

DIGIRAD CORP  
Form DEFA14A  
April 15, 2013

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the**

**Securities Exchange Act of 1934**

**(Amendment No.    )**

Filed by the Registrant ☒

Filed by a Party other than the Registrant ☐

Check the appropriate box:

☐ Preliminary Proxy Statement

☐ **Confidential, for Use of the Commission Only** (as permitted by Rule 14a-6(e)(2))

☐ Definitive Proxy Statement

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**DIGIRAD CORPORATION**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

## Edgar Filing: DIGIRAD CORP - Form DEFA14A

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April 2013

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Safe  
Harbor  
Statement  
under  
the  
Private  
Securities  
Litigation  
Reform

Act  
of  
1995:  
The  
presentation  
and  
information  
contained  
herein  
present

forward-looking  
statements  
addressing  
expectations, prospects, estimates and other matters that are dependent upon future events or developments. The matters discussed in these forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected, anticipated or implied. The most significant of these uncertainties are described in Digirad's Form 10-K, Form 10-Q and Form 8-K reports (including all amendments to those reports) and exhibits to those reports, and include (but are not limited to) the following: statements about the Company's revenues, expenses, margins, cash flow from operations, personnel and equipment leasing services, centers of influence strategy and benefits, market conditions and trends, health care dynamics, demand for imaging leasing services and products, imaging modality trends, competitive advantages, utilization, cost control, financial results, restructuring efforts, the positive impact of corporate governance changes, and ability to increase revenue and cash flow on a go-forward basis. This presentation reflects management's views as of date presented. Except to the limited extent required by applicable law, Digirad undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

## EXECUTIVE SUMMARY

The  
Digirad  
Board  
is  
newly  
reconstituted  
with  
5  
independent

directors

4 introduced in past 12 months and recommended by stockholders

The  
Reconstituted  
Board  
has  
adopted  
a  
new  
strategic  
plan  
to  
drive  
cash  
flow and stockholder value

Refocus on Digirad Imaging Solutions (DIS) and installed base  
camera customer service

Reduce costs and eliminate less productive assets  
Management  
team  
has  
been  
resized

New President and CEO, CFO, and Diagnostic Imaging President

Digirad  
Board  
has  
adopted  
significant  
corporate  
governance  
reforms  
Digirad  
Board  
is  
committed  
to  
returning  
capital  
to  
stockholders  
through  
a \$12 million stock buyback program  
Dissident slate lacks relevant experience and has not articulated a new  
plan for Digirad

3

Board reconstituted on February 7, 2013 to become a more nimble and cost efficient size

Size reduced from 8 members to 6 members

Jeff Eberwein appointed Chairman of the Board

4 independent directors introduced in past 12 months, each of whom

were recommended by our stockholders

3 in April 2012; 1 in June 2012

All  
5  
directors  
standing  
for  
re-election  
are  
independent;  
going  
forward,  
the  
Board  
will  
be  
comprised  
of  
5  
non-employee  
independent  
directors, plus the CEO

Board  
collectively  
has  
significant  
ownership  
in  
the  
Company

Over 5%  
purchased in the open market

All  
directors are in compliance with our director ownership policies

Eberwein and Gillman each own directly over 467,000 shares

4

On February 28, 2013, the reconstituted Board announced a new strategic plan, management changes, the adoption of significant corporate governance reforms, and its commitment to returning cash to stockholders

Since February 7, 2013 (the date the Board was reconstituted), the Company's stock price has increased almost 40%!  
Digirad's Board has been incredibly responsive to stockholder

concerns and is committed to maximizing stockholder value.  
Now is not the time to change direction.

