

=====

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

-----

FORM 8-K

CURRENT REPORT  
Pursuant to Section 13 or 15(d) of  
The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported)

August 3, 2006

-----

DIGIRAD CORPORATION  
(Exact name of registrant as specified in its charter)

Delaware

000-50789

33-0145723

-----

(State or other jurisdiction of (Commission File Number) (IRS Employer  
incorporation) Identification No.)

13950 Stowe Drive  
Poway, California 92064  
(Address of principal executive offices, including zip code)

(858) 726-1600  
(Registrant's telephone number, including area code)

N/A  
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to  
simultaneously satisfy the filing obligation of the registrant under any of the  
following provisions:

- ☐ Written communications pursuant to Rule 425 under the Securities Act (17  
CFR 230.425)
- ☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR  
240.14a-12)
- ☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the  
Exchange Act (17 CFR 240.14d-2(b))
- ☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the  
Exchange Act (17 CFR 240.13e-4(c))
- =====

Item 2.02. Results of Operations and Financial Condition

On August 3, 2006, the Company issued a press release announcing financial  
results for the fiscal quarter ended June 30, 2006. A copy of this press release  
is attached hereto as Exhibit 99.1.

This information and the exhibits hereto are being furnished and shall not be  
deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act  
of 1934, as amended (the "Exchange Act"), or otherwise subject to the liability  
of that section, nor shall they be deemed incorporated by reference in any  
filing under the Securities Act of 1933, as amended, or the Exchange Act, except  
as expressly set forth by specific reference in such a filing.

Item 9.01. Financial Statements and Exhibits

(c) Exhibits.

Exhibit No.	Description
-----	
99.1	Press Release dated August 3, 2006.

SIGNATURES

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

DIGIRAD CORPORATION

By:/s/ Todd P. Clyde

-----  
Todd P. Clyde  
Chief Financial Officer

Date: August 3, 2006

Digirad 2006 Second Quarter and  
First Half Results Exceed Previous Guidance; Consolidated Revenues  
Increased 23%; Management Increases 2006 Guidance

POWAY, Calif.--(BUSINESS WIRE)--Aug. 3, 2006--Digirad Corporation (NASDAQ:DRAD), a leading provider of cardiovascular imaging services and solid-state nuclear medicine imaging products to physician offices, hospitals and imaging centers, today announced financial results for the second quarter and first half of 2006 that exceeded management's previous expectations, and increased revenue and earnings guidance for the year.

Chief Executive Officer Mark Casner said, "Digirad's second quarter performance was highlighted by a 23.0% increase in consolidated revenues, higher gross margin, and a sharply reduced loss compared to the second quarter of 2005. We are reaching the aggressive goals we set for ourselves, as our hard work has improved our control of the business and is helping us move the company forward.

"Our team is effectively executing the many initiatives we have implemented to improve operational efficiencies, reduce costs and enhance margins. Recent examples include a new pricing structure in DIS that better reflects peak demand by our mobile imaging customers and drive times for our DIS personnel, and a vendor volume discount program and related cost-saving initiatives which we expect to contribute to improved operating margins beginning in the third quarter. We are encouraged by the increase in the productivity of our sales force, but we believe we can do better and we are working to secure further improvements. We also are pleased with the efficiency and cost reduction improvements in our product business, which contributed to a second quarter gross margin of 39.8%.

"Demand for our DIS leasing service increased in the second quarter compared to the prior year. In addition, product sales more than doubled in the second quarter compared to last year's depressed pace, a tribute to the gains we are achieving in all aspects of this business. In view of the reported weakness in industry-wide shipments of nuclear imaging cameras during the period, the increase in Digirad's market share is a particularly noteworthy accomplishment.

