

## **Digi International Reports Fourth Fiscal Quarter and Full Year 2009 Results**

Digi International

**(Minneapolis, MN, October 29, 2009)** - Digi International® Inc. (NASDAQ: DGII, [www.digi.com](http://www.digi.com))

Financial highlights for the quarter and fiscal year ended September 30, 2009 include:

- Digi reported revenue of \$40.0 million for the fourth quarter of fiscal 2009 compared to \$50.4 million in revenue for the fourth quarter of fiscal 2008, a decrease of \$10.4 million, or 20.6%. Revenue for the year ended September 30, 2009 (fiscal 2009) was \$165.9 million compared to \$185.1 million for the year ended September 30, 2008 (fiscal 2008), a decrease of \$19.2 million, or 10.3%.
- Earnings before taxes, depreciation, and amortization were \$3.5 million for the fourth quarter of fiscal 2009, or 8.8% of revenue, and \$14.3 million, or 8.6% of revenue, for fiscal 2009.
- Digi generated cash from operations of \$11.4 million for the fourth quarter of fiscal 2009 and \$15.7 million for fiscal 2009.
- Digi's cash and cash equivalents and marketable securities balance, including long-term marketable securities, was \$75.8 million at September 30, 2009, an increase of \$8.9 million over the cash and cash equivalents and marketable securities balance at June 30, 2009 and an increase of \$2.1 million over the comparable balance at September 30, 2008. Digi re-purchased 893,162 shares of stock during fiscal 2009 for \$6.6 million, and spent approximately \$3.0 million for the acquisition of substantially all of the assets of MobiApps Holdings Private Limited (MobiApps).
- Digi maintained a strong balance sheet throughout fiscal 2009. The current ratio at September 30, 2009 was 7.4 to 1 compared to 6.4 to 1 at September 30, 2008.

"Although our fiscal 2009 financial results were challenged by the current worldwide economic environment, we are nonetheless pleased to report our twenty-seventh consecutive quarter of profitability, a very strong balance sheet, and the strengthening of the company's product position in 2009," said Joe Dunsmore, Digi's Chief Executive Officer. "This year Digi introduced 21 new products, entered the satellite M2M market with the acquisition of MobiApps, partnered with several leaders in the Smart Grid sector to bring cutting-edge technology to energy suppliers and consumers, and was chosen for inclusion in a new NASDAQ Smart Grid Infrastructure Index."

Below is a table setting forth certain GAAP and Non-GAAP results:

GAAP Results				
(in thousands, except per share amounts)	Q4 2009	Q4 2008	FY 2009	FY 2008
Net Sales	\$40,012	\$50,417	\$165,928	\$185,056
Operating Income	\$1,103	\$5,133	\$3,070	\$16,015
Net Income	\$959	\$3,599	\$4,083	\$12,351
Net Income per Diluted Share	\$0.04	\$0.14	\$0.16	\$0.47

Non-GAAP Results				
(in thousands, except per share amounts)	Q4 2009	Q4 2008	FY 2009	FY 2008
Net Sales	\$40,012	\$50,417	\$165,928	\$185,056
Operating Income	\$1,103	\$5,133	\$5,023 (1)	\$18,260 (1)
Net Income	\$686 (1)	\$4,033 (1)	\$4,790 (1)	\$14,633 (1)
Net Income per Diluted Share	\$0.03 (1)	\$0.16 (1)	\$0.19 (1)	\$0.56 (1)

(1) A table with a detailed reconciliation between GAAP operating income to non-GAAP operating income and GAAP net income and net income per diluted share to non-GAAP net income and net income per diluted share is provided later in this earnings release.

### Business Results for the Three Months Ended September 30, 2009

Digi reported revenue of \$40.0 million for the fourth fiscal quarter of 2009 compared to \$50.4 million for the fourth fiscal quarter of 2008, a decrease of \$10.4 million, or 20.6%.

Revenue from embedded products in the fourth fiscal quarter of 2009 was \$18.8 million compared to \$23.5 million in the fourth fiscal quarter of 2008, a decrease of \$4.7 million, or 19.9%. Revenue from non-embedded products was \$21.2 million in the fourth fiscal quarter of 2009 compared to \$26.9 million in the fourth fiscal quarter of 2008, a decrease of \$5.7 million, or 21.3%. The strengthening of the US dollar compared to the Euro and UK pound sterling in the fourth fiscal quarter of 2009 compared to the same quarter a year ago had an unfavorable impact on revenue of \$0.3 million.

