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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

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**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 17, 2006

**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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### Item 2.02. Results of Operations and Financial Condition.

On April 17, 2006, Digi International Inc. (the "Company") reported its financial results for the second quarter of fiscal 2006. See the Company's press release dated April 17, 2006, 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 17, 2006 include certain non-GAAP financial measures. These measures include (i) earnings per diluted share excluding the impact of stock-based compensation expense, (ii) earnings per diluted share excluding the impact of the favorable tax settlement, (iii) earnings before taxes, depreciation and amortization and (iv) guidance disclosed by the Company related to earnings per diluted share excluding the impact of stock-based compensation expense. The reconciliations of these measures to the most directly comparable GAAP financial measures are included in the earnings release and/or are included below.

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. Management believes that earnings before taxes, depreciation and amortization helps investors compare operating results and corporate performance exclusive of the impact of the Company's capital structure and the method by which assets were acquired. Management believes that providing earnings per diluted share exclusive of the impact of stock-based compensation expense, both on a historical basis and with respect to the Company's guidance, allows investors to compare results and expected results with results for prior periods that did not include stock-based compensation expense. Management uses these various 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.

**Reconciliation of Reported Earnings Per Diluted Share to Earnings Per Diluted Share  
Excluding Stock-Based Compensation Expense and One-time Reversal of Tax Reserves  
(in thousands, except per share amounts)**

	Three months ended		Six months ended	
	March 31, 2006	March 31, 2005	March 31, 2006	March 31, 2005
Gross profit, before stock-based compensation expense	\$ 19,509	\$ 17,984	\$ 38,894	\$ 36,295
Stock-based compensation expense	23	—	42	—
Gross profit	<u>\$ 19,486</u>	<u>\$ 17,984</u>	<u>\$ 38,852</u>	<u>\$ 36,295</u>
Total operating expenses, before stock-based compensation expense	15,665	13,788	31,639	27,998
Stock-based compensation expense	609	—	1,122	—
Total operating expenses	<u>16,274</u>	<u>13,788</u>	<u>32,761</u>	<u>27,998</u>
Operating income	<u>\$ 3,212</u>	<u>\$ 4,196</u>	<u>\$ 6,091</u>	<u>\$ 8,297</u>
Income before income taxes	\$ 3,766	\$ 4,508	\$ 6,977	\$ 8,799
Income taxes impact of stock-based compensation expense	209	—	384	—
One-time reversal of previously established tax reserves	—	(5,688)	—	(5,688)
Income tax provision	<u>990</u>	<u>1,397</u>	<u>1,843</u>	<u>2,727</u>
Net income	<u>\$ 2,567</u>	<u>\$ 8,799</u>	<u>\$ 4,750</u>	<u>\$ 11,760</u>
Net income per common share, basic	<u>\$ 0.11</u>	<u>\$ 0.39</u>	<u>\$ 0.21</u>	<u>\$ 0.53</u>
Net income per common share, diluted	<u>\$ 0.11</u>	<u>\$ 0.37</u>	<u>\$ 0.20</u>	<u>\$ 0.50</u>
Impact of stock-based compensation expense, basic	<u>\$ 0.02</u>	<u>\$ —</u>	<u>\$ 0.03</u>	<u>\$ —</u>
Impact of stock-based compensation expense, diluted	<u>\$ 0.02</u>	<u>\$ —</u>	<u>\$ 0.04</u>	<u>\$ —</u>
Impact of one-time reversal of previously established tax reserves, basic	<u>\$ —</u>	<u>\$ (0.25)</u>	<u>\$ —</u>	<u>\$ (0.26)</u>
Impact of one time reversal of previously established tax reserves, diluted	<u>\$ —</u>	<u>\$ (0.24)</u>	<u>\$ —</u>	<u>\$ (0.24)</u>
Net income per common share, basic, excluding stock-based compensation expense	<u>\$ 0.13</u>	<u>\$ —</u>	<u>\$ 0.24</u>	<u>\$ —</u>
Net income per common share, diluted, excluding stock-based compensation expense	<u>\$ 0.13</u>	<u>\$ —</u>	<u>\$ 0.24</u>	<u>\$ —</u>
Net income per common share, basic, adjusted for impact of one-time reversal of previously established income tax reserves	<u>\$ —</u>	<u>\$ 0.14</u>	<u>\$ —</u>	<u>\$ 0.27</u>
Net income per common share, diluted, adjusted for impact of one-time reversal of previously established income tax reserves	<u>\$ —</u>	<u>\$ 0.13</u>	<u>\$ —</u>	<u>\$ 0.26</u>
Weighted average common shares, basic	<u>23,001</u>	<u>22,477</u>	<u>22,890</u>	<u>22,277</u>
Weighted average common shares, diluted	<u>23,687</u>	<u>23,645</u>	<u>23,609</u>	<u>23,473</u>