"With the launch last month of our new Cardius(R) 3 XPO, we also delivered on our promise to begin releasing significant enhancements to our advanced Cardius 3 imaging system for nuclear cardiology by mid-2006. Featuring high-definition solid-state (HDSD) digital detector technology, the Cardius 3 XPO offers a more comfortable experience for the patient, rapid throughput and improved reliability and superb image quality for the physician-user, all while continuing to provide up to 38% faster image acquisition times than conventional dual-head systems. We plan to accelerate the upgrading of our DIS fleet to the mobile version of the Cardius 3 XPO system in the second half of this year, and as a result have decided to delay the launch of ultrasound services in DIS until next year.

"Overall, we are pleased by our progress during the second quarter toward our goal of sustainable revenue and profit growth. We remain focused on effectively executing our plans in the months ahead."

Mr. Casner also announced that Peter Sullivan, president of Digirad's product segment, will be leaving the company to pursue other opportunities.

#### Second Quarter Results

For the three months ended June 30, 2006, consolidated revenues increased 23.0% to \$19.0 million compared to \$15.5 million for the second quarter of 2005.

DIS revenue increased to \$13.4 million for this year's second quarter, which included stress agent revenue of approximately \$854,000. This compares to DIS revenue for the second quarter of 2005 of \$13.2 million, which included stress agent revenue of approximately \$1.1 million. DIS service days for the second quarter of 2006 were 3,530 compared to 3,612 for the same period last year. Despite the decline in service days, revenue per day in the second quarter of 2006 increased to \$3,797 compared to \$3,664 in the prior year period.

As previously announced, DIS stopped providing certain stress agents used in a portion of imaging procedures beginning in June. Instead, DIS' physician customers now provide these agents. Management estimates that this change reduced DIS revenue in the second quarter by approximately \$325,000 compared to what it otherwise would have been under the original delivery model. "We believe the overall impact will be to reduce DIS revenue by about \$2.6 million for 2006 as a whole, and to increase DIS gross margin by 50 to 100 basis points with

little to no impact on DIS net earnings," Mr. Casner said.

Product segment revenue, which includes sales of gamma cameras, upgrades, accessories and maintenance revenue, more than doubled to \$5.6 million for the second quarter of 2006 versus the depressed result of \$2.2 million for the second quarter of 2005.

Consolidated gross margin for the three months ended June 30, 2006, increased to 29.8% from 22.1% for the second quarter of 2005, and increased sequentially compared to 23.2% for the first quarter of 2006.

DIS gross margin was 25.6% for this year's second quarter compared to 30.2% for the second quarter of 2005 and 21.1% for the first quarter of 2006. In addition to the effect of eliminating the provision of stress agents, the sequential increase in DIS gross margin reflected improved staff efficiency and lower depreciation expense versus the immediately preceding quarter.

Product segment gross margin improved to 39.8% for the second quarter of 2006 versus a negative gross margin of (26.1%) for last year's second quarter, and improved sequentially compared to gross margin of 28.0% for the first quarter of 2006, reflecting higher sales volume as well as operational efficiencies and lower camera maintenance costs stemming from improved product reliability.

The net loss for the second quarter of 2006 was \$1.2 million, or \$0.06 per share, including stock-based compensation expense of \$574,000. This compares to a net loss of \$3.0 million, or \$0.17 per share, for the second quarter of 2005, which included stock-based compensation expense of \$130,000 and to a net loss for the first quarter of 2006 of \$2.8 million, or \$0.15 per share, including stock-based compensation expense of \$471,000.

Cash and equivalents and securities available for sale at June 30, 2006, were \$46.7 million compared to \$49.5 million at December 31, 2005. Net receivables were \$7.5 million at June 30, 2006, compared to \$8.1 million at December 31, 2005. Net inventories were \$5.2 million at June 30, 2006, compared to \$5.1 million at December 31, 2005.

#### First Half Results

For the six months ended June 30, 2006, consolidated revenues increased 13.6% to \$38.0 million compared to \$33.4 million for the first six months of 2005. DIS revenue increased 4.1% to \$26.6 million from \$25.6 million during the same period last year. Product revenue increased 44.3% to \$11.4 million from \$7.9 million. Overall gross margin for this year's first half improved to 26.5% versus 25.6% for the same period last year.

