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

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported) November 3, 2005

Digi International Inc.

(Exact name of Registrant as specified in its charter)

Delaware

0-17972

41-1532464

(State or other jurisdiction
of incorporation)

(Commission File Number)

(IRS Employer
Identification No.)

**11001 Bren Road East
Minnetonka, Minnesota**

55343

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code **(952) 912-3444**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.02. Results of Operations and Financial Condition.

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

NON-GAAP FINANCIAL MEASURES

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

With respect to the measures that exclude the favorable tax settlement or non-recurring items, management believes that excluding these one-time non-recurring items provides useful information to investors regarding the Company's results of operations and financial condition and permits a more meaningful comparison and understanding of the Company's operating performance. With respect to measures that exclude intangibles amortization, management believes that these measures more accurately focus on the costs that can be meaningfully controlled by the Company, and therefore permit a more meaningful comparison from period to period. Similarly, management believes that earnings before taxes, depreciation, amortization and non-recurring items helps investors compare operating results and corporate performance exclusive of the impact of the Company's capital structure and the method by which assets were acquired. Management believes that providing revenue exclusive of contributions from the acquired Rabbit Semiconductor business provides better comparability with prior year periods. Finally, management believes that providing guidance exclusive of the impact of stock-based compensation expense so that investors can compare expected results with results for prior periods that did not include stock-based compensation expense. Management uses these various non-GAAP measures to monitor and evaluate ongoing operating results and trends and to gain an understanding of the comparative operating performance of the Company.

NON-GAAP RECONCILIATION SCHEDULES

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

	Three months ended		Twelve months ended	
	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004
Gross profit	\$ 21,182	\$ 17,884	\$ 75,682	\$ 67,783
Total operating expenses, before acquired in-process research and development	16,205	14,068	58,425	56,002
Acquired in-process research and development	—	—	300	—
Total operating expenses	16,205	14,068	58,725	56,002
Operating income	\$ 4,977	\$ 3,816	\$ 16,957	\$ 11,781
Income before income taxes	\$ 5,194	\$ 4,012	\$ 17,983	\$ 12,150
Impact of favorable tax settlement	—	—	(5,689)	—
Income tax provision	1,773	1,127	6,007	3,487
Net income	\$ 3,421	\$ 2,885	\$ 17,665	\$ 8,663
Net income per common share, basic	\$ 0.15	\$ 0.13	\$ 0.79	\$ 0.41
Net income per common share, diluted	\$ 0.15	\$ 0.13	\$ 0.76	\$ 0.39
Impact of favorable tax settlement, basic	\$ —	\$ —	\$ (0.25)	\$ —
Impact of favorable tax settlement, diluted	\$ —	\$ —	\$ (0.24)	\$ —
Impact of acquisition related in-process research and development, basic	\$ —	\$ —	\$ 0.01	\$ —
Impact of acquisition related in-process research and development, diluted	\$ —	\$ —	\$ 0.01	\$ —
Net income per common share, basic, excluding the favorable tax settlement and acquired in-process research and development	\$ 0.15	\$ 0.13	\$ 0.55	\$ 0.41
Net income per common share, diluted, excluding the favorable tax settlement and acquired in-process research and development	\$ 0.15	\$ 0.13	\$ 0.52	\$ 0.39
Weighted average common shares, basic	22,654	21,727	22,450	21,196
Weighted average common shares, diluted	23,210	22,539	23,371	22,031

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

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

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

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

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

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

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

	Q1 2006 - Estimated Range for EPS Guidance		Fiscal 2006 - Estimated Range for EPS Guidance		Fiscal 2005 Diluted EPS
	Low	High	Low	High	
Reported diluted earnings per share, Sept. 30, 2005					\$ 0.76
Impact of the favorable tax settlement					0.24
Diluted earnings per share for fiscal 2005, excluding the impact of the favorable tax settlement					<u>0.52</u>
Reported diluted earnings per share anticipated for Q1 2006 and fiscal 2006	\$ 0.10	\$ 0.15	\$ 0.53	\$ 0.63	
Estimated impact of stock-based compensation expense in Q1 2006 and fiscal 2006	<u>0.02</u>	<u>0.02</u>	<u>0.07</u>	<u>0.07</u>	
Diluted earnings per share anticipated for fiscal 2006, excluding the impact of estimated stock-based compensation expense	<u>\$ 0.12</u>	<u>\$ 0.17</u>	<u>\$ 0.60</u>	<u>\$ 0.70</u>	
Anticipated diluted earnings per share increase, fiscal 2006 compared to fiscal 2005, excluding the impact of the favorable tax settlement and estimated stock-based compensation expense			15%	35%	

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

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

Item 9.01. Financial Statements and Exhibits.