**Reconciliation of Reported Diluted Earnings per Share Guidance for Fiscal 2006 to  
Diluted Earnings per Share, Excluding the Impact of Stock-Based Compensation Expense**

	Q3 2006 - Estimated Range for EPS Guidance		Fiscal 2006 - Estimated Range for EPS Guidance	
	Low	High	Low	High
Reported diluted earnings per share anticipated for Q3 2006 and fiscal 2006	\$ 0.08	\$ 0.14	\$ 0.40	\$ 0.52
Estimated impact of stock-based compensation expense in Q3 2006 and fiscal 2006	0.02	0.02	0.08	0.08
Diluted earnings per share anticipated for fiscal 2006, excluding the impact of estimated stock-based compensation expense	<u>\$ 0.10</u>	<u>\$ 0.16</u>	<u>\$ 0.48</u>	<u>\$ 0.60</u>

**Reconciliation of Income before Income Taxes to Earnings before Taxes, Depreciation and Amortization  
(In thousands of dollars and as a percent of Net Sales)**

	For the three months ended March 31, 2006	% of net sales
Net sales	\$ 34,380	100.0%
Income before income taxes	\$ 3,766	11.0%
Depreciation and amortization	2,578	7.5%
Earnings before taxes, depreciation, and amortization	<u>\$ 6,344</u>	<u>18.5%</u>

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Item 9.01. Financial Statements and Exhibits.

The following Exhibit is furnished herewith:

99 Press Release dated April 17, 2006 announcing financial results for the second quarter of fiscal 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, thereunto duly authorized.

DIGI INTERNATIONAL INC.

Date: April 17, 2006

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 17, 2006 announcing financial results for the second quarter of fiscal 2006.	Filed Electronically



### **Digi International Reports Second Quarter 2006 Revenue Growth of 17.3% Over Second Quarter 2005**

(Minneapolis, MN, April 17, 2006) - Digi International® Inc. (NASDAQ: DGII) reported revenue of \$34.4 million for the second fiscal quarter of 2006 compared to \$29.3 million for the same quarter of fiscal 2005, an increase of \$5.1 million, or 17.3%. The increase in revenue in the second quarter of fiscal 2006 was primarily attributable to revenue from acquired products, offset partially by a decline in certain mature product lines.

Gross profit margin in the second fiscal quarter of 2006 was 56.7% compared to 61.4% in the second fiscal quarter of 2005. Gross margins were less than the comparable quarter of 2005, impacted by Rabbit® product sales, which carry a lower gross profit margin, and product mix changes between the mature product lines and growth product lines.

Total operating expenses in the second quarter of fiscal 2006 were \$16.3 million compared to \$13.8 million in the second quarter of fiscal 2005. The increase in operating expenses in the second fiscal quarter of 2006 was primarily attributable to acquisitions which were completed in the third fiscal quarter of 2005. Digi also recorded a \$0.6 million pre-tax charge in the second fiscal quarter of 2006 for stock-based compensation as a result of the adoption of Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" (FAS 123R) in the first quarter of fiscal 2006.

Digi reported net income of \$2.6 million for the second quarter of fiscal 2006, or \$0.11 per diluted share, compared to \$8.8 million for the second quarter of fiscal 2005, or \$0.37 per diluted share. Stock-based compensation expense reduced earnings per diluted share by \$0.02 for the second fiscal quarter of 2006. Earnings per diluted share, excluding the impact of stock-based compensation expense, were \$0.13. Also, 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. 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.

For the six months ended March 31, 2006, Digi reported revenue of \$67.8 million compared to revenue of \$58.8 million for the six months ended March 31, 2005, or an increase of 15.3%. For the six months ended March 31, 2006, Digi reported net income of \$4.8 million, or \$0.20 per diluted share, compared to net income for the six months ended March 31, 2005, of \$11.8 million, or \$0.50 per diluted share. Stock-based compensation expense reduced earnings per diluted share by \$0.04 for the first six months of fiscal 2006. Earnings per diluted share, excluding the impact of stock-based

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compensation expense, were \$0.24 for the first six months of fiscal 2006. 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.

