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) **July 27, 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):

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 July 27, 2006, Digi International Inc. (the “Company”) entered into an Agreement and Plan of Merger among the Company, Ocean Acquisition Sub Inc., a wholly owned subsidiary of the Company (“Merger Sub”), and MaxStream, Inc. (“MaxStream”) dated as of July 27, 2006 (the “Merger Agreement”). Pursuant to the terms of the Merger Agreement, MaxStream merged into Merger Sub (the “Merger”) and all outstanding shares of capital stock, and all options to purchase capital stock, of MaxStream were converted into the right to receive an aggregate of $19.25 million in cash and an aggregate of 1,650,919 shares of Common Stock, par value $.01 per share, of the Company (the “Common Stock”). Of the 1,650,919 shares of Common Stock issued pursuant to the Merger Agreement, 1,598,864 shares were issued to former shareholders of MaxStream, and an additional 52,055 shares were issued to former option holders of MaxStream on cancellation of their stock options. As a result of the Merger, MaxStream ceased to exist and the name of Merger Sub was changed to MaxStream, 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 July 27, 2006 (File No. 0-17972) relating to the Merger.

(a) **Financial Statements of MaxStream, Inc. – December 31, 2005 and 2004**

The following information is attached hereto as Exhibit 99.1:

Independent Auditor’s Report

Balance Sheets as of December 31, 2005 and 2004

Statements of Income for the years ended December 31, 2005 and 2004

Statements of Changes in Stockholders’ Equity for the years ended December 31, 2005 and 2004

Statements of Cash Flows for the years ended December 31, 2005 and 2004

Notes to Financial Statements

Financial Statements of MaxStream, Inc. – June 30, 2006 and 2005 (unaudited)

The following information is attached hereto as Exhibit 99.2:

Balance Sheet as of June 30, 2006 (unaudited)

Statements of Income for the six months ended June 30, 2006 and 2005 (unaudited)

Statements of Cash Flows for the six months ended June 30, 2006 and 2005 (unaudited)

Notes to Financial Statements (unaudited)

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

The following information is attached hereto as Exhibit 99.3:

Pro Forma Combined Condensed Balance Sheet as of June 30, 2006 (unaudited)

Pro Forma Combined Condensed Statement of Operations for the year ended September 30, 2005 (unaudited)

Pro Forma Combined Condensed Statement of Operations for the nine months ended June 30, 2006 (unaudited)

Notes to Unaudited Pro Forma Combined Condensed Financial Statements

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

23	Consent of Independent Auditor
99.1	Financial Statements of MaxStream, Inc. – December 31, 2005 and 2004
99.2	Financial Statements of MaxStream, Inc. – June 30, 2006 and 2005 (unaudited)
99.3	Unaudited 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: October 12, 2006

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
23	Consent of Independent Auditor	Filed Electronically
99.1	Financial Statements of MaxStream, Inc. – December 31, 2005 and 2004	Filed Electronically
99.2	Financial Statements of MaxStream, Inc. – June 30, 2006 and 2005 (unaudited)	Filed Electronically
99.3	Unaudited Pro Forma Financial Information	Filed Electronically

Exhibit 23

Independent Auditor's Consent

The Board of Directors
Digi International Inc.:

We consent to the incorporation by reference in the registration statements (Nos. 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 March 31, 2006, with respect to the balance sheets of MaxStream, Inc. as of December 31, 2005 and 2004; and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended, which report appears in the Form 8-K/A of Digi International Inc. dated October 12, 2006.

/s/ Squire & Company, PC

Orem, Utah
October 12, 2006

Exhibit 99.1

MAXSTREAM, INC.

FINANCIAL STATEMENTS

Years Ended December 31, 2005 and 2004

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
MaxStream, Inc.

We have audited the accompanying balance sheets of MaxStream, Inc. (a Utah corporation) as of December 31, 2005 and 2004, and the related statements of income, changes in 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 audits 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 MaxStream, Inc. as of December 31, 2005 and 2004, 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/ Squire & Company, PC
Orem, Utah
March 31, 2006

MAXSTREAM, INC.
BALANCE SHEETS

December 31, 2005 and 2004	2005	2004
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 3,375,733	$ 1,708,907
Accounts receivable, net	1,111,088	659,842
Income tax receivable	—	255,222
Inventories	727,389	491,155
Other assets	13,047	14,066
Total current assets	5,227,257	3,129,192
Property and Equipment, net	269,474	138,615
Total assets	$ 5,496,731	$ 3,267,807
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 1,052,435	$ 272,191
Accrued expenses	303,326	139,596
Current portion of deferred tax liability	224,462	271,660
Other current liabilities	10,953	43,784
Total current liabilities	1,591,176	727,231
Deferred Tax Liability, net of current portion	58,174	38,375
Total liabilities	1,649,350	765,606
Series A Preferred Stock, 5,000,000 shares authorized; 4,250,000 shares issued and outstanding; no par value	1,500,000	1,500,000
Stockholders' Equity:		
Common stock, 20,000,000 shares authorized; 7,515,570 and 7,500,000 shares issued; 7,414,022 and 7,398,452 shares outstanding on December 31, 2005 and 2004, respectively; no par value	58,075	37,626
Treasury stock — at cost; 101,548 shares	(52,805)	(52,805)
Retained earnings	2,342,111	1,017,380
Total stockholders' equity	2,347,381	1,002,201
Total liabilities and stockholders' equity	$ 5,496,731	$ 3,267,807

The accompanying notes are an integral part of these financial statements.

