
**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) January 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 January 17, 2006, Digi International Inc. (the "Company") reported its financial results for the first quarter of fiscal 2006. See the Company's press release dated January 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 January 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) operating income excluding intangibles amortization and stock-based compensation expense, (iii) earnings before taxes, depreciation, amortization and stock-based compensation expense 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 below.

With respect to operating income that excludes intangibles 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 from period to period. Similarly, 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 and 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
(in thousands, except per share amounts)**

	Three months ended	
	December 31, 2005	December 31, 2004
Gross profit, before stock-based compensation expense	\$ 19,386	\$ 18,311
Stock-based compensation expense	20	—
Gross profit	\$ 19,366	\$ 18,311
Total operating expenses, before stock-based compensation expense	15,977	14,210
Stock-based compensation expense	511	—
Total operating expenses	16,488	14,210
Operating income	\$ 2,878	\$ 4,101
Income before income taxes	\$ 3,211	\$ 4,291
Income taxes impact of stock-based compensation expense	175	—
Income tax provision	853	1,330
Net income	\$ 2,183	\$ 2,961
Net income per common share, basic	\$ 0.10	\$ 0.13
Net income per common share, diluted	\$ 0.09	\$ 0.13
Impact of stock-based compensation expense, basic	\$ 0.02	\$ —
Impact of stock-based compensation expense, diluted	\$ 0.02	\$ —
Net income per common share, basic, excluding stock-based compensation expense	\$ 0.11	\$ 0.13
Net income per common share, diluted, excluding stock-based compensation expense	\$ 0.11	\$ 0.13
Weighted average common shares, basic	22,781	22,082
Weighted average common shares, diluted	23,486	23,309

**Reconciliation of Operating Income to Operating Income Excluding Intangibles Amortization
and Stock-Based Compensation Expense**
(In thousands of dollars and as a percent of Net Sales)

	Three months ended December 31, 2005	% of net sales
Net sales	\$ 33,376	100.0%
Operating income	2,878	8.6%
Intangibles amortization	1,679	5.0%
Stock-based compensation expense	513	1.5%
Operating income excluding intangibles amortization and stock-based compensation expense	\$ 5,070	15.2%

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

	Q2 2006 - Estimated Range for EPS Guidance		Fiscal 2006 - Estimated Range for EPS Guidance	
	Low	High	Low	High
Reported diluted earnings per share anticipated for Q2 2006 and fiscal 2006	\$ 0.08	\$ 0.14	\$ 0.40	\$ 0.50
Estimated impact of stock-based compensation expense in Q2 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	\$ 0.10	\$ 0.16	\$ 0.48	\$ 0.58

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

	For the three months ended December 31, 2005	% of net sales
Net sales	\$ 33,376	100.0%
Income before income taxes	\$ 3,211	
Depreciation and amortization	2,523	
Stock-based compensation expense	531	
Earnings before taxes, depreciation, amortization and stock-based compensation expense	\$ 6,265	18.8%

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Item 9.01. Financial Statements and Exhibits.

The following Exhibit is furnished herewith:

- | | |
|----|---|
| 99 | Press Release dated January 17, 2006 announcing financial results for the first 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: January 17, 2006

By /s/ Subramanian Krishnan

Subramanian Krishnan

Senior Vice President, Chief Financial Officer and
Treasurer

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EXHIBIT INDEX

<u>No.</u>	<u>Exhibit</u>	<u>Manner of Filing</u>
99	Press Release dated January 17, 2006 announcing financial results for the first quarter of fiscal 2006.	Filed Electronically



Digi International Reports First Quarter 2006 Revenue Growth of 13.3% Over First Quarter 2005

(Minneapolis, MN, January 17, 2006) - Digi International® Inc. (NASDAQ: DGII) reported revenue of \$33.4 million for the first fiscal quarter of 2006 compared to \$29.5 million for the first fiscal quarter of 2005, an increase of \$3.9 million, or 13.3%. Management's guidance for the first quarter was \$31.5 million to \$34 million.

The gross profit margin in the first fiscal quarter of 2006 was 58.0% compared to 62.1% in the first fiscal quarter of 2005. Gross profit margin declined relative to the year ago quarter as a result of customer and product mix and the impact of Rabbit® product sales which carry a lower gross profit margin. Gross profit margins were impacted approximately equally as a result of the customer and product mix and the lower gross profit margins on sales of Rabbit® products.

