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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

January 21, 2010

Date of report (date of earliest event reported)

**DIGI INTERNATIONAL INC.**

(Exact name of registrant as specified in its charter)

Delaware

(State of Incorporation)

1-34033

(Commission file number)

41-1532464

(I.R.S. Employer Identification No.)

11001 Bren Road East, Minnetonka, Minnesota

(Address of principal executive offices)

55343

(Zip Code)

Telephone Number: (952) 912-3444

(Registrant's telephone number, including area code)

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 21, 2010, Digi International Inc. (“Digi”) issued a press release regarding Digi’s financial results for its first fiscal quarter ended December 31, 2009. A copy of Digi’s press release is attached hereto as Exhibit 99.1.

The information contained in this Current Report shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

#### NON-GAAP FINANCIAL MEASURES

Certain information Digi intends to disclose on the conference call includes a non-GAAP financial measure, earnings before taxes, depreciation and amortization (“EBTDA”). A reconciliation of the EBTDA measure to the most directly comparable GAAP financial measure is included below.

Digi’s management understands that there are material limitations on the use of non-GAAP measures. Non-GAAP measures are not substitutes for GAAP measures, such as operating income or net income, for the purpose of analyzing financial performance. The disclosure of the non-GAAP measure mentioned above does not reflect all charges and gains that were actually recognized by the Company. The non-GAAP measure is not prepared in accordance with, or an alternative for measures prepared in accordance with, generally accepted accounting principles and may be different from non-GAAP measures used by other companies. In addition, the non-GAAP measure is not based on any comprehensive set of accounting rules or principles. Management believes that the non-GAAP measure has limitations in that it does not reflect all of the amounts associated with Digi’s results of operations as determined in accordance with GAAP and that the measure should only be used to evaluate Digi’s results of operations in conjunction with the corresponding GAAP measures.

Digi’s management believes that the presentation of EBTDA as a percentage of net sales, as well as the presentation of the increase in EBTDA compared to prior periods, is useful to investors because it provides a reliable and consistent approach to measuring Digi’s performance from year to year and in assessing Digi’s performance against other companies. Management uses EBTDA as a key performance indicator of how Digi is performing compared to prior periods and compared to its operating plan. In addition, EBTDA is also used by management as a metric for executive compensation, as well as incentive compensation for the rest of the employee base, and it is monitored quarterly for these purposes. Management uses the aforementioned non-GAAP measure to monitor and evaluate ongoing operating results and trends and to gain an understanding of the comparative operating performance of Digi. Management also believes that such information helps investors compare operating results and corporate performance exclusive of the impact of Digi’s capital structure and the method by which assets were acquired. The use of EBTDA does not reflect Digi’s cash expenditures, the cash requirements for the replacement of depreciated and amortized assets, or changes in cash requirements for Digi’s working capital needs.

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

	For the three months ended December 31, 2009	% of net sales	For the three months ended December 31, 2008	% of net sales	% increase Dec. 2009 vs. Dec. 2008	For the three months ended September 30, 2009	% of net sales	% increase Dec. 2009 vs. Sept. 2009
Net sales	<u>\$ 42,968</u>	<u>100.0%</u>	<u>\$ 41,361</u>	<u>100.0%</u>		<u>\$ 40,012</u>	<u>100.0%</u>	
Net income	1,199	2.8%	1,016	2.5%		959	2.4%	
Income tax provision	<u>633</u>	<u>1.5%</u>	<u>9</u>	<u>0.0%</u>		<u>(65)</u>	<u>-0.2%</u>	
Income before income taxes	\$ 1,832	4.3%	\$ 1,025	2.5%		\$ 894	2.2%	
Depreciation and amortization	<u>2,609</u>	<u>6.1%</u>	<u>2,444</u>	<u>5.9%</u>		<u>2,627</u>	<u>6.6%</u>	
Earnings before taxes, depreciation, and amortization	<u>\$ 4,441</u>	<u>10.3%*</u>	<u>\$ 3,469</u>	<u>8.4%</u>	<u>28.0%</u>	<u>\$ 3,521</u>	<u>8.8%</u>	<u>26.1%</u>

\* Percentages presented may not add due to use of rounded numbers.

