporting unit was in excess of fair value and recorded a goodwill impairment charge of \$0.5 million during the three and six months ended June 30, 2018. The remaining goodwill balance within this reporting unit as of September 30, 2018 was \$0.2 million.

Note 8. 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 September 30, 2018 and December 31, 2017.

<u>(in thousands)</u>	<u>Fair Value as of September 30, 2018</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Equity securities	\$ 90	\$ 19	\$ —	\$ 109
Total	<u>\$ 90</u>	<u>\$ 19</u>	<u>\$ —</u>	<u>\$ 109</u>

<u>(in thousands)</u>	<u>Fair Value as of December 31, 2017</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Equity securities	\$ 97	\$ 111	\$ —	\$ 208
Total	<u>\$ 97</u>	<u>\$ 111</u>	<u>\$ —</u>	<u>\$ 208</u>

We did not reclassify any investments between levels in the fair value hierarchy during the nine months ended September 30, 2018.

The investment in equity securities consists of common stock of publicly traded companies. The fair value of these securities is based on the closing prices observed on September 30, 2018.

Securities Available-for-Sale

As of September 30, 2018, securities available-for-sale consist of investments in equity securities that are publicly traded. These investments include shares held in Bimer Dental Management Services ("Bimer Dental"), a publicly traded company whose board of directors include a current Director of the Company. We classify a portion of equity securities as available-for-sale and as current assets, as the sale of such securities may be required prior to maturity to execute management strategies. One of our equity securities, Perma-Fix Medical S.A. ("Perma-Fix Medical"), is classified as an other asset (non-current), as the investment is strategic in nature and our current intent is to hold the investment over a several year period. Securities available-for-sale are carried at fair value, with the unrealized gains and losses presented within 'other expense, net' on our condensed consolidated statement of operations. As of December 31, 2017, the accumulated unrealized gains on these investments was \$17 thousand, which was reclassified from accumulated other comprehensive income into beginning retained earnings upon adoption of ASU 2016-01.

The following table sets forth the composition of securities available-for-sale as of September 30, 2018 and December 31, 2017 (in thousands).

<u>As of September 30, 2018</u>	<u>Cost</u>	<u>Unrealized</u>		<u>Fair Value</u>
		<u>Gains</u>	<u>Losses</u>	
Equity securities	\$ 221	\$ —	\$ (112)	\$ 109
	<u>\$ 221</u>	<u>\$ —</u>	<u>\$ (112)</u>	<u>\$ 109</u>

<u>As of December 31, 2017</u>	<u>Cost</u>	<u>Unrealized</u>		<u>Fair Value</u>
		<u>Gains</u>	<u>Losses</u>	
Equity securities	\$ 191	\$ 17	\$ —	\$ 208
	<u>\$ 191</u>	<u>\$ 17</u>	<u>\$ —</u>	<u>\$ 208</u>

Note 9. Debt

A summary of long-term debt is as follows:

(in thousands)	September 30, 2018		December 31, 2017	
	Amount	Weighted-Average Interest Rate	Amount	Weighted-Average Interest Rate
Long-term debt:				
Revolving Credit Facility	\$ 13,592	4.55%	\$ 19,500	3.90%
Total borrowings	\$ 13,592		\$ 19,500	

On June 21, 2017, the Company entered into a Revolving Credit Agreement (the "Comerica Credit Agreement") with Comerica. The Comerica Credit Agreement provides for a five-year revolving credit facility with a maximum credit amount of \$25.0 million maturing in June 2022, upon which a balloon payment on the balance is due. Under the Comerica Credit Facility, the Company can request the issuance of letters of credit in an aggregate amount not to exceed \$1.0 million at any one time. In connection with the sale of our post-warranty service customer contracts to Philips, the Company entered into an Amendment No. 1 to the Comerica Credit Agreement, dated January 30, 2018 (the "Amendment"). The Amendment to the Comerica Credit Agreement reduced the revolving credit commitment from \$25.0 million to \$20.0 million. As of September 30, 2018, the Company had \$0.2 million of letters of credit outstanding and had additional borrowing capacity under the Comerica Credit Agreement of \$6.2 million.

In connection with the Amendment, during the nine months ended September 30, 2018, less than \$0.1 million of unamortized loan fees were written off in proportion to the decrease in our borrowing capacity. As of September 30, 2018, the unamortized loan fees were \$0.2 million, which are being amortized on a straight-line basis to interest expense over the five-year term.

At the Company's option, the Comerica Credit Facility will bear interest at either (i) the LIBOR Rate, as defined in the Comerica Credit Agreement, plus a margin of 2.35%; or (ii) the PRR-based Rate, plus a margin of 0.5%. As further defined in the Comerica Credit Agreement, the "PRR-based Rate" means the greatest of (a) the Prime Rate in effect on such day (as defined in the Comerica Credit Agreement) plus 0.5%, or (b) the daily adjusting LIBOR Rate plus 2.50%. In addition to interest on outstanding borrowings under the Comerica Credit Facility, the revolving credit note bears an unused line fee of 0.25%, which is presented as interest expense. As of September 30, 2018, we had outstanding borrowings under the Comerica Credit Agreement of \$13.6 million at a weighted average interest rate of 4.55%.

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

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

On November 1, 2018, the Company entered into the Amendment No. 2 to the Comerica Credit Agreement (the "Second Amendment"). The Second Amendment, among other things, waives compliance under the Comerica Credit Agreement with the Fixed Charge Coverage Ratio financial covenants solely for the three months ended September 30, 2018. At September 30, 2018, the Company was in compliance with all other covenants. The Second Amendment also contains several amendments to the Credit Agreement including, among other things, (a) modifying the definition of "Fixed Charge Coverage Ratio" to change how the Fixed Charge Coverage Ratio is calculated, (b) modifying the definition of "FCCR Capital Expenditure" to reduce a threshold amount and (c) modifying the definitions of "Permitted Acquisition" and "Permitted Investments."

Note 10. Commitments and Contingencies

In addition to commitments and obligations in the ordinary 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 11. 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 near term forecasted income, we concluded that a full valuation allowance was necessary to offset our deferred tax assets. We intend to maintain a valuation allowance until sufficient positive evidence exists to support its reversal.

Intraperiod tax allocation rules require us to allocate our provision for income taxes between continuing operations and other categories of comprehensive income, such as discontinued operations. In periods in which we have a year-to-date pre-tax loss from continuing operations and pre-tax income in other categories of comprehensive income, such as discontinued operations, we must consider that income in determining the amount of tax benefit that results from a loss in continuing operations and that shall be allocated to continuing operations. For the nine months ended September 30, 2018, we recorded income of \$5.3 million, net of tax, in discontinued operations related to our MDSS reportable segment and a loss of \$2.9 million, net of tax, in continuing operations.

As a result of the intraperiod tax allocation rules, for the nine months ended September 30, 2018, the Company recorded an income tax benefit of \$0.9 million within continuing operations and \$0.9 million of income tax expense within discontinued operations. For the nine months ended September 30, 2017, the Company recorded an income tax expense of \$7.4 million and \$0.5 million within continuing operations and discontinued operations, respectively.

For the nine months ended September 30, 2018, the Company expects to utilize \$0.8 million of net operating losses associated with projected taxable income in discontinued operations mainly attributable to the gain on the sale of our MDSS post-warranty service contract business. The utilization of net operating losses in 2018 results in a reduction in our deferred tax asset balance, with a corresponding reduction in our valuation allowance, due to our full valuation allowance position discussed above.

As of September 30, 2018, we had unrecognized tax benefits of approximately \$3.9 million related to uncertain tax positions. Included in the unrecognized tax benefits were \$3.5 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 US 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 and research credit carryovers arising prior to that year are subject to adjustment. It is our policy to recognize interest expense and penalties related to uncertain income tax matters as a component of income tax expense.

Note 12. Segments

Our reporting segments have been determined based on the nature of the products and/or services offered to customers or the nature of their function in the organization. We evaluate performance based on the gross profit and operating income (loss) excluding litigation reserve expense, goodwill impairment, and loss on sale of buildings. The Company does not identify or allocate its assets by operating segments.

During the first quarter of 2018, we have classified the results of our MDSS segment as discontinued operations in our condensed consolidated statement of operations for all periods presented. Accordingly, segment results have been recast for all periods presented to reflect MDSS as discontinued operations. As costs of shared service functions previously allocated to MDSS are not allocable to discontinued operations, prior period corporate costs have been reallocated amongst the continuing reportable segments. Segment information is as follows:

<u>(in thousands)</u>	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenue by segment:				
Diagnostic Services	\$ 12,412	\$ 12,171	\$ 37,704	\$ 36,932
Diagnostic Imaging	2,803	2,975	8,401	8,701
Mobile Healthcare	10,492	10,649	32,147	32,687
Condensed consolidated revenue	<u>\$ 25,707</u>	<u>\$ 25,795</u>	<u>\$ 78,252</u>	<u>\$ 78,320</u>
Gross profit by segment:				
Diagnostic Services	\$ 2,404	\$ 2,586	\$ 7,620	\$ 8,152
Diagnostic Imaging	1,154	1,318	3,665	3,497
Mobile Healthcare	800	1,466	3,247	5,011
Condensed consolidated gross profit	<u>\$ 4,358</u>	<u>\$ 5,370</u>	<u>\$ 14,532</u>	<u>\$ 16,660</u>
Income (loss) from continuing operations by segment:				
Diagnostic Services	\$ 250	\$ 288	\$ 764	\$ 443
Diagnostic Imaging	(108)	(39)	(444)	(947)
Mobile Healthcare	(925)	(354)	(2,484)	(1,711)
Segment (loss) income from continuing operations	<u>\$ (783)</u>	<u>\$ (105)</u>	<u>\$ (2,164)</u>	<u>\$ (2,215)</u>
Loss on sale of buildings ⁽¹⁾	(507)	—	(507)	—
Goodwill impairment ⁽²⁾	—	—	(476)	—
Litigation reserve ⁽³⁾	—	—	—	(1,339)
Condensed consolidated loss from continuing operations	<u>\$ (1,290)</u>	<u>\$ (105)</u>	<u>\$ (3,147)</u>	<u>\$ (3,554)</u>

⁽¹⁾ Reflects loss on sale of land and buildings in our Fargo, North Dakota location. See Note 6 for further information.

⁽²⁾ Reflects goodwill impairment adjustment for Telerhythmics reporting unit. See Note 7 for further information.

⁽³⁾ Reflects legal settlement reserve for wage and hour litigation.

Note 13. Subsequent Events

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. ("GMedical"), pursuant to which we sold all the outstanding membership interests in Telerhythmics to GMedical. The total consideration related to the Telerhythmics Purchase Agreement was \$1.95 million in cash, which was paid at the closing on October 31, 2018. In connection with the transaction, the Company has agreed to make certain monthly 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.

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, 2017, which were included in our Form 10-K, filed with the SEC on February 28, 2018.

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 with technology and services necessary to provide exceptional patient care in the rapidly changing healthcare environment.

Strategy

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

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

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

Recent Announcement

On September 10, 2018, the Company issued a press release (the "Press Release") reporting that the Company's Board of Directors (the "Board") had approved converting the Company into a diversified holding company (the "HoldCo Conversion"), and the Company's acquisition of ATRM Holdings, Inc. ("ATRM") as an initial "kick-off" transaction (the "ATRM Acquisition"). The Press Release also reported that the Company entered into a non-binding letter of intent (the "LOI") relating to the ATRM Acquisition and had hired David Noble as its Chief Operating Officer on September 1, 2018.

Under the terms contemplated in the LOI, ATRM stockholders will receive consideration consisting of 0.4 shares of Digirad common stock for each share of outstanding ATRM common stock acquired by the Company in the ATRM Acquisition. The issuance of Digirad common stock in connection with the ATRM Acquisition is expected to increase the number of shares of outstanding Digirad common stock by less than 5%. The ATRM Acquisition will be subject to, among other things, ATRM becoming current with its SEC filings and the negotiation and execution of definitive documentation. The final terms of the ATRM Acquisition are subject to change depending on the outcome of the Company's due diligence investigation and may differ from those reflected in the LOI. The ATRM Acquisition was approved by a special committee of independent directors of the Company.

Jeffrey E. Eberwein, the Chairman of the Company's Board, owns approximately 17.4% of the outstanding common stock of ATRM. Mr. Eberwein is also the Chief Executive Officer of Lone Star Value Management, LLC, in which together with affiliated entities, hold 579,745 shares of ATRM's 10.00% Series B Cumulative Preferred Stock (the "Series B Stock"). Through these relationships and other relationships with affiliated entities, Mr. Eberwein may be deemed the beneficial owner of these securities. Mr. Eberwein disclaims beneficial ownership of Series B Stock, except to the extent of his pecuniary interest therein.

Business Segments

As of September 30, 2018, we operate the Company in three reportable segments:

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

Diagnostic Services. Through Diagnostic Services, we offer a convenient and economically efficient imaging and monitoring services program as an alternative to purchasing equipment or outsourcing the procedures to another physician or imaging center. For physicians who wish to perform nuclear imaging, echocardiography, vascular or general ultrasound tests, we provide imaging systems, qualified personnel, radiopharmaceuticals, licensing services, and the logistics required to perform imaging in their own offices, and thereby the ability to bill Medicare, Medicaid, or third-party healthcare insurers directly for those services, which are primarily cardiac in nature. We provide imaging services primarily to cardiologists, internal medicine physicians, and family practice doctors who typically enter annual contracts for a set number of days ranging from once per month to five times per week.

