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, 2020

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

FOR THE TRANSITION PERIOD FROM TO

Commission file number: 001-35947

Digirad Corporation

(Exact name of registrant as specified in its charter)

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

(858) 726-1600
(Registrant's Telephone Number, Including Area Code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.0001 per share	DRAD	NASDAQ Global Market
Series A Cumulative Perpetual Preferred Stock, par value $0.0001 per share	DRADP	NASDAQ Global Market

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

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 x No o

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	o	Accelerated filer	o
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. o

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 30, 2020, the registrant had 4,759,701 shares of Common Stock ($0.0001 par value) outstanding.

DIGIRAD CORPORATION
TABLE OF CONTENTS

IMPORTANT INFORMATION REGARDING FORWARD-LOOKING STATEMENTS	4
PART I. FINANCIAL INFORMATION	5
Item 1. Financial Statements (Unaudited)	5
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	44
Item 3. Quantitative and Qualitative Disclosures about Market Risk	63
Item 4. Controls and Procedures	63
PART II. OTHER INFORMATION	65
Item 1. Legal Proceedings	65
Item 1A. Risk Factors	65
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	70
Item 3. Defaults Upon Senior Securities	70
Item 4. Mine Safety Disclosures	70
Item 5. Other Information	70
Item 6. Exhibits	71

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, 2019 filed with the U.S. Securities and Exchange Commission on March 9, 2020. Except to the limited extent required by applicable law, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenues:				
Healthcare	$ 21,794	$ 25,596	$ 62,441	$ 75,306
Building and Construction	8,542	2,729	19,061	2,729
Real Estate and Investments	17	8	50	8
Total revenues	30,353	28,333	81,552	78,043
Cost of revenues:				
Healthcare	18,164	20,819	51,702	61,367
Building and Construction	7,289	2,252	16,352	2,252
Real Estate and Investments	65	66	196	243
Total cost of revenues	25,518	23,137	68,250	63,862
Gross profit	4,835	5,196	13,302	14,181
Operating expenses:				
Marketing, sales and general and administrative expenses	5,566	4,948	16,545	14,648
Amortization of intangible assets	802	399	2,420	965
Merger and finance costs	—	1,058	—	2,058
Total operating expenses	6,368	6,405	18,965	17,671
Loss from operations	(1,533)	(1,209)	(5,663)	(3,490)
Other income (expense):				
Other income (expense), net	135	3	967	(200)
Interest expense, net	(356)	(292)	(1,214)	(727)
Loss on sale of building	—	(4)	—	(236)
Loss on extinguishment of debt	—	—	—	(151)
Total other expense	(221)	(293)	(247)	(1,314)
Loss before income taxes	(1,754)	(1,502)	(5,910)	(4,804)
Income tax (expense) benefit	(6)	(2)	(90)	168
Net loss from continuing operations	(1,760)	(1,504)	(6,000)	(4,636)
Net income from discontinued operations	—	—	—	266
Net loss	(1,760)	(1,504)	(6,000)	(4,370)
Deemed dividend on Series A redeemable preferred stock	(474)	(106)	(1,442)	(106)
Net loss attributable to common shareholders	$ (2,234)	$ (1,610)	$ (7,442)	$ (4,476)
Net loss per share, attributable to common shareholders — basic and diluted:	$ (0.47)	$ (0.79)	$ (2.27)	$ (2.20)
Net loss	$ (1,760)	$ (1,504)	$ (6,000)	$ (4,370)
Other comprehensive (loss) income:				

Reclassification of tax provision impact	—	—	—	22
Total other comprehensive income	—	—	—	22
Comprehensive loss	$ (1,760)	$ (1,504)	$ (6,000)	$ (4,348)

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	September 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 4,267	$ 1,821
Restricted cash	169	240
Equity securities	31	26
Accounts receivable, net	15,751	18,571
Inventories, net	9,000	7,097
Other current assets	2,360	1,794
Total current assets	31,578	29,549
Property and equipment, net	18,129	22,138
Operating lease right-of-use assets, net	4,631	4,827
Intangible assets, net	20,484	22,903
Goodwill	9,978	9,978
Other assets	1,155	1,165
Total assets	$ 85,955	$ 90,560
Liabilities, Mezzanine Equity and Stockholders’ Equity		
Current liabilities:		
Accounts payable	$ 7,025	$ 8,932
Accrued compensation	3,735	4,579
Accrued warranty	237	421
Deferred revenue	2,293	1,786
Short-term debt and current portion of long-term debt	4,260	4,036
Payable to related parties	2,155	1,920
Operating lease liabilities	1,839	1,866
Other current liabilities	3,355	4,638
Total current liabilities	24,899	28,178
Long-term debt, net of current portion	16,896	17,038
Deferred tax liabilities	90	23
Operating lease liabilities, net of current portion	2,881	3,073
Other liabilities	1,031	1,551
Total liabilities	45,797	49,863
Commitments and contingencies (Note 9)		
Preferred stock, $0.0001 par value: 10,000,000 shares authorized: 10% Series A Cumulative Redeemable preferred stock, 8,000,000 shares liquidation preference ($10.00 per share), 1,915,637 shares issued or outstanding at September 30, 2020 and December 31, 2019, respectively	21,041	19,602
Stockholders’ equity:		
Common stock, $0.0001 par value: 30,000,000 shares authorized; 4,750,951 and 2,050,659 shares issued and outstanding (net of treasury shares) at September 30, 2020 and December 31, 2019, respectively	—	—
Treasury stock, at cost; 258,849 shares at September 30, 2020 and December 31, 2019, respectively	(5,728)	(5,728)

Additional paid-in capital	149,374	145,352
Accumulated deficit	(124,529)	(118,529)
Total stockholders’ equity	19,117	21,095
Total liabilities, mezzanine equity and stockholders’ equity	$ 85,955	$ 90,560

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2020	**2019**
Operating activities		
Net loss	$ (6,000)	$ (4,370)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,735	4,670
Amortization of intangible assets	2,420	965
Provision for bad debt, net	(29)	113
Stock-based compensation	382	416
Gain on disposal of discontinued operations	—	(350)
Amortization of loan issuance costs	248	48
Debt issuance costs write-off	—	151
Financing costs write-off	—	273
Loss (Gain) on sale of assets	142	(56)
Deferred income taxes, net	68	(75)
Other, net	(33)	(29)
Changes in operating assets and liabilities:		
Accounts receivable	2,850	(1,380)
Inventories	(1,735)	(1,081)
Other assets	(852)	(506)
Accounts payable	(2,109)	242
Accrued compensation	(845)	(267)
Deferred revenue	494	142
Operating lease liabilities	(12)	(46)
Other liabilities	(1,604)	375
Net cash used in operating activities	(1,880)	(765)
Investing activities		
Purchases of property and equipment	(646)	(1,182)
Purchase of real estate from related and third parties	—	(5,180)
Proceeds from sale of property and equipment	156	1,496
Proceeds from sales of equity securities	—	140
Payments to acquire interest in joint ventures	—	(1,000)
Net cash used in investing activities	(490)	(5,726)
Financing activities		
Proceeds from borrowings	85,648	66,640
Repayment of debt	(84,940)	(59,057)
Repayment of Gerber acquisition loan	—	(3,000)
Loan issuance costs	(317)	(421)
Net proceeds from sale of common stock and warrants	4,203	—
Proceeds from exercise of over-allotment options and warrants	892	—
Proceeds from issuance of preferred stock	—	3,000
Fees paid on issuance of preferred stock	(3)	(150)
Taxes paid related to net share settlement of equity awards	(13)	(24)
Repayment of obligations under finance leases	(725)	(626)
Net cash provided by financing activities	4,745	6,362
Net increase (decrease) in cash, cash equivalents, and restricted cash	2,375	(129)
Cash, cash equivalents, and restricted cash at beginning of period	2,061	1,802
Cash, cash equivalents, and restricted cash at end of period	$ 4,436	$ 1,673

See accompanying notes to the unaudited condensed consolidated financial statements.

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

	Redeemable Preferred Stock		Common stock		Treasury Stock	Additional paid-in capital	Accumulated deficit	Total stockholders' equity
	Shares	Amount	Shares	Amount				
Balance at December 31, 2019	1,916	$ 19,602	2,050	$ —	$ (5,728)	$ 145,352	$ (118,529)	$ 21,095
Stock-based compensation	—	—	—	—	—	109	—	109
Shares issued under stock incentive plans, net of shares withheld for employee taxes	—	—	5	—	—	—	—	—
Accrued dividend on redeemable preferred stock	—	484	—	—	—	(484)	—	(484)
Net loss	—	—	—	—	—	—	(2,953)	(2,953)
Balance at March 31, 2020	1,916	20,086	2,055	—	(5,728)	144,977	(121,482)	17,767
Stock-based compensation	—	—		—	—	151	—	151
Shares issued under stock incentive plans, net of shares withheld for employee taxes	—	—	42	—	—	(13)	—	(13)
Accrued dividend on redeemable preferred stock	—	484	—	—	—	(484)	—	(484)
Net proceeds from sale of common stock and warrants	—	—	2,450	—	—	4,203	—	4,203
Proceeds from exercise of the over-allotment options and warrants	—	—	145	—	—	773	—	773
Net loss	—	—	—	—	—	—	(1,287)	(1,287)
Balance at June 30, 2020	1,916	20,570	4,692	—	(5,728)	149,607	(122,769)	21,110
Stock-based compensation	—	—	—	—	—	122	—	122
Shares issued under stock incentive plans, net of shares withheld for employee taxes	—	—	6	—	—	—	—	—
Accrued dividend on redeemable preferred stock	—	474	—	—	—	(474)	—	(474)
Equity issuance costs	—	(3)	—	—	—	—	—	—
Proceeds from exercise of warrants	—	—	53	—	—	119	—	119
Net loss	—	—	—	—	—	—	(1,760)	(1,760)
Balance at September 30, 2020	1,916	$ 21,041	4,751	$ —	$ (5,728)	$ 149,374	$ (124,529)	$ 19,117

	Redeemable Preferred Stock		Common stock		Treasury Stock	Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total stockholders' equity
	Shares	Amount	Shares	Amount					
Balance at December 31, 2018	—	$ —	2,025	$ —	$ (5,728)	$ 145,430	$ (22)	$ (113,880)	$ 25,800
Stock-based compensation	—	—	—	—	—	112	—	—	112
Shares issued under stock incentive plans, net of shares withheld for employee taxes	—	—	6	—	—	(24)	—	—	(24)
Reclassification of tax provision impact	—	—	—	—	—	—	22	—	22
Net loss	—	—	—	—	—	—	—	(1,657)	(1,657)
Balance at March 31, 2019	—	—	2,031	—	(5,728)	145,518	—	(115,537)	24,253
Stock-based compensation	—	—	—	—	—	190	—	—	190
Shares issued under stock incentive plans, net of shares withheld for employee taxes	—	—	9	—	—	—	—	—	—
Shares issued for fractional shares in conjunction with reverse stock split	—	—	2	—	—	—	—	—	—
Net loss	—	—	—	—	—	—	—	(1,209)	(1,209)
Reclassification of tax provision impact	—	—	—	—	—	—	—	(22)	(22)
Balance at June 30, 2019	—	—	2,042	—	(5,728)	145,708	—	(116,768)	23,212
Stock-based compensation	—	—	—	—	—	114	—	—	114
Shares issued under stock incentive plans, net of shares withheld for employee taxes	—	—	6	—	—	—	—	—	—
Issuance of preferred stock	1,916	19,156	—	—	—	—	—	—	—
Fees payable on issuance of preferred stock	—	—	—	—	—	(150)	—	—	(150)
Net loss	—	—	—	—	—	—	—	(1,504)	(1,504)
Balance at September 30, 2019	1,916	$ 19,156	2,048	$ —	$ (5,728)	$ 145,672	$ —	$ (118,272)	$ 21,672

See accompanying notes to unaudited consolidated financial statements.

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 (the "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, 2019 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, 2019, filed with the SEC on Form 10-K on March 9, 2020, 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.

On March 11, 2020, the World Health Organization declared the outbreak of a novel strain of coronavirus, COVID-19, a global pandemic, which continues to spread throughout the United States and around the world. Governmental authorities in the states in which we operate issued social distancing orders, which orders have required businesses in subject jurisdictions to cease non-essential operations at physical locations in those locations, unless exempted, rescinded, or amended. Accordingly, to comply with applicable regulations and to safeguard the health and safety of our employees and customers, we temporarily reduced our business operations.

During the three and nine months ended September 30, 2020, we experienced a $3.8 million and $12.9 million decrease respectively, in Digirad Health division revenue which was offset by a $5.8 million and $16.3 million increase respectively, in Building and Construction revenue, as compared to the same period of the prior year. As the COVID-19 pandemic affected the results of segments of our business during the three and nine months ended September 30, 2020, we took steps to contain the impact of the COVID-19 pandemic on our business.

On April 1, 2020, we announced that in response to the COVID-19 pandemic, Matthew G. Molchan, our President and Chief Executive Officer, David J. Noble, our Chief Financial Officer and Chief Operating Officer, and Martin B. Shirley, the president of our Diagnostic Imaging Solutions Inc. subsidiary, had each agreed to have their base salaries reduced by 20%. These reductions were effective as of April 6, 2020 and remained in effect until May 15, 2020.

On April 1, 2020, we also announced that in response to the COVID-19 pandemic, we planned to furlough certain employees and that we would institute a 20% salary reduction for most of our salaried employees and reduce the number of working hours of most of our hourly employees by 20%. These reductions, which applied to our healthcare division, were effective as of April 6, 2020, and remained in effect until May 15, 2020. Throughout the COVID-19 pandemic, our building and construction division has furloughed employees or reduced employee hours based on fluctuations in demand for our products. As of September 30, 2020, the Company's KBS Builders, Inc. subsidiary ("KBS") brought back furloughed employees and increased its work force by over 20% to meet the higher manufacturing requirements for two commercial projects as well as the future growth we expect.

This partial disruption, although expected to be temporary, may impact our operations and overall business. The impact of COVID-19 is evolving rapidly and its future effects are uncertain. Given the uncertainty caused by the COVID-19 pandemic, the duration of the disruption and related financial impact cannot be reasonably estimated at this time. As a result of the evolving impact of COVID-19 on the economy, on April 7, 2020, we withdrew our 2020 full-year guidance. The COVID-19 pandemic is a highly fluid situation and it is not currently possible for us to reasonably estimate the impact it may have on our financial and operating results. We will continue to evaluate the impact of the COVID-19 pandemic on our business as we learn more and the impact of COVID-19 on our industry becomes clearer.

ATRM Merger

On September 10, 2019, Digirad completed its acquisition of ATRM Holdings, Inc. ("ATRM") pursuant to an Agreement and Plan of Merger, dated as of July 3, 2019 (the "ATRM Merger Agreement"), among Digirad, Digirad Acquisition Corporation, a Minnesota corporation and wholly-owned subsidiary of Digirad ("Merger Sub"), and ATRM. Under the terms of the ATRM Merger Agreement, Merger Sub merged with and into ATRM, with ATRM surviving as a wholly owned subsidiary of Digirad (the "ATRM Merger" or the "ATRM Acquisition").

At the effective time of the ATRM Merger, (i) each share of ATRM common stock was converted into the right to receive three one-hundredths (0.03) of a share of 10.0% Series A Cumulative Perpetual Preferred Stock, par value $0.0001 per share, of the Company ("Company Preferred Stock") and (ii) each share of ATRM 10.00% Series B Cumulative Preferred Stock, par value $0.001 per share ("ATRM Preferred Stock"), converted into the right to receive two and one-half (2.5) shares of Company Preferred Stock, for an approximate aggregate total of 1.6 million shares of Company Preferred Stock. No fractional shares of Company Preferred Stock were issued to any ATRM shareholder in the ATRM Merger. Each ATRM shareholder who would otherwise have been entitled to receive a fraction of a share of Company common stock in the ATRM Merger received one whole share of Company Preferred Stock. See Note 4, *Merger*, within the notes to our unaudited condensed consolidated financial statements for further detail.

Immediately prior to the closing of the ATRM Merger, the Company issued 300,000 shares of Company Preferred Stock in a private placement (the "Private Placement") to Lone Star Value Investors, LP ("LSVI") for a price of $10.00 per share for total proceeds to the Company of $3.0 million. The Private Placement was made pursuant to the terms of a Stock Purchase Agreement, dated as of September 10, 2019. The shares of Company Preferred Stock sold in the Private Placement had not been registered under the Securities Act of 1933, as amended (the "Act") and could not be resold absent registration under, or exemption from registration under, the Act.

At the closing of the Private Placement, the Company and LSVI entered into a Registration Rights Agreement, dated as of September 10, 2019 (the "Registration Rights Agreement"), pursuant to which the Company agreed to file a registration statement with the U.S. Securities and Exchange Commission (the "SEC"), covering the resale of the shares of Company Preferred Stock issued in the Private Placement.

On September 17, 2020, in connection with satisfying the Company's obligations under the Registration Rights Agreement, the Company filed a registration statement with the SEC (the "September Registration Statement") relating to the sale or other disposition from time to time of up to 1,492,321 shares of Company Preferred Stock by the selling stock holders identified in the September Registration Statement, including their transferees, pledgees, donees or successors. Mr. Eberwein, the Chairman of the Company's board of directors, is a selling stockholder under the September Registration Statement. The selling stockholders may, from time to time, sell transfer, or otherwise dispose of any or all of their shares of Company Preferred Stock or interests in shares of Company Preferred Stock on any stock exchange, market, or trading facility on which the shares are traded or in private transactions. These dispositions by the selling stockholders may be at fixed prices, at prevailing market prices at the time of sale, at prices related to prevailing market price, at varying prices determined at the time of sale, or at negotiated prices.

Mezzanine Equity

Pursuant to the Certificate of Designations, Rights and Preferences of 10% Series A Cumulative Perpetual Preferred Stock of Digirad Corporation (the "Certificate of Designations"), upon a Change of Control Triggering Event, as defined in the Certificate of Designations, holders of the Company Preferred Stock may require the Company to redeem the Company Preferred Stock at a price of $10.00 per share, plus any accumulated and unpaid dividends (a "Change of Control Redemption"). As this redemption feature of the shares is not solely within the control of Digirad, the equity of Digirad does not qualify as permanent equity and has been classified as mezzanine or temporary equity. Accordingly, the Company recognizes Company Preferred Stock as mezzanine equity in the unaudited condensed consolidated financial statements. Company Preferred Stock is not redeemable and it was not probable that the Company Preferred Stock would become redeemable as of September 30, 2020.

In addition to a Change of Control Redemption, the Certificate of Designations also provides that the Company may redeem (at its option, in whole or in part) the Company Preferred Stock following the fifth anniversary of issuance of the Company Preferred Stock, at a cash redemption price of $10.00 per share, plus any accumulated and unpaid dividends.

Common Stock Equity Offering

On April 30, 2020, the Company filed a registration statement with the SEC (the "April Registration Statement") relating to a public offering of the Company's common stock, par value $0.0001 per share (the "Common Stock") and warrants to purchase Common Stock (the "Offering"). On May 28, 2020, the Company closed the Offering in which, pursuant to the underwriting agreement (the "Underwriting Agreement") entered into by and between the Company and Maxim Group LLC ("Maxim"), as representative of the underwriters, dated May 26, 2020, the Company issued and sold (i) 2,225,000 shares of Common Stock, and (ii) 2,225,000 warrants (the "Warrants") to purchase up to 1,112,500 shares of Common Stock. The warrants will expire 5 years from the date of issuance. The Offering price was $2.24 per share of Common Stock and $0.01 per accompanying Warrant (for a combined Offering price of $2.25). The Underwriting Agreement contained customary representations, warranties, and agreements by the Company, customary conditions to closing, indemnification obligations of the Company and Maxim (including for liabilities under the Securities Act of 1933, as amended) and certain other obligations.

Pursuant to the Underwriting Agreement, the Company granted to Maxim an option for a period of 45 days (the "Over-Allotment Option") to purchase up to 225,000 additional shares of Common Stock and 225,000 Warrants to purchase up to an additional 112,500 shares of Common Stock. Effective as of the closing of the Offering, Maxim exercised the Over-Allotment Option for the purchase of 225,000 Warrants for a price of $0.01 per Warrant. On June 10, 2020, Maxim exercised the Over-Allotment Option for the purchase of 225,000 shares of Common Stock for a price of $2.24 per share, before underwriting discounts. The closing of the sale of the over-allotment shares brought the total number of shares of common stock sold by the Company in the Offering to 2,450,000, and total gross proceeds to approximately $5.5 million.

The net proceeds to the Company from the Offering were approximately $4.2 million, after deducting the fees and commissions and estimated Offering expenses payable by the Company of $0.8 million, and excluding $0.9 million proceeds the Company received upon exercise of the Over-Allotment Options and Warrants. The Company is using $3.0 million of the net proceeds from the sale of shares of Common Stock and the Warrants in the Offering to fund commercial modular housing projects being constructed in New England by the Company's KBS Builders, Inc. subsidiary, and the remainder of the net proceeds is being used for working capital and for other general corporate purposes. The Company has broad discretion in determining how the proceeds of the Offering is used, and its discretion is not limited by the aforementioned possible uses.

Liquidity

The accompanying financial statements have been prepared assuming we will continue as a going concern, which contemplates the realization of assets and settlement of obligations in the normal course of business. We incurred net losses from operations of approximately $1.5 million and $5.7 million for the three and nine months ended September 30, 2020, respectively and $1.2 million and $3.5 million for the three and nine months ended September 30, 2019, respectively. We have an accumulated deficit of $124.5 million and $118.5 million as of September 30, 2020 and December 31, 2019, respectively. Net cash used in operations of $1.9 million for the nine months ended September 30, 2020 compared to net cash used in operations of $0.8 million for the same prior year period in 2019.

As of September 30, 2020, we had approximately $4.3 million in third party credit facilities and $2.2 million in related party notes coming due next twelve months. As noted below, we previously had a covenant breach with Gerber. In January 2020, as discussed more fully below, we refinanced our debt with Gerber Finance Inc. ("Gerber") and Premier Bank ("Premier") and reset the debt covenants with these lenders. In addition, as of September 30, 2020 we had cash and cash equivalents of $4.3 million.

