UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K/A

AMENDMENT NO. 1 TO CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported)	May 26, 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):

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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Item 9.01. Financial Statements and Exhibits.

On May 26, 2005, Digi International Inc. (the "Company") entered into an Agreement and Plan of Merger among the Company, Karat Sub Inc., a wholly owned subsidiary of the Company ("Merger Sub"), and Z-World, Inc. ("Z-World") dated as of May 26, 2005 (the "Merger Agreement"). Pursuant to the terms of the Merger Agreement, Merger Sub merged into Z-World and all outstanding shares of capital stock, and all options to purchase capital stock, of Z-World were converted into the right to receive an aggregate of $49 million in cash (the "Merger"). As a result of the Merger, Z-World became a wholly owned subsidiary of the Company and its name was changed to Rabbit Semiconductor Inc.

This Amendment No. 1 to Current Report on Form 8-K/A includes certain financial information required by Item 9.01 that was not contained in the Current Report on Form 8-K dated May 26, 2005 (File No. 0-17972) relating to the Merger.

(a) **Financial Statements of Z-World, Inc. — September 30, 2004 and 2003**

The following information is attached hereto as Exhibit 99.2:

Independent Auditors' Report

Balance Sheets as of September 30, 2004 and 2003

Statements of Operations for the years ended September 30, 2004 and 2003

Statements of Stockholders' Equity for the years ended September 30, 2004 and 2003

Statements of Cash Flows for the years ended September 30, 2004 and 2003

Notes to Financial Statements

Financial Statements of Z-World, Inc. — March 31, 2005 and 2004 (unaudited)

The following information is attached hereto as Exhibit 99.3:

Balance Sheet as of March 31, 2005 (unaudited)

Statements of Operations for the six months ended March 31, 2005 and 2004 (unaudited)

Statements of Cash Flows for the six months ended March 31, 2005 and 2004 (unaudited)

Notes to Financial Statements (unaudited)

(b) **Unaudited Pro Forma Combined Condensed Financial Statements**

The following information is attached hereto as Exhibit 99.4:

Pro Forma Combined Condensed Statement of Operations for the year ended September 30, 2004 (unaudited)

Pro Forma Combined Condensed Statement of Operations for the nine months ended June 30, 2005 (unaudited)

Notes to Unaudited Pro Forma Combined Condensed Financial Statements

(c) The following exhibits are filed or furnished herewith:

2	Agreement and Plan of Merger among Digi International Inc., Karat Sub Inc. and Z-World, Inc. dated as of May 26, 2005 (excluding schedules and exhibits, which the Registrant agrees to furnish supplementally to the Securities and Exchange Commission upon request)
23	Consent of Independent Auditors
99.1	Press Release dated May 26, 2005 regarding the acquisition of Z-World, Inc.
99.2	Financial Statements of Z-World, Inc. — September 30, 2004 and 2003
99.3	Financial Statements of Z-World, Inc. — March 31, 2005 and 2004 (unaudited)
99.4	Pro Forma Financial Information

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: September 15, 2005

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

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EXHIBIT INDEX

No.	Exhibit	Manner of Filing
2	Agreement and Plan of Merger among Digi International Inc., Karat Sub Inc. and Z-World, Inc. dated as of May 26, 2005 (excluding schedules and exhibits, which the Registrant agrees to furnish supplementally to the Securities and Exchange Commission upon request)	Incorporated by Reference to Exhibit 2 to the Current Report on Form 8-K dated May 26, 2005 (File No. 0-17972).
23	Consent of Independent Auditors	Filed Electronically
99.1	Press Release dated May 26, 2005 regarding the acquisition of Z-World, Inc.	Incorporated by Reference to Exhibit 99 to the Current Report on Form 8-K dated May 26, 2005 (File No. 0-17972).
99.2	Financial Statements of Z-World, Inc. — September 30, 2004 and 2003	Filed Electronically
99.3	Financial Statements of Z-World, Inc. — March 31, 2005 and 2004	Filed Electronically
99.4	Pro Forma Financial Information	Filed Electronically

Independent Auditors' Consent

The Board of Directors
Digi International Inc.:

We consent to the incorporation by reference in the registration statements (No.'s 333-00099, 333-23857, 333-57869, 333-53366, 333-55488, 333-82674, 333-82678, 333-82668, 333-82670, and 333-82672) on Form S-8 of Digi International Inc. of our report dated November 5, 2004, with respect to the balance sheets of Z-World, Inc. as of September 30, 2004 and 2003, and the related statements of operations, stockholders' equity, and cash flows for the years then ended, which report appears in the Form 8-K/A of Digi International Inc. dated May 26, 2005.

/s/ KPMG LLP

Mountain View, California
September 12, 2005

EXHIBIT 99.2

Z-WORLD, INC.

Financial Statements

September 30, 2004 and 2003

(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors Z-World, Inc.:

We have audited the accompanying balance sheets of Z-World, Inc. as of September 30, 2004 and 2003, and the related statements of operations, stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Z-World, Inc. as of September 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

Mountain View, California

November 5, 2004

Z-WORLD, INC.