Diagnostic Services also offers remote cardiac event monitoring services through our Telerhythmics business. These services include provision of a monitor, remote monitoring by registered nurses, and 24 hours a day, 7 days a week monitoring support for our patients and physician customers. We offer modalities of mobile cardiac telemetry ("MCT"), mobile cardiac event monitoring, holter monitoring, and pacemaker analysis. These services offer flexibility and convenience to our customers who do not have to incur the costs of staffing, equipment, and logistics to monitor patients as part of their standard of care. Our cardiac event monitoring services are provided primarily through an independent diagnostic testing facility model that allows us to bill Medicare, Medicaid, or third-party healthcare insurers directly for our services, and is the only business at Digirad that bills Medicare, Medicaid, and private insurance directly.

Mobile Healthcare. Through Mobile Healthcare, we provide contract diagnostic imaging, including computerized tomography ("CT"), magnetic resonance imaging ("MRI"), positron emission tomography ("PET"), PET/CT, and nuclear medicine and healthcare expertise to hospitals, integrated delivery networks ("IDNs"), and federal institutions on a long-term contract basis, as well as interim (short-term) services to institutions that are in transition. These services are provided primarily when there is a cost, access, 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 and camera maintenance contracts. Our cameras 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.

Discontinued Operations

Medical Device Sales and Service. Prior to January 1, 2018, through Medical Device Sales and Service ("MDSS"), we provided: (a) contract sales services and (b) warranty and post-warranty services, under our contract with Philips Healthcare ("Philips"), within a defined region in the upper Midwest region of the United States. Under the contract sales services, we primarily sold Philips branded imaging and patient monitoring systems, including CT, MRI, PET, PET/CT systems, ultrasound and patient and monitoring systems, and received a commission on these sales. For our equipment contract sales services, we did not take title to the underlying equipment; it is delivered directly to the end user by Philips. Under our warranty and post-warranty services, we provided warranty and post-warranty services on certain Philips equipment within this territory related to equipment we sold or other equipment sold in the territory.

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

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

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, 2017 have the greatest potential impact on our financial statements, so we consider them to be our critical accounting policies and estimates. Except as discussed below, we believe there were no other significant changes in those critical accounting policies and estimates during the nine months ended September 30, 2018.

Revenue Recognition

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

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

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

Refer to Note 3 to the unaudited condensed consolidated financial statements for further updates to the Company's revenue recognition policy under the new revenue standard.

Results of Operations

Comparison of the Three Months Ended September 30, 2018 and 2017

The following table summarizes our results for the three months ended September 30, 2018 and 2017:

<u>(in thousands)</u>	Three Months Ended September 30,					
	2018	Percent of 2018 Revenues	2017	Percent of 2017 Revenues	Change from Prior Year	
					Dollars	Percent
Total revenues	\$ 25,707	100.0 %	\$ 25,795	100.0 %	\$ (88)	(0.3)%
Total cost of revenues	21,349	83.0 %	20,425	79.2 %	924	4.5 %
Gross profit	4,358	17.0 %	5,370	20.8 %	(1,012)	(18.8)%
Total operating expenses	5,648	22.0 %	5,475	21.2 %	173	3.2 %
Loss from operations	(1,290)	(5.0)%	(105)	(0.4)%	(1,185)	1,128.6 %
Total other expense	(276)	(1.1)%	(391)	(1.5)%	115	(29.4)%
Loss before income taxes	(1,566)	(6.1)%	(496)	(1.9)%	(1,070)	215.7 %
Income tax benefit (expense)	379	1.5 %	(6,838)	(26.5)%	7,217	(105.5)%
Net loss from continuing operations	(1,187)	(4.6)%	(7,334)	(28.4)%	6,147	(83.8)%
Loss from discontinued operations, net of tax	(239)	(0.9)%	(1,565)	(6.1)%	1,326	(84.7)%
Net loss	\$ (1,426)	(5.5)%	\$ (8,899)	(34.5)%	\$ 7,473	(84.0)%

In the context of results of operations discussions, the reportable segments Diagnostic Services and Mobile Healthcare are considered “Services,” and Diagnostic Imaging is considered “Product and Product-Related.” The Company’s former MDSS reportable segment is reported as discontinued operations in our condensed consolidated financial statements and discussion within results operations for all periods presented.

Revenues

Services Revenue

Services revenue by segment is summarized as follows:

<u>(in thousands)</u>	Three Months Ended September 30,			
	2018	2017	Change	% Change
Diagnostic Services	\$ 12,412	\$ 12,171	\$ 241	2.0 %
Mobile Healthcare	10,492	10,649	(157)	(1.5)%
Total Services Revenue	\$ 22,904	\$ 22,820	\$ 84	0.4 %

Diagnostic Services revenue increased \$0.2 million, or 2.0%, compared to the prior year quarter, primarily due to a higher volume of imaging days ran and an increase in the average mobile imaging rate per day, partially offset by a \$0.4 million decrease in revenue from our Telerhythmics business due to lower enrollments.

Mobile Healthcare revenue decreased \$0.2 million, or 1.5%, compared to the prior year quarter, primarily due to lower mobile imaging revenue of \$0.6 million resulting from higher cancellations, partially offset by an increase in interim rentals of \$0.5 million primarily from higher utilization. The utilization of our interim rentals can vary in each period based on customers that are in the midst of new construction or refurbishing their current facilities.

Product and Product-Related Revenue

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

<u>(in thousands)</u>	Three Months Ended September 30,			
	2018	2017	Change	% Change
Diagnostic Imaging	\$ 2,803	\$ 2,975	\$ (172)	(5.8)%

Diagnostic Imaging revenue decreased \$0.2 million, or 5.8%, compared to the prior year quarter, primarily due to lower camera revenue from a less favorable mix of camera sold during the period.

Gross Profit

Services Gross Profit

Services gross profit and gross margin is summarized as follows:

<u>(in thousands)</u>	Three Months Ended September 30,		
	2018	2017	% Change
Services gross profit	\$ 3,204	\$ 4,052	(20.9)%
Services gross margin	14.0%	17.8%	

Diagnostic Services gross profit decreased \$0.2 million, or 7.0%, to \$2.4 million in the current year quarter compared to \$2.6 million in the prior year quarter, and the gross margin percentage was 19.4% in the current year quarter compared to 21.2% in the prior year quarter. The decrease in gross margin percentage was mainly due to higher labor costs as a percentage of revenue.

Mobile Healthcare gross profit decreased \$0.7 million, or 45.4%, to \$0.8 million in the current year quarter compared to \$1.5 million in the prior year quarter, and gross margin percentage was 7.6% in the current year quarter compared to 13.8% in the prior year quarter. The decrease in gross margin percentage was primarily due to an unfavorable mix of revenue, as well as higher equipment and trailer repair costs of \$0.2 million compared to the prior year quarter.

Product and Product-Related Gross Profit

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

<u>(in thousands)</u>	<u>Three Months Ended September 30,</u>		
	<u>2018</u>	<u>2017</u>	<u>% Change</u>
Product and product-related gross profit	\$ 1,154	\$ 1,318	(12.4)%
Product and product-related gross margin	41.2%	44.3%	

Diagnostic Imaging gross profit decreased \$0.2 million, or 12.4%, to \$1.2 million in the current year quarter compared to \$1.3 million in the prior year quarter, and the gross margin percentage was 41.2% in the current year quarter compared to 44.3% in the prior year quarter. The decrease in gross margin percentage was primarily due to a less favorable mix of cameras sold during the period.

Operating Expenses

Operating expenses are summarized as follows:

<u>(in thousands)</u>	<u>Three Months Ended September 30,</u>				<u>Percent of Revenues</u>	
	<u>2018</u>	<u>2017</u>	<u>Change</u>		<u>2018</u>	<u>2017</u>
			<u>Dollars</u>	<u>Percent</u>		
Marketing and sales	\$ 1,281	\$ 1,383	\$ (102)	(7.4)%	5.0%	5.4%
General and administrative	3,504	3,718	(214)	(5.8)%	13.6%	14.4%
Amortization of intangible assets	356	374	(18)	(4.8)%	1.4%	1.4%
Loss on sale of buildings	507	—	507	100.0%	2.0%	—%
Total operating expenses	\$ 5,648	\$ 5,475	\$ 173	3.2%	22.0%	21.2%

Marketing and sales expenses decreased \$0.1 million, or 7.4%, compared to the prior year quarter, primarily attributable to lower headcount and variable compensation.

General and administrative expenses decreased \$0.2 million, or 5.8%, compared to the prior year quarter, primarily attributable to lower employee related costs of \$0.1 million, higher gains on equipment sales of \$0.3 million, partially offset by higher legal and professional fees of \$0.2 million.

During the three months ended September 30, 2018, we completed the sale of buildings and a portion of land in our Fargo, North Dakota location with a net book value of \$1.5 million for net cash proceeds of approximately \$1.0 million, resulting in a loss on sale of \$0.5 million.

Total Other Expense

Total other expense is summarized as follows:

<u>(in thousands)</u>	<u>Three Months Ended September 30,</u>	
	<u>2018</u>	<u>2017</u>
Other expense, net	\$ (76)	\$ (237)
Interest expense, net	(200)	(154)
Total other expense	\$ (276)	\$ (391)

Other expense, net for the three months ended September 30, 2018 and 2017 consisted of unrealized losses on available-for-sale equity securities. See Note 8 to the unaudited condensed consolidated financial statements for further information.

Interest expense, net, for the three months ended September 30, 2018 and 2017 is predominantly comprised of cash interest costs and related amortization of deferred issuance costs on our debt. A portion of interest costs has been allocated to discontinued operations for the three months ended September 30, 2017 since the proceeds received in the sale were required to be used to reduce our borrowings under our revolving credit facility with Comerica Bank, a Texas banking association ("Comerica").

Income Tax Benefit (Expense)

Income tax benefit was \$0.4 million for the three months ended September 30, 2018 compared to income tax expense of \$6.8 million for the three months ended September 30, 2017. For the three months ended September 30, 2018, income tax benefit was primarily a result of change in forecasted income. For the three months ended September 30, 2017, income tax expense was primarily comprised of an increase to our valuation allowance due to uncertainties related to our ability to utilize some of our net operating losses before they expire, predominantly as a result of the unanticipated termination of the Philips distribution agreement on our near term forecasted income. See Note 11 to the unaudited condensed consolidated financial statements for further information related to the Company's income taxes.

Income from Discontinued Operations

As described in Note 2 of the unaudited condensed consolidated financial statements, the results of our MDSS reportable segment have been reported as discontinued operations for all periods presented. See Note 2 for additional information regarding discontinued operations.

Comparison of the Nine Months Ended September 30, 2018 and 2017

The following table summarizes our results for the nine months ended September 30, 2018 and 2017:

<u>(in thousands)</u>	Nine Months Ended September 30,					
	2018	Percent of 2018 Revenues	2017	Percent of 2017 Revenues	Change from Prior Year	
					Dollars	Percent
Total revenues	\$ 78,252	100.0 %	\$ 78,320	100.0 %	\$ (68)	(0.1)%
Total cost of revenues	63,720	81.4 %	61,660	78.7 %	2,060	3.3 %
Gross profit	14,532	18.6 %	16,660	21.3 %	(2,128)	(12.8)%
Total operating expenses	17,679	22.6 %	20,214	25.8 %	(2,535)	(12.5)%
Loss from operations	(3,147)	(4.0)%	(3,554)	(4.5)%	407	(11.5)%
Total other expense	(718)	(0.9)%	(1,520)	(1.9)%	802	(52.8)%
Loss before income taxes	(3,865)	(4.9)%	(5,074)	(6.5)%	1,209	(23.8)%
Income tax benefit (expense)	940	1.2 %	(7,357)	(9.4)%	8,297	(112.8)%
Net loss from continuing operations	(2,925)	(3.7)%	(12,431)	(15.9)%	9,506	(76.5)%
Income (loss) from discontinued operations, net of tax	5,255	6.7 %	(1,316)	(1.7)%	6,571	(499.3)%
Net income (loss)	\$ 2,330	3.0 %	\$ (13,747)	(17.6)%	\$ 16,077	(116.9)%

Revenues

Services Revenue

Services revenue by segment is summarized as follows:

<u>(in thousands)</u>	Nine Months Ended September 30,			
	2018	2017	Change	% Change
Diagnostic Services	\$ 37,704	\$ 36,932	\$ 772	2.1 %
Mobile Healthcare	32,147	32,687	(540)	(1.7)%
Total Services Revenue	\$ 69,851	\$ 69,619	\$ 232	0.3 %

Diagnostic Services revenue increased \$0.8 million, or 2.1%, compared to the prior year period, primarily due to a higher volume of imaging days ran and studies performed and an increase in the average mobile imaging rate per day, partially offset by a \$0.7 million decrease in revenue from our Telerhythmics business due to lower enrollments.

Mobile Healthcare revenue decreased \$0.5 million, or 1.7%, compared to the prior year period, primarily due to lower mobile imaging revenue of \$1.6 million resulting from higher cancellations which were in part impacted by severe weather conditions during the first quarter of 2018, lower supplies and accessories revenue of \$0.2 million, partially offset by an increase in interim rentals of \$1.3 million due to higher utilization. The utilization of our interim rentals can vary in each period based on customers that are in the midst of new construction or refurbishing their current facilities.