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Item 9.01 Financial Statements and Exhibits.

The following Exhibit is furnished herewith:

99.1 Press Release dated January 21, 2010, announcing financial results for the first quarter of fiscal 2010.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned duly authorized.

Date: January 21, 2010

DIGI INTERNATIONAL INC.

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>
99.1	Press Release dated January 21, 2010, announcing financial results for the first quarter of fiscal 2010.	Filed Electronically



## DIGI INTERNATIONAL REPORTS FIRST FISCAL QUARTER 2010 RESULTS

### *Revenue and Net Income Increase Compared to First Fiscal Quarter 2009 and Fourth Fiscal Quarter 2009*

MINNEAPOLIS, MN — **January 21, 2010** — Digi International® Inc. (NASDAQ: DGII, www.digi.com) reported revenue of \$43.0 million for the first fiscal quarter of 2010, compared with \$41.4 million for the first fiscal quarter of 2009, representing an increase of \$1.6 million, or 3.9%. Net income was \$1.2 million, or \$0.05 per diluted share in the first fiscal quarter of 2010 compared to \$1.0 million, or \$0.04 per diluted share in the year ago comparable quarter, an increase of \$0.2 million, or 18%. Other financial highlights for the first fiscal quarter of 2010 include:

- Digi's revenue in the first fiscal quarter of 2010 exceeded revenue in the fourth fiscal quarter of 2009 by \$3.0 million, or 7.4%. Net income in the first fiscal quarter of 2010 exceeded net income in the fourth fiscal quarter of 2009 by \$0.2 million, or 25%.
- North American revenue increased by \$2.4 million, or 10.3% in the first fiscal quarter of 2010 compared to the year ago comparable quarter, and increased sequentially from the fourth quarter of fiscal 2009 by \$1.3 million, or 5.4%. Revenue in all other geographic regions decreased by \$0.8 million, or 4.2% in the first fiscal quarter of 2010 compared to the year ago comparable quarter, and increased sequentially from the fourth quarter of fiscal 2009 by \$1.7 million, or 10.4%.
- Digi's balance sheet remains strong with a current ratio of 7.2 to 1.
- Digi exceeded Street consensus revenue and earnings per share estimates for the first fiscal quarter of 2010.

"Digi believes it is emerging from the downturn as evidenced by our year-over-year and sequential increases in revenue and profitability," said Joe Dunsmore, Digi's Chief Executive Officer. "We continued to grow our wireless product portfolio and are looking forward to an even stronger 2010 as the economy shows improvement and we remain focused on gaining market share and increasing shareholder value."

### **Business Results for the Three Months Ended December 31, 2009**

Revenue from embedded products in the first fiscal quarter of 2010 was \$18.1 million compared to \$18.0 million in the first fiscal quarter of 2009, an increase of \$0.1 million, or 0.3%. Revenue from non-embedded products was \$24.9 million in the first fiscal quarter of 2010 compared to \$23.4 million in the first fiscal quarter of 2009, an increase of \$1.5 million, or 6.7%. Revenue from embedded products includes \$0.6 million

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## Digi International Reports First Fiscal Quarter 2010 Results

of MobiApps revenue in the first fiscal quarter of 2010, acquired on June 8, 2009.

The weakening of the U.S. dollar compared to the Euro and UK pound sterling in the first fiscal quarter of 2010 compared to the same quarter a year ago had a favorable impact on total revenue of \$0.4 million.

