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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)

February 17, 2006

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

Delaware	000-50789	33-0145723
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(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS EmployerIdentification 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 (see General Instruction A.2. below):

- ☐ 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))

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Item 1.01. Entry into a Material Definitive Agreement

On February 16, 2006, the Board of Directors of Digirad Corporation (the ACompany@) approved a cash bonus pool for the year ended 2005 of sixty thousand dollars (\$60,000) for six senior executives, including Todd Clyde, the Company's Chief Financial Officer and Senior Vice President, Finance, Richard Conwell, the Company's Senior Vice President of Technology, and Vera Pardee, the Company's General Counsel and Senior Vice President, payable in the amount of ten thousand dollars (\$10,000) each.

Item 2.02. Results of Operations and Financial Condition.

On February 17, 2006, the Company issued a press release announcing financial results for the quarter and year ended December 31, 2005. 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
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99.1	Press Release dated February 17, 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

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Todd P. Clyde

Chief Financial Officer

Date: February 17, 2006

Digirad Reports Fourth Quarter and 2005 Results;  
Management Provides First Quarter and 2006 Guidance

POWAY, Calif.--(BUSINESS WIRE)--Feb. 17, 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 fourth quarter and 2005, and provided financial guidance for the first quarter and 2006.

"Fourth quarter revenues slightly exceeded our expectations, inventories declined, and our cash position increased compared to the third quarter. These are encouraging signs," said CEO Mark Casner. "Revenue and gross margin in our product business increased in the fourth quarter compared to the third quarter, although, as expected, growth in DIS, our mobile imaging services business, remained sluggish. We are optimistic that DIS will regain momentum beginning in the second half of 2006 as our expanded and refocused sales organization gains experience and our marketing initiatives gain traction."

#### Fourth Quarter Results

For the three months ended December 31, 2005, consolidated revenues were \$17.4 million. This compares to consolidated revenues of \$17.8 million for the fourth quarter of 2004.

DIS revenue increased slightly to \$12.0 million from \$11.8 million for the fourth quarter of 2004, but decreased sequentially compared to \$12.6 million for the third quarter of 2005. DIS service days for the fourth quarter of 2005 were 3,247 compared to 3,256 for the same period of 2004, reflecting a reduced pace of entering into new service contracts.

Product segment revenue, which includes sales of gamma cameras, upgrades, accessories and maintenance revenue, declined to \$5.4 million for the fourth quarter of 2005 as compared to \$6.0 million for the fourth quarter of 2004, but increased sequentially compared to \$4.7 million for the third quarter of 2005 and \$2.2 million for the second quarter of 2005.

Consolidated gross margin for the three months ended December 31, 2005 was 18.8% compared to 30.9% for the same period of 2004. DIS gross margin was 14.8% for the fourth quarter of 2005 compared to 27.6% for the same period of the prior year. DIS gross margin, before the \$1.0 million impact of the change in the depreciable life of the DIS fleet cameras in the fourth quarter of 2005, was 23.2%. The decline in adjusted DIS gross margin versus the prior year period primarily reflected a decline in both staff efficiency and DIS system utilization. Product segment gross margin was 28.1% for the fourth quarter of 2005 compared to 0.5% for the third quarter of 2005 and 38.1% for the fourth quarter of 2004. The decline in gross margin compared to the fourth quarter of 2004 was the result of fewer camera sales and lower production volumes.

The net loss for the fourth quarter of 2005 was \$2.8 million, or \$0.15 per share, including the \$1.0 million impact of the change in the depreciable life of the DIS fleet cameras. This compares to net income for the fourth quarter of 2004 of \$22,000, or \$0.00 per diluted share.

Cash and equivalents and securities available for sale at December 31, 2005 amounted to \$49.5 million, versus \$48.2 million at September 30, 2005 and \$55.6 million at December 31, 2004. Inventories declined to \$5.1 million at December 31, 2005 from \$6.5 million at September 30, 2005 and 7.0 million at December 31, 2004.

#### 2005 Results

For the twelve months ended December 31, 2005, consolidated revenues of \$68.2 million were essentially unchanged compared to 2004. DIS revenue increased 13% to \$50.2 million for 2005 from \$44.5 million for 2004. Product revenue declined to \$18.0 million from \$23.6 million. Overall gross margin for 2005 was 22.4% versus 31.9% for the prior year.