The Company completed aforementioned equity financing on April 30, 2020. Net proceeds of the Offering is being used to fund working capital and other general corporate purposes. Further, a significant shareholder and lender has committed to provide financial support to the Company by providing written assurances that he will: (a) extend until five business days after the closing date of the DMS Sale Transaction (described below in Note 15. Subsequent Events), and not call the repayment of approximately $2.2 million of related party debt that was due in October 2020; and (b) extend through June 2021 the Company's put option with this shareholder of $1.0 million in Series A Cumulative Perpetual Preferred stock. Management believes that the Company has the liquidity and operations to continue to support the business through the next 12 months from the issuance of this Quarterly Report. The Company's ability to continue as a going concern is dependent on its ability to execute its plans.

Use of Estimates

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

Leases

Lessee Accounting

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

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

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

Lessor Accounting

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

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

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

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

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

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

Recently Adopted Accounting Standards

In August 2018, the FASB issued ASU 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The Company early adopted ASU 2018-15 beginning January 1, 2019, and applied the guidance prospectively to the implementation costs incurred in its NetSuite ERP implementation. As of September 30, 2020, the Company has capitalized $0.7 million of implementation costs.

New Accounting Standards To Be Adopted

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments, which amends the impairment model by requiring entities to use a forward-looking approach based on expected losses to estimate credit losses on certain types of financial instruments, including trade receivables and available-for-sale debt securities. This update is effective for annual periods beginning after December 15, 2022, and interim periods within those periods, and early adoption is permitted. We expect to adopt the standard on its effective date in the first quarter of 2023. We believe the adoption will modify the way we analyze financial instruments, but currently do not expect the adoption to have a material financial impact on our consolidated financial statements.

Note 2. Revenue

Healthcare Product and Product-Related Revenues and Services Revenue

Healthcare 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.

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

Building and Construction

Building and Construction revenue are generated from selling modular buildings for both single-family residential homes and larger commercial building projects from KBS, Builders, Inc. (“KBS”), and selling structural wall panels, permanent wood foundation systems and other engineered wood products from EdgeBuilder and GlenBrook (“Glenbrook” and together with EdgeBuilder, “EBGL”).

Real Estate and Investments

Star Real Estate Holdings USA, Inc. (“SRE”) generates revenue from lease of commercial properties and equipment and Lone Star Value Management, LLC (“LSVM”), a Connecticut based exempt reporting advisor, provides services that include investment advisory services, and the servicing of pooled investment vehicles.

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. 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. For bill and hold sales, we determine when the customer obtains control of the product on a case-by-case basis to determine the amount of revenue to recognize each period.

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

Disaggregation of Revenue

The following tables present our revenues for the three and nine months ended September 30, 2020 and 2019, disaggregated by major source (in thousands):

	Three Months Ended September 30, 2020					
	Diagnostic Services	Diagnostic Imaging	Mobile Healthcare	Building and Construction	Real Estate and Investments	Total
Major Goods/Service Lines						
Mobile Imaging	$ 10,590	$ —	$ 7,388	$ —	$ —	$ 17,978
Camera	—	540	—	—	—	540
Camera Support	—	1,508	—	—	—	1,508
Healthcare Revenue from Contracts with Customers	10,590	2,048	7,388	—	—	20,026
Lease Income	121	—	1,647	56	—	1,824
Building and Construction	—	—	—	8,486	—	8,486
Real Estate and Investments	—	—	—	—	17	17
Total Revenues	$ 10,711	$ 2,048	$ 9,035	$ 8,542	$ 17	$ 30,353
Timing of Revenue Recognition						
Services and goods transferred over time	$ 10,711	$ 1,439	$ 8,959	$ 57	$ —	$ 21,166
Services and goods transferred at a point in time	—	609	76	8,485	17	9,187
Total Revenues	$ 10,711	$ 2,048	$ 9,035	$ 8,542	$ 17	$ 30,353

	Three Months Ended September 30, 2019					
	Diagnostic Services	Diagnostic Imaging	Mobile Healthcare	Building and Construction	Real Estate and Investments	Total
Major Goods/Service Lines						
Mobile Imaging	$ 11,476	$ —	$ 7,940	$ —	$ —	$ 19,416
Camera	—	1,682	—	—	—	1,682
Camera Support	—	1,669	—	—	—	1,669
Healthcare Revenue from Contracts with Customers	11,476	3,351	7,940	—	—	22,767
Lease Income	194	—	2,635	7	—	2,836
Building and Construction	—	—	—	2,722	—	2,722
Real Estate and Investments	—	—	—	—	8	8
Total Revenues	$ 11,670	$ 3,351	$ 10,575	$ 2,729	$ 8	$ 28,333
Timing of Revenue Recognition						
Services and goods transferred over time	$ 11,670	$ 1,521	$ 10,458	$ 7	$ —	$ 23,656
Services and goods transferred at a point in time	—	1,830	117	2,722	8	4,677
Total Revenues	$ 11,670	$ 3,351	$ 10,575	$ 2,729	$ 8	$ 28,333

	Nine Months Ended September 30, 2020					
	Diagnostic Services	Diagnostic Imaging	Mobile Healthcare	Building and Construction	Real Estate and Investments	Total
Major Goods/Service Lines						
Mobile Imaging	$ 28,181	$ —	$ 20,575	$ —	$ —	$ 48,756
Camera	—	2,553	—	—	—	2,553
Camera Support	—	4,689	—	—	—	4,689
Healthcare Revenue from Contracts with Customers	28,181	7,242	20,575	—	—	55,998
Lease Income	484	—	5,959	203	—	6,646
Building and construction	—	—	—	18,858	—	18,858
Real Estate and Investments	—	—	—	—	50	50
Total Revenues	$ 28,665	$ 7,242	$ 26,534	$ 19,061	$ 50	$ 81,552
Timing of Revenue Recognition						
Services and goods transferred over time	$ 28,665	$ 4,444	$ 26,308	$ 203	$ —	$ 59,620
Services and goods transferred at a point in time	—	2,798	226	18,858	50	21,932
Total Revenues	$ 28,665	$ 7,242	$ 26,534	$ 19,061	$ 50	$ 81,552

	Nine Months Ended September 30, 2019					
	Diagnostic Services	Diagnostic Imaging	Mobile Healthcare	Building and Construction	Real Estate and Investments	Total
Major Goods/Service Lines						
Mobile Imaging	$ 35,169	$ —	$ 22,927	$ —	$ —	$ 58,096
Camera	—	3,980	—	—	—	3,980
Camera Support	40	4,943	593	—	—	5,576
Healthcare Revenue from Contracts with Customers	35,209	8,923	23,520	—	—	67,652
Lease Income	505	—	7,149	7	—	7,661
Building and Construction	—	—	—	2,722	—	2,722
Real Estate and Investments	—	—	—	—	8	8
Total Revenues	$ 35,714	$ 8,923	$ 30,669	$ 2,729	$ 8	$ 78,043
Timing of Revenue Recognition						
Services and goods transferred over time	$ 35,714	$ 4,571	$ 30,251	$ 7	$ —	$ 70,543
Services and goods transferred at a point in time	—	4,352	418	2,722	8	7,500
Total Revenues	$ 35,714	$ 8,923	$ 30,669	$ 2,729	$ 8	$ 78,043

Nature of Goods and Services

Mobile Imaging

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

Camera

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

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

Camera Support

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

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

Lease Income

Within our 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.

Within our Building and Construction segment, KBS subleased the manufacturing building located in Waterford, Maine to North Country Steel Inc., a Maine corporation with an initial 5 year term rental agreement, commenced on September 6, 2019. The rental agreement is structured with a monthly payment arrangement and is accounted for as operating lease.

Building and Construction

Within the building and construction segment, ATRM, through its wholly-owned subsidiaries KBS Builders, Inc. (“KBS”), EdgeBuilder, Inc. (“EdgeBuilder”), and Glenbrook Building Supply, Inc. (“Glenbrook” and together with EdgeBuilder, “EBGL”), services residential and commercial construction projects by manufacturing modular housing units and other products and supplies general contractors with building materials. KBS manufactures modular buildings for both single-family residential homes and larger, commercial building projects. EdgeBuilder manufactures structural wall panels, permanent wood foundation systems and other engineered wood products, and GlenBrook is a retail supplier of lumber and other building supplies.

Real Estate and Investments

Within our real estate and investment division, Star Real Estate Holdings USA, Inc. (“SRE”), generates income from the lease of commercial properties and equipment, and Lone Star Value Management, LLC (“LSVM”), a Connecticut based exempt reporting advisor, provides services that include investment advisory services, and the servicing of pooled investment vehicles.

Deferred Revenues

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

Changes in the deferred revenues for nine months ended September 30, 2020, is as follows (in thousands):

Balance at December 31, 2019	$	1,801
Revenue recognized that was included in balance at beginning of the year		(1,390)
Deferred revenue, net, related to contracts entered into during the year		1,890
Balance at September 30, 2020	$	2,301

Included in the balances above as of September 30, 2020 and December 31, 2019 is non-current deferred revenue included in other liabilities of $8 thousand and $15 thousand, respectively.

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

Contract Costs

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

Note 3. Basic and Diluted Net Income (Loss) Per Share

We present net loss per share attributable to common stockholders in conformity with the two-class method required for participating securities, as the warrants are considered participating securities. We have not allocated net loss attributable to common stockholders to warrants because the holders of our warrants are not contractually obligated to share in our losses. Basic net loss per share attributable to common stockholders is computed by dividing net loss attributable to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted net loss per share attributable to common stockholders is calculated to give effect to all potential shares of common stock, including common stock issuable upon exercise of warrants, stock options, and RSUs. In periods for which there is a net loss, diluted loss per common share is equal to basic loss per common share, since the effect of including any common stock equivalents would be antidilutive.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Numerator:				
Loss from continuing operations	$ (1,760)	$ (1,504)	$ (6,000)	$ (4,636)
Net income from discontinued operations	—	—	—	266
Net loss	(1,760)	(1,504)	(6,000)	(4,370)
Deemed dividend on Series A redeemable preferred stock	(474)	(106)	(1,442)	(106)
Net loss attributable to common shareholders	$ (2,234)	$ (1,610)	$ (7,442)	$ (4,476)
Denominator:				
Weighted average shares outstanding - basic	4,724	2,046	3,280	2,038
Dilutive potential common shares:				
Stock options	—	—	—	—
Stock warrants	—	—	—	—
Restricted stock units	—	—	—	—
Weighted average shares outstanding - diluted	4,724	2,046	3,280	2,038
Net loss per common share - basic and diluted				
Net loss per share, continuing operations	$ (0.37)	$ (0.74)	$ (1.83)	$ (2.27)
Net income per share, discontinued operations	—	—	—	0.13
Net loss per share	(0.37)	(0.74)	(1.83)	(2.14)
Deemed dividend on Series A redeemable preferred stock per share	(0.10)	(0.05)	(0.44)	(0.05)
Net loss per share, attributable to common shareholders - basic and diluted [1]	$ (0.47)	$ (0.79)	$ (2.27)	$ (2.20)

[1] Earnings per share may not add due to rounding.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Stock options	36	162	45	120
Stock warrants	2,102	—	999	—
Restricted stock units	23	34	28	32
Total	2,161	196	1,072	152

As of September 30, 2020, 0.4 million warrants were exercised and 2.1 million warrants remained outstanding at an exercise price of $2.25. See Note 1, Basis of Presentation, within the notes to our unaudited condensed consolidated financial statements for further detail.

Note 4. Merger

On September 10, 2019 (the “ATRM Acquisition Date”), Digirad completed its acquisition of ATRM pursuant to the ATRM Merger Agreement under which Merger Sub (a wholly owned subsidiary of Digirad) merged with and into ATRM, with ATRM surviving as a wholly owned subsidiary of Digirad. As a result of the ATRM Merger, ATRM’s operations have been included in our consolidated financial statements since the ATRM Acquisition Date.

ATRM, through its wholly-owned subsidiaries, KBS, Glenbrook, and EdgeBuilder, services residential and commercial construction projects by manufacturing modular housing units, structural wall panels, permanent wood foundation systems, and other engineered wood products and supplies general contractors with building materials. LSVM, which was a wholly owned subsidiary of ATRM on the ATRM Acquisition Date, is a Connecticut based exempt reporting advisor that was acquired by the Company in the ATRM Acquisition.

At the effective time of the ATRM Merger, (i) each share of ATRM common stock was converted into the right to receive three one-hundredths (0.03) of a share of 10.0% Series A Cumulative Perpetual Preferred Stock, par value $0.0001 per share, of the Company (Company Preferred Stock) and (ii) each share of ATRM 10.00% Series B Cumulative Preferred Stock, par value $0.001 per share (ATRM Preferred Stock), converted into the right to receive two and one-half (2.5) shares of Company Preferred Stock, for an approximate aggregate total of 1.6 million shares of Company Preferred Stock. No fractional shares of Company Preferred Stock were issued to any ATRM shareholder in the ATRM Merger. Each ATRM shareholder who would otherwise have been entitled to receive a fraction of a share of Company common stock in the ATRM Merger received one whole share of Company Preferred Stock.

The acquisition-date fair value of the consideration transferred in connection with the ATRM Merger approximately $17.5 million, which consisted of the following (in thousands):

Digirad Series A Cumulative Perpetual Preferred Stock (1,615,637 shares)	$	16,156
Settlement of pre-existing note receivable between DRAD and ATRM		296
Fair value of pre-existing joint venture settlement between DRAD and ATRM		1,000
Estimated purchase price	$	17,452

The fair value of the preferred shares issued was determined based on the product of (a) $10.00 (the stated liquidation preference per share of Company Preferred Stock), and (b) 1,615,637 (the number of shares of Company Preferred Stock were issued and exchanged in the ATRM Merger).

The following table summarizes the fair values of the assets acquired and liabilities assumed at the ATRM Acquisition Date (in thousands):

(in thousands)	**As originally reported**	**Measurement period adjustments**	**As adjusted**
Cash and cash equivalents	$ —	$ —	$ —
Accounts receivable, net	2,831	—	2,831
Inventory, net	1,609	—	1,609
Other current assets	481	252	733
Property and equipment, net	840	—	840
Operating Lease Right-of-use assets, net	495	—	495
Accounts payable and other accrued liabilities	(10,851)	—	(10,851)
Debt and notes payable	(5,144)	—	(5,144)
Lease liability	(499)	—	(499)
Deferred income taxes	—	(265)	(265)
Net assets acquired (liabilities assumed)	(10,238)	(13)	(10,251)
Goodwill	8,230	3	8,233
Intangibles	19,460	10	19,470
Estimated purchase price	$ 17,452	$ —	$ 17,452

The $19.5 million of identified intangible assets was allocated as follows (in thousands):

	Fair Value	Useful Life (years)
Trade Names	$ 5,540	15
Customer Relationships - Modular Buildings	7,830	10
Customer Relationships - Wood Products	5,670	10
Backlog	430	1
Fair value of identified intangible assets	$ 19,470	

Goodwill and intangibles of $8.2 million and $19.5 million, respectively, were assigned to the Building and Construction segment. The goodwill recognized is attributable primarily to expected synergies and the assembled workforce of ATRM. As of September 30, 2020, there were no changes in the recognized amounts of goodwill resulting from the acquisition of ATRM.

The Company recognized $2.3 million of acquisition related costs including legal, accounting that were expensed in 2019.

The amounts of revenue and earnings of ATRM included in the Company's condensed consolidated statement of operations for the three and nine month period ending September 30, 2020 are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenue	$ 8,559	$ 2,737	$ 19,111	$ 2,737
Net loss	$ (621)	$ (178)	$ (2,298)	$ (178)

The following represents the pro forma condensed consolidated statement of operations as if ATRM had been included in the consolidated results of the Company for the three and nine months ending September 30, 2020 and 2019 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenue	$ 30,353	$ 33,437	$ 81,552	$ 97,431
Net loss	$ (1,652)	$ (1,333)	$ (5,676)	$ (6,746)

These amounts have been calculated after applying the Company's accounting policies and adjusting the results of ATRM to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant, and equipment and intangible assets had been applied on January 1, 2019, together with the consequential tax effects.

Note 5. Supplementary Balance Sheet Information

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

	September 30, 2020	December 31, 2019
Raw materials	$ 5,255	$ 4,309
Work-in-process	2,884	2,710
Finished goods	1,206	461
Total inventories	9,345	7,480
Less reserve for excess and obsolete inventories	(345)	(383)
Total inventories, net	$ 9,000	$ 7,097

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

	September 30, 2020	December 31, 2019
Land	$ 995	$ 995
Buildings and leasehold improvements	5,452	5,451
Machinery and equipment	57,316	57,417
Total property and equipment	63,763	63,863
Less accumulated depreciation	(45,634)	(41,725)
Total property and equipment, net	$ 18,129	$ 22,138

In April 2019, Digirad purchased three manufacturing facilities, including land, in Maine that manufacture modular buildings (two of which were purchased from KBS Builders, Inc., a wholly-owned subsidiary of ATRM (“KBS”)) for $5.2 million and leased those three properties to KBS. KBS subleased the manufacturing building located in Waterford, Maine to North Country Steel Inc., a Maine corporation with an initial 5 year term rental agreement, commenced on September 6, 2019. The rental agreement is structured with a monthly payment arrangement and is accounted for as operating lease. Refer to lease income discussed in Note 2, *Revenue*.

During the three months ended September 30, 2020, as a result of continued operating losses and cash flow deficiencies, the Company identified a triggering event requiring a test for the recoverability of long-lived assets held and used at the asset group level. Assessing the recoverability of long-lived assets held and used requires significant judgments and estimates by management.

For purposes of testing long-lived assets for recoverability, the Company operates as five separate asset groups: Diagnostic Services, Diagnostic Imaging, Mobile Healthcare, Building and Construction, and Real Estate and Investment Management. In assessing the recoverability of long-lived assets held and used, the Company determined the carrying amount of long-lived assets held and used to be in excess of the estimated future undiscounted net cash flows of the related assets. The Company proceeded to determine the fair value of its long-lived assets held and used, principally through use of the market approach. The Company’s use of the market approach included consideration of market transactions for comparable assets. Management concluded that the fair value of long-lived assets held and used exceeded their carrying value, and as such, no impairment loss was recorded.

A significant decrease in the market price of a long-lived asset, adverse change in the use or condition of a long-lived asset, adverse change in the business climate or legal or regulatory factors impacting a long-lived asset and continued operating losses and cash flow deficiencies associated with a long-lived asset, among other indicators, could cause a future assessment to be performed which may result in an impairment of long-lived assets held and used, resulting in a material adverse effect on the financial position and results of operations of the Company.

Note 6. Leases

Lessee

We have operating and finance leases for corporate offices, vehicles, and certain equipment. Our leases have remaining lease terms of 1 year to 7 years, some of which include options to extend the leases and some of which include options to terminate the leases within 1 year. Operating leases are included separately in the unaudited condensed consolidated balance sheets and finance lease assets are included in property and equipment with the related liabilities included in other current liabilities and other liabilities in the condensed consolidated balance sheets.

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

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Operating lease cost	$ 536	$ 378	$ 1,646	$ 1,095
Finance lease cost:				
Amortization of finance lease assets	$ 150	$ 172	$ 494	$ 494
Interest on finance lease liabilities	30	36	95	101
Total finance lease cost	$ 180	$ 208	$ 589	$ 595

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

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 1,456	$ 988
Operating cash flows from finance leases	$ 96	$ 100
Financing cash flows from finance leases	$ 724	$ 626
Right-of-use assets obtained in exchange for lease obligations		
Operating leases	$ 1,337	$ 2,235
Finance leases	$ 313	$ 607

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

	September 30, 2020	December 31, 2019
Operating lease right-of-use assets, net	$ 4,631	$ 4,827
Operating lease liabilities	$ 1,839	$ 1,866
Operating lease liabilities, net of current	2,881	3,073
Total operating lease liabilities	$ 4,720	$ 4,939
Finance lease assets	$ 4,206	$ 4,541
Finance lease accumulated amortization	(1,712)	(1,701)
Finance lease assets, net	$ 2,494	$ 2,840
Finance lease liabilities	$ 1,003	$ 934
Finance lease liabilities, net of current	1,003	1,512
Total finance lease liabilities	$ 2,006	$ 2,446
Weighted-Average Remaining Lease Term (in years)		
Operating leases	3.2	2.9
Finance leases	2.3	2.7
Weighted-Average Discount Rate		
Operating leases	5.27 %	5.45 %
Finance leases	6.37 %	6.34 %

We are committed to making future cash payments on non-cancelable operating leases and finance leases (including interest). The future minimum lease payments due under both non-cancelable operating leases and finance leases having initial or remaining lease terms in excess of one year as of September 30, 2020 were as follows (in thousands):

	Operating Leases	Finance Leases
2020 (excludes the nine-months ended September 30, 2020)	$ 573	$ 271
2021	1,831	1,058
2022	1,084	537
2023	732	224
2024 and thereafter	942	67
Total future minimum lease payments	5,162	2,157
Less amounts representing interest	442	151
Present value of lease obligations	$ 4,720	$ 2,006

Note 7. Financial Instruments

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table presents information about our financial assets that are measured at fair value on a recurring basis, and indicates the fair value hierarchy of the valuation techniques we utilize to determine such fair value at September 30, 2020 and December 31, 2019 (in thousands).

	Fair Value as of September 30, 2020			
	Level 1	Level 2	Level 3	Total
Equity securities	$ 31	$ 70	$ —	$ 101
Total	$ 31	$ 70	$ —	$ 101

	Fair Value as of December 31, 2019			
	Level 1	Level 2	Level 3	Total
Equity securities	$ 26	$ 43	$ —	$ 69
Lumber derivative contracts	10	—	—	10
Total	$ 36	$ 43	$ —	$ 79

The investment in equity securities consists of common stock of publicly traded companies. The Company occasionally enters into lumber derivative contracts in order to protect its gross profit margins from fluctuations caused by volatility in lumber prices. At September 30, 2020, the Company had no lumber derivative contracts.

The level 1 and 2 securities and derivative contracts are included in equity securities and other assets, respectively, on the Company’s condensed unaudited consolidated balance sheet. The fair values are based on the closing prices observed on September 30, 2020. During the nine months ended September 30, 2020 and September 30, 2019, the Company recorded net unrealized gain of $33 thousand and $29 thousand, respectively, in the other income (expenses) of condensed unaudited consolidated statement of operations.

We did not reclassify any investments between levels in the fair value hierarchy during the nine months ended September 30, 2020.