Revenue in North America was \$25.5 million in the first fiscal quarter of 2010, compared to \$23.1 million in the first fiscal quarter of 2009, an increase of \$2.4 million, or 10.3%. Revenue in Europe was \$11.0 million in the first fiscal quarter of 2010, compared to \$13.3 million in the comparable quarter a year ago, a decrease of \$2.3 million, or 17.3%. Revenue in the Asia Pacific region was \$5.3 million in the first fiscal quarter of 2010, including MobiApps revenue of \$0.5 million, compared to \$3.8 million in the first fiscal quarter of 2009, an increase of \$1.5 million, or 39.1%. Latin American revenue was \$1.1 million in the first fiscal quarter of 2010, compared to \$1.1 million in the comparable quarter a year ago.

Gross profit was \$21.7 million in the first fiscal quarter of 2010 compared to \$21.2 million in the same period in the prior year. The gross margin was 50.5% in the first fiscal quarter of 2010 compared to 51.4% in the first fiscal quarter of 2009. The gross margin was lower in the first fiscal quarter of 2010 than in the comparable period a year ago due to unfavorable product mix primarily within the embedded product lines, partially offset by favorable manufacturing variances and other expenses.

Total operating expenses in the first fiscal quarter of 2010 were \$19.9 million, or 46.2% of revenue, compared to \$20.5 million, or 49.5% of revenue, in the first fiscal quarter of 2009. The decrease in operating expenses in the first fiscal quarter of 2010 compared to the same quarter in the prior year is primarily due to the impact of the restructuring that took place in April 2009, partially offset by incremental ongoing operating expenses from MobiApps.

Digi reported operating income of \$1.8 million, or 4.3% of net sales, in the first fiscal quarter of 2010 compared to \$0.8 million, or 1.9% of net sales, in the first fiscal quarter of 2009.

Net income was \$1.2 million in the first fiscal quarter of 2010, or \$0.05 per diluted share, compared to \$1.0 million, or \$0.04 per diluted share, in the first fiscal quarter of 2009. Earnings per diluted share for the first fiscal quarter of 2009 include a discrete tax benefit of \$0.4 million, or \$0.01 per diluted share, resulting from the extension of the research and development tax credit for two additional years beyond calendar 2007. This extension allowed Digi to record research and development tax credits earned during the last three quarters of fiscal 2008 in the first quarter of fiscal 2009.

Digi's cash and cash equivalents and marketable securities balance, including long-term marketable securities, was \$78.5 million at December 31, 2009, an increase of \$2.7 million over the cash and cash equivalents and marketable securities balance at September 30, 2009. Please refer to the Condensed Consolidated Statements of Cash Flows which is included in this earnings release for additional cash flow details. At December 31, 2009, Digi's current ratio was 7.2 to 1 compared to 7.4 to 1 at September 30, 2009.

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**First Fiscal Quarter 2010 Business Highlights:**

**Key Partnerships and Customer Relationships**

- Spectrum Design Solutions, Digi's wireless consulting group and a leading embedded cellular integrator, announced their collaboration with Qualcomm to promote wireless M2M designs incorporating Qualcomm's newest cellular technology offering, called Gobi. Spectrum expects to help customers reduce time-to-market of Gobi-enabled wireless M2M products by up to 50 percent.

**iDigi Bundled Wireless Solutions**

- Showing its unique ability to blend multiple wireless technologies into a vertically focused solution, Digi introduced the ConnectPort X5 family of compact, ruggedized telematics devices. The product family is the industry's first family of telematics devices to incorporate cellular, satellite, global positioning system (GPS), Wi-Fi and vehicle area network (VAN) wireless technology in one device. Additionally, ConnectPort X5 customers have access to the iDigi wireless M2M solutions bundle which includes the hosted software and services necessary to easily configure and manage large scale device deployments.