Revenue by geographic region is shown below:

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Revenue by Geographic Region  
(in thousands of dollars)

	Q4 FY 2009	Q4 FY 2008	FY 2009	FY 2008
EMEA (Europe, Middle East and Africa)	\$ 10,662 <sup>↑</sup> (1)	\$ 14,524 <sup>↑</sup> (1)	\$ 56,018 <sup>↑</sup> (1)	\$ 52,956 <sup>↑</sup> (1)
Latin America	1,165	1,324	3,624	5,092
North America	24,208 (2),(3)	29,122 <sup>↑</sup> (2)	90,708 (2),(3)	107,336 <sup>↑</sup> (2)
Asia Pacific	3,977 <sup>↑</sup> (3)	5,447 <sup>↑</sup> (3)	15,578 <sup>↑</sup> (3)	19,672 <sup>↑</sup> (3)
<b>Total revenue</b>	<b><sup>↑</sup>\$ 40,012</b>	<b><sup>↑</sup>\$ 50,417</b>	<b><sup>↑</sup>\$ 165,928</b>	<b><sup>↑</sup>\$ 185,056</b>

(1) Includes Sarian revenue of \$2.0 million and \$16.2 million for the three and twelve months ended September 30, 2009, respectively. Also includes Sarian revenue of \$3.3 million and \$5.7 million for the three and twelve months ended September 30, 2008, from date of acquisition on April 28, 2008.

(2) Includes Spectrum revenue of \$1.4 million and \$4.5 million for the three and twelve months ended September 30, 2009, respectively. Also includes Spectrum revenue of \$0.8 million for both the three and twelve months ended September 30, 2008, from date of acquisition on July 23, 2008.

(3) Includes MobiApps revenue of \$0.1 million in North America and \$0.2 million in Asia Pacific for the three months ended September 30, 2009. Includes MobiApps revenue of \$0.1 million in North America and \$0.3 million in Asia Pacific from date of acquisition on June 8, 2009.

Gross profit was \$19.4 million in the fourth fiscal quarter of 2009 compared to \$25.9 million in the same period in the prior year. The gross margin was 48.5% in the fourth fiscal quarter of 2009 compared to 51.5% in the fourth fiscal quarter of 2008, a decline of 3.0 percentage points. The gross margin was lower in the fourth fiscal quarter of 2009 than in the comparable period a year ago due to unfavorable product mix within both the embedded and non-embedded products.

Total operating expenses in the fourth fiscal quarter of 2009 were \$18.3 million, or 45.8 % of revenue, compared to \$20.8 million, or 41.3% of revenue, in the fourth fiscal quarter of 2008. The decrease in operating expenses in the fourth fiscal quarter of 2009 compared to the same quarter in the prior year is primarily due to savings from the restructuring plan announced in the third quarter of fiscal 2009 and the elimination of the incentive compensation program for fiscal 2009, offset partially by incremental ongoing operating expenses for Spectrum and MobiApps.

Net income was \$1.0 million in the fourth fiscal quarter of 2009, or \$0.04 per fully diluted share, compared to \$3.6 million, or \$0.14 per fully diluted share, in the fourth fiscal quarter of 2008. Non-GAAP net income and net income per fully diluted share for the fourth fiscal quarter of 2009 and 2008 were \$0.7 million, or \$0.03 per fully diluted share, and \$4.0 million, or \$0.16 per fully diluted share, respectively, as detailed elsewhere in this earnings release.

## Business Results for the Twelve Months Ended September 30, 2009

For the twelve months ended September 30, 2009 (fiscal 2009), Digi reported revenue of \$165.9 million compared to revenue of \$185.1 million for the twelve months ended September 30, 2008 (fiscal 2008), a decrease of \$19.2 million, or 10.3%. Revenue from embedded products in fiscal 2009 was \$74.7 million compared to \$86.6 million in fiscal 2008, a decrease of \$11.9 million, or 13.8 %. Revenue from non-embedded products was \$91.2 million in fiscal 2009 compared to \$98.5 million in fiscal 2008, a decrease of \$7.3 million, or 7.3%. Revenue from embedded products in fiscal 2009 includes \$4.5 million of Spectrum revenue and \$0.4 million of MobiApps revenue. Revenue from embedded products in fiscal 2008

includes \$0.8 million of Spectrum revenue from date of acquisition. Revenue from non-embedded products includes Sarian-branded revenue of \$16.2 million and \$5.7 million for fiscal 2009 and fiscal 2008, respectively.