The net loss for the first six months of 2006 was \$4.0 million, or \$0.21 per share, which includes stock-based compensation expense of \$1.0 million. This compares to a net loss for the first six months of 2005 of \$4.0 million, or \$0.22 per share, including stock-based compensation expense of \$308,000.

#### Third Quarter and 2006 Guidance

Mr. Casner added, "Looking into the third quarter, typically our seasonally weakest quarter of the year, we currently expect DIS revenue in the range of \$11.6 million to \$11.8 million, including the impact of the change in the delivery of stress agents. We expect product revenue between \$5.3 million and \$5.9 million, and consolidated revenues between \$16.9 million and \$17.7 million. We anticipate a consolidated loss for the third quarter between \$2.0 million and \$3.0 million, including estimated stock-based compensation expense of \$500,000.

"For 2006 as a whole, we are increasing our guidance for consolidated revenues to a new range of \$72.0 million and \$74.5 million, consisting of DIS revenue between \$50.0 million and \$51.0 million (including the impact of the stress agent delivery change) and product revenue between \$22.0 million and \$23.5 million. We currently expect the consolidated loss for 2006 to be between \$7.0 million and \$9.0 million, including estimated stock-based compensation expense of \$2.0 million."

Previously, management had anticipated consolidated revenues for 2006 to be between \$70.0 million and \$74.0 million, consisting of DIS revenue between \$49.0 million and \$51.0 million (including the impact of the stress agent delivery change) and product revenue between \$21.0 million and \$23.0 million, and a consolidated loss between \$10.6 million and \$12.6 million, including the estimated stock-based compensation expense of \$2.6 million.

#### Conference Call

Digirad has scheduled a conference call at 11:00 a.m. ET today. A simultaneous web cast of the call may be accessed at the Investor Relations page of [www.digirad.com](http://www.digirad.com). A replay will be available for one

year at this same Internet address. A telephone replay will be available for 48 hours after the call by dialing 800-642-1687, reservation #2202999.

#### About Digirad

Digirad Corporation develops, manufactures and markets solid-state, digital gamma cameras to hospitals, imaging centers and physician offices. Digirad offers a comprehensive line of solid-state nuclear gamma cameras that produce high-quality images for use in the detection of many medical conditions, including cardiovascular disease. Digirad's cameras are unique as their lightweight and compact design allows them to fit easily into small office spaces. Digirad's wholly owned subsidiaries Digirad Imaging Solutions and Digirad Imaging Systems offer a comprehensive, mobile imaging leasing and services program for physicians who wish to perform in-office nuclear cardiology procedures but do not have the patient volume, capital or resources to justify purchasing a gamma camera. For more information, please visit [www.digirad.com](http://www.digirad.com). Digirad(R), Digirad Imaging Solutions(R), and Cardius(R) are registered trademarks of Digirad Corporation.

#### Forward-Looking Statements

Digirad cautions that statements included in this press release that are not a description of historical facts are forward-looking statements. You can identify these statements by the fact that they do not relate strictly to historical or current facts and use words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe" and other words and terms of similar meaning in connection with a discussion of future operating or financial performance or events. Examples of such statements include the statements regarding our plans to upgrade our DIS fleet to the mobile version of the Cardius 3 XPO system in the second half of this year and to delay the launch of ultrasound services in DIS until next year, and statements regarding the expected financial impact of our decision to discontinue offering stress agents and, in general, our anticipated financial results for the third quarter of 2006 and 2006 fiscal year. The inclusion of these and other forward-looking statements should not be regarded as a representation by Digirad that any of its plans will be achieved. Actual results may differ materially from those set forth in this press release due to the risks and uncertainties inherent in Digirad's business, including, without limitation: the degree to which personnel changes and related disruptions in our business activities may affect Digirad's products, customers, work force, suppliers, and our overall business prospects and operations; the degree to which Digirad's camera systems and related services will be accepted by physicians and hospitals, some of whom may experience reliability issues or technical problems; the ability of Digirad to effectively market, sell and distribute its medical devices, and related services given its limited capabilities in these areas; Digirad's ability to manage risks relating to product liability, warranty claims, recalls, property damage and personal injury with respect to its imaging systems; and other risks detailed in Digirad's Securities and Exchange Commission filings, including its Annual Report on Form 10-K and other reports filed with the Securities and Exchange Commission. Given these uncertainties, readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. All forward-looking statements are qualified in their entirety by this cautionary statement and Digirad undertakes no obligation to revise or update this press release, including the forward-looking statements contained herein, to reflect events or circumstances after the date hereof or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

