



Digi International Reports 1999 Fiscal Fourth Quarter and Year-End Results; Exceeds Analysts' Consensus Earnings Estimate for Fiscal Fourth Quarter

November 11, 1999

MINNEAPOLIS, Nov. 11 /PRNewswire/ -- Digi International(R) Inc. (Nasdaq: DGII) announced today that its net income for the fiscal fourth quarter ended September 30, 1999, totaled \$2.7 million, or \$0.18 per diluted share, versus a net loss of \$15.0 million, or \$1.05 per diluted share, in the year-ago period. The fiscal fourth quarter net income exceeds the First Call consensus estimate of \$0.13 per diluted share. Income, excluding amortization of intangible assets acquired through business combinations, charges for acquired in-process research and development and related deferred tax benefits, increased 84% to \$4.6 million, or \$0.31 per diluted share in the fiscal fourth quarter of 1999, versus \$2.5 million or \$0.17 per diluted share, in the year ago period. Revenue for the fourth quarter of fiscal 1999 totaled \$48.3 million, which was equivalent to \$48.8 million in the year-ago period, but reductions in certain manufacturing and other operating costs and charges for acquired in-process taken in fiscal 1998 allowed the Company to achieve operating income of \$6.7 million for the quarter versus an operating loss of \$14.7 million in the comparable quarter of 1998.

Fiscal 1999 Results

For the 1999 fiscal year, net income increased to \$3.2 million, or \$0.22 per diluted share, versus a net loss of \$71,000, or \$.01 per diluted share in fiscal 1998. Income, excluding amortization of intangible assets acquired through business combinations, charges for acquired in-process research and development and related deferred tax benefits, totaled \$11.1 million, or \$0.75 per diluted share in fiscal 1999, versus \$17.7 million or \$1.24 per diluted share in fiscal 1998. Revenue increased 6% in fiscal 1999 to \$194 million versus \$183 million in fiscal 1998. Digi's effective income tax rate decreased from 66% through the first three quarters of fiscal 1999 to 60% on a year-to-date basis due to higher than anticipated pre-tax income during the fourth quarter and the Federal tax benefit of increased foreign sales.

"We have made significant progress during 1999, including stabilizing the Company, reducing expenses and improving operating efficiencies. Our gross margin, for example, increased 200 basis points to 54.0% in the fiscal 1999 fourth quarter versus the prior year fourth quarter," stated Digi Chairman, John Schinas. Digi's fourth quarter revenues were essentially flat year over year, while our profitability is dramatically improved. Digi expects the ramp-up in our new RAS product line to fuel growth in the future.

Market Opportunity

While traditional RAS applications are expected to be the primary growth driver of Digi revenue, the Company also expects to introduce enhanced multifunction features to the RAS products that will be competitive in the Computer Telephony Integration (CTI) market.

New RAS product sales, which include the Datafire(R) and AccelePort(R) products, increased 68% to \$4.2 million in the 1999 fourth quarter versus \$2.5 million in the third quarter of fiscal 1999. The Company anticipates greater sales of these products for fiscal 2000 as Digi sees the benefits of the product line's marketing rollout.

The continued convergence of data and voice networks, eventually residing on a common infrastructure of the computer server, should greatly expand Digi's potential market as we expect to enhance our existing DataFire and AccelePort product lines during fiscal year 2000 to support telephony functions.

The combined calendar year 2000 RAS and CTI markets represent an estimated \$1.2 billion opportunity, growing at 32% annually, according to International Data Corporation (IDC). The open systems RAS adapter market is estimated to grow to \$750 million in 2002, while the market for multifunction, open systems CTI adapters, as measured by Frost and Sullivan, is expected to be \$2.0 billion by 2004.

New President & Chief Executive Officer

As previously announced, the Company has elected Joseph T. Dunsmore as its new President and Chief Executive Officer. He has relocated to the Minneapolis area and assumed his duties on a full-time basis on November 8. Mr. Dunsmore stated, "I am looking forward to the opportunities at Digi. The Company's people and reputation are a great foundation to build on. We will position the Company for growth in the future."