The following Exhibits are being furnished or filed herewith:

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

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DIGI INTERNATIONAL INC.

Date: November 3, 2005

By /s/ Subramanian Krishnan

Subramanian Krishnan

Senior Vice President, Chief Financial Officer and
Treasurer

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



Digi International Reports Fourth Quarter 2005 Revenue Growth of 23.7% Over Fourth Quarter 2004

Net Income and Earnings Per Share Growth of 18.6% over Fourth Quarter 2004

(Minneapolis, MN, November 3, 2005) - Digi International® Inc. (NASDAQ: DGII) reported revenue of \$36.2 million for the fourth fiscal quarter of 2005 compared to \$29.3 million for the fourth fiscal quarter of 2004, an increase of \$6.9 million, or 23.7%. Revenue for the quarter approached the upper end of management's most recently announced guidance of \$34 to \$37 million.

Device Networking Solutions products, which include Rabbit®, NetSilicon and the device server product lines, contributed \$17.0 million in revenue in the fourth quarter of fiscal 2005 compared to \$10.4 million in the fourth quarter of fiscal 2004, an increase of 63.5%. Rabbit contributed \$7.7 million in revenue in the fourth quarter of fiscal 2005. Revenue from Connectivity Solutions products was \$19.2 million in the fourth fiscal quarter of 2005 compared to \$18.9 million in the fourth quarter of fiscal 2004.

The gross profit margin in the fourth fiscal quarter of 2005 was 58.5% compared to 61.1% in the fourth fiscal quarter of 2004. The decline is primarily due to lower gross profit margins for the Rabbit® products.

Total operating expenses in the fourth fiscal quarter of 2005 were \$16.2 million, or 44.8% of net sales, compared to \$14.1 million, or 48.1% of net sales, in the fourth fiscal quarter of 2004. Operating expenses from Rabbit operations in the fourth quarter of fiscal 2005 were \$2.6 million.

Operating income in the fourth fiscal quarter of 2005 was \$5.0 million compared to \$3.8 million in the fourth fiscal quarter of 2004, an increase of 30.4%.

Digi reported net income of \$3.4 million for the fourth fiscal quarter of 2005, or \$0.15 per diluted share, compared to \$2.9 million, or \$0.13 per diluted share, during the fourth fiscal quarter of 2004, an increase of 18.6%. Net income per diluted share of \$0.15 met management's previously announced guidance of \$0.12 to \$0.17.

For the twelve months ended September 30, 2005, revenue increased 12.6% to \$125.2 million compared to \$111.2 million in the twelve months ended September 30, 2004. Revenue from Device Networking Solutions products was \$49.7 million for the full fiscal year 2005 compared to \$37.7 million for fiscal 2004, or an increase of 31.9%. Rabbit contributed \$10.6 million of revenue from the date of acquisition, May 26, 2005, through the end of fiscal year 2005. Connectivity Solutions revenue for the full fiscal year 2005 was \$75.5 million compared to \$73.5 million for fiscal 2004.

Gross profit margin for the full fiscal year 2005 was 60.5% compared to 60.9% in fiscal 2004. Gross profit margin for the year decreased from the prior year, primarily as a result of sales of Rabbit® products with lower gross profit margins.

Total operating expenses for the full fiscal year 2005 were \$58.7 million, or 46.9% of net sales, compared to \$56.0 million, or 50.3% of net sales, in fiscal 2004. Acquisition-to-date operating expenses for Rabbit were \$3.9 million, including \$0.3 million of acquired in-process research and development expense.

Operating income for the twelve months ended September 30, 2005 increased 43.9% to \$17.0 million compared to \$11.8 million in the twelve months of the prior fiscal year.

Digi reported net income of \$17.7 million, or \$0.76 per diluted share, for the full fiscal year 2005, compared to fiscal 2004 net income of \$8.7 million, or \$0.39 per diluted share. During the second quarter of fiscal 2005, as a result of a settlement with the Internal Revenue Service on an audit of prior fiscal years, Digi recorded a reversal of \$5.7 million of previously established tax reserves, equating to a \$0.24 per diluted share positive impact. Excluding the impact of the favorable tax settlement and the in-process research and development charge associated with the Rabbit acquisition, Digi's earnings per diluted share for the full fiscal year of 2005 would have been \$0.52, or an increase of 33.3% over the full fiscal year of 2004 comparable diluted earnings per share.

