

DIGI INTERNATIONAL INC

Form 8-K

November 03, 2005

Table of Contents

**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) November 3, 2005

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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TABLE OF CONTENTS

Item 2.02. Results of Operations and Financial Condition

Item 5.02. Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers

Item 9.01. Financial Statements and Exhibits.

SIGNATURES

EXHIBIT INDEX

Press Release - Financial Results

Press Release - Election to Board of Directors

Table of Contents

Item 2.02. Results of Operations and Financial Condition.

On November 3, 2005, Digi International Inc. (the Company) reported its financial results for the fourth quarter of 2005 and the year ended September 30, 2005. See the Company s press release dated November 3, 2005, which is furnished as Exhibit 99.1 and incorporated by reference in this Current Report on Form 8-K.

NON-GAAP FINANCIAL MEASURES

The press release furnished as Exhibit 99.1 and certain information the Company intends to disclose on the conference call scheduled for 5:00 p.m. eastern time on November 3, 2005 include certain non-GAAP financial measures. These measures include (i) operating income excluding intangibles amortization and non-recurring items, (ii) operating expenses excluding intangibles amortization and non-recurring items, (iii) net income per diluted share excluding the impact of a favorable tax settlement and the in-process research and development charge, (iv) earnings before taxes, depreciation, amortization and non-recurring items, (v) revenue from Device Networking products excluding revenues from Rabbit Semiconductor, a business acquired during the year, and (vi) guidance disclosed by the Company related to earnings per diluted share excluding the impact of stock-based compensation expense, and variations and growth rates related to the foregoing. The non-recurring items consist primarily of acquired in-process research and development charges, restructuring expenses and non-recurring gains and losses that have been described in the Company s filings with the SEC. The reconciliations of these measures to the most directly comparable GAAP financial measures are provided in the earnings release or are included below.

With respect to the measures that exclude the favorable tax settlement or non-recurring items, management believes that excluding these one-time non-recurring items 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 measures that exclude intangibles amortization, management believes that these measures more accurately focus on the costs that can be meaningfully controlled by the Company, and therefore permit a more meaningful comparison from period to period. Similarly, management believes that earnings before taxes, depreciation, amortization and non-recurring items 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 revenue exclusive of contributions from the acquired Rabbit Semiconductor business provides better comparability with prior year periods. Finally, management believes that providing guidance exclusive of the impact of stock-based compensation expense so that investors can compare 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.

Table of Contents

NON-GAAP RECONCILIATION SCHEDULES

**Reconciliation of Reported Earnings Per Diluted Share to Earnings Per Diluted Share
Excluding Favorable Tax Settlement and Acquired In-Process Research and Development
(in thousands, except per share amounts)**

| | Three months ended | | Twelve months ended | |
|---|--------------------------|-----------------------|--------------------------|-----------------------|
| | September 30, 2005 | September 30, 2004 | September 30, 2005 | September 30, 2004 |
| Gross profit | \$ 21,182 | \$ 17,884 | \$ 75,682 | \$ 67,783 |
| Total operating expenses, before acquired in-process research and development | 16,205 | 14,068 | 58,425 | 56,002 |
| Acquired in-process research and development | | | 300 | |
| Total operating expenses | 16,205 | 14,068 | 58,725 | 56,002 |
| Operating income | \$ 4,977 | \$ 3,816 | \$ 16,957 | \$ 11,781 |
| Income before income taxes | \$ 5,194 | \$ 4,012 | \$ 17,983 | \$ 12,150 |
| Impact of favorable tax settlement | | | (5,689) | |
| Income tax provision | 1,773 | 1,127 | 6,007 | 3,487 |
| Net income | \$ 3,421 | \$ 2,885 | \$ 17,665 | \$ 8,663 |
| Net income per common share, basic | \$ 0.15 | \$ 0.13 | \$ 0.79 | \$ 0.41 |
| Net income per common share, diluted | \$ 0.15 | \$ 0.13 | \$ 0.76 | \$ 0.39 |
| Impact of favorable tax settlement, basic | \$ | \$ | \$ (0.25) | \$ |
| Impact of favorable tax settlement, diluted | \$ | \$ | \$ (0.24) | \$ |
| Impact of acquisition related in-process research and development, basic | \$ | \$ | \$ 0.01 | \$ |
| Impact of acquisition related in-process research and development, diluted | \$ | \$ | \$ 0.01 | \$ |
| Net income per common share, basic, excluding the favorable tax settlement and acquired in-process research and development | \$ 0.15 | \$ 0.13 | \$ 0.55 | \$ 0.41 |
| | \$ 0.15 | \$ 0.13 | \$ 0.52 | \$ 0.39 |