MAXSTREAM, INC.
STATEMENTS OF INCOME

Years Ended December 31, 2005 and 2004	2005	2004
Revenues:		
Product sales	$10,404,003	$6,465,166
Design and engineering services	—	10,000
Technical support	28,066	51,143
	10,432,069	6,526,309
Cost of Sales	3,954,617	2,232,546
Gross Profit	6,477,452	4,293,763
Operating Expenses:		
General and administrative	3,461,919	2,378,768
Selling	721,966	472,885
Research and development	283,001	196,219
Total operating expenses	4,466,886	3,047,872
Income from Operations	2,010,566	1,245,891
Other Income (Expense):		
Interest income	48,495	18,609
Interest expense	(58)	(51)
Other	15,880	15,806
Total other income (expense)	64,317	34,364
Net Income Before Income Taxes	2,074,883	1,280,255
Income Tax Expense	750,152	428,088
Net Income	$ 1,324,731	$ 852,167

The accompanying notes are an integral part of these financial statements.

MAXSTREAM, INC.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2005 and 2004

	Common Stock		Treasury Stock		Retained	
	Shares	Amount	Shares	Amount	Earnings	Total
Balance at January 1, 2004	7,500,000	$ 37,626	—	$ —	$ 165,213	$ 202,839
Treasury Stock Purchased	—	—	101,548	(52,805)	—	(52,805)
Net Income	—	—	—	—	852,167	852,167
Balance at December 31, 2004	7,500,000	37,626	101,548	(52,805)	1,017,380	1,002,201
Common Stock Issued	15,570	2,993	—	—	—	2,993
Stock Options	—	17,456	—	—	—	17,456
Net Income	—	—	—	—	1,324,731	1,324,731
Balance at December 31, 2005	7,515,570	$ 58,075	101,548	$ (52,805)	$ 2,342,111	$ 2,347,381

The accompanying notes are an integral part of these financial statements.

MAXSTREAM, INC.
STATEMENTS OF CASH FLOWS

Years Ended December 31, 2005 and 2004	2005	2004
Cash Flows from Operating Activities:		
Net income	$ 1,324,731	$ 852,167
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	60,369	46,203
Bad debt expense	—	1,483
Loss on disposal of property and equipment	291	—
Deferred income tax expense (benefit)	(27,399)	172,142
Compensation from stock options granted	17,456	—
Changes in assets and liabilities:		
Accounts receivable	(451,246)	(177,838)
Inventories	(236,234)	(247,838)
Other assets	1,019	(6,066)
Accounts payable	780,244	5,478
Accrued expenses	163,730	34,260
Other current liabilities	226,273	(215,420)
Total adjustments	534,503	(387,596)
Net cash provided by operating activities	1,859,234	464,571
Cash Flows from Investing Activities:		
Proceeds from disposal of property and equipment	34	—
Purchases of property and equipment	(191,553)	(72,607)
Net cash used by investing activities	(191,519)	(72,607)
Cash Flows from Financing Activities:		
Proceeds from issuance of common stock	2,993	—
Proceeds from issuance of preferred stock	—	500,000
Purchase of treasury stock	—	(52,805)
Payments on notes payable	(3,882)	(5,676)
Net cash provided (used) by financing activities	(889)	441,519
Net Increase in Cash and Cash Equivalents	1,666,826	833,483
Cash and Cash Equivalents, Beginning of Year	1,708,907	875,424
Cash and Cash Equivalents, End of Year	$ 3,375,733	$ 1,708,907

The accompanying notes are an integral part of these financial statements.

Note 1. Summary of Significant Accounting Policies

The following is a summary of significant accounting policies followed in the preparation of these financial statements. The financial statements and notes are representations of the management of MaxStream, Inc. (the Company), which is responsible for their integrity and objectivity. The policies reflect accounting principles generally accepted in the United States of America.

The Company — The Company was incorporated under the laws of the State of Utah on September 20, 1999 to develop and manufacture radio frequency device-to-device communication systems for a variety of applications, including lighting and irrigation control systems, point-of-sale terminals, automatic meter reading, and fleet management. The Company's customers include OEMs, integrators, distributors, and governmental and educational agencies.

Use of Estimates — Management uses estimates and assumptions in the preparation of the financial statements in accordance with generally accepted accounting principles. Estimates and assumptions affect the reported amounts of assets and liabilities as well as reported revenue and expenses. Actual results could vary from the estimates used.

Revenue Recognition — The Company recognizes revenue for product sales when a valid sales agreement exists, the sales price is fixed, and the product is shipped. Design and engineering revenue is recognized when a valid contract is in place, the price of the contract is fixed, and the work is complete.

The Company allows certain resellers the right to return products for up to one year under their respective reseller agreements. As of December 31, 2005 and 2004, the Company had established a reserve in the amount of $48,032 and $30,875, respectively, as an estimated allowance for product returns.