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

Note 8. Debt

A summary of the Company's revolving credit facilities, related party notes, and Paycheck Protection Program notes are as follows (in thousands):

	September 30, 2020		December 31, 2019	
	Amount	Weighted-Average Interest Rate	Amount	Weighted-Average Interest Rate
Revolving Credit Facility - Gerber KBS	$ 46	6.00 %	$ 1,111	7.50 %
Revolving Credit Facility - Premier	—	— %	2,925	6.25 %
Total Short Term Revolving Credit Facility	$ 46	6.00 %	$ 4,036	6.59 %
Revolving Credit Facility - SNB	$ 10,849	2.65 %	$ 17,038	4.26 %
Revolving Credit Facility - Gerber EBGL	1,257	6.00 %	—	— %
Total Long Term Revolving Credit Facility	$ 12,106	3.00 %	$ 17,038	4.26 %
LSV Co-Invest I Promissory Note ("January Note")	$ 668	12.00 %	$ 595	12.00 %
LSV Co-Invest I Promissory Note ("June Note")	1,150	12.00 %	1,023	12.00 %
LSVM Note	337	12.00 %	302	12.00 %
Total Notes Payable To Related Parties	$ 2,155	12.00 %	$ 1,920	12.00 %
Short Term Paycheck Protection Program Notes	$ 3,625	1.00 %	$ —	— %
Long Term Paycheck Protection Program Notes	3,023	1.00 %	—	— %
Total Paycheck Protection Program Notes	$ 6,648	1.00 %	$ —	— %

Term Loan Facilities

As of September 30, 2020, the short-term debt and current portion of long-term debt included $0.4 million of the Gerber Star term loan, net of issuance costs, and $0.2 million of the Premier term loan. Long-term debt, net of current portion, included $1.1 million of the Gerber Star term loan, net of issuance costs, and $0.6 million of the Premier term loan.

The following table presents the Star and Premier term loans balance net of unamortized debt issuance costs as of September 30, 2020 (in thousands):

	September 30, 2020
	Amount
Gerber - Star Term Loan	$ 1,900
Premier - Term Loan	819
Total Principal	2,719
Unamortized debt issuance costs	(363)
Total	$ 2,356

Digirad Loan Agreement

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

The SNB Loan Agreement is a five-year credit facility maturing in March 2024, with a maximum credit amount of $20.0 million for both revolving loans and outstanding letter of credit obligations (the "SNB Credit Facility"). Under the SNB Credit Facility, the SNB Borrowers can request the issuance of letters of credit in an aggregate amount not to exceed $0.5 million at any one time outstanding. As of September 30, 2020, the Company had $0.2 million of letters of credit outstanding and had additional borrowing capacity of $8.5 million.

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

The Company used a portion of the financing made available under the SNB Credit Facility to refinance and terminate, effective as of March 29, 2019, its previous credit facility with Comerica Bank, a Texas banking association ("Comerica").

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

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

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

At September 30, 2020, Digirad was in compliance with SNB covenants.

ATRM Promissory Notes

See Note 12, *Related Party Transactions*, for information regarding certain ATRM promissory notes that are outstanding.

KBS Loan Agreement

On February 23, 2016, ATRM, KBS and Main Modular Haulers, Inc. (a subsidiary of ATRM) entered into a Loan and Security Agreement, (as amended, the "KBS Loan Agreement"), with Gerber Finance Inc. ("Gerber"). The KBS Loan Agreement provides KBS with a revolving line of credit with borrowing availability of up to $4.0 million. Availability under the line of credit is based on a formula tied to KBS's eligible accounts receivable, inventory and other collateral. The KBS Loan Agreement, which was scheduled to expire on February 22, 2018, has been automatically extended for successive one (1) year periods in accordance with its terms and is now scheduled to expire on February 22, 2021. The KBS Loan Agreement will be automatically extended for another one (1) year period unless a party thereto provides prior written notice of termination. As of September 30, 2020 neither party has provided notice of termination. Upon the final expiration of the term of the KBS Loan Agreement, the outstanding principal balance is payable in full. Borrowings bear interest at the prime rate plus 2.75%, with interest payable monthly. The KBS Loan Agreement also provides for certain fees payable to Gerber during its term, including a 1.5% annual facilities fee and a 0.10% monthly collateral monitoring fee. KBS's obligations under the KBS Loan Agreement are secured by all of its assets and are guaranteed by ATRM. Unsecured promissory notes issued by KBS and ATRM are subordinate to KBS's obligations under the KBS Loan Agreement. The KBS Loan Agreement contains representations, warranties, affirmative and negative covenants, defined events of default and other provisions customary for financings of this type. Financial covenants require that KBS maintain a maximum leverage ratio (as defined in the KBS Loan Agreement) and KBS not incur a net annual post-tax loss in any fiscal year during the term of the KBS Loan Agreement.

The parties to the KBS Loan Agreement have amended the KBS Loan Agreement to provide for increased availability under the KBS Loan Agreement to KBS under certain circumstances, including for new equipment additions, and certain other changes, as well as a waiver of certain covenants.

As of December 31, 2019 and 2018, KBS was not in compliance with the financial covenants requiring no net annual post-tax loss for KBS or the minimum leverage ratio covenant as of 2018. The occurrence of any event of default under the KBS Loan Agreement may result in KBS's obligations under the KBS Loan Agreement becoming immediately due and payable. In April 2019, June 2019 and February 2020, we obtained a waiver from Gerber for these events. In addition to obtaining a waiver for these covenants, the Company and Gerber agreed to eliminate the minimum leverage ratio covenant for fiscal years after 2018.

On September 10, 2019, the parties of the KBS Loan Agreement entered into a Consent and Acknowledgment Agreement and Twelfth Amendment to Loan Agreement (the "Twelfth Amendment"), by and among Gerber, KBS, ATRM and the Company, pursuant to which the Company agreed to guarantee amounts borrowed by certain ATRM's subsidiaries from Gerber. The Twelfth Amendment requires the Company to serve as an additional guarantor with the existing guarantor, ATRM, with respect to the payment, performance and discharge of each and every obligation of payment and performance by the borrowing subsidiaries with respect to the loans made by Gerber to them. The Twelfth Amendment also provides that upon payment in full of the EBGL Obligations (as defined therein), the amount of the Cash Collateral (as defined therein) will be reduced to $0.3 million. Additionally, ATRM had on deposit $0.2 million in a collateral account maintained with Gerber to secure the loans under the KBS Loan Agreement which was returned to ATRM in November 2019.

On January 31, 2020, the Company, ATRM, KBS and Gerber entered into a Thirteenth Amendment to Loan and Security Agreement (the "Thirteenth Amendment") to amend the terms of the KBS Loan Agreement, in order to, among other things (a) amend the definitions of "Ancillary Credit Parties," "Guarantor," "Obligations," and "Subordinated Lender" to address the obligations of the Star Borrowers, the EBGL Borrowers, the Star Credit Parties, and the EBGL Credit Parties under the Star Loan Agreement, EBGL Loan Agreement and the Subordination Agreements (each as defined below) to which they are a party and (b) add a new cross default provision. As of September 30, 2020, approximately $46 thousand was outstanding under the KBS Loan Agreement.

On March 5, 2020, in connection with the First EBGL Amendment, Gerber, KBS, ATRM and the Company entered into a Consent and as a Fourteenth Amendment to Loan and Security Agreement that amended the KBS Loan Agreement (the "Consent and Fourteenth Amendment"). Under the terms of the Consent and Fourteenth Amendment, the parties thereto (and the subordinated creditors that consented thereto) consented to the First EBGL Amendment and agreed that cash collateral would no longer be part of the borrowing base and that the borrowing base would no longer be based on cash availability for purposes of the KBS Loan Agreement.

On April 1, 2020, Gerber and KBS entered into a Fifteenth Amendment to Loan Agreement (the "Fifteenth Amendment") pursuant to which the "Minimum Average Monthly Loan Amount" under the KBS Loan Agreement was decreased to twenty-five percent (25%) of the Maximum Revolving Amount (as defined in the KBS Loan Agreement).

EBGL Premier Note

On June 30, 2017, EdgeBuilder and Glenbrook (together, EBGL) entered into a Revolving Credit Loan Agreement (as amended, the "Premier Loan Agreement") with Premier Bank ("Premier") providing EBGL with a working capital line of credit of up to $3.0 million. The Premier Loan Agreement replaced the prior revolving credit facility under a loan and security agreement with Gerber (the "EBGL Loan Agreement"), which was terminated on the same date and all obligations of EBGL and ATRM in favor of Gerber in connection with the EBGL Loan Agreement were extinguished.

Availability under the Premier Loan Agreement is based on a formula tied to EBGL's eligible accounts receivable, inventory and equipment, and borrowings bear interest at the prime rate plus 1.50%, with interest payable monthly and the outstanding principal balance payable upon expiration of the term of the Premier Loan Agreement. The Premier Loan Agreement also provides for certain fees payable to Premier during its term. The initial term of the Premier Loan Agreement was scheduled to expire on June 30, 2018, but was extended by Premier until February 1, 2019, and in July 2019, it was extended further by Premier until October 1, 2019. On October 1, 2019, it was extended until November 1, 2019; and on November 1, 2019, was extended until January 1, 2020; and on January 31, 2020, it was extended until January 31, 2023. The Premier Loan Agreement may be further extended from time to time at our request, subject to approval by Premier. EBGL's obligations under the Premier Loan Agreement are secured by all of their inventory, equipment, accounts and other intangibles, fixtures and all proceeds of the foregoing.

As of December 31, 2019, EBGL was in compliance with the following covenants under the Premier Loan Agreement: (i) a requirement to maintain a Debt Service Coverage Ratio for the calendar year of at least 1.0; and (ii) a requirement to deliver ATRM's fiscal year-end audited financial statements within 120 days of the end of each calendar year. The occurrence of any event of default under the Premier Loan Agreement may result in EBGL's obligations under the Premier Loan Agreement becoming immediately due and payable.

On January 31, 2020, contemporaneously with the execution and delivery of the Star Loan Agreement and EBGL Loan Agreement described below, Glenbrook and EdgeBuilder entered into an Extension and Modification Agreement (the "Modification Agreement") with Premier that modified the terms of that certain Revolving Credit Promissory Note (the "Premier Note") made by Glenbrook and EdgeBuilder pursuant to that the Premier Loan Agreement. Pursuant to the Modification Agreement, the amount of indebtedness evidenced by the Premier Note was reduced to $1.0 million, and the Premier Note was modified to, among other things: (a) extend the Final Maturity Date (as defined in the Premier Note) of the Premier Note to January 31, 2023, and (b) set the interest that the Premier Note will bear at 5.75% per annum. As a condition to close and to then later extend the term of the Premier Loan Agreement, ATRM and Mr. Eberwein executed a guaranty in favor of Premier, which has, through the multiple extensions described above, been extended through January 1, 2023, under which ATRM and Mr. Eberwein have absolutely and unconditionally guaranteed all of EBGL's obligations under the Premier Loan Agreement. As of September 30, 2020, approximately $0.8 million was outstanding under the Premier Loan Agreement.

Gerber Star and EBGL Loans

On January 31, 2020, SRE, 947 Waterford Road, LLC ("947 Waterford"), 300 Park Street, LLC ("300 Park"), and 56 Mechanic Falls Road, LLC ("56 Mechanic" and together with SRE, 947 Waterford, and 300 Park, (the "Star Borrowers"), each an Investments Subsidiary, and the Company, ATRM, KBS, EdgeBuilder, and Glenbrook (collectively, the "Star Credit Parties"), entered into a Loan and Security Agreement (as amended, the "Star Loan Agreement") with Gerber providing the Star Borrowers with a credit facility with borrowing availability of up to $2.5 million ($2.0 million and $0.5 million to KBS and EBGL, respectively) (the "Star Term Loan"). The advance of $2.0 million to KBS is to be repaid in monthly installments of sixty (60) consecutive equal payments. The advance of $0.5 million to EBGL, which has been temporarily increased by $0.3 million due to be repaid on April 30, 2020, is to be repaid in monthly installments of twelve (12) consecutive equal payments. On February 20, 2020, the Star Borrowers entered into a First Amendment to Loan and Security Agreement (the "First Star Amendment") with Gerber that amended the Star Loan Agreement in order to (i) temporarily advance $0.3 million to EBGL, which amount was, prior to the Second Star Amended described below, to be repaid to Gerber on or before April 30, 2020; (ii) clarify that Gerber can make multiple advances under the Star Loan Agreement, and (iii) to correct the maturity date of the Star Term Loan. On April 30, 2020, the Star Borrowers entered into a Second Amendment to Loan and Security Agreement (the "Second Star Amendment") with Gerber that amended the Star Loan Agreement in order to change terms of repayment for the advance of $0.3 million to EBGL provided for under the First Star Amendment. Under the terms of the Second Star Amendment, the advance of $0.3 million to EBGL is to be repaid in three (3) consecutive equal monthly installments on the thirtieth (30th) day in each calendar month, commencing May 30, 2020, and in a final installment on or before July 31, 2020. As of September 30, 2020, EBGL repaid $0.3 million to Gerber and approximately $1.9 million was outstanding under the Star Loan Agreement.

On January 31, 2020, EdgeBuilder and Glenbrook (the "EBGL Borrowers"), each a Construction Subsidiary, and the Company, Star, 947 Waterford, 300 Park, 56 Mechanic, ATRM, and KBS (collectively, the "EBGL Credit Parties"), entered into a Loan and Security Agreement (the "EBGL Loan Agreement") with Gerber providing the EBGL Borrowers with a credit facility with borrowing availability of up to $3.0 million (the "EBGL Loan"). On March 5, 2020, the EBGL Borrowers entered into a First Amendment to Loan and Security Agreement (the "First EBGL Amendment") with Gerber that amended the EBGL Loan Agreement and the KBS Loan Agreement in order to, among other things, include a pledge $0.3 million of cash collateral by LSVI under the EBGL Loan Agreement which, prior to the First EBGL Amendment, was pledged by LSVI in connection with the KBS Loan Agreement. On July 1, 2020, the EBGL Borrowers entered into a Second Amendment to Loan and Security Agreement that amended the EBGL Loan Agreement in order to, among other things, terminate the pledge of $0.3 million in cash collateral. As of September 30, 2020, approximately $1.3 million was outstanding under the EBGL Loan Agreement.

Availability under the Star Loan Agreement is based on a formula tied to the value of real estate owned by the Star Borrowers, and borrowings bear interest at the prime rate plus 3.5% per annum. Availability under the EBGL Loan Agreement is based on a formula tied to the EBGL Borrowers' eligible accounts receivable and inventory, and borrowings bear interest at the prime rate plus 2.75% per annum. The Loan Agreements also provide for certain fees payable to Gerber during their respective terms. The Star Term Loan matures on the earlier of (a) January 1, 2025 or (b) the termination, the maturity or repayment of the EBGL Loan. The EBGL Loan matures on the earlier of (a) January 1, 2022, unless extended, or (b) the termination, the maturity or repayment of the Star Term Loan. The maturity of the EBGL Loan is automatically extended for successive periods of one (1) year each unless terminated by Gerber or the EBGL Borrowers.

The obligations of the EBGL Borrowers under the EBGL Loan Agreement are guaranteed by the EBGL Credit Parties and are secured by substantially all the assets of the EBGL Borrowers and the EBGL Credit Parties. The obligations of the Star Borrowers under the Star Loan Agreement are guaranteed by the Star Credit Parties and are secured by substantially all the assets of the Star Borrowers and the Star Credit Parties. Contemporaneously with the execution and delivery of the Star Loan Agreement, Jeffrey E. Eberwein, the Chairman of the Company's board of directors, executed and delivered a Guaranty (the "Gerber Eberwein Guaranty") to Gerber pursuant to which he guaranteed the performance of all the Star Borrowers' obligations to Gerber under the Star Loan Agreement, including the full payment of all indebtedness owing by the Star Borrowers to Gerber under or in connection with the Star Loan Agreement and related financing documents. Mr. Eberwein's obligations under the Gerber Eberwein Guaranty are limited in the aggregate to the amount of (a) $2.5 million, plus (b) costs of Gerber incidental to the enforcement of the Gerber Eberwein Guaranty or any guaranteed obligations. On March 5, 2020, contemporaneously with the execution and delivery of the First EBGL Amendment, Mr. Eberwein, the Chairman of the Company's board of directors, executed and delivered a Guaranty (the "EBGL Eberwein Guaranty") to Gerber pursuant to which he guaranteed the performance of all the EBGL Borrowers' obligations to Gerber under the EBGL Loan Agreement, including the full payment of all indebtedness owing by the EBGL Borrowers to Gerber under or in connection with the EBGL Loan Agreement and related financing documents. Mr. Eberwein's obligations under the EBGL Eberwein Guaranty are limited in the aggregate to the amount of (a) $0.5 million, plus (b) costs of Gerber incidental to the enforcement of the EBGL Eberwein Guaranty or any guaranteed obligations.

The Star Loan Agreement and EBGL Loan Agreement contains representations, warranties, affirmative and negative covenants, events of default and other provisions customary for financings of this type. The financial covenants under the EBGL Loan Agreement applicable to the EBGL Borrowers include maintenance of a minimum tangible net worth, a minimum debt service coverage ratio and minimum net income. The Financial covenants under the Star Loan Agreement applicable to the Star Borrowers include a minimum debt service coverage ratio. The occurrence of any event of default under the Loan Agreements may result in the obligations of the Borrowers becoming immediately due and payable. As a condition to the extension of credit to the Star Borrowers and EBGL Borrowers under the Star Loan Agreement and EBGL Loan Agreement, the holders of certain existing unsecured promissory notes made by ATRM and certain of its subsidiaries entered into subordination agreements (the "Subordination Agreements") with Gerber pursuant to which such noteholders (including the Company and certain of its subsidiaries) agreed to subordinate the obligations of ATRM and its subsidiaries to such noteholders to the obligations of the Star Borrowers and EBGL Borrowers to Gerber under the loan agreements.

<u>Paycheck Protection Program</u>

On April 30, 2020, each of KBS, EdgeBuilder and Glenbrook executed a separate promissory note evidencing unsecured loans under the "Paycheck Protection Program" (the "PPP"). The promissory note executed by KBS is for $0.8 million (the "KBS Note"), the promissory note executed by EdgeBuilder is for $0.2 million (the "EdgeBuilder Note") and the promissory note executed by Glenbrook is for $0.2 million (the "Glenbrook Note"). The KBS Note, the EdgeBuilder Note and the Glenbrook Note, each dated April 30, 2020, are referred to together as the "Construction Notes".

On May 11, 2020, the Company and each of Digirad Imaging Solutions, Inc. ("DIS"), DMS Imaging, Inc. ("DMS Imaging") and DMS Health Technologies, Inc. ("DMS Health"), each a direct or indirect wholly owned subsidiary of the Company, executed a separate promissory note evidencing unsecured loans under the PPP. The promissory note executed by the Company, dated May 7, 2020, is for $0.8 million (the "Company Note"); the promissory note executed by DIS, dated May 5, 2020, is for $3.0 million (the "DIS Note"); the promissory note executed by DMS Imaging, dated May 5, 2020, is for $1.6 million (the "DMS Imaging Note") and the promissory note executed by DMS Health, dated May 7, 2020, is for $0.1 million (the "DMS Health Note"). The Company Note, the DIS Note, the DMS Imaging Note, and the DMS Health Note are referred to together as the "Healthcare Notes". The Construction Notes and the Healthcare Notes are referred to collectively as the "PPP Notes" and each promissory note individually as a "PPP Note".

The PPP was established under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") and is administered by the U.S. Small Business Administration ("SBA"). The loans evidenced by the Construction Notes are being made through Bremer Bank ("Bremer") as lender, and the loans evidenced by the Healthcare Notes are being made through Sterling as lender.

The loans evidenced by the PPP Notes (the “PPP Loans”) have two-year terms and bear interest at a rate of 1.00% per annum. Monthly principal and interest payments under the PPP Loans are deferred for six months. Beginning seven months from the date of a PPP Note, unless fully forgiven prior thereto, the applicable borrower will pay to its lender thereunder a monthly principal and interest payments. The PPP Loans may be prepaid at any time prior to maturity with no prepayment penalties. The Construction Notes mature on April 30, 2022, and the Healthcare Notes mature two years from the date the loans under the Healthcare Notes are disbursed. Loans under the Company Note and the DIS Note were disbursed on May 12, 2020, and the loans under the DMS Health Note and DMS Imaging Note were disbursed on May 13, 2020.

The PPP Notes contain customary events of default relating to, among other things, payment defaults, making materially false and misleading representations to the SBA or lender, or breaching the terms of the applicable PPP Loan documents. Upon an event of default under a PPP Note, the lender thereunder may, among other things, require immediate payment of all amounts owing under the applicable PPP Note, collect all amounts owing from the applicable borrower, or file suit and obtain judgment.

Under the terms of the CARES Act, recipients of loans under the PPP can apply for and be granted forgiveness for all or a portion of loan granted under the PPP. Such forgiveness will be determined, subject to limitations, based on the use of loan proceeds for payment of payroll costs and certain other eligible costs. However, no assurance is provided that forgiveness for any portion of the PPP Loans will be obtained.

In order to apply for the PPP Loan, we were required to certify, among other things, that the current economic uncertainty made the PPP Loan request necessary to support ongoing operations of the Company. This certification further required the Company to take into account its current business activity and its ability to access other sources of liquidity sufficient to support ongoing operations in a manner that is not significantly detrimental to the business. The Company is continuing to evaluate the criteria and new guidance put out by the SBA regarding loan forgiveness criteria and procedures to seek loan forgiveness. The Company has sought full loan forgiveness from the SBA for the DMS Health Note and DMS Imaging Note, and expects to seek full loan forgiveness for the DIS Note, Company Note, and Construction Notes based on the satisfaction of applicable criteria and guidelines. PPP Loan forgiveness is sought under the belief all entities requesting loan forgiveness have met the stated criteria and guidelines provided by the SBA and terms of the CARES Act; however, no assurance can be provided that forgiveness for any portion of the PPP Loans will be obtained.

Note 9. Commitments and Contingencies

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

Note 10. Income Taxes

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

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

For the nine months ended September 30, 2020, the Company recorded an income tax expense of $90 thousand. For the nine months ended September 30, 2019, the Company recorded an income tax benefit of $168 thousand within continuing operations and an income tax expense of $84 thousand within discontinued operations.

As of September 30, 2020, we had unrecognized tax benefits of approximately $2.8 million related to uncertain tax positions. Included in the unrecognized tax benefits were $2.3 million of tax benefits that, if recognized, would reduce our annual effective tax rate, subject to the valuation allowance.