Balance Sheets

September 30, 2004 and 2003

	2004	2003
Assets		
Current assets:		
Cash and cash equivalents	$ 974,617	1,254,618
Certificates of deposit, current	—	441,260
Accounts receivable, net of allowance of $100,000 and $94,000 in 2004 and 2003, respectively	2,996,128	2,465,279
Inventories	7,545,975	3,275,040
Prepaid expenses and other current assets	514,609	407,182
Related party notes receivable, current portion	—	16,666
Other notes receivable, current portion	17,238	—
Deferred income taxes	199,103	350,843
Current assets of discontinued operations	—	329,192
Total current assets	12,247,670	8,540,080
Certificates of deposit, net of current	—	210,467
Property and equipment, net	2,599,353	1,797,579
Related party notes receivable, net of current portion	—	72,584
Other notes receivable, net of current portion	59,566	—
Deferred income taxes	183,720	235,521
Land held for future use	352,565	352,565
Other assets	7,813	15,100
Long-term assets of discontinued operations	—	9,399
Total assets	$15,450,687	11,233,295
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 1,099,139	497,576
Accrued liabilities	1,561,343	1,386,805
Deferred revenue	61,000	98,000
Capital lease obligation, current portion	214,445	107,542
Stock repurchase note payable, current portion	71,572	68,268
Current liabilities of discontinued operations	—	63,275
Total current liabilities	3,007,499	2,221,466
Revolving line of credit	2,275,000	300,000
Capital lease obligation, net of current portion	510,730	278,923
Stock repurchase note payable, net of current portion	476,249	547,821
Long-term liabilities of discontinued operations	—	139,045
Total liabilities	6,269,478	3,487,255
Minority interest of discontinued operations	—	66,773
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, no par value. Authorized 1,000,000 shares; none issued or outstanding	—	—
Common stock, Class A voting, no par value. Authorized 1,000,000 shares; issued and outstanding 45,325 shares	87,782	87,782
Common stock, Class B nonvoting, no par value. Authorized 1,000,000 shares; issued and outstanding 636,214 shares and 626,296 shares as of September 30, 2004 and 2003, respectively	313,191	250,071
Retained earnings	8,780,236	7,341,414
Total stockholders' equity	9,181,209	7,679,267
Total liabilities and stockholders' equity	$15,450,687	11,233,295

See accompanying notes to financial statements.

Z-WORLD, INC.

Statements of Operations

Years ended September 30, 2004 and 2003

	2004	2003
Hardware and component revenues	$27,073,869	20,381,309
Software revenues	219,797	380,435
Total revenues	27,293,666	20,761,744
Cost of revenues	13,479,903	8,794,867
Gross profit	13,813,763	11,966,877
Operating expenses:		
Research and development	3,577,681	3,118,143
Sales and marketing	3,586,585	2,966,150
General and administrative	4,671,898	3,798,272
Total operating expenses	11,836,164	9,882,565
Operating income	1,977,599	2,084,312
Other income (expense):		
Interest expense	(118,391)	(104,258)
Interest income	13,074	23,209
Other, net	12,203	9,475
Total other expense	(93,114)	(71,574)
Income before tax provision and discontinued operations	1,884,485	2,012,738
Income taxes	424,687	636,502
Income before discontinued operations	1,459,798	1,376,236
(Loss) income from discontinued operations, net of income tax of $(5,772) and $6,596, respectively	(20,976)	14,471
Net income	$ 1,438,822	1,390,707

See accompanying notes to financial statements.

Z-WORLD, INC.

Statements of Stockholders' Equity

Years ended September 30, 2004 and 2003

	Common stock					
	Class A voting		Class B nonvoting			
	Shares	Amount	Shares	Amount	Retained earnings	Total
Balance at September 30, 2002	45,325	$ 87,782	617,790	$ 197,573	5,950,707	6,236,062
Issuance of 2,000 shares of Class B common stock to consultant for services rendered	—	—	2,000	14,460	—	14,460
Exercise of stock options	—	—	6,506	38,038	—	38,038
Net income	—	—	—	—	1,390,707	1,390,707
Balance at September 30, 2003	45,325	87,782	626,296	250,071	7,341,414	7,679,267
Issuance of 2,000 shares of Class B common stock to consultant for services rendered	—	—	2,000	16,800	—	16,800
Exercise of stock options	—	—	7,918	46,320	—	46,320
Net income	—	—	—	—	1,438,822	1,438,822
Balance at September 30, 2004	45,325	$ 87,782	636,214	$ 313,191	8,780,236	9,181,209

See accompanying notes to financial statements.

Z-WORLD, INC.

Statements of Cash Flows

Years ended September 30, 2004 and 2003

	2004	2003
Cash flows from operating activities:		
Net income	$ 1,459,798	1,376,236
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	635,980	403,657
Loss on disposal of asset	—	412
Deferred income taxes	203,541	225,051
Issuance of stock to consultant	16,800	14,460
Interest accrued on related party notes receivable	—	(2,662)
Interest accrued on certificates of deposit	(6,386)	(7,337)
Interest accrued on capital lease obligation	—	12,873
Net changes in operating assets and liabilities:		
Accounts receivable	(530,849)	(923,441)
Inventories	(4,270,935)	(509,942)
Prepaid expenses and assets	(94,368)	205,769
Accounts payable	601,563	(80,316)
Accrued liabilities	174,538	155,735
Deferred revenue	(37,000)	65,000
Net cash (used in) provided by operating activities	(1,847,318)	935,495
Cash flows from investing activities:		
Disbursements on notes receivable	—	(30,000)
Repayments of notes receivable	12,446	696,791
Purchases of property and equipment	(902,245)	(917,799)
Proceeds from sale of JK Microsystems, Inc.	42,750	—
Proceeds of certificates of deposit, net	658,113	(7,497)
Net cash used in investing activities	(188,936)	(258,505)
Cash flows from financing activities:		
Exercise of stock options	46,320	38,038
Repayments of notes payable and capital lease obligation	(68,268)	(531,998)
Borrowings on line of credit	2,125,000	729,995
Repayments on line of credit	(150,000)	(429,995)
Payments of stock repurchase payable	(196,799)	(65,113)
Net cash provided by (used in) financing activities	1,756,253	(259,073)
Net (decrease) increase in cash and cash equivalents	(280,001)	417,917
Cash and cash equivalents, beginning of year	1,254,618	836,701
Cash and cash equivalents, end of year	$ 974,617	1,254,618
Supplemental disclosures of cash flow information:		
Cash paid for taxes	$ 425,000	450,000
Cash paid for interest	98,604	104,258
Noncash transaction:		
Machinery acquired under capital lease	$ 535,509	—
Cash at beginning of periods – discontinued operations	$ 76,699	79,789
Cash provided by (used in) discontinued operations	21,157	(3,090)
Sale of discontinued operations	(97,856)	—
Cash at end of periods – discontinued operations	$ —	76,699

See accompanying notes to financial statements.