5

### Digirad Imaging Solutions

New strategic focus; it is all about cash flow:

Focus on Digirad Imaging Solutions (DIS) cash flow generation

Execute financially disciplined acquisitions via attractive returns and fast payback;  
committed

to only acquisitions that make financial sense

Utilize NOLs to offset nearly all, if not all, of the taxable income generated from  
increased cash flow

## Diagnostic Imaging

Significant restructuring of the Diagnostic Imaging business to reduce costs

Estimated elimination of \$3 million to \$4 million of costs annually

Focus on cash flow generation, primarily from customer service business associated with the installed base of cameras

Will continue to sell cameras, but at a slower pace

Main goal is to eliminate investment in less productive assets

Corporate Headquarters Move to Atlanta

Certain functions will move to further reduce costs and reduce overhead

6

Increase  
Value to Stockholders

Stockholder value will be increased by:

Reducing costs as we restructure and focus on cash flow

+

Acquiring financially disciplined, cash generating businesses, subject to stockholder approval if cost exceeds \$5 million

+  
Share repurchases  
=  
Stockholder Value

Goal is to ultimately generate \$3 million to \$4 million annually  
of consolidated cash flow  
Return  
of Value to Stockholders

Announced increase to the Digirad share buyback program on February 28, 2013:  
increased from \$4 million to \$12 million (\$10 million available)

Cash on hand + cash we will generate + buy back program = Aggressive return to  
stockholders

Commitment to returning value to stockholders further solidified  
by Company  
announcement of 10b5-1 buyback plan implemented on March 15, 2013

Board undertook aggressive share buyback program because the price is right  
to buy.

7

Management team is being right-sized based on our healthcare services focus

Top three management positions appointed since September 2012

Todd Clyde will step down after a transition period (July 2013)

Several other management positions are being eliminated to make the organization lean and nimble  
Matt

Molchan,  
President,  
Digirad  
(appointed  
February  
2013)

More than 10 years experience in mobile imaging

Digirad employee for over 6 years

Will become CEO in July 2013

Mickey King,  
Executive Director, DIS (Appointed January 2012)

More than 20 years experience in mobile imaging

Digirad employee for over 6 years

Jeff  
Keyes,  
Chief  
Financial  
Officer  
(appointed  
September  
2012)

History of high growth medical technology companies, including experience in spin-offs, IPOs, and start-up environments

Experienced in rapid change and restructuring management

Virgil  
Lott,  
President,  
Diagnostic  
Imaging  
(appointed  
February  
2013)

25 years experience in medical imaging and operations

Digirad employee for over 7 years

8

Digirad's Board has:

Established a CEO stock ownership policy that requires significant participation  
of  
the  
CEO,  
at  
3x  
annual

base  
salary,  
which  
is  
in  
line  
with  
ISS  
recommended  
practices

Adopted a resolution to require stockholder approval for any acquisition in excess of \$5 million in purchase price

Amended our non-management director stock ownership policy in order to increase the amount of stock that each non-employee director must own to continue service to the Board

Adopted a term limit policy of no more than 10 years

Instituted a cap on annual issuance of stock equity awards to a maximum of 3% of the total equity outstanding

Digirad's Board is committed to corporate governance best practices

9

Digirad's Directors Have the  
Relevant Experience to Execute  
Our New Strategic Plan and  
Maximize Value For All  
Stockholders

Over 20 years of Wall Street experience

Board experience with a variety of companies

Specific experience in mergers & acquisitions as well as proper NOL utilization

Significant network of contacts in the investor community that can be leveraged to drive

investor interest in Digirad.

11

Mr.

Eberwein

is

the

Founder

and

CEO

of

Lone

Star

Value

Investors,

LLC,

an

investment

firm.

Prior

to

founding

Lone

Star

in

January

2013,

Mr.