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Net income per common share, diluted,
excluding the favorable tax settlement and
acquired in-process research and development

| | | | | |
|---|--------|--------|--------|--------|
| Weighted average common shares, basic | 22,654 | 21,727 | 22,450 | 21,196 |
| Weighted average common shares, diluted | 23,210 | 22,539 | 23,371 | 22,031 |

Table of Contents

Reconciliation of Total Operating Expenses to Operating Expenses Excluding Intangibles Amortization and Nonrecurring Items
(In thousands of dollars and as a percent of Net Sales)

| | FY 02 | % of net sales | FY 03 | % of net sales | FY 04 | % of net sales | FY 05 | % of net sales | Q4 FY 04 | % of net sales | Q4 FY 05 | % of net sales |
|--|------------|----------------|------------|----------------|------------|----------------|------------|----------------|-----------|----------------|-----------|----------------|
| Net sales | \$ 101,536 | 100.0% | \$ 102,926 | 100.0% | \$ 111,226 | 100.0% | \$ 125,198 | 100.0% | \$ 29,274 | 100.0% | \$ 36,208 | 100.0% |
| Total operating expenses | 76,239 | 75.1% | 55,073 | 53.5% | 56,002 | 50.3% | 58,725 | 46.9% | 14,068 | 48.1% | 16,205 | 44.8% |
| Intangibles amortization | 7,945 | 7.8% | 6,485 | 6.3% | 5,222 | 4.7% | 5,550 | 4.4% | 1,307 | 4.5% | 1,666 | 4.6% |
| Process research and development | 3,100 | 3.1% | | 0.0% | | 0.0% | 300 | 0.2% | | 0.0% | | 0.0% |
| Restructuring expenses | 2,696 | 2.7% | (600) | -0.6% | | 0.0% | | 0.0% | | 0.0% | | 0.0% |
| Gain from forgiveness of grant payable | (1,068) | -1.1% | (553) | -0.5% | | 0.0% | | 0.0% | | 0.0% | | 0.0% |
| Loss on sale of MiLAN | 3,617 | 3.6% | | 0.0% | | 0.0% | | 0.0% | | 0.0% | | 0.0% |
| Operating expenses excluding intangibles amortization and nonrecurring items | \$ 59,949 | 59.0% | \$ 49,741 | 48.3% | \$ 50,780 | 45.7% | \$ 52,875 | 42.2% | \$ 12,761 | 43.6% | \$ 14,539 | 40.2% |

Table of Contents

**Reconciliation of Operating Income to Operating Income Excluding Intangibles Amortization and
Nonrecurring Items**
(In thousands of dollars and as a percent of Net Sales)

| | | % of net | | % of net | | % of net | | % of net | Q4 FY | % of net | Q4 FY | % of net |
|--|------------|-------------|------------|-------------|------------|-------------|------------|-------------|-----------|-------------|-----------|-------------|
| | FY 02 | sales | FY 03 | sales | FY 04 | sales | FY 05 | sales | 04 | sales | 05 | sales |
| Net sales | \$ 101,536 | 100.0% | \$ 102,926 | 100.0% | \$ 111,226 | 100.0% | \$ 125,198 | 100.0% | \$ 29,274 | 100.0% | \$ 36,208 | 100.0% |
| Operating income | (20,715) | -20.4% | 6,273 | 6.1% | 11,781 | 10.6% | 16,957 | 13.5% | 3,816 | 13.0% | 4,977 | 13.7% |
| Intangibles amortization | 7,945 | 7.8% | 6,485 | 6.3% | 5,222 | 4.7% | 5,550 | 4.4% | 1,307 | 4.5% | 1,666 | 4.6% |
| Process research and development | 3,100 | 3.1% | | 0.0% | | 0.0% | 300 | 0.2% | | 0.0% | | 0.0% |
| Restructuring expenses | 2,696 | 2.7% | (600) | -0.6% | | 0.0% | | 0.0% | | 0.0% | | 0.0% |
| Gain from forgiveness of grant payable | (1,068) | -1.1% | (553) | -0.5% | | 0.0% | | 0.0% | | 0.0% | | 0.0% |
| Loss on sale of MiLAN | 3,617 | 3.6% | | 0.0% | | 0.0% | | 0.0% | | 0.0% | | 0.0% |
| Operating income excluding intangibles amortization and nonrecurring items | \$ (4,425) | -4.4% | \$ 11,605 | 11.3% | \$ 17,003 | 15.3% | \$ 22,807 | 18.2% | \$ 5,123 | 17.5% | \$ 6,643 | 18.3% |

