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, 2023

☐ **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

Star Equity Holdings, Inc.

(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.)**
53 Forest Ave., Suite 101, Old Greenwich CT	**06870**
(Address of Principal Executive Offices)	**(Zip Code)**

(203) 489-9500

(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	STRR	NASDAQ Global Market
Series A Cumulative Perpetual Preferred Stock, par value $0.0001 per share	STRRP	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, a 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 November 3, 2023, the registrant had 15,826,217 shares of Common Stock ($0.0001 par value) outstanding.

STAR EQUITY HOLDINGS, INC.
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Important Information Regarding Forward-Looking Statements

Portions of this Quarterly Report on Form 10-Q (including information incorporated by reference) include “forward-looking statements” based on our current beliefs, expectations, and projections regarding our business strategies, market potential, future financial performance, industry, and other matters. This includes, in particular, “Item 2 — Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Quarterly Report on Form 10-Q, as well as other portions of this Quarterly Report on Form 10-Q. The words “believe,” “expect,” “anticipate,” “project,” “could,” “would,” and similar expressions, among others, generally identify “forward-looking statements,” which speak only as of the date the statements were made. The matters discussed in these forward-looking statements are subject to risks, uncertainties, and other factors that could cause our actual results to differ materially from those projected, anticipated, or implied in the forward-looking statements. The most significant of these risks, uncertainties, and other factors are described in “Item 1A — Risk Factors” of this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 filed with the U.S. Securities and Exchange Commission on March 15, 2023, as amended on May 1, 2023. 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

STAR EQUITY HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited) (In thousands, except for per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenues:				
Construction	$ 10,435	$ 11,107	$ 31,674	$ 39,544
Total revenues	10,435	11,107	31,674	39,544
Cost of revenues:				
Construction	8,187	7,975	22,433	32,341
Investments	45	58	169	221
Total cost of revenues	8,232	8,033	22,602	32,562
Gross profit	2,203	3,074	9,072	6,982
Operating expenses:				
Selling, general and administrative	3,434	3,096	11,327	9,981
Amortization of intangible assets	430	430	1,290	1,290
Total operating expenses	3,864	3,526	12,617	11,271
Income (loss) from continuing operations	(1,661)	(452)	(3,545)	(4,289)
Other income (expense):				
Other income (expense), net	(965)	(713)	(506)	(1,157)
Interest income (expense), net	433	(120)	569	(400)
Total other income (expense), net	(532)	(833)	63	(1,557)
Income (loss) before income taxes from continuing operations	(2,193)	(1,285)	(3,482)	(5,846)
Income tax benefit (provision) from continuing operations	(172)	299	(233)	(861)
Income (loss) from continuing operations, net of tax	(2,365)	(986)	(3,715)	(6,707)
Income (loss) from discontinued operations, net of tax (Note 10)	(257)	(898)	27,119	(454)
Net income (loss)	(2,622)	(1,884)	23,404	(7,161)
Deemed dividend on Series A perpetual preferred stock	(479)	(479)	(1,437)	(1,437)
Net income (loss) attributable to common shareholders	$ (3,101)	$ (2,363)	$ 21,967	$ (8,598)
Net income (loss) per share				
Net income (loss) per share, continuing operations				
Basic*	$ (0.15)	$ (0.06)	$ (0.24)	$ (0.46)
Diluted	$ (0.15)	$ (0.06)	$ (0.24)	$ (0.46)
Net income (loss) per share, discontinued operations				
Basic*	$ (0.02)	$ (0.06)	$ 1.74	$ (0.03)
Diluted	$ (0.02)	$ (0.06)	$ 1.72	$ (0.03)
Net income (loss) per share				
Basic*	$ (0.17)	$ (0.12)	$ 1.50	$ (0.49)
Diluted*	$ (0.17)	$ (0.12)	$ 1.49	$ (0.49)
Net income (loss) per share, attributable to common shareholders				
Basic*	$ (0.20)	$ (0.15)	$ 1.41	$ (0.59)
Diluted*	$ (0.20)	$ (0.15)	$ 1.40	$ (0.59)
Weighted-average common shares outstanding				
Basic*	15,681	15,434	15,573	14,503
Diluted*	15,819	15,434	15,743	14,503
Dividends declared per share of Series A perpetual preferred stock	$ 0.25	$ 0.25	$ 0.75	$ 0.75

* Earnings per share may not add due to rounding

See accompanying notes to the unaudited condensed consolidated financial statements.

STAR EQUITY HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	September 30, 2023 (unaudited)	December 31, 2022
Assets:		
Current assets:		
Cash and cash equivalents	$ 20,691	$ 4,377
Restricted cash	561	142
Investments in equity securities	4,309	3,490
Accounts receivable, net of allowances of $ 116 and $ 270 , respectively	3,727	7,975
Note receivable, current portion	223	73
Inventories, net	4,243	4,678
Other current assets	859	682
Current assets – discontinued operations	—	17,851
Total current assets	34,613	39,268
Property and equipment, net	5,217	5,665
Operating lease right-of-use assets, net	1,569	1,856
Intangible assets, net	12,062	13,352
Goodwill	4,438	4,438
Cost method investment	6,000	—
Notes receivable	8,327	1,285
Other assets	36	—
Non-current assets – discontinued operations	—	7,438
Total assets	$ 72,262	$ 73,302
Liabilities and Stockholders' Equity:		
Current liabilities:		
Accounts payable	$ 1,141	$ 1,447
Accrued liabilities	1,386	462
Accrued compensation	1,633	1,838
Accrued warranty	42	38
Lumber derivative contracts	94	104
Deferred revenue	1,479	1,673
Short-term debt	537	3,383
Operating lease liabilities	395	372
Finance lease liabilities	54	82
Current liabilities - discontinued operations	—	18,146
Total current liabilities	6,761	27,545
Deferred tax liabilities	254	—
Operating lease liabilities, net of current portion	1,208	1,510
Finance lease liabilities, net of current portion	45	96
Non-current liabilities - discontinued operations	—	2,396
Total liabilities	8,268	31,547
Commitments and contingencies (Note 9)		
Stockholders' Equity:		
Preferred stock, $ 0.0001 par value: 10,000,000 shares authorized: Series A Preferred Stock, 8,000,000 shares authorized, liquidation preference ($ 10.00 per share), 1,915,637 shares issued and outstanding at September 30, 2023. (Liquidation preference: $ 18,988,390 as of September 30, 2023.)	18,988	18,988
Series C Preferred stock, $ 0.0001 par value: 25,000 shares authorized; no shares issued or outstanding	—	—
Common stock, $ 0.0001 par value: 50,000,000 shares authorized; 15,826,217 and 15,177,919 shares issued and outstanding (net of treasury shares) at September 30, 2023 and December 31, 2022, respectively	2	1
Treasury stock, at cost; 258,849 shares at September 30, 2023 and December 31, 2022, respectively	(5,728)	(5,728)
Additional paid-in capital	160,549	161,715
Accumulated deficit	(109,817)	(133,221)

Total stockholders’ equity		63,994		41,755
Total liabilities and stockholders’ equity	$	72,262	$	73,302

See accompanying notes to the unaudited condensed consolidated financial statements.

STAR EQUITY HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (In thousands)

	Nine Months Ended September 30,	
	2023	**2022**
Operating activities		
Net (loss) income	$ 23,404	$ (7,161)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation of property and equipment	762	1,369
Amortization of intangible assets	1,290	1,290
Non-cash lease expense	570	885
Provision for bad debt, net	73	435
Stock-based compensation	284	322
Amortization of loan issuance costs	45	104
Gain on sale of assets	(512)	156
Gain on disposal of discontinued operations	(26,680)	—
Deferred income taxes	(221)	225
Unrealized (gain) loss of equity securities and lumber derivatives	14	2,132
Changes in operating assets and liabilities:		
Accounts receivable	5,525	1,466
Inventories	(246)	(4,539)
Other assets	607	(582)
Accounts payable	685	1,821
Accrued compensation	(784)	345
Deferred revenue and billings in excess of costs and estimated profit	(460)	1,034
Operating lease liabilities	(400)	(865)
Other liabilities	(1,287)	1,329
Net cash provided (used) by operating activities	2,669	(234)
Investing activities		
Purchases of property and equipment	(568)	(1,232)
Proceeds from sale of discontinued operations	19,681	—
Proceeds from sale of property and equipment	1,233	217
Purchases of equity securities	(1,090)	(3,994)
Proceeds from sales of equity securities	247	27
Net cash provided (used) by investing activities	19,503	(4,982)
Financing activities		
Proceeds from borrowings	35,969	80,061
Repayment of debt	(38,402)	(81,152)
Proceeds from the sale of common stock, warrants, and exercise of over allotment options	1	13,198
Fees paid on issuance of common stock	—	(450)
Proceeds from the exercise of warrants	4	—
Taxes paid related to net share settlement of equity awards	(16)	(5)
Repayment of obligations under finance leases	(178)	(466)
Preferred stock dividends paid	(1,437)	(1,437)
Net cash provided (used) by financing activities	(4,059)	9,749
Net increase in cash, cash equivalents, and restricted cash including cash within discontinued operations	18,114	4,533
Less: net increase in cash classified within discontinued operations	1,381	(228)
Net increase in cash, cash equivalents, and restricted cash	16,733	4,761
Cash, cash equivalents, and restricted cash at beginning of period	4,519	3,928
Cash, cash equivalents, and restricted cash at end of period	$ 21,252	$ 8,689
Reconciliation of cash, cash equivalents, and restricted cash at end of year		
Cash and cash equivalents	$ 20,691	$ 7,895
Restricted cash	561	794
Cash, cash equivalents, and restricted cash at end of period	$ 21,252	$ 8,689

Supplemental Information		
Cash paid during the year for interest	$ 238	$ —
Non-Cash Investing Activities		
Noncash note receivable	$ 7,000	$ —
Noncash investment in private company	$ 6,000	$ —

See accompanying notes to the unaudited condensed consolidated financial statements.