**Other Key Announcements**

- On November 17, 2009, the NASDAQ OMX Group, Inc., Clean Edge, Inc., and First Trust Advisors L.P. announced the launch of a new exchange traded fund (ETF) — the First Trust NASDAQ Clean Edge Smart Grid Infrastructure Index Fund (Nasdaq:GRID). It is based on the NASDAQ Clean Edge Smart Grid Infrastructure Index (SM) (Nasdaq:QGRD), a benchmark for the smart grid and electric infrastructure sector. Digi is included in the Smart Grid Infrastructure Index, which enables investors to “easily track companies that are working diligently to help fully implement an energy grid that is more efficient, cleaner and resilient.” First Trust's ETF, GRID, is designed to correspond to the price and yield performance of the index on which it is based.
  - In partnership with Freescale Semiconductor, Digi introduced the industry's first core module designed specifically for low power, wireless multimedia applications. Representing three industry firsts, the ConnectCore™ Wi-MX51 is industry's first wireless enabled core module based on Freescale's new high-performance i.MX51 processor, first to offer 802.11 a/b/g/n Wi-Fi and first to support Microsoft's new Windows CE 6.0 R3.
  - Digi launched the Industry's first M2M development kit for mainstream satellite development for under \$300. The Digi m10 JumpStart Kit features the smallest, most cost effective and highest performance ORBCOMM satellite modem available. The m10 JumpStart Kit de-mystifies satellite development allowing customers to quickly and easily build satellite-enabled products.
  - Digi launched an all-in-one 3G cellular router with Wi-Fi, GPS, telemetry and enterprise-class security. The new Digi TransPort™ WR44 provides high-speed networking for mobile hotspots, remote payment
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## Digi International Reports First Fiscal Quarter 2010 Results

processing, remote office and other remote networking applications.

- Digi received Federal Information Processing Standard (FIPS) 140-2 Level 2 security certification for the Digi Passport console server from the National Institute of Standards and Technology (NIST). This stringent third-party security certification makes the Digi Passport ideal for data center management in government, healthcare, financial and other regulated industries.

### **Guidance**

For the second fiscal quarter of fiscal 2010, Digi projects revenue in a range of \$43 million to \$47 million. Digi projects net income per diluted share in a range of \$0.04 to \$0.09.

For the full fiscal year 2010, Digi projects revenue in a range of \$170 million to \$190 million. Digi anticipates that the most likely full year revenue will be \$180 million, an increase of \$2 million from the guidance provided at the end of the prior fiscal year. Digi projects net income per diluted share to be in a range of \$0.18 to \$0.42.

### **First Fiscal Quarter 2010 Conference Call Details**

Digi invites all those interested in hearing management's discussion of its quarter, on Thursday, January 21, 2010 after market close at 5:00 p.m. EST (4:00 p.m. CST), to join the call by dialing (866) 543-6411 and entering passcode 75034147. International participants may access the call by dialing (617) 213-8900 and entering passcode 75034147. A replay will be available two hours after the completion of the call, and for one week following the call, by dialing (888) 286-8010 for domestic participants or (617) 801-6888 for international participants and entering access code 18164316 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 is making wireless M2M easy by developing reliable products and solutions to connect and securely manage local or remote electronic devices over the network or via the Web. Digi offers the highest levels of performance, flexibility and quality, and 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](http://www.digi.com), or call 877-912-3444.

For more news and information on Digi International® Inc., please visit [www.IRGnews.com/coi/DGII](http://www.IRGnews.com/coi/DGII) where you can find the CEO's video, a fact sheet on the company, investor presentations, and more.

### **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*

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## Digi International Reports First Fiscal Quarter 2010 Results

*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, continued or increasing weakness in North America and developing weakness in other regions due to changes in economic conditions, the current uncertainty in global economic conditions which could negatively affect product demand, the recent financial crises affecting the banking system and financial markets which could negatively impact the financial solvency of the Company's customers and suppliers, the extreme volatility in fixed income, credit and equity markets which could result in actual amounts realized on the Company's debt securities or other investments that differ significantly from current market values, the ability to achieve the anticipated benefits and synergies associated with acquisitions, 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, 2009 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.*

### **Investor Contacts:**

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For more information, visit Digi's Web site at [www.digi.com](http://www.digi.com), or call 877-912-3444 (U.S.) or 952-912-3444 (International).