Product and Product-Related Revenue

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

(in thousands)	Nine Months Ended September 30,			
	2018	2017	Change	% Change
Diagnostic Imaging	\$ 8,401	\$ 8,701	\$ (300)	(3.4)%

Diagnostic Imaging revenue decreased \$0.3 million, or 3.4%, compared to the prior year period, due to a decrease in camera revenue of \$0.4 million primarily from a lower volume of cameras sold, partially offset by an increase in camera support time and material activities, which are variable in nature and based on customer needs.

Gross Profit

Services Gross Profit

Services gross profit and gross margin is summarized as follows:

(in thousands)	Nine Months Ended September 30,		
	2018	2017	% Change
Services gross profit	\$ 10,867	\$ 13,163	(17.4)%
Services gross margin	15.6%	18.9%	

Diagnostic Services gross profit decreased \$0.5 million, or 6.5%, to \$7.6 million in the current year period compared to \$8.2 million in the prior year period, and the gross margin percentage was 20.2% in the current year period compared to 22.1% in the prior year period. The decrease in gross margin percentage was mainly due to higher labor costs as a percentage of revenue.

Mobile Healthcare gross profit decreased \$1.8 million, or 35.2%, to \$3.2 million in the current year period compared to \$5.0 million in the prior year period, and gross margin percentage was 10.1% in the current year period compared to 15.3% in the prior year period. The decrease in gross margin percentage was primarily due to an unfavorable mix of services provided, as well as higher equipment and trailer repair costs of \$0.7 million and health insurance costs of \$0.3 million.

Product and Product-Related Gross Profit

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

(in thousands)	Nine Months Ended September 30,		
	2018	2017	% Change
Product and product-related gross profit	\$ 3,665	\$ 3,497	4.8%
Product and product-related gross margin	43.6%	40.2%	

Diagnostic Imaging gross profit increased \$0.2 million, or 4.8%, to \$3.7 million in the current year period compared to \$3.5 million in the prior year period, and the gross margin percentage was 43.6% in the current year period compared to 40.2% in the prior year period. The increase in gross margin percentage was primarily due to lower service part costs of \$0.2 million and product royalty fees of \$0.2 million, partially offset by lower revenue.

Operating Expenses

Operating expenses are summarized as follows:

(in thousands)	Nine Months Ended September 30,				Percent of Revenues	
	2018	2017	Change		2018	2017
			Dollars	Percent		
Marketing and sales	\$ 4,209	\$ 4,762	\$ (553)	(11.6)%	5.4%	6.1%
General and administrative	11,418	14,331	(2,913)	(20.3)%	14.6%	18.3%
Amortization of intangible assets	1,069	1,121	(52)	(4.6)%	1.4%	1.4%
Goodwill impairment	476	—	476	100.0 %	0.6%	—%
Loss on sale of buildings	507	—	507	100.0 %	0.6%	—%
Total operating expenses	\$ 17,679	\$ 20,214	\$ (2,535)	(12.5)%	22.6%	25.8%

Marketing and sales expenses decreased \$0.6 million, or 11.6%, compared to the prior year period, primarily attributable to lower headcount and variable compensation.

General and administrative expenses decreased \$2.9 million, or 20.3%, compared to the prior year quarter, primarily attributable to lower litigation-related costs of \$1.5 million primarily from the settlement of a wage and hour lawsuit in the prior year, lower employee related costs of \$0.8 million, higher gains on equipment and vehicle sales of \$0.5 million, and lower depreciation expense of \$0.2 million.

Goodwill non-cash impairment charges of \$0.5 million were recognized during the three months ended June 30, 2018 related to our Telerhythmics business. See Note 7 to the unaudited condensed consolidated financial statements for further information.

During the three months ended September 30, 2018, we completed the sale of buildings and land in our Fargo, North Dakota with a net book value of \$1.5 million for net cash proceeds of approximately \$1.0 million, resulting in a loss on sale of \$0.5 million.

Total Other Expense

Total other expense is summarized as follows:

(in thousands)	Nine Months Ended September 30,	
	2018	2017
Other expense, net	\$ (112)	\$ (237)
Interest expense, net	(563)	(574)
Loss on extinguishment of debt	(43)	(709)
Total other expense	\$ (718)	\$ (1,520)

Other expense, net for the nine months ended September 30, 2018 and 2017 consisted of unrealized losses on available-for-sale equity securities. See Note 8 to the unaudited condensed consolidated financial statements for further information.

Interest expense, net, for the nine months ended September 30, 2018 and 2017 is predominantly comprised of cash interest costs and related amortization of deferred issuance costs on our debt. A portion of interest costs has been allocated to discontinued operations in both periods since the proceeds received in the sale were required to be used to reduce our borrowings under our revolving credit facility with Comerica Bank, a Texas banking association ("Comerica").

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

Income Tax Benefit (Expense)

During the nine months ended September 30, 2018, an income tax benefit of \$0.9 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. During the nine months ended September 30, 2017, income tax expense of \$7.4 million was recorded in continuing operations, primarily due to an increase in our valuation allowance associated with changes in our income projections, which limited our ability to utilize net operating losses during the year. In the fourth quarter of 2017, a full valuation allowance was established against our deferred tax assets due to a recent history of losses and uncertainties regarding our ability to utilize our net operating losses before expiration. See Note 11 to the unaudited condensed consolidated financial statements for further information related to the Company's income taxes.

Income from Discontinued Operations

As described in Note 2 of the unaudited condensed consolidated financial statements, the results of our MDSS reportable segment have been reported as discontinued operations for all periods presented. During the nine months ended September 30, 2018, discontinued operations includes a \$6.2 million gain on the sale of our MDSS post-warranty service contracts to Philips which closed on February 1, 2018. See Note 2 for additional information regarding discontinued operations.

Liquidity and Capital Resources

We generated \$2.2 million of positive cash flow from operations during the nine months ended September 30, 2018. Cash flows from operations primarily represent inflows from net income (adjusted for depreciation, amortization, and other non-cash items), as well as the net effect of changes in working capital. Cash flows from investing activities primarily represent our investment in capital equipment required to maintain and grow our business, 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 Comerica Credit Agreement. As of September 30, 2018, we had \$1.0 million of cash and cash equivalents, as well as \$6.2 million available under our revolving line of credit.

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

Sources and Uses of Cash

The following table shows cash flow information for the nine months ended September 30, 2018 and 2017:

<u>(in thousands)</u>	Nine Months Ended September 30,	
	2018	2017
Net cash provided by operating activities	\$ 2,218	\$ 4,101
Net cash provided by (used in) investing activities	\$ 6,691	\$ (493)
Net cash used in financing activities	\$ (9,898)	\$ (7,725)

Operating Activities

Net cash provided by operating activities was \$2.2 million for the nine months ended September 30, 2018 compared to \$4.1 million in the prior year period. The decrease of \$1.9 million was primarily due to unfavorable changes in working capital of \$0.9 million and lower net income adjusted for non-cash items of \$1.0 million.

Investing Activities

Net cash provided by investing activities was \$6.7 million for the nine months ended September 30, 2018 compared to \$0.5 million of cash used in investing activities in the prior year period. The increase of \$7.2 million in cash provided by investing activities 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 and \$1.6 million higher proceeds received from the sale of property and equipment, partially offset by a decrease of \$0.9 million in cash provided by maturities of available-for-sale securities and \$0.4 million higher capital equipment purchases.

Financing Activities

Net cash used in financing activities was \$9.9 million for the nine months ended September 30, 2018 compared to \$7.7 million in the prior year period. The increase of \$2.2 million was primarily due to higher net principal repayments of \$2.4 million as a result of proceeds from the sale of our MDSS service contract business used to pay down outstanding borrowings on our revolving credit facility.

Comerica Revolving Credit Facility

On June 21, 2017, the Company entered into a Revolving Credit Agreement (the "Comerica Credit Agreement") with Comerica. The Comerica Credit Agreement provides for a five-year revolving credit facility with a maximum credit amount of \$25.0 million maturing in June 2022, upon which a balloon payment on the balance is due.

In connection with the sale of our post-warranty service customer contracts to Philips, the Company entered into an Amendment No. 1 to the Comerica Credit Agreement, dated January 30, 2018 (the "Amendment"). The Amendment to the Comerica Credit Agreement reduced the revolving credit commitment from \$25.0 million to \$20.0 million and modified the definitions of "Adjusted EBITDA," "FCCR Capital Expenditures" and "Revolving Credit Commitment" as used under the Comerica Credit Agreement. The net cash proceeds received during the quarter of \$6.8 million were used to pay down existing borrowings under the Comerica Credit Facility. As of September 30, 2018, outstanding borrowings under the Comerica Credit Agreement of \$13.6 million with additional borrowing availability of \$6.2 million.

At the Company's option, the Comerica Credit Facility will bear interest at either (i) the LIBOR Rate, as defined in the Comerica Credit Agreement, plus a margin of 2.35%; or (ii) the PRR-based Rate, plus a margin of 0.5%. As further defined in the Comerica Credit Agreement, the "PRR-based Rate" means the greatest of (a) the Prime Rate in effect on such day (as defined in the Comerica Credit Agreement) plus 0.5%, or (b) the daily adjusting LIBOR Rate plus 2.50%. In addition to interest on outstanding borrowings under the Comerica Credit Facility, the revolving credit note bears an unused line fee of 0.25%, which is presented as interest expense. As of September 30, 2018, the weighted average interest rate on outstanding borrowings was 4.55%.

Restrictive Covenants

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

The Company's ability to comply to these and other provisions under the Comerica Credit Agreement is dependent on its future performance, which is subject to many factors, some of which are beyond our control. Although the Company is currently in compliance with its debt covenants, its declining performance has resulted in fixed charge ratios closer to the minimum ratios required under the credit agreement. As a result, the Company may be required to reduce or eliminate its quarterly cash dividend to maintain future compliance with our financial covenants, in which failure to comply may result in an event of default thereunder.

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

On November 1, 2018, the Company entered into the Amendment No. 2 to the Comerica Credit Agreement (the "Second Amendment"). The Second Amendment, among other things, waives compliance under the Comerica Credit Agreement with the Fixed Charge Coverage Ratio financial covenants solely for the three months ended September 30, 2018. At September 30, 2018, the Company was in compliance with all other covenants. The Second Amendment also contains several amendments to the Credit Agreement including, among other things, (a) modifying the definition of "Fixed Charge Coverage Ratio" to change how the Fixed Charge Coverage Ratio is calculated, (b) modifying the definition of "FCCR Capital Expenditure" to reduce a threshold amount and (c) modifying the definitions of "Permitted Acquisition" and "Permitted Investments."

Off-Balance Sheet Arrangements

As of September 30, 2018, we did not have any off-balance sheet arrangements.

Contractual Obligations

There have been no material changes outside of the ordinary course of business in our outstanding contractual obligations from those disclosed within "Management's Discussion and Analysis of Financial Condition and Results of Operations," as contained in our Annual Report on Form 10-K filed with the SEC on February 28, 2018.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes in market risk exposures that affect the quantitative and qualitative disclosures presented in our Form 10-K for the year ended December 31, 2017.

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

As required by Securities and Exchange Commission Rule 13a-15(e) and 15d-15(e), 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 September 30, 2018.

Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives as specified above. Management does not expect, however, that our disclosure controls and procedures will prevent or detect all errors and fraud. Any 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 Securities Exchange Act of 1934 that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 10 to the 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, 2017, which we filed with the SEC on February 28, 2018. The risks and uncertainties described in “Item 1A - Risk Factors” of our Annual Report on Form 10-K have not materially changed, with the exception of the item noted below. 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, 2017, 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.

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

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

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

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

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

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

There can be no assurances that we will successfully complete our planned conversion into a diversified holding company (the “Acquisition”) or complete our planned acquisition of ATRM Holdings, Inc. (“ATRM”).

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

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

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

Any of the above factors may have a material adverse effect on our business, results of operation and financial condition.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

On November 1, 2018, the Company entered into the Amendment No. 2 to the Comerica Credit Agreement (the "Second Amendment"). The Second Amendment, among other things, waives compliance under the Comerica Credit Agreement with the Fixed Charge Coverage Ratio financial covenants solely for the three months ended September 30, 2018. At September 30, 2018, the Company was in compliance with all other covenants. The Second Amendment also contains several amendments to the Credit Agreement including, among other things, (a) modifying the definition of “Fixed Charge Coverage Ratio” to change how the Fixed Charge Coverage Ratio is calculated, (b) modifying the definition of “FCCR Capital Expenditure” to reduce a threshold amount and (c) modifying the definitions of “Permitted Acquisition” and “Permitted Investments.”

ITEM 6. EXHIBITS

Exhibit Number	Description
10.1*	Amendment No. 2 To Revolving Credit Agreement, dated November 1, 2018 by and between Digirad Corporation and Comerica Bank.
10.2*#	Employment Agreement by and between Digirad Corporation and David Noble, dated as of October 31, 2018.
10.3*#	Indemnification Agreement by and between Digirad Corporation and David Noble, dated as of October 25, 2018.
31.1*	Certification of the Principal Executive and 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 and 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

* 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.

Indicates management contract or compensatory plan.

