
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 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) April 14, 2005

Digi International Inc.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction
of incorporation)

0-17972

(Commission File Number)

41-1532464

(IRS Employer
Identification No.)

**11001 Bren Road East
Minnetonka, Minnesota**

(Address of principal executive offices)

55343

(Zip Code)

Registrant's telephone number, including area code

(952) 912-3444

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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TABLE OF CONTENTS

[Item 2.02. Results of Operations and Financial Condition.](#)

[Item 9.01. Financial Statements and Exhibits.](#)

[SIGNATURES](#)

[EXHIBIT INDEX](#)

[Press Release](#)

[Table of Contents](#)Item 2.02. Results of Operations and Financial Condition.

On April 14, 2005, Digi International Inc. (the "Company") reported its financial results for the second quarter of 2005. See the Company's press release dated April 14, 2005, which is furnished as Exhibit 99 and incorporated by reference in this Current Report on Form 8-K.

NON-GAAP FINANCIAL MEASURES

The press release furnished as Exhibit 99 and certain information the Company intends to disclose on the conference call scheduled for 5:00 p.m. eastern time on April 14, 2005 include certain non-GAAP financial measures. These measures include net income excluding favorable tax settlement, net income per diluted share excluding favorable tax settlement and operating income before amortization. The reconciliations of these measures to the most directly comparable GAAP financial measures are provided in the earnings release or are included below.

**Reconciliation of Reported Net Income to Net Income Excluding Favorable Tax Settlement
(in thousands)**

| | Three months ended March 31, 2005 | Six months ended March 31, 2005 |
|---|--------------------------------------|------------------------------------|
| Net income as reported | \$ 8,799 | \$ 11,760 |
| Impact of favorable tax settlement | (5,689) | (5,689) |
| Net income, excluding favorable tax settlement | \$ 3,110 | \$ 6,071 |
| Net income, excluding favorable tax settlement, as a percent of net sales | 10.6% | 10.3% |
| Net sales | \$ 29,312 | \$ 58,782 |

**Reconciliation of Reported Operating Income to Operating Income Before Amortization
(in thousands)**

| | Three months ended March 31, 2005 | Six months ended March 31, 2005 |
|--|--------------------------------------|------------------------------------|
| Operating income as reported | \$ 4,196 | \$ 8,297 |
| Intangibles amortization | 1,209 | 2,534 |
| Operating income before amortization | \$ 5,405 | \$ 10,831 |
| Operating income before amortization as a percent of net sales | 18.4% | 18.4% |
| Net sales | \$ 29,312 | \$ 58,782 |

With respect to the measures that exclude the favorable tax settlement, management believes that excluding this one-time non-recurring item provides useful information to investors regarding the Company's results of operations and financial condition and permits a more meaningful comparison and understanding of the Company's operating performance. With respect to operating income before amortization, management believes that this measure more accurately focuses on the costs that can be meaningfully controlled by the Company, and therefore permits a more meaningful comparison of operating income. Management uses these non-GAAP measures to monitor and evaluate ongoing operating results and trends and to gain an understanding of the comparative operating performance of the Company.

[Table of Contents](#)

Item 9.01. Financial Statements and Exhibits.

The following Exhibit is being furnished herewith:

99 Press Release dated April 14, 2005.

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, thereunto duly authorized.

DIGI INTERNATIONAL INC.

Date: April 14, 2005

By /s/ Subramanian Krishnan
Subramanian Krishnan
Senior Vice President, Chief Financial Officer and
Treasurer

EXHIBIT INDEX

| <u>No.</u> | <u>Exhibit</u> | <u>Manner of Filing</u> |
|------------|-------------------------------------|-------------------------|
| 99 | Press Release dated April 14, 2005. | Filed Electronically |



**Digi International Reports Fiscal Second Quarter 2005 Revenue Growth of 7.2%
over Second Quarter 2004**

Operating Income Increases 73% over Second Quarter 2004

(Minneapolis, April 14, 2005) - Digi International® Inc. (NASDAQ: DGII) today reported revenue of \$29.3 million for the second fiscal quarter of 2005 compared to \$27.3 million in the second fiscal quarter of 2004, or an increase of 7.2%, within management's previously announced guidance of \$29.0 — \$30.0 million.

Device Networking Solutions products, which include NetSilicon and the device server product lines, contributed \$10.1 million in revenue in the second quarter of fiscal 2005 compared to \$9.0 million in the second quarter of fiscal 2004, or an increase of 11.7%. Revenue from Connectivity Solutions products was \$19.2 million in the second fiscal quarter of 2005, compared to \$18.3 million of revenue in the second fiscal quarter of 2004, or an increase of 5.0%.