(1) Organization, Business, and Summary of Significant Accounting Policies

Z-World, Inc. (the Company) is a California corporation that was incorporated on October 1, 1983. The Company is engaged in the development, manufacture, and sale of embedded control solutions, including single-board computers, core modules, microprocessors, operator interfaces, expansion boards, and Ethernet connectivity products. The Company also develops and designs software products to aid customers in the use of the Company's products. Eighty-five percent of these customers are originally equipment manufacturers (OEMS), which are located in 20 countries including the United States.

On July 15, 1996, the Company acquired 51% of a newly formed corporation, JK Microsystems, Inc. (JK), a California corporation which is engaged in the development, manufacture, and sale of DOS-based miniature controllers to OEMs located throughout the world. On March 31, 2004, the Company sold its 51% interest in JK to the remaining stockholders thereby divesting all further interest.

(a) Consolidation and Discontinued Operations

The accompanying financial statements show the effects of divesting JK and present the results of JK as of September 30, 2004 and 2003 as a discontinued operation.

(b) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(c) Concentration Risk

The Company's purchases are concentrated with four suppliers. For the years ended September 30, 2004 and 2003, these four suppliers provided 56% of all raw materials purchased.

Certain key components of the Company's products are sole sourced. Loss of one of these suppliers could adversely impact the Company's operations.

The Company performs ongoing credit evaluations of its customers' financial condition and does not require collateral. The Company maintains reserves for potential credit losses and such losses have historically been within management's expectations. Sales are not concentrated geographically and no single customer accounted for more than 7% of total sales during fiscal years 2004 and 2003.

The Company maintains cash and cash equivalents with various major financial institutions. Cash equivalents consist primarily of investments in certificates of deposit. The Company believes that no significant concentration risk exists with respect to its cash and investments.

(d) Certificates of Deposit

The Company maintains certificates of deposit (CDs) with financial institutions with maturities ranging from 30 days to 2 years. The Company redeemed all CDs during the September 30, 2004 fiscal year. Interest rates for CDs held as of September 30, 2003 range from 0.95% to 3.54%.

(e) Inventories

Inventories are valued at the lower of cost (first-in, first-out basis) or market and consisted of the following components as of September 30, 2004 and 2003:

	2004	2003
Raw materials	$4,408,100	1,804,870
Work-in-process	1,093,940	760,821
Finished goods	2,043,935	709,349
	$7,545,975	3,275,040

The Company anticipates that its products will continue to experience price competition and potential price reductions in the future. Such future pricing actions could result in changes in the Company's estimate with respect to the net realizable value of its inventories.

(f) Property and Equipment

Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets. Property and equipment under capital lease, which consists primarily of machinery and equipment, are depreciated over the shorter of the useful life of the asset or the lease term, as are leasehold improvements. The estimated useful lives of assets are as follows:

Machinery and equipment	5 years
Software and computer equipment	3 years
Furniture and fixtures	7 years
Leasehold improvements	Shorter of useful life of the assets or life of lease

Maintenance and repairs are expensed as incurred.

(g) Software Development Costs

In accordance with Statement of Financial Accounting Standards (SFAS) No. 86, *Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed*, the Company capitalizes software development costs incurred after technological feasibility of the software development projects has been established. To date, all of the Company's costs for research and development of software products have been expensed as incurred since the amount of software development costs incurred subsequent to the establishment of technological feasibility has been immaterial.

(h) Stock-Based Compensation

The Company uses the intrinsic-value method to account for employee stock-based compensation in accordance with Accounting Principles Board Opinion (APB) No. 25, *Accounting for Stock Issued to Employees and Related Interpretations*.

Deferred compensation for nonemployees is recorded at the fair value of the options granted in accordance with SFAS No. 123 and is periodically remeasured as the underlying options vest in accordance with Emerging Issues Task Force (EITF) Issue No. 96-18 *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*. The compensation expense related to all grants is amortized over the vesting period of the related stock options in accordance with Financial Accounting Standards Board Interpretation No. 28 (FIN 28), as that methodology most closely approximates the way in which the options are earned by the option holder.

Pro forma information regarding net loss is required by SFAS No. 123, *Accounting for Stock-Based Compensation*, and has been determined as if the Company had accounted for its stock-based awards to employees using the fair-value method prescribed by SFAS No. 123. For purposes of pro forma disclosures, the estimated fair-value of options is amortized to expense over the options' vesting period. The effect of applying the fair-value method to the Company's employee stock option grants results in pro forma net income (loss) that is not materially different from the amounts reported for the years ended September 30, 2004 and 2003.

The fair value of the Company's stock options granted to employees was estimated on the date of grant using the minimum-value pricing model with the following weighted average assumptions:

Expected life of option	5 years
Risk-free interest rate	5.5%
Expected dividend yield	—

The minimum-value option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions.

(i) Revenue Recognition

Revenue consists of sales to end-users, dealers, and distributors. Revenue is generally recognized upon product shipment provided that evidence of an arrangement exists, the price is fixed or determinable, and collectibility is reasonably assured. The Company provides for estimated sales returns and allowances and warranty costs related to sales at the time of shipment.

The Company accounts for multiple-element arrangements in accordance with EITF 00-21, *Revenue Arrangements with Multiple Deliverables*. Software and hardware components have been identified as separate accounting units when sold in multiple-element contract arrangements, and software is not essential to the functionality of the hardware. The Company accounts for the sale of software products in accordance with Statement of Position (SOP) 97-2, *Software Revenue Recognition*, as amended by SOP 98-09.

The Company provides free postcontract customer support (PCS) on its software products for one full year from the time of purchase. PCS consists principally of technical product support upgrade enhancements offered by the Company during PCS arrangements and has historically been and continues to be insignificant, and the estimated cost of providing PCS during the arrangement is insignificant. As a result, the Company has recorded an accrual for such estimated costs in the amount of $16,000 and $33,000 as of September 30, 2004 and 2003, respectively.