SIGNATURES

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

Date: November 5, 2018

DIGIRAD CORPORATION

By: /s/ MATTHEW G. MOLCHAN

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

AMENDMENT NO. 2 TO REVOLVING CREDIT AGREEMENT

This Amendment No. 2 to Revolving Credit Agreement (“Amendment”) dated November 1, 2018 (“Amendment No. 2 Effective Date”) is made between **Digirad Corporation**, a Delaware corporation (“Borrower”) and **Comerica Bank**, a Texas banking association (“Bank”).

Borrower and Bank entered into a Revolving Credit Agreement dated June 21, 2017, as amended (“Credit Agreement”) providing terms and conditions governing certain loans and other credit accommodations extended by Bank to Borrower.

Borrower has failed to comply with certain terms of the Loan Agreement and has requested Bank’s waiver of any related Event of Default. Bank has agreed to grant that waiver, only on the terms and conditions set forth in this Amendment.

Accordingly, Borrower and Bank agree as follows:

1. Capitalized Terms. In this Amendment, capitalized terms that are used without separate definition shall have the meanings given to them in the Credit Agreement.

2. Amendments. The Credit Agreement is amended as follows:

(a) “Fixed Charge Coverage Ratio” which is defined in the Credit Agreement, is given the following amended definition:

“Fixed Charge Coverage Ratio” shall mean, in respect of any applicable Person(s) and for any applicable period of determination, the ratio of (a) Adjusted EBITDA for such period, less (i) cash income taxes paid for such period, less (ii), FCCR Capital Expenditures made during such period, less (iii) payments, repurchases or redemptions of stock of made by such Person during such period, less (iv) Distributions and Purchases made by such Person during such period, to (b) (i) the Current Maturities of Long Term Debt of such Person(s) as of the last day of such period plus (ii) interest paid during such period; provided, that for the purposes of calculating the Fixed Charge Coverage Ratio: (I) for the period ending December 31, 2018, Distributions and Purchases shall be calculated for the one (1) fiscal quarter period then ending on an annualized basis; (II) for the period ending March 31, 2019, Distributions and Purchases shall be calculated for the two (2) fiscal quarter period then ending on an annualized basis; (III) for the period ending June 30, 2019, Distributions and Purchases shall be calculated for the three (3) fiscal quarter period then ending on an annualized basis; and (IV) for the period ending September 30, 2019, and for each period of determination thereafter, and Purchases shall be calculated for the four (4) fiscal quarter period then ending.”

(b) “FCCR Capital Expenditures” which is defined in the Credit Agreement, is given the following amended definition:

“FCCR Capital Expenditures” shall mean the greater of (a) Capital Expenditures made during such period, excluding that portion of Capitalized Leases that was not paid for in cash, or (b) \$2,000,000.”

(c) “Guarantor(s)”, which is defined in the Credit Agreement, is given the following amended definition:

“Guarantor(s)” shall mean (a) Digirad Imaging Solutions, Inc., a Delaware corporation, (b) MD Office Solutions, a California corporation, (c) Project Rendezvous Holding Corporation, a Delaware corporation, (d) Project Rendezvous Acquisition Corporation, a Delaware corporation, (e) DMS Health Technologies, Inc., a North Dakota corporation, (f) DMS Imaging, Inc., a North Dakota corporation, (g) each Domestic Subsidiary of Borrower which has executed and delivered to the Bank a Guaranty (or a joinder to a Guaranty) and a Security Agreement (or a joinder to the Security Agreement).”

(d) Clause (k) of “Permitted Acquisition”, which is defined in the Credit Agreement, is given the following amended definition:

“(k) The purchase price of such proposed new acquisition, computed on the basis of total acquisition consideration paid or incurred, or required to be paid or incurred, with respect thereto, including the amount of Debt (such Debt being otherwise permitted under this Agreement) assumed or to which such assets, businesses or business or Equity Interests, or any Person so acquired is subject and including any portion of the purchase price allocated to any non-compete agreements, (X) is less than One Million Dollars (\$1,000,000), and (Y) when added to the purchase price for each other acquisition consummated hereunder as a Permitted Acquisition (not including acquisitions specifically consented to which fall outside of the terms of this definition) within a trailing twelve (12) month period, plus the amount invested in Joint Ventures within that trailing twelve (12) month period, does not exceed One Million Dollars (\$1,000,000).”

(e) Clause (g) of “Permitted Investments”, which is defined in the Credit Agreement, is given the following amended definition:

“(g) Creation of, or entry into, a Joint Venture, provided that, (1) both immediately before and after entry into or creation of such Joint Venture, and after giving effect to the Joint Venture, no Default or Event of Default shall have occurred and be continuing, (2) the aggregate amount invested in Joint Ventures does not exceed One Million Dollars (\$1,000,000) within a trailing twelve (12) month period, and (3) the aggregate amount invested in Joint Ventures plus the aggregate amount of acquisitions under clause (k) of the definition of Permitted Acquisitions (not including acquisitions specifically consented to which fall outside of the terms of that definition) does not exceed One Million Dollars (\$1,000,000) within a trailing twelve (12) month period;”

3. Representations. Borrower represents and agrees that:

(a) Except as expressly modified in this Amendment, (i) the representations and warranties set forth in the Credit Agreement as modified and in each of the Loan Documents remain true and correct in all respects, except to the extent that they expressly speak as of a specific prior date, and (ii) the covenants set forth in the Credit Agreement continue to be satisfied in all respects, and are legal, valid and binding obligations with the same force and effect as if entirely restated in this Amendment.

(b) When executed, this Amendment will be a duly authorized, legal, valid, and binding obligation of Borrower enforceable in accordance with its terms, and will not conflict with or violate

any of Borrower's organization documents or any agreement, instrument, law, or order to which Borrower or any material portion of its assets is subject or bound.

(c) Except for events or conditions for which Bank is giving its waiver in this Amendment, there is no default continuing under the Credit Agreement, or any related document, agreement, or instrument, and no event has occurred or condition exists that is or, with the giving of notice or lapse of time or both, would be such a default.

4. Conditions Precedent. The effectiveness of this Amendment is subject to Bank's receipt of or Borrower's satisfaction of all of the following and failure to deliver any one or more of the following by the indicated date for delivery, if any, shall constitute an Event of Default:

(a) this Amendment and such other agreements and instruments reasonably requested by Bank pursuant hereto (including such documents as are necessary to create and perfect Bank's interest in the Collateral), each duly executed by Borrower and any other applicable party;

(b) execution and delivery by the Guarantors of the Acknowledgement and Consent of Guarantors as set forth below;

(c) payment of all of Bank's expenses incurred through the date of this Amendment together with the costs of recording any amendment required by this Amendment and upon Borrower's execution of this Amendment, Bank will be authorized to charge any deposit or other account of Borrower maintained with Bank for such expenses; and

(d) such other documents and completion of such other matters as Bank may reasonably deem necessary or appropriate.

5. Conditional Waiver of Default. Borrower acknowledges that it is not in compliance with the Credit Agreement because it has failed to comply with Section 6.9(a) (*Fixed Charge Coverage Ratio*) for the period ending September 30, 2018 ("Identified Default"). Borrower has requested Bank's waiver of the Identified Default, and Bank is willing to grant that waiver provided that (a) Borrower provides its financial statements for the fiscal ending September 30, 2018 in accordance with Section 6.1(c); (b) payment of a waiver fee to Bank in the amount set forth in the disbursement statement provided by Bank to Borrower; and (c) no other or further Default or Event of Default has occurred. Without satisfying these conditions Bank will not waive the Identified Default. No delay on the part of Bank in the exercise of any remedy, power, right or privilege under the Credit Agreement, or any other document, instrument or agreement entered into in connection therewith, shall impair such remedy, power, right, or privilege or be construed to be a waiver of any Event of Default, and Bank hereby expressly reserves all of Bank's remedies, powers, rights or privileges under the Credit Agreement and each other document, instrument or agreement entered into in connection therewith, at law, in equity, or otherwise, which Bank may exercise in full or in part at any time without notice or demand in its sole and unrestricted discretion.

6. Release of Telerythmics. Bank hereby releases Telerythmics, LLC from the Guaranty dated June 21, 2017 and from the Security Agreement dated June 21, 2017.

7. No Other Changes. Except as specifically provided in this Amendment, it does not vary the terms and provisions of any of the Loan Documents. This Amendment shall not impair the rights, remedies, and security given in and by the Loan Documents. The terms of this Amendment shall control any conflict between its terms and those of the Credit Agreement.

8. Ratification. Except for the modifications under this Amendment, the parties ratify and confirm the Credit Agreement and the Loan Documents and agree that they remain in full force and effect.

9. Further Modification; No Reliance. This Amendment may be altered or modified only by written instrument duly executed by Borrower and Bank. In executing this Amendment, Borrower is not relying on any promise or commitment of Bank that is not in writing signed by Bank. This Amendment shall not be more strictly construed against any one of the parties as compared to any other.

10. Successors and Assigns. This Amendment shall inure to the benefit of and be binding upon the parties and their respective successors and assigns.

11. Governing Law. The parties agree that the terms and provisions of this Amendment shall be governed by and construed in accordance with the internal laws of the State of California, without regard to principles of conflicts of law.

12. Release and Waiver. Borrower waives, discharges, and forever releases Bank, Bank's employees, officers, directors, attorneys, stockholders, and their successors and assigns, from and of any and all claims, causes of action, allegations or assertions that Borrower has or may have had at any time up through and including the date of this Amendment, against any or all of the foregoing, regardless of whether any such claims, causes of action, allegations or assertions are known to Borrower or whether any such claims, causes of action, allegations or assertions arose as result of Bank's actions or omissions in connection with the Credit Agreement, any other Loan Document, any amendments, extensions or modifications thereto, or Bank's administration of the Indebtedness or otherwise. It is further understood and agreed that any and all rights under the provisions of Section 1542 of the California Civil Code are expressly waived by Borrower. Section 1542 of the California Civil Code provides as follows:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.

13. Expenses. Borrower shall promptly pay all out-of-pocket fees, costs, charges, expenses, and disbursements of Bank incurred in connection with the preparation, execution, and delivery of this Amendment, and the other documents contemplated by this Amendment. Borrower hereby authorizes Bank to charge any deposit or other account of Borrower maintained with Bank for reimbursement of any such fees, costs, charges, expenses, and disbursements.

14. Counterparts. This Amendment may be executed in one or more counterparts, and by separate parties on separate counterparts, all of which shall constitute one and the same agreement.

[end of amendment – signature page follows]

This Amendment No. 2 to Credit Agreement is executed and delivered as of the Amendment No. 2 Effective Date.

Comerica Bank

By: /s/ Marcus A. Di Fiore
Marcus A. Di Fiore
Title: Vice President

Digirad Corporation

By: /s/ Matthew G. Molchan
Matthew G. Molchan
Its: Chief Executive Officer and President

Acknowledgement and Consent of Guarantors

Each of the undersigned have guaranteed the payment and performance of the Indebtedness pursuant to the Guaranty dated June 21, 2017 (“Guaranty”). Each of the undersigned (a) acknowledges and consents to the execution, delivery and performance of the foregoing Amendment No. 2 to Revolving Credit Agreement, and (b) agrees that (i) its guaranty remains in full force and effect and (ii) it has absolutely no defenses, claims, rights of set-off, or counterclaims against Bank under, arising out of, or in connection with, the foregoing Amendment No. 2 to Revolving Credit Agreement, the Revolving Credit Agreement, the Guaranty, or the other Loan Documents. Each of the undersigned further represents that it is in compliance with all of the terms and conditions of the Guaranty.

Dated November 1, 2018

DIGIRAD IMAGING SOLUTIONS, INC.

By: /s/ Matthew G. Molchan
Matthew G. Molchan
Its: Chief Executive Officer and President

PROJECT RENDEZVOUS ACQUISITION CORPORATION

By: /s/ Matthew G. Molchan
Matthew G. Molchan
Its: President

DMS HEALTH TECHNOLOGIES, INC.

By: /s/ Matthew G. Molchan
Matthew G. Molchan
Its: President

MD OFFICE SOLUTIONS

By: /s/ Matthew G. Molchan
Matthew G. Molchan
Its: Chairman of the Board

DMS IMAGING, INC.

By: /s/ Matthew G. Molchan
Matthew G. Molchan
Its: President

PROJECT RENDEZVOUS HOLDING CORPORATION

By: /s/ Matthew G. Molchan
Matthew G. Molchan
Its: President

DMS HEALTH TECHNOLOGIES-CANADA, INC.

By: /s/ Matthew G. Molchan
Matthew G. Molchan
Its: President

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the “Agreement”), dated as of October 31, 2018 and effective as of the Effective Date (as defined below), is by and between by and between Digirad Corporation (the “Company”) and David Noble (the “Executive” and together with the Company the “Parties”).

WITNESSETH:

WHEREAS, the Company wishes to employ the Executive and the Executive wishes to be employed by the Company in accordance with the terms and conditions set forth below, including those set forth in Exhibit A, which Executive agrees and acknowledges are a material part of this Agreement.

NOW, THEREFORE, in consideration of the conditions and mutual covenants contained in this Agreement, the parties agree as follows:

1. Title and Job Duties.

(a) Subject to the terms and conditions set forth in this Agreement, the Company agrees to employ Executive as Chief Operating Officer. In this capacity, Executive shall have the duties, authorities and responsibilities as the Company’s Board of Directors (the “Board”) shall designate from time to time. In performing his duties under this Agreement, Executive shall report to the Board.