Digirad Corporation  
Condensed Consolidated Statements of Operations  
(In thousands, except per share amounts)  
(Unaudited)

Three Months Ended June 30,		Six Months Ended June 30,	
2006	2005	2006	2005
-----	-----	-----	-----

Revenues:

DIS	\$13,403	\$13,240	\$26,620	\$25,562
-----	----------	----------	----------	----------

Product	5,619	2,222	11,357	7,870
Total revenues	19,022	15,462	37,977	33,432
Cost of revenues:				
DIS	9,967	9,248	20,399	17,907
Product	3,383	2,803	7,513	6,957
Total cost of revenues	13,350	12,051	27,912	24,864
Gross profit	5,672	3,411	10,065	8,568
Operating expenses:				
Research and development	1,117	931	2,213	1,853
Sales and marketing	2,066	1,696	4,525	3,735
General and administrative	4,105	4,108	8,234	7,513
Amortization and impairment of intangible assets	20	18	29	34
Total operating expenses	7,308	6,753	15,001	13,135
Loss from operations	(1,636)	(3,342)	(4,936)	(4,567)
Interest and other, net	433	301	929	545
Net loss	\$(1,203)	\$(3,041)	\$(4,007)	\$(4,022)
Net loss per share - basic and diluted	\$(0.06)	\$(0.17)	\$(0.21)	\$(0.22)
Weighted average shares outstanding:				
Basic and diluted	18,761	18,367	18,736	18,237
Stock-based compensation expense is included in the above as follows:				
Cost of DIS revenue	\$71	\$27	\$91	\$61
Cost of Product revenue	\$23	\$11	\$41	\$36
Research and development	\$47	\$18	\$89	\$40
Sales and marketing	\$74	\$11	\$149	\$32
General and administrative	\$359	\$63	\$675	\$139

Digirad Corporation  
Condensed Consolidated Balance Sheets  
(in thousands)

	June 30, 2006	December 31, 2005(1)
	-----	-----
	(Unaudited)	
Assets		
Cash and cash equivalents	\$15,124	\$16,303
Securities available-for-sale	31,601	33,202
Accounts receivable, net	7,450	8,132
Inventories, net	5,193	5,136
Other current assets	1,698	1,687
	-----	-----
Total current assets	61,066	64,460
Property and equipment, net	9,322	9,582
Intangibles, net	446	402
Restricted cash	60	60
	-----	-----
Total assets	\$70,894	\$74,504
	-----	-----

Liabilities and stockholders' equity

Accounts payable	\$2,737	\$2,152
Accrued compensation	3,083	2,585
Accrued warranty	789	825
Other accrued liabilities	3,687	4,614
Deferred revenue	2,663	2,858
Current portion of long-term debt	414	766
	-----	-----
Total current liabilities	13,373	13,800
Long-term debt, net of current portion	229	368
Deferred rent	325	348
Total stockholders' equity	56,967	59,988
	-----	-----
Total liabilities and stockholders' equity	\$70,894	\$74,504
	=====	=====

(1) The condensed consolidated balance sheet as of December 31, 2005, has been derived from the audited financial statements as of that date.

CONTACT: Company Contact:  
Digirad Corporation  
Todd Clyde, 858-726-1600  
ir@digirad.com  
or  
Investor Contact:  
Neil Berkman Associates  
310-826-5051  
info@BerkmanAssociates.com