Depreciation — Provisions for depreciation of property and equipment are computed using the straight-line method of depreciation. Depreciation is based upon the estimated useful lives of individual assets. The useful life used for computing depreciation for asset classes is described below:

Test equipment	7years
Computers and software	3years
Furniture and fixtures	7years

Depreciation expense for the years ended December 31, 2005 and 2004, was $60,369 and $46,203, respectively.

Accounts Receivable — Accounts receivable consist of amounts due from customers for products sold or services performed in the normal course of business by the Company, and are shown net of an allowance for doubtful accounts of $7,727 as of December 31, 2005 and 2004.

Note 1. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents – For the purposes of the statement of cash flows, the Company considers all highly liquid securities purchased with an original maturity of three months or less to be cash and cash equivalents.

Credit Risk Concentrations – The Company maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents. Uninsured balances at December 31, 2005, approximated $3,300,000.

Sales of the Company’s main two products comprised approximately 89% of total revenue for both the years ended December 31, 2005 and 2004. In addition, the Company purchased approximately 76% and 75% of its inventory from two suppliers during the years ended December 31, 2005 and 2004, respectively.

Income Taxes – The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, “Accounting for Income Taxes,” which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

Repairs and Maintenance – The cost of repairs and maintenance that do not result in substantial betterment to the Company’s assets are expensed as incurred.

Advertising – The Company expenses advertising costs as incurred. Advertising costs totaled $398,451 and $257,675 for the years ended December 31, 2005 and 2004, respectively.

Research and Development – Research and development costs include expenditures incurred in the development of products or enhancements to existing products. Research and development costs are charged to expense as incurred and totaled $283,001 and $196,219 for the years ended December 31, 2005 and 2004, respectively.

Inventories – Inventories are valued at the lower of cost or market. Cost is determined using the average cost method, and market is defined as the lower of replacement cost or realizable value. Inventories consist primarily of finished electronic components.

Note 2. Property and Equipment

The composition of property and equipment as of December 31, 2005 and 2004 is as follows:

	2005	2004
Electronic test equipment	$ 272,409	$ 126,771
Computers and software	162,991	121,576
Furniture and fixtures	8,204	4,531
Total property and equipment	443,604	252,878
Accumulated depreciation	(174,130)	(114,263)
Property and equipment, net	$ 269,474	$ 138,615

Note 3. Obligations Under Capital Lease

During the years ended December 31, 2005 and 2004, the Company leased equipment under a capital lease obligation, which was paid for in full during 2005. The asset amount included in property and equipment totaled $26,674, which was fully depreciated at December 31, 2005.

Note 4. Related Party Transaction / Operating Lease

During the year ended December 31, 2005, the Company renewed its lease agreement with a related party for office space. The future minimum lease payments under this lease are as follows:

Year Ending December 31,	
2006	$ 189,232
2007	192,348
Total	$ 381,580

Office lease expense totaled $156,606 and $101,140 for the years ended December 31, 2005 and 2004, respectively.

Note 5. Supplemental Information to the Statement of Cash Flows

The Company paid $58 and $51 for interest and paid $537,000 and $470,765 in income taxes during the years ended December 31, 2005 and 2004, respectively. The Company did not have any non-cash investing or financing activities during the year ended December 31, 2005. During 2004, the Company acquired assets by assuming a note payable for $7,358.

Note 6. Income Taxes

The provision for income taxes consists of the following:

	2005	2004
Current:		
Federal	$666,651	$216,044
State	110,900	39,902
	777,551	255,946
Deferred:		
Federal	(23,726)	149,067
State	(3,673)	23,075
	(27,399)	172,142
Total	$750,152	$428,088

The income tax provision reconciled to the tax computed at the statutory Federal rate of 34% is as follows:

	2005	2004
Federal income tax expense at statutory rate	$705,461	$435,287
State income tax expense, net of federal tax benefit	103,744	42,248
Utilization of net operating loss	—	(8,613)
Research and development credit	(63,965)	(43,662)
Other	4,912	2,828
Total provision	$750,152	$428,088

Significant components of deferred tax liabilities for federal and state income taxes consist of the following at December 31, 2005 and 2004:

	2005	2004
Accrual to cash adjustments	$(251,016)	$(289,255)
Allowance for bad debts	2,882	2,882
Reserve for returns	12,939	8,460
Stock options	12,713	6,201
Accrued vacation	10,733	6,253
Accumulated depreciation	(70,887)	(44,576)
Net deferred tax liability	$(282,636)	$(310,035)

Note 7. Series A Preferred Stock

Series A preferred stock is voting stock and is convertible into common stock at the option of the holder based on a pre-determined conversion ratio. The holder of each share of Series A Preferred Stock shall have the right to one vote for each share of Common Stock into which such Preferred Stock could then be converted. In the event of any liquidations, dissolution, or winding up of the Corporation either voluntary or involuntary, subject to the rights of other preferred stock, the holders of the Series A Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any of the assets of the Corporation to the holders of Common Stock by reason of their ownership thereof, an amount per share equal to the price per share for which the Series A Preferred Stock was first issued by the Corporation for each share of Series A Preferred Stock then held by them, plus declared but unpaid dividends. No dividends have been declared for the years ended December 31, 2005 and 2004. As the Series A Preferred Stock is mandatorily redeemable in the event of liquidations, dissolution or winding up of the Corporation, it is classified in mezzanine in accordance with Accounting Series Release (ASR) No. 268.