(b) Executive accepts such employment and agrees, during the Term (as defined below), to devote his full business and professional time and energy to the Company. Executive agrees to carry out and abide by all lawful directions of the Board and to comply with all standards of performance, policies, and other rules and regulations heretofore established by Company and or hereafter established by Company.

(c) Without limiting the generality of the foregoing, Executive shall not, without the written approval of the Board, render services of a business or commercial nature on his own behalf or on behalf of any other person, firm, or corporation, whether for compensation or otherwise, during his employment hereunder; provided that the foregoing shall not prevent Executive from (i) serving on the boards of directors of, or holding any other offices or positions in non-profit organizations and, with the prior written approval of the Board, other for-profit companies, (ii) participating in charitable, civic, educational, professional, community or industry affairs, (iii) managing Executive’s passive personal investments, and (iv) participating, day to day, in the Executive’s wife’s pediatric practice, Sound Beach Pediatrics, LLC including, without limitation, the management and launch of a of newly formed business for the delivery of pediatric urgent care, as long as such activities under (iv) do not interfere with Executive’s responsibility to devote his full business and professional time and energy to the Company, and so long as such activities in the aggregate, (i)-(iv), do not materially interfere or conflict with Executive’s duties hereunder or create a potential business or fiduciary conflict.

(d) Executive agrees that the Company may, at any time and for any reason, remove the Executive from any directorship held with any subsidiary of the Company, and such removal will be effective immediately upon written notice to the Executive unless stated otherwise in such notice.

2. Salary and Additional Compensation.

(a) Base Salary. During the Term, the Company shall pay to Executive an annual base salary (the "Base Salary"), less applicable withholdings and deductions, of \$300,000 on an annualized basis, in accordance with the Company's normal payroll procedures. The Executive's Base Salary may be increased at any time by the Compensation Committee of the Board but shall not be decreased during the term of this Agreement.

(b) Target Bonus. Starting on January 1, 2019, Executive will be eligible for an annual cash bonus, earned as of the end of each fiscal year, contingent on achievement of pre-established performance goals mutually developed by the parties annually and approved by the Compensation Committee, and Executive's continued employment with the Company through the last day of the fiscal year (the "Target Bonus"). The Target Bonus shall be 50% of Executive Base Salary. The Board will assess Executive's performance in good faith at the end of each fiscal year. The Target Bonus, if any, will be paid no later than February 15th of the following year.

(c) Restricted Shares. Executive shall receive an annual equity award in the form of restricted share units (the "RSUs"). The RSUs granted with respect to fiscal year 2018 shall have a grant date fair value equal to \$66,667 and, for fiscal year 2019, \$200,000. For 2020 and later years, the annual award of RSUs shall be determined by the Compensation Committee of the Board and subject to the rules of the Company's equity plan and the award document. Each annual award shall provide for a number of RSUs to be earned based on the extent to which the pre-established performance goals mutually determined by the parties are achieved as of the end of the performance period, all as determined by the Board. All RSUs shall vest as follows: one-third upon grant date; one-third upon the first anniversary of the grant date; one-third upon the second anniversary of the grant date, subject to the performance conditions established prior to the grant and provided Executive is employed on such anniversary dates.

(d) Other Benefits. The Executive will be entitled to accrue paid vacation at the rate of the greater of (i) four (4) weeks per year, or (ii) the vacation allowance as provided under the Company's vacation plan that applies to similarly situated employees working at the office location at which the Executive is based, provided any change in the vacation allowance is approved by the Board upon recommendation of the Compensation Committee. In addition, the Company will provide the Executive with other benefits of employment offered, from time to time to similarly situated employees at the office location at which the Executive is based, provided such benefits are approved by the Board upon recommendation of the Compensation Committee.

(e) Expenses. In accordance with Company policy, the Company shall reimburse Executive for all reasonable business expenses, including travel expenses, properly and reasonably incurred and paid by Executive in the performance of his duties under this Agreement upon his presentment of detailed receipts in the form required by the Company's policy.

3. Term of Employment. The terms set forth in this Agreement will commence on September 1, 2018 (the “Effective Date”) and shall remain in effect until December 31, 2019 (the “Term”), unless earlier terminated as otherwise provided in Section 4 below. The Term shall automatically renew for additional one (1) calendar year periods (a “Renewal Date”), unless the Company or Executive has delivered written notice of non-renewal to the other party at least sixty (60) days prior to the relevant Renewal Date or the Agreement is earlier terminated as otherwise provided in Section 4 below. Notwithstanding this, the Executive employment with the Company shall be “at will,” meaning that either Executive or the Company shall be entitled to terminate Executive’s employment at any time and for any reason, with or without Cause, subject to the obligations in Section 4.

4. Termination.

(a) Termination at the Company’s Election.

(i) For Cause. At the election of the Company, Executive’s employment may be terminated for Cause (as defined below) immediately upon written notice to Executive. For purposes of this Agreement, “Cause” for termination shall mean: (A) the willful failure of the Executive to perform the Executive’s duties and obligations in any material respect (other than any failure resulting from Executive’s disability), (B) intentional acts of dishonesty or willful misconduct by the Executive with respect to the Company, (C) arrest or conviction of a felony or violation of any law involving dishonesty, disloyalty, moral turpitude, or fraud, or entry of a plea of guilty or *nolo contendere* to such charge, (D) his commission at any time of any act of fraud, embezzlement or willful misappropriation of material Company property, (E) repeated refusal to perform the reasonable and legal instructions of the Board, (F) willful and material breach of the Executive’s obligations under any material agreement entered into between the Executive and the Company or any of its affiliates (including under this Agreement and Exhibit A), or willful and material breach of the Company’s policies or procedures which causes material damage to the Company, its business or reputation, provided that for subsections (A), (E), and (F), if the breach reasonably may be cured, Executive has been given at least thirty (30) days after Executive’s receipt of written notice of such breach from the Company to cure such breach. Such written notice shall state in reasonable detail the particular acts or failures to act that constitute the grounds on which the proposed termination for Cause is based. Whether or not such breach has been cured will be determined in the reasonable judgment of the Board and if the Board determines that the breach has not been cured, the Board shall document in writing for Executive the factual basis for why it has determined the breach has not been cured.

(ii) Upon Disability, Death or Without Cause. At the election of the Company, Executive’s employment may be terminated: (A) should Executive become physically or mentally unable to perform his duties for the Company hereunder and such incapacity has continued for a total of ninety consecutive days or for any one hundred eighty days in a period of three hundred sixty-five consecutive days (a “Disability”); (B) upon Executive’s death (“Death”); or (C) upon sixty (60) days’ written notice to Executive for any other reason or for no reason at all.

(b) Termination at the Executive’s Election.

(i) For Good Reason. Executive may terminate his employment for Good Reason. For purposes of this Agreement, “Good Reason” for termination shall mean the occurrence of any of the following events (a “Good Reason Condition”), subject to having complied with the Good Reason Process (as defined below), without Executive’s consent: (i) any material diminution in the Executive’s authority, duties and responsibilities, (ii) any material reduction of the Executive’s Base Salary, aggregate incentive compensation opportunities or aggregate benefits, unless such changes are applied to all members of the Company’s leadership team and amount to less than a 10% reduction in total, or (iii) a material breach by the Company of this Agreement. Good Reason Process shall mean that (i) Executive reasonably determines in good faith that a Good Reason Condition has occurred; (ii) Executive notifies the Company in writing within thirty days of such determination; (iii) the Company is afforded a period of not less than thirty days following such notice (the “Cure Period”) to remedy the Good Reason Condition; and (iv) the Good Reason Condition continues to exist at the end of the Cure Period; and (v) Executive terminates his employment for such Good Reason Condition within sixty (60) days after the end of the Cure Period. If the Company cures the Good Reason Condition during the Cure Period, Good Reason shall be deemed not to have occurred.

(ii) Voluntary Resignation. Notwithstanding anything contained elsewhere in this Agreement to the contrary, Executive may terminate his employment hereunder at any time and for any reason whatsoever or for no reason at all in Executive’s sole discretion by giving sixty (60) days’ written notice pursuant to Section 8 of this Agreement (“Voluntary Resignation”).

1. Payments Upon Termination of Employment.

(a) Termination for Cause, Upon Death or Disability, or Voluntary Resignation. If Executive’s employment is terminated by the Company for Cause, upon Death or Disability, or is terminated by Executive as a Voluntary Resignation, then the Company shall pay or provide to Executive (or his estate in case of Death) the following amounts only: (i) his Base Salary accrued up to and including the date of termination or resignation, paid within thirty (30) days or at such earlier time required by applicable law, (ii) unreimbursed expenses, paid in accordance with this Agreement and the Company’s written policies, and (iv) any vested payment or accrued benefits under any equity or Company benefit plan, paid pursuant to the terms of such equity or benefit plan (collectively, the “Accrued Obligations”).

(c) Termination Without Cause or for Good Reason or Non-Renewal. If the Company terminates Executive’s employment Without Cause or the Executive’s employment terminates due to Good Reason or Company’s notice of non-renewal, the Company shall begin to pay to Executive (i) the Accrued Obligations, (ii) a pro-rata portion of any Target Bonus that would have been payable with respect to the fiscal year of termination based on the Target Bonus metrics used to determine actual performance at the end of the fiscal year, but pro-rated to reflect the number of full months worked during the fiscal year (the “Pro-Rata Bonus”), with such Pro-Rata Bonus paid on the later of (A) the time the bonus would normally be settled under Section 2(b) or (B) the first business day after the forty-fifth (45th) day after the date of termination of employment, (iii) provide for immediate vesting of any RSUs described in Section 2(c) for which the performance

period has not been completed as of the date of termination based on the level of achievement of the performance goals at the end of the performance period, but pro-rated based on the number of full months worked during the performance period, which shall be settled on the later of (A) the time the RSUs would normally be settled under Section 2(c) or (B) the first business day after the forty-fifth (45th) day after the date of termination of employment, and (iv) provide for immediate vesting of any RSUs described in Section 2(c) which are outstanding as of the date of termination, which shall be settled on the first business day after the forty-fifth (45th) day after the date of termination of employment; provided that payments of the consideration in (ii)-(iv) is subject to Executive's execution and delivery of a customary general release (that is no longer subject to revocation under applicable law) of the Company, its parents, subsidiaries and affiliates and each of their respective officers, directors, employees, agents, successors and assigns. The payments under this Section 5(b) shall immediately cease should Executive violate any of the continuing obligations set forth in this Agreement or in Exhibit A to this Agreement, provided that the Company gives written notice to Executive of the alleged breach within thirty (30) days of the Company's knowledge of the alleged breach. The written notice shall state in reasonable detail the particular acts or failures to act that constitute the grounds on which the proposed cessation of such payments is based. Notwithstanding the foregoing, if the Company terminates the Executive's employment without Cause or the Executive resigns from his employment with Good Reason or Executive's employment terminates due to Company's notice of non-renewal, any of the above within twelve months following a Change of Control (as defined below), then the bonus payment under (ii) above shall equal the equivalent of Executive's Target Bonus (not a Pro-Rata Bonus) and, in addition to (iii) and (iv) above, Executive shall receive (v) twelve months of Base Salary, which shall be payable in a single cash lump sum on the sixtieth day following Executive's termination ("Change of Control Payment"). For purposes of this Agreement, "Change in Control" shall mean each of the following with respect to the Company: (i) a sale of all or substantially all of the Company's assets; (ii) a sale of the voting securities of the Company such that any person or group of persons who did not hold voting securities of the Company prior to the transaction hold more than fifty percent (50%) of the combined voting power of the securities of the Company after the transaction; or (iii) any merger, consolidation or other transaction of the Company with or into another corporation or other entity, other than a transaction in which the holders of voting securities of the Company immediately prior to such transaction continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), at least fifty percent (50%) of the combined voting power of the securities of the Company or such surviving entity or parent thereof immediately after such transaction.

1. Representation and Warranty. Executive represents and warrants to the Company that he is not subject to any agreement restricting his ability to enter into this Agreement and fully carry out his duties and responsibilities hereunder. Executive hereby indemnifies and holds the Company harmless against any losses, claims, expenses (including reasonable attorneys' fees), damages or liabilities incurred by the Company as a result of a breach of the foregoing representation and warranty.

2. Notice. Any notice or other communication required or permitted to be given to any of the parties hereto shall be deemed to have been given if personally delivered, or if sent by nationally recognized overnight courier, and addressed as follows:

If to Executive, to:

the address shown on the records of the Company.

If to the Company, to:

Digirad Corporation
1048 Industrial Court
Suwanee, GA 30024
Attention: Matthew G. Molchan
Telephone: 858-726-1600
Fax: 858-726-1700
Email: Matt.Molchan@digirad.com

with a copy to:

Olshan Frome Wolosky LLP
1325 Avenue of the Americas
New York, New York 10019
Attention: Adam W. Finerman

1. Severability. If any provision of this Agreement is declared void or unenforceable by a court of competent jurisdiction, all other provisions shall nonetheless remain in full force and effect.

2. Governing Law; Consent to Jurisdiction. This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Connecticut without regard to the conflict of laws provisions thereof. Each of the parties hereto hereby irrevocably submits to the exclusive jurisdiction of any appropriate state or federal court of record in Stamford, CT over any action or proceeding arising out of or relating to this Agreement and each of the parties hereto hereby irrevocably agrees that all claims in respect of such action or proceeding shall be heard and determined in such Connecticut state or Federal court. Each of the parties hereto hereby irrevocably waives, to the fullest extent legally possible, the defense of an inconvenient forum to the maintenance of such action or proceeding.