The net loss for 2005 was \$9.6 million, or \$0.52 per share. This compares to net income for 2004 of \$245,000, or \$0.01 per share, when calculated on a pro forma basis to account for the conversion of all preferred stock into common stock in Digirad's initial public offering.

#### Business Review

"I believe that Digirad is moving in the right direction," Casner

said. "In 2005 we broadened and deepened our management team and sales and marketing organization, and identified opportunities for enhancing our operating platform to increase operational efficiencies, increase labor utilization and reduce service costs. Although our work is not yet complete, we made great strides in building the organization we are striving for, and we believe we are setting the foundation for a return to sustainable revenue and profit growth.

"A key element of our strategy is to take advantage of the increased efficiency and potential for higher image quality of our advanced Cardius(R)-3 imaging system for nuclear cardiology. In our DIS business, we are rolling out our mobile Cardius-3M system to improve customer satisfaction as well as resource management and system utilization going forward. We see opportunities for expansion of our DIS business. For example, we currently are evaluating the potential to expand our mobile imaging services business beyond nuclear medicine to modalities such as echocardiography and vascular ultrasound.

"In our products business, the efficiency advantages of our Cardius-3 system continue to be well-received in the marketplace. To take advantage of the opportunity to increase our market position, we have launched a refocused and data-driven marketing program, and are making progress on our software and technical development efforts for our Cardius family of imaging products to offer improved image quality and reliability, improvements we expect to begin releasing to our customers in mid-2006.

"The mobility, small size and light weight of our products are important competitive advantages for Digirad that give us a solid foundation on which to build and should provide a variety of opportunities for growth in both our DIS and our product businesses. The key to our success is to effectively execute our strategy -- in sales and marketing, operations, and product development. Based on our accomplishments in 2005, I believe that Digirad is prepared to meet these challenges successfully."

#### First Quarter and 2006 Guidance

Digirad management currently expects consolidated revenues for the first quarter of 2006 to be between \$16.7 million and \$17.3 million, consisting of DIS revenue between \$12.0 million and \$12.3 million and product revenue between \$4.7 million and \$5.0 million. The consolidated loss for the first quarter currently is expected to be between \$3.1 million and \$3.4 million, before share-based compensation expense of an estimated \$700,000, or between \$3.8 million and \$4.1 million including the estimated share-based compensation expense.

"We currently expect Digirad's financial performance to improve by the end of 2006," Casner said.

For the year as a whole, management currently expects consolidated revenues to be between \$70.0 million and \$74.0 million, consisting of DIS revenue between \$49.0 million and \$51.0 million and product revenue between \$21.0 million and \$23.0 million. The consolidated loss for 2006 currently is expected to be between \$8.0 million and \$10.0 million, before an estimated \$2.6 million of share-based compensation expense, or between \$10.6 million and \$12.6 million including the estimated share-based compensation expense.

#### Management's Reasons for Presenting Non-GAAP Financial Measure

Digirad management evaluates and makes operating decisions using various measures. These measures are generally based on the revenues generated by its products and services and certain costs of producing that revenue, such as cost of product or services sales, research and development and selling, general and administrative expenses. One such measure is net income (loss), excluding share-based compensation expense under SFAS No. 123R, which is a non-GAAP financial measure under Section 101 of Regulation G under the Securities Exchange Act of 1934, as amended. Because share-based compensation expense is a non-cash accounting charge that the company was not required to record in past periods, we believe that its exclusion from net income (loss) provides useful supplemental information to our management and investors regarding the performance of our business operations and facilitates comparisons to our historical operating results. Our management also uses this information internally for forecasting and budgeting, as it believes that the measure is indicative of Digirad's core operating results. Note, however, that non-GAAP net income (loss) is a performance measure only, and it does not provide any measure of the company's cash flow or liquidity. Non-GAAP financial measures should not be considered as a substitute for measures of financial performance in accordance with GAAP.

Digirad has scheduled a conference call at 11:00 a.m. ET today. A simultaneous webcast 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 #4474380.