Warrants – During the year ended December 31, 2004, a warrant was exercised for the purchase of 1,416,667 shares of Series A preferred stock. As of December 31, 2005, no warrants were outstanding.

Beneficial Conversion Feature – The preferred stock of the Company is convertible into common stock based on a conversion ratio that is tied to future events. Normally, this would give rise to a "beneficial conversion feature," which should be valued and recorded separately from the preferred stock at issuance. However, according to the purchase agreement, the preferred stock is immediately convertible on the issuance date (or the commitment date) into the same number of shares of common stock. Therefore, a "beneficial conversion feature" is not considered to be present and a separate value for the conversion has not been calculated or recorded.

Note 8. Stockholders' Equity

Common Stock – The Company is authorized to issue 20,000,000 shares of common stock, of which 7,515,570 shares have been issued. In addition, 5,000,000 of the common shares are reserved for the conversion of preferred stock into common stock. As of December 31, 2005, the Company had 4,250,000 shares of preferred stock outstanding that are convertible into common stock.

Treasury Stock – During the year ended December 31, 2004, the Company repurchased 101,548 shares of the corporation's common stock at a price per share of $0.52. The shares are held by the Company as treasury stock.

Stock Options – During the year ended December 31, 2001, the Company adopted a stock incentive plan (the Plan) that provides for the issuance of options to employees to purchase up to an aggregate of 1,000,000 common shares. Twenty-five percent of the options vest beginning one year after the date of grant. The remaining 75% vest equally

Note 8. Stockholders' Equity (Continued)

over 36 months and expire on the earlier of 10 years from the date of grant or upon termination of employment. The Company has elected to expense stock options in accordance with APB Opinion No. 25 "Accounting for Stock Issued to Employees."

During the year ended December 31, 2005, the Board of Directors granted 159,806 options to 33 individuals with an exercise price of $0.30 per share. In addition, one employee exercised 15,570 options, for which the Company issued stock, and a total of 44,000 options were cancelled during the year ended December 31, 2005, because the option grantee became ineligible to exercise the options pursuant to the option agreement.

During the year ended December 31, 2004, the Board of Directors granted 44,500 options to 15 individuals with an exercise price of $0.30 per share. In addition, 16,500 options were cancelled during the year because the option grantee became ineligible to exercise the options pursuant to the option agreement.

A summary of stock option activity, and related information for the years ended December 31, 2005 and 2004, is as follows:

	Outstanding Stock Options		Weighted-Average Exercise Price
	Number Outstanding	Exercise Price	
Balance at December 31, 2003	237,000	$0.18 - 0.30	$ 0.19
Options granted	44,500	0.30	0.30
Options exercised	—	—	—
Options canceled	(16,500)	—	0.18
Balance at December 31, 2004	265,000	0.18 - 0.30	0.21
Options granted	159,806	0.30	0.30
Options exercised	(15,570)	0.18 - 0.30	0.25
Options cancelled	(44,000)	—	0.30
Balance at December 31, 2005	365,236	$0.18 - 0.30	$ 0.21

Of the total number of options outstanding at December 31, 2005 and 2004, 164,453 and 146,983 options were exercisable, respectively.

Note 8. Stockholders' Equity (Continued)

The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards (SFAS) No. 123 "Accounting of Stock-Based Compensation" as amended by SFAS No. 148 "Accounting for Stock-Based Compensation—Transition and Disclosure." Accordingly, no compensation expense has been recognized for stock options granted to employees. Had compensation expense been determined based on fair value at the grant date consistent with the provisions of SFAS 123, the Company's results of operations for the years ended December 31, 2005 and 2004, would have been reduced to the pro forma amounts indicated below:

	2005	2004
Net income as reported	$1,324,731	$852,167
Add: Total stock-based employee compensation expense included in reported net income, net of income tax effects	11,145	—
Deduct: Total stock-based employee compensation expense determined by fair value-based method of awards, net of income tax effects	(16,645)	(6,495)
Net income pro forma	$1,319,231	$845,672

The pro forma effect on net income may not be representative of the effect on net income for future periods due to among other things: (i) the vesting period of future stock options and (ii) the fair value of additional stock options in future years. The fair value of the options granted is estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	2005	2004
Expected dividend yield	$ —	$ —
Expected stock price volatility	indeterminable	indeterminable
Risk-free interest rate	4.0% - 4.5%	3.0% - 4.1%
Expected life options	5 years	5 years

The fair value of each option award granted during the periods presented was estimated using the Black-Scholes option valuation model that uses the assumptions noted in the table above. The expected life of options granted is primarily derived from the vesting period, as little historical information is available, and represents the period of time that options granted are expected to be outstanding. The risk-free rate used is the U.S. Treasury bond rate in effect at the time of the grant whose maturity equals the term to expiration of the option.

The weighted-average fair value of options granted during the years ended December 31, 2005 and 2004 was $1.23 and $0.35, respectively.

Exhibit 99.2

MAXSTREAM, INC.