STAR EQUITY HOLDINGS, INC. CONDENSED CONSOLIDATED STATEMENTS OF MEZZANINE EQUITY AND STOCKHOLDERS' EQUITY
(Unaudited) (In thousands)

	Perpetual Preferred Stock		Common stock		Treasury	Additional	Accumulated	Total stockholders'
	Shares	Amount	Shares	Amount	Stock	paid-in capital	deficit	equity
Balance at December 31, 2022	1,916	$ 18,988	15,178	$ 1	$ (5,728)	$ 161,715	$ (133,221)	$ 41,755
Stock-based compensation	—	—	—	—	—	102	—	102
Shares issued under stock incentive plans, net of shares withheld for employee taxes	—	—	15		—		—	—
Dividends to holders of preferred stock ($ 0.25 per share)	—	—	—	—	—	(479)	—	(479)
Preferred stock dividends paid	—	—	—	—	—	—	—	—
Net income (loss)	—	—	—	—	—	—	435	435
Balance at March 31, 2023	1,916	18,988	15,193	1	(5,728)	161,338	(132,786)	41,813
Stock-based compensation	—	—	—	—	—	104	—	104
Shares issued under stock incentive plans, net of shares withheld for employee taxes	—	—	4	—	—	—	—	—
Dividends to holders of preferred stock ($ 0.25 per share)	—	—	—	—	—	(479)	—	(479)
Net income (loss)	—	—	—	—	—	—	25,591	25,591
Balance at June 30, 2023	1,916	18,988	15,197	1	(5,728)	160,963	(107,195)	67,029
Stock-based compensation	—	—	—	—	—	78	—	78
Shares issued under stock incentive plans, net of shares withheld for employee taxes	—	—	304	0.5	—	(16)	—	(16)
Proceeds received from warrant exercise	—	—	325	0.5	—	3	—	4
Dividends to holders of preferred stock ($ 0.25 per share)	—	—	—	—	—	(479)	—	(479)
Net income (loss)	—	—	—	—	—	—	(2,622)	(2,622)
Balance at September 30, 2023	1,916	$ 18,988	15,826	$ 2	$ (5,728)	$ 160,549	$ (109,817)	$ 63,994

	Perpetual Redeemable Preferred Stock		Perpetual Preferred Stock		Common stock		Treasury Stock	Additional paid-in capital	Accumulated deficit	Total stockholders' equity
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance at December 31, 2021	1,916	$ 18,988	—	$ —	5,805		$ (5,728)	$ 150,451	$ (127,969)	$ 16,754
Stock-based compensation	—	—	—	—	—	—	—	144	—	144
Shares issued under stock incentive plans, net of shares withheld for employee taxes	—	—	—	—	49	—	—	(3)	—	(3)
Accrued dividend on redeemable preferred stock	—	479	—	—	—	—	—	(479)	—	(479)
Preferred stock dividends paid	—	(479)	—	—	—	—	—	—	—	—
Equity issuance costs	—	—	—	—	—	—	—	(450)	—	(450)
Proceeds from the sale of common stock, warrants, and exercise of over allotment options	—	—	—	—	9,175	1	—	13,197	—	13,198
Net income (loss)	—	—	—	—	—	—	—	—	(3,701)	(3,701)
Balance at March 31, 2022	1,916	18,988	—	—	15,029	1	(5,728)	162,860	(131,670)	25,463
Stock-based compensation	—	—	—	—	—	—	—	72	—	72
Shares issued under stock incentive plans, net of shares withheld for employee taxes	—	—	—	—	53	—	—	—	—	—
Dividends to holders of preferred stock ($ 0.25 per share)	—	—	—	—	—	—	—	(479)	—	(479)
Reclassification of preferred stock to permanent equity (*See* Note 1)	(1,916)	(18,988)	1,916	18,988	—	—	—	—	—	18,988
Net income (loss)	—	—	—	—	—	—	—	—	(1,576)	(1,576)
Balance at June 30, 2022	—	$ —	1,916	18,988	15,082	$ 1	$ (5,728)	$ 162,453	$ (133,246)	$ 42,468
Stock-based compensation	—	—	—	—	—	—	—	106	—	106
Shares issued under stock incentive plans, net of shares withheld for employee taxes	—	—	—	—	57	—	—	(2)	—	(2)
Dividends to holders of preferred stock ($ 0.25 per share)	—	—	—	—	—	—	—	(479)	—	(479)
Net income (loss)	—	—	—	—	—	—	—	—	(1,884)	(1,884)
Balance at September 30, 2022	—	$ —	1,916	$ 18,988	15,139	$ 1	$ (5,728)	$ 162,078	$ (135,130)	$ 40,209

See accompanying notes to unaudited condensed consolidated financial statements.

Note 1. Basis of Presentation and Significant Policies

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, 2022 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, 2022, filed with the SEC on Form 10-K on March 15, 2023, 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 related to continuing operations are of a normal recurring nature. The results of operations for interim periods are not necessarily indicative of the results of continuing operations for the entire year.

The Company

Star Equity Holdings, Inc. ("Star Equity," the "Company," "we," or "our") is a multi-industry diversified holding company with two divisions: Construction and Investments. We previously had a Healthcare division which was sold on May 4, 2023, as further described in Note 2. "Discontinued Operations". Our common stock and preferred stock are listed on the NASDAQ Global Market exchange as "STRR" and "STRRP", respectively.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated financial statements and disclosures made in the accompanying notes to the condensed consolidated financial statements. Significant estimates and judgments include those related to inventory, revenue recognition, lease accounting, fair value measurements (including contingent considerations), litigation and contingent liabilities, variable interest entities, intangible assets and goodwill valuations, equity classification and transactions, and income taxes. Actual results could materially differ from those estimates.

Concentration of Credit Risk

Financial instruments, which potentially subject us to concentrations of credit risk, consist primarily of cash and cash equivalents and accounts receivable. We limit our exposure to credit loss by generally placing cash in high credit quality financial institutions or in major money market mutual funds offered through brokerage firms. Some of our cash balances are maintained at major banking institutions in the United States, a portion of which may from time to time exceed the regulatory limit of $ 250,000 insured by the Federal Deposit Insurance Corporation (FDIC). We have not experienced any credit losses associated with our cash balances. Additionally, we have established guidelines regarding diversification of our investments and their maturities, which are designed to maintain principal and maximize liquidity. As of September 30, 2023, we have $ 0.3 million of cash in excess of FDIC insured limits.

New Accounting Standards To Be Adopted

No new accounting standards were issued in the quarter ended September 30, 2023 that are expected to have a material impact on our financial statements.

Note 2. Discontinued Operations

On May 4, 2023, we entered into a Stock Purchase and Contribution Agreement (the "Purchase Agreement"), by and among the Company, Digirad Health Inc., a Delaware corporation and wholly owned subsidiary of the Company ("Digirad Health"), TTG Imaging Solutions, LLC, a Pennsylvania limited liability company (the "Buyer"), and the Buyer's parent, Insignia TTG Parent LLC, a Delaware limited liability company (the "Parent"). Pursuant to the Purchase Agreement, (i) the Buyer purchased 85 % of the issued and outstanding shares of Digirad Health, on the terms and subject to the conditions set forth therein and (ii) the Company contributed to Parent 15 % of the issued and outstanding shares of stock of Digirad Health (the "Contributed Shares") in exchange for New Units (as defined in the Purchase Agreement) of Parent (the "Transaction"). The total aggregate consideration payable to the Company for the Transaction was $ 40 million, comprised of $ 19.7 million ($ 27 million less payoff of debt to Webster Bank (see Note 8. "Debt") and transaction costs) in cash, a $ 7 million promissory note (see Note 5. "Supplemental Balance Sheet Information"), and $ 6 million of New Units in the Parent (see Note 7. "Fair Value Measurements"). The Company completed the sale of Digirad Health simultaneously with entering into the Purchase Agreement.

We deemed the disposition of Digirad Health, which operated our Healthcare business unit, to represent a strategic shift that will have a major effect on our operations and financial results. As of the date of these financial statements, the results of operations of the Healthcare business unit represent "discontinued operations" in accordance with GAAP (ASC 205-20-45-1B). As such, the assets and liabilities, as well as the earnings, of the discontinued operation are presented separately in the unaudited condensed consolidated financial statements for all periods presented. Unless otherwise noted, discussion within the notes to the unaudited condensed consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations relates to continuing operations.

Our variable interest entity ("VIE"), for which we are not the primary beneficiary, was disposed of as part of the sale of our Healthcare division. This VIE was in a small private company that is primarily involved in research related to new heart imaging technologies.

The following table presents financial results of our Healthcare division for the three and nine months ended September 30, 2023 and 2022 (in thousands). Note that we owned this division through May 4, 2023 and that the results for both the three months ended September 30, 2023 and the nine months ended September 30, 2023 reflect that period only:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Total revenues	$ —	$ 13,137	$ 17,962	$ 40,467
Total cost of revenues	—	10,411	12,408	30,887
Gross profit	—	2,726	5,554	9,580
Operating expenses:				
Selling, general and administrative	—	3,654	3,369	10,534
Amortization of intangible assets	—	1	—	1
(Gain) loss on disposal of discontinued operations	—	—	(26,680)	—
Total operating expenses	—	3,655	(23,311)	10,535
Income (loss) from discontinued operations	—	(929)	28,865	(955)
Other (expense) income, net	—	79	(1,015)	160
Interest expense, net	—	(116)	(173)	(264)
Income (loss) from discontinued operations before income taxes	—	(966)	27,677	(1,059)
Income tax benefit (provision)	(257)	68	(558)	605
Income (loss) from discontinued operations	$ (257)	$ (898)	$ 27,119	$ (454)

The carrying amounts of the major classes of assets reported as “Assets - discontinued operations” consist of the following as of December 31, 2022 (in thousands):

	December 31, 2022
Cash and cash equivalents	$ 288
Accounts receivable, net	9,782
Inventories, net	5,949
Other current assets	1,832
Property and equipment, net	2,683
Operating lease right-of-use assets, net	2,626
Goodwill	1,608
Other assets	521
	$ 25,289

The carrying amounts of the major classes of liabilities reported as “Liabilities - discontinued operations” consist of the following as of December 31, 2022 (in thousands):

	December 31, 2022
Accounts payable	$ 1,983
Other accrued liabilities	1,863
Accrued compensation	253
Accrued liabilities	2,675
Deferred revenue	1,703
Operating lease liabilities	1,056
Finance lease liabilities, current portion	314
Short-term debt and current portion of long-term debt	8,299
Deferred tax liabilities	176
Operating lease liabilities, net of current portion	1,631
Finance lease liabilities, net of current portion	291
Other liabilities	298
	$ 20,542

The following table presents the significant non-cash operating, investing and financing activities from discontinued operations for the nine months ended September 30, 2023 and 2022 (in thousands):

	Nine Months Ended September 30,	
	2023	2022
Operating activities		
Net income (loss) from discontinued operations	$ 27,119	$ (454)
Depreciation	332	966
Amortization of intangible assets	—	1
Non-cash lease expense	273	606
Write-off of borrowing costs	16	30
(Gain) loss on disposal of discontinued operations	(26,680)	—
Share-based compensation	1	5
(Gain)Loss on disposal of assets	135	(253)
Provision for bad debt	17	30
Deferred income taxes	(176)	(672)
Accounts receivable	1,333	(385)
Inventory	(681)	(1,357)
Other assets	1,044	(95)
Accounts payable	994	1,387
Accrued compensation	(580)	4
Deferred revenue	(101)	26
Operating lease liabilities	(283)	18
Other liabilities	(1,730)	683
Net cash provided by (used in) operating activities	1,033	540
Net cash provided by (used in) investing activities	—	(345)
Net cash provided by (used in) financing activities	347	78
Net increase (decrease) in cash and cash equivalents and restricted cash	$ 1,380	$ 273

Following is the reconciliation of purchase price to the gain recognized in income from discontinued operations for the nine months ended September 30, 2023 (in thousands), prior to any proposed working capital adjustments:

Estimated proceeds of the disposition, net of transaction costs and indebtedness payoff	$ 32,682
Assets of the businesses	(24,071)
Liabilities of the businesses	18,069
Pre-tax gain on the disposition	$ 26,680

Note 3. Revenue

Disaggregation of Revenue

The following tables present our continuing revenues disaggregated by major source for the three and nine months ended September 30, 2023 and 2022 (in thousands):

	Three Months Ended September 30, 2023		Three Months Ended September 30, 2022	
	Construction	Total	Construction	Total
Major Goods/Service Lines				
Construction Revenue from Contracts with Customers	$ 10,435	$ 10,435	$ 11,107	$ 11,107
Total Revenues	$ 10,435	$ 10,435	$ 11,107	$ 11,107
Timing of Revenue Recognition				
Services and goods transferred over time	$ —	$ —	$ 3,816	$ 3,816
Services and goods transferred at a point in time	10,435	10,435	7,291	7,291
Total Revenues	$ 10,435	$ 10,435	$ 11,107	$ 11,107