Eberwein

was

a

Portfolio

Manager

at

Soros

Fund

Management

from

January

2009

to

December

2011

and

Viking

Global

Investors

from

March

2005

to

September  
2008.  
Mr.  
Eberwein  
also  
serves  
on  
the  
Boards  
of,  
since  
May  
2012,  
The  
Goldfield  
Corporation,  
a  
provider  
of  
electrical  
transmission  
construction  
and  
maintenance  
services,  
NTS,  
Inc.,  
an  
engineering  
services  
company  
that  
provides  
design  
consulting  
services,  
testing  
and  
certifications  
and  
supply  
chain  
management  
solutions,  
On-Track  
Innovations  
Ltd,  
a  
developer  
and

marketer  
of  
contactless  
smartcard  
technology  
and  
product  
solutions,  
and  
Aetrium  
Incorporated,  
a  
global  
semiconductor  
company  
that  
provides  
IC  
handlers  
and  
reliability  
test  
systems.  
Mr.  
Eberwein  
is  
the  
Treasurer  
and  
serves  
on  
the  
Executive  
Committee  
of  
the  
Board  
of  
Hope  
for  
New  
York,  
a  
501(c)(3)  
organization  
dedicated  
to  
serving  
the  
poor

in  
New  
York  
City.  
Mr.  
Eberwein  
earned  
an  
MBA  
from  
The  
Wharton  
School,  
University  
of  
Pennsylvania  
and  
a  
BBA  
with  
High  
Honors  
from  
The  
University  
of  
Texas  
at  
Austin.  
Jeffrey E. Eberwein

Chairman, Director since 2012  
Founder and Chief Executive Officer of Lone Star Value Investors, LLC

John M. Climaco

Director since 2012

President, Chief Executive Officer and Director, Axial Biotech, Inc.

Extensive executive and operating experience with healthcare services

Track record of raising capital, engineering strategic alliances, building executive teams and managing complex business operations and legal strategies

12

Mr.

Climaco is the President and Chief Executive Officer, as well as a member of the board of directors,

of Axial Biotech, Inc., a venture-backed molecular diagnostics company specializing in spine disorders, which he co-founded in January 2003. Under Mr.

Climaco's leadership, and through partnerships he created with companies including Medtronic, Johnson & Johnson and Smith

& Nephew, Axial successfully developed and commercialized ScoliScore, the first molecular prognostic test in the orthopedic industry. In 2012 and 2013, Axial sold its major assets, and is in the process of winding down operations. Prior to founding Axial Biotech, Mr.

Climaco served as a Producer in 1998 and Director of Programming from May 1999 to August 2000 for

Quokka Sports, a venture-backed online media company that went public in 1999. While with Quokka,

Mr.

Climaco created partnerships with Intel, Microsoft WebTV, NBC Sports, and National Geographic.

Mr.

Climaco practiced with Fabian

& Clendenin in corporate and tax law in Salt Lake City from March 2001 to April 2007. Mr.

Climaco earned a B.A. degree in Philosophy, cum laude, from Middlebury College and a J.D. from the University of California, Hastings College of Law.

Charles M. Gillman

Director since 2012

Portfolio Manager, Nadel and Gussman, LLC

Extensive experience with strategic capital allocation and consulting

Substantial public board experience

In June 2001, Charles M. Gillman was employed by Nadel and Gussman, LLC ( NG ) to serve as portfolio manager of certain investment portfolios of NG and its related family interests. NG is a management company located in Tulsa, Oklahoma that employs personnel for business entities related to family members of Herbert Gussman. In June 2002, Mr. Gillman founded Value Fund Advisors, LLC ( VFA ) to serve as investment advisor to certain NG family related assets. VFA discontinued its role as investment advisor to these assets in December 2008. In December 2008, Mr. Gillman entered into an employment agreement with NG to provide portfolio management services to NG. Pursuant to this employment agreement, Mr. Gillman serves as

Portfolio  
Manager  
of  
certain  
NG  
and  
family  
assets.  
Mr.  
Gillman  
began  
his  
career  
as  
a  
strategic  
management  
consultant  
for  
McKinsey  
&  
Company,  
New  
York, where he worked to develop strategic plans for business units of companies located both inside the United  
States  
and  
abroad.  
Thereafter  
and  
prior  
to  
joining  
NG,  
Mr.  
Gillman  
held  
a  
number  
of  
positions  
in  
the  
investment  
industry  
and  
developed  
an  
expertise  
in  
the

analysis  
of  
companies  
going  
through  
changes  
in  
their  
capital  
allocation  
strategy. Mr.