Table of Contents

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

| | | % of net | | % of net | | % of net | | % of net | % increase from FY 04 to FY 05 | Q4 FY 05 | % of net |
|--|-------------|-------------|------------|-------------|------------|-------------|------------|-------------|---|-------------|-------------|
| | FY 02 | sales | FY 03 | sales | FY 04 | sales | FY 05 | sales | | \$ | sales |
| Net sales | \$ 101,536 | 100.0% | \$ 102,926 | 100.0% | \$ 111,226 | 100.0% | \$ 125,198 | 100.0% | | \$ 36,208 | 100.0% |
| Income (loss) before income taxes | \$ (19,459) | | \$ 6,569 | | \$ 12,150 | | \$ 17,983 | | | \$ 5,194 | |
| Depreciation and amortization | 11,568 | | 10,303 | | 8,597 | | 8,870 | | | 2,493 | |
| In-process research and development | 3,100 | | | | | | 300 | | | | |
| Restructuring expenses | 2,696 | | (600) | | | | | | | | |
| Gain from forgiveness of grant payable | (1,068) | | (553) | | | | | | | | |
| Loss on sale of MiLAN | 3,617 | | | | | | | | | | |
| Earnings before taxes, depreciation, amortization and nonrecurring items | \$ 454 | 0.4% | \$ 15,719 | 15.3% | \$ 20,747 | 18.7% | \$ 27,153 | 21.7% | 30.9% | \$ 7,687 | 21.2% |

Table of Contents

Reconciliation of Reported Diluted Earnings per Share Guidance for Fiscal 2006 to Diluted Earnings per Share for Fiscal 2005, Excluding the Impact of the Favorable Tax Settlement and Stock-Based Compensation Expense

| | Q1 2006 - Estimated Range | | Fiscal 2006 - Estimated Range | | Fiscal 2005 Diluted EPS |
|---|---------------------------|---------|-------------------------------|---------|-------------------------|
| | for EPS Guidance Low | High | for EPS Guidance Low | High | |
| Reported diluted earnings per share, Sept. 30, 2005 | | | | | \$ 0.76 |
| Impact of the favorable tax settlement | | | | | 0.24 |
| Diluted earnings per share for fiscal 2005, excluding the impact of the favorable tax settlement | | | | | 0.52 |
| Reported diluted earnings per share anticipated for Q1 2006 and fiscal 2006 | \$ 0.10 | \$ 0.15 | \$ 0.53 | \$ 0.63 | |
| Estimated impact of stock-based compensation expense in Q1 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 | \$ 0.12 | \$ 0.17 | \$ 0.60 | \$ 0.70 | |
| Anticipated diluted earnings per share increase, fiscal 2006 compared to fiscal 2005, excluding the impact of the favorable tax settlement and estimated stock-based compensation expense | | | 15% | 35% | |

Table of Contents

Item 5.02. Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers.

On November 2, 2005, the Board of Directors, upon recommendation of the Nominating Committee, elected William N. Priesmeyer as a director of Digi International Inc. to serve a term expiring at the 2006 annual meeting of stockholders. Mr. Priesmeyer's committee assignments will be determined around the time of the 2006 annual meeting of stockholders and announced at that time. See the Company's press release dated November 3, 2005, which is filed as Exhibit 99.2 and incorporated by reference in this Current Report on Form 8-K.

Item 9.01. Financial Statements and Exhibits.

The following Exhibits are being furnished or filed herewith:

- 99.1 Press Release dated November 3, 2005 announcing financial results for the fourth quarter of 2005 and the year ended September 30, 2005.
- 99.2 Press Release dated November 3, 2005 announcing election of William Priesmeyer to the Board of Directors.

Table of Contents

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: November 3, 2005

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

9

Table of Contents

EXHIBIT INDEX

| No. | Exhibit | Manner of Filing |
|------|---|-------------------------|
| 99.1 | Press Release dated November 3, 2005 announcing financial results for the fourth quarter of 2005 and the year ended September 30, 2005. | Filed Electronically |
| 99.2 | Press Release dated November 3, 2005 announcing election of William Priesmeyer to the Board of Directors. | Filed Electronically |