	Nine Months Ended September 30, 2023		Nine Months Ended September 30, 2022	
	Construction	Total	Construction	Total
Major Goods/Service Lines				
Construction Revenue from Contracts with Customers	$ 31,674	$ 31,674	$ 39,544	$ 39,544
Total Revenues	$ 31,674	$ 31,674	$ 39,544	$ 39,544
Timing of Revenue Recognition				
Services and goods transferred over time	$ —	$ —	$ 11,569	$ 11,569
Services and goods transferred at a point in time	31,674	31,674	27,975	27,975
Total Revenues	$ 31,674	$ 31,674	$ 39,544	$ 39,544

Deferred Revenue

Changes in deferred revenue, which consist primarily of customer deposits, for the nine months ended September 30, 2023 are as follows (in thousands):

Balance at December 31, 2022	$ 1,673
Revenue recognized that was included in balance at beginning of the year	(1,548)
Deferred revenue, net, related to contracts entered into during the year	1,354
Balance at September 30, 2023	$ 1,479

Note 4. Basic and Diluted Net Income (Loss) Per Share

We present net income (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 income (loss) attributable to common stockholders to warrants because the holders of our warrants are not contractually obligated to share in our income (loss). Basic net income (loss) per share attributable to common stockholders is computed by dividing net income (loss) attributable to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted net income (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 restricted stock units (“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 income (loss) per share for the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Numerator:				
Income (loss) from continuing operations, net of tax	$ (2,365)	$ (986)	$ (3,715)	$ (6,707)
Income (loss) from discontinued operations, net of tax (Note 10)	(257)	(898)	27,119	(454)
Net income (loss)	(2,622)	(1,884)	23,404	(7,161)
Deemed dividend on Series A perpetual preferred stock	(479)	(479)	(1,437)	(1,437)
Net income (loss) attributable to common shareholders	$ (3,101)	$ (2,363)	$ 21,967	$ (8,598)
Denominator:				
Weighted average common shares outstanding	15,642	15,109	15,344	14,208
Weighted average prefunded warrants outstanding	39	325	229	295
Weighted average shares outstanding - basic	15,681	15,434	15,573	14,503
Dilutive potential common shares:				
Restricted stock units	138	—	170	—
Weighted average shares outstanding - diluted	15,819	15,434	15,743	14,503
Net income (loss) per share				
Continuing operations				
Basic	$ (0.15)	$ (0.06)	$ (0.24)	$ (0.46)
Diluted	$ (0.15)	$ (0.06)	$ (0.24)	$ (0.46)
Discontinued operations				
Basic	$ (0.02)	$ (0.06)	$ 1.74	$ (0.03)
Diluted	$ (0.02)	$ (0.06)	$ 1.72	$ (0.03)
Net income (loss) per share				
Basic	$ (0.17)	$ (0.12)	$ 1.50	$ (0.49)
Diluted	$ (0.17)	$ (0.12)	$ 1.49	$ (0.49)
Net income (loss) per share, attributable to common shareholders				
Basic	$ (0.20)	$ (0.15)	$ 1.41	$ (0.59)
Diluted	$ (0.20)	$ (0.15)	$ 1.40	$ (0.59)

*Earnings per share may not add due to rounding

Antidilutive common stock equivalents are excluded from the computation of diluted income (loss) per share. The computation of diluted earnings per share excludes stock options, RSUs, and stock warrants that are anti-dilutive. The following common stock equivalents were anti-dilutive (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Stock options	2	3	2	5
Restricted stock units	60	109	70	128
Stock warrants	11,865	11,865	11,865	10,843
Total	11,927	11,977	11,937	10,976

Note 5. Supplementary Balance Sheet Information

Inventories

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

	September 30, 2023	December 31, 2022
Raw materials	$ 2,609	$ 2,838
Work-in-process	413	571
Finished goods	1,221	1,269
Total inventories	4,243	4,678
Less reserve for excess and obsolete inventories	—	—
Total inventories, net	$ 4,243	$ 4,678

Property and Equipment

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

	September 30, 2023	December 31, 2022
Land	$ 753	$ 805
Buildings and leasehold improvements	3,223	4,185
Machinery and equipment	3,237	2,509
Gross property and equipment	7,213	7,499
Accumulated depreciation	(1,996)	(1,834)
Total property and equipment, net	$ 5,217	$ 5,665

We sold our Waterford, Maine facility on June 30, 2023 for approximately $ 1.2 million after closing costs and recognized a gain of $ 386 thousand which we have recorded in other income/expense.

Warranty Reserves

Within our Construction division, KBS Builders, Inc. ("KBS") provides a limited assurance warranty on its residential homes that covers substantial defects in materials or workmanship for a period of 12 months after delivery to the owner. EdgeBuilder, Inc. ("EdgeBuilder") provides a limited warranty on the sale of its wood foundation products that covers leaks resulting from defects in workmanship for a period of twenty-five years . Estimated warranty costs are accrued in the period that the related revenue is recognized.

Note Receivable

As a part of the Transaction described further in Note 2. "Discontinued Operations", a $ 7 million promissory note was entered into which represents an unsecured note receivable on our balance sheet. The note has a maturity date of May 3, 2029 with payment-in-kind (non-cash) interest on the outstanding principal balance hereof to accrue at the Interest Rate. The Interest Rate is defined as (i) during the period from the date of issuance of the note through the third anniversary of the date of issuance of the note, a per annum rate equal to the sum of (x) 5.0 % per annum plus (y) the greater of 5.0 % per annum and the weighted average term SOFR-based interest rate of outstanding loans under the Senior Loan Agreement (as defined in the Purchase Agreement) during such period, and (ii) during the period following the third anniversary of the date of issuance of the note, a per annum rate equal to the sum of (x) 5.0 % per annum plus (y) the greater of 7.0 % per annum and the weighted average term SOFR-based interest rate of outstanding loans under the Senior Loan Agreement during such period.

In 2021 we completed the sale of MD Office Solutions in exchange for a secured promissory note. This note, the principal of which is approximately $ 1.3 million at September 30,2023, is included in "Notes receivable, current portion" and "Notes receivable" in our Consolidated Balance Sheet at September 30, 2023 for $ 0.2 million and $ 1.1 million, respectively.

Cost Method Investment

As a part of the sale of Digirad Health, we received $ 6.0 million in the common equity of TTG Parent LLC. We have elected the measurement alternative under ASC 321. The measurement alternative election allows for equity securities that do not have readily determinable fair values to be recorded at cost, with adjustments for impairment and certain observable price changes reflected in earnings. Such securities are adjusted to fair value when an observable price change occurs or impairment is identified.

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 10 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 and finance leases are included separately in the condensed Consolidated Balance Sheets.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Operating lease cost	$ 98	$ 117	$ 311	$ 334
Finance lease cost:				
Amortization of finance lease assets	$ 17	$ 24	$ 62	$ 71
Interest on finance lease liabilities	2	4	9	13
Total finance lease cost	$ 19	$ 28	$ 71	$ 84

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

	Nine Months Ended September 30,	
	2023	2022
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 288	$ 273
Operating cash flows from finance leases	$ 9	$ 13
Financing cash flows from finance leases	$ 83	$ 75
Right-of-use assets obtained in exchange for lease obligations		
Operating leases	$ —	$ 666

Supplemental balance sheet information related to leases was as follows:

	September 30, 2023	December 31, 2022
Weighted average remaining lease term (in years)		
Operating leases	4.2	4.8
Finance leases	2.4	2.5
Weighted average discount rate		
Operating leases	5.51 %	5.61 %
Finance leases	5.88 %	5.91 %

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, 2023 were as follows (in thousands):

	Operating Leases	Finance Leases
2023 (excludes the nine months ended September 30, 2023)	$ 116	$ 17
2024	468	50
2025	477	23
2026	387	16
2027	92	1
2028 and thereafter	207	—
Total future minimum lease payments	1,747	107
Less amounts representing interest	144	8
Present value of lease obligations	$ 1,603	$ 99

Lessor

Prior to the sale of our Healthcare business on May 4, 2023, we generated lease income in the Healthcare segment from equipment rentals to customers. Rental contracts were structured as either a weekly or monthly payment arrangement and were accounted for as operating leases. Revenues were recognized on a straight-line basis over the term of the rental. During the nine months ended September 30, 2023 and 2022, our lease contracts were mainly month-to-month contracts.

Note 7. Fair Value Measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The Financial Accounting Standards Board's authoritative guidance for fair value measurements establishes a three-level hierarchy based upon the inputs to the valuation model of an asset or liability. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are inputs other than quoted prices that are significant and observable; and Level 3 inputs are significant unobservable inputs to be used in situations where markets do not exist or are illiquid. 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, 2023 and December 31, 2022 (in thousands):

	Fair Value as of September 30, 2023			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets (Liabilities):				
Equity securities	$ 4,309	$ —	$ —	$ 4,309
Lumber derivative contracts	(94)	—	—	(94)
Total	$ 4,215	$ —	$ —	$ 4,215

	Fair Value as of December 31, 2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets (Liabilities):				
Equity securities	$ 3,490	$ —	$ —	$ 3,490
Lumber derivative contracts	(104)	—	—	(104)
Total	$ 3,386	$ —	$ —	$ 3,386

The investment in equity securities consists of common stock of publicly traded companies. The fair value of these securities is based on the closing prices observed on September 30, 2023 and December 31, 2022, respectively, and recorded in Investments in the condensed Consolidated Balance Sheets. During the nine months ended September 30, 2023 and 2022, we recorded an unrealized loss of $ 24 thousand and unrealized loss of $ 834 thousand, respectively, resulting from market fluctuations, recorded in other (expense) income, net in the condensed Consolidated Statements of Operations.

We may enter into lumber derivative contracts in order to protect our gross profit margins from fluctuations caused by lumber price volatility. Such contracts, which are generally entered into to protect the gross margins on our wall panel contracts at EBGL, are recorded within current assets or liabilities in the condensed Consolidated Balance Sheets. For the nine months ended September 30, 2023 and 2022, we recorded a net loss of $ 108 thousand and $ 1.8 million, respectively, in the cost of goods sold in the condensed Consolidated Statements of Operations. As of September 30, 2023, we had a net long (buying) position of 1,815,000 board feet under 66 lumber derivatives contracts. As of December 31, 2022, we had a net long (buying) position of 550,000 board feet under 5 lumber derivatives contracts.