Gillman earned a B.S., summa cum laude, from the Wharton School of the University of Pennsylvania  
in  
May  
1992.

In  
addition,  
Mr.  
Gillman  
currently  
serves  
on  
the  
boards  
of  
directors  
of  
Littlefield  
Corporation,  
a  
charitable  
gaming  
company,  
which  
he  
joined  
in  
May  
2008  
and  
where  
he  
is  
a  
member  
of  
the  
Compensation  
and

Nominating Committees and previously served on the Audit Committee; and CompuMed, Inc., a private medication

management  
company,  
which  
he  
joined  
in  
February  
2008.  
Mr.  
Gillman  
also  
serves  
on  
the  
board  
of  
the  
Penn  
Club  
of  
New York.

James B. Hawkins -  
Director since 2012  
President, Chief Executive Officer and Director, Natus Medical Incorporated  
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Over 20 years of experience running medical device companies

Completed over 20 acquisitions in his career

As a Founder and CEO of Invivo Corporation, Mr. Hawkins sold the Company for seven times the value of its IPO price.

Since joining Natus Medical, its market cap has grown approximately 700 percent in value.

Since April 2004, Mr.

Hawkins has served as the President, Chief Executive Officer and a director of Natus

Medical Incorporated, a provider of healthcare products used for the screening, detection, treatment, monitoring,

and tracking of common medical ailments such as hearing impairment, neurological dysfunction, epilepsy, sleep disorders, and certain newborn conditions. Prior to joining Natus Medical, Mr.

Hawkins was President, Chief Executive Officer and

a

director

of

Invivo

Corporation,

a

developer

and

manufacturer

of

multi-parameter

vital

sign

monitoring

equipment, and its predecessor from, 1985 through January 2004. Mr.

Hawkins also served as secretary of Invivo from

1986 until January 2004. Mr.

Hawkins has served as a director of IRIDEX Corporation, a provider of therapeutic based

laser systems, delivery devices and consumable instrumentation used to treat sight-threatening eye diseases in ophthalmology, since October 2007. Mr.

Hawkins earned a B.A. degree in Business Commerce from Santa Clara

University and an M.B.A. from San Francisco State University.

John W. Sayward

Director since 2008

Retired Partner, Nippon Heart Hospital LLC

Over 15 years experience serving as CFO of medical device and pharmaceutical companies

Significant experience in financial discipline and financial oversight

15

From September 2005 to January 2007, Mr.

Sayward was a partner at Nippon Heart Hospital LLC,

a company that built and managed cardiovascular care hospitals in Japan. From July 2002 to May 2005, Mr.

Sayward was the Executive Vice President and Chief Financial Officer of LMA North America Inc., a global leader in the manufacture and distribution of medical anesthesia devices. From February 1997 to November 2001, Mr.

Sayward served as the Executive Vice President of Finance, Chief Financial

Officer and Treasurer of SICOR Inc., an international pharmaceutical company, and was elected to its board of directors in June 1998. Mr.

Sayward earned a B.A. degree from Northwestern University in

1973 and a Master of Management from the Kellogg School of Management at Northwestern University in 1975.

16

Digirad believes Red Oak is just seeking control without paying a control premium. **This is their second proxy** contest for control in 2 years, despite a newly constituted Board comprised entirely of independent directors.