We file income tax returns in the U.S. and in various state jurisdictions with varying statutes of limitations. We are no longer subject to income tax examination by tax authorities for years prior to 2015; however, our net operating loss carryforwards and research credit carryforwards arising prior to that year are subject to adjustment. Our policy is to recognize interest expense and penalties related to income tax matters as a component of income tax expense.

On March 27, 2020, the President signed into law the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). There were several income tax provisions included in the CARES Act, as well as other non-tax matters incorporated into law as a result of the enactment of the CARES Act.

Under the CARES Act, net operating losses generated in tax years 2018, 2019, and 2020 can be carried back five years, allowing corporate taxpayers to amend earlier tax returns and potentially obtain a tax refund. In addition, losses generated and utilized prior to January 1, 2021 are not subject to the 80 percent limitation that was previously applied to losses generated after December 31, 2017 under the Tax Cuts and Jobs Act of 2017. The Company doesn’t currently estimate that any tax will be recoverable from these tax provisions and therefore does not anticipate there to be a material impact from these provisions on the Company’s income tax balances in its current year financial statements.

The Tax Cuts and Jobs Act of 2017 limited interest deductions to 30% of adjusted taxable income ("ATI"). The CARES Act increases the limitation to 50 percent of adjusted taxable income for tax years 2019 or 2020, thereby raising the limitation ceiling and potentially allowing for increased interest deductions. In addition, companies have the option of using 2019 ATI to compute the limitation for 2020. The Company tentatively plans to take advantage of certain of these provisions to eliminate any potential section 163(j) interest carryovers from its inventory of deferred tax assets for the year ending December 31, 2020.

The CARES Act adopts a technical correction to the Tax Cuts and Jobs Act's apparent oversight in excluding the eligibility of qualified improvement property (e.g., real estate/leasehold improvements) from eligibility for bonus depreciation for tax years after 2017. Companies are allowed to amend 2018 income tax or file accounting method changes in 2019 to claim the additional deductions. The Company is still evaluating the impact of this provision; however, the Company does not anticipate that this provision will have any impact on the Company’s tax expense or payable balances. If pursued, this provision may have an impact on the Company’s allocation of its deferred tax assets related to property, plant, and equipment and net operating losses, which are substantially offset by the Company’s full valuation allowance.

Certain other provisions of the CARES Act, such as the ability to obtain a refund of alternative minimum taxes (“AMT”) previously paid to the IRS and the increased ability to deduct charitable contributions by corporations are not expected to be applicable to the Company. Overall, we do not expect the income tax provisions of the CARES Act to have a material impact to the Company’s financial statements.

Note 11. Segments

Our reporting segments have been determined based on the nature of the products and services offered to customers or the nature of their function in the organization. We evaluate performance based on the gross profit and operating income (loss). The Company does not identify or allocate its assets by operating segments. During the third quarter of 2020, we modified our methodology used to allocate amortization expenses to our segments to better reflect the use of shared costs as they relate to ATRM which was acquired in September 2019. Results for the prior year have been recast to be comparable to the current year presentation.

Segment information is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
Revenue by segment:				
Diagnostic Services	$ 10,711	$ 11,670	$ 28,665	$ 35,714
Diagnostic Imaging	2,048	3,351	7,242	8,923
Mobile Healthcare	9,035	10,575	26,534	30,669
Building and Construction	8,542	2,729	19,061	2,729
Real Estate and Investments	175	43	525	43
Corporate, eliminations and other	(158)	(35)	(475)	(35)
Consolidated revenue	$ 30,353	$ 28,333	$ 81,552	$ 78,043
Gross profit by segment:				
Diagnostic Services	$ 2,076	$ 2,162	$ 5,034	$ 7,548
Diagnostic Imaging	399	1,174	2,500	3,040
Mobile Healthcare	1,155	1,441	3,205	3,351
Building and Construction	1,253	477	2,709	477
Real Estate and Investments	110	(23)	329	(200)
Corporate, eliminations and other	(158)	(35)	(475)	(35)
Consolidated gross profit	$ 4,835	$ 5,196	$ 13,302	$ 14,181
(Loss) income from operations by segment:				
Diagnostic Services	$ 1,424	$ 1,304	$ 2,904	$ 4,914
Diagnostic Imaging	138	755	1,592	1,662
Mobile Healthcare	176	310	5	(357)
Building and Construction	(496)	(125)	(2,445)	(125)
Real Estate and Investments	93	(61)	209	(260)
Corporate, eliminations and other	(158)	(35)	(475)	(35)
Unallocated corporate and other expenses	(2,710)	(2,299)	(7,453)	(7,231)
Segment loss from operations	$ (1,533)	$ (151)	$ (5,663)	$ (1,432)
Merger and finance costs	—	(1,058)	—	(2,058)
Consolidated loss from operations	$ (1,533)	$ (1,209)	$ (5,663)	$ (3,490)
Depreciation and amortization by segment:				
Diagnostic Services	$ 280	$ 333	$ 917	$ 942
Diagnostic Imaging	60	64	189	215
Mobile Healthcare	1,388	1,272	4,130	4,137
Building and Construction	580	124	1,723	124
Real Estate and Investments	65	208	196	243
Total depreciation and amortization	$ 2,373	$ 2,001	$ 7,155	$ 5,661

Subsequent to the ATRM Merger, the Company formed a building and construction segment through ATRM that services residential and commercial construction projects by manufacturing modular housing units, structural wall panels, permanent wood foundation systems, and other engineered wood products, and supplies general contractors with building materials. The Company also formed real estate and investments segment through SRE and LSVM to manage real estate assets and investments.

Note 12. Related Party Transactions

Perma-Fix

Prior to his resignation on April 6, 2020, John Climaco served as one of our directors and a member of the Audit and Strategic Advisory committees of our board of directors. Until July 11, 2017, Mr. Climaco also served as a director of Perma-Fix Environmental Services, Inc. (NASDAQ: PESI). Further, from June 2, 2015 until July 11, 2017, Mr. Climaco served as the Executive Vice President of Perma-Fix Medical S.A., a majority-owned Polish subsidiary of Perma-Fix Environmental Services, Inc. On July 27, 2015, we entered into a Stock Subscription Agreement (the "Subscription Agreement") and Tc-99m Supplier Agreement (the "Supply Agreement") with Perma-Fix Medical. Under the terms of the Subscription Agreement, we invested $1.0 million USD in exchange for 71,429 shares of Perma-Fix Medical. Pursuant to the Supply Agreement, should Perma-Fix Medical successfully complete development of its Tc-99m resin, Perma-Fix Medical will supply us or our preferred nuclear pharmacy supplier with Tc-99m at a preferred rate and we will purchase agreed upon quantities of such Tc-99m for our nuclear imaging operations, either directly or in conjunction with our preferred nuclear pharmacy supplier. As of September 30, 2020, the fair market value of the Perma-Fix Medical securities is $70 thousand. In addition, in connection with the Subscription Agreement, the Company's President and Chief Executive Officer was appointed to the Supervisory Board of Perma-Fix Medical.

Eberwein Guarantees

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

On January 31, 2020, contemporaneously with the execution and delivery of the Star Loan Agreement, Mr. Eberwein, the Chairman of the Company's board of directors, executed and delivered a Guaranty (the Gerber Eberwein Guaranty) to Gerber pursuant to which he guaranteed the performance of all the Star Borrowers' obligations to Gerber under the Star Loan Agreement, including the full payment of all indebtedness owing by the Star Borrowers to Gerber under or in connection with the Star Loan Agreement and related financing documents. Mr. Eberwein's obligations under the Gerber Eberwein Guaranty are limited in the aggregate to the amount of (a) $2.5 million, plus (b) costs of Gerber incidental to the enforcement of the Gerber Eberwein Guaranty or any guaranteed obligations.

On March 5, 2020, contemporaneously with the execution and delivery of the First EBGL Amendment, Mr. Eberwein, the Chairman of the Company's board of directors, executed and delivered a Guaranty (the EBGL Eberwein Guaranty) to Gerber pursuant to which he guaranteed the performance of all the EBGL Borrowers' obligations to Gerber under the EBGL Loan Agreement, including the full payment of all indebtedness owing by the EBGL Borrowers to Gerber under or in connection with the EBGL Loan Agreement and related financing documents. Mr. Eberwein's obligations under the EBGL Eberwein Guaranty are limited in the aggregate to the amount of (a) $0.5 million, plus (b) costs of Gerber incidental to the enforcement of the EBGL Eberwein Guaranty or any guaranteed obligations.

As a condition to the Premier Loan Agreement, Mr. Eberwein entered into a guaranty in favor of Premier, absolutely and unconditionally guaranteeing all of the borrowers' obligations thereunder.

Eberwein Premier Participation

Pursuant to a certain Participation Agreement by and between Mr. Eberwein and Premier, which was signed on March 31, 2020 and was effective as of March 26, 2020, Mr. Eberwein purchased a ratable participation in, and assumed a ratable part of, the aggregate maximum principal amount of the outstanding balance of the loan under the Premier Loan Agreement in the amount of $0.3 million.

ATRM

Jeffrey E. Eberwein, the Chairman of our board of directors is also the Chief Executive Officer of Lone Star Value Management, LLC (“LSVM”), which is the investment manager of Lone Star Value Investors, LP (“LSVI”) and Lone Star Value Co-Invest I, LP (“LSV Co-Invest I”). Mr. Eberwein is also the sole manager of Lone Star Value Investors GP, LLC (“LSV GP”), the general partner of LSVI and LSV Co-Invest I, and is the sole owner of LSV Co-Invest I. LSVM was a wholly owned subsidiary of ATRM on the ATRM Acquisition Date (see Acquisition of LSVM below). Prior to the closing of the ATRM Merger, Mr. Eberwein was also Chairman of the board of directors of ATRM. On October 25, 2019, ATRM distributed its interest in LSVM to Digirad, resulting in LSVM becoming a wholly owned direct subsidiary of Digirad.

Prior to the closing of the ATRM Merger, Mr. Eberwein and his affiliates owned approximately 4.3% of the outstanding Digirad common stock and 17.4% of the outstanding ATRM common stock. In addition, LSVI owned 222,577 shares of ATRM’s 10.0% Series B Cumulative Preferred Stock (the “ATRM Preferred Stock”) and another 374,562 shares of ATRM Preferred Stock were owned directly by LSV Co-Invest I. Through these relationships and other relationships with affiliated entities, Mr. Eberwein may be deemed the beneficial owner of the securities owned by LSVI and LSV Co-Invest I. Mr. Eberwein disclaimed beneficial ownership of ATRM Preferred Stock, except to the extent of his pecuniary interest therein. At the effective time of the ATRM Merger, (i) each share of ATRM common stock converted into the right to receive three one-hundredths (0.03) of a share of Company Preferred Stock and (ii) each share of ATRM Preferred Stock converted into the right to receive two and one-half (2.5) shares of Company Preferred Stock.

As of September 30, 2020, Mr. Eberwein owned approximately 7.4% of the outstanding Digirad common stock, including 216,174 Shares underlying a call option received pursuant to that certain Amended and Restated Put Option and Standstill Agreement, entered into on March 5, 2020, between Mr.Eberwein and Cannell Capital LLC. In addition, as of September 30, 2020, Mr. Eberwein owned 1,310,036 shares of Company Preferred Stock.

On July 10, 2020, Digirad authorized LSVI to initiate a pro-rata distribution to its partners of an aggregate of 300,000 shares of Company Preferred Stock which was finalized by the Company's transfer agent on July 22, 2020 (the "Distribution"), which includes 114,624 shares of Company Preferred Stock consisting of (i) 113,780 shares of Company Preferred Stock received by the Jeffrey E. Eberwein Revocable Trust (the “Eberwein Trust”) as a result of the Distribution and (ii) 844 shares of Company Preferred Stock acquired by the Eberwein Trust as a result of shares of Company Preferred Stock distributable to LSV GP in the Distribution being transferred directly to the Eberwein Trust contemporaneously with the Distribution. At the time of the Distribution, the Eberwein Trust was a limited partner of LSVI and LSV GP was the general partner of LSVI. Mr. Eberwein, as the trustee of the Eberwein Trust, may be deemed to beneficially own the securities held in the Eberwein Trust. Mr. Eberwein expressly disclaims beneficial ownership of such securities held in the Eberwein Trust except to the extent of his pecuniary interest therein. Mr. Eberwein, by virtue of his position as the manager and sole beneficial owner of LSV GP, the general partner of LSVI, may be deemed to beneficially own the securities owned by LSVI and LSV GP. Mr. Eberwein expressly disclaims beneficial ownership of such securities owned by LSVI and the securities owned by LSV GP, except to the extent of his pecuniary interest therein.

Private Placement

Immediately prior to the closing of the ATRM Merger, Digirad issued 300,000 shares of Company Preferred Stock in the Private Placement to LSVI for a price of $10.00 per share for total proceeds to the Company of $3.0 million. The Private Placement was made pursuant to the terms of a Stock Purchase Agreement, dated as of September 10, 2019 (the “SPA”). The shares of Company Preferred Stock sold in the Private Placement have not been registered under the Securities Act of 1933, as amended (the “Act”), and may not be resold absent registration under, or exemption from registration under, the Act.

At the closing of the Private Placement, the Company and LSVI entered into a Registration Rights Agreement, dated as of September 10, 2019 (the “Registration Rights Agreement”), pursuant to which Digirad agreed to file a registration statement with the SEC, covering the resale of the shares of Company Preferred Stock issued in the Private Placement, if and upon the written request of the Private Placement investors at any time on or before September 10, 2021.

On September 17, 2020, in connection with satisfying the Company's obligations under the Registration Rights Agreement, the Company filed a registration statement with the SEC (the "September Registration Statement") relating to the sale or other disposition from time to time of up to 1,492,321 shares of Company Preferred Stock, par value $0.0001 per share (referred to herein as our "preferred stock", by the selling stock holders identified in the September Registration Statement, including their transferees, pledgees, donees or successors. Mr. Eberwein, the Chairman of the Company's board of directors, is a selling stockholder under the September Registration Statement. The selling stockholders may, from time to time, sell transfer, or otherwise dispose of any or all of their shares of Company Preferred Stock or interests in shares of Company Preferred Stock on any stock exchange, market, or trading facility on which the shares are traded or in private transactions. These dispositions by the selling stockholders may be at fixed prices, at prevailing market prices at the time of sale, at prices related to prevailing market price, at varying prices determined at the time of sale, or at negotiated prices.

Put Option Agreement

In addition, prior to the effective time of the ATRM Merger, we entered into a put option purchase agreement with Mr. Eberwein, pursuant to which we have the right to require Mr. Eberwein to acquire up to 0.1 million shares of our Series A Preferred Stock at a price of $10.00 per share for aggregate proceeds of up to $1.0 million at any time, in our discretion, during the 12 months following the effective time of the ATRM Merger (the "Issuance Option"). In March 2020, Mr. Eberwein extended the Issuance Option through June 30, 2021.

ATRM Notes Payable

ATRM, a wholly owned subsidiary of the Company as a result of the ATRM Merger, has the following related party promissory notes outstanding:

(i) Unsecured promissory note (principal amount of $0.7 million payable to LSV Co-Invest I), with interest payable semi-annually at a rate of 10.0% per annum (LSV Co-Invest I may elect to receive interest in-kind at a rate of 12.0% per annum), with any unpaid principal and interest due on January 12, 2020 (the "January Note"). On November 13, 2019, LSV Co-Invest I extended the maturity date of the January Note from January 12, 2020, to the earlier of (i) October 1, 2020 or (ii) the date when the January Note is no longer subject to a certain Subordination Agreement dated January 12, 2018, as amended, in favor of Gerber. Subsequently on November 2, 2020, LSV Co-Invest I extended the maturity date of the January Note to the earlier of (i) the date that is five business days after the closing date of the DMS Sale Transaction (described below in Note 15. Subsequent Events) or (ii) the date when the January Note is no longer subject to certain subordinate letter/agreement dated January 12, 2018, as amended in favor of Gerber Finance, Inc.

(ii) Unsecured promissory note (principal amount of $1.2 million payable to LSV Co-Invest I), with interest payable semi-annually at a rate of 10.0% per annum (LSV Co-Invest I may elect to receive interest in-kind at a rate of 12.0% per annum), with any unpaid principal and interest due on June 1, 2020 (the "June Note"). On November 13, 2019 LSV Co-Invest I also extended the maturity date of the June Note from June 1, 2020, to the earlier of (i) October 1, 2020 or (ii) the date when the January Note is no longer subject to a certain Subordination Agreement dated June 1, 2018, as amended, in favor of Gerber. Subsequently on November 2, 2020, LSV Co-Invest I extended the maturity date of the June Note to the earlier of (i) the date that is five business days after the closing date of the DMS Sale Transaction (described below in Note 15. Subsequent Events) or (ii) the date when the June Note is no longer subject to certain subordinate letter/agreement dated January 12, 2018, as amended in favor of Gerber Finance, Inc.

(iii) Unsecured promissory note (principal amount of $0.3 million payable to LSVM), with interest payable annually at a rate of 10.0% per annum (LSVM may elect to receive any interest payment entirely in-kind at a rate of 12.0% per annum), with any unpaid principal and interest due on November 30, 2020 (the "LSVM Note"). On November 2, 2020, LSVM extended the maturity date to the earlier of (i) the date that is five business days after the closing date of the DMS Sale Transaction (described below in Note 15. Subsequent Events) or (ii) the date when the LSVM Note is no longer subject to certain subordinate letter/agreement dated January 12, 2018, as amended in favor of Gerber Finance, Inc.

LSVM and LSV Co-Invest I on July 17, 2019, waived any right to accelerate payment with respect to the ATRM Merger under the LSVM Note, the January Note, and the June Note. In March 2020, Mr. Eberwein, sole manager of LSV Co-Invest I and LSVM, provided the Company Letter of Support for the LSVM Note, the January Note, and the June Note indicating that the applicable holder of such notes will take no adverse action against ATRM for failure to pay the principal due on the applicable note by the maturity date and intends to work with the Company and ATRM to assure our financial success.

Subordination Agreement

LSVM and LSV Co-Invest I are party to subordination agreements with ATRM and Gerber pursuant to which LSVM and LSV Co-Invest I agreed to subordinate the obligations of ATRM under their unsecured promissory notes to the obligations of the borrowers to Gerber.

Acquisition of LSVM

On April 1, 2019, ATRM entered into a Membership Interest Purchase Agreement (the "LSVM Purchase Agreement") with LSVM and Mr. Eberwein. Pursuant to the terms of the LSVM Purchase Agreement, Mr. Eberwein sold all of the issued and outstanding membership interests of LSVM to ATRM (the "LSVM Acquisition") for a purchase price of $100.00, subject to a working capital adjustment provision. The LSVM Acquisition closed simultaneously with the execution and delivery of the LSVM Purchase Agreement, and was deemed effective as of January 1, 2019 for accounting purposes, as a result of which LSVM became a wholly owned subsidiary of ATRM. Pursuant to the LSVM Purchase Agreement, the current assets as well as the $0.3 million promissory note issued by ATRM and current liabilities existing prior to January 1, 2019 remain with Mr. Eberwein. Cash contributions made by Mr. Eberwein subsequent to the ATRM Acquisition also exist as a payment due to Mr. Eberwein by ATRM. The LSVM Purchase Agreement contains representations, warranties, covenants and indemnification provisions customary for transactions of this type. LSVM was acquired by the Company as part of the ATRM Acquisition.

Financial Assistance

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

Joint Venture

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

As of September 30, 2020, and upon the completion of the ATRM Merger, Star Procurement became wholly owned subsidiary of the Company.

Note Receivable

On December 14, 2018, the Company received an unsecured promissory note from ATRM in the principal amount of $0.3 million (the "ATRM Note") in exchange for a loan to ATRM in the same amount. The ATRM Note bears interest at 10% per annum for the first 12 months of its term, and at 12% per annum for the remaining 12 months. All unpaid principal and interest is due on December 14, 2020. ATRM may prepay the note at any time after a specified amount of advance notice to the Company. The ATRM Note provides for customary events of default, the occurrence of any of which may result in the principal and unpaid interest then outstanding becoming immediately due and payable. The ATRM Note was included in other assets in the condensed unaudited consolidated balance sheets.

As of September 30, 2020, and upon the completion of the ATRM Merger, the note receivable was effectively settled.

Acquisitions and Leases of Maine Facilities

Through its SRE subsidiary, and prior to the completion of the ATRM Merger, the Company purchased two plants in Maine that manufacture modular buildings from KBS, a wholly-owned subsidiary of ATRM. SRE then leased these properties back to KBS, as further described below.

Waterford

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

KBS subleased the manufacturing building located in Waterford, Maine to North Country Steel Inc., a Maine corporation with an initial 5 year term rental agreement, commenced on September 6, 2019. The rental agreement is structured with a monthly payment arrangement and is accounted for as operating lease.

Paris

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

Lease of Maine Facilities

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

On March 27, 2019, 56 Mechanic Falls Road, LLC (“56 Mechanic”), a wholly-owned subsidiary of SRE, purchased from a third party certain property and equipment located in Oxford, Maine (the “Oxford Facility”). The transaction closed on April 25, 2019. The purchase price of the Oxford Facility was $1.2 million, subject to adjustment for taxes and other charges and assessments. On April 3rd and 18th of 2019, KBS signed a lease and an amendment, respectively, with 56 Mechanic (the “Oxford Lease”), which became effective upon the closing of the transaction. The initial term under the Oxford Lease will commence upon delivery of the Oxford Facility to KBS. The Oxford Lease has an initial term of 120 months, which is subject to extension. The base rental payments associated with the initial term under the Oxford Lease are estimated to be between $1.4 million and $1.5 million in the aggregate. ATRM has unconditionally guaranteed the performance of all obligations under the Oxford Lease to be performed by KBS, including, without limitation, the payment of all required rent.

As of September 30, 2020 and upon the completion of the ATRM Merger, the Waterford Lease, the Park Lease and the Oxford Lease are treated as intercompany transactions and eliminated in the unaudited consolidated financial statements.

Note 13. Redeemable Preferred Stock

Holders of shares of the Company Preferred Stock will be entitled to receive, when, as and if, authorized by the Company’s board of directors (or a duly authorized committee of Digirad board of directors) and declared by the Company out of funds legally available for the payment of dividends, preferential cumulative cash dividends at the rate of 10.0% per annum of the liquidation preference of $10.00 per share. Dividends will be payable quarterly, in arrears, on the last calendar day of March, June, September and December to holders of record at the close of business on the first day of each payment month. As of September 30, 2020, the Company’s board has not declared a dividend on the Company Preferred Stock.