For the twelve months ended September 30, 2009, Digi reported net income of \$4.1 million, or \$0.16 per fully diluted share, compared to net income for the twelve months ended September 30, 2008, of \$12.4 million, or \$0.47 per fully diluted share. Net income for fiscal 2009 was reduced by the charge for restructuring expenses of \$1.9 million, net of tax, or \$0.07 per fully diluted share, offset partially by tax benefits of \$1.2 million, or \$0.05 per fully diluted share, resulting from the reversal of tax reserves associated with the extension of the research and development credit, the resolution of certain state tax matters, and the closing of a prior tax year. Net income for fiscal 2008 was reduced by the charge for in-process research and development and other expenses associated with the acquisition of Sarian of \$2.1 million, or \$0.08 per fully diluted share and the write-down of an impaired investment of \$0.7 million, or \$0.03 per fully diluted share, partially offset by a tax benefit of \$0.5 million, or \$0.02 per fully diluted share, resulting from the reversal of tax reserves associated with the closure of a prior tax year.

Digi's cash and cash equivalents and marketable securities balance, including long-term marketable securities, was \$75.8 million at September 30, 2009, an increase of \$8.9 million over the cash and cash equivalents and marketable securities balance at June 30, 2009, and an increase of \$2.1 million over the comparable balance at September 30, 2008. Digi re-purchased 893,162 shares of stock during fiscal 2009 for \$6.6 million and spent approximately \$3.0 million for the acquisition of substantially all of the assets of MobiApps. Please refer to the Condensed Consolidated Statement of Cash Flows included in this earnings release for additional cash flow details. At September 30, 2009, Digi's current ratio was 7.4 to 1 compared to 6.4 to 1 at September 30, 2008.

## **Fiscal 2009 Business Highlights:**

### **Recognition**

- Digi was chosen to be included in the NASDAQ OMX® Clean Edge® Smart Grid Infrastructure Index (NASDAQ:QGRD), a new benchmark for the smart grid and electric infrastructure sector. The NASDAQ OMX® Clean Edge® Smart Grid Infrastructure Index is a modified market-capitalization index and includes companies that are primarily involved in electric grid; electric meters, devices and networks; energy storage and management; and enabling software used by the smart grid and electric infrastructure sector. The index enables investors to "easily track companies that are working diligently to help fully implement an energy grid that is more efficient, cleaner and resilient."
- Fortune Small Business named Digi International one of "America's 100 Fastest Growing Small Public Companies." As a group, FSB 100 companies outperformed the stock market by a wide margin, posting an average annual return of 9.8% for the year ended May 31, 2009, compared with an

annual loss of 28.6% for the Russell Microcap Growth Index. In the July/August 2009 edition of the magazine, the editors wrote, "In good times the FSB 100 constitutes an elite group of small public companies: the best of the best, measured by revenue growth and stock performance over the past three years. But in this Great Recession, their performance is nothing short of miraculous."

## Key Partnerships and Customer Relationships

- Digi signed a partner agreement with XATA Corporation (NASDAQ: XATA), the expert in fleet operations optimization. Under the agreement, Digi will deliver iDigi, a range of its cellular and satellite communications products and services, to meet XATA's technology and connectivity needs for the for-hire and private fleet trucking marketplaces. The relationship is expected to expand over time, as XATA enhances its portfolio of communications, navigation and fleet performance software applications and Digi enables XATA's increased in-cab computing capacity.
- Addressing the increasing government demand for and support of smart grid technology, Digi partnered with leaders in the smart grid industry, such as Itron and Heliodyne, to supply Digi technology for smart grid applications in the remote monitoring and control of distribution automation (DA) devices, and solar water heating systems, to name a few. Such a modernized electricity network is a way of addressing energy independence, global warming and emergency resilience issues and is aimed at saving energy, reducing costs and increasing reliability and transparency in delivering electricity from suppliers to consumers using digital technology.
- Verizon Wireless chose Digi to provide a wireless broadband backup solution for Verizon Wireless communications stores. The Digi solution is being deployed at 300 Verizon Wireless communications stores across the US.