Digi's current ratio is 5.0 to 1, and the Company has no debt other than capital lease obligations. Digi's cash and cash equivalents and marketable securities balance at the end of the second quarter was \$60.0 million, an increase of \$6.2 million from the end of the prior quarter. Days sales outstanding (DSO) was at 33 days in the second quarter of fiscal 2006. Digi's cash per share on March 31, 2006, defined as cash and cash equivalents and marketable securities divided by shares outstanding as of March 31, 2006 of 23,072,459, was \$2.60. Tangible book value per share at March 31, 2006, defined as total stockholders' equity less net identifiable intangible assets and goodwill divided by shares outstanding as of March 31, 2006 of 23,072,459, was \$4.38.

"It was a challenging quarter and I am satisfied with our results," said Joe Dunsmore, Digi's chief executive officer. "Importantly, we also made very good progress on our strategic growth initiatives during the quarter."

### **Second Quarter Highlights**

- Digi made significant progress during the quarter on carrier certifications for the Connect WAN family of wireless/cellular products. To date the Connect WAN is certified on seven carrier networks spanning both GSM and CDMA technologies, including Cingular, Sprint, Midwest Wireless, Centennial Wireless, Alltel Wireless, T-Mobile, and Rogers Wireless.
- Digi introduced the ConnectCore XP, the newest member of the ConnectCore module family. The module combines the latest generation Intel® XScale PXA270 processor, integrated Ethernet networking capabilities, and extensive peripheral support in a compact package, making it a powerful solution for demanding embedded applications. Full support for Linux and Windows CE is available.
- Rabbit announced the availability of the Rabbit 4000 microprocessor. The Rabbit 4000 is the newest addition to the highly successful Rabbit line of microprocessors and offers new and improved features from integrated Ethernet to hardware DMA. The Rabbit 4000 will also form the basis for a new family of microprocessor based core modules, that will be the fastest, most code efficient, most feature-rich and most I/O flexible RabbitCore modules to date.

### **Third Fiscal Quarter 2006 Guidance**

For the third quarter of fiscal 2006, Digi expects revenue to be in the range of \$32.5 million to \$37.5 million. Digi expects third fiscal quarter 2006 earnings per diluted share

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to be in a range of \$0.10 to \$0.16, excluding the impact of stock-based compensation expense of \$0.02 per diluted share. Digi estimates reported earnings per diluted share, including the impact of stock-based compensation expense, to be \$0.08 to \$0.14 for the third fiscal quarter of 2006.

For the full fiscal year, Digi continues to forecast fiscal 2006 revenues to be in a range of \$136 million to \$148 million, or an increase over fiscal 2005 revenues of 9% to 18%. Digi expects earnings per diluted share for fiscal 2006 to be in a range of \$0.48 to \$0.60, excluding the impact of stock-based compensation expense. Digi estimates today that stock-based compensation expense will reduce earnings per diluted share by approximately \$0.08 for the full fiscal year 2006. Digi estimates reported earnings per diluted share, including the impact of stock-based compensation expense, to be in a range of \$0.40 to \$0.52 for the full fiscal year.

#### **Second Fiscal Quarter 2006 Conference Call Details**

Digi invites all those interested in hearing management's discussion of the quarter to attend its second fiscal quarter 2006 call, scheduled for Monday, April 17, 2006, at 4:00 p.m. CT, either by phone or the Web. Participants can access the call by dialing (212) 346-6545. A replay will be available for one week following the call by dialing (800) 633-8284 for domestic participants or (402) 977-9140 for international participants and entering access code 21288263 when prompted. Participants may also access a live webcast of the conference call through the investor relations section of Digi's website, [www.digi.com](http://www.digi.com).

#### **About Digi International**

Digi International, based in Minneapolis, makes device networking easy by developing easy to use and cost effective products and technologies. Digi markets its products through a global network of distributors and resellers, systems integrators and original equipment manufacturers (OEMs).

#### **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, 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

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report on Form 10-K for the year ended September 30, 2005 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.