Enhanced technical support and upgrade contracts for software products can be purchased separately for one year and are renewable from year to year. Revenue from enhanced technical support contracts is amortized over the service period and recognized ratably. Revenue deferred for enhanced technical support was $45,000 and $65,000 as of September 30, 2004 and 2003, respectively.

The Company also provides free technical support for hardware product sales for one year from the time of purchase. The Company has accrued $125,000 for these costs as of September 30, 2004 and 2003.

(j) Warranty Costs

The Company warrants its products for a period of 90 days. The Company provides for the estimated costs to be incurred under these product warranty arrangements at the time of sale. As of September 30, 2004 and 2003, warranty activity and the related year-end reserves were not significant.

(k) Advertising Costs

The Company expenses advertising costs as incurred. Advertising costs totaled approximately $542,831 and $589,432 during the years ended September 30, 2004 and 2003, respectively.

(l) Shipping and Handing Costs

EITF No. 00-10, *Accounting for Shipping and Handling Fees and Costs*, was issued in 2000 and is effective for the fiscal year ended September 30, 2002. In accordance with EITF No. 00-10, all amounts billed to a customer in a sales transaction related to shipping and handling represent revenues earned for the goods provided and are classified as revenues. The related shipping and handling costs are classified as cost of revenues.

(m) Income Taxes

Income taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(2) Property and Equipment

Property and equipment at September 30, 2004 and 2003 consisted of:

	2004	2003
Machinery and equipment	$ 2,907,927	1,940,399
Software and computer equipment	1,914,748	1,315,941
Furniture and fixtures	353,824	302,918
Leasehold improvements	425,250	277,335
Construction-in-progress	135,747	463,143
	5,737,496	4,299,736
Less accumulated depreciation	(3,138,143)	(2,502,157)
	$ 2,599,353	1,797,579

Included in machinery and equipment is $1,031,850 and $496,341 of equipment under capital leases with accumulated depreciation of $281,470 and $112,268 as of September 30, 2004 and 2003, respectively.

(3) Notes Receivable

The Company has a stockholder note receivable that was included in prepaid expenses and other current assets, amounting to $23,743 as of September 30, 2004. This note is due in September 2006 and accrues interest of 4.5%.

On September 30, 2003, JK issued notes to its shareholders, which included the Company, as consideration for dividends it declared. During the year ended September 30, 2004, the Company divested itself of JK. Principal and interest payments are due quarterly over a five-year period. The notes earn interest at 3.39%. The current portion of the notes at September 30, 2004 was $17,238, and the long-term portion was $59,566.

(4) Accrued Liabilities

Accrued liabilities consisted of the following at September 30, 2004 and 2003:

	2004	2003
Accrued compensation	$ 1,012,468	794,006
Other accrued liabilities	548,875	592,799
	$ 1,561,343	1,386,805

(5) Notes Payable and Revolving Line of Credit

(a) Notes Payable – Related Party

On September 30, 2003, JK issued notes payable to its shareholders as consideration for dividends it declared. During the year ended September 30, 2004, the Company divested itself of JK. The sales transaction transferred net assets to the purchaser of JK.

(b) Notes Payable – Stock Repurchase

On September 1, 1997, the Company entered into a stock repurchase agreement (the Repurchase Agreement) which provided for the repurchase of 12,000 shares of Class A common stock and 12,000 shares of Class B common stock. The Repurchase Agreement initially required monthly payments equal to approximately 0.89% of the Company's consolidated net revenues for 108 consecutive months commencing September 1997. Management of the Company estimated the total amount of payments required under the Repurchase Agreement based on projected sales. Effective June 1, 2002, the Company restructured the Repurchase Agreement to a fixed amount. The new agreement requires the Company to make principal and interest payments of $8,000 a month. Interest is accrued at the lowest rate allowed by the IRS under an installment sale, which was 4.74% at September 30, 2004 and 2003. The note matures June 1, 2011 and has a principal balance of $510,730 at September 30, 2004, of which $71,572 is due in fiscal year 2005.

(c) Revolving Line of Credit

During the year ended September 30, 2003, the Company entered into a $5,000,000 revolving line of credit arrangement with a bank. Borrowings available under the line are based on an asset-based borrowing calculation. On September 30, 2004, the total amount available for disbursements was $4,914,898, of which $2,275,000 was outstanding. Interest is accrued based on one of two options: the one-year LIBOR plus 2% or the bank's prime lending rate. The interest rates as of September 30, 2004 and 2003 were 4.48% and 3.20%, respectively. Monthly interest-only payments are required. Interest in the amount of $26,274 and $11,216 was paid during the years ended September 30, 2004 and 2003, respectively. The line is renewable at the bank's option every year for an additional two-year commitment and expires January 31, 2006. Principal payments are due one year from the date the line of credit is not renewed by the bank. The line requires that certain covenants be met to maintain good credit standing. The Company was in compliance with all covenants as of September 30, 2004.

At September 30, 2004, the aggregate future maturities by fiscal year of all notes payable, the line of credit, and the stock repurchase payables are as follows:

Year ending September 30:	
2005	$ 71,572
2006	2,350,042
2007	78,681
2008	82,489
2009	86,485
Thereafter	153,552
	$2,822,821

(6) Commitments and Contingencies

In December 2002, the Company entered into a new operating lease for its main office and production facility in Davis, California. The lease is for a period of 10 years with periodic cost of living adjustments and two additional 5-year options to extend beyond the initial 10-year term.

In September 2003, the Company entered into a new operating lease on office space for its research and development group in Davis, California. The lease is for a period of five years with periodic cost of living adjustments and an option to renew for an additional five years after the initial term.

In February 2002 and November 2003, the Company entered into capital leases for manufacturing equipment for a period of five years.

Future amounts due under the Company's capital and operating leases as of September 30, 2004 are as follows:

	Capital leases	Operating leases
Year ending September 30:		
2005	$ 251,625	621,807
2006	251,625	637,852
2007	165,706	654,134
2008	122,746	670,656
2009	10,229	411,907
Thereafter	—	1,391,420
Total minimum payments	801,931	$ 4,387,776
Less interest on capital lease obligations at rates of 6.3% and 5.7%	(76,757)	
Net minimum principal payments	725,174	
Less current maturities	(214,444)	
Long-term portion	$ 510,730	

Rental expense charged to operations for operating leases was $658,657 and $471,034 for the years ended September 30, 2004 and 2003, respectively.