FINANCIAL STATEMENTS (Unaudited)

Six Months Ended June 30, 2006 and 2005

Exhibit 99.2

MAXSTREAM, INC.
BALANCE SHEET (Unaudited)

	June 30, 2006
ASSETS	
Current Assets:	
Cash and cash equivalents	$ 3,610,332
Accounts receivable, net	959,854
Inventories	1,290,036
Other assets	19,429
Total current assets	5,879,651
Property and Equipment, net	284,849
Total assets	$ 6,164,500
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities:	
Accounts payable	$ 685,674
Accrued expenses	417,753
Current portion of deferred tax liability	123,496
Other current liabilities	121,401
Total current liabilities	1,348,324
Deferred Tax Liability, net of current portion	58,174
Total liabilities	1,406,498
Series A Preferred Stock, 5,000,000 shares authorized; 4,250,000 shares issued and outstanding; no par value	1,500,000
Stockholders' Equity:	
Common stock, 20,000,000 shares authorized; 7,528,287 shares issued; and 7,426,739 shares outstanding; no par value	89,289
Treasury stock — at cost; 101,548 shares	(52,805)
Retained earnings	3,221,518
Total stockholders' equity	3,258,002
Total liabilities and stockholders' equity	$ 6,164,500

The accompanying notes are an integral part of these financial statements.

MAXSTREAM, INC.
STATEMENTS OF INCOME (Unaudited)

	Six Months Ended June 30, 2006	2005
Revenues:		
Product sales	$ 7,022,538	$ 4,371,011
Technical support	5,070	5,965
	7,027,608	4,376,976
Cost of Sales	3,016,592	1,583,129
Gross Profit	4,011,016	2,793,847
Operating Expenses:		
General and administrative	2,156,726	1,477,831
Selling	385,454	308,215
Research and development	63,408	160,805
Total operating expenses	2,605,588	1,946,851
Income from Operations	1,405,428	846,996
Other Income (Expense):		
Interest income	35,124	19,778
Interest expense	(505)	(58)
Other	2,956	12,416
Total other income (expense)	37,575	32,136
Net Income Before Income Taxes	1,443,003	879,132
Income Tax Expense	563,596	342,860
Net Income	$ 879,407	$ 536,272

The accompanying notes are an integral part of these financial statements.

MAXSTREAM, INC.
STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended June 30, 2006	2005
Cash Flows from Operating Activities:		
Net income	$ 879,407	$ 536,272
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	40,388	28,161
Deferred income tax expense (benefit)	(100,966)	131,592
Compensation from stock options granted	28,643	8,727
Changes in assets and liabilities:		
Accounts receivable	151,234	(48,404)
Inventories	(562,647)	(34,387)
Other assets	(6,382)	(7,779)
Accounts payable	(366,761)	149,928
Other current liabilities	224,875	67,416
Total adjustments	(591,616)	295,254
Net cash provided by operating activities	287,791	831,526
Cash Flows from Investing Activities:		
Purchases of property and equipment	(55,763)	(40,298)
Net cash used by investing activities	(55,763)	(40,298)
Cash Flows from Financing Activities:		
Proceeds from issuance of common stock	2,571	—
Net cash provided by financing activities	2,571	—
Net Increase in Cash and Cash Equivalents	234,599	791,228
Cash and Cash Equivalents, Beginning of Year	3,375,733	1,708,907
Cash and Cash Equivalents, End of Year	$ 3,610,332	$ 2,500,135

The accompanying notes are an integral part of these financial statements.

Note 1. Organization, Business and Basis of Presentation

Nature of Business

MaxStream, Inc. (the Company) was incorporated under the laws of the State of Utah on September 20, 1999 to develop and manufacture radio frequency device-to-device communication systems for a variety of applications, including lighting and irrigation control systems, point-of-sale terminals, automatic meter reading, and fleet management. The Company's customers include OEMs, integrators, distributors, and governmental and educational agencies.

Basis of Presentation

The balance sheet as of June 30, 2006 and the statements of operation and cash flows for the six months ended June 30, 2006 and 2005 have been prepared by the Company without audit. The amounts included in the notes to the financial statements for the six months ended June 30, 2006 and 2005 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 June 30, 2006 and the six month periods ended June 30, 2006 and 2005 have been made. Interim results are not necessarily indicative of the results for the full year.

On July 27, 2006, the Company was acquired by Digi International Inc. (Digi), based in Minnetonka, Minnesota. All outstanding shares of capital stock and all options to purchase capital stock of the Company were converted into the right to receive an aggregate of $19.25 million in cash and an aggregate of 1,650,919 shares of Digi stock, in addition to a working capital adjustment based on the July 27, 2006 balance sheet of the Company, as provided under the terms of the merger agreement.

Note 2. Inventory

Inventories are valued at the lower of cost or market. Cost is determined using the average cost method, and market is defined as the lower of replacement cost or realizable value. Inventories consist primarily of finished electronic components.

Note 3. Property and Equipment

The composition of property and equipment as of June 30, 2006 is as follows:

	June 30, 2006
Electronic test equipment	$ 302,779
Computers and software	181,784
Furniture and fixtures	8,204
Vehicles	6,600
Total property and equipment	499,367
Accumulated depreciation	(214,518)
Property and equipment, net	$ 284,849

Note 4. Stock-Based Compensation

During the year ended December 31, 2001, the Company adopted a stock incentive plan (the Plan) that provides for the issuance of options to employees to purchase up to an aggregate of 1,000,000 common shares. Twenty-five percent of the options vest beginning one year after the date of grant. The remaining 75% vest equally over 36 months and expire on the earlier of 10 years from the date of grant or upon termination of employment. On January 1, 2006 the Company adopted Statement of Financial Accounting Standard No. 123 (revised 2004), "Share-Based Payment" (FAS No. 123R).