Digi International Contact

S. (Kris) Krishnan  
(952) 912-3125  
s\_krishnan@digi.com

Investors Contact

Erika Moran / Tom Caden  
The Investor Relations Group  
New York, NY  
212-825-3210

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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, 2006	March 31, 2005	March 31, 2006	March 31, 2005
Net sales	\$ 34,380	\$ 29,312	\$ 67,756	\$ 58,782
Cost of sales (A)	14,894	11,328	28,904	22,487
Gross profit	19,486	17,984	38,852	36,295
Operating expenses:				
Sales and marketing (A)	6,802	6,411	13,553	12,854
Research and development (A)	5,011	3,820	9,825	8,072
General and administrative (A)	2,781	2,348	6,024	4,538
Intangibles amortization	1,680	1,209	3,359	2,534
Stock-based compensation	—	—	—	—
In-process research and development	—	—	—	—
Total operating expenses	16,274	13,788	32,761	27,998
Operating income	3,212	4,196	6,091	8,297
Other income, net	554	312	886	502
Income before income taxes	3,766	4,508	6,977	8,799
Income tax provision (benefit)	1,199	(4,291)	2,227	(2,961)
Net income	\$ 2,567	\$ 8,799	\$ 4,750	\$ 11,760
Net income per common share, basic	\$ 0.11	\$ 0.39	\$ 0.21	\$ 0.53
Net income per common share, diluted	\$ 0.11	\$ 0.37	\$ 0.20	\$ 0.50
Weighted average common shares, basic	23,001	22,477	22,890	22,277
Weighted average common shares, diluted	23,687	23,645	23,609	23,473

(A) Stock-based compensation expense charges due to adopting FAS 123R as of October 1, 2005 are included in the above income statement for the three and six months ended March 31, 2006 as shown below:

Cost of sales	\$ 23	\$ 42
Sales and marketing	193	321
Research and development	142	270
General and administrative	274	531
	<u>\$ 632</u>	<u>\$ 1,164</u>

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

	March 31, 2006 (unaudited)	September 30, 2005
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 15,690	\$ 12,990
Marketable securities	44,317	37,184
Accounts receivable, net	18,040	16,897
Inventories, net	18,793	18,527
Other	5,272	5,115
Total current assets	102,112	90,713
Property, equipment and improvements, net	20,266	20,808
Identifiable intangible assets and goodwill, net	61,404	65,017
Other	913	1,093
Total assets	<u>\$ 184,695</u>	<u>\$ 177,631</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Capital lease obligations, current portion	\$ 409	\$ 414
Accounts payable	4,430	6,272
Accrued expenses	9,800	10,726
Income taxes payable	5,960	3,306
Total current liabilities	20,599	20,718
Capital lease obligations, net of current portion	929	1,181
Net deferred tax liabilities	817	2,195
Total liabilities	22,345	24,094
Total stockholders' equity	162,350	153,537
Total liabilities and stockholders' equity	<u>\$ 184,695</u>	<u>\$ 177,631</u>

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

	Three months ended March 31, 2006	Six months ended March 31, 2006
<b>Operating activities:</b>		
Net income	\$ 2,567	\$ 4,750
<b>Adjustments to reconcile net income to net cash provided by (used in) operating activities:</b>		
Depreciation of property, equipment and improvements	660	1,272
Amortization of identifiable intangible assets and other assets	1,917	3,825
Stock-based compensation	632	1,164
Other	(388)	(533)
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(1,050)	(507)
Inventories	(129)	(685)
Other assets	209	(157)
Accounts payable and accrued expenses	424	(2,376)
Income taxes payable	1,539	2,674
Other	(549)	(1,256)
Net cash provided by operating activities	<u>5,832</u>	<u>8,171</u>
<b>Investing activities:</b>		
Purchase of held-to-maturity marketable securities, net	(2,524)	(7,133)
Purchase of property, equipment, improvements and certain other intangible assets	(635)	(895)
Net cash used in investing activities	<u>(3,159)</u>	<u>(8,028)</u>
<b>Financing activities:</b>		
Principal payments on long-term obligations	(113)	(256)
Tax benefit related to the exercise of stock options	213	330
Proceeds from stock option plan transactions	989	2,673
Proceeds from employee stock purchase plan transactions	245	359
Net cash provided by financing activities	<u>1,334</u>	<u>3,106</u>
Effect of exchange rate changes on cash and cash equivalents	(275)	(549)
Net increase in cash and cash equivalents	3,732	2,700
Cash and cash equivalents, beginning of period	11,958	12,990
Cash and cash equivalents, end of period	<u>\$ 15,690</u>	<u>\$ 15,690</u>