(7) Stockholders' Equity

(a) Common Stock

On October 31, 1995, the Company's board of directors approved the creation of two classes of common stock, designated "Class A voting" and "Class B nonvoting." Unlike the holders of Class A voting shares, the holders of Class B nonvoting shares are not entitled to any notice of stockholders' meetings and are not entitled to vote upon the election of directors or any items affecting management of the Company, except where such notice or vote is required by law or by the Company's Articles of Incorporation.

During the years ended September 30, 2004 and 2003, the Company issued 2,000 shares and 2,000 shares, respectively, of its Class B nonvoting common stock to a consultant for services rendered. The shares were issued at a fair value determined by the board of directors of $8.40 and $7.23, respectively, per share, and the related expense was recorded in operating expenses in the accompanying statements of operations.

(b) Stock Option Plan

The Company has established a stock option plan (the Plan) effective January 15, 1998 to create additional incentives for key employees, directors, and consultants of the Company. The Company initially reserved 65,000 shares of Class B nonvoting stock for issuance under the Plan, and on June 1, 2004, the Company reserved an additional 55,000 shares of Class B nonvoting stock for issuance under the Plan. Option grants under the Plan vest at a rate of no less than 20% per year over a five-year period and expire five years from the grant date. The exercise price of options granted under the Plan are determined by the Company's board of directors assisted by an independent business appraisal and must be at least equal to the fair market value of the Company's stock on the grant date.

A summary of stock option activity and information relating to the Plan for the years ended September 30, 2004 and 2003 is as follows:

	Class B nonvoting options	Weighted average exercise price
Outstanding as of September 30, 2002	41,352	$ 6.49
Granted	7,000	8.00
Exercised	(6,506)	5.85
Forfeited or canceled	(938)	6.80
Outstanding as of September 30, 2003	40,908	6.85
Granted	10,700	8.50
Exercised	(7,916)	5.85
Forfeited or canceled	(7,614)	7.18
Outstanding as of September 30, 2004	36,078	7.49
Exercisable as of September 30, 2004	20,796	6.70

The following summarizes information about the stock options outstanding as of September 30, 2004:

			Outstanding options	
Exercise prices	Number of options outstanding	Number of options exercisable	Weighted average exercise price	Weighted average remaining life (years)
$6.00	9,333	9,280	$6.00	0.80
7.00	5,021	4,012	7.00	1.77
8.00	11,024	6,304	8.00	2.70
8.50	10,700	1,200	8.50	3.06
	36,078	20,796		

The weighted average remaining contractual life as of September 30, 2004 for outstanding and exercisable stock options was 2.14 years and 1.52 years, respectively.

(8) Employee Benefit Plans

The Company sponsors a defined contribution profit sharing plan covering all employees. Annual contributions are made at the discretion of the Company's board of directors and are based upon a percentage of each covered employee's salary. Company contributions to the Plan during the years ended September 30, 2004 and 2003 were $175,000 and $200,000, respectively.

During fiscal 1996, the Company established a qualified deferred compensation plan under Section 401(k) of the Internal Revenue Code (the 401(k) Plan). Under the 401(k) Plan, eligible employees may elect to defer a portion of their compensation, subject to certain limitations. The Company may, at its discretion, contribute an amount of matching contributions to the 401(k) Plan. During the years ended September 30, 2004 and 2003, the Company's contributions to the 401(k) Plan totaled approximately $125,000 and $110,000, respectively.

(9) Income Taxes

The income tax provision consisted of the following components for the years ended September 30, 2004 and 2003:

	2004	2003
Current:		
Federal	$ 215,374	418,047
State	—	—
	215,374	418,047
Deferred:		
Federal	167,120	236,401
State	36,421	(11,350)
	203,541	225,051
	$ 418,915	643,098

The difference between the Company's provision for income taxes as presented in the accompanying statements of operations for the years ended September 30, 2004 and 2003 and the provision for income taxes computed at the statutory rate is primarily a result of research tax credits, a dividends received deduction, manufacturers' credits, and the extraterritorial income exclusion.

Deferred income taxes are provided for the effects of differences in the timing of income and expenses for financial reporting and income tax purposes. The primary sources of these differences relate to depreciation, inventory valuation, accrued vacation, and reserves for doubtful accounts. The Company also has approximately $86,000 and $98,000 of manufacturing and research and development credits as of September 30, 2004 and 2003, respectively.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences.

(10) Discontinued Operations

In March 2004, the Company completed the sale of JK to the remaining 49% owners of JK. The business qualified as discontinued operations of the Company under SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* The Company has reported the results of operations and financial position of the business in discontinued operations within the statements of operations and the balance sheets for the periods presented. The Company has excluded the cash flow activity for the business from the statements of cash flows for the periods presented.

The results from discontinued operations as of September 30 were as follows:

	2004	2003
Revenues	$ 360,369	820,499
Cost of revenues	131,576	372,278
Gross profit	228,793	448,221
Operating expenses	169,182	400,653
Operating income	59,611	47,568
Interest expense	2,882	10
Loss on disposal	55,686	—
Other, net	(13)	6,251
Income before minority interest and taxes	1,056	41,307
Minority interest	27,804	20,240
(Loss) income before taxes	(26,748)	21,067
Income tax (benefit) expense	(5,772)	6,596
(Loss) income from discontinued operations, net of tax	$ (20,976)	14,471

The Company recorded a pretax loss from disposal of $55,686 and net pretax income on discontinued operations of $28,938, which is net of minority interest of $27,804 in 2004. Net pretax income on discontinued operations for 2003 was $21,067. The net assets were primarily comprised of accounts receivable; inventory; property, plant, and equipment; accounts payable; accrued liabilities; and a note payable. Net proceeds received in connection with the sale were approximately $42,750.

