

DIGI INTERNATIONAL INC

Form 8-K

July 17, 2006

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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

Date of Report (Date of earliest event reported) July 17, 2006

Digi International Inc.

(Exact name of Registrant as specified in its charter)

Delaware

0-17972

41-1532464

(State or other jurisdiction
of incorporation)

(Commission File Number)

(IRS Employer
Identification No.)

**11001 Bren Road East
Minnetonka, Minnesota**

55343

(Address of principal executive offices)

(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 July 17, 2006, Digi International Inc. (the Company) reported its financial results for the third quarter of fiscal 2006. See the Company s press release dated July 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 July 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.

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**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		Nine months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Gross profit, before stock-based compensation expense	\$ 20,660	\$ 18,205	\$ 59,555	\$ 54,500
Stock-based compensation expense	22		65	
Gross profit	\$ 20,638	\$ 18,205	\$ 59,490	\$ 54,500
Total operating expenses, before stock-based compensation expense	16,330	14,522	47,971	42,520
Stock-based compensation expense	557		1,677	
Total operating expenses	16,887	14,522	49,648	42,520
Operating income	\$ 3,751	\$ 3,683	\$ 9,842	\$ 11,980
Income before income taxes	\$ 4,326	\$ 3,989	\$ 11,303	\$ 12,789
Income taxes impact of stock-based compensation expense	131		495	
One-time reversal of previously established tax reserves				(5,688)
Income tax provision	847	1,505	2,710	4,233
Net income	\$ 3,348	\$ 2,484	\$ 8,098	\$ 14,244
Net income per common share, basic	\$ 0.14	\$ 0.11	\$ 0.35	\$ 0.64
Net income per common share, diluted	\$ 0.14	\$ 0.11	\$ 0.34	\$ 0.61
Impact of stock-based compensation expense, basic	\$ 0.02	\$	\$ 0.05	\$
Impact of stock-based compensation expense, diluted	\$ 0.02	\$	\$ 0.05	\$
Impact of one-time reversal of previously established tax reserves, basic	\$	\$	\$	\$ (0.25)

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Impact of one time reversal of previously established tax reserves, diluted	\$	\$	\$	\$	(0.24)	
Net income per common share, basic, excluding stock-based compensation expense	\$	0.16	\$	\$	0.41	
Net income per common share, diluted, excluding stock-based compensation expense	\$	0.16	\$	\$	0.39	
Net income per common share, basic, adjusted for impact of one-time reversal of previously established income tax reserves	\$		\$	0.11	\$	0.38
Net income per common share, diluted, adjusted for impact of one-time reversal of previously established income tax reserves	\$		\$	0.11	\$	0.37
Weighted average common shares, basic		23,124		22,588		22,968
Weighted average common shares, diluted		23,904		23,296		23,695

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

	Q4 2006-Estimated Range for EPS Guidance		Fiscal 2006-Estimated Range for EPS Guidance	
	Low	High	Low	High
Reported diluted earnings per share anticipated for Q4 2006 and fiscal 2006	\$ 0.09	\$ 0.16	\$ 0.43	\$ 0.50
Estimated impact of stock-based compensation expense in Q4 2006 and fiscal 2006	0.02	0.02	0.07	0.07
Diluted earnings per share anticipated for fiscal 2006, excluding the impact of estimated stock-based compensation expense	\$ 0.11	\$ 0.18	\$ 0.50	\$ 0.57

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(In thousands of dollars and as a percent of Net Sales)**

	For the three months ended June 30, 2006	% of net sales
Net sales	\$ 35,860	100.0%
Income before income taxes	\$ 4,326	12.1%
Depreciation and amortization	2,596	7.2%
Earnings before taxes, depreciation, and amortization	\$ 6,922	19.3%

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Item 9.01. Financial Statements and Exhibits.

The following Exhibit is furnished herewith:

99 Press Release dated July 17, 2006 announcing financial results for the third quarter of fiscal 2006.

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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: July 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 July 17, 2006 announcing financial results for the third quarter of fiscal 2006.	Filed Electronically