#### 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 a high quality image 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 and 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 Digirad's expected revenues and losses for the first quarter and full year of 2006, the expectation that its DIS business will regain momentum during the second half of 2006, its plans to expand its cardio imaging services to modalities beyond nuclear medicine, the expected mid-2006 release of improved image quality and reliability improvements in its Cardius family of products, and its expectations regarding its ability to achieve sustainable revenue and profit growth. 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 and improvements to its camera systems or new service offerings 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  
Consolidated Statements of Operations  
(In thousands, except per share amounts)

Three Months		Year	
Ended		Ended	
December 31,		December 31,	
2005	2004	2005	2004

Revenue:

DIS	\$12,028	\$11,781	\$ 50,194	\$44,505
Product	5,374	5,975	17,992	23,632
Total revenue	17,402	17,756	68,186	68,137
Cost of revenue:				
DIS	10,242	8,529	37,273	31,005
Product	3,864	3,696	15,511	14,992
Stock-based compensation	27	39	156	381
Total cost of revenue	14,133	12,264	52,940	46,378
Gross profit	3,269	5,492	15,246	21,759
Operating expenses:				
Research and development	968	785	3,680	2,982
Sales and marketing	1,854	2,135	7,374	7,626
General and administrative	3,607	2,604	14,675	9,769
Amortization and impairment of intangible assets	6	16	179	64
Stock-based compensation	59	126	341	736
Total operating expenses	6,494	5,666	26,249	21,177
Income (loss) from operations	(3,225)	(174)	(11,003)	582
Interest and other, net	455	196	1,384	(337)
Net income (loss)	(2,770)	22	(9,619)	245
Accretion of deferred issuance costs on preferred stock	--	--	--	(161)
Net income (loss) applicable to common stockholders	\$ (2,770)	\$ 22	\$ (9,619)	\$ 84
Net income (loss) per share(1):				
Historical - basic	\$ (0.15)	\$ 0.00	\$ (0.52)	\$ 0.01
Historical - diluted	\$ (0.15)	\$ 0.00	\$ (0.52)	\$ 0.01
Pro-forma - basic	\$ (0.15)	\$ 0.00	\$ (0.52)	\$ 0.02
Pro-forma - diluted	\$ (0.15)	\$ 0.00	\$ (0.52)	\$ 0.01
Shares used in per share calculations:				
Historical weighted average shares outstanding				
Basic	18,701	18,048	18,468	10,095
Diluted	18,701	19,398	18,468	16,963
Pro-forma weighted average shares outstanding				
Basic	18,701	18,048	18,468	15,584
Diluted	18,701	19,398	18,468	16,963

(1) As a result of the conversion of our preferred stock into 12.4 million shares of our common stock upon the completion of our initial public offering in June 2004 of 5,500,000 shares of our common stock, there is a lack of comparability in the basic and diluted net loss per share amounts for the periods presented above.

Digirad Corporation  
Consolidated Balance Sheets  
(in thousands, except par value amounts)

	December 31,	
Assets	2005	2004
Cash and cash equivalents	\$ 16,303	\$ 11,348
Securities available-for-sale	33,202	44,215
Accounts receivable, net	8,132	10,017
Inventories, net	5,136	6,980
Other current assets	1,687	1,620
Total current assets	64,460	74,180
Property and equipment, net	9,582	11,182
Intangibles, net	402	542
Restricted cash	60	120
Total assets	\$ 74,504	\$ 86,024

Liabilities and stockholder's equity

Accounts payable	\$	2,152	\$	4,313
Accrued compensation		2,585		2,410
Accrued warranty		825		1,219
Other accrued liabilities		4,614		2,651
Deferred revenue		2,858		2,344
Current portion of long-term debt		766		2,228

Total current liabilities		13,800		15,165
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Long-term debt, net of current portion		368		1,754
Other long-term liabilities		348		371

Stockholder's equity:

Preferred stock, \$0.0001 par value:

10,000 shares authorized at December 31, 2005 and 2004; no shares issued or outstanding at December 31, 2005 and 2004	--	--
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Common stock, \$0.0001 par value:

150,000 shares authorized at December 31, 2005 and 2004; 18,705 and 18,075 shares issued and outstanding at December 31, 2005 and 2004, respectively	2	2
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Additional paid-in capital	150,202	149,845
Accumulated other comprehensive loss	(221)	(97)
Deferred compensation	(279)	(920)
Accumulated deficit	(89,716)	(80,096)
Total stockholder's equity	59,988	68,734

Total liabilities and stockholder's equity	\$	74,504	\$	86,024
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 or

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