EXHIBIT 99.3

Z-WORLD, INC.

Financial Statements

March 31, 2005 and 2004

(Unaudited)

Z-WORLD, INC.

Balance Sheets

(unaudited)

	March 31, 2005
Assets	
Current assets:	
Cash and cash equivalents	$ 1,027,189
Accounts receivable, net of allowance of $100,000	3,520,461
Inventories	6,279,484
Prepaid expenses and other current assets	849,412
Related party notes receivable, current portion	17,238
Deferred income taxes	220,626
Total current assets	11,914,410
Property and equipment, net	4,096,278
Related party notes receivable, net of current portion	51,091
Land held for future use	352,565
Other assets	15,625
Total assets	$ 16,429,969
Liabilities and Stockholders' Equity	
Current liabilities:	
Accounts payable	$ 1,345,475
Accrued compensation	709,790
Other accrued liabilities	577,707
Capital lease obligation, current portion	421,188
Stock repurchase note payable, current portion	71,572
Total current liabilities	3,125,732
Revolving line of credit	2,275,000
Capital lease obligation, net of current portion	1,399,401
Stock repurchase note payable, net of current portion	440,885
Deferred income taxes, net	28,678
Total liabilities	7,269,696
Commitments and contingencies	
Stockholders' equity:	
Preferred stock, no par value. Authorized 1,000,000 shares; none issued or outstanding	—
Common stock, Class A voting, no par value. Authorized 1,000,000 shares; issued and outstanding 45,325 shares	87,782
Common stock, Class B nonvoting, no par value. Authorized 1,000,000 shares; issued and outstanding 642,512 shares	360,669
Retained earnings	8,711,822
Total stockholders' equity	9,160,273
Total liabilities and stockholders' equity	$ 16,429,969

See accompanying notes to unaudited financial statements.

Z-WORLD, INC.

Statements of Operations

(unaudited)

	Six months ended March 31,	
	2005	2004
Hardware and component revenues	$13,926,281	$12,465,276
Software revenues	212,326	113,771
Total revenues	14,138,607	12,579,047
Cost of revenues	7,456,263	5,493,389
Gross profit	6,682,344	7,085,658
Operating expenses:		
Research and development	1,774,415	1,545,851
Sales and marketing	1,918,834	1,654,795
General and administrative	2,978,324	2,169,785
Total operating expenses	6,671,573	5,370,431
Operating income	10,771	1,715,227
Other income (expense):		
Interest expense	(112,492)	(50,048)
Interest income	3,988	8,579
Other, net	4,398	426
Total other expense	(104,106)	(41,043)
(Loss) income before income taxes and discontinued operations	(93,335)	1,674,184
Income tax (benefit) provision	(24,920)	404,286
(Loss) income before discontinued operations	(68,415)	1,269,898
Loss from discontinued operations, net of income tax benefit of $5,772	—	(20,976)
Net (loss) income	$ (68,415)	$ 1,248,922

See accompanying notes to unaudited financial statements.

Z-WORLD, INC.

Statements of Cash Flows

(unaudited)

	Six Months Ended March 31, 2005	Six Months Ended March 31, 2004
Cash flows from operating activities:		
Net income	$ (68,415)	$ 1,269,898
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	443,686	279,830
Provision for inventory obsolescence	425,756	452,264
Provision for bad debts	10,489	42,710
Deferred income taxes	190,875	83,462
Issuance of stock to consultant	9,660	8,400
Interest accrued on certificates of deposit	—	(6,376)
Net changes in operating assets and liabilities:		
Accounts receivable	(534,822)	(176,024)
Inventories	840,735	(4,725,547)
Prepaid expenses and other current assets	(248,679)	(174,399)
Accounts payable	246,337	2,675,012
Accrued liabilities	(421,845)	(39,023)
Net cash provided by (used in) operating activities	893,777	(309,793)
Cash flows from investing activities:		
Repayments of related party notes receivable	8,475	4,113
Purchases of property and equipment	(704,031)	(452,573)
Proceeds from sale of JK Microsystems	—	42,750
Net cash used in investing activities	(695,556)	(405,710)
Cash flows from financing activities:		
Exercise of stock options	37,818	10,430
Repayment of notes payable and capital lease obligation	(148,103)	(103,207)
Borrowings on line of credit	—	375,000
Repayments on line of credit	—	(150,000)
Payments of stock repurchase payable	(35,364)	(33,730)
Net cash (used in) provided by financing activities	(145,649)	98,493
Net increase (decrease) in cash and cash equivalents	52,572	(617,010)
Cash and cash equivalents, beginning of period	974,617	1,254,618
Cash and cash equivalents, end of period	$ 1,027,189	$ 637,608

See accompanying notes to unaudited financial statements.

Z-WORLD, INC.

Notes to Financial Statements

March 31, 2005 and 2004
(unaudited)

(1) Organization, Business, and Basis of Presentation

Z-World, Inc. (the Company) is a California corporation that was incorporated on October 1, 1983. The Company is engaged in the development, manufacture, and sale of embedded control solutions, including single-board computers, core modules, microprocessors, operator interfaces, expansion boards, and Ethernet connectivity products. The Company also develops and designs software products to aid customers in the use of the Company's products.

On July 15, 1996, the Company acquired 51% of a newly formed corporation, JK Microsystems, Inc. (JK), a California corporation which is engaged in the development, manufacture, and sale of DOS-based miniature controllers to original equipment manufacturers located throughout the world. On March 31, 2004 the Company sold its 51% interest in JK to the remaining stockholders, thereby divesting all further interest. The accompanying statement of operations shows the effects of divesting JK and presents the results of JK for the six months ended March 31, 2004 as a discontinued operation.

The balance sheet as of March 31, 2005 and the statements of operations and cash flows for the six months ended March 31, 2005 and 2004 have been prepared by the Company without audit. The amounts for the six months ended March 31, 2005 and 2004 and at March 31, 2005 included within the notes to the financial statements have also been prepared by the Company without audit. In the opinion of the Company's management, all adjustments (which include only normal recurring adjustments) necessary for a fair statement of the financial position, results of operations and cash flows at March 31, 2005 and for the six month periods ended March 31, 2005 and 2004 have been made. Interim results are not necessarily indicative of the results for the full year.