Total operating expenses in the first fiscal quarter of 2006 were \$16.5 million compared to \$14.2 million in the first fiscal quarter of 2005. The increase in operating expenses in the first fiscal quarter of 2006 was primarily attributable to acquisitions that were completed in the third fiscal quarter of 2005. Digi also adopted Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" (FAS 123R) in the first quarter of fiscal 2006 and recorded a \$0.5 million charge for stock-based compensation in the quarter.

Digi reported net income of \$2.2 million for the first fiscal quarter of 2006, or \$0.09 per diluted share, compared to \$3.0 million, or \$0.13 per diluted share, during the first fiscal quarter of 2005. Stock-based compensation expense reduced earnings per diluted share by \$0.02 for the first fiscal quarter of 2006. Earnings per diluted share, excluding the impact of stock-based compensation expense, were \$0.11 and met management's guidance of \$0.07 to \$0.12.

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 first quarter was \$53.8 million, an increase of \$3.6 million from the end of the prior quarter. Days sales outstanding (DSO) was at 34 days in the first quarter of fiscal 2006. Digi's cash per share at December 31, 2005, defined as cash and cash equivalents and marketable securities divided by shares outstanding as of December 31, 2005 of 22,872,792, was \$2.35. Tangible book value per share at December 31, 2005, defined as total stockholders' equity less net identifiable intangible assets and goodwill divided by shares outstanding as of December 31, 2005 of 22,872,792, was \$4.15.

Digi International Reports First Quarter Fiscal 2006 Results

“The revenue in the first quarter was impacted by industry softness in North America channel sales across product lines, delays in the Cellular and ConnectPort Display new product ramps, and certain customer orders being moved into subsequent quarters,” said Joe Dunsmore, Digi’s chief executive officer. “Despite these factors, we were happy to see strong performance from the Rabbit® product line.”

First Quarter Highlights

- Rabbit Semiconductor® Inc. released RabbitSys software for remote management of embedded devices. RabbitSys software provides embedded systems designers the ability to update, monitor, configure, detect, diagnose, and even debug embedded systems from remote locations.
- Digi announced the availability of FieldServer Technologies’ ProtoCessor Protocol Suite of building and industrial automation protocols with the NetSilicon NET+Works development environment and NET+ARM processors. FieldServer’s ProtoCessor Protocol Suite provides the broadest set of building and industrial automation protocols available for enhancing communication between devices that utilize non-compatible data protocols. The ProtoCessor Protocol Suite enables companies to easily deploy Ethernet and serial connectivity options throughout buildings and factories.
- Digi achieved the Gold Level in the Microsoft Windows Embedded Partners Program (WEP). The Gold level of WEP makes it easy for customers of Windows Embedded to identify best-in-class partners for Microsoft embedded platforms. Sistemas Embebidos, a subsidiary of Digi, is recognized in the System Integrator category for its excellence in building and enabling solutions on Windows CE and Windows XP Embedded.

Second Fiscal Quarter 2006 Guidance

For the second quarter of fiscal 2006, Digi expects revenue to be in the range of \$32.5 million to \$37.5 million. Digi expects second fiscal quarter 2006 earnings per diluted share 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 is revising its guidance for the full fiscal year due to uncertainty and weakness in the North American channel and slower than expected ramp up for new products. For the full fiscal year, Digi now forecasts 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 year 2006 to be in a range of \$0.48 to \$0.58, excluding the impact of stock-based compensation expense. Digi adopted Statement of Financial Accounting Standards No. 123R, “Share-Based Payment” (FAS 123R) effective on October 1, 2005. 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 \$0.50 for the full fiscal year.

First Fiscal Quarter 2006 Conference Call Details

Digi invites all those interested in hearing management's discussion of the quarter to attend its first fiscal quarter 2006 call, scheduled for Tuesday, January 17, 2006, at 4:00 p.m. CT, either by phone or the Web. Participants can access the call by dialing (888) 313-7820. International participants may access the call by dialing (212) 676-5276. 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 21280938 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.

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).