Gains and losses from lumber derivative contracts are recorded in cost of goods sold of the condensed Consolidated Statements of Operations and included the following for the nine months ended September 30, 2023 and 2022, respectively:

	September 30, 2023	**September 30, 2022**
Unrealized gain (loss) on lumber derivatives	$ 10	$ (1,298)
Realized gain (loss) on lumber derivatives	(118)	(549)
Total gain (loss) on lumber derivatives	$ (108)	$ (1,847)

Gains and losses from investments in equity securities are recorded in other income (expense) of the condensed Consolidated Statements of Operations and included the following for the nine months ended September 30, 2023 and 2022, respectively:

	September 30, 2023		September 30, 2022	
Unrealized gain (loss) on equity securities	$	(24)	$	(834)
Realized gain (loss) on equity securities		94		8
Total gain (loss) on equity securities	$	70	$	(826)

Note 8. Debt

A summary of debt as of September 30, 2023 and December 31, 2022 is as follows (dollars in thousands):

	September 30, 2023			December 31, 2022		
	Amount		Weighted-Average Interest Rate	Amount		Weighted-Average Interest Rate
Revolving Credit Facility - Premier	$	537	9.25 %	$	—	— %
Revolving Credit Facility - eCapital EBGL		—	— %		2,592	10.25 %
Total Short-term Revolving Credit Facilities	$	537	9.25 %	$	2,592	10.25 %
eCapital - Star Loan Principal, net	$	—	— %	$	791	10.50 %
Short Term Loan	$	—	— %	$	791	10.50 %
Total Short-term debt	$	537	9.25 %	$	3,383	10.31 %

Premier Facility

On August 16, 2023, EdgeBuilder and Glenbrook Building Supply, Inc. ("Glenbrook" and together with EdgeBuilder, the "EBGL Borrowers"), entered into a Revolving Credit Loan Agreement with Premier Bank ("Premier") providing the EBGL Borrowers with a working capital line of credit of up to $ 4,000,000 (the "Premier Loan Agreement"). Availability under the Premier Loan Agreement is based on a formula tied to the EBGL Borrowers' eligible accounts receivable, inventory and equipment. Borrowings under the Premier Loan Agreement bear interest at the prime rate plus 0.75 % (and a minimum interest rate of 6.75 %), 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 expires on August 16, 2024 but may be extended from time to time at the request of the EBGL Borrowers, subject to approval by Premier. The EBGL Borrowers' obligations under the Premier Loan Agreement are guaranteed by the Company and secured by all of their inventory, equipment, accounts and other intangibles. As of September 30, 2023, availability under the Premier Loan Agreement was approximately $ 2.8 million

Webster Credit Facility

On March 29, 2019, the Company entered into a Loan and Security Agreement (the "Webster Loan Agreement") by and among certain subsidiaries of the Company, as borrowers (collectively, the "Webster Borrowers"); the Company, as guarantor; and Sterling National Bank ("Sterling"). On February 1, 2022, Sterling became part of Webster Bank, N.A. ("Webster"), and Webster became the successor in interest to the Webster Loan Agreement. In connection with the sale of our Healthcare business on May 4, 2023, the credit facility pursuant to the Webster Loan Agreement was paid in full and terminated.

eCapital Credit Facilities and Term Loan

The EBGL Borrowers were formerly parties to a Loan and Security Agreement (the "EBGL Loan Agreement") providing the EBGL Borrowers with a credit facility with eCapital Asset Based Lending Corp. formerly known as Gerber Finance, Inc. ("eCapital") for borrowings up to $ 4.0 million, subject to certain borrowing base limitations (the "EBGL Loan"). KBS was also party to a revolving credit facility with eCapital (the "KBS Loan Agreement) which provided for borrowings up to $ 4.0 million, subject to certain borrowing base limitations (the "KBS Loan").

We and certain of our Investments subsidiaries (collectively, the "Star Borrowers") were party to a Loan and Security Agreement with eCapital, as successor in interest to Gerber Finance, Inc. (as amended, the "Star Loan Agreement"), which provided for a credit facility with borrowing availability of up to $ 2.5 million, bearing interest at the prime rate plus 3.5 % per annum, and matures on January 31, 2025, unless terminated in accordance with the terms therein (the "Star Loan").

During the second quarter of 2023, we notified eCapital that we would not be renewing any of our outstanding eCapital credit facilities upon expiry at June 30, 2023. Subsequently, we paid in full all amounts then outstanding under the Star Loan on May 9, 2023 and closed all credit facilities with eCapital, including the EBGL Loan and the KBS Loan.

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 compliance with regulatory standards, customer disputes, employment practices, wage and hour disputes, product liability, professional liability, malpractice 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 but currently do not expect that the resolution of these matters will have a material adverse effect on our financial position or results of operations.

The outcome of litigation and the amount or range of potential loss at particular points in time may be difficult to ascertain. Among other things, uncertainties can include how trial and appellate courts will apply the law and interpret facts, as well as the contractual and statutory obligations of other indemnifying and insuring parties. The estimated range of reasonably possible losses, and their effect on our financial position is based on currently available information and is subject to significant judgment and a variety of assumptions, as well as known and unknown uncertainties.

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.

For the three months ended September 30, 2023, we recorded an income tax expense of $ 172 thousand within continuing operations and an expense of $ 257 thousand within discontinued operations. For the three months ended September 30, 2022, we recorded a $ 299 thousand income tax benefit within continuing operations and an income tax benefit of $ 68 thousand within discontinued operations.

For the nine months ended September 30, 2023 , we recorded an income tax expense of $ 233 thousand within continuing operations and an expense of $ 558 thousand within discontinued operations. For the nine months ended September 30, 2022, we recorded an income tax expense of $ 861 thousand within continuing operations and an income tax benefit of $ 605 thousand within discontinued operations.

The tax expense for the nine months ended September 30, 2023 primarily relates to a January 2022 ownership change under Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”), which required us to establish an additional valuation allowance on net operating losses that the Company cannot utilize in the future.

As of September 30, 2023, we had unrecognized tax benefits of approximately $ 2.0 million related to uncertain tax positions. Included in the unrecognized tax benefits were $ 2.0 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 2018. However, our net operating loss (NOL) carryforwards and research credit carryforwards arising prior to that year are subject to adjustment. Our policy is to recognize interest expense and penalties related to income tax matters as a component of income tax expense.

Note 11. Segments

Our reportable segments are based upon our internal organizational structure, the manner in which our operations are managed, the criteria used by our Chief Executive Officer (our Chief Operating Decision Maker / "CODM") to evaluate segment performance, the availability of separate financial information, and overall materiality considerations. Effective as of the consummation of the sale of our Healthcare business on May 4, 2023, our business divisions are organized into the following two reportable segments, reflecting the manner in which our CODM assesses performance and allocates resources:

1. Construction
2. Investments

Prior to the sale of Digirad Health on May 4 2023, we also had a Healthcare segment.

Segment information for the three and nine months ended September 30, 2023 and 2022 is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30, 2023	
	2023	2022	2023	2022
Revenue by segment:				
Construction	$ 10,435	$ 11,107	$ 31,674	$ 39,544
Investments	89	159	405	475
Intersegment elimination	(89)	(159)	(405)	(475)
Consolidated revenue	$ 10,435	$ 11,107	$ 31,674	$ 39,544
Gross profit (loss) by segment:				
Construction	$ 2,248	$ 3,132	$ 9,241	$ 7,203
Investments	44	100	236	253
Intersegment elimination	(89)	(158)	(405)	(474)
Consolidated gross profit	$ 2,203	$ 3,074	$ 9,072	$ 6,982
Income (loss) from operations by segment:				
Construction	$ (21)	$ 1,150	$ 1,960	$ 681
Investments	(71)	97	(527)	236
Corporate, eliminations and other	(1,569)	(1,699)	(4,978)	(5,206)
Segment income (loss) from operations	$ (1,661)	$ (452)	$ (3,545)	$ (4,289)
Depreciation and amortization by segment:				
Construction	$ 515	$ 489	$ 1,530	$ 1,471
Investments	45	58	169	221
Star Equity corporate	9	—	21	—
Total depreciation and amortization	$ 569	$ 547	$ 1,720	$ 1,692

Note 12. Related Party Transactions

Star Equity Holdings, Inc.

On December 10, 2021, the Company entered into a securities purchase agreement with its Executive Chairman, Jeffrey E. Eberwein, relating to the issuance and sale of 650,000 shares of the Company's common stock, par value $ 0.0001 per share (the "Common Stock") at a purchase price of $ 3.25 per share pursuant to a private placement. As of September 30, 2023, Mr. Eberwein owned 4,062,485 shares of Common Stock, representing approximately 25.67 % of our outstanding Common Stock. In addition, as of September 30, 2023, Mr. Eberwein owned 1,182,414 shares of Series A Preferred Stock.

Note 13. Perpetual Preferred Stock

Holders of shares of our Series A Preferred Stock are entitled to receive, when, as, and if, authorized by the Company's board of directors (or a duly authorized committee of the Company's 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, by 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. The Series A Preferred Stock is not convertible and does not have any voting rights, except when dividends are in arrears for six or more consecutive quarters, then the holders of those shares together with holders of all other series of preferred stock equal in rank would be entitled to vote separately as a class for the election of two additional directors to board of directors, until all dividends accumulated on such shares of Series A Preferred Stock for the past dividend periods and the dividend for the current dividend period shall have been fully paid or declared and a sum sufficient for the payment thereof set apart for payment. The Company may redeem the Series A Preferred Stock upon the occurrence of a change of control, subject to certain conditions. The Company may also voluntarily redeem some or all of the Series A Preferred Stock on or after September 10, 2024.

On each of February 17, 2023, May 19, 2023, and August 17, 2023, our board of directors declared a cash dividend to holders of our Series A Preferred Stock of $ 0.25 per share, for an aggregate amount of approximately $ 0.5 million. The record dates for these dividend payments were March 1, 2023, June 1, 2023, and September 1, 2023, respectively, and the payment dates were March 10, 2023, June 12, 2023, and September 11, 2023, respectively. As of September 30, 2023, we are current on our preferred dividends.

Note 14. Equity Transactions

On January 24, 2022, we closed an underwritten public offering (the "2022 Public Offering") pursuant to an underwriting agreement with Maxim Group LLC ("Maxim"), as representative of the underwriters. Through the 2022 Public Offering, we issued and sold (A)(i) 9,175,000 shares of the Company's Common Stock, (ii) an aggregate of 325,000 pre-funded warrants to purchase up to an aggregate of 325,000 shares of Common Stock, and (iii) an aggregate of 9,500,000 common stock purchase warrants (the "Firm Purchase Warrants") to purchase up to 9,500,000 shares of Common Stock and (B) at the election of Maxim, (i) up to an additional 1,425,000 shares of Common Stock and/or (ii) up to an additional 1,425,000 shares of common stock purchase warrants (the "Option Purchase Warrants", and together with the Firm Purchase Warrants, the "Warrants"). Maxim partially exercised its over-allotment option for the purchase of 1,425,000 warrants for a price of $ 0.01 per Warrant. Each share of common stock (or pre-funded warrant in lieu thereof) was sold together with one common warrant to purchase one share of common stock at a price of $ 1.50 per share and common warrant. Gross proceeds, before deducting underwriting discounts and offering expenses and excluding any proceeds we may receive upon exercise of the warrants, were $ 14.3 million and net proceeds were $ 12.7 million.

In addition, as part of the 2022 Public Offering, the Company issued to Maxim 237,500 common stock purchase warrants (the "Underwriter's Warrants") to purchase up to 237,500 shares of Common Stock at an exercise price of $ 1.65 per common warrant. The Underwriter's Warrants have an initial exercise date beginning July 19, 2022.

As of September 30, 2023, of the warrants issued through the public offering we closed on May 28, 2020 (the "2020 Public Offering"), 1.0 million warrants were exercised and 1.4 million warrants remained outstanding, which represents 0.7 million shares of common stock equivalents, at an exercise price of $ 2.25 . As of September 30, 2023, of the warrants issued through the 2022 Public Offering, there were 10.9 million Warrants outstanding at an exercise price of $ 1.50 and no prefunded warrants outstanding. The 0.3 million prefunded warrants were exercised at $ 0.01 per share in the third quarter of 2023. The Underwriter's Warrants have not been exercised.