On May 26, 2005, 100% of the outstanding shares of common stock of the Company was acquired by Digi International Inc., (Digi) based in Minnetonka, Minnesota, at which time its name was changed to Rabbit Semiconductor, Inc. (see Note 7).

(2) Stock Based Compensation

In accordance with Statement of Financial Accounting Standard No. 123, "Accounting for Stock- Based Compensation" (FAS 123), the Company has chosen to account for stock-based compensation using the intrinsic-value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," (APB 25) and related interpretations. Accordingly, compensation costs for stock options granted to employees are measured as the excess, if any, of the fair value of the Company's common stock at the date of grant over the amount an employee must pay to acquire the common stock. Deferred compensation for nonemployees is recorded at the fair value of the options granted in accordance with FAS 123 and is periodically re-measured as the underlying options vest in accordance with Emerging Issues Task Force (EITF) Issue No. 96-18, "Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling of Goods or Services." The compensation expense related to all grants is amortized over the vesting period of the related stock options in accordance with Financial Accounting Standards Board Interpretation No. 8 (FIN 28), as that methodology most closely approximates the way in which the options are earned by the option holder.

Pro forma information as required by FAS 123 has been determined as if the Company had accounted for its stock-based awards by applying the fair-value-based method of accounting for its stock options granted to employees over the option vesting periods based on the fair value of options on the date of grant. The effect of applying the fair value method to the Company's employee stock option grants results in pro forma net income that is not materially different from the net income amounts reported for the six month periods ending March 31, 2005 and 2004.

In May 2005, the Company was acquired by Digi International Inc. All outstanding stock options were exchanged for cash as part of the purchase price paid by Digi (see Note 7).

(3) Inventories

Inventories are valued at the lower of cost or market value, with cost determined on the first-in, first-out method. Inventories consisted of the following:

	March 31, 2005
Raw materials	$ 4,110,606
Work-in-process	953,029
Finished goods	1,215,849
	$ 6,279,484

(4) Related Party Notes Receivable

The Company has stockholder notes receivable that are included in prepaid expenses and other current assets in the amount of $30,325 as of March 31, 2005. These notes were due in September 2006 and March 2007 and accrued interest of 4.5%. The notes were paid in full in the third quarter of fiscal 2005.

On September 30, 2003, JK issued notes payable to its shareholders as consideration for dividends it declared. On March 31, 2004 the Company divested of JK. Principal and interest payments are due quarterly over a five year period. The note accrues interest at 3.39%. The current portion of the note at March 31, 2005 was $17,238 and the long term portion was $51,091.

(5) Notes Payable and Revolving Line of Credit

(a) Notes Payable – Stock Repurchase

On September 1, 1997, the Company entered into a stock repurchase agreement (the Repurchase Agreement) which provided for the repurchase of 12,000 shares of Class A common stock and 12,000 shares of Class B common stock. The Repurchase Agreement requires monthly payments equal to approximately 0.89% of the Company's consolidated net revenues for 108 consecutive months commencing September 1997. Management of the Company estimated the total amount of payments required under the Repurchase Agreement based on projected sales. Effective June 1, 2002, the Company restructured the Repurchase Agreement to a fixed amount. The new agreement requires the Company to make principal and interest payments of $8,000 a month. Interest is accrued at the lowest rate allowed by the IRS under an installment sale, which was 4.74% at March 31, 2005. The note matures June 1, 2011 and has a principal balance of $512,457 at March 31, 2005, of which $71,572 is classified as current. The note was paid in full in the third quarter of fiscal 2005.

(b) Revolving Line of Credit

During the year ended September 30, 2003, the Company entered into a $5,000,000 revolving line of credit arrangement with a bank. Borrowings available under the line are based on an asset based borrowing calculation. On March 31, 2005 the total amount available for disbursements was $6,412,578 of which $2,275,000 was outstanding. Interest is accrued based on one of two options: the one- year LIBOR rate plus 2% or the bank's prime lending rate. The interest rate as of March 31, 2005 was 5.1%. In March 2005, the Company renewed the line of credit, which expires on January 31, 2007.

As of March 31, 2005, the aggregate future maturities by fiscal year for the line of credit and the stock repurchase payable are as follows:

Years ending September 30:	
Balance of 2005	$ 36,211
2006	75,042
2007	2,353,678
2008	82,489
2009	86,485
Thereafter	153,552
	$ 2,787,457

(6) Discontinued Operations

In March 2004, the Company completed the sale of JK to the remaining 49% owners of JK. The business qualified as discontinued operations of the Company under Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". The Company has reported the results of operations of the business in discontinued operations within the statement of operations for the six months ended March 31, 2004. The Company has excluded the cash flow activity for the business from the statements of cash flows for the same period.

The results from discontinued operations as of March 31 were as follows:

	2004
Revenues	$ 360,369
Cost of revenues	131,576
Gross profit	228,793
Operating expenses	169,182
Operating income	59,611
Interest expense	2,882
Other loss, net	55,673
Income before minority interest and taxes	1,056
Minority interest	27,804
Loss before tax benefit	(26,748)
Income tax benefit	(5,772)
Loss from discontinued operations, net of tax benefit	$ (20,976)

The Company recorded a pre-tax loss from disposal of $55,686 and net pre-tax income on discontinued operations of $28,938 which is net of minority interest of $27,804 during the six months ended March 31, 2004. The net assets were primarily comprised of accounts receivable, inventory, property plant and equipment, accounts payable, accrued liabilities, and a note payable. Net proceeds received in connection with the sale were approximately $42,750.

(7) Subsequent Event

On May 26, 2005, Digi International Inc. acquired 100% of the outstanding shares of common stock and settled all outstanding stock options of the Company. The Company is continuing to do business in Davis, California as Rabbit Semiconductor, Inc.