3. Code Section 409A Compliance.

(a) The intent of the parties is that payments and benefits under this Agreement comply with, or be exempt from, Code Section 409A and the regulations and guidance promulgated thereunder (collectively "Code Section 409A") and, accordingly, to the maximum extent permitted, this Agreement shall be interpreted and administered accordingly.

(b) A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of any amounts or benefits upon or following a termination of employment that are considered "nonqualified deferred compensation" under Code Section 409A unless such termination is also a "separation from service"

within the meaning of Code Section 409A and, for purposes of any such provision of this Agreement, references to a “termination,” “termination of employment” or like terms shall mean “separation from service.”

(c) With regard to any provision herein that provides for reimbursement of costs and expenses or in-kind benefits, except as permitted by Code Section 409A, (i) the right to reimbursement or in-kind benefits shall not be subject to liquidation or exchange for another benefit, (ii) the amount of expenses eligible for reimbursement, or in-kind benefits, provided during any taxable year shall not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year, provided that the foregoing clause (ii) shall not be violated without regard to expenses reimbursed under any arrangement covered by Code Section 105(b) solely because such expenses are subject to a limit related to the period the arrangement is in effect and (iii) such payments shall be made on or before the last day of Executive’s taxable year following the taxable year in which the expense occurred.

(d) For purposes of Code Section 409A, Executive’s right to receive any installment payments pursuant to this Agreement shall be treated as a right to receive a series of separate and distinct payments. Whenever a payment under this Agreement specifies a payment period with reference to a number of days (e.g., “within sixty (60) days following the date of termination”), the actual date of payment within the specified period shall be within the sole discretion of the Company.

(e) If Executive is a specified employee within the meaning of Section 409A(a)(2)(B)(i) of the Code and would receive any payment sooner than 6 months after Executive’s “separation from service” that, absent the application of this Section 11(e), would be subject to additional tax imposed pursuant to Section 409A of the Code as a result of such status as a specified employee, then such payment shall instead be payable on the date that is the earliest of (i) 6 months after Executive’s “separation from service,” or (ii) Executive’s death.

4. Section 280G. In the event that any payments, distributions, benefits or entitlements of any type payable to Executive as a Change of Control Payment (i) constitute “parachute payments” within the meaning of Section 280G of the Code, and (ii) but for this paragraph would be subject to the excise tax imposed by Section 4999 of the Code, then Executive’s Change of Control Payment shall be reduced to such lesser amount (the “Reduced Amount”) that would result in no portion of such benefits being subject to the Excise Tax. Unless the Company and Executive otherwise agree in writing, any determination required under this Section 11 shall be made in writing in good faith based on the advice of a nationally recognized accounting firm selected by the Company prior to a Change of Control (the “Accountants”). In the event of a reduction of benefits hereunder, benefits shall be reduced by first reducing or eliminating the portion of the Change of Control Benefits that are payable in cash under Section 5 and then by reducing or eliminating any amounts that are payable with respect to long-term incentives including any equity-based or equity-related awards (whether payable in cash or in kind). For purposes of making the calculations required by this Section 11, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of the Code, and other applicable legal authority. The Company and Executive shall furnish to the Accountants such

information and documents as the Accountants may reasonably require in order to make a determination under this Section 11, and the Company shall bear the cost of all fees the Accountants charge in connection with any calculations contemplated by this Section 11.

5. Waiver. The waiver by any of the parties hereto of a breach of any provision of this Agreement shall not be construed as a waiver of any subsequent breach. The failure of a party to insist upon strict adherence to any provision of this Agreement on one or more occasions shall not be considered a waiver or deprive that party of the right thereafter to insist upon strict adherence to that provision or any other provision of this Agreement. Any waiver must be in writing.

6. Assignment. This Agreement is a personal contract and Executive may not sell, transfer, assign, pledge or hypothecate his rights, interests and obligations hereunder. Except as otherwise herein expressly provided, this Agreement shall be binding upon and shall inure to the benefit of Executive and his personal representatives and shall inure to the benefit of and be binding upon the Company and its successors and assigns, except that the Company may not assign this Agreement without Executive's prior written consent, except to an acquirer of all or substantially all of the assets of the Company.

7. Injunctive Relief. Without limiting the remedies available to the Company, Executive acknowledges that a breach of any of the covenants contained in Exhibit A would result in material irreparable injury to the goodwill of the Company for which there is no adequate remedy at law, that it will not be possible to measure damages for such injuries precisely and that, in the event of such a breach or threat thereof, the Company shall be entitled, without the requirement to post bond or other security, to obtain a temporary restraining order and/or preliminary or permanent injunction restraining Executive from engaging in activities prohibited by this Agreement or such other relief as may be required to specifically enforce any of the covenants in Exhibit A of this Agreement, in addition to all other remedies available at law or in equity.

8. Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original and all of which together shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other party. Facsimile or .pdf signatures shall have the same force and effect as original signatures.

9. Cooperation. During and after the Term, the Executive agrees to reasonably cooperate with and at the request of the Company in the defense or prosecution of any legal matter or claim in which the Company, any of its affiliates, or any of their past or present employees, agents, officers, directors, attorneys, successors or assigns, may be or become involved and which arises or arose during the Executive's employment. The Executive will be reimbursed for any reasonable out-of-pocket expenses incurred thereby. Such cooperation will be without additional compensation if Executive is then employed by Company and for reasonable mutually agreeable compensation if Executive is not then employed by Company.

10. Administrative Leave. If (i) the Company notifies Executive that he will be terminated without Cause, (ii) the Executive provides notice of his resignation or termination of his employment for Good Reason or (iii) Executive or the Company provides notice of its or the

EXHIBIT A

NON-COMPETITION, NON-SOLICITATION, PROPRIETARY INFORMATION AND INVENTIONS AGREEMENT

As a condition of David Noble (the “Executive”) becoming employed (or Executive’s employment being continued) by Digirad, a Delaware corporation, or any of its current or future subsidiaries, affiliates, successors or assigns (collectively, the “Company”), and in consideration of Executive’s employment with the Company and Executive’s receipt of the compensation now and hereafter paid to Executive by the Company, Executive agrees to the following (“Exhibit A”):

1. Non-Competition and Non-Solicitation Agreement. The Executive acknowledges that the Company (and each of its affiliates) has invested substantial time, money and resources in the development and retention of its mobile nuclear imaging systems, inventions, confidential information (including trade secrets), physician network, customers, accounts and business partners. Executive further acknowledges that during the course of the Executive’s employment with the Company, the Executive will have access to the Company’s technology, inventions and confidential information (including trade secrets), and will be introduced to existing and prospective customers, accounts and business partners of the Company. The Executive acknowledges and agrees that any and all “goodwill” associated with any existing or prospective customer, account or business partner belongs exclusively to the Company, including, but not limited to, any goodwill created as a result of direct or indirect contacts or relationships between the Executive and any existing or prospective customers, accounts or business partners. Additionally, the parties acknowledge and agree that Executive possesses skills that are special, unique or extraordinary and that the value of the Company depends upon his use of such skills on its behalf. In recognition of this, and in consideration of the Company’s offer to Executive of employment with the Company, the Executive covenants and agrees that:

(a) During the Relationship, and for a period of two (2) years after it ends, for any reason, the Executive may not, without the prior written consent of the Board of Directors of the Company, directly or indirectly, perform the same or similar duties that Executive performed for the Company for any business competitive with the Business of the Company as long as the duties are of the type conducted, authorized, offered, or provided by Executive within two years prior to the end of the Relationship. This restriction is limited to the territory where Executive was working for Company at the time of termination of the Relationship.

(b) During the Relationship, and for a period of two (2) years thereafter, the Executive will not, directly or indirectly, entice, solicit or encourage any Company employee to leave the employ of the Company or any independent contractor to sever his, her or its engagement with the Company, absent prior written consent to do so from the Board of Directors of the Company.

(c) During the Relationship, and for a period of two (2) years thereafter, the Executive may not, directly or indirectly, solicit or attempt to solicit business from the Company’s customers or actively sought prospective customers with whom Executive had material contact during the Relationship for the purpose of providing products or services that are competitive with those provided by the Company. “Material contact” exists between Executive and each customer

or potential customer with whom Executive dealt, whose dealings were coordinated or supervised by Executive, about whom Executive obtained confidential information in the ordinary course of business as a result of Executive's association with the Company, or who receives products and services from the Company and for which Executive received compensation, commissions, or earnings during the two-year period prior to the termination of the Relationship. "Products or services that are competitive with those provided by the Company" includes anything of commercial value that is the same as or similar to the products or services of the Company.

(d) For purposes of this Agreement, "Business of the Company" shall mean the business in which the Company and/or its affiliates is currently engaged or in which the Company will become engaged while Executive is employed by the Company, including, but not limited to, the provision of mobile nuclear imaging systems and services to physicians and their patients, who have arranged with the Company for the provision of such services, sales of PET and SPECT nuclear imaging cameras, or provision of cardiac event monitoring services.

2. Provisions Necessary and Reasonable.

(a) The Executive agrees that (i) the provisions of Section 3 are necessary and reasonable to protect the Company's confidential information, inventions, and goodwill; (ii) the specific temporal, geographic and substantive provisions are reasonable and necessary to protect the Company's business interests; and (iii) in the event of any breach of any of the covenants set forth herein, the Company would suffer substantial irreparable harm and would not have an adequate remedy at law for such breach. In recognition of the foregoing, the Executive agrees that in the event of a breach or threatened breach of any of these covenants, in addition to such other remedies as the Company may have at law, without posting any bond or security, the Company shall be entitled to seek and obtain equitable relief, in the form of specific performance, and/or temporary, preliminary or permanent injunctive relief, or any other equitable remedy which then may be available. The seeking of such injunction or order shall not affect the Company's right to seek and obtain damages or other equitable relief on account of any such actual or threatened breach.

(b) If any of the covenants contained in Section 1 hereof, or any part thereof, are hereafter construed to be invalid or unenforceable, the same shall not affect the remainder of the covenant or covenants, which shall be given full effect without regard to the invalid portions.

(c) If any of the covenants contained in Section 1 hereof, or any part thereof, are held to be unenforceable by a court of competent jurisdiction because of the temporal or geographic scope of such provision or the area covered thereby, the parties agree that the court making such determination shall have the power to reduce the duration and/or geographic area of such provision and, in its reduced form, such provision shall be enforceable.

3. Permitted Activities.

(a) The parties acknowledge that after Executive leaves the employment of the Company, he may engage in her or his profession as a sales professional. The parties agree that the following post-employment activities shall not, by themselves, constitute a violation of the provisions of Section 1 hereof:

(i) Executive becoming employed by a physician or medical facility with whom Executive had contact while working for the Company, so long as the employment with such physician or medical facility does not involve the Executive in the process of providing mobile nuclear imaging services; and

(ii) Executive becoming employed by a person or entity engaged in the provision of mobile medical care, provided that the employment does not involve the Executive providing nuclear imaging services to physicians or patients.

4. Proprietary Information Protection of Information.

(a) Executive agrees, at all times during the term of the Relationship and thereafter, to hold in strictest confidence, and not to use, except for the benefit of the Company to the extent necessary to perform Executive's obligations to the Company under the Relationship, and not to otherwise disclose to any person, firm, corporation or other entity, without written authorization from the Company in each instance, any Proprietary Information (as defined below) that Executive obtains, accesses or creates during the term of the Relationship, whether or not during working hours, until such Proprietary Information becomes publicly and widely known and made generally available through no wrongful act of Executive or of others who were under confidentiality obligations as to the item or items involved or if such disclosure is required by law. Executive further agrees not to make copies of such Proprietary Information except as authorized by the Company.

(b) Proprietary Information. Executive understands that for purposes of this Agreement, "Proprietary Information" includes both Confidential Information and Company Materials as defined below.

(i) Confidential Information. Executive understands that "Confidential Information" means information and physical material not generally known or available outside the Company and information and physical material entrusted to the Company in confidence by third parties. Confidential Information includes, without limitation: (i) Company Inventions (as defined below); (ii) technical data, trade secrets, know-how, research, product or service ideas or plans, software codes and designs, developments, inventions, laboratory notebooks, processes, formulas, techniques, mask works, engineering designs and drawings, hardware configuration information, lists of, or information relating to, suppliers and customers (including, but not limited to, customers of the Company on whom Executive called or with whom Executive became acquainted during the Relationship), price lists, pricing methodologies, cost data, market share data, marketing plans, licenses, contract information, business plans, financial forecasts, historical financial data, budgets or other business information disclosed to Executive by the Company either directly or indirectly, whether in writing, electronically, orally, or by observation. Executive agrees to use directly or directly use or disclose confidential information, which does not constitute a trade secret, during Executive's employment and after Executive's employment ends for any reason. Executive agrees to use directly or directly use or disclose any trade secret, during Executive's employment and after Executive's employment ends for any reason for as long as such information remains a trade secret.

(ii) Company Materials. Executive understands that for purposes of this Agreement, “Company Materials” means documents or any other media or tangible items that contain or embody Proprietary Information or any other concerning the business, operations or plans of the Company, whether such documents have been prepared by Executive or by others. Company Materials include, but are not limited to, blueprints, drawings, photographs, charts, graphs, notebooks, customer lists, computer disks, tapes or printouts, sound recordings and other printed, typewritten or handwritten documents, as well as samples, prototypes, models, products and the like.