Note 15. Preferred Stock Rights

On June 2, 2021, the board of directors adopted a tax benefit preservation plan in the form of a Section 382 Rights Agreement (the "382 Agreement"). The 382 Agreement is intended to diminish the risk that our ability to use our net operating loss carryforwards to reduce future federal income tax obligations may become substantially limited due to an "ownership change," as defined in Section 382 of the Code. The board of directors authorized and declared a dividend distribution of one right for each outstanding share of Common Stock to stockholders of record as of the close of business on June 14, 2021. Each right entitles the registered holder to purchase from the Company one one-thousandth of a share of Series C Participating Preferred Stock, par value $ 0.0001 per share (the "Series C Preferred Stock"), at an exercise price of $12.00 per one one-thousandth of a share of Series C Preferred Stock, subject to adjustment.

The rights will become exercisable following (i) 10 days after a public announcement that a person or group has become an Acquiring Person (as defined in the 382 Agreement); and (ii) 10 business days (or a later date determined by the board of directors) after a person or group begins a tender or an exchange offer that, if completed, would result in that person or group becoming an Acquiring Person.

In addition, upon the occurrence of certain events, the exercise price of the rights would be adjusted and holders of the rights (other than rights owned by an acquiring person or group) would be entitled to purchase common stock at approximately half of market value. Given the potential adjustment of the exercise price of the rights, the rights could cause substantial dilution to a person or group that acquires 4.99 % or more of common stock on terms not approved by the board of directors.

No rights were exercisable at September 30, 2023. There is no impact to financial results as a result of the adoption of the 382 Agreement for the nine months ended September 30, 2023.

Note 16. Subsequent Events

On October 31, 2023 (the “Closing Date”), Glenbrook, a wholly-owned subsidiary of Star Equity Holdings, Inc. entered into an asset purchase agreement (the “Purchase Agreement”) with Big Lake Lumber (“BLL”). Pursuant to the Purchase Agreement, BLL sold its production facility, together with certain related assets, to Glenbrook for up to $ 3.3 million (the “Purchase Price”). The Purchase Price is subject to certain post-closing adjustments, including an earn-out provision and a hold back to satisfy certain indemnification obligations of Glenbrook under the Purchase Agreement. The earn-out provision is based on a specific gross profit threshold with a measurement period of two years to begin one year after the Closing Date. If the threshold is met, an earn-out payment may be remitted to BLL. The Purchase Agreement contains representations, warranties and covenants of Glenbrook that are customary for a transaction of this nature. The Purchase Agreement also contains indemnification obligations of the parties thereto. We are currently assessing the accounting implications of this transaction.

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, 2022, which were included in our Annual Report on Form 10-K, filed with the SEC on March 15, 2023.

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

Overview

Star Equity Holdings, Inc. ("Star Equity", the "Company", "we", "our") is a diversified multi-industry holding company with two divisions. Our largest division participates in the Construction industry, a key sector of the economy. In addition, we operate an internally-funded Investments division. On May 4, 2023, we completed the sale of our former healthcare division, Digirad Health, Inc. ("Digirad Health"). During the three months ended March 31, 2023, and until the sale of Digirad Health, we were organized into three divisions.

Our Construction division is made up of three entities: KBS Builders, Inc. ("KBS"), EdgeBuilder, Inc. ("EdgeBuilder"), and Glenbrook Building Supply, Inc. ("Glenbrook"). These three entities are operated as two separately managed businesses. KBS is a Maine-based manufacturer of modular buildings, principally serving the New England housing market. EdgeBuilder and Glenbrook are operated and managed together and are referred to jointly as "EBGL". EBGL manufactures and delivers structural wall panels and other engineered wood-based products, and operates a lumberyard that distributes building materials primarily to professional builder customers. The EBGL businesses are based in the Minneapolis-Saint Paul area and principally serve the Upper Midwest.

Our Investments division is an internally-funded unit directly managed by the Star Equity corporate team. This entity holds our corporate-owned real estate, which currently includes our two manufacturing facilities in Maine that we lease back to KBS. In addition, it holds several minority equity investments in other small public companies. It also holds and manages a $7 million promissory note and a $6 million private equity stake in TTG Parent LLC, the parent entity (the "Parent") of TTG Imaging Solutions, LLC ("TTG"). These positions are a result of the sale of Digirad Health (discussed in Note 2. "Discontinued Operations"),

Strategy

Star Equity Holdings, Inc.

We believe our diversified multi-industry holding company structure allows Star Equity management to focus on capital allocation, strategic leadership, mergers and acquisitions, capital markets, and investor relations, as well as management of our Investments division. Our structure frees up our operating company management teams to focus on their respective businesses, look for organic and bolt-on growth opportunities, and improve operations with less distraction and administrative burden associated with running a public company.

We continue to explore strategic alternatives to improve our market position and the profitability of our product offerings, generate additional liquidity, and enhance our common stock 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 businesses, divestitures of assets or businesses, equity offerings, debt financings, or corporate restructuring.

Operating Business

We believe that our operating companies are well positioned for growth in large addressable markets. The key elements of our growth strategy include the following:

- ***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 leverage the personnel, infrastructure, and brand recognition we have in these areas.
- ***Introduction of new services.*** In the Construction division, we will consider opportunities to augment our service offerings to better serve our customer base. We have done this in the New England market with our entry into the commercial multi-family segment. Other areas might include logistics, on site installation, and manufacturing of sub-components.

- ***Acquisition of complementary businesses.*** We plan to continue to look at complementary businesses that meet our financial criteria for acquisitions to grow our Company. We believe there are many potential small public and private targets that can be acquired over time and integrated into our platform. We will also look at larger, more transformational mergers and acquisitions if we believe the appropriate mix of value, risk, and return is present for our stockholders. The timing of these potential transactions will always depend on market conditions, available capital, and valuation. 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 stockholders.

Current Market Conditions

The target customers for our Construction division include professional home builders, general contractors, project owners, developers, and design firms. Housing demand remained strong throughout 2022 and into 2023, despite large interest rate increases. Supply chains also improved. While still volatile, materials prices eased beginning in the second half of 2022. We benefited from having implemented both price increases and margin protection language in our contracts and this had a significantly positive effect on our profitability in 2023. We have noted slower business activity in third quarter 2023 and related lower revenues. We believe that this slowdown is temporary. Our sales pipelines are strong and we anticipate improvement in future periods, but can give no assurances as to when activity will return to more normalized levels.

Trends and Drivers

In our Construction division, we continue to see a greater adoption of offsite or prefab construction in single-family and multi-family residential building projects in our target market and nationally. Our modular units and structural wall panels offer builders a number of benefits over traditional onsite or "stick built" construction. These include shorter time to market, higher quality, reduced waste, and potential cost savings, among others. 3D BIM software modeling and developments in engineered wood products offers greater design flexibility for higher-end applications. The need for more affordable housing solutions also presents a great opportunity for the continued growth of factory built housing.

Risks arising from global economic instability and conflicts, wars, and health crises could impact our business. In addition, the inflation caused by such events may impact demand for our products and services and our cost to provide products and services.

Discontinued Operations

As discussed in detail in Note 2. "Discontinued Operations", we completed the sale of Digirad Health on May 4, 2023, for total aggregate consideration of $40 million, comprised of $27 million in cash, a $7 million promissory note, and $6 million of New Units of the Parent of TTG. We deemed the disposition of Digirad Health, which was our entire Healthcare business unit, to represent a strategic shift that will have a major effect on our operations and financial results. As of the date of these financial statements, the results of operations of the Healthcare business unit represent "discontinued operations" in accordance with U.S. generally Accepted Accounting Practices ("GAAP") (ASC 205-20-45-1B). As such, the assets and liabilities, as well as the earnings, of the discontinued operation are presented separately in the unaudited condensed consolidated financial statements for all periods presented. Unless otherwise noted, discussion within the notes to the unaudited condensed consolidated financial statements and this MD&A relates to continuing operations.

Segments

Our reportable segments are based upon our internal organizational structure, the manner in which our operations are managed, the criteria used by our Chief Executive Officer / Chief Operating Decision Maker ("CODM") to evaluate segment performance, the availability of separate financial information, and overall materiality considerations. Effective as of the consummation of the sale of Digirad Health on May 4, 2023, our business divisions are organized into the following two reportable segments, reflecting the manner in which our CODM assesses performance and allocates resources.

- Construction
- Investments

Note: Prior to the May 4, 2023 sale of Digirad Health we had an additional reportable segment for our Healthcare division.

Construction

In this segment, we service residential and commercial construction projects with our KBS, EdgeBuilder, and Glenbrook brands, through which we manufacture modular housing units, structural wall panels, permanent wood foundation systems and other engineered wood products, as well as supply general contractors with building materials.

KBS is a Maine-based manufacturer that started operations in 2001 as a manufacturer of modular homes. KBS offers products for both multi-family and single-family residential buildings with a focus on providing engineering and design expertise and customization to suit project requirements. We market our modular homes through a direct sales organization and through inside sales, outside sales, as well as through 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 configure and place orders for residential homes for their end customers. KBS's network of independent dealers and contractors do not work with us exclusively, although some have KBS model homes on display at their retail centers. KBS's backlog and pipeline, along with its market initiatives to build more workforce housing, are expected to position KBS for continued growth, particularly in the multi-family arena.

EdgeBuilder is a manufacturer of structural wall panels, permanent wood foundation systems and other engineered wood products and conducts its operations in Prescott, Wisconsin. EdgeBuilder 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 the Minneapolis and St. Paul areas. EdgeBuilder'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.

Glenbrook is a supplier of lumber, windows, doors, cabinets, drywall, roofing, decking and other building materials to professional builders and conducts its operations in Oakdale, Minnesota. EdgeBuilder and Glenbrook operate as one business with a single management team and we refer to them together as EBGL.

Investments

We have begun to expand our investments activities and have established minority positions in the equity securities of a small number of publicly traded companies. With the sale of our facility in Waterford, ME in June 2023, we currently hold 2 properties in our real estate portfolio, both of which we lease to our construction subsidiary, KBS. These include their principal production facility in South Paris, Maine. Additionally, the $7 million promissory note and $6 million in common equity in the Parent (the "TTG Note") are assets held in the Investments division.

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 condensed Consolidated Balance Sheets. 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, 2022 have the greatest potential impact on our financial statements, so we consider them to be our critical accounting policies and estimates.