A roll forward of the balance of Company Preferred Stock for the year ended September 30, 2020 is as follows (in thousands):

Balance at December 31, 2019	$	19,602
Deemed dividend on redeemable convertible preferred stock		1,442
Fees paid on issuance of preferred stock		(3)
Balance at September 30, 2020	$	21,041

Note 14. Discontinued Operations

On February 1, 2018, the Company completed the sale of its customer contracts relating to our MDSS post-warranty service business to Philips pursuant to an Asset Purchase Agreement, dated as of December 22, 2017, for $8.0 million. The total cash proceeds were adjusted for deferred revenue liabilities assigned to Philips at the closing date, as well as $0.5 million of proceeds held in escrow, subject to claims for breaches of general representation and warranties, which was recorded in other current assets at the date of sale. All claims were settled as of December 31, 2018. Prior to the sale of the customer contracts, we received notification from Philips on September 28, 2017, that our distribution agreement to sell Philips imaging systems on a commission basis would be terminated, effective December 31, 2017. As a result, our product sales activities within our MDSS reportable segment were also discontinued effective in the first quarter of 2018.

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

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

The Company has allocated a portion of interest expense to discontinued operations since the proceeds received from the sale were required to be used to pay down outstanding borrowings under our previous revolving credit facility with Comerica Bank, a Texas banking association (“Comerica Bank”) under that certain Revolving Credit Agreement, dated June 21, 2017, by and between the Company and Comerica Bank (the “Comerica Credit Agreement”). The allocation was based on the ratio of proceeds received in the sale to total borrowings for the period. In addition, certain general and administrative costs related to corporate and shared service functions previously allocated to the MDSS reportable segment are not included in discontinued operations.

The following table presents financial results of the MDSS business (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
Total revenues	$ —	$ —	$ —	$ —
Total cost of revenues	—	—	—	—
Gross profit	—	—	—	—
Operating expenses:	—	—	—	—
Marketing and sales	—	—	—	—
General and administrative	—	—	—	—
Amortization of intangible assets	—	—	—	—
Gain on sale of discontinued operations	—	—	—	(350)
Total operating expenses	—	—	—	(350)
Income from discontinued operations	—	—	—	350
Interest expense	—	—	—	—
Income from discontinuing operations before income taxes	—	—	—	350
Income tax expense	—	—	—	(84)
Income from discontinuing operations	$ —	$ —	$ —	$ 266

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

	Nine Months Ended September 30,	
	2020	2019
Operating activities:		
Depreciation	$ —	$ —
Amortization of intangible assets	$ —	$ —
Gain on sale of discontinued operations	$ —	$ (350)
Stock-based compensation	$ —	$ —
Investing activities:		
Proceeds from the sale of discontinued operations	$ —	$ —

Note 15. Subsequent Events

On October 30, 2020, Digirad entered into a Stock Purchase Agreement (the " DMS Purchase Agreement") by and among Digirad, Project Rendezvous Acquisition Corporation, a Delaware corporation and wholly owned subsidiary of Digirad ("Seller"), DMS Health Technologies, Inc., a North Dakota corporation and wholly owned subsidiary of Seller ("DMS Health"), and Knob Creek Acquisition Corp., a Tennessee corporation ("Buyer") pursuant to which, subject to the satisfaction or waiver of certain conditions, Buyer will purchase all of the issued and outstanding common stock of DMS Health from Seller (the " DMS Sale Transaction"). The purchase price for the DMS Sale Transaction is $18.75 million in cash, subject to certain adjustments, including a working capital adjustment. The completion of the DMS Sale Transaction is subject to receipt of certain consents and customary closing conditions. The DMS Sale Transaction is not subject to approval by the Company's stockholders. Assuming the satisfaction or waiver of the closing conditions, the DMS Sale Transaction is expected to close on or about January 4, 2021.

For additional information on the above subsequent events see the Company's Current Report on Form 8-K filed with the SEC on November 3, 2020.

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, 2019, which were included in our Form 10-K, filed with the SEC on March 9, 2020.

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

Overview

Upon Digirad's acquisition of ATRM Holdings, Inc. ("ATRM") on September 10, 2019 (the "ATRM Merger" or the "ATRM Acquisition"), Digirad converted into a diversified holding company (the "HoldCo Conversion"). As a diversified holding company, Digirad has three divisions:

- Healthcare (Digirad Health): Digirad Health operates in three businesses: Diagnostic Services, Mobile Healthcare, and Diagnostic Imaging. The Diagnostic Services business offers imaging and monitoring services to healthcare providers as an alternative to purchasing the equipment or outsourcing the job. The Mobile Healthcare business provides contract diagnostic imaging, including computerized tomography ("CT"), magnetic resonance imaging ("MRI"), positron emission tomography ("PET"), PET/CT, and nuclear medicine and healthcare expertise through a convenient mobile service. The Diagnostic Imaging business develops, sells, and maintains solid-state gamma cameras.

- Building and Construction (ATRM): services residential and commercial construction projects by manufacturing modular housing units, structural wall panels, permanent wood foundation systems, and other engineered wood products, and supplies general contractors with building materials.

- Real Estate and Investments: manages real estate assets (currently three manufacturing plants in Maine) and investments.

Healthcare (Digirad Health) delivers convenient, effective, and efficient healthcare solutions on an as needed, when needed, and where needed basis. Digirad's diverse portfolio of mobile healthcare solutions and diagnostic imaging equipment and services provides hospitals, physician practices, and imaging centers throughout the United States access to technology and services necessary to provide patient care in the rapidly changing healthcare environment. Digirad's direct and indirect subsidiaries that are included in this division are referred to collectively herein as the "Healthcare Subsidiaries".

Building and Construction (ATRM) manufactures modular housing units for commercial and residential applications. ATRM operates in two businesses: (i) modular building manufacturing and (ii) structural wall panel and wood foundation manufacturing, including building supply retail operations. The modular building manufacturing business is operated by KBS Builders, Inc. ("KBS"), and the structural wall panel and wood foundation manufacturing segment is operated by EdgeBuilder, Inc. ("EdgeBuilder"), and the retail building supplies are sold through Glenbrook Building Supply, Inc. ("Glenbrook" and together with EdgeBuilder, "EBGL"). KBS, EdgeBuilder and Glenbrook are wholly-owned subsidiaries of ATRM and are referred to collectively herein, and together with ATRM, as the "Building and Construction Subsidiaries".

Real Estate & Investments generates revenue from the lease of commercial properties and equipment through Star Real Estate Holdings USA, Inc. ("SRE"), a wholly-owned subsidiary of Digirad, and provides services that include investment advisory services and the servicing of pooled investment vehicles through Lone Star Value Management, LLC ("LSVM"), a Connecticut based exempt reporting advisor. LSVM, which was a wholly owned subsidiary of ATRM on the ATRM Acquisition Date (as defined below), was acquired by the Company in the ATRM Acquisition. In April 2019, as an initial transaction to create Digirad's real estate division under SRE and launch that aspect of the HoldCo Conversion, Digirad funded the initial purchase of three modular building manufacturing facilities in Maine and then leased those three properties to KBS. The funding of the assets acquisition was primarily through the revolver loan under our credit facility with Sterling National Bank ("Sterling" or "SNB"), a national banking association. LSVM, SRE and the subsidiaries of SRE that are included in this division are referred to collectively herein as the "Real Estate and Investments Subsidiaries".

In February of 2018, we completed the sale of our customer contracts relating to our MDSS post-warranty service business to Philips. On October 31, 2018, we sold our Telerhythmics business to G Medical Innovations USA, Inc., for $1.95 million cash.

On September 10, 2019 (the "ATRM Acquisition Date"), Digirad completed its acquisition of ATRM pursuant to an Agreement and Plan of Merger, dated as of July 3, 2019 (the "ATRM Merger Agreement"), among Digirad, Digirad Acquisition Corporation, a Minnesota corporation and wholly-owned subsidiary of Digirad ("Merger Sub"), and ATRM. Under the terms of the ATRM Merger Agreement, Merger Sub merged with and into ATRM, with ATRM surviving as a wholly owned subsidiary of Digirad.

At the effective time of the ATRM Merger, (i) each share of ATRM common stock was converted into the right to receive three one-hundredths (0.03) of a share of 10.0% Series A Cumulative Perpetual Preferred Stock, par value $0.0001 per share, of the Company ("Company Preferred Stock") and (ii) each share of ATRM 10.00% Series B Cumulative Preferred Stock, par value $0.001 per share ("ATRM Preferred Stock"), converted into the right to receive two and one-half (2.5) shares of Company Preferred Stock, for an approximate aggregate total of 1.6 million shares of Company Preferred Stock. No fractional shares of Company Preferred Stock were issued to any ATRM shareholder in the ATRM Merger. Each ATRM shareholder who would otherwise have been entitled to receive a fraction of a share of Company common stock in the ATRM Merger received one whole share of Company Preferred Stock.

As a result of the ATRM Merger, ATRM's operations have been included in our unaudited consolidated financial statements since the ATRM Acquisition Date. Digirad's aim with this acquisition is to continue to grow its business into an integrated healthcare services company while simultaneously converting into a diversified holding company through the acquisition of businesses that meet Digirad's internally developed financial screen for acquisitions. The Company expects to achieve significant synergies and cost reductions by eliminating redundant processes and facilities.

Immediately prior to the closing of the ATRM Merger, the Company issued 300,000 shares of Company Preferred Stock in a private placement (the "Private Placement") to Lone Star Value Investors, LP ("LSVI") for a price of $10.00 per share for total proceeds to the Company of $3.0 million. The Private Placement was made pursuant to the terms of a Stock Purchase Agreement, dated as of September 10, 2019. The shares of Company Preferred Stock sold in the Private Placement had not been registered under the Securities Act of 1933, as amended (the "Act") and could not be resold absent registration under, or exemption from registration under, the Act.

At the closing of the Private Placement, the Company and LSVI entered into a Registration Rights Agreement, dated as of September 10, 2019 (the "Registration Rights Agreement"), pursuant to which the Company agreed to file a registration statement with the U.S. Securities and Exchange Commission (the "SEC"), covering the resale of the shares of Company Preferred Stock issued in the Private Placement.

On September 17, 2020, in connection with satisfying the Company's obligations under the Registration Rights Agreement, the Company filed a registration statement with the SEC (the "September Registration Statement") relating to the sale or other disposition from time to time of up to 1,492,321 shares of Company Preferred Stock by the selling stock holders identified in the September Registration Statement, including their transferees, pledgees, donees or successors. Mr. Eberwein, the Chairman of the Company's board of directors, is a selling stockholder under the September Registration Statement. The selling stockholders may, from time to time, sell transfer, or otherwise dispose of any or all of their shares of Company Preferred Stock or interests in shares of Company Preferred Stock on any stock exchange, market, or trading facility on which the shares are traded or in private transactions. These dispositions by the selling stockholders may be at fixed prices, at prevailing market prices at the time of sale, at prices related to prevailing market price, at varying prices determined at the time of sale, or at negotiated prices.

COVID-19

On March 11, 2020, the World Health Organization declared the outbreak of a novel strain of coronavirus, COVID-19, a global pandemic, which continues to spread throughout the United States and around the world. Governmental authorities in the states in which we operate issued social distancing orders, which orders have required businesses in subject jurisdictions to cease non-essential operations at physical locations in those locations, unless exempted, rescinded, or amended. Accordingly, to comply with applicable regulations and to safeguard the health and safety of our employees and customers, we have temporarily modified our business operations.

During the three and nine months ended September 30, 2020, we experienced a $3.8 million and a $12.9 million decrease, respectively, in the Digirad Health revenue related to a decrease in our diagnostic services due to the Covid-19 pandemic. The decrease was offset by a $5.8 million and $16.3 million increase respectively, in Building and Construction revenue, as compared to the same period of the prior year. As the COVID-19 pandemic affected the results of segments of our business during the three and nine months ended September 30, 2020, we took steps to contain the impact of the COVID-19 pandemic on our business.

On April 1, 2020, we announced that in response to the COVID-19 pandemic, Matthew G. Molchan, our President and Chief Executive Officer, David J. Noble, our Chief Financial Officer and Chief Operating Officer, and Martin B. Shirley, the president of our Diagnostic Imaging Solutions Inc. subsidiary, had each agreed to have their base salaries reduced by 20%. These reductions were effective as of April 6, 2020, and remained in effect until May 15, 2020.

On April 1, 2020, we also announced that in response to the COVID-19 pandemic, we planned to furlough certain employees and that we would institute a 20% salary reduction for most of our salaried employees and reduce the number of working hours of most of our hourly employees by 20%. These reductions, which applied to our healthcare division, were effective as of April 6, 2020, and remained in effect until May 15, 2020. Throughout the COVID-19 pandemic, our building and construction division has furloughed employees or reduced employee hours based on fluctuations in demand for our products. As of September 30, 2020, KBS brought back furloughed employees and increased its work force by over 20% to meet the higher manufacturing requirements for two commercial projects as well as the future growth we expect.

This partial disruption, although expected to be temporary, may impact our operations and overall business. The impact of COVID-19 is evolving rapidly and its future effects are uncertain. Given the uncertainty caused by the COVID-19 pandemic, the duration of the disruption and related financial impact cannot be reasonably estimated at this time. As a result of the evolving impact of COVID-19 on the economy, on April 7, 2020, we withdrew our 2020 full-year guidance. At Digirad, our highest priority remains the safety, health and well-being of our employees, their families and our communities and we remain committed to serving the needs of our customers. The COVID-19 pandemic is a highly fluid situation and it is not currently possible for us to reasonably estimate the impact it may have on our financial and operating results. We will continue to evaluate the impact of the COVID-19 pandemic on our business as we learn more and the impact of COVID-19 on our industry becomes clearer.

Common Stock Equity Offering

On April 30, 2020, the Company filed a registration statement with the SEC (the “April Registration Statement”) relating to a public offering of Common Stock and warrants to purchase Common Stock (the “Offering”). On May 28, 2020, the Company closed the Offering in which, pursuant to the underwriting agreement entered into by and between the Company and Maxim Group LLC (“Maxim”), as representative of the underwriters, dated May 26, 2020, the Company issued and sold (i) 2,225,000 shares of Common Stock, and (ii) 2,225,000 warrants (the “Warrants”) to purchase up to 1,112,500 shares of Common Stock. The Offering price was $2.24 per share of Common Stock and $0.01 per accompanying Warrant (for a combined Offering price of $2.25). The Underwriting Agreement contained customary representations, warranties, and agreements by the Company, customary conditions to closing, indemnification obligations of the Company and Maxim (including for liabilities under the Securities Act of 1933, as amended) and certain other obligations.

Pursuant to the Underwriting Agreement, the Company granted to Maxim an option for a period of 45 days (the “Over-Allotment Option”) to purchase up to 225,000 additional shares of Common Stock and 225,000 Warrants to purchase up to an additional 112,500 shares of Common Stock. Effective as of the closing of the Offering, Maxim exercised the Over-Allotment Option for the purchase of 225,000 Warrants for a price of $0.01 per Warrant. On June 10, 2020, Maxim exercised the Over-Allotment Option for the purchase of 225,000 shares of Common Stock for a price of $2.24 per share, before underwriting discounts. The closing of the sale of the over-allotment shares brought the total number of shares of common stock sold by the Company in the Offering to 2,450,000, and total gross proceeds to approximately $5.5 million.

The net proceeds to the Company from the Offering were approximately $4.2 million, after deducting the fees and commissions and estimated Offering expenses payable by the Company of $0.8 million, and excluding $0.9 million proceeds the Company received upon exercise of the Over-Allotment Options and Warrants. The Company is using $3.0 million of the net proceeds from the sale of shares of Common Stock and the Warrants in the Offering to fund commercial modular housing projects being constructed in New England by the Company’s KBS Builders, Inc. subsidiary, and the remainder of the net proceeds is being used for working capital and for other general corporate purposes. The Company has broad discretion in determining how the proceeds of the Offering is used, and its discretion is not limited by the aforementioned possible uses.

Strategy

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

- ***Organic growth from our core businesses.*** We believe that we operate in markets and geographies that will allow us to continue to grow our core businesses, allowing us to benefit from our scale and strengths. We plan to focus our efforts on markets in which we already have a presence in order to take advantage of personnel, infrastructure, and brand recognition we have in these areas.

- ***Introduction of new services.*** We plan to continue to focus on healthcare solutions related businesses that deliver necessary assets, services and logistics directly to the customer site. We believe that over time we can either purchase or develop new and complementary businesses and take advantage of our customer loyalty and distribution channels. In addition, as we transform into a multi-industry holding company, our largest near-term growth opportunity is to execute a successful turnaround of the KBS modular business that we acquired pursuant to the ATRM Merger. While we intend to continue to pursue and grow our residential modular building business, which provides us with positive margins and cash flow, we are also targeting large multi-family projects in the 25 to 100 building modules range.

- ***Acquisition of complementary businesses.*** The current economic environment offers significant opportunities for strategic acquisitions which can be either be bolt-on acquisitions for existing platform businesses, or new core businesses complementary to our new holding company structure. We will have a disciplined approach for making any potential acquisitions and will focus on faster growing and higher margin businesses. We believe there are many potential targets in the range of $3 million to $10 million in annual revenues that can be acquired over time and integrated into our businesses. We will also look at larger, more transformational acquisitions if we believe the appropriate mix of value, risk and return is present for our shareholders. The timing of these potential acquisitions will always depend on market conditions, available capital, and the value for each transaction. In general, we want to be “value” buyers, and will not pursue any transaction unless we believe the post-transaction potential value is high for shareholders.

- ***Divestiture of business units***. From time to time we consider divestitures of business units and/or assets which are not consistent with the future strategy of our business, or if we believe the sale of such units and/or assets could be in the best interests of our business and its stockholders, subject to our ability to agree on acceptable terms with a prospective buyer. We currently are considering several possible transactions, including discussions regarding the sale of a business unit. Upon any such sale, a significant portion of the proceeds would be used to repay indebtedness, with the remainder being used for working capital purposes, and potentially the acquisition of complementary businesses as discussed above. There is no assurance that any such divestiture will occur, or if it does, if it would occur for a sales price currently contemplated. If it occurs, there is no assurance that we will be able to use the proceeds in the acquisition of a complementary business, or if we do if such acquisition will be successful.

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 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.

Business Segments

As of September 30, 2020, our business is organized into five reportable segments:

- Diagnostic Services
- Mobile Healthcare
- Diagnostic Imaging
- Building and Construction
- Real Estate and Investments

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

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

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

Building and Construction. ATRM through its wholly-owned subsidiaries KBS, Glenbrook and EdgeBuilder, services residential and commercial construction projects by manufacturing modular housing units, structural wall panels, permanent wood foundation systems, and other engineered wood products, and supplies general contractors with building materials. KBS is a Maine-based manufacturer that started business in 2001 as a manufacturer of modular homes. Our focus is to offer high quality products for both commercial and residential buildings with a focus on customization to suit the project requirements, provide value with our engineering and design expertise, and deliver product when required by the customer. Glenbrook is a retail supplier of lumber, windows, doors, cabinets, drywall, roofing, decking and other building materials and conducts its operations in Oakdale, Minnesota. EdgeBuilder is a manufacturer of structural wall panels, permanent wood foundation systems and other engineered wood products and conducts its operations in Prescott, Wisconsin. We provide high quality building materials and unmatched service and attention to detail to building professionals, as well as homeowners. In addition, we provide highly personalized service, knowledgeable salespeople and attention to detail that the larger, big-box chain home stores do not provide. We offer superior products unique to each project's requirements, provide value with our engineering and design expertise that meet the customer's needs, while staying cost-competitive and on schedule. While EdgeBuilder supplies the wall panels, Glenbrook supplies "loose lumber" such as floor and roof sheathing, bracing, and hardware with a "tandem" approach to every project. Our production strategy is to utilize automation and the most efficient methods of manufacturing and high-quality materials in all of our projects.

Real Estate and Investments. As part of the HoldCo Conversion, Digirad formed a real estate division under a newly formed subsidiary named Star Real Estate Holdings USA, Inc. ("SRE") for the purposes of holding significant real estate assets that Digirad acquires. As an initial transaction to create Digirad's real estate division under SRE and launch that aspect of the HoldCo Conversion, in April 2019, Digirad funded the initial purchase of three manufacturing facilities in Maine that manufacture modular buildings and leased those three properties. The funding of the assets acquisition was primarily through the revolver loan under our SNB Credit Facility. Digirad expects SRE to be substantially self-funded over time and SRE has recently closed a commercial mortgage financing with Gerber, whereby monies raised will be injected into KBS. Lone Star Value Management, LLC (LSVM), which was a wholly owned subsidiary of ATRM on the ATRM Acquisition Date, is a Connecticut based exempt reporting advisor that was acquired by the Company in the ATRM Acquisition. As a result of internal restructuring as of October 25, 2019, LSVM became a direct wholly owned subsidiary of Digirad. LSVM provides services that include investment advisory services and the servicing of pooled investment vehicles. The Company expects to use LSVM to make strategic investments in future potential acquisition targets for the Company.

Our Market

Healthcare Services and Products

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

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

Construction Services and Products

In the building and construction business, KBS markets its modular homes products through a direct sales organization and through inside sales, outside sales, a network of independent dealers, builders, and contractors in the New England states (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont). KBS's direct sales organization is responsible for all commercial building projects, and works with developers, architects, owners, and general contractors to establish the scope of work, terms of payment, and general requirements for each project. KBS's sales people also work with independent dealers, builders, and contractors to accurately configure and place orders for residential homes for their end customers. KBS's network of independent dealers and contractors do not work with it exclusively, although many have KBS model homes on display at their retail centers. KBS does not assign exclusive territories to its independent dealers and contractors, but they tend to sell in areas of New England where they will not be competing against another KBS dealer or contractor. KBS's backlog and pipeline, along with its market initiatives to build more workforce housing, are expected to position KBS for continued growth.

EBGL markets its engineered structural wall panels and permanent wood foundation systems through direct sales people and a network of builders, contractors and developers in and around Minneapolis and St. Paul areas. EBGL's direct sales organization is responsible for both residential and commercial projects and it works with general contractors, developers and builders to provide bids and quotes for specific projects. Our marketing efforts include participation in industry trade shows, production of product literature, and sales support tools. These efforts are designed to generate sales leads for our independent builders and dealers, and direct salespeople.