Digi reported net income of \$8.8 million for the second fiscal quarter of 2005, or \$0.37 per diluted share, compared to net income of \$1.7 million, or \$0.08 per diluted share during the second fiscal quarter of 2004. During the second quarter of fiscal 2005, as a result of a settlement with the Internal Revenue Service on an audit of prior fiscal years, Digi recorded a reversal of \$5.7 million of previously established income tax reserves, equating to \$0.24 per diluted share positive impact. Earnings per diluted share of \$0.37 are within the range of management's previously increased guidance of \$0.36 — \$0.38. Excluding the impact of the favorable tax settlement, Digi's earnings per diluted share for the second fiscal quarter of 2005 would have been \$0.13, or an increase of 62.5% over the prior year comparable quarter diluted earnings per share.

The gross profit in the second fiscal quarter of 2005 was \$18.0 million, or 61.4% of net sales, compared to \$16.5 million, or 60.5% of net sales, in the second fiscal quarter of 2004. The increase in 2005 is due primarily to favorable product mix and cost reductions in certain product lines.

Total operating expenses in the second fiscal quarter of 2005 were \$13.8 million, or 47.0% of net sales, compared to \$14.1 million, or 51.6% of net sales, in the second fiscal quarter of 2004.

Operating income in the second fiscal quarter of 2005 was \$4.2 million, or 14.3% of net sales, compared to \$2.4 million, or 8.9% of net sales, in the second fiscal quarter of 2004.

Operating income for the second fiscal quarter of 2005 increased by 73% over operating income of the comparable quarter of the prior fiscal year.

For the six months ended March 31, 2005, Digi reported revenue of \$58.8 million compared to revenue of \$53.6 million for the six months ended March 31, 2004, or an increase of 9.6%. For the six months ended March 31, 2005, Digi reported net income of \$11.8 million, or \$0.50 per diluted share, compared to net income of \$3.4 million, or \$0.16 per diluted share, for the six months ended March 31, 2004. Excluding the impact of the favorable tax settlement, earnings per diluted share would have been \$0.26 for the first six months of fiscal 2005, or an increase of 62.5% over earnings per diluted share for the first six months of the prior fiscal year.

Digi's cash and cash equivalents and marketable securities balance at the end of the quarter was \$87.6 million, an increase of \$4.6 million from the end of the prior quarter. Days sales outstanding (DSO) was at 32 days for the second fiscal quarter of 2005, consistent with the previous quarter. Digi's cash per share at March 31, 2005, defined as cash and cash equivalents and marketable securities divided by shares outstanding of 22,554,485, was \$3.88. Tangible book value per share at March 31, 2005, defined as stockholders' equity less net identifiable intangible assets and goodwill divided by shares outstanding of 22,554,485, was \$5.75.

"I am very satisfied with our financial performance for the quarter, given the somewhat tighter operating environment," said Joe Dunsmore, Chairman, President and CEO of Digi.

"Our product launches into the cellular and core module market segments are significant events that will fuel future revenue growth," he added.

Highlights of the quarter

Core Module Announcements

- Digi introduced the ConnectCore™ 9C, the industry's first network-optimized Arm-9 based 32-bit core module. The ConnectCore™ 9C is a powerful, compact 32-bit core module in a universal SO-DIMM form factor that enables customers to easily design in main processing functionality with Ethernet networking capabilities in a single high-performance solution.
 - Digi acquired FS Forth-Systeme GmbH and Sistemas Embebidos S.A, both leading providers of embedded modules and software, for the rapidly expanding embedded networking market. The addition of FS Forth and Sistemas Embebidos immediately adds a wide range of commercially available, embedded networking modules based on NET+ARM™ and other architectures with supporting embedded software to Digi's embedded product portfolio. The acquisition enhances Digi's position in the networked core module business with the ability to target Linux, Windows CE and VXWorks® applications in addition to NET+O/S. A deposit of \$4.4 million was paid to FS Forth-Systeme and Sistemas Embebidos on March 30, 2005. The effective date of the acquisition was April 1, 2005.
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Cellular Announcements

- Digi announced the introduction of the Digi Connect@WAN GSM which provides Ethernet-to-wireless IP connectivity to remote sites and devices via the cellular GSM network. The Digi Connect WAN@ GSM is the industry's first commercially available gateway to provide high-speed wireless GSM connections for remote mission-critical data operations. It creates a diverse WAN connection so that when primary wired connections are unavailable, mission-critical data continues to flow through the wireless connection. The product also provides reliable primary communications for remote locations.
- Digi introduced the Digi Connect@ Remote Gateway (RG) GSM, the industry's first serial-to-wireless GSM EDGE gateway that connects remote serial devices via Cingular's high speed wireless GSM network. The Digi Connect@ RG GSM provides a cost effective and widely available connectivity alternative for devices with serial ports, such as power meters, Remote Terminal Units (RTUs), traffic controllers, security panels, industrial Programmable Logic Controllers (PLCs) and more.