Red Oak has not articulated any new business plan for the company

Red Oak nominees do not have the relevant experience or knowledge of our business

November  
30,  
2011

Red  
Oak  
nominates

five  
candidates  
for  
election  
to  
the  
Board  
at  
the  
2012  
Annual  
Meeting

of Stockholders , disclosing an ownership of just 3,000 shares or less than 1% of our outstanding stock. Digirad offered

Red  
Oak  
3  
Board  
seats  
in  
an  
attempt  
to  
avoid  
a  
costly  
and  
unproductive  
proxy  
contest

Red Oak refused  
as  
they  
only  
wanted  
full  
control  
17

March  
26,  
2012

We  
announce  
plans  
to  
add  
up

to  
three  
new  
independent  
directors  
to  
the  
Board  
with  
input  
from our stockholders

April  
23,  
2012

We  
appoint  
3  
new  
independent  
directors  
identified  
by  
our  
stockholders

June  
4,  
2012

We  
appoint  
1  
new  
independent  
director  
after  
considering  
a  
number  
of  
candidates  
suggested  
by  
stockholders, including two Red Oak nominees

June  
29,  
2012

We entered into a settlement agreement with Red Oak and agreed, among other things, to undertake certain governance and compensation changes

February 7, 2013

Our Board is reconstituted with 6 directors; Jeff Eberwein is appointed Chairman

February 28, 2013

We announce a new strategic plan, management changes, the adoption of

significant  
corporate governance reforms, and commitment to returning significant cash to stockholders

February  
28,  
2013

We  
receive  
notice  
from  
Red  
Oak  
of  
its  
intention  
to  
nominate  
five  
candidates  
for  
election  
to  
the Board and bring four business proposals before the 2013 Annual Meeting of Stockholders

March  
13,  
2013

We  
adopt  
additional  
corporate  
governance  
reforms  
and  
increase  
our  
share  
buyback  
program  
to \$12 million

March  
14,  
2013

We  
inform  
Red

Oak  
of  
our  
recent  
corporate  
actions  
and  
requested  
that  
Red  
Oak  
withdraw  
its  
nominations and business proposals

March  
18,  
2013

Red  
Oak  
files  
its  
initial  
Schedule  
13D  
disclosing  
an  
ownership  
just  
over  
5%

March  
28,  
2013

Red  
Oak  
withdraws  
its  
four  
business  
proposals

April 10, 2013 -  
Red Oak Partners files its own proxy statement

Red Oak has proposed cost-cutting measures and corporate governance reforms that we have already addressed.

Red Oak wants greater stock ownership for directors and to reduce Board compensation. Digirad's Board has already adopted a comprehensive director stock ownership policy, which all directors are in compliance with. To date, the Digirad directors own over 5% of the outstanding shares. Digirad also believes its compensation is reasonable based on its size and peer group. Further, David Sandberg has had at least one instance where he joined a

Board  
and  
then  
actually  
received  
an  
increase  
in  
pay

Red  
Oak  
claims  
it  
would  
utilize  
its  
network  
of  
advisors  
to  
bring  
deal  
flow

Digirad's Board already has a very robust network of contacts associated with the space in which we operate. We do not need to spend \$100,000 to review acquisitions as proposed by Red Oak.

Red Oak wants to conduct a 382 NOL study to determine proper NOL utilization

Digirad's Board has already performed this exercise and will utilize its NOLs to offset nearly all, if not all, of the taxable income generated from increased cash flow

Red  
Oak  
wants  
to  
review  
and  
rebid  
most  
corporate  
costs

We are already conducting that process. Our new strategic plan includes cutting \$3-\$4 million of costs annually from our business.

18

Red Oak would seek to reduce the stockholder threshold to call a special meeting to 10%  
Digirad already has a policy that owners of 20% of common stock may call a special meeting, which is a normal and customary level for many companies.

Red Oak believes our management compensation is excessive.