Trends and Drivers

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

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

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

Mobile Healthcare. The market for selling, servicing, and operating diagnostic imaging services, patient monitoring equipment, and imaging systems is highly competitive. In providing our Mobile Healthcare services, we compete against a few large national and regional providers. In addition to direct competition from other providers of services similar to those offered by us, we compete with freestanding imaging centers and healthcare providers that have their own diagnostic imaging systems, as well as with equipment manufacturers that sell imaging equipment directly to healthcare providers for permanent installation. Some of the direct competitors, which provide contract MRI and PET/CT services, have access to greater financial resources than we do. In addition, some of our customers are capable of providing the same services we provide to their patients directly, subject only to their decision to acquire a high-cost diagnostic imaging system, assume the financial and technology risk, and employ the necessary technologists, rather than obtain equipment and services from us. We may also experience greater competition in states that currently have certificate of need laws if such laws were repealed, thereby reducing barriers to entry and competition in those states. We also compete against other similar providers in quality of services, quality of imaging systems, relationships with healthcare providers, knowledge and service quality of technologists, price, availability, and reliability.

Building and Construction. The market for building and construction is highly competitive. KBS is a regional manufacturer of modular housing units with its primary market in the New England states. Several modular manufacturers are located in these New England states and in nearby Pennsylvania. Some competitors have manufacturing locations in Canada and ship their products to the United States. KBS's competitors include Apex Homes, Commodore Corporation, Skyline Champion Homes, Custom Building Systems, Durabuilt, Excel Homes, Huntington Homes, Icon Legacy Homes, Kent Homes (Canada), Maple Leaf Homes (Canada), Muncy Homes, New England Homes, New Era, Pennwest, Premier Builders (PA), Professional Builders Systems, RCM (Canada), Redmond Homes, Ritz-Craft, Simplex Homes, and Westchester Modular. EBGL is a regional manufacturer of engineered structural wall panels and permanent wood foundation systems, and also has a local retail business. EBGL's market is primarily the Upper Midwest states (Iowa, Minnesota, Missouri, North Dakota, South Dakota, and Wisconsin). EBGL's competitors include Precision Wall Systems, Component Manufacturing Company, JL Schwieters Construction, Arrow Building Center, and Marshall Truss Systems Incorporated. EBGL's professional building supply business competes on a local level against both small, local lumber yards, regional building supply companies and to a certain degree, the "big box" stores such as Home Depot, Lowe's, and Menard's.

Real Estate and Investments. As part of the HoldCo Conversion, Digirad formed a real estate division under a newly formed subsidiary named Star Real Estate Holdings USA, Inc. ("SRE") for the purposes of holding significant real estate assets that Digirad acquires. As an initial transaction to create Digirad's real estate division under SRE and launch that aspect of the HoldCo Conversion, in April 2019, Digirad funded the initial purchase of three manufacturing facilities in Maine that manufacture modular buildings and leased those three properties. The funding of the assets acquisition was primarily through the revolver loan under our SNB Credit Facility. Digirad expects SRE to be substantially self-funded over time by raising its own capital in the form of commercial mortgages on the properties it owns or by raising other forms of external capital. As part of the investment arm of the Company, LSVM, a Connecticut based exempt reporting advisor may make strategic investments in future potential acquisition targets for the Company or in pursuit of other strategic relationships. LSVM currently also provides investment advisory services and manages assets of related and unrelated parties to the Company through pooled investment vehicles.

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, 2019 have the greatest potential impact on our financial statements, so we consider them to be our critical accounting policies and estimates.

Results of Operations

Comparison of the Three Months Ended September 30, 2020 and 2019

The following table summarizes our results for the three months ended September 30, 2020 and 2019 (in thousands):

	Three Months Ended September 30,					
					Change from Prior Year	
	2020	Percent of Revenues	2019	Percent of Revenues	Dollars	Percent
Total revenues	$ 30,353	100.0 %	$ 28,333	100.0 %	$ 2,020	7.1 %
Total cost of revenues	25,518	84.1 %	23,137	81.7 %	2,381	10.3 %
Gross profit	4,835	15.9 %	5,196	18.3 %	(361)	(6.9)%
Total operating expenses	6,368	21.0 %	6,405	22.6 %	(37)	(0.6)%
Loss from operations	(1,533)	(5.1)%	(1,209)	(4.3)%	(324)	26.8 %
Total other expense	(221)	(0.7)%	(293)	(1.0)%	72	(24.6)%
Loss before income taxes	(1,754)	(5.8)%	(1,502)	(5.3)%	(252)	16.8 %
Income tax expense	(6)	— %	(2)	— %	(4)	200.0 %
Net loss from continuing operations	$ (1,760)	(5.8)%	$ (1,504)	(5.3)%	$ (256)	17.0 %

Revenues

Healthcare

Healthcare revenue by segments is summarized as follows (in thousands):

	Three Months Ended September 30,			
	2020	2019	Change	% Change
Diagnostic Services	$ 10,711	$ 11,670	$ (959)	(8.2)%
Mobile Healthcare	9,035	10,575	(1,540)	(14.6)%
Diagnostic Imaging	2,048	3,351	(1,303)	(38.9)%
Total Healthcare Revenue	$ 21,794	$ 25,596	$ (3,802)	(14.9)%

The decrease in Diagnostic Services, Mobile Healthcare and Diagnostic Imaging revenue compared to the prior year quarter was primarily due to the COVID-19 pandemic impact. Although many medical offices and facilities temporarily closed in mid-March, many are now open and many hospitals that stopped performing non-emergency procedures, tests, and scans slowly started to re-open and serve patients during the quarter, although at lower than pre-COVID schedule.

Building and Construction

Building and construction revenue is summarized as follows (in thousands):

	Three Months Ended September 30,			
	2020	2019	Change	% Change
Building and Construction	$ 8,542	$ 2,729	$ 5,813	213.0 %
Total Building and Construction Revenue	$ 8,542	$ 2,729	$ 5,813	213.0 %

The increase in revenue for the Building and Construction division was due to our ownership of the business for a full quarter in the three months ended September 30, 2020, compared to 20 days in the three months ended September 30, 2019 and an increase in KBS activity levels due to $2.2 million revenue recognized in recently won commercial projects.

Real Estate and Investments

Real Estate and Investments revenue is summarized as follows (in thousands):

	Three Months Ended September 30,			
	2020	2019	Change	% Change
Real Estate and Investments	$ 17	$ 8	$ 9	112.5 %
Real Estate and Investments Revenue	$ 17	$ 8	$ 9	112.5 %

The increase in real estate and investments revenue was due to a full quarter in the three months ended September 30, 2020 compared to 20 days in the three months ended September 30, 2019. Revenue was generated by the LSVM and intercompany lease revenue from SRE subsequent to the ATRM Merger. The SRE lease revenue was eliminated through intercompany consolidation in the condensed consolidated financial statements.

Gross Profit

Healthcare Gross Profit

Healthcare gross profit and gross margin by segments is summarized as follows (in thousands):

	Three Months Ended September 30,		
	2020	2019	% Change
Diagnostic Services gross profit	$ 2,076	$ 2,162	(4.0)%
Diagnostic Services gross margin	19.4 %	18.5 %	
Mobile Healthcare gross profit	$ 1,155	$ 1,441	(19.8)%
Mobile Healthcare gross margin	12.8 %	13.6 %	
Diagnostic Imaging gross profit	$ 399	$ 1,174	(66.0)%
Diagnostic Imaging gross margin	19.5 %	35.0 %	
Total healthcare gross profit	$ 3,630	$ 4,777	(24.0)%
Total healthcare gross margin	16.7 %	18.7 %	

The decrease in Diagnostic Imaging, and Mobile Healthcare gross margin percentage was mainly due to the COVID-19 pandemic and the associated public health measures in place during the three months ended September 30, 2020, which significantly reduced our camera revenue.

The slight increase in Diagnostic Services gross margin percentage was due to lower healthcare expenses and improved labor efficiency during the three months ended September 30, 2020.

Building and Construction Gross Profit

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

	Three Months Ended September 30,		
	2020	2019	% Change
Building and Construction gross profit	$ 1,253	$ 477	162.7 %
Building and Construction gross margin	14.7 %	17.5 %	

The increase in Building and Construction gross profit was primarily due to our ownership of the business for a full quarter in the three months ended September 30, 2020 compared to 20 days in the three months ended September 30, 2019. Additionally, KBS and EBGL executed several large commercial and governmental contracts during the period. The slight decrease in gross margin percentage is due to product mix between commercial and residential units.

Real Estate and Investments Gross Loss

Real Estate and Investments gross loss and margin is summarized as follows (in thousands):

	Three Months Ended September 30,		
	2020	2019	% Change
Real Estate and Investments gross loss	$ (48)	$ (58)	(17.2)%
Real Estate and Investments gross margin	(282.4)%	(725.0)%	

The Real Estate and Investments gross loss relates to depreciation expense associated with the three manufacturing facilities acquired in April 2019. The decrease is primarily due to our ownership of the business for a full quarter in the three months ended September 30, 2020 compared to a partial quarter during the three months ended September 30, 2019.

Operating Expenses

Operating expenses are summarized as follows (in thousands):

	Three Months Ended September 30,				Percent of Revenues	
			Change			
	2020	2019	Dollars	Percent	2020	2019
Selling, general and administrative expenses	$ 5,566	$ 4,948	$ 618	12.5 %	18.3 %	17.5 %
Amortization of intangible assets	802	399	403	101.0 %	2.6 %	1.4 %
Merger and financing	—	1,058	(1,058)	(100.0)%	— %	3.7 %
Total operating expenses	$ 6,368	$ 6,405	$ (37)	(0.6)%	20.9 %	22.6 %

The increase in selling, general and administrative expenses was primarily due to a $0.6 million increase in the Building and Construction Division caused by reporting a full quarter of expenses in the three months ended September 30, 2020, compared to 20 days of expenses in the three months ended September 30, 2019.

The $0.4 million increase in amortization of intangible assets was due to the ATRM Merger resulting in a full three months of expense for the period ended September 30, 2020, compared to 20 days of expenses in the three months ended September 30, 2019.

Merger and financing costs for three months ended September 30, 2019 are predominantly comprised of one-time costs related to the acquisition of ATRM, including $1.1 million in ATRM related expenses related to the Offering described below under “Liquidity and Capital Resources” in this MD&A.

Total Other Income (Expense)

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

	Three Months Ended September 30,	
	2020	2019
Other income, net	$ 135	$ 3
Interest expense, net	(356)	(292)
Loss on sale of the building	—	(4)
Total other expense	$ (221)	$ (293)

Other income, net for three months ended September 30, 2020 is predominantly comprised of a $0.08 million KBS insurance refund and a $0.05 million gain in investments in available for sale securities, respectively.

Interest expense, net, for the three months ended September 30, 2020 and 2019 is predominantly comprised of interest costs and the related amortization of deferred issuance costs on our debt.

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

Income Tax Expense

For the three months ended September 30, 2020, the Company recorded an income tax expense of $6 thousand. See Note 10, *Income Taxes*, within the notes to our unaudited condensed consolidated financial statements for further information related to the Company’s income taxes.

Income from Discontinued Operations

See Note 14, *Discontinued Operations* of the unaudited condensed consolidated financial statements for information regarding discontinued operations.

Results of Operations

Comparison of the Nine Months Ended September 30, 2020 and 2019

The following table summarizes our results for the nine months ended September 30, 2020 and 2019 (in thousands):

	Nine Months Ended September 30,					
					Change from Prior Year	
	2020	Percent of Revenues	2019	Percent of Revenues	Dollars	Percent
Total revenues	$ 81,552	100.0 %	$ 78,043	100.0 %	$ 3,509	4.5 %
Total cost of revenues	68,250	83.7 %	63,862	81.8 %	4,388	6.9 %
Gross profit	13,302	16.3 %	14,181	18.2 %	(879)	(6.2)%
Total operating expenses	18,965	23.3 %	17,671	22.6 %	1,294	7.3 %
Loss from operations	(5,663)	(6.9)%	(3,490)	(4.5)%	(2,173)	62.3 %
Total other expense	(247)	(0.3)%	(1,314)	(1.7)%	1,067	(81.2)%
Loss before income taxes	(5,910)	(7.2)%	(4,804)	(6.2)%	(1,106)	23.0 %
Income tax (expense) benefit	(90)	(0.1)%	168	0.2 %	(258)	(153.6)%
Net loss from continuing operations	(6,000)	(7.3)%	(4,636)	(6.0)%	(1,364)	29.4 %
Net income from discontinued operations	—	— %	266	0.3 %	(266)	(100.0)%
Net loss	$ (6,000)	(7.3)%	$ (4,370)	(5.7)%	$ (1,630)	37.3 %

Revenues

Healthcare

Healthcare revenue by segments is summarized as follows (in thousands):

	Nine Months Ended September 30,			
	2020	2019	Change	% Change
Diagnostic Services	$ 28,665	$ 35,714	$ (7,049)	(19.7)%
Mobile Healthcare	26,534	30,669	(4,135)	(13.5)%
Diagnostic Imaging	7,242	8,923	(1,681)	(18.8)%
Total Healthcare Revenue	$ 62,441	$ 75,306	$ (12,865)	(17.1)%

The decrease in Diagnostic Services, Mobile Healthcare and Diagnostic Imaging revenue compared to the prior year nine months period was primarily due to the COVID-19 pandemic impact and the associated public health measures in place during the nine months ended, September 30, 2020.

Building and Construction

Building and construction revenue is summarized as follows (in thousands):

	Nine Months Ended September 30,			
	2020	2019	Change	% Change
Building and Construction	$ 19,061	$ 2,729	$ 16,332	598.5 %
Total Building and Construction Revenue	$ 19,061	$ 2,729	$ 16,332	598.5 %

The increase in Building and Construction division revenue was due to the inclusion of a full nine months production in 2020, compared to 20 days in nine months ended 2019 and an increase in KBS activity levels due to $2.2 million revenue recognized in recently won commercial projects in Q3 2020.

Real Estate and Investments

Real Estate and Investments revenue is summarized as follows (in thousands):

	Nine Months Ended September 30,			
	2020	2019	Change	% Change
Real Estate and Investments	$ 50	$ 8	$ 42	525.0 %
Real Estate and Investments Revenue	$ 50	$ 8	$ 42	525.0 %

The increase in real estate and investments revenue was revenue generated by the LSVM and intercompany lease revenue from SRE subsequent to the ATRM Merger. The SRE lease revenue was eliminated through intercompany consolidation in the unaudited condensed consolidated financial statements.

Gross Profit

Healthcare Gross Profit

Healthcare gross profit and gross margin by segments is summarized as follows (in thousands):

	Nine Months Ended September 30,		
	2020	2019	% Change
Diagnostic Services gross profit	$ 5,034	$ 7,548	(33.3)%
Diagnostic Services gross margin	17.6 %	21.1 %	
Mobile Healthcare gross profit	3,205	3,351	(4.4)%
Mobile Healthcare gross margin	12.1 %	10.9 %	
Diagnostic Imaging gross profit	2,500	3,040	(17.8)%
Diagnostic Imaging gross margin	34.5 %	34.1 %	
Total healthcare gross profit	$ 10,739	$ 13,939	(23.0)%
Total healthcare gross margin	17.2 %	18.5 %	

The decrease in Diagnostic Services gross margin percentage was mainly due to the COVID-19 pandemic impact and the associated public health measures in place which directly reduced scanning revenue during the earlier part of the year. Gross margin percentage slowly turned around in the third quarter of 2020.

The slight increase in Mobile Healthcare and Diagnostic Imaging gross margin percentage is due to lower healthcare expenses and improved labor efficiencies.

Building and Construction Gross Profit

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

	Nine Months Ended September 30,		
	2020	2019	% Change
Building and Construction gross profit	$ 2,709	$ 477	467.9 %
Building and Construction gross margin	14.2 %	17.5 %	

The Building and Construction gross profit was generated by the segment subsequent to the ATRM Merger. The increase was mainly driven by the inclusion of a full nine months ended period in 2020 versus a partial period in 2019 and increased activity levels in the current period due to recently won commercial projects.

Real Estate and Investments Gross Profit

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

	Nine Months Ended September 30,		
	2020	2019	% Change
Real Estate and Investments gross loss	$ (146)	$ (235)	(37.9)%
Real Estate and Investments gross margin	(292.0)%	(2,937.5)%	

The Real Estate and Investments gross loss relates to depreciation expense associated with the three manufacturing facilities acquired in April 2019. The decrease in gross loss was mainly due to normalized depreciation expenses during nine months ended 2020, compared to one time write off expense of assets that did not meet the Company's fixed assets policy in the same period prior year.

Operating Expenses

Operating expenses are summarized as follows (in thousands):

	Nine Months Ended September 30,				Percent of Revenues	
			Change			
	2020	2019	Dollars	Percent	2020	2019
Selling, general and administrative expenses	$ 16,545	$ 14,648	$ 1,897	13.0 %	20.3 %	18.8 %
Amortization of intangible assets	2,420	965	1,455	150.8 %	3.0 %	1.2 %
Merger and financing	—	2,058	(2,058)	(100.0)%	— %	2.6 %
Total operating expenses	$ 18,965	$ 17,671	$ 1,294	7.3 %	23.3 %	22.6 %

The increase in selling, general and administrative expenses was primarily due to an increase by $2.7 million of expenses from the Building and Construction division caused by reporting a full nine months ended September 30, 2020 expenses, compared to 20 days in same period prior year and offset by a $0.8 million decrease due to cost saving in the Digirad Health division.

The $1.5 million increase in amortization of intangible assets was due to the ATRM Merger resulting in a full three months of expense for the period ended September 30, 2020, compared to 20 days of expenses in the three months ended September 30, 2019.

Merger and financing costs for the nine months ended September 30, 2019, are predominantly comprised of one-time costs related to the acquisition of ATRM, including $2.1 million in ATRM related expenses and a write-off of capitalized costs related to the Offering described below under “Liquidity and Capital Resources” in this MD&A.

Total Other Expense

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

	Nine Months Ended September 30,	
	2020	2019
Other income (expense), net	$ 967	$ (200)
Interest expense, net	(1,214)	(727)
Loss on sale of building	—	(236)
Loss on extinguishment of debt	—	(151)
Total other expense	$ (247)	$ (1,314)

Other income, net for nine months ended September 30, 2020 is predominantly comprised of the settlements of aged Massachusetts sales and use tax payable in KBS and aged legal costs in ATRM, respectively.

Interest expense, net, for the nine months ended September 30, 2020 and 2019 is predominantly comprised of interest costs and the related amortization of deferred issuance costs on our debt.

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

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

Income Tax Expense

For the nine months ended September 30, 2020, the Company recorded an income tax expense of $90 thousand. See Note 10, *Income Taxes,* within the notes to our unaudited condensed consolidated financial statements for further information related to the Company’s income taxes.

Income from Discontinued Operations

See Note 14, *Discontinued Operations* of the unaudited condensed consolidated financial statements for information regarding discontinued operations.

Liquidity and Capital Resources

Overview

We used cash of $1.9 million for operations during the nine months ended September 30, 2020. Cash flows used in operations primarily consist of our net loss (adjusted for depreciation, amortization, and other non-cash items), and the net effect of changes in working capital. Cash flows used in investing activities primarily consist of our investment in capital equipment required to maintain and grow our business, as well as acquisitions and dispositions. Cash flows from financing activities primarily consist of our net proceeds from borrowings and the receipt of cash related to our common stock and warrants offering, offset by the repayments of long-term borrowings.

Our principal sources of liquidity include our existing cash and cash equivalents, cash generated from operations, and funds available under various credit facilities. As of September 30, 2020, we had $4.4 million of cash and cash equivalents and $8.5 million available under our Sterling 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 delivery of our services, as well as vehicles and information technology hardware and software.

The accompanying financial statements have been prepared assuming we will continue as a going concern, which contemplates the realization of assets and settlement of obligations in the normal course of business. We incurred net losses from operations of approximately $1.5 million and $5.7 million for the three and nine months ended September 30, 2020, respectively and $1.2 million and $3.5 million for the three and nine months ended September 30, 2019, respectively. We have an accumulated deficit of $124.5 million and $118.5 million as of September 30, 2020 and December 31, 2019, respectively. Net cash used in operations was $1.9 million for the nine months ended September 30, 2020 compared to net cash used in operations of $0.8 million for the same prior year period in 2019.

As of September 30, 2020, we had approximately $4.3 million in third party credit facilities and $2.2 million in related party notes coming due in the current business cycle. As noted below, we previously had a covenant breach with Gerber. In January 2020, as discussed more fully below, we refinanced our debt with Gerber and Premier and reset the debt covenants with these lenders.

As further described below, the Company completed an equity financing on April 30, 2020, the net proceeds of which is being used to fund working capital and other general corporate purposes. Further, a significant shareholder and lender has committed to provide financial support to the Company by providing written assurances that he will (a) extend until five business days after the closing date of the DMS Sale Transaction (described in Note 15. Subsequent Events), and not call, the repayment of approximately $2.2 million of related party debt that was due in October 2020; and (b) extend through June 2021 the Company’s put option with this shareholder of $1.0 million in Series A Cumulative Perpetual Preferred stock. Management believes that the Company has the liquidity and operations to continue to support the business through the next 12 months from the issuance of this Quarterly Report. The Company’s ability to continue as a going concern is dependent on its ability to execute its plans.

Common Stock Equity Offering

On April 30, 2020, the Company filed a registration statement with the SEC (the “April Registration Statement”) relating to a public offering of Common Stock and warrants to purchase Common Stock (the “Offering”). On May 28, 2020, the Company closed the Offering in which, pursuant to the underwriting agreement entered into by and between the Company and Maxim Group LLC (“Maxim”), as representative of the underwriters, dated May 26, 2020, the Company issued and sold (i) 2,225,000 shares of Common Stock, and (ii) 2,225,000 warrants (the “Warrants”) to purchase up to 1,112,500 shares of Common Stock. The Offering price was $2.24 per share of Common Stock and $0.01 per accompanying Warrant (for a combined Offering price of $2.25). The Underwriting Agreement contained customary representations, warranties, and agreements by the Company, customary conditions to closing, indemnification obligations of the Company and Maxim (including for liabilities under the Securities Act of 1933, as amended) and certain other obligations.