Results of Continuing Operations

Comparison of the Three Months Ended September 30, 2023 and 2022

The following table summarizes our results for the three months ended September 30, 2023 and 2022 (in thousands):

	Three Months Ended September 30,					
					Change from Prior Year	
	2023	Percent of Revenues	2022	Percent of Revenues	Dollars	Percent *
Total revenues	$ 10,435	100.0 %	$ 11,107	100.0 %	$ (672)	(6.1)%
Total cost of revenues	8,232	78.9 %	8,033	72.3 %	199	2.5 %
Gross profit	2,203	21.1 %	3,074	27.7 %	(871)	(28.3)%
Total operating expenses	3,864	37.0 %	3,526	31.7 %	338	9.6 %
Income (loss) from operations	(1,661)	15.9 %	(452)	4.1 %	(1,209)	(267.5)%
Total other income (expense)	(532)	5.1 %	(833)	7.5 %	301	36.1 %
Income (loss) before income taxes	(2,193)	21.0 %	(1,285)	11.6 %	(908)	(70.7)%
Income tax benefit (provision)	(172)	1.6 %	299	2.7 %	(471)	(157.5)%
Net income (loss)	$ (2,365)	22.7 %	$ (986)	8.9 %	$ (1,379)	(139.9)%

P*ercentage may not add due to rounding*

Revenues

Construction

Construction revenue is summarized as follows (in thousands):

	Three Months Ended September 30,			
	2023	2022	Change	% Change
Construction Revenue	$ 10,435	$ 11,107	$ (672)	(6.1) %

2022 revenues in the Construction division included large commercial projects at our KBS and EBGL businesses, the volume of which has not recurred in 2023, which is a principal driver of the decrease in revenue. We are currently experiencing less favorable market conditions in the construction industry resulting from economic headwinds, including higher interest rates.

Gross Profit

Construction Gross Profit

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

	Three Months Ended September 30,			
	2023	2022	$ Change	% Change
Construction gross profit (loss)	$ 2,248	$ 3,132	$ (884)	(28.2)%
Construction gross margin	21.5 %	28.2 %		

The decrease in Construction gross profit was primarily due to reduced revenue as discussed above.

Investments Gross Loss

Investments gross loss is summarized as follows (in thousands):

	Three Months Ended September 30,			
	2023	2022	$ Change	% Change
Investments gross profit (loss)	$ (45)	$ (58)	$ 13	22.4 %

Investment gross profit (loss) principally relates to depreciation expense associated with the three manufacturing facilities acquired in April 2019. We sold one of these three facilities during the second quarter of 2023.

Operating Expenses

Operating expenses are summarized as follows (in thousands):

	Three Months Ended September 30,				Percent of Revenues	
			Change			
	2023	2022	Dollars	Percent	2023	2022
Selling, general and administrative	$ 3,434	$ 3,096	$ 338	10.9 %	32.9 %	27.9 %
Amortization of intangible assets	430	430	—	— %	4.1 %	3.9 %
Total operating expenses	$ 3,864	$ 3,526	$ 338	9.6 %	37.0 %	31.8 %

On a consolidated basis, there was a $0.3 million increase in sales, general and administrative expenses (“SG&A”). The major drivers of this increase in the third quarter of 2023 were legal and other outside service expenses related to both the sale of Digirad Health and Investment division-related activities. SG&A, as a percentage of revenue, increased to 32.9% for the three months ended September 30, 2023 versus 27.9% in the prior year period.

Total Other Income (Expense)

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

	Three Months Ended September 30,	
	2023	2022
Other income (expense), net	$ (965)	$ (713)
Interest income (expense), net	433	(120)
Total other income (expense), net	$ (532)	$ (833)

Other income (expenses), net, for the three months ended September 30, 2023 and 2022 is predominately comprised of unrealized gains and losses from “available for sale” securities recorded in our Investments division and finance costs.

Interest income (expense), net, for the three months ended September 30, 2023 and 2022 is predominantly comprised of interest earned on our cash, as well as on the TTG Note receivable. For 2022, this is partially offset by interest costs and the related amortization of deferred issuance costs on our prior debt.

Income Tax Expense

For the three months ended September 30, 2023 and 2022 we recorded a $172 thousand income tax expense and a $299 thousand income tax benefit, respectively, within continuing operations. See Note 10. “Income Taxes”, within the notes to our condensed consolidated financial statements for further information related to the income taxes.

Income from Discontinued Operations

See Note 2. “Discontinued Operations” to our unaudited condensed consolidated financial statements for information regarding discontinued operations.

Results of Continuing Operations

Comparison of the Nine Months Ended September 30, 2023 and 2022

The following table summarizes our results for the nine months ended September 30, 2023 and 2022 (in thousands):

	Nine Months Ended September 30,					
					Change from Prior Year	
	2023	Percent of Revenues	2022	Percent of Revenues	Dollars	Percent *
Total revenues	$ 31,674	100.0 %	$ 39,544	100.0 %	$ (7,870)	(19.9)%
Total cost of revenues	22,602	71.4 %	32,562	82.3 %	(9,960)	(30.6)%
Gross profit	9,072	28.6 %	6,982	17.7 %	2,090	29.9 %
Total operating expenses	12,617	39.8 %	11,271	28.5 %	1,346	11.9 %
Loss from operations	(3,545)	(11.2) %	(4,289)	(10.8) %	744	(17.3)%
Total other income (expense)	63	0.2 %	(1,557)	(3.9) %	1,620	(104.0)%
Loss before income taxes	(3,482)	(11.0) %	(5,846)	(14.8) %	2,364	(40.4)%
Income tax provision	(233)	(0.7) %	(861)	(2.2) %	628	(72.9)%
Net loss from continuing operations	$ (3,715)	(11.7) %	$ (6,707)	(17.0) %	$ 2,992	(44.6)%

**Percentage may not add due to rounding*

Revenues

Construction

Construction revenue is summarized as follows (in thousands):

	Nine Months Ended September 30,			
	2023	2022	Change	% Change
Construction	$ 31,674	$ 39,544	$ (7,870)	(19.9)%

2022 revenues in the Construction division included large commercial projects at our KBS and EBGL businesses, the volume of which has not recurred in 2023, which is a principal driver of the decrease in revenue. We are currently experiencing less favorable market conditions in the construction industry resulting from economic headwinds, including higher interest rates.

Construction Gross Profit (Loss)

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

	Nine Months Ended September 30,			
	2023	2022	Change	% Change
Construction gross profit (loss)	$ 9,241	$ 7,203	$ 2,038	28.3 %
Construction gross margin	29.2 %	18.2 %		

The increase in Construction gross profit for the first nine months of 2023 of 28.3% was due to both strong pricing levels and lower input costs versus 2022, which led to increased gross profit despite reduced revenue.

Investments Gross Loss

Investments gross loss is summarized as follows (in thousands):

	Nine Months Ended September 30,			
	2023	2022	$ Change	% Change
Investments gross profit (loss)	$ (169)	$ (221)	$ 52	23.5 %

Investment gross profit (loss) principally relates to depreciation expense associated with the three manufacturing facilities acquired in April 2019. We sold one of these three facilities during the second quarter of 2023.

Operating Expenses

Operating expenses are summarized as follows (in thousands):

	Nine Months Ended September 30,				Percent of Revenues	
			Change			
	2023	2022	Dollars	Percent	2023	2022
Selling, general and administrative expenses	$ 11,327	$ 9,981	$ 1,346	13.5 %	35.8 %	25.2 %
Amortization of intangible assets	1,290	1,290	—	— %	4.1 %	3.3 %
Total operating expenses	$ 12,617	$ 11,271	$ 1,346	11.9 %	39.9 %	28.5 %

On a consolidated basis, there was a $1.3 million increase in SG&A. This was primarily due to increased legal and outside services expenses related to the sale of Digirad Health and our Investments division-related activities. As a percentage of revenue, SG&A increased to 35.8%, versus 25.2% in the prior year period.

Total Other Income (Expense)

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

	Nine Months Ended September 30,	
	2023	2022
Other income (expense), net	$ (506)	$ (1,157)
Interest income (expense), net	569	(400)
Total other income (expense)	$ 63	$ (1,557)

Other income (expense), net for nine months ended September 30, 2023 and 2022 is predominately comprised of unrealized losses and gains from available for sale securities recorded in our Investments division, the gain on the sale of our Waterford, Maine facility, and finance costs.

Interest income (expense), net, for the nine months ended September 30, 2023 and 2022 is predominantly comprised of interest earned on the TTG Note and interest bearing assets in our Investments division, offset by interest costs and the related amortization of deferred issuance costs on our debt.

Income Tax Expense

For the nine months ended September 30, 2023 and 2022, we recorded income tax expenses of $233 thousand and $861 thousand, respectively. See Note 10. “Income Taxes” within the notes to our unaudited condensed consolidated financial statements for further information related to the income taxes.

Income from Discontinued Operations

See Note 2. “Discontinued Operations” to our condensed consolidated financial statements for information regarding discontinued operations.

Liquidity and Capital Resources

Overview

Summary Cash Flows

The following table shows cash flow information for the nine months ended September 30, 2023 and 2022 (in thousands):

	Nine Months Ended September 30,	
	2023	2022
Net cash provided by (used in) operating activities	$ 2,670	$ (234)
Net cash provided by (used in) investing activities	$ 19,503	$ (4,982)
Net cash provided by (used in) financing activities	$ (4,059)	$ 9,749

Cash Flows from Operating Activities

For the nine months ended September 30, 2023, net cash provided by operating activities was $2.7 million, compared to $0.2 million in net cash used in decreased working capital expenditures and operating activities in 2022. The increase in net cash provided by operating activities is attributable in part to improved results from operations, particularly in our Construction division gross margins.

Cash Flows from Investing Activities

For the nine months ended September 30, 2023, net cash provided by investing activities was $19.5 million, which principally consists of cash received from the sale of our Healthcare division. In 2022, net cash used in investing activities was $5.0 million, which was primarily attributable to the purchases of equity securities in our Investments division of $4.0 million and increased purchases of property and equipment.

Cash Flows from Financing Activities

For the nine months ended September 30, 2023, net cash used in financing activities was $4.1 million, compared to net cash provided by financing activities of $9.7 million in 2022. 2023 cash used in financing activities includes the net debt repayments on our credit facilities which, in combination with a new credit facility entered into in Q3, left us with approximately $0.5 million in debt at September 30, 2023. 2022 cash provided by financing activities included net proceeds of $12.7 million raised in our 2022 Public Offering (as hereinafter defined).

Sources of Liquidity

Our principal sources of liquidity are our existing cash and cash equivalents and cash generated from operations. As of September 30, 2023, we had $20.7 million of cash and cash equivalents. In connection with the sale of our Healthcare business on May 4, 2023, we paid the credit facility pursuant to the Webster Loan Agreement (as defined below) in full, using some of the proceeds from that sale. We closed out all credit facilities with eCapital and paid all remaining amounts outstanding on any eCapital balances during the second quarter of 2023. As discussed in Note 8, “Debt”, we have approximately $0.5 million in debt at our EBGL business at September 30, 2023.

Common Stock Equity Offering

On January 24, 2022, we closed an underwritten public offering (the “2022 Public Offering”) pursuant to an underwriting agreement with Maxim Group LLC (“Maxim”), as representative of the underwriters. The 2022 Public Offering was for 9,500,000 shares of common stock (or pre-funded warrants to purchase shares of common stock in lieu thereof) and warrants to purchase up to 9,500,000 shares of common stock (the “common warrants”). Each share of common stock (or pre-funded warrant in lieu thereof) was sold together with one common warrant to purchase one share of common stock at a price of $1.50 per share and common warrant. Additionally, the Company issued to Maxim 237,500 common stock purchase warrants (the “Underwriter’s Warrants”) to purchase up to 237,500 shares of common stock at an exercise price of $1.65 per common warrant. Gross proceeds, before deducting underwriting discounts and offering expenses and excluding any proceeds we may receive upon exercise of the common warrants, were $14.3 million and net proceeds were $12.7 million.