(c) Third Party Information. Executive’s agreements in this Section 6 are intended to be for the benefit of the Company and any third party that has entrusted information or physical material to the Company in confidence.

(d) Other Rights. This Agreement is intended to supplement, and not to supersede, any rights the Company may have in law or equity with respect to the protection of trade secrets or confidential or proprietary information.

5. Ownership of Inventions.

(a) Inventions Retained and Licensed. Executive has attached hereto, as Exhibit A, a complete list describing with particularity all Inventions (as defined below) that, as of the Effective Date, belong solely to Executive or belong to Executive jointly with others, and that relate in any way to any of the Company’s proposed businesses, products or research and development, and which are not assigned to the Company hereunder; or, if no such list is attached, Executive represents that there are no such Inventions at the time of signing this Agreement.

(b) Use or Incorporation of Inventions. If in the course of the Relationship, Executive uses or incorporates into a product, process or machine any Invention not covered by Section 5(d) of this Agreement in which Executive has an interest, Executive will promptly so inform the Company. Whether or not Executive gives such notice, Executive hereby irrevocably grants to the Company a nonexclusive, fully paid-up, royalty-free, assumable, perpetual, worldwide license, with right to transfer and to sublicense, to practice and exploit such Invention and to make, have made, copy, modify, make derivative works of, use, sell, import, and otherwise distribute under all applicable intellectual properties without restriction of any kind.

(c) Inventions. Executive understands that “Inventions” means discoveries, developments, concepts, designs, ideas, know how, improvements, inventions, trade secrets and/or original works of authorship, technology, algorithms, computer programs, techniques, whether or not patentable, copyrightable or otherwise legally protectable. Executive understands this includes, but is not limited to, any new product, machine, article of manufacture, method, procedure, process, technique, use, equipment, device, apparatus, system, compound, formulation, composition of matter, design or configuration of any kind, or any improvement thereon. Executive understands that ‘Company Inventions’ means any and all Inventions that Executive may solely or jointly author, discover, develop, conceive, or reduce to practice during the period of the Relationship.

(d) Assignment of Company Inventions. Executive agrees that he will promptly make full written disclosure to the Company, will hold in trust for the sole right and benefit of the Company, and hereby assign to the Company, or its designee, all of Executive's right, title and interest throughout the world in and to any and all Company Inventions. Executive further acknowledges that all Company Inventions that are made by Executive (solely or jointly with others) within the scope of and during the period of the Relationship are 'works made for hire' (to the greatest extent permitted by applicable law) and are compensated by Executive's salary. Executive hereby waives and irrevocably quitclaims to the Company or its designee any and all claims, of any nature whatsoever, that Executive now has or may hereafter have for infringement of any and all Company Inventions. Executive understands that the obligation to assign Company Inventions to the Company shall not apply to any Company Invention which is developed entirely on Executive's own time without using any of the Company's equipment, supplies, facilities, and/or Confidential Information unless such Company Invention (i) relates in any way to the business or to the current or anticipated research or development of the Company or (ii) results in any way from Executive's work at the Company.

(e) Maintenance of Records. Executive agrees to keep and maintain adequate and current written records of all Company Inventions made by Executive (solely or jointly with others) during the term of the Relationship. The records may be in the form of notes, sketches, drawings, flow charts, electronic data or recordings, laboratory notebooks, or any other format. The records will be available to and remain the sole property of the Company at all times. Executive agrees not to remove such records from the Company's place of business except as expressly permitted by Company policy which may, from time to time, be revised at the sole election of the Company for the purpose of furthering the Company's business. Executive agrees to deliver all such records (including any copies thereof) to the Company at the time of termination of the Relationship as provided for in Sections 6 and 7.

(f) Patent and Copyright Rights. Executive agrees to assist the Company, or its designee, at its expense, in every proper way to secure the Company's, or its designee's, rights in the Company Inventions and any copyrights, patents, trademarks, mask work rights, moral rights, or other intellectual property rights relating thereto in any and all countries, including the disclosure to the Company or its designee of all pertinent information and data with respect thereto, the execution of all applications, specifications, oaths, assignments, recordations, and all other instruments which the Company or its designee shall deem necessary in order to apply for, obtain, maintain and transfer such rights, or if not transferable, waive such rights, and in order to assign and convey to the Company or its designee, and any successors, assigns and nominees the sole and exclusive right, title and interest in and to such Company Inventions, and any copyrights, patents, mask work rights or other intellectual property rights relating thereto. Executive further agrees that Executive's obligation to execute or cause to be executed, when it is in Executive's power to do so, any such instrument or papers shall continue during and at all times after the end of the Relationship and until the expiration of the last such intellectual property right to expire in any country of the world. Executive hereby irrevocably designates and appoints the Company and its duly authorized officers and agents as Executive's agent and attorney-in-fact, to act for and on Executive's behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the application for, prosecution, issuance, maintenance or transfer of letters of patents,

copyright, mask work and other registrations related to such Company Inventions. This power of attorney is coupled with an interest and shall not be affected by Executive's subsequent incapacity.

6. Company Property; Returning Company Documents. Executive acknowledges and agrees that Executive has no expectation of privacy with respect to the Company's telecommunications, networking or information processing systems (including, without limitation, files, e-mail messages, and voice messages) and that Executive's activity and any files or messages on or using any of those systems may be monitored at any time without notice. Executive further agrees that any property situated on the Company's premises and owned by the Company and any computer provided by the Company Executive may use in connection with Executive's duties for the Company during the Relationship, including disks and other storage media, filing cabinets or other work areas, is subject to inspection by Company personnel at any time with or without notice. Executive agrees that, at the time of termination of the Relationship, Executive will deliver to the Company (and will not keep in Executive's possession, recreate or deliver to anyone else) any and all devices, records, data, notes, reports, proposals, lists, correspondence, specifications, drawings, blueprints, sketches, laboratory notebooks, materials, flow charts, equipment, other documents or property, or reproductions of any of the aforementioned items developed by Executive pursuant to the Relationship or otherwise belonging to the Company, its successors or assigns.

7. Termination Certification. In the event of the termination of the Relationship, Executive agrees to sign and deliver the 'Termination Certification' attached hereto as Exhibit B; however, Executive's failure to sign and deliver the Termination Certification shall in no way diminish Executive's continuing obligations under this Agreement.

8. Notice to Third Parties. Executive understands and agrees that the Company may, with or without prior notice to Executive and during or after the term of the Relationship, notify third parties of Executive's agreements and obligations under this Agreement.

9. Non-Disparagement. During the Relationship, and thereafter without limitation of time, Executive agrees not to make any written or oral statements to any person or entity, including the press or any other media, that impugns, disparages or defames or may reasonably be expected to impugn, disparage or defame (a) the character, ethics, or integrity of the Company or its current or former employees, officers, directors, shareholders, partners, customers, or owners, or (b) the Company's work product, business, image or reputation.

10. At-Will Relationship. Executive understands and acknowledges that, except as may be otherwise explicitly provided in a separate written agreement between the Company and Executive, Executive's Relationship with the Company is and shall continue to be at-will, as defined under applicable law, meaning that either Executive or the Company may terminate the Relationship at any time for any reason or no reason, subject to any payment pursuant to an employment or other written agreement, without further obligation or liability, other than those provisions of this Agreement that explicitly survive the termination of the Relationship.

11. Representations and Covenants.

(a) Facilitation of Agreement. Executive agrees to execute promptly, both during and after the end of the Relationship, any proper oath, and to verify any proper document, required to carry out the terms of this Agreement, upon the Company's written request to do so.

(b) No Conflicts. Executive represents that Executive's performance of all the terms of this Agreement does not and will not breach any agreement Executive has entered into, or will enter into, with any third party, including without limitation any agreement to keep in confidence proprietary information or materials acquired by Executive in confidence or in trust prior to or during the Relationship. Executive will not disclose to the Company or use any inventions, confidential or non-public proprietary information or material belonging to any previous client, employer or any other party. Executive will not induce the Company to use any inventions, confidential or non-public proprietary information, or material belonging to any previous client, employer or any other party. Executive acknowledges and agrees that Executive has listed on Exhibit A all agreements (e.g., non-competition agreements, non-solicitation of customers agreements, non-solicitation of employees agreements, confidentiality agreements, inventions agreements, etc.), if any, with a current or former client, employer, or any other person or entity, that may restrict Executive's ability to accept employment with the Company or Executive's ability to recruit or engage customers or service providers on behalf of the Company, or otherwise relate to or restrict Executive's ability to perform Executive's duties for the Company or any obligation Executive may have to the Company. Executive agrees not to enter into any written or oral agreement that conflicts with the provisions of this Agreement.

(c) Voluntary Execution. Executive certifies and acknowledges that Executive has carefully read all of the provisions of this Agreement, that Executive understands and has voluntarily accepted such provisions, and that Executive will fully and faithfully comply with such provisions.

12. General Provisions.

(a) Governing Law/Forum. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Connecticut, without giving effect to the principles of conflict of laws. Both parties agree that the exclusive venue for any action, demand, claim or counterclaim relating to the terms and provisions of this Agreement shall be in the state or federal courts located in the State of Connecticut, Fairfield County and that such courts shall have personal jurisdiction over both parties to this Agreement.

(b) Entire Agreement. This Agreement and this Exhibit A sets forth the entire agreement and understanding between the Company and Executive relating to its subject matter and merges all prior discussions between us. No amendment to this Agreement will be effective unless in writing signed by both parties to this Agreement. The Company shall not be deemed hereby to have waived any rights or remedies it may have in law or equity, nor to have given any authorizations or waived any of its rights under this Agreement, unless, and only to the extent, it does so by a specific writing signed by a duly authorized officer of the Company, it being understood that, even if Executive is an officer of the Company, Executive will not have authority to give any

EXHIBIT B

TERMINATION CERTIFICATION

This is to certify that I do not have in my possession, nor have I failed to return, any devices, records, data, notes, reports, proposals, lists, correspondence, specifications, drawings, blueprints, sketches, laboratory notebooks, flow charts, materials, equipment, other documents or property, or copies or reproductions of any aforementioned items belonging to Digirad, or their subsidiaries, affiliates, successors or assigns (collectively, the “Company”).

I further certify that I have complied with all the terms of the Company’s Proprietary Information and Invention Assignment Agreement (the “Agreement”) signed by me, including the reporting of any Inventions (as defined therein), conceived or made by me (solely or jointly with others) covered by that Agreement.

I further agree that, in compliance with the Proprietary Information and Invention Assignment Agreement, I will preserve as confidential all trade secrets, confidential knowledge, data or other confidential information relating to products, technology, algorithms, computer programs, techniques, technology, know-how, designs, formulas, developmental or experimental work, computer programs, data bases, other original works of authorship, customer lists, business plans, financial information or other Proprietary Information, including Confidential Information as defined in Section 4(b)(i) of the Agreement and Company Materials as defined in Section 4(b)(ii) of the Agreement.

I further agree that from the date of this Certification, I shall not either directly or indirectly solicit, induce, recruit or encourage any of the Company’s employees or consultants to terminate their relationship with the Company, or attempt to solicit, induce, recruit, encourage or take away employees or consultants of the Company, either for myself or for any other person or entity if by so doing I would use, disclose or cause to be disclose Company Confidential Information. Further, I shall not at any time use any Proprietary Information as defined in Section 4(b) of the Agreement to negatively influence any of the Company’s clients or customers from purchasing Company products or services or to solicit or influence or attempt to influence any client, customer or other person either directly or indirectly, to direct any purchase of products and/or services to any person, firm, corporation, institution or other entity in competition with the business of the Company.

Date: _____

(Employee’s Signature)

(Print Employee’s Name)

Digirad Corporation
1048 Industrial Court
Suwanee, GA 30024

October 25, 2018

David Noble
60 Tomac Avenue
Old Greenwich, CT 06870

Dear David:

In consideration of your services to Digirad Corporation, a Delaware corporation (the “Company”), the Company will, to the extent provided herein, indemnify you and hold you harmless from and against any and all “Losses” (as defined below) that you may incur by reason of your election or service as a director, officer, employee, agent, fiduciary or representative of the Company or any “Related Entity” (as defined below) to the fullest extent permitted by law. The Board of Directors of the Company has determined that it is in the best interest of the Company and that it is reasonably prudent and necessary for the Company to contractually obligate itself to indemnify you and to advance expenses on your behalf in order to induce you to serve or to continue to serve the Company.

1. Certain Definitions.

(a) “Costs and Expenses” means attorneys’ fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, being or preparing to be a witness in, or otherwise participating in, a Proceeding. Costs and Expenses shall include such fees, expenses and costs incurred in connection with any appeal resulting from any Proceeding, including without limitation the premium, security for, and other costs relating to any cost bond, supersedeas bond, or other appeal bond or its equivalent.

(b) “DGCL” means the General Corporation Law of the State of Delaware.

(c) “Losses” means all liabilities, Costs and Expenses, amounts of judgments, fines, penalties or excise taxes (or other amounts assessed, surcharged or levied under the Employee Retirement Income Security Act of 1974, as amended) and amounts paid in settlement of or incurred in defense of or otherwise in connection with any Proceeding, and appeals in which you may become involved, as a party or otherwise, by reason of acts or omissions in your capacity as and while serving as a director, officer, employee, agent, fiduciary or representative of the Company or any Related Entity.