During the six months ended June 30, 2006, the Board of Directors granted 2,000 options to one individual with an exercise price of $0.30 per share. In addition, one employee exercised 12,717 options, for which the Company issued stock, and a total of 13,123 options were cancelled during the six months ended June 30, 2006, because the option grantee became ineligible to exercise the options pursuant to the option agreement.

A summary of stock option activity, and related information for the six months ended June 30, 2006, is as follows:

	Outstanding Stock Options		Weighted-Average Exercise Price
	Number Outstanding	Exercise Price	
Balance at December 31, 2005	365,236	$0.18-0.30	$ 0.21
Options granted	2,000	$ 0.30	$ 0.30
Options exercised	(12,717)	$0.18-0.30	$ 0.20
Options cancelled	(13,123)	$ 0.30	$ 0.30
Balance at June 30, 2006	341,396	$0.18-0.30	$ 0.22

Of the total number of options outstanding at June 30, 2006, 189,510 options were exercisable.

Prior to adopting FAS No. 123R, the Company elected to expense stock options in accordance with APB Opinion No. 25 "Accounting for Stock Issued to Employees" as well as the disclosure-only provisions of Statement of Financial Accounting Standards (SFAS) No. 123 "Accounting of Stock-Based Compensation" as amended by SFAS No. 148 "Accounting for Stock-Based Compensation—Transition and Disclosure." Compensation expense recognized during the six months ended June 30, 2006 and 2005 totaled $28,643 and $8,727, respectively, with related income tax benefits of $11,171 and $3,404, respectively. Had compensation expense been determined based on fair value at the grant date consistent with the provisions of SFAS 123, the Company's results of operations for the six months ended June 30, 2005, would have been reduced to the pro forma amounts indicated below:

Note 4. Stock-Based Compensation (Continued)

	Six Months Ended June 30, 2005
Net income as reported	$ 536,272
Add: Total stock-based employee compensation expense included in reported net income, net of income tax effects	$ 5,323
Deduct: Total stock-based employee compensation expense determined by fair value-based method of awards, net of income tax effects	(8,073)
Net income pro forma	$ 533,522

The pro forma effect on net income may not be representative of the effect on net income for future periods due to among other things: (i) the vesting period of future stock options and (ii) the fair value of additional stock options in future years.

The fair value of the options granted is estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Expected dividend yield	$—	$—
Expected stock price volatility	278%	indeterminable
Risk-free interest rate	4.37%	3.0% - 4.1%
Expected life of options	5 years	5 years

The fair value of each option award granted during the periods presented was estimated using the Black-Scholes option valuation model that uses the assumptions noted in the table above. The expected life of options granted is primarily derived from the vesting period, as little historical information is available, and represents the period of time that options granted are expected to be outstanding. The risk-free rate used is the U.S. Treasury bond rate in effect at the time of the grant whose maturity equals the term to expiration of the option.

The weighted-average fair value of options granted during the six months ended June 30, 2006 and 2005 was $3.06 and $1.23, respectively.

Note 5. Subsequent Event

On July 27, 2006, the Company was acquired by Digi International Inc. (Digi) based in Minnetonka, Minnesota. Under the terms of the purchase agreement, all outstanding shares of capital stock and all options to purchase capital stock of the Company were converted into the right to receive an aggregate of $19.25 million in cash and an aggregate of 1,650,919 shares of Digi stock, in addition to a working capital adjustment based on the July 27, 2006 balance sheet of the Company, as provided under the terms of the merger agreement. The Company is continuing to do business in Lindon, Utah as MaxStream, Inc.

Exhibit 99.3

DIGI INTERNATIONAL INC.
UNAUDITED PRO FORMA FINANCIAL INFORMATION

On July 27, 2006, Digi International Inc. (Digi) completed the acquisition of MaxStream, Inc. (MaxStream). The unaudited pro forma combined condensed balance sheet as of June 30, 2006 and the combined condensed statements of operations for the nine months ended June 30, 2006 and the year ended September 30, 2005 give effect to the acquisition of MaxStream as if it had occurred on June 30, 2006 for purposes of the combined condensed balance sheet and October 1, 2004 for purposes of the combined condensed statements of operations. The unaudited pro forma information is based on the historical consolidated financial statements of Digi and those of MaxStream, 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 balance sheet, 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 MaxStream.

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 the finalization of the fair value of the assets acquired and liabilities assumed.

The purchase agreement includes an escrow provision whereby 10% of the total purchase price of $38.5 million has been deposited to an escrow fund established at Wells Fargo Bank, Minnesota. Cash in the amount of $1.925 million and 165,090 shares of stock are in escrow. These amounts will be held in escrow for a period not to exceed one year from the date of closing to satisfy possible claims that may arise pursuant to specific representation and warranty sections of the merger agreement. The escrowed amounts of cash and stock have been included in the determination of the purchase consideration on the date of acquisition because management believes the outcome of the contingency is determinable beyond a reasonable doubt.