As of September 30, 2023, of the warrants issued through the 2020 Public Offering, 1.0 million warrants were exercised and 1.4 million warrants remained outstanding, which represents 0.7 million shares of common stock equivalents, at an exercise price of $2.25. As of September 30, 2023, of the warrants issued through the 2022 Public Offering, there were 10.9 million warrants and no prefunded warrants outstanding at an exercise price of $1.50 and $0.01, respectively. The Underwriter’s Warrants have not been exercised.

See Note 14. “Equity Transactions” in the accompanying notes to the unaudited condensed consolidated financial statements for further details.

Credit Facilities

Premier Facility

On August 16, 2023, EdgeBuilder and Glenbrook (the “EBGL Borrowers”), entered into a Revolving Credit Loan Agreement with Premier Bank (“Premier”) providing the EBGL Borrowers with a working capital line of credit of up to $4,000,000 (the “Premier Loan Agreement”). Availability under the Premier Loan Agreement is based on a formula tied to the EBGL Borrowers’ eligible accounts receivable, inventory and equipment. Borrowings under the Premier Loan Agreement bear interest at the prime rate plus 0.75% (and a minimum interest rate of 6.75%), 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 expires on August 16, 2024 but may be extended from time to time at the request of the EBGL Borrowers, subject to approval by Premier. The EBGL Borrowers’ obligations under the Premier Loan Agreement are guaranteed by the Company and secured by all of their inventory, equipment, accounts and other intangibles. $0.5 million was outstanding under the Premier Loan Agreement at September 30, 2023.

Webster Credit Facility

On March 29, 2019, the Company entered into a Loan and Security Agreement (the “Webster Loan Agreement”) by and among certain subsidiaries of the Company, as borrowers (collectively, the “Webster Borrowers”), the Company, as guarantor, and Sterling National Bank (“Sterling”). On February 1, 2022, Sterling became part of Webster Bank, N.A. (“Webster”), and Webster became the successor in interest to the Webster Loan Agreement. The Webster Loan Agreement was also subject to a limited guarantee by Mr. Eberwein, the Executive Chairman of our board of directors.

The Webster Loan Agreement was a five-year credit facility maturing in March 2024, with a maximum credit amount of $20.0 million for revolving loans (the “Webster Credit Facility”). In connection with the sale of our Healthcare business on May 4, 2023, we paid all amounts due and closed the Webster Credit Facility.

eCapital Credit Facilities

The EBGL Borrowers were formerly parties to a Loan and Security Agreement with eCapital (the “EBGL Loan Agreement”), providing up to $4.0 million in working capital which was scheduled to mature and renew automatically for a period of one year moving forward (the “EBGL Loan”). KBS Builders, Inc. (the “KBS Borrowers”) were parties to a Loan and Security Agreement with eCapital (the “KBS Loan Agreement”), providing up to $4.0 million in working capital which was scheduled to mature and renew automatically for a period of one year moving forward (the “KBS Loan”). During the second quarter of 2023, we closed these two credit facilities and have no remaining debt balance with eCapital.

eCapital Term Loan

We and certain of our Investments subsidiaries (collectively, the “Star Borrowers”) were party to a Loan and Security Agreement with eCapital, as successor in interest to Gerber Finance, Inc. (as amended, the “Star Loan Agreement”), which provided for a credit facility with borrowing availability of up to $2.5 million, bearing interest at the prime rate plus 3.5% per annum, and maturing on January 1, 2025, unless terminated in accordance with the terms therein (the “Star Loan”). As of September 30, 2023, we have paid in full all amounts related to the Star Loan Agreement and closed this facility.

Off-Balance Sheet Arrangements

As of September 30, 2023, there were no off-balance sheet arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, and based on such evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act were effective as of the end of the period covered by this report to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and (ii) accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act). Internal control over financial reporting is a process designed under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control—Integrated Framework (2013 Framework). Based on this assessment, our management concluded that, as of December 31, 2022, our internal control over financial reporting was effective based on those criteria.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 or 15d-15 under the Exchange Act that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 9. “Commitments and Contingencies” within the notes to our 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, 2022, which we filed with the SEC on March 15, 2023. 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, 2022, 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.

Our business strategy includes acquisitions, and acquisitions entail numerous risks, including the risk of management diversion and increased costs and expenses, all of which could negatively affect the Company’s profitability.

Our business strategy includes, among other things, strategic acquisitions, as well as potential opportunistic acquisitions and strategic actions with respect to our existing investments, such as restructurings, strategic partnerships and collaborations, and activist activity. This overall acquisition and investment strategy entails several potential risks, including diverting management’s attention from other business concerns, incurring substantial legal and other advisory fees (including, in the case of activist activity, proxy solicitation fees), and financing such acquisitions with additional equity and/or debt. Additionally, to the extent that we are already invested in the entities that are the subject of our acquisitions and other activities, our actions may be temporarily disruptive to the value of the investments, which could adversely affect our financial condition.

In addition, once completed, acquisitions may entail further risks, including: unanticipated costs and liabilities of the acquired businesses, including environmental liabilities, that could materially adversely affect our results of operations. These include: increased regulatory compliance relating to the acquired business; difficulties in assimilating acquired businesses, their personnel and their financial reporting systems, which would prevent the expected benefits from the transaction from being realized within the anticipated timeframe; negative effects on existing business relationships with suppliers and customers; and loss of key employees of the acquired businesses. In addition, any future acquisitions could cause us to incur additional debt and related interest expense, as well as contingent liabilities and amortization expense related to intangible assets, which could have a material adverse effect on our business, financial condition, operating results and cash flows, or the issuance of additional equity, which could dilute our stockholder’s equity interests.

There can be no assurance that we will be able to negotiate any pending acquisition successfully, receive the required approvals for any acquisition or otherwise conclude any acquisition successfully, or that any acquisition will achieve the anticipated synergies or other positive results. Overall, if our acquisition strategy is not successful or if acquisitions are not well integrated into our existing operations, the Company’s profitability, business, and financial condition could be negatively affected.

We may sustain losses in our investment portfolio, which could have an adverse effect on our results of operations, financial condition and liquidity.

A portion of our assets consists of equity securities which are adjusted to fair value each period, as well as other investments. An adverse change in economic conditions or setbacks to such companies, their operations or business models may result in a decline in the value of these investments. Such declines in value are principally recognized in net income or loss in accordance with GAAP. Any adverse changes in the financial markets and declines in value of our investments may result in additional losses and could have an adverse effect on our results of operations, financial condition and liquidity.

Risks Related to our Common Stock and our Company Preferred Stock

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 these requirements.

In November 2023, we received a letter from the Listing Qualifications staff of The Nasdaq Stock Market, or Nasdaq, notifying us that we were no longer in compliance with the minimum bid price requirement for continued listing on the Nasdaq Global Market. The letter noted that the bid price of our common stock was below $1.00 for the 30-day period ending November 6, 2023. The notification letter had no immediate effect on our listing on the Nasdaq Global Market. Nasdaq has provided us with 180 days, or until May 6, 2024, to regain compliance with the minimum bid price requirement by having a closing bid price of at least $1.00 per share for a minimum of 10 consecutive business days. 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.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

On November 7, 2023, Star Equity Holdings, Inc. (the "Company") received a letter (the "Letter") from the Listing Qualifications Department of the Nasdaq Stock Market ("Nasdaq") notifying the Company that, for a period of 30 consecutive business days, the bid price of its common stock closed below the minimum bid price of $1.00 per share required for continued listing on The Nasdaq Global Market pursuant to Nasdaq Listing Rule 5450(a)(1).

In accordance with Nasdaq Listing Rule 5810(c)(3)(A), and as indicated in the Letter, the Company has 180 calendar days, or until May 6, 2024, to regain compliance with the minimum bid price requirement. The Letter further provided that if at any time during this 180-day period, the closing bid price of the Company's common stock is at least $1.00 for a minimum of 10 consecutive business days, the Company will have regained compliance, and Nasdaq will provide the Company written confirmation of compliance with the minimum bid price requirement and close the matter.

If the Company does not regain compliance by May 6, 2024, the Company may transfer from The Nasdaq Global Market to The Nasdaq Capital Market and may be eligible for an additional compliance period of 180 days. To qualify for the additional compliance period, the Company will have to: (i) submit a Transfer Application and related application fees; (ii) meet the continued listing requirement for market value of publicly held shares and all other initial listing standards of The Nasdaq Capital Market (except for the bid price requirement); and (iii) provide written notice to Nasdaq of its intention to cure the deficiency during the additional 180-day compliance period by effecting a reverse stock split if necessary. If the Company does not qualify for an additional compliance period, or should the Company determine not to submit a transfer application or make the required representation, or if Nasdaq concludes that the Company will not be able to cure the deficiency, Nasdaq will provide written notice to the Company that its common stock will be subject to delisting. Nasdaq rules permit the Company to appeal any delisting determination by Nasdaq to a Hearings Panel.

The Company will continue to actively monitor the closing bid price of its common stock and will evaluate available options, including, without limitation, seeking to effect a reverse stock split, in order to resolve the deficiency and regain compliance with the minimum bid price rule. On June 20, 2023, the stockholders approved an amendment to our Restated Certificate of Incorporation to permit the company to effect a reverse stock split at any time within 12 months following the date of such stockholder approval. As a result of this approval, the Board of Directors has the sole discretion to effect the amendment and reverse stock split at a ratio of not less than 1-for-5 and not more than 1-for-10.

The Company's common stock will continue to be listed and traded on The Nasdaq Global Market during the 180-day compliance period, subject to the Company's compliance with the other continued listing requirements of The Nasdaq Global Market.

ITEM 6. EXHIBITS

Exhibit Number	Description
10.1	Revolving Credit Loan Agreement by and between Glenbrook Building Supply, Inc., EdgeBuilder, Inc. and Premier Bank, dated as of August 16, 2023. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on August 16, 2023).
10.2*	Star Equity Holdings, Inc. Compensation Clawback Policy.*
10.3	Asset Purchase Agreement, by and among Glenbrook Building Supply, Inc. and Big Lake Lumber Inc., dated as of October 31, 2023. (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on November 2, 2023).
31.1*	Certification of the Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated pursuant to the Securities Exchange Act of 1934, as amended.
31.2*	Certification of the Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) promulgated pursuant to the Securities Exchange Act of 1934, as amended.
32.1**	Certification of the Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of the Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	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
104.1	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101).

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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 Star Equity Holdings, Inc., 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.

STAR EQUITY HOLDINGS, INC.

Date: November 8, 2023

By: /s/ RICHARD K. COLEMAN, JR.

Richard K. Coleman, Jr.
Chief Executive Officer
(Principal Executive Officer)

/s/ DAVID J. NOBLE

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

STAR EQUITY HOLDINGS, INC.

COMPENSATION CLAWBACK POLICY

A. OVERVIEW

In accordance with the applicable rules of the NASDAQ Stock Market ("Nasdaq") Listing Rules (the ***"NASDAQ Rules"***), Section 10D and Rule 10D-1 of the Securities Exchange Act of 1934, as amended (the "***Exchange Act***") ("***Rule 10D-1***"), the Board of Directors (the "***Board***") of Star Equity Holdings, Inc. (the "***Company***") has adopted this Policy (the "***Clawback Policy***") to provide for the recovery of erroneously awarded Incentive-based Compensation from Executive Officers. All capitalized terms used and not otherwise defined herein shall have the meanings set forth in Section H, below.