As part of our restructuring effort announced in February 2013, we have eliminated many positions, including four executive management level positions, and their associated compensation. The remaining lead management positions for the Company and their base salaries (Matt Molchan, President, \$275,000; Jeff

Keyes, CFO, \$235,000;

Virgil

Lott,

President,

Diagnostic

Imaging,

\$235,000)

are

all

within

a

requisite

peer

group

and

rationale

for

their

scope

of

responsibilities.

Red Oak believes our audit costs are high.

As a result of our operational changes in 2012 and restructuring efforts announced in

February 2013, we have and will incur additional audit fees. We are strongly committed

to reducing our fees but believe a change in our auditors at this time would be disruptive and potentially threaten the success of our new strategic plan.

19

None of the Red Oak nominees have any meaningful healthcare experience.

Three of five Red Oak nominees have little or no experience serving on a public company board.

A California bank, co-founded by a Red Oak nominee, was shut down by the FDIC after suffering heavy losses on mortgages.

Red Oak founder and nominee, David Sandberg, has been sued by a company alleging he engaged in numerous violations of federal securities laws in making purchases of the company's common stock.

One Red Oak nominee currently sits on more than six company boards.

20

21

Your Board is Committed to Stockholder Return

Since our last Annual Meeting, we have:

The dissident slate does not have a long-term strategy or relevant industry experience. Digirad's Board has a clear, concise and a publicly communicated growth strategy to maximize value for all stockholders.

Added four new independent Board members with significant relevant experience

Initiated and implemented, as well as continuously review, a variety of best corporate governance practices

Initiated and completed a Strategic Review, and clearly announced our plans of that review on February 28, 2013 with the adoption of a new strategic plan

Have been cognizant and disciplined on returning value to stockholders, both by increasing our share buyback and implementing our strategic changes, which is evidenced in our share price, which is up 40% from \$1.87 per share on February 7, 2013 (when the Board was reconstituted) to approximately \$2.60 per share on April 12, 2013.

\*  
\*  
\*  
\*  
\*  
\*  
\*

Customer Service (Maintenance)

Focused Product Sales

Personnel & Equipment Leasing (Services)

Nuclear Medicine

Ultrasound

Other Mobile Services

New Services

23

Delivers licensed staffing and imaging equipment to physicians with  
no burden and cost of full ownership

Personnel

Logistics

Equipment

24

Physician

Issues

Benefits  
to Physician/Healthcare System

Physician  
Practices  
Hospitals  
Imaging  
Centers

Evolving regulation and economics are forcing structural change in Healthcare

Increase revenue-generating patients

Improve level of care

Participating in integrated networks (ACOs, acquisitions)

Multi-use exam room maximizes revenue

Creating integrated networks (ACOs, acquisitions)

Community outreach programs (referral patterns and managing lives)

Turnkey imaging solution with staffing

Changes referral patterns

Turn key imaging solution with staffing

Ability to meet excess demand

Hospital acquisitions

25

Expand Practice revenues and profits

Cardiology practices

Internists

New revenue streams from channel

New services; variety of other mobile-based services

Accreditation consulting services

Geographic optimization

Tuck-in acquisitions

Stabilizing reimbursement

26

Nuclear

Nuclear / Ultrasound

Headquarters

28 Locations

The most profitable component of Diagnostic Imaging: Customer Service

Includes over 20 Field Service Engineers located throughout the United States

Flexible and nimble to address customer needs

Actively managed to increase margins and to enhance cash flows

Serves a significant installed base of cameras  
Camera unit sales

Continued intent to sell cameras into the market, but at a slower pace, and at a much higher cost optimized level

27

Continued focus going forward to maximize cash flow from our installed based and increased efficiencies

Liquid, Strong Ratios, No Long-Term Debt; Well Positioned to Deploy  
our Strategy

28

Managed well through volatile external market dynamics

\* 2012 results include \$1.2 million of inventory reserve adjustments (included in gross profit) related to our February 28, 2013 restructuring announcement, and impact of \$0.4 million estimated settlement of radiopharmaceutical supply litigation (included in operating expenses).

29