Pursuant to the Underwriting Agreement, the Company granted to Maxim an option for a period of 45 days (the "Over-Allotment Option") to purchase up to 225,000 additional shares of Common Stock and 225,000 Warrants to purchase up to an additional 112,500 shares of Common Stock. Effective as of the closing of the Offering, Maxim exercised the Over-Allotment Option for the purchase of 225,000 Warrants for a price of $0.01 per Warrant. On June 10, 2020, Maxim exercised the Over-Allotment Option for the purchase of 225,000 shares of Common Stock for a price of $2.24 per share, before underwriting discounts. The closing of the sale of the over-allotment shares brought the total number of shares of common stock sold by the Company in the Offering to 2,450,000, and total gross proceeds to approximately $5.5 million

The net proceeds to the Company from the Offering were approximately $4.2 million, after deducting the fees and commissions and estimated Offering expenses payable by the Company of $0.8 million, and excluding $0.9 million proceeds the Company received upon exercise of the Over-Allotment Options and Warrants. The Company is using $3.0 million of the net proceeds from the sale of shares of Common Stock and the Warrants in the Offering to fund commercial modular housing projects being constructed in New England by the Company's KBS Builders, Inc. subsidiary, and the remainder of the net proceeds is being used for working capital and for other general corporate purposes. The Company has broad discretion in determining how the proceeds of the Offering is used, and its discretion is not limited by the aforementioned possible uses.

Cash Flows

The following table shows cash flow information for the nine months ended September 30, 2020 and 2019 (in thousands):

	Nine Months Ended September 30,	
	2020	**2019**
Net cash used in operating activities	$ (1,880)	$ (765)
Net cash used in investing activities	$ (490)	$ (5,726)
Net cash provided by financing activities	$ 4,745	$ 6,362

Operating Activities

The increase in cash used compared to the prior year period was primarily due to our increased net loss and an increase in net working capital.

Investing Activities

The decrease in investing activities cash flow compared to the prior year period was primarily attributable to lower capital expenditures, investments in SRE, and payments to acquire interest in a joint venture.

Financing Activities

The decrease in cash flows from financing activities is primarily due to a $6.9 million decrease in borrowing from various credit facilities.

Digirad Loan Agreement

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

The SNB Loan Agreement is a five-year credit facility maturing in March 2024, with a maximum credit amount of $20.0 million for both revolving loans and outstanding letter of credit obligations (the "SNB Credit Facility"). Under the SNB Credit Facility, the SNB Borrowers can request the issuance of letters of credit in an aggregate amount not to exceed $0.5 million at any one time outstanding. As of September 30, 2020, the Company had $0.2 million of letters of credit outstanding and had additional borrowing capacity of $8.5 million.

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

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

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

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

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

At September 30, 2020, the Company was in compliance with SNB covenants.

ATRM Promissory Notes

See Note 12, *Related Party Transactions*, for information regarding certain ATRM promissory notes that are outstanding.

KBS Loan Agreement

On February 23, 2016, ATRM, KBS and Main Modular Haulers, Inc. (a subsidiary of ATRM) entered into a Loan and Security Agreement, (as amended, the "KBS Loan Agreement"), with Gerber Finance Inc. ("Gerber"). The KBS Loan Agreement provides KBS with a revolving line of credit with borrowing availability of up to $4.0 million. Availability under the line of credit is based on a formula tied to KBS's eligible accounts receivable, inventory and other collateral. The KBS Loan Agreement, which was scheduled to expire on February 22, 2018, has been automatically extended for successive one (1) year periods in accordance with its terms and is now scheduled to expire on February 22, 2021. The KBS Loan Agreement will be automatically extended for another one (1) year period unless a party thereto provides prior written notice of termination. As of September 30, 2020, neither parties has provided notice of termination. Upon the final expiration of the term of the KBS Loan Agreement, the outstanding principal balance is payable in full. Borrowings bear interest at the prime rate plus 2.75%, with interest payable monthly. The KBS Loan Agreement also provides for certain fees payable to Gerber during its term, including a 1.5% annual facilities fee and a 0.10% monthly collateral monitoring fee. KBS's obligations under the KBS Loan Agreement are secured by all of its assets and are guaranteed by ATRM. Unsecured promissory notes issued by KBS and ATRM are subordinate to KBS's obligations under the KBS Loan Agreement. The KBS Loan Agreement contains representations, warranties, affirmative and negative covenants, defined events of default and other provisions customary for financings of this type. Financial covenants require that KBS maintain a maximum leverage ratio (as defined in the KBS Loan Agreement) and KBS not incur a net annual post-tax loss in any fiscal year during the term of the KBS Loan Agreement.

The parties to the KBS Loan Agreement have amended the KBS Loan Agreement to provide for increased availability under the KBS Loan Agreement to KBS under certain circumstances, including for new equipment additions, and certain other changes, as well as a waiver of certain covenants.

As of December 31, 2019 and 2018, KBS was not in compliance with the financial covenants requiring no net annual post-tax loss for KBS or the minimum leverage ratio covenant as of 2018. The occurrence of any event of default under the KBS Loan Agreement may result in KBS's obligations under the KBS Loan Agreement becoming immediately due and payable. In April 2019, June 2019 and February 2020, we obtained a waiver from Gerber for these events. In addition to obtaining a waiver for these covenants, the Company and Gerber agreed to eliminate the minimum leverage ratio covenant for fiscal years after 2018.

On September 10, 2019, the parties of the KBS Loan Agreement entered into a Consent and Acknowledgment Agreement and Twelfth Amendment to Loan Agreement (the “Twelfth Amendment”), by and among Gerber, KBS, ATRM and the Company, pursuant to which the Company agreed to guarantee amounts borrowed by certain ATRM’s subsidiaries from Gerber. The Twelfth Amendment requires the Company to serve as an additional guarantor with the existing guarantor, ATRM, with respect to the payment, performance and discharge of each and every obligation of payment and performance by the borrowing subsidiaries with respect to the loans made by Gerber to them. The Twelfth Amendment also provides that upon payment in full of the EBGL Obligations (as defined therein), the amount of the Cash Collateral (as defined therein) will be reduced to $0.3 million. Additionally, ATRM had on deposit $0.2 million in a collateral account maintained with Gerber to secure the loans under the KBS Loan Agreement which was returned to ATRM in November 2019.

On January 31, 2020, the Company, ATRM, KBS and Gerber entered into a Thirteenth Amendment to Loan and Security Agreement (the “Thirteenth Amendment”) to amend the terms of the KBS Loan Agreement, in order to, among other things (a) amend the definitions of “Ancillary Credit Parties,” “Guarantor,” “Obligations,” and “Subordinated Lender” to address the obligations of the Star Borrowers, the EBGL Borrowers, the Star Credit Parties, and the EBGL Credit Parties under the Star Loan Agreement, EBGL Loan Agreement and the Subordination Agreements (each as defined below) to which they are a party and (b) add a new cross default provision. As of September 30, 2020, approximately $46 thousand was outstanding under the KBS Loan Agreement.

On March 5, 2020, in connection with the First EBGL Amendment, Gerber, KBS, ATRM and the Company entered into a Consent and as a Fourteenth Amendment to Loan and Security Agreement that amended the KBS Loan Agreement (the “Consent and Fourteenth Amendment”). Under the terms of the Consent and Fourteenth Amendment, the parties thereto (and the subordinated creditors that consented thereto) consented to the First EBGL Amendment and agreed that cash collateral would no longer be part of the borrowing base and that the borrowing base would no longer be based on cash availability for purposes of the KBS Loan Agreement.

On April 1, 2020, Gerber and KBS entered into a Fifteenth Amendment to Loan Agreement (the “Fifteenth Amendment”) pursuant to which the “Minimum Average Monthly Loan Amount” under the KBS Loan Agreement was decreased to twenty-five percent (25%) of the Maximum Revolving Amount (as defined in the KBS Loan Agreement).

EBGL Premier Note

On June 30, 2017, EdgeBuilder and Glenbrook (together, EBGL) entered into a Revolving Credit Loan Agreement (as amended, the “Premier Loan Agreement”) with Premier Bank (“Premier”) providing EBGL with a working capital line of credit of up to $3.0 million. The Premier Loan Agreement replaced the prior revolving credit facility under a loan and security agreement with Gerber (the “EBGL Loan Agreement”), which was terminated on the same date and all obligations of EBGL and ATRM in favor of Gerber in connection with the EBGL Loan Agreement were extinguished.

Availability under the Premier Loan Agreement is based on a formula tied to EBGL’s eligible accounts receivable, inventory and equipment, and borrowings bear interest at the prime rate plus 1.50%, with interest payable monthly and the outstanding principal balance payable upon expiration of the term of the Premier Loan Agreement. The Premier Loan Agreement also provides for certain fees payable to Premier during its term. The initial term of the Premier Loan Agreement was scheduled to expire on June 30, 2018, but was extended by Premier until February 1, 2019, and in July 2019, it was extended further by Premier until October 1, 2019. On October 1, 2019, it was extended until November 1, 2019; and on November 1, 2019, was extended until January 1, 2020; and on January 31, 2020, it was extended until January 31, 2023. The Premier Loan Agreement may be further extended from time to time at our request, subject to approval by Premier. EBGL’s obligations under the Premier Loan Agreement are secured by all of their inventory, equipment, accounts and other intangibles, fixtures and all proceeds of the foregoing.

As of December 31, 2019, EBGL was in compliance with the following covenants under the Premier Loan Agreement: (i) a requirement to maintain a Debt Service Coverage Ratio for the calendar year of at least 1.0; and (ii) a requirement to deliver ATRM’s fiscal year-end audited financial statements within 120 days of the end of each calendar year. The occurrence of any event of default under the Premier Loan Agreement may result in EBGL’s obligations under the Premier Loan Agreement becoming immediately due and payable.

On January 31, 2020, contemporaneously with the execution and delivery of the Star Loan Agreement and EBGL Loan Agreement described below, Glenbrook and EdgeBuilder entered into an Extension and Modification Agreement (the “Modification Agreement”) with Premier that modified the terms of that certain Revolving Credit Promissory Note (the “Premier Note”) made by Glenbrook and EdgeBuilder pursuant to that the Premier Loan Agreement. Pursuant to the Modification Agreement, the amount of indebtedness evidenced by the Premier Note was reduced to $1.0 million, and the Premier Note was modified to, among other things: (a) extend the Final Maturity Date (as defined in the Premier Note) of the Premier Note to January 31, 2023, and (b) set the interest that the Premier Note will bear at 5.75% per annum. As a condition to close and to then later extend the term of the Premier Loan Agreement, ATRM and Mr. Eberwein executed a guaranty in favor of Premier, which has, through the multiple extensions described above, been extended through January 1, 2023, under which ATRM and Mr. Eberwein have absolutely and unconditionally guaranteed all of EBGL’s obligations under the Premier Loan Agreement. As of September 30, 2020, approximately $0.9 million was outstanding under the Premier Loan Agreement.

Gerber Star and EBGL Loans

On January 31, 2020, SRE, 947 Waterford Road, LLC (“947 Waterford”), 300 Park Street, LLC (“300 Park”), and 56 Mechanic Falls Road, LLC (“56 Mechanic” and together with SRE, 947 Waterford, and 300 Park, (the “Star Borrowers”), each an Investments Subsidiary, and the Company, ATRM, KBS, EdgeBuilder, and Glenbrook (collectively, the “Star Credit Parties”), entered into a Loan and Security Agreement (as amended, the “Star Loan Agreement”) with Gerber providing the Star Borrowers with a credit facility with borrowing availability of up to $2.5 million ($2.0 million and $0.5 million to KBS and EBGL, respectively) (the “Star Term Loan”). The advance of $2.0 million to KBS is to be repaid in monthly installments of sixty (60) consecutive equal payments. The advance of $0.5 million to EBGL, which has been temporarily increased by $0.3 million due to be repaid on April 30, 2020, is to be repaid in monthly installments of twelve (12) consecutive equal payments. On February 20, 2020, the Star Borrowers entered into a First Amendment to Loan and Security Agreement (the “First Star Amendment”) with Gerber that amended the Star Loan Agreement in order to (i) temporarily advance $0.3 million to EBGL, which amount was, prior to the Second Star Amended described below, to be repaid to Gerber on or before April 30, 2020; (ii) clarify that Gerber can make multiple advances under the Star Loan Agreement, and (iii) to correct the maturity date of the Star Term Loan. On April 30, 2020, the Star Borrowers entered into a Second Amendment to Loan and Security Agreement (the “Second Star Amendment”) with Gerber that amended the Star Loan Agreement in order to change terms of repayment for the advance of $0.3 million to EBGL provided for under the First Star Amendment. Under the terms of the Second Star Amendment, the advance of $0.3 million to EBGL is to be repaid in three (3) consecutive equal monthly installments on the thirtieth (30th) day in each calendar month, commencing May 30, 2020, and in a final installment on or before July 31, 2020. As of September 30, 2020, EBGL repaid $0.3 million to Gerber and approximately $1.9 million was outstanding under the Star Loan Agreement.

On January 31, 2020, EdgeBuilder and Glenbrook (the “EBGL Borrowers”), each a Construction Subsidiary, and the Company, Star, 947 Waterford, 300 Park, 56 Mechanic, ATRM, and KBS (collectively, the “EBGL Credit Parties”), entered into a Loan and Security Agreement (the “EBGL Loan Agreement”) with Gerber providing the EBGL Borrowers with a credit facility with borrowing availability of up to $3.0 million (the “EBGL Loan”). On March 5, 2020, the EBGL Borrowers entered into a First Amendment to Loan and Security Agreement (the “First EBGL Amendment”) with Gerber that amended the EBGL Loan Agreement and the KBS Loan Agreement in order to, among other things, include a pledge $0.3 million of cash collateral by LSVI under the EBGL Loan Agreement which, prior to the First EBGL Amendment, was pledged by LSVI in connection with the KBS Loan Agreement. On July 1, 2020, the EBGL Borrowers entered into a Second Amendment to Loan and Security Agreement that amended the EBGL Loan Agreement in order to, among other things, terminate the pledge of $0.3 million in cash collateral. As of September 30, 2020, approximately $1.3 million was outstanding under the EBGL Loan Agreement.

Availability under the Star Loan Agreement is based on a formula tied to the value of real estate owned by the Star Borrowers, and borrowings bear interest at the prime rate plus 3.5% per annum. Availability under the EBGL Loan Agreement is based on a formula tied to the EBGL Borrowers’ eligible accounts receivable and inventory, and borrowings bear interest at the prime rate plus 2.75% per annum. The Loan Agreements also provide for certain fees payable to Gerber during their respective terms. The Star Term Loan matures on the earlier of (a) January 1, 2025 or (b) the termination, the maturity or repayment of the EBGL Loan. The EBGL Loan matures on the earlier of (a) January 1, 2022, unless extended, or (b) the termination, the maturity or repayment of the Star Term Loan. The maturity of the EBGL Loan is automatically extended for successive periods of one (1) year each unless terminated by Gerber or the EBGL Borrowers.

The obligations of the EBGL Borrowers under the EBGL Loan Agreement are guaranteed by the EBGL Credit Parties and are secured by substantially all the assets of the EBGL Borrowers and the EBGL Credit Parties. The obligations of the Star Borrowers under the Star Loan Agreement are guaranteed by the Star Credit Parties and are secured by substantially all the assets of the Star Borrowers and the Star Credit Parties. Contemporaneously with the execution and delivery of the Star Loan Agreement, Jeffrey E. Eberwein, the Chairman of the Company's board of directors, executed and delivered a Guaranty (the "Gerber Eberwein Guaranty") to Gerber pursuant to which he guaranteed the performance of all the Star Borrowers' obligations to Gerber under the Star Loan Agreement, including the full payment of all indebtedness owing by the Star Borrowers to Gerber under or in connection with the Star Loan Agreement and related financing documents. Mr. Eberwein's obligations under the Gerber Eberwein Guaranty are limited in the aggregate to the amount of (a) $2.5 million, plus (b) costs of Gerber incidental to the enforcement of the Gerber Eberwein Guaranty or any guaranteed obligations. On March 5, 2020, contemporaneously with the execution and delivery of the First EBGL Amendment, Mr. Eberwein, the Chairman of the Company's board of directors, executed and delivered a Guaranty (the "EBGL Eberwein Guaranty") to Gerber pursuant to which he guaranteed the performance of all the EBGL Borrowers' obligations to Gerber under the EBGL Loan Agreement, including the full payment of all indebtedness owing by the EBGL Borrowers to Gerber under or in connection with the EBGL Loan Agreement and related financing documents. Mr. Eberwein's obligations under the EBGL Eberwein Guaranty are limited in the aggregate to the amount of (a) $0.5 million, plus (b) costs of Gerber incidental to the enforcement of the EBGL Eberwein Guaranty or any guaranteed obligations.

The Star Loan Agreement and EBGL Loan Agreement contains representations, warranties, affirmative and negative covenants, events of default and other provisions customary for financings of this type. The financial covenants under the EBGL Loan Agreement applicable to the EBGL Borrowers include maintenance of a minimum tangible net worth, a minimum debt service coverage ratio and minimum net income. The Financial covenants under the Star Loan Agreement applicable to the Star Borrowers include a minimum debt service coverage ratio. The occurrence of any event of default under the Loan Agreements may result in the obligations of the Borrowers becoming immediately due and payable. As a condition to the extension of credit to the Star Borrowers and EBGL Borrowers under the Star Loan Agreement and EBGL Loan Agreement, the holders of certain existing unsecured promissory notes made by ATRM and certain of its subsidiaries entered into subordination agreements (the "Subordination Agreements") with Gerber pursuant to which such noteholders (including the Company and certain of its subsidiaries) agreed to subordinate the obligations of ATRM and its subsidiaries to such noteholders to the obligations of the Star Borrowers and EBGL Borrowers to Gerber under the loan agreements.

Paycheck Protection Program

On April 30, 2020, each of KBS, EdgeBuilder and Glenbrook executed a separate promissory note evidencing unsecured loans under the "Paycheck Protection Program" (the "PPP"). The promissory note executed by KBS is for $0.8 million (the "KBS Note"), the promissory note executed by EdgeBuilder is for $0.2 million (the "EdgeBuilder Note") and the promissory note executed by Glenbrook is for $0.2 million (the "Glenbrook Note"). The KBS Note, the EdgeBuilder Note and the Glenbrook Note, each dated April 30, 2020, are referred to together as the "Construction Notes".

On May 11, 2020, the Company and each of Digirad Imaging Solutions, Inc. ("DIS"), DMS Imaging, Inc. ("DMS Imaging") and DMS Health Technologies, Inc. ("DMS Health"), each a direct or indirect wholly owned subsidiary of the Company, executed a separate promissory note evidencing unsecured loans under the PPP. The promissory note executed by the Company, dated May 7, 2020, is for $0.8 million (the "Company Note"); the promissory note executed by DIS, dated May 5, 2020, is for $3.0 million (the "DIS Note"); the promissory note executed by DMS Imaging, dated May 5, 2020, is for $1.6 million (the "DMS Imaging Note") and the promissory note executed by DMS Health, dated May 7, 2020, is for $0.1 million (the "DMS Health Note"). The Company Note, the DIS Note, the DMS Imaging Note, and the DMS Health Note are referred to together as the "Healthcare Notes". The Construction Notes and the Healthcare Notes are referred to collectively as the "PPP Notes" and each promissory note individually as a "PPP Note".

The PPP was established under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") and is administered by the U.S. Small Business Administration ("SBA"). The loans evidenced by the Construction Notes are being made through Bremer Bank ("Bremer") as lender, and the loans evidenced by the Healthcare Notes are being made through Sterling as lender.

The loans evidenced by the PPP Notes (the "PPP Loans") have two-year terms and bear interest at a rate of 1.00% per annum. Monthly principal and interest payments under the PPP Loans are deferred for six months. Beginning seven months from the date of a PPP Note, unless fully forgiven prior thereto, the applicable borrower will pay to its lender thereunder a monthly principal and interest payments. The PPP Loans may be prepaid at any time prior to maturity with no prepayment penalties. The Construction Notes mature on April 30, 2022, and the Healthcare Notes mature two years from the date the loans under the Healthcare Notes are disbursed. Loans under the Company Note and the DIS Note were disbursed on May 12, 2020, and the loans under the DMS Health Note and DMS Imaging Note were disbursed on May 13, 2020.

The PPP Notes contain customary events of default relating to, among other things, payment defaults, making materially false and misleading representations to the SBA or lender, or breaching the terms of the applicable PPP Loan documents. Upon an event of default under a PPP Note, the lender thereunder may, among other things, require immediate payment of all amounts owing under the applicable PPP Note, collect all amounts owing from the applicable borrower, or file suit and obtain judgment.

Under the terms of the CARES Act, recipients of loans under the PPP can apply for and be granted forgiveness for all or a portion of loan granted under the PPP. Such forgiveness will be determined, subject to limitations, based on the use of loan proceeds for payment of payroll costs and certain other eligible costs. However, no assurance is provided that forgiveness for any portion of the PPP Loans will be obtained.

The Company is continuing to evaluate the criteria and new guidance put out by the SBA regarding loan forgiveness criteria and procedures to seek loan forgiveness. The Company has sought full loan forgiveness from the SBA for the DMS Health Note and DMS Imaging Note, and expects to seek full loan forgiveness for the DIS Note, Company Note, and Construction Notes based on the satisfaction of applicable criteria and guidelines. PPP Loan forgiveness is sought under the belief all entities requesting loan forgiveness have met the stated criteria and guidelines provided by the SBA and terms of the CARES Act; however, no assurance can be provided that forgiveness for any portion of the PPP Loans will be obtained.

Off-Balance Sheet Arrangements

On September 10, 2019, the parties to the KBS Loan Agreement entered a Consent and Acknowledgment Agreement and Twelfth Amendment to Loan Agreement, by and among Gerber, KBS, ATRM and the Company, pursuant to which the Company agreed to guarantee amounts borrowed by certain of ATRM's subsidiaries from Gerber. The Twelfth Amendment requires the Company to serve as an additional guarantor with the existing guarantor, ATRM, with respect to the payment, performance and discharge of each and every obligation of payment and performance by the borrowing subsidiaries with respect to the loans made by Gerber to them. On January 31, 2020, the Company, ATRM, KBS and Gerber entered into a Thirteenth Amendment to Loan and Security Agreement to amend the KBS Loan Agreement, by and among the Company, ATRM, KBS and Gerber, in order to, among other things (a) amend the definitions of "Ancillary Credit Parties," "Guarantor," "Obligations," and "Subordinated Lender" to address the obligations of the Star Borrowers, the EBGL Borrowers, the Star Credit Parties, and the EBGL Credit Parties under the Star Loan Agreement, the EBGL Loan Agreement and the Subordination Agreements to which they are a party and (b) add a new cross default provision. On April 1, 2020, Gerber and KBS entered into a Fifteenth Amendment to Loan Agreement pursuant to which the "Minimum Average Monthly Loan Amount" under the KBS Loan Agreement was decreased to twenty-five percent (25%) of the Maximum Revolving Amount (as defined in the KBS Loan Agreement). See Note 8, *Debt*, within the notes to our unaudited condensed consolidated financial statements for further detail.