Other Announcements

- NetSilicon, Inc., a subsidiary of Digi, announced the release to volume production of the NS9360, its latest NET+ARM microprocessor which is now fully supported by NET+Works® 6.2, the enhanced version of NetSilicon's software suite. Designed as a high performance, single-chip solution for networking embedded devices, the NS9360 is the third of NetSilicon's ARM9-based NET+ARM processors. It reduces cost and device footprint while at the same time improving design functionality.

Third Quarter and Fiscal 2005 Guidance

Digi expects third quarter 2005 revenue to be in the range of \$29.3 million to \$30.8 million and anticipates earnings per diluted share to be in the range of \$0.13 to \$0.15.

For the full fiscal year 2005, Digi continues to expect an increase in revenue over fiscal year 2004 revenue in excess of 10%. As previously announced, Digi expects full fiscal year 2005 earnings per diluted share to increase in excess of 95% over fiscal year 2004, including the reversal of previously established income tax reserves equating to \$0.24 per diluted share associated with the settlement of an audit of prior fiscal years.

**Reconciliation of Reported Net Income Per Diluted Share to
Net Income Per Diluted Share Excluding Favorable Tax Settlement**
(in thousands, except per share amounts)

| | <u>Three months ended</u> March 31, 2005 | <u>Six months ended</u> March 31, 2005 |
|--|---|---|
| Net income as reported | 8,799 | 11,760 |
| Impact of favorable tax settlement | (5,689) | (5,689) |
| Net income, excluding favorable tax settlement | <u>\$ 3,110</u> | <u>\$ 6,071</u> |
| Net income per diluted share, as reported | \$ 0.37 | 0.50 |
| Impact of favorable tax settlement per diluted share | (0.24) | (0.24) |
| Net income per diluted share, excluding favorable tax settlement | <u>\$ 0.13</u> | <u>\$ 0.26</u> |
| Weighted average common shares, diluted | <u>23,616</u> | <u>23,459</u> |

Second Quarter Fiscal 2005 Conference Call Details

Digi invites all those interested in hearing management's discussion of the quarter to attend our second fiscal quarter 2005 conference call, scheduled for Thursday, April 14, 2005, at 4:00 p.m. CT, either by phone or on the Web. Participants can access the call directly at 1-800-576-7258. International participants may access the call by dialing 212-676-4918. A replay will be available for one week following the call by dialing 1-800-633-8284 for domestic participants or 402-977-9140 for international participants and entering access code 21238009 when prompted. Participants may also access a live web cast of the conference call through the investor relations section of Digi's Web site, www.digi.com.

About Digi International

Digi International, based in Minneapolis, makes device networking easy by developing products and technologies that are cost effective and easy to use. Digi markets its products through a global network of distributors and resellers, systems integrators and original equipment manufacturers (OEMs). For more information, visit Digi's web site at www.digi.com, or call 800-344-4273 (U.S.) or 952-912-3444 (International).

Digi, Digi International, and the Digi logo 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 owners.

Forward-looking Statements

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, changes in the Company's level of revenue or profitability, and acquisitions the Company has made or will make that could disrupt its business and harm its financial condition. 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 report on Form 10-K for the year ended September 30, 2004 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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Digi International Inc.
Condensed Consolidated Statement of Operations
(In thousands, except per share amounts)
(Unaudited)