EXHIBIT 99.4

PRO FORMA COMBINED CONDENSED STATEMENT OF OPERATIONS

For the nine months ended June 30, 2005
(unaudited)
(in thousands, except per share data)

	Digi International Inc. Historical	Rabbit Historical	Pro Forma Adjustments	Pro Forma Combined
Net sales	$ 88,989	$ 21,091		$ 110,080
Cost of sales	34,489	12,760		47,249
Gross margin	54,500	8,331	—	62,831
Operating expenses:				
Sales and marketing	19,300	3,348		22,648
Research and development	11,850	3,461		15,311
General and administrative	11,070	2,024	$ 1,263(a)	14,357
Acquired in-process research and development	300	—		300
Total operating expenses	42,520	8,833	1,263	52,616
Operating income (loss)	11,980	(502)	(1,263)	10,215
Other income (expense), net	809	(302)	(475) (b) (373) (c)	(341)
Income (loss) before income taxes	12,789	(804)	(2,111)	9,874
Income tax benefit	(1,455)	(263)	(697) (d)	(2,415)
Net income (loss)	14,244	(541)	(1,414)	12,289
Net income per share, basic	$ 0.64			$ 0.55
Net income per share, diluted	$ 0.61			$ 0.52
Weighted average shares, basic	22,381			22,381
Weighted average shares, diluted	23,420			23,420

See accompanying notes to the pro-forma financial information.

PRO FORMA COMBINED CONDENSED STATEMENT OF OPERATIONS

For the year ended September 30, 2004
(unaudited)
(in thousands, except per share data)

	Digi International Inc. Historical	Rabbit Historical	Pro Forma Adjustments	Pro Forma Combined
Net sales	$ 111,226	$ 27,294		$ 138,520
Cost of sales	43,443	13,480		56,923
Gross margin	67,783	13,814		81,597
Operating expenses:				
Sales and marketing	25,556	3,587		29,143
Research and development	17,159	3,578		20,737
General and administrative	13,287	4,672	1,894(a)	19,853
Total operating expenses	56,002	11,837	1,894	69,733
Operating income (loss)	11,781	1,977	(1,894)	11,864
Other income (expense), net	369	(93)	(712)(b)	(996)
			(560)(c)	
Income (loss) before tax provision and discontinued operations	12,150	1,884	(3,166)	10,868
Income tax provision (benefit)	3,487	424	(887)(d)	3,024
Income (loss) before discontinued operations	$ 8,663	$ 1,460	$ (2,279)	$ 7,844
Income per share from continuing operations, basic	$ 0.41			$ 0.37
Income per share from continuing operations, diluted	$ 0.39			$ 0.36
Weighted average shares, basic	21,196			21,196
Weighted average shares, diluted	22,031			22,031

See accompanying notes to the pro-forma financial information.

DIGI INTERNATIONAL INC. UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL STATEMENTS

On May 26, 2005, Digi completed the acquisition of Rabbit Semiconductor, Inc., (Rabbit) formerly Z-World, Inc. The unaudited pro forma combined condensed statements of operations for the nine months ended June 30, 2005 and the year ended September 30, 2004 give effect to the acquisition of Rabbit as if it had occurred on October 1, 2003. The unaudited pro forma information is based on the historical consolidated financial statements of Digi and those of Rabbit, as described in the pro forma financial statements, under the purchase method of accounting and the adjustments as described in the accompanying notes to the unaudited pro forma combined condensed financial statements. The pro forma combined condensed statements of operations and accompanying notes are qualified in their entirety and should be read in conjunction with the historical consolidated financial statements of Digi and those of Rabbit.

The pro forma adjustments are based on estimates and assumptions that Digi believes are reasonable. The fair value of the consideration has been allocated to the assets and liabilities acquired based upon the estimated fair values of such assets and liabilities at the effective date of the acquisition. This allocation is preliminary, pending detailed analysis and outside appraisals of the fair value of the assets acquired and liabilities assumed.

The pro forma combined condensed financial information has been prepared in accordance with the rules and regulations of the Securities and Exchange Commission. The pro forma combined condensed financial information is intended for informational purposes only and is not necessarily indicative of the future results of operations of the consolidated company after the acquisition, or of the results of operations of the consolidated company that would have actually occurred had the acquisition been effected as of the date indicated above.

Notes to Unaudited Pro Forma Combined Condensed Financial Statements

1. Basis of Pro Forma Presentation

The unaudited pro forma combined condensed financial statements of Digi have been prepared on the basis of assumptions relating to the allocation of consideration paid to the acquired assets and liabilities of Rabbit based on their estimated fair values at the date of acquisition. The table below sets forth the preliminary purchase price allocation (in thousands):

Cash	$ 49,000
Direct acquisition costs	274
	$ 49,274
Fair value of net tangible assets acquired	$ 7,856
Identifiable intangible assets:	
Purchased and core technology	8,000
Customer relationships	3,800
Patents and trademarks	2,300
In-Process research and development	300
Goodwill	32,517
Deferred tax liabilities related to identifiable intangibles	(5,499)
	$ 49,274

2. Pro Forma Adjustments:

(a) Adjustment represents amortization of acquired identifiable intangibles of Rabbit based on estimated lives ranging from five to thirteen years. Goodwill amortization is not recorded in accordance with the provisions of Statement of Financial Accounting Standards Board No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets."

(b) Adjustment represents interest expense incurred as a result of short-term borrowings of $21.0 million at an interest rate of 3.39%, the proceeds of which were used to partially finance the acquisition of Rabbit. The effect of a 1/8% variance in interest rates would have resulted in a change to net income of $19,000 for the year ended September 30, 2004 and $12,000 for the nine months ended June 30, 2005.

(c) Adjustments represent interest income assumed to be foregone at a weighted-average rate of 2% due to the cash paid from funds generated from operations for the acquisition of Rabbit.

(d) Adjustments to income tax provision relating to adjustments (a), (b), and (c) assuming a blended U.S. federal and state income tax rate of 28% for the year ended September 30, 2004 and 33% for the nine months ended June 30, 2005.