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**Digi International Inc.**  
**Condensed Consolidated Statements of Operations**  
(In thousands, except per share amounts)  
(Unaudited)

	Three months ended December 31,	
	2009	2008
Net sales	\$ 42,968	\$ 41,361
Cost of sales (exclusive of amortization of purchased and core technology shown separately below)	20,163	19,069
Amortization of purchased and core technology	1,092	1,044
Gross profit	21,713	21,248
Operating expenses:		
Sales and marketing	9,240	9,625
Research and development	6,486	6,974
General and administrative	3,442	3,193
Intangibles amortization	716	690
Total operating expenses	19,884	20,482
Operating income	1,829	766
Other income (expense):		
Interest income, net	41	495
Other expense	(38)	(236)
Total other income, net	3	259
Income before income taxes	1,832	1,025
Income tax provision	633	9
Net income	\$ 1,199	\$ 1,016
Net income per common share, basic	\$ 0.05	\$ 0.04
Net income per common share, diluted	\$ 0.05	\$ 0.04
Weighted average common shares, basic	24,701	25,381
Weighted average common shares, diluted	24,979	25,679

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

	<u>December 31, 2009</u>	<u>September 30, 2009</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 43,453	\$ 48,434
Marketable securities	33,124	22,311
Accounts receivable, net	21,846	19,032
Inventories	25,245	26,619
Deferred tax assets	2,392	2,415
Other	3,499	3,844
Total current assets	<u>129,559</u>	<u>122,655</u>
Marketable securities	1,951	5,063
Property, equipment and improvements, net	16,851	16,678
Identifiable intangible assets, net	25,004	26,877
Goodwill	86,500	86,558
Deferred tax assets	437	440
Other	622	677
Total assets	<u>\$ 260,924</u>	<u>\$ 258,948</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 6,292	\$ 5,567
Accrued compensation	3,928	3,275
Accrued warranty	952	970
Deferred payment on acquisition	2,993	2,966
Restructuring	636	721
Other	3,114	3,035
Total current liabilities	<u>17,915</u>	<u>16,534</u>
Deferred tax liabilities	4,071	4,331
Income taxes payable	4,891	4,893
Deferred payment on acquisition	2,837	2,812
Other noncurrent liabilities	731	792
Total liabilities	30,445	29,362
Total stockholders' equity	<u>230,479</u>	<u>229,586</u>
Total liabilities and stockholders' equity	<u>\$ 260,924</u>	<u>\$ 258,948</u>

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

	<u>Three months ended December 31,</u>	
	<u>2009</u>	<u>2008</u>
<b>Operating activities:</b>		
Net income	\$ 1,199	\$ 1,016
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation of property, equipment and improvements	665	590
Amortization of identifiable intangible assets and other assets	1,944	1,854
Stock-based compensation	998	968
Deferred income taxes	(249)	(836)
Other	(197)	110
Changes in operating assets and liabilities	(445)	(5,688)
Net cash provided by (used in) operating activities	<u>3,915</u>	<u>(1,986)</u>
<b>Investing activities:</b>		
Purchase of marketable securities	(8,161)	(4,173)
Proceeds from maturities of marketable securities	519	16,064
Purchase of property, equipment, improvements and certain other intangible assets	(915)	(843)
Proceeds from sale of property and equipment	11	—
Net cash (used in) provided by investing activities	<u>(8,546)</u>	<u>11,048</u>
<b>Financing activities:</b>		
Payments on capital lease obligations	(6)	(69)
Proceeds from stock option plan transactions and other	—	57
Proceeds from employee stock purchase plan transactions	—	309
Net cash (used in) provided by financing activities	<u>(6)</u>	<u>297</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(344)</u>	<u>(903)</u>
Net (decrease) increase in cash and cash equivalents	(4,981)	8,456
Cash and cash equivalents, beginning of period	<u>48,434</u>	<u>14,176</u>
Cash and cash equivalents, end of period	<u>\$ 43,453</u>	<u>\$ 22,632</u>