As set forth in the purchase agreement, the merger consideration is to be adjusted for the excess of the Closing Working Capital over the Working Capital Target, as defined further in the agreement. Based on the closing balance sheet of MaxStream as of July 27, 2006, the Closing Working Capital exceeded the Working Capital Target by $0.6 million, and the excess was paid to MaxStream's former shareholders equally in cash and Digi's shares, based upon their holdings of MaxStream shares just prior to the merger. The excess working capital calculation resulted in a payment of cash of $0.3 million and the issuance of an additional 25,532 shares of Digi stock. The excess working capital adjustment is included in the accompanying pro forma financial statements.

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 dates indicated above.

PRO FORMA COMBINED CONDENSED BALANCE SHEET
As of June 30, 2006
(unaudited)
(in thousands)

	Digi International Inc. Historical	MaxStream Historical	Pro Forma Adjustments	Pro Forma Combined
ASSETS				
Current assets:				
Cash and cash equivalents	$ 14,422	$ 3,610	$ (14,826)(c)	$ 3,206
Marketable securities	51,442	—	—	51,442
Accounts receivable, net	19,232	960	—	20,192
Inventories	19,090	1,290	130(a)	20,510
Other	5,419	20	—	5,439
Total current assets	109,605	5,880	(14,696)	100,789
Property, equipment and improvements, net	19,904	285	(99)(a)	20,090
Identifiable intangible assets, net	21,152	—	10,600(c)	31,752
Goodwill	38,612	—	27,275(e)	65,887
Other	1,041	—	—	1,041
Total assets	$ 190,314	$ 6,165	$ 23,080	$ 219,559
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Capital lease obligations, current portion	$ 406	$ —	$ —	$ 406
Short-term borrowings	—	—	5,000(c)	5,000
Accounts payable	5,235	686	—	5,921
Income taxes payable	6,944	245	—	7,189
Accrued expenses:				
Compensation	4,223	325	—	4,548
Other	5,172	93	—	5,265
Deferred revenue	293	—	—	293
Total current liabilities	22,273	1,349	5,000	28,622
Capital lease obliations, net of current portion	817	—	—	817
Net deferred tax liabilities	255	58	4,134(c)	4,447
Total liabilities	23,345	1,407	9,134	33,886
Preferred stock	—	1,500	(1,500)(b)	—
Stockholders' equity:				—
Common stock	259	89	(89)(b)	276
			17(c)	
Additional paid-in capital	141,649	—	20,687(c)	162,336
Retained earnings	43,994	3,222	(3,222)(b)	41,994
			(2,000)(f)	
Accumulated other comprehensive income	396	—	—	396
Treasury stock	(19,329)	(53)	53(b)	(19,329)
Total stockholders' equity	166,969	3,258	15,446	185,673
Total liabilities and stockholders' equity	$ 190,314	$ 6,165	$ 23,080	$ 219,559

See accompanying notes to the pro forma financial information.

PRO FORMA COMBINED CONDENSED STATEMENT OF OPERATIONS
For the year ended September 30, 2005
(unaudited)
(in thousands, except per share data)

	Digi International Inc. Historical	MaxStream Historical (1)	Pro Forma Adjustments	Pro Forma Combined
Net sales	$ 125,198	$ 10,285		$ 135,483
Cost of sales (exclusive of amortization of purchased and core technology shown separately below)	49,516	4,074		53,590
Amortization of purchased and core technology (2)	4,191	—	950(g)	5,141
Gross profit	71,491	6,211	(950)	76,752
Operating expenses:				
Sales and marketing	26,339	1,855		28,194
Research and development	16,531	1,331		17,862
General and administrative (2)	11,364	1,003	480(g)	12,847
Acquired in-process research and development	300	—	—(f)	300
Total operating expenses	54,534	4,189	480	59,203
Operating income	16,957	2,022	(1,430)	17,549
Other income, net	1,026	53	(285)(h)	139
			(655)(i)	
Income before income taxes	17,983	2,075	(2,370)	17,688
Income tax provision	318	750	(799)(j)	269
Net income	17,665	1,325	(1,571)	17,419
Net income per share, basic	$ 0.79			$ 0.72
Net income per share, diluted	$ 0.76			$ 0.70
Weighted average shares, basic	22,450		1,676(d)	24,126
Weighted average shares, diluted	23,371		1,676(d)	25,047

See accompanying notes to the pro-forma financial information.

(1) Amounts represent MaxStream's condensed statement of operations for the year ended December 31, 2005.

(2) Amortization of purchased and core technology has been reclassified from general and administrative expense to a separate line item within cost of sales.