## iDigi Bundled Wireless Solutions

- Digi introduced iDigi Energy, a wireless M2M solution bundle optimized for energy services providers. The energy solution bundle includes the hardware, hosted software and services necessary to accelerate Smart Energy deployments. iDigi Energy lowers the barriers for companies to build robust, next generation information services by removing the complexities of remote device communication.
- Digi announced the launch of the ZigBee Smart Energy Certified ESP Gateway, built upon the industry's first ZigBee Smart Energy ready module. As a device communication standard for home area networks (HANs) selected by the U.S. Department of Energy, the ZigBee Smart Energy Profile enables utilities to intelligently manage energy loads, monitor energy use and optimize consumption.
- Digi also introduced iDigi Tank, a wireless M2M solutions bundle optimized for storage tank monitoring. iDigi Tank includes the hardware, hosted software, and services necessary to quickly and easily build applications for

connecting remote tanks of liquids, solids, and gases.

## **Wireless Acquisition**

- Digi entered the satellite M2M market with the acquisition of MobiApps assets in June 2009, a purchase that positions Digi with satellite products and technologies that complement its wireless M2M strategy and gives the company a strong presence in India.

## **Digi Innovation**

- Fiscal year 2009 marked another year of innovation for Digi with 21 new product launches, 14 of which were for wireless products.

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## Reconciliation Tables:

### Reconciliation of GAAP Operating Income to Non-GAAP Operating Income

(Dollars in thousands)	Three months ended September 30,				Twelve months ended September 30,			
	2009	% of net sales	2008	% of net sales	2009	% of net sales	2008	% of net sales
Operating income (GAAP basis)	\$ 1,103	2.8%	\$ 5,133	10.2%	\$ 3,070	1.9%	\$ 16,015	8.7%
Restructuring expenses	-	-	-	-	1,953	1.2%	-	-
In-process research and development and other acquisition-related expenses included in cost of sales and total operating expenses	-	-	-	-	-	-	2,245	1.2%
Operating income excluding restructuring expenses and in-process research and development and other acquisition-related expenses (Non-GAAP basis)	<u>\$ 1,103</u>	<u>2.8%</u>	<u>\$ 5,133</u>	<u>10.2%</u>	<u>\$ 5,023</u>	<u>3.0% *</u>	<u>\$ 18,260</u>	<u>9.9%</u>

\* percentages presented may not add due to rounded numbers.

### Reconciliation of GAAP Net Income and Net Income per Diluted Share to Non-GAAP Net Income and Net Income per Diluted Share

(Dollars in thousands, except per share amounts)	Three months ended September 30,				Twelve months ended September 30,			
	2009		2008		2009		2008	
Net income and net income per common share, diluted (GAAP basis)	\$ 959	\$ 0.04	\$ 3,599	\$ 0.14	\$ 4,083	\$ 0.16	\$ 12,351	\$ 0.47
Restructuring expenses, net of taxes	-	-	-	-	1,863	0.07	-	-
In-process research and development and other acquisition-related expenses included in cost of sales and total operating expenses, net of taxes	-	-	-	-	-	-	2,125	0.08
Writedown of an impaired investment, net of taxes	-	-	743	0.03	-	-	663	0.03
Reversal of tax reserves and other discrete tax benefits	(273)	(0.01)	(309)	(0.01)	(1,156)	(0.05)	(506)	(0.02)
Net income and net income per common share, diluted, adjusted for restructuring expenses, net of taxes, in-process research and development and other acquisition-related expenses, net of taxes, writedown of an impaired investment, net of taxes, and reversal of tax reserves and other discrete tax benefits (Non-GAAP basis)	<u>\$ 686</u>	<u>\$ 0.03</u>	<u>\$ 4,033</u>	<u>\$ 0.16</u>	<u>\$ 4,790</u>	<u>\$ 0.19 *</u>	<u>\$ 14,633</u>	<u>\$ 0.56</u>

\* earnings per share presented are calculated by line item and certain amounts may not add due to use of rounded numbers

## Guidance

Digi projects revenue in a range of \$40 million to \$44 million for the first fiscal quarter of 2010, and net income per fully diluted share in a range of \$0.02 to \$0.08.

For the full year fiscal 2010, Digi projects revenue in a range of \$165 million to \$190 million, or an increase of 0% to 14.5% over fiscal year 2009. Digi projects net income per fully diluted share to be in a range of \$0.16 to \$0.42.

## Fourth Quarter and Year-End 2009 Conference Call Details

Digi's management will discuss the fourth quarter and year-end results, on Thursday, October 29, 2009, after market close at 5:00 p.m. EST (4:00 p.m. CST). To join the call, please dial (866) 783-2145 and enter pass code 49615082. International participants may access the call by dialing (857) 350-1604 and entering pass code 49615082. A replay will be available two hours after the

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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 36829880 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).

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**Links:**

[1] <http://www.digi.com/news/pressrelease.jsp?prid=629>