(d) “Proceeding” means any threatened, pending or completed action, suit, arbitration, mediation, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing or any other actual, threatened or completed proceeding, whether brought in the right of the Company or otherwise and whether of a civil, criminal, administrative or investigative nature, including without limitation any such proceeding pending as of the date of this agreement, in which you were, are or will be involved as a party or otherwise by reason of the fact that you are or were a director and/or officer of the Company, by reason of any action taken by you or of any action on your part while acting as director and/or of the Company, or by reason of the fact that you are or were serving as a director, trustee, general partner, managing member, officer, employee, agent or fiduciary of any Related Entity, in each case whether or not serving in such

capacity at the time any Cost and Expense, judgment, fine or amount paid in settlement is incurred for which indemnification, reimbursement, or advancement of Costs and Expenses can be provided under this agreement.

(e) "Related Entity" means any corporation, partnership, joint venture, trust or other entity or enterprise in which the Company is in any way interested, or in or as to which you are serving at the Company's request or on its behalf, as a director, officer, employee, agent, fiduciary or representative including, but not limited to, any employee benefit plan or any corporation of which the Company or any Related Entity is, directly or indirectly, a stockholder or creditor.

2. Costs and Expenses. Costs and Expenses shall be paid promptly by the Company as they are incurred or, at your request, shall be advanced on your behalf against delivery of invoices therefor (prior to an ultimate determination as to whether you are entitled to be indemnified by the Company on account thereof); provided, however, that if it shall ultimately be determined by final decision of a court of law or equity that you are not entitled to be indemnified on account of any Costs or Expenses for which you have theretofore received payment or reimbursement, you shall promptly repay such amount to the Company. All such payments and advances made on your behalf shall be unsecured and interest-free and shall be made without regard to (i) your ability to repay any such advances, and (ii) your ultimate entitlement to indemnification under any provision of this agreement. You shall qualify for advancement solely upon execution and delivery to the Company of an undertaking to repay any such advance to the extent and only to the extent that it is ultimately determined as provided herein that you are not entitled to be indemnified by the Company.

3. Indemnification Obligation.

(a) The Company shall indemnify you and hold you harmless from and against any and all Losses that you may incur if you are a party to or threatened to be made a party to or otherwise involved in any Proceeding (other than a Proceeding by or in the right of the Company to procure a judgment in its favor), unless it is determined as provided in Section 5 hereof that you did not act in good faith and for a purpose that you reasonably believed to be in, or, in the case of service to a Related Entity, a purpose that you reasonably believed not opposed to, the best interests of the Company and, in the case of a criminal Proceeding, in addition, that you had reasonable cause to believe that your conduct was unlawful.

(b) The Company shall indemnify you and hold you harmless from and against any and all Losses that you may incur if you are a party to or threatened to be made a party to any proceeding or action by or in the right of the Company to procure a judgment in its favor, unless it is determined as provided in Section 5 hereof that you did not act in good faith and for a purpose that you reasonably believed to be in, or, in the case of service to a Related Entity, a purpose that you reasonably believed not opposed to, the best interests of the Company, except that no indemnification for Losses shall be made under this Section 3(b) in respect of any claim, issue or matter as to which you shall have been adjudged to be liable to the Company unless and only to the extent a court of law or equity in which such Proceeding was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, you are fairly and reasonably entitled to indemnity for such expenses as such court shall deem proper.

4. Exclusions. Anything hereinabove to the contrary notwithstanding, "Losses" shall not include, and you shall not be entitled to indemnification under this agreement on account of (i) amounts payable by you to the Company or any Related Entity in satisfaction of any judgment or settlement in the Company's or such Related Entity's favor (except amounts for which you shall be entitled to indemnification

pursuant to Section 3 hereof), (ii) amounts payable on account of profits realized by you in the purchase or sale of securities of the Company or any Related Entity within the meaning of Section 16(b) of the Securities Exchange Act of 1934, as amended; (iii) Losses in connection with which you are not entitled to indemnification as a matter of law or public policy; or (iv) Losses to the extent you are indemnified by the Company otherwise than pursuant to this agreement, including any Losses for which payment is made to you under an insurance policy. Anything in this agreement to the contrary notwithstanding, you shall not be entitled to indemnification or advancement of Costs and Expenses hereunder in connection with any claim initiated by you, unless (x) the Company has joined in or the Company's Board of Directors has authorized or consented to any such claim, or (y) the claim is one to enforce your rights under this agreement.

5. Certain Determinations. The determination on behalf of the Company that you are not entitled to be indemnified for Losses hereunder by reason of the provisions of Section 3 or clause (iii) of Section 4 hereof may be made either by (a) a majority vote of directors who are not parties to such action, suit or proceeding, even through less than a quorum, (b) by a committee of such directors designated by majority vote of such directors, even though less than a quorum, (c) if there are no such directors, or if such directors so direct, by independent legal counsel (who may be the outside counsel regularly employed by the Company) in a written opinion, or (d) the stockholders of the Company, as the Company's Board of Directors shall determine. Notwithstanding such determination, the right to indemnification or advances of Costs and Expenses as provided in this agreement shall be enforceable by you in a court of law or equity. The Company hereby consents to service of process and to appear in any such proceeding. Absent such litigation, any determination on behalf of the Company as to whether or not you are entitled to be indemnified for Losses hereunder shall be conclusive and binding on you and the Company. The burden of proving that indemnification is not appropriate shall be on the Company. Neither the failure of the Company (including its Board of Directors or independent legal counsel) to have made a determination prior to the commencement of such action that indemnification is proper in the circumstances because you have met the applicable standard of conduct, nor an actual determination by the Company (including its Board of Directors or independent legal counsel) that you have not met such applicable standard of conduct shall be a defense to the action or create a presumption that you have not met the applicable standard of conduct. Costs and Expenses incurred by you in connection with successfully establishing your right to indemnification, in whole or in part, in any such action shall also be indemnified by the Company.

6. Indemnification Procedure. You shall give prompt notice to the Company of any claim with respect to which you seek indemnification and, unless a conflict of interest shall exist between you and the Company with respect to such claim, you will permit the Company to assume the defense of such claim with counsel of its choice. In addition, you shall give the Company such information and cooperation as it may reasonably require and as shall be within your power. Upon the Company's election to assume the defense, the Company will not be liable to you under this agreement for any Costs and Expenses of separate counsel subsequently employed by you with respect to the same claim; provided that you shall have the right to employ separate counsel in any such claim at your sole expense. Whether or not such defense is assumed by the Company, the Company will not be subject to any liability for any settlement made without its written consent. The Company shall be permitted to settle any action, provided that the Company will not consent to entry of any judgment or enter into any settlement that does not include as an unconditional term thereof the giving by the claimant or plaintiff to you of a release from all liability with respect to such claim or litigation. If the Company is not entitled to, or does not elect to, assume the defense of a claim, the Company will not be obligated to pay the fees and expenses of more than one counsel for you and any other directors, officers or employees of the Company who are indemnified pursuant to similar indemnity agreements with respect to such claim, unless a conflict of interest shall exist between an indemnified party and any other of such indemnified parties with respect to such claim, in which event the Company will be obligated to pay

the fees and expenses of an additional counsel for each indemnified party or group of indemnified parties with whom a conflict of interest exists.

7. Additional Provisions Relating to Indemnification.

(a) Termination of any Proceeding by judgment, order, settlement or conviction, upon a plea of nolo contendere or its equivalent shall not, of itself, create any presumption that you did not act in good faith and in a manner that you reasonably believed to be in or not opposed to the best interests of the Company or a Related Entity and, with respect to any criminal Proceeding, had reasonable cause to believe that your conduct was unlawful.

(b) The Company's obligation to indemnify you under this agreement is in addition to any other rights to which you may otherwise be entitled by operation of law, vote of the Company's stockholders or directors or otherwise and will be available to you whether or not the claim asserted against you is based upon matters that occurred before the date of this agreement.

(c) This agreement supersedes any prior indemnification agreement between you and the Company and any such other agreement is deemed terminated.

(d) If you are entitled under this agreement or otherwise to indemnification by the Company for some or a portion of the Losses actually and reasonably incurred by you but not, however, for the total amount thereof, the Company shall nevertheless indemnify you for the portion of the Losses to which you are entitled.

(e) This agreement shall be effective as of the date set forth on the first page hereof and shall apply to your acts or omissions that occurred prior to such date if you were a director and/or officer of the Company, or were serving at the request of the Company as a director, officer, employee, agent, fiduciary or representative of a Related Entity at the time such act or omission occurred.

(f) For purposes of any determination of good faith, you shall be deemed to have acted in good faith if your action or failure to act is based on the records or books of account of the Company, including financial statements, or on information supplied to you by the officers of the Company and/or the Related Entity in the course of their duties, or on the advice of legal counsel for the Company and/or the Related Entity or on information or records given or reports made to the Company and/or the Related Entity or by an independent certified public accountant or by an appraiser or other expert selected by the Company and/or the Related Entity. The provisions of this Section 7(f) shall not be deemed to be exclusive or to limit in any way the other circumstances in which you may be deemed or be found to have met the applicable standard of conduct set forth in this agreement.

(g) The knowledge and/or actions, or failure to act, of any other director, officer, partner, managing member, agent, employee or trustee of the Company and/or Related Entity shall not be imputed to you for purposes of determining your right to indemnification under this agreement.

8 . D&O Insurance. The Company shall, so long as you shall serve as a director, officer, employee, agent, fiduciary or representative of the Company or any Related Entity and thereafter so long as you shall be subject to any possible claim or threatened, pending or completed Proceeding by reason of your service as a director, officer, employee, agent, fiduciary or representative of the Company or any Related Entity, purchase and maintain in effect for your benefit valid, binding and enforceable policies of directors and officers liability insurance ("D & O Insurance"), covering substantially all Losses to the extent permitted by law and public policy; provided, however, that the Company shall not be required to maintain in effect

D & O Insurance if such insurance is not reasonably available or if, in the reasonable business judgment of the directors of the Company, either (i) the premium cost for such insurance is substantially disproportionate to the amount of coverage or (ii) the coverage provided by such insurance is so limited by exclusions that there is insufficient benefit from such insurance.

9. Intention of the Parties. It is the intention of the parties to this agreement to provide for indemnification in all cases and under all circumstances where to do so would not violate applicable law (to the fullest extent permitted by law and notwithstanding any limitations permitted, but not required by statute) and the provisions of this agreement shall be interpreted and construed consistent with that intention. The meaning of the phrase “to the fullest extent permitted by law” in the introductory paragraph and in the preceding sentence shall include, but not be limited to: (i) to the fullest extent permitted by the provision of the DGCL that authorizes or contemplates additional indemnification by agreement, or the corresponding provision of any amendment to or replacement of the DGCL; and (ii) to the fullest extent authorized or permitted by any amendments to or replacements of the DGCL adopted after the date of this agreement that increase the extent to which a corporation may indemnify its officers and directors. Nonetheless, if any provision of this agreement or any indemnification made under this agreement shall for any reason be determined by a court of law or equity to be invalid, unlawful or unenforceable under current or future laws, such provision shall be fully severable and, the remaining provisions of this agreement shall not otherwise be affected thereby, but shall remain in full force and effect and, to the fullest extent possible, shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

10. Governing Law. This agreement shall be governed by and interpreted and construed in accordance with the laws of the State of Delaware, except that body of law relating to choice of law.

11. Equitable Remedies. The parties hereto recognize that in the event of violation of this agreement by the Company, you may not have an adequate remedy at law. In the event of any such violation, you shall be entitled at your election to institute proceedings, at law or in equity, to obtain damages, to enforce specific performance, to enjoin such violation or to obtain any relief or any combination of the foregoing as you may elect to pursue.

12. Amendment and Waiver. No amendment, modification, termination or cancellation of this agreement shall be effective unless in writing signed by both the Company and you. No waiver of any of the provisions of this agreement shall be deemed or shall constitute a waiver of any other provisions of this agreement or constitute a continuing waiver.

13. Survival. The obligation of the Company hereunder to indemnify you with respect to Losses that you may incur by reason of your service as a director, officer, employee, agent, fiduciary or representative of the Company or a Related Entity shall survive the termination of your service in such capacities and shall inure to the benefit of your heirs, executors and administrators.

14. Counterparts. This agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same agreement.

Your signature below will evidence your agreement and acceptance with respect to the foregoing.

Very truly yours,

DIGIRAD CORPORATION

By: /s/ Matthew G. Molchan
Name: Matthew G. Molchan
Title: President and Chief Executive Officer

AGREED TO AND ACCEPTED:

/s/ David Noble
David Noble

**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.

November 5, 2018

/s/ Matthew G. Molchan

Matthew G. Molchan

*President, Chief Executive Officer, and Interim Chief Financial Officer
(Principal Executive Officer and Principal Financial Officer)*

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

In connection with the accompanying Quarterly Report on Form 10-Q of Digirad Corporation for the period ended September 30, 2018, I, Matthew G. Molchan, President, Chief Executive Officer and Interim Chief Financial Officer of Digirad Corporation, hereby certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (1) such Quarterly Report on Form 10-Q of Digirad Corporation for the period ended September 30, 2018, 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 September 30, 2018, 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.

November 5, 2018

/s/ Matthew G. Molchan

Matthew G. Molchan

*President, Chief Executive Officer and Interim Chief Financial
Officer*

(Principal Executive Officer and Principal Financial 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.