| | Three months ended | | Six months ended | |
|---|--------------------|----------------|------------------|----------------|
| | March 31, 2005 | March 31, 2004 | March 31, 2005 | March 31, 2004 |
| Net sales | \$ 29,312 | \$ 27,339 | \$ 58,782 | \$ 53,646 |
| Cost of sales | 11,328 | 10,804 | 22,487 | 21,007 |
| Gross profit | 17,984 | 16,535 | 36,295 | 32,639 |
| Operating expenses: | | | | |
| Sales and marketing | 6,411 | 6,425 | 12,854 | 12,501 |
| Research and development | 3,820 | 4,453 | 8,072 | 8,964 |
| General and administrative | 2,348 | 1,923 | 4,538 | 3,862 |
| Intangibles amortization | 1,209 | 1,314 | 2,534 | 2,613 |
| Total operating expenses | 13,788 | 14,115 | 27,998 | 27,940 |
| Operating income | 4,196 | 2,420 | 8,297 | 4,699 |
| Other income, net | 312 | (6) | 502 | 68 |
| Income before income taxes | 4,508 | 2,414 | 8,799 | 4,767 |
| Income tax (benefit) provision | (4,291) | 676 | (2,961) | 1,382 |
| Net income | \$ 8,799 | \$ 1,738 | \$ 11,760 | \$ 3,385 |
| Net income per common share, basic | \$ 0.39 | \$ 0.08 | \$ 0.53 | \$ 0.16 |
| Net income per common share, diluted | \$ 0.37 | \$ 0.08 | \$ 0.50 | \$ 0.16 |
| Weighted average common shares, basic | 22,477 | 21,091 | 22,277 | 20,793 |
| Weighted average common shares, diluted | 23,616 | 22,005 | 23,459 | 21,645 |

Digi International Inc.
Condensed Consolidated Balance Sheets
(In thousands)

| | <u>March 31, 2005</u> (unaudited) | <u>September 30, 2004</u> |
|--|--------------------------------------|---------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 19,970 | \$ 19,528 |
| Marketable securities | 60,090 | 59,639 |
| Accounts receivable, net | 13,159 | 10,555 |
| Inventories, net | 11,215 | 11,231 |
| Other | 6,366 | 4,315 |
| Total current assets | 110,800 | 105,268 |
| Marketable securities, long-term | 7,545 | 2,500 |
| Property, equipment and improvements, net | 17,971 | 18,634 |
| Identifiable intangible assets and goodwill, net | 17,605 | 20,233 |
| Net deferred tax assets | 4,728 | 3,013 |
| Deposit on business acquisition | 4,400 | — |
| Other | 666 | 817 |
| Total assets | \$ 163,715 | \$ 150,465 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 4,839 | \$ 4,945 |
| Accrued expenses | 7,807 | 9,126 |
| Income taxes payable | 3,828 | 9,107 |
| Total current liabilities | 16,474 | 23,178 |
| Net deferred tax liabilities | — | 208 |
| Total liabilities | 16,474 | 23,386 |
| Total stockholders' equity | 147,241 | 127,079 |
| Total liabilities and stockholders' equity | \$ 163,715 | \$ 150,465 |

Digi International Inc.
Condensed Consolidated Statement of Cash Flows
(in thousands)
(Unaudited)

| | Three months ended March 31, 2005 | Six months ended March 31, 2005 |
|--|--------------------------------------|------------------------------------|
| Operating activities: | | |
| Net income | \$ 8,799 | \$ 11,760 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation of property, equipment and improvements | 596 | 1,161 |
| Amortization of identifiable intangible assets and other assets | 1,456 | 3,028 |
| Tax benefit related to the exercise of stock options | 477 | 1,986 |
| Other | 17 | (167) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,060) | (2,089) |
| Inventories | 1,172 | (169) |
| Other assets | 10 | (1,035) |
| Accounts payable and accrued expenses | 568 | (1,707) |
| Income taxes payable | (2,304) | (5,283) |
| Net deferred tax assets | (2,546) | (3,060) |
| Total adjustments | (1,614) | (7,335) |
| Net cash provided by operating activities | 7,185 | 4,425 |
| Investing activities: | | |
| Settlement (purchase) of held-to-maturity marketable securities, net | 2,921 | (5,496) |
| Purchase of property, equipment, improvements and certain other intangible assets | (137) | (333) |
| Deposit on business acquisition | (4,400) | (4,400) |
| Net cash used in investing activities | (1,616) | (10,229) |
| Financing activities: | | |
| Proceeds from stock option plan transactions | 1,512 | 5,072 |
| Proceeds from employee stock purchase plan transactions | 231 | 411 |
| Net cash provided by financing activities | 1,743 | 5,483 |
| Effect of exchange rate changes on cash and cash equivalents | 258 | 763 |
| Net increase in cash and cash equivalents | 7,570 | 442 |
| Cash and cash equivalents, beginning of period | 12,400 | 19,528 |
| Cash and cash equivalents, end of period | <u>\$ 19,970</u> | <u>\$ 19,970</u> |