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 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

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Investors Contact

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The Investor Relations Group
New York, NY
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Digi International Inc.
Condensed Consolidated Statement of Operations
(In thousands, except per share amounts)
(Unaudited)

	<u>Three months ended December 31,</u>	
	<u>2005 (A)</u>	<u>2004</u>
Net sales	\$ 33,376	\$ 29,470
Cost of sales (A)	<u>14,010</u>	<u>11,159</u>
Gross profit	19,366	18,311
Operating expenses:		
Sales and marketing (A)	6,752	6,443
Research and development (A)	4,815	4,252
General and administrative (A)	3,242	2,190
Intangibles amortization	<u>1,679</u>	<u>1,325</u>
Total operating expenses	16,488	14,210
Operating income	2,878	4,101
Interest income and other, net	333	190
Income before income taxes	3,211	4,291
Income tax provision	<u>1,028</u>	<u>1,330</u>
Net income	<u>\$ 2,183</u>	<u>\$ 2,961</u>
Net income per common share, basic	<u>\$ 0.10</u>	<u>\$ 0.13</u>
Net income per common share, diluted	<u>\$ 0.09</u>	<u>\$ 0.13</u>
Weighted average common shares, basic	<u>22,781</u>	<u>22,082</u>
Weighted average common shares, diluted	<u>23,486</u>	<u>23,309</u>
(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 months ended December 31, 2005 as shown below:		
Cost of sales	\$ 20	
Sales and marketing	126	
Research and development	127	
General and administrative	<u>258</u>	
	<u>\$ 531</u>	

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

	<u>December 31, 2005</u> (unaudited)	<u>September 30, 2005</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 11,958	\$ 12,990
Marketable securities	41,793	37,184
Accounts receivable, net	17,173	16,897
Inventories, net	18,651	18,527
Other	5,482	5,115
Total current assets	95,057	90,713
Property, equipment and improvements, net	20,285	20,808
Identifiable intangible assets and goodwill, net	63,082	65,017
Other	1,006	1,093
Total assets	\$ 179,430	\$ 177,631
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Capital lease obligations, current portion	\$ 411	\$ 414
Accounts payable	5,775	6,272
Accrued expenses	8,590	10,726
Income taxes payable	4,286	3,306
Total current liabilities	19,062	20,718
Capital lease obligations, net of current portion	1,040	1,181
Net deferred tax liabilities	1,421	2,195
Total liabilities	21,523	24,094
Total stockholders' equity	157,907	153,537
Total liabilities and stockholders' equity	\$ 179,430	\$ 177,631

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

	Three months ended December 31,	
	2005	2004
Operating activities:		
Net income	\$ 2,183	\$ 2,961
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation of property, equipment and improvements	613	566
Amortization of identifiable intangible assets and other assets	1,907	1,572
Tax benefit related to the exercise of stock options	(249)	1,509
Stock-based compensation	531	—
Other	(143)	(185)
Changes in operating assets and liabilities:		
Accounts receivable	543	(1,029)
Inventories	(556)	(1,341)
Other assets	(365)	(1,045)
Accounts payable and accrued expenses	(2,800)	(2,275)
Income taxes payable	1,252	(2,978)
Other	(708)	(515)
Net cash provided by (used in) operating activities	<u>2,208</u>	<u>(2,760)</u>
Investing activities:		
Purchase of held-to-maturity marketable securities, net	(4,609)	(8,417)
Purchase of property, equipment, improvements and certain other intangible assets	(259)	(196)
Net cash used in investing activities	<u>(4,868)</u>	<u>(8,613)</u>
Financing activities:		
Principal payments on long-term obligations	(143)	—
Tax benefit related to the exercise of stock options	249	—
Proceeds from stock option plan transactions	1,684	3,561
Proceeds from employee stock purchase plan transactions	114	179
Net cash provided by financing activities	<u>1,904</u>	<u>3,740</u>
Effect of exchange rate changes on cash and cash equivalents	(276)	505
Net decrease in cash and cash equivalents	(1,032)	(7,128)
Cash and cash equivalents, beginning of period	12,990	19,528
Cash and cash equivalents, end of period	<u>\$ 11,958</u>	<u>\$ 12,400</u>