PRO FORMA COMBINED CONDENSED STATEMENT OF OPERATIONS
For the nine months ended June 30, 2006
(unaudited)
(in thousands, except per share data)

	Digi International Inc. Historical	MaxStream Historical	Pro Forma Adjustments	Pro Forma Combined
Net sales	$ 103,616	$ 10,149		$ 113,765
Cost of sales (exclusive of amortization of purchased and core technology shown separately below)	44,126	4,460		48,586
Amortization of purchased and core technology (1)	3,507	—	$ 713(g)	4,220
Gross profit	55,983	5,689	(713)	60,959
Operating expenses:				
Sales and marketing	20,830	1,738		22,568
Research and development	15,227	1,043		16,270
General and administrative (1)	10,084	833	360(g)	11,277
Total operating expenses	46,141	3,614	360	50,115
Operating income (loss)	9,842	2,075	(1,073)	10,844
Other income (expense), net	1,461	53	(214)(h)	809
			(491)(i)	
Income (loss) before income taxes	11,303	2,128	(1,778)	11,653
Income tax provision (benefit)	3,205	772	(533)(j)	3,444
Net income (loss)	8,098	1,356	(1,245)	8,209
Net income per share, basic	$ 0.35			$ 0.33
Net income per share, diluted	$ 0.34			$ 0.32
Weighted average shares, basic	22,968		1,676(d)	24,644
Weighted average shares, diluted	23,695		1,676(d)	25,371

See accompanying notes to the pro forma financial information.

(1) Amortization of purchased and core technology has been reclassified from general and administrative expense to a separate line item within cost of sales.

Notes to Unaudited Pro Forma Combined Condensed Financial Statements (Unaudited)

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 MaxStream based on their estimated fair values at the date of acquisition. The table below sets forth the preliminary purchase price allocation as of the closing balance sheet date of July 27, 2006 (in thousands):

Cash, including cash in escrow, direct acquisition costs and cash portion of working capital adjustment	$ 14,826
Short-term loan	5,000
Stock, including stock in escrow and stock portion of working capital adjustment	20,704
	$ 40,530

Fair value of net tangible assets acquired	$ 4,716
Identifiable intangible assets:	
Existing purchased and core technology	6,100
Existing customer relationships	3,100
Trade names and trademarks	300
Patent pending / unpatented technology	1,100
In-process research and development	2,000
Goodwill	27,348
Deferred tax liabilities related to identifiable intangibles	(4,134)
	$ 40,530

1. Pro Forma Adjustments:

(a) Amounts represent adjustments to the carrying values of inventories and property, equipment and improvements, net to their estimated fair values.

(b) Adjustments reflect the elimination of the existing stockholders' equity and preferred stock of MaxStream.

(c) Adjustment represents the purchase consideration and related costs, which includes $14.8 million in cash (of which $1.9 million is in escrow), $5.0 million in short term borrowings, and $20.7 million in stock (of which $2.0 million is in escrow) for net tangible assets acquired of $4.7 million, identifiable intangible assets of $12.6 million (of which $2.0 million represents in-process research and development), goodwill of $27.3 million, offset by deferred tax liabilities on acquired identifiable intangible assets of $4.1 million. The value of the Digi common stock was based on a per share value of $12.35, calculated as the average market price of Digi's common stock on the day the acquisition was announced and closed and the two business days immediately preceding that date.

(d) Adjustment reflects the increase in weighted average basic shares and weighted average dilutive shares outstanding for the common stock issued in connection with the acquisition. Pro forma basic earnings per common share for the periods presented were calculated assuming that 1,676,451 shares of Digi common stock issued in connection with the acquisition were issued at the beginning of the period presented, which includes 165,090 shares of stock provided in an escrow agreement that will be issued to MaxStream's former shareholders after expiration of the one year escrow period, and 25,532 shares of stock issued with respect to the excess working capital adjustment.

(e) Represents net adjustment to goodwill resulting from adjustments noted in (a) through (c) above. The amount of goodwill in the table above differs from the amount included in the pro forma combined condensed balance sheet as of June 30, 2006 because it was prepared as of July 27, 2006, the date of acquisition.

(f) Management estimates at the date of acquisition, that $2.0 million of the purchase price represents the fair value of purchased in-process research and development that has not yet reached technological feasibility and will have no alternative future uses. This amount has been expensed as a non tax-deductible charge that is directly attributable to the transaction and therefore is not shown in the pro forma combined condensed statements of operations as provided in Article 11, Reg. 210.11-02 (b)(5) of Regulation S-X, but is shown as a charge to retained earnings in the pro forma combined condensed balance sheet.

(g) Adjustment represents amortization of acquired identifiable intangibles of MaxStream based on estimated lives ranging from four to ten years. Amortization of acquired intangible assets for purchased and core technology is shown as a separate line item within cost of sales. All other intangibles amortization in included in general and administrative expense. 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."

The Company has reclassified the amortization of identifiable intangible assets related to purchased and core technology from general and administrative expenses to a separate line item within cost of sales in the accompanying Pro Forma Combined Condensed Statement of Operations for all periods presented.

(h) Adjustment represents interest expense incurred as a result of short-term borrowings of $5.0 million at an interest rate of 5.70%, the proceeds of which were used to finance the acquisition of MaxStream. The effect of a 1/8% variance in interest rates would have resulted in a change to net income of $4,188 for the year ended September 30, 2005 and $3,375 for the nine months ended June 30, 2006.

(i) Adjustments represent interest income assumed to be foregone at a weighted-average rate of 4.5% due to the cash paid for the acquisition of MaxStream.

(j) Adjustments to income tax provision relate to adjustments (g), (h), and (i) assuming a blended U.S. federal and state income tax rate of 33.7% for the year ended September 30, 2005 and 30% for the nine months ended June 30, 2006.