B. Recovery of Erroneous Compensation

(1) In the event of an Accounting Restatement, the Company will reasonably promptly recover the Erroneously Awarded Compensation Received in accordance with Nasdaq Rules and Rule 10D-1 as follows:

(i) After an Accounting Restatement, the Compensation Committee (if composed of independent directors, or otherwise a majority of independent directors serving on the Board) (the ***"Committee")*** shall determine the amount of any Erroneously Awarded Compensation Received by each Executive Officer and shall promptly notify each Executive Officer with a written notice containing the amount of any Erroneously Awarded Compensation and a demand for repayment or return of such compensation, as applicable.

(a) For Incentive-based Compensation based on (or derived from) the Company's stock price or total shareholder return, where the amount of Erroneously Awarded Compensation is not subject to mathematical recalculation directly from the information in the applicable Accounting Restatement:

i. The amount to be repaid or returned shall be determined by the Committee based on a reasonable estimate of the effect of the Accounting Restatement on the Company's stock price or total shareholder return upon which the Incentive-based Compensation was Received; and

ii. The Company shall maintain documentation of the determination of such reasonable estimate and provide the relevant documentation if and as required to the Nasdaq.

(ii) The Committee shall have discretion to determine the appropriate means of recovering Erroneously Awarded Compensation based on the particular facts and circumstances. Notwithstanding the foregoing, except as set forth in Section B(2) below, in no event may the Company accept an amount that is less than the amount of Erroneously Awarded Compensation in satisfaction of an Executive Officer's obligations hereunder.

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(iii) To the extent that the Executive Officer has already reimbursed the Company for any

Erroneously Awarded Compensation Received under any duplicative recovery obligations established by the Company or applicable law, any such reimbursed amount is to be credited in the amount of Erroneously Awarded Compensation that is subject to recovery under this Policy.

(iv) To the extent that an Executive Officer fails to repay all Erroneously Awarded Compensation to the Company when due, the Company shall take all actions reasonable and appropriate to recover such Erroneously Awarded Compensation from the applicable Executive Officer. The applicable Executive Officer shall be required to reimburse the Company for any and all expenses reasonably incurred (including legal fees) by the Company in recovering such Erroneously Awarded Compensation in accordance with the immediately preceding sentence.

(2) Notwithstanding anything herein to the contrary, the Company shall not be required to take the actions contemplated by Section B(1) above if the Committee determines that recovery would be impracticable *and* any of the following conditions are met:

(i) The Committee has determined that the direct expenses paid to a third party to assist in enforcing the Policy would exceed the amount to be recovered. Before making this determination, the Company must make a reasonable attempt to recover the Erroneously Awarded Compensation, documented such attempt(s) and provided such documentation to the Nasdaq; or

(ii) Recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the requirements of Section 401(a)(13) or Section 411(a) of the Internal Revenue Code of 1986, as amended, and regulations thereunder.

C. DISCLOSURE REQUIREMENTS

The Company shall file all disclosures with respect to this Policy required by applicable U.S. Securities and Exchange Commission ("***SEC***") filings and rules.

D. PROHIBITION OF INDEMNIFICATION

The Company shall not be permitted to insure or indemnify any Executive Officer against (i) the loss of any Erroneously Awarded Compensation that is repaid, returned or recovered pursuant to the terms of this Policy, or (ii) any claims relating to the Company's enforcement of its rights under this Policy. Further, the Company shall not enter into any agreement that exempts any Incentive-based Compensation that is granted, paid or awarded to an Executive Officer from the application of this Policy or that waives the Company's right to recovery of any Erroneously Awarded Compensation, and this Policy shall supersede any such agreement (whether entered into before, on or after the Effective Date of this Policy).

E. ADMINISTRATION AND INTERPRETATION

This Policy shall be administered by the Committee, and any determinations made by the Committee shall be final and binding on all affected individuals.

The Committee is authorized to interpret and construe this Policy and to make all determinations necessary, appropriate, or advisable for the administration of this Policy and for the Company's compliance with Nasdaq Rules, Section 10D, Rule 10D-1 and any other applicable law, regulation, rule or interpretation of the SEC or Nasdaq promulgated or issued in connection therewith.

F. AMENDMENT; TERMINATION

The Committee may amend this Policy from time to time in its discretion and shall amend this Policy as it deems necessary. Notwithstanding anything in this Section F to the contrary, no amendment or termination of this Policy shall be effective if such amendment or termination would (after taking into account any actions taken by the Company contemporaneously with such amendment or termination) cause the Company to violate any federal securities laws, SEC rule or Nasdaq rule.

G. OTHER RECOVERY RIGHTS

This Policy shall be binding and enforceable against all Executive Officers and, to the extent required by applicable law or guidance from the SEC or Nasdaq, their beneficiaries, heirs, executors, administrators or other legal representatives. The Committee intends that this Policy will be applied to the fullest extent required by applicable law. Any employment agreement, equity award agreement, compensatory plan or any other agreement or arrangement with an Executive Officer shall be deemed to include, as a condition to the grant of any benefit thereunder, an agreement by the Executive Officer to abide by the terms of this Policy. Any right of recovery under this Policy is in addition to, and not in lieu of, any other remedies or rights of recovery that may be available to the Company under applicable law, regulation or rule or pursuant to the terms of any policy of the Company or any provision in any employment agreement, equity award agreement, compensatory plan, agreement or other arrangement.

H. DEFINITIONS

For purposes of this Policy, the following capitalized terms shall have the meanings set forth below.

(1) "***Accounting Restatement***" means an accounting restatement due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements (a "Big R" restatement), or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period (a "little r" restatement).

(2) "***Clawback Eligible Incentive Compensation***" means all Incentive-based Compensation Received by an Executive Officer (i) on or after the effective date of the applicable Nasdaq Rules, (ii) after beginning service as an Executive Officer, (iii) who served as an Executive Officer at any time during the applicable performance period relating to any Incentive-based Compensation (whether or not such Executive Officer is serving at the time the Erroneously Awarded Compensation is required to be repaid to the Company), (iv) while the Company has a class of securities listed on a national securities exchange or a national securities association, and (v) during the applicable Clawback Period (as defined below).

(3) "***Clawback Period***" means, with respect to any Accounting Restatement, the three completed fiscal years of the Company immediately preceding the Restatement Date (as defined below), and if the Company changes its fiscal year, any transition period of less than nine months within or immediately following those three completed fiscal years.

(4) "***Erroneously Awarded Compensation***" means, with respect to each Executive Officer in connection with an Accounting Restatement, the amount of Clawback Eligible Incentive Compensation that exceeds the amount of Incentive-based Compensation that otherwise would have been Received had it been determined based on the restated amounts, computed without regard to any taxes paid.

(5) "***Executive Officer***" means each individual who is currently or was previously designated as an "officer" of the Company as defined in Rule 16a-1(f) under the Exchange Act. For the avoidance of

doubt, the identification of an executive officer for purposes of this Policy shall include each executive officer who is or was identified pursuant to Item 401(b) of Regulation S-K or Item 6.A of Form 20-F, as applicable, as well as the principal financial officer and principal accounting officer (or, if there is no principal accounting officer, the controller).

(6) "***Financial Reporting Measures***" means measures that are determined and presented in accordance with the accounting principles used in preparing the Company's financial statements, and all other measures that are derived wholly or in part from such measures. Stock price and total shareholder return (and any measures that are derived wholly or in part from stock price or total shareholder return) shall, for purposes of this Policy, be considered Financial Reporting Measures. For the avoidance of doubt, a Financial Reporting Measure need not be presented in the Company's financial statements or included in a filing with the SEC.

(7) "***Incentive-based Compensation***" means any compensation that is granted, earned or vested based wholly or in part upon the attainment of a Financial Reporting Measure.

(8) "***Nasdaq***" means The Nasdaq Stock Market.

(9) "***Received***" means, with respect to any Incentive-based Compensation, actual or deemed receipt, and Incentive-based Compensation shall be deemed received in the Company's fiscal period during

which the Financial Reporting Measure specified in the Incentive-based Compensation award is attained, even if the payment or grant of the Incentive-based Compensation to the Executive Officer occurs after the end of that period.

(10) "***Restatement Date***" means the earlier to occur of (i) the date the Board, a committee of the Board or the officers of the Company authorized to take such action if Board action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare an Accounting Restatement, or (ii) the date a court, regulator or other legally authorized body directs the Company to prepare an Accounting Restatement.

Effective as of [xxx].

____

Exhibit A

ATTESTATION AND ACKNOWLEDGEMENT OF COMPENSATION CLAWBACK POLICY

By my signature below, I acknowledge and agree that:

- I have received and read the attached Compensation Clawback Policy (this "Policy").
- I hereby agree to abide by all of the terms of this Policy both during and after my employment with the Company, including, without limitation, by promptly repaying or returning any Erroneously Awarded Compensation to the Company as determined in accordance with this Policy.

Signature: /s/ Richard K. Coleman, Jr.

Printed Name: Richard K Coleman, Jr.

Date: 8/14/2023

Exhibit A

ATTESTATION AND ACKNOWLEDGEMENT OF COMPENSATION CLAWBACK POLICY

By my signature below, I acknowledge and agree that:

- I have received and read the attached Compensation Clawback Policy (this "Policy").
- I hereby agree to abide by all of the terms of this Policy both during and after my employment with the Company, including, without limitation, by promptly repaying or returning any Erroneously Awarded Compensation to the Company as determined in accordance with this Policy.

Signature: /s/ David Noble

Printed Name: David Noble

Date: 8/14/2023

Exhibit A

ATTESTATION AND ACKNOWLEDGEMENT OF COMPENSATION CLAWBACK POLICY

By my signature below, I acknowledge and agree that:

- I have received and read the attached Compensation Clawback Policy (this "***Policy***").
- I hereby agree to abide by all of the terms of this Policy both during and after my employment with the Company, including, without limitation, by promptly repaying or returning any Erroneously Awarded Compensation to the Company as determined in accordance with this Policy.

Signature: /s/ Shawn Miles

Signature:

Printed Name: Shawn Miles

Date: 8/14/2023

EXHIBIT 31.1

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

I, Richard K. Coleman, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Star Equity Holdings, Inc.;

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 8, 2023

/s/ Richard K. Coleman, Jr.

Richard K. Coleman, Jr.
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 Star Equity Holdings, Inc.;

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 8, 2023

/s/ David J. Noble

David J. Noble
Chief Financial 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 Star Equity Holdings, Inc. for the period ended September 30, 2023, I, Richard K. Coleman, Jr., Chief Executive Officer of Star Equity Holdings, Inc., 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 Star Equity Holdings, Inc. for the period ended September 30, 2023, 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 Star Equity Holdings, Inc. for the period ended September 30, 2023, fairly presents, in all material respects, the financial condition and results of operations of Star Equity Holdings, Inc. 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 8, 2023

/s/ Richard K. Coleman, Jr.

Richard K. Coleman, Jr.
Chief Executive Officer
(Principal Executive Officer)

A signed copy of this written statement required by Section 906 has been provided to Star Equity Holdings, Inc. and will be retained by Star Equity Holdings, Inc. 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 Star Equity Holdings, Inc. for the period ended September 30, 2023, I, David J. Noble, Chief Financial Officer of Star Equity Holdings, Inc., 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 Star Equity Holdings, Inc. for the period ended September 30, 2023, 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 Star Equity Holdings, Inc. for the period ended September 30, 2023, fairly presents, in all material respects, the financial condition and results of operations of Star Equity Holdings, Inc. 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 8, 2023

/s/ David J. Noble

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

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