About Digi International

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

DIGI INTERNATIONAL INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS AND TWELVE MONTHS ENDED SEPTEMBER 30, 1999 AND 1998

Three months ended Sept 30 Twelve months ended Sept 30

	1999	1998	1999	1998
Net sales	\$48,335,024	\$48,833,351	\$193,506,059	\$182,931,670
Cost of sales	22,257,876	23,434,457	95,313,636	88,539,156
Gross margin	26,077,148	25,398,894	98,192,423	94,392,514
Operating expenses:				
Sales and marketing	8,733,748	10,984,904	41,002,559	37,288,027
Research and development	6,319,662	5,076,455	24,689,228	16,963,410
General and administrative	4,531,325	6,986,040	23,657,586	17,011,504
Acquired in-process research and development	--	16,064,933	--	16,064,933
Restructuring	(160,114)	1,020,000	607,398	1,020,000
Total operating expenses	19,424,621	40,132,332	89,956,771	88,347,874
Operating income (loss)	6,652,527	(14,733,438)	8,235,652	6,044,640
Other (expense) income, net	(75,270)	341,016	(256,320)	1,818,286
AetherWorks Corporation gain	--	--	--	1,350,000
Income (loss) before income taxes	6,577,257	(14,392,422)	7,979,332	9,212,926
Provision for income taxes	3,862,229	597,254	4,787,599	9,284,020
Net income (loss)	\$2,715,028	\$(14,989,676)	\$3,191,733	\$(71,094)
Net income (loss) per common share, basic	\$0.18	\$(1.05)	\$0.22	\$(0.01)
Net income (loss) per common share, assuming dilution	\$0.18	\$(1.05)	\$0.22	\$(0.01)
Weighted average common shares	14,906,503	14,318,462	14,696,057	13,729,765
Weighted average common shares, assuming dilution	15,078,480	14,318,462	14,831,242	13,729,765

Net income and net income per diluted share excluding acquisition related amortization of intangible assets, acquired in-process research and development, and related deferred tax benefit.

	Three months ended Sept 30		Twelve months ended Sept 30	
	1999	1998	1999	1998
Net income (loss)	\$2,715,028	\$(14,989,676)	\$3,191,733	\$(71,094)
Amortization of acquisition related intangible assets	2,499,798	1,866,767	10,332,110	2,193,647
Acquired in-process research and development	--	16,064,933	--	16,064,933
Deferred tax benefit	(596,700)	(461,067)	(2,386,800)	(461,067)
Net income excluding				

acquisition related amortization of intangible assets, acquired in-process research and development, and related deferred tax benefit	\$4,618,126	\$2,480,957	\$11,137,043	\$17,726,419
Diluted earnings per share	\$0.31	\$0.17	\$0.75	\$1.24
Weighted average common shares, assuming dilution	15,078,480	14,816,772	14,831,242	14,321,970

Digi, Digi International, the Digi logo, and DataFire and AccelePort are trademarks or registered trademarks of Digi International Inc. in the United States and other countries. All other brand names and product names are trademarks or registered trademarks of their respective companies.

This press release contains statements that constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which generally can be identified by the use of forward-looking terminology such as "anticipate," "believe," "target," "estimate," "may," "will," "expect," "plan," "project," "should," or "continue" or the negative thereof or other variations thereon or similar terminology. Such statements are based on information available to management as of the time of such statements and relate to, among other things, expectations of the business environment in which the Company operates, projections of future performance, perceived opportunities in the market and statements regarding the Company's mission and vision. Such statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, including risks related to the highly competitive market in which the Company operates; rapid changes in technologies that may displace products sold by the Company, declining prices of networking products, the Company's reliance on distributors, delays in the Company's product development efforts, uncertainty in consumer acceptance of the Company's products, and changes in the Company's level of revenue or profitability. These and other risks, uncertainties and assumptions identified from time to time in the Company's filings with the Securities and Exchange Commission, including without limitation, its annual reports on Form 10-K and its quarterly reports on Form 10-Q, could cause the Company's future results to differ materially from those expressed in any forward-looking statements made by or on behalf of the Company. Many of such factors are beyond the Company's ability to control or predict. These forward-looking statements speak only as of the date for which they are made. The Company disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

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