Digi's current ratio is 4.4 to 1, and the company has no debt other than debt associated with capital leases. Digi's cash and cash equivalents and marketable securities balance, including long-term marketable securities, at the end of the fourth quarter was \$50.2 million, an increase of \$1.5 million from the end of the prior quarter and a \$31.5 million decrease from the end of the prior fiscal year. Digi spent \$53.7 million of cash on the Rabbit and FS Forth / Sistemas Embebidos acquisitions in fiscal 2005, net of cash acquired. Days sales outstanding (DSO) was at 33 days for the fiscal fourth quarter of 2005, compared to 34 days in the fiscal third quarter of 2005. Digi's cash per share at September 30, 2005, defined as cash and cash equivalents and marketable securities divided by shares outstanding as of September 30, 2005 of 22,662,193, was \$2.21. Tangible book value per share at September 30, 2005, defined as total stockholders' equity less net identifiable intangible assets and goodwill divided by shares outstanding as of September 30, 2005 of 22,662,193, was \$3.91. "Strong asset management and a healthy balance sheet remain high priorities for Digi," said Kris Krishnan, Senior Vice-President and Chief Financial Officer.

Joe Dunsmore, Chairman, President and CEO of Digi, stated, "Robust growth from our USB, device server, and terminal server products, coupled with better than expected performance from the Rabbit core modules, more than offset the decline in the asynchronous and network interface card product lines to drive healthy top line growth for the year. More and more devices are being networked to bring more intelligence to the device level. Vending machines, pay-at-the-pump systems, and even fitness equipment are examples of this pervasive trend. Our company is at the epicenter of this movement, and we have a strong brand with the broadest commercial grade device networking product lineup in the industry."

Fourth Quarter Highlights

- Digi achieved gold level in Microsoft Windows Embedded Partners Program when Microsoft recognized Digi's subsidiary, Sistemas Embebidos, as best in class.
- Digi added ARM7- and ARM9-Based Core Modules to their ConnectCore™ product line, which provide OEMs greater design flexibility.
- Digi introduced the industry's most secure 802.11b Wireless Device Server, the new Digi Connect Wi-SP, which becomes the first to feature WPA2 / 802.11i enterprise security.
- Digi partnered with PetroCom to take remote site connectivity and management to the extreme in the Gulf of Mexico.
- Rabbit Semiconductor, Inc. introduced RabbitSys Software, along with the New Rabbit® 4000 Microprocessor, the Color Touchscreen Application Kit, and the New RCM3750 10/100BASE-T Ethernet RabbitCore Module.
- Digi added Broadcom Wi-Fi® Driver to NET+Works® Software Suite. This Broadcom driver with WPA enables secure Wi-Fi for embedded devices.

Third Quarter Highlights

- Digi launched commercial-grade Watchport®/V2 second-generation USB camera, which becomes the ideal for cost-effective remote monitoring applications.
- Digi announced PROFINET IO Stack Running on NET+Works® Development Kit. NetSilicon's NET+Works environment enables IA equipment suppliers to address the emerging PROFINET market.
- Digi acquired Rabbit Semiconductor, whose highly complementary product lines extend Digi's leadership position in commercial grade device networking.
- Digi entered partnership agreement with Daxten Europe. Daxten will distribute Digi products to the European Data Center Management Market.

Second Quarter Highlights

- Digi announced the acquisition of FS Forth-Systeme GmbH and Sistemas Embebidos S.A., both leading providers of embedded modules and software for the rapidly expanding embedded networking market, thus creating the industry's broadest range of ARM-based embedded networking solutions.
 - Digi launched industry's first Serial-to-Wireless GSM EDGE gateway that connects remote serial devices via Cingular's high-speed wireless GSM network.
 - NetSilicon, a unit of Digi International, released the NS9360 Microprocessor to production supported by new enhanced NET+Works® 6.2 Development Tools. The NS9360 processor reduces cost and provides superior device networking functionality.
 - Digi extended device networking expertise into core modules, creating the industry's first network-optimized series of 32-bit core modules targeted for products including access control systems, point-of-sale systems, RFID readers, medical devices and instrumentation, networked displays, and much more.
 - Digi launched new wireless remote device networking products with the first intelligent high speed GSM EDGE gateway. The Digi Connect WAN GSM becomes the first gateway to offer a cost effective, truly diverse alternative to landline data connections by utilizing Cingular's high-speed GSM-based GPRS/EDGE network for backup network connectivity.
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- Digi becomes first to provide Federal Security Certification for a broad range of serial-to-ethernet products. Digi is the only manufacturer to offer NIST FIPS certification standard across terminal server, device server and embedded product lines.

First Quarter Highlights

- Microsoft selected Digi for remote management of new MSN Search