Digi International Reports Fiscal First Quarter 1999 Results

January 27, 1999

MINNEAPOLIS, Jan. 27 /PRNewswire/ -- Digi International Inc. (Nasdaq: DGII) today announced financial results for its fiscal first quarter, ended December 31, 1998.

Sales for the first quarter were $51.4 million compared to $42.6 million for the year-ago period. Net income was $1.4 million compared to $3.8 million reported for the fiscal first quarter of the previous year. Diluted earnings per share for the fiscal first quarter of l999 were $.09 compared to diluted earnings per share of $.27 for the year-ago period. Operating income was $2.9 million compared to $5.7 million for the fiscal first quarter of l998.

As the company indicated earlier, several factors impacted first quarter earnings. The company's current effective tax rate of 49 percent is significantly higher than the statutory tax rate, due primarily to the non-deductibility of the amortization of intangible assets and goodwill of approximately $1.25 million per quarter, associated with the acquisitions of Central Data Corporation and ITK International, Inc. in the fourth quarter of l998. In addition, operating expenses for the quarter were higher than expected because the process of reducing expenses associated with the acquisitions is taking longer than the company originally expected.

"While we are disappointed with our earnings performance for the first quarter of l999," said Jerry A. Dusa, president and chief executive officer of Digi International, "with deliberate and conscious effort we plan to reduce operating expenses going forward. However, we do not expect to see the benefit of these actions until the second half of our fiscal year."

The company also announced that it received further questions today from the staff of the Securities and Exchange Commission (SEC) about the company's write-offs of acquired in-process research and development in connection with the Central Data and ITK acquisitions. These comments were a follow-up to the company's earlier responses to a previously received first round of questions from the SEC staff on this subject. The company has not yet had an opportunity to evaluate the SEC's latest round of comments with its independent auditors and accordingly is not now in a position to comment further.

Digi International Inc. First Quarter 1999 Results

Three Months Ended December 31	1998	1997
Net sales	$51,395,021	$42,590,059
Cost of sales	24,904,314	21,221,314
Gross margin	26,490,707	21,368,745
Operating expenses:		
Sales & marketing	11,974,080	8,259,494
Research & development	6,476,216	3,810,900
General & administrative	5,152,291	3,610,125
Total operating expenses	23,602,587	15,680,519
Operating income	2,888,120	5,688,226
Other (expense) income, principally interest	(209,786)	268,885
Income before income taxes	2,678,334	5,957,111
Provision for income taxes	1,312,385	2,114,775
Net income	$1,365,949	$3,842,336
Net income per common share	$0.09	$0.28
Net income per common share, assuming dilution	$0.09	$0.27
Weighted average common shares	14,572,022	13,480,656
Weighted average common shares, assuming dilution	14,701,519	14,043,273

About Digi International

Digi International, based in Minneapolis, Minn., is a leading provider of data communications hardware and software that delivers seamless connectivity solutions for open systems, server-based remote access, Internet telephony, and LAN markets. The company markets its products through an international network of distributors and resellers, system integrators and original equipment manufacturers (OEMs). For more information, visit Digi's Web site at http://www.dgii.com or call 800-344-4273 (U.S) or 612-912-3444 (International).

Forward-Looking Statements:
This press release contains certain forward-looking statements that involve risks and uncertainties. Factors that could cause actual results to differ include but are not limited to the following:
-- The expectation that the company plans to reduce operating expenses
-- This expectation may be impacted by presently unanticipated expenses, delays in the integration and consolidation of the two acquisitions, general market or competitive conditions that may be encountered.
-- The expectation that the company's l999 effective tax rate will be 49 percent
-- This expectation may be impacted by the changes in the company's level of profitability.

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