On June 5, 2020, the Company entered into a Guaranty Agreement (the "Tocci Guaranty") with Tocci Building Corporation ("Tocci") pursuant to which the Company irrevocably guaranteed all the obligations of KBS under a certain Subcontract agreement by and between Tocci and KBS in the event of a material breach by KBS under the Subcontract. The Company's liability under the Tocci Guaranty is limited to $2.0 million.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

As further discussed below, we carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of September 30, 2020.

The Company closed the acquisition of ATRM on September 10, 2019, and ATRM's total assets and revenues constitute 40.0% and 23.4%, respectively, of the Company's consolidated total assets and revenues as shown on our unaudited consolidated financial statements as of and for the nine months ended September 30, 2020. As the ATRM Acquisition occurred in the third quarter of fiscal 2019, we excluded the internal control over financial reporting of ATRM from the scope of our assessment of the effectiveness of the Company's disclosure controls and procedures. For the period ended September 30, 2020, Management is continuing to refine and assess the internal controls related to the Building and Construction and Real Estate and Investment businesses acquired as part of the ATRM Acquisition.

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

Except as described, below, there has been no change in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 under the Exchange Act that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Subsequent to the ATRM Acquisition on September 10, 2019, certain elements of ATRM's internal control over financial reporting and related processes were being integrated into the Company's existing internal control over financial reporting process.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

In evaluating us and our common stock, we urge you to carefully consider the risks and other information in this Quarterly Report on Form 10-Q, as well as the risk factors disclosed in Item 1A to Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, which we filed with the SEC on March 9, 2020, as amended on April 17, 2020, and in the April Registration Statement relating to the Offering. Except as noted below, the risks and uncertainties described in “Item 1A - Risk Factors” of our Annual Report on Form 10-K have not materially changed. Any of the risks discussed in this Quarterly Report on Form 10-Q or any of the risks disclosed in Item 1A to Part I of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, as well as additional risks and uncertainties not currently known to us or that we currently deem immaterial, could materially and adversely affect our results of operations or financial condition.

Risks Related to Our Business and Industry

We face risks related to health pandemics and other widespread outbreaks of contagious disease, including the novel coronavirus, COVID-19, which could significantly disrupt our operations and impact our financial results.

Our business has been disrupted and could be materially adversely affected by the recent outbreak of COVID-19. The outbreak and government measures taken in response have also had a significant impact, both direct and indirect, on businesses and commerce. Global health concerns, such as coronavirus, could also result in social, economic, and labor instability in the countries in which we or the third parties with whom we engage operate. The future progression of the outbreak and its effects on our business and operations are uncertain. We cannot presently predict the scope and severity of any potential business shutdowns or disruptions, including downturns in global economies and financial markets that could affect our future operating results. Any adverse impact on our results and financial condition could have a negative impact on our ability to comply with certain financial covenants in certain of our loan agreements (as described further below) and on your investment in our common stock.

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

A significant portion of our assets consists of goodwill and other long-lived assets, the carrying value of which may be reduced if we determine that those assets are impaired. At September 30, 2020, goodwill and net intangible assets represented $30.5 million, or 35.4% of our total assets. In addition, net property, plant and equipment assets totaled $18.1 million, or 21.1% of our total assets. If actual results differ from the assumptions and estimates used in our goodwill and long-lived asset valuation calculations, we could incur impairment charges, which could negatively impact our earnings.

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

On September 10, 2019, Digirad completed its acquisition of ATRM pursuant to the ATRM Merger Agreement. The $8.2 million goodwill recognized is attributable primarily to expected synergies and the assembled workforce of ATRM. As of December 31, 2019, as a result of the finalization of the purchase price allocation for the ATRM Merger, an adjustment of $3.0 thousand was made to the recognized amounts of goodwill resulting from the acquisition of ATRM. No other significant impairment losses on long-lived assets were recognized during the three months ended September 30, 2020 and 2019.

The pending sale of DMS Health is subject to closing conditions, the failure of any of which (including failure to obtain certain approvals), could result in our inability to consummate the transaction and, consequently, adversely affect our business, financial condition, results of operations or our stock price.

On October 30, 2020, Digirad entered into a Stock Purchase Agreement (the "DMS Purchase Agreement") by and among Digirad, Project Rendezvous Acquisition Corporation, a wholly owned subsidiary of Digirad ("Seller"), DMS Health, a wholly owned subsidiary of Seller, and Knob Creek Acquisition Corp. ("Buyer") pursuant to which, subject to the satisfaction or waiver of certain conditions, Buyer will purchase all of the issued and outstanding common stock of DMS Health from Seller (the "DMS Sale Transaction"). The purchase price for the Transaction is $18.75 million in cash, subject to certain adjustments, including a working capital adjustment. The completion of the DMS Sale Transaction is subject to receipt of certain consents and closing conditions.

We have spent time and money on the pending sale of DMS Health but we may not be able to consummate the transaction because of a failure to obtain the necessary consents and approvals or to satisfy other conditions to closing. In addition, we expect to incur transaction costs in connection with the pending sale of DMS Health, whether or not the transaction is completed.

Under the terms of the DMS Purchase Agreement, we are subject to certain restrictions on the conduct of DMS Health's business prior to the completion of the pending sale, which restrictions could adversely affect our ability to realize certain business strategies or take advantage of certain business opportunities. In addition, the current trading price of our common stock and the Company Preferred Stock may reflect a market assumption that the sale of DMS Health will be completed. If we are unable to consummate the sale of DMS Health, we may be unable to find another party willing to purchase DMS Health on equally favorable terms or at all. The failure to complete the sale of DMS Health may adversely affect our business, financial condition, results of operations or our stock price.

Risks Related to our Indebtedness

On March 29, 2019, Digirad and certain Healthcare Subsidiaries entered into a Loan and Security Agreement with Sterling National Bank (the "SNB Loan Agreement"). The SNB Loan Agreement is a five-year revolving credit facility (maturing in March 2024), which, as amended, has a maximum credit amount of $20.0 million (the "SNB Credit Facility"). On January 31, 2020, Digirad and certain of its Investments Subsidiaries entered into a Loan and Security Agreement with Gerber (as amended, the "Star Loan Agreement"), which provides for a credit facility with borrowing availability of up to $2.5 million and matures on January 1, 2025, unless terminated in accordance with the terms therein (the "Star Term Loan"). On January 31, 2020, Digirad and certain of its Construction Subsidiaries entered into a Loan and Security Agreement with Gerber (the "EBGL Loan Agreement"), which provides for a credit facility with borrowing availability of up to $3.0 million and matures on January 1, 2022, unless extended or terminated in accordance with the terms therein (the "EBGL Loan"). On January 31, 2020, Glenbrook and EdgeBuilder entered into an Extension and Modification Agreement (the "Modification Agreement") with Premier Bank ("Premier") that modified the terms of the loan made by Premier to Glenbrook and EdgeBuilder pursuant to that certain Revolving Credit Loan Agreement, dated June 30, 2017, by and among Glenbrook, EdgeBuilder and Premier (as amended, the "Premier Loan Agreement"). Pursuant to the Modification Agreement, the amount of indebtedness evidenced by the promissory note issued under the Premier Loan Agreement was reduced to $1.0 million. Our credit facility under the Loan and Security Agreement, dated February 23, 2016, by and among KBS, ATRM, the Company and Gerber (as amended, the "KBS Loan Agreement") provides for a revolving credit facility of up to $4.0 million that matures on February 22, 2021, subject to automatic extension for an additional year unless terminated. The SNB Loan Agreement, Star Loan Agreement, EBGL Loan Agreement, the Premier Loan Agreement and the KBS Loan Agreement are collectively referred to as the "Company Loan Agreements." See Note 12, *Related Party Transactions*, within the notes to our accompanying unaudited consolidated financial statements for information regarding certain ATRM promissory notes that are outstanding.

The Company Loan Agreements governing our indebtedness contain restrictive covenants that restrict our operating flexibility and require that we maintain specified financial ratios. If we cannot comply with these covenants, we may be in default under one or more of the Loan Agreements.

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

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

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

The Loan Agreements contain various financial covenants that, going forward, we or our subsidiaries may not have the ability to meet. Due to increased financial pressure on the Company as a result of the COVID-19 pandemic, there is an increased likelihood that we may fail to comply with such financial covenants if the impacts of the pandemic persist for a significant duration. We cannot provide any assurance that any such breach of covenants will be able to be remedied or that they will not result in a default under the Loan Agreements.

The Loan Agreements also contain various other affirmative and negative covenants regarding, among other things, the performance of our business, capital allocation decisions made by the Company and its subsidiaries, or events beyond our control. Our failure to comply with our covenants and other obligations under the Loan Agreements may result in an event of default thereunder. A default, if not cured or waived, may permit acceleration of our indebtedness. If our indebtedness is accelerated, we cannot be certain that we will have sufficient funds available to pay the accelerated indebtedness (together with accrued interest and fees), or that we will have the ability to refinance the accelerated indebtedness on terms favorable to us or at all. This could have serious consequences to our financial condition, operating results, and business, and could cause us to become insolvent or enter bankruptcy proceedings, and stockholders may lose all or a portion of their investment because of the priority of the claims of our creditors on our assets.

We may not be entitled to forgiveness of our recently received PPP Loans, and our application for the PPP Loans could in the future be determined to have been impermissible.

During April and May, we received proceeds of $6.7 million from various loans under the PPP of the CARES Act. The PPP Loans mature in April and May, 2022 and bear annual interest at a rate of 1.0%.

Commencing November and December 2020, we are required to pay the lenders equal monthly payments of principal and interest as required to fully amortize by April and May, 2022 any principal amount outstanding on the PPP Loans as of October, 2020. Under the CARES Act, loan forgiveness is generally available for the sum of documented payroll costs, covered rent payments, covered mortgage interest and covered utilities during the twenty-four week period beginning on the date the lender makes the first disbursement of the PPP Loan. We will be required to repay any portion of the outstanding principal that is not forgiven, along with accrued interest, and we cannot provide any assurance that we will be eligible for loan forgiveness, that we will ultimately apply for forgiveness equally among all business entities, or that any amount of the PPP Loans will ultimately be forgiven by the SBA.

Under the terms of the CARES Act, recipients of loans under the PPP can apply for and be granted forgiveness for all or a portion of loan granted under the PPP. Such forgiveness will be determined, subject to limitations, based on the use of loan proceeds for payment of payroll costs and certain other eligible costs. However, no assurance is provided that forgiveness for any portion of the PPP Loans will be obtained.

The Company is continuing to evaluate the criteria and new guidance put out by the SBA regarding loan forgiveness criteria and procedures to seek loan forgiveness. The Company has sought full loan forgiveness from the SBA for the DMS Health Note and DMS Imaging Note, and expects to seek full loan forgiveness for the DIS Note, Company Note, and Construction Notes based on the satisfaction of applicable criteria and guidelines. PPP Loan forgiveness is sought under the belief all entities requesting loan forgiveness have met the stated criteria and guidelines provided by the SBA and terms of the CARES Act; however, no assurance can be provided that forgiveness for any portion of the PPP Loans will be obtained.

Furthermore, in April 2020, the Secretary of the U.S. Department of the Treasury stated that the SBA will perform a full review of any PPP loan over $2.0 million before forgiving the loan. In order to apply for the PPP Loan, we were required to certify, among other things, that the current economic uncertainty made the PPP Loan request necessary to support our ongoing operations. We made this certification in good faith after analyzing, among other things, the maintenance of our entire workforce, taking into consideration certain limitations associated with the nature of our work in the healthcare business and uncertainty of the industry where healthcare clients resources may be diverted during the COVID-19 pandemic. In considering our position, the Company took into account our need for additional funding to continue operations, and our ability to access alternative forms of capital in the current market environment to offset the effects of the COVID -19 pandemic. Following this analysis, we believe that we satisfied all eligibility criteria for the PPP Loan, and that our receipt of the PPP Loan is consistent with the broad objectives of the PPP of the CARES Act. The certification described above did not contain any objective criteria and is subject to interpretation. If, despite our good-faith belief that given our circumstances we satisfied all eligible requirements for the PPP Loans, we are later determined to have violated any applicable laws or regulations or it is otherwise determined that we were ineligible to receive the PPP Loans, we may be required to repay the PPP Loans in their entirety and/or be subject to additional penalties, which could also result in adverse publicity and damage to reputation. In addition, if these events were to transpire, they could have a material adverse effect on our business, results of operations and financial condition.

Risks Related to our Common Stock and our Company Preferred Stock

If we fail to pay dividends on our Company Preferred Stock for six or more consecutive quarters, holders of our Company Preferred Stock will be entitled to elect two additional directors to our board of directors.

To date no dividends have been paid on the Company Preferred Stock and as a result, cumulative dividends will continue to accrue as part of the liquidation value of the Company Preferred Stock. Whenever dividends on any shares of Company Preferred Stock are in arrears for six or more consecutive quarters, then the holders of those shares together with the holders of all other series of preferred stock equal in rank with the Company Preferred Stock upon which like voting rights have been conferred and are exercisable, will be entitled to vote separately as a class for the election of a total of two additional directors to Digirad's board of directors. Holders of our common stock will not be entitled to vote no such additional directors**.**

Digirad may not be able to redeem its Company Preferred Stock upon a Change of Control Triggering Event.

Upon the occurrence of a Change of Control Triggering Event, (as defined in the Certificate of Designations, Rights and Preferences of 10% Series A Cumulative Perpetual Preferred Stock of Digirad Corporation) unless the Company has exercised its option to redeem the Company Preferred Stock after September 10, 2024, each holder of the Company Preferred Stock will have the right to require the Company to redeem all or any part of such holder's Company Preferred Stock at a price equal to the liquidation preference of $10.00 per share, plus an amount equal to any accumulated and unpaid dividends up to but excluding the date of payment, but without interest. If the Company experiences a Change of Control Triggering Event, there can be no assurance that the Company would have sufficient financial resources available to satisfy its obligations to redeem the Company Preferred Stock and any indebtedness that may be required to be repaid or repurchased as a result of such event. In addition, Digirad may be unable to redeem the Company Preferred Stock upon a Change of Control Triggering Event if such redemption would result in our non-compliance with the financial covenants in the Company Loan Agreements. Digirad's failure to redeem the Company Preferred Stock could have material adverse consequences for Digirad, and the holders of the Company Preferred Stock.

As a smaller reporting company, we are subject to scaled disclosure requirements that may make it more challenging for investors to analyze our results of operations and financial prospects.

Currently, we are a "smaller reporting company," as defined by Rule 12b-2 of the Exchange Act. As a "smaller reporting company," we are able to provide simplified executive compensation disclosures in our filings and have certain other decreased disclosure obligations in our filings with the SEC, including being required to provide only two years of audited financial statements in annual reports. Consequently, it may be more challenging for investors to analyze our results of operations and financial prospects.

Furthermore, we are a non-accelerated filer as defined by Rule 12b-2 of the Exchange Act, and, as such, are not required to provide an auditor attestation of management's assessment of internal control over financial reporting, which is generally required for SEC reporting companies under Section 404(b) of the Sarbanes-Oxley Act. Because we are not required to, and have not, had our auditor's provide an attestation of our management's assessment of internal control over financial reporting, a material weakness in internal controls may remain undetected for a longer period.

If we cannot continue to satisfy the Nasdaq Global Market continued listing standards and other Nasdaq rules, our common stock could be delisted, which would harm our business, the trading price of our common stock, our ability to raise additional capital and the liquidity of the market for our common stock.

Our common stock is currently listed on the Nasdaq Global Market. To maintain the listing of our common stock on the Nasdaq Global Market, we are required to meet certain listing requirements, including, among others, either: (i) a minimum closing bid price of $1.00 per share, a market value of publicly held shares (excluding shares held by our executive officers, directors and 10% or more stockholders) of at least $5.0 million and stockholders' equity of at least $10 million; or (ii) a minimum closing bid price of $1.00 per share, a market value of publicly held shares (excluding shares held by our executive officers, directors and 10% or more stockholders) of at least $15.0 million and total assets of at least $50.0 million and total revenue of at least $50.0 million (in the latest fiscal year or in two of the last three fiscal years).

There is no assurance that we will be able to maintain compliance with the minimum closing price requirement and other listing requirements. In the event that we fail to maintain compliance with Nasdaq listing requirements for 30 consecutive trading days, our common stock may be delisted from the Nasdaq Global Market. If our common stock were to be delisted from Nasdaq and was not eligible for quotation or listing on another market or exchange, trading of our common stock could be conducted only in the over-the-counter market or on an electronic bulletin board established for unlisted securities such as the Pink Sheets or the OTC Bulletin Board. In such event, it could become more difficult to dispose of, or obtain accurate price quotations for, our common stock, and there would likely also be a reduction in our coverage by securities analysts and the news media, which could cause the price of our common stock to decline further.

If securities or industry analysts do not publish research or reports about our business, or if they issue an adverse or misleading opinion regarding our stock, the price and trading volume of our securities could decline.

The trading market for our securities will be influenced by the research and reports that industry or securities analysts publish about us or our business. We do not currently have and may never obtain research coverage by securities and industry analysts. If no or few securities or industry analysts commence coverage of us, the trading price for our securities would be negatively impacted. In the event we obtain securities or industry analyst coverage, if any of the analysts who cover us issue an adverse or misleading opinion regarding us, our business model, our intellectual property or our stock performance, or if our clinical trials and operating results fail to meet the expectations of analysts, the price of our securities would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause the price or trading volume of our securities to decline.

If we become a personal holding company, our results could be negatively impacted.

We could be subject to a second level of U.S. federal income tax on a portion of our income if we are determined to be a personal holding company ("PHC") for U.S. federal income tax purposes. A U.S. corporation generally will be classified as a PHC for U.S. federal income tax purposes in a given taxable year if (i) at any time during the last half of such taxable year, five or fewer individuals (without regard to their citizenship or residency and including as individuals for this purpose certain entities such as certain tax-exempt organizations, pension funds and charitable trusts) own or are deemed to own (pursuant to certain constructive ownership rules) more than 50% of the stock of the corporation by value (by reference to all common, preferred and all other classes of stock) (the "Ownership Test") and (ii) at least 60% of the corporation's adjusted ordinary gross income, as determined for U.S. federal income tax purposes, for such taxable year consists of PHC income (which includes, among other things, dividends, interest, certain royalties, annuities and, under certain circumstances, rents) (the "Income Test").

Based on our knowledge, we believe we meet the Ownership Test discussed above. However, based on our present operations and income sources, we believe that we will not meet the Income Test, and as a result we should not be treated as a PHC for the foreseeable future. If we are or were to become a PHC in a given taxable year, we would be subject to an additional PHC tax, currently 20%, on our undistributed PHC income, which generally includes our taxable income (without the benefit of any federal net operating loss carry forward), subject to certain adjustments. We can give no assurance that we will not become a PHC in the future.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Holders of shares of the Company Preferred Stock are entitled to receive, when, as and if authorized by the Company's board of directors (or a duly authorized committee of Digirad board of directors) and declared by the Company out of funds legally available for the payment of dividends, preferential cumulative cash dividends at the rate of 10.0% per annum of the liquidation preference of $10.00 per share. Dividends are payable quarterly, in arrears, on the last calendar day of March, June, September and December to holders of record at the close of business on the first day of each payment month. As of the date of this Quarterly Report on Form 10-Q, the Company's board of directors has not declared a dividend on the Company Preferred Stock and the total arrearage of cash dividends due on the Company Preferred Stock is $2.0 million.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Description
4.1	Description of Registrant's Securities (incorporated by reference to Exhibit 4.1 to the Company’s Quarterly Report on Form 10-Q filed with the Commission on August 13, 2020).
10.1	Second Amendment to Loan and Security Agreement, dated July 1, 2020, by and among Gerber Finance Inc., EdgeBuilder, Inc., and Glenbrook Building Supply, Inc. (incorporated by reference to Exhibit 10.10 to the Company’s Quarterly Report on Form 10-Q filed with the Commission on August 13, 2020).
10.2	Digirad 2018 Incentive Plan, as amended July 31, 2020 (incorporated by reference to Exhibit 10.11 to the Company’s Quarterly Report on Form 10-Q filed with the Commission on August 13, 2020).
31.1*	Certification of the Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated pursuant to the Securities Exchange Act of 1934, as amended.
31.2*	Certification of the Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated pursuant to the Securities Exchange Act of 1934, as amended.
32.1**	Certification of the Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of the Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase
101.LAB*	Inline XBRL Taxonomy Extension Labels Linkbase
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase

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* Filed herewith.

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

SIGNATURES

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

		DIGIRAD CORPORATION	
Date:	November 13, 2020	By:	/s/ MATTHEW G. MOLCHAN
			Matthew G. Molchan President and Chief Executive Officer (Principal Executive Officer, Duly Authorized Officer)

EXHIBIT 31.1

**CERTIFICATION OF
PRINCIPAL EXECUTIVE 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. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 13, 2020

/s/ Matthew G. Molchan

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

EXHIBIT 31.2

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

I, David J. Noble, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Digirad Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 13, 2020

/s/ David J. Noble

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

EXHIBIT 32.1

**CERTIFICATION OF
PRINCIPAL EXECUTIVE 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, 2020, I, Matthew G. Molchan, President and Chief Executive Officer of Digirad Corporation, hereby certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) such Quarterly Report on Form 10-Q of Digirad Corporation for the period ended September 30, 2020, 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, 2020, 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 13, 2020

/s/ Matthew G. Molchan

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

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

EXHIBIT 32.2

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

In connection with the accompanying Quarterly Report on Form 10-Q of Digirad Corporation for the period ended September 30, 2020, I, David J. Noble, Chief Financial Officer of Digirad Corporation, hereby certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) such Quarterly Report on Form 10-Q of Digirad Corporation for the period ended September 30, 2020, 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, 2020, 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 13, 2020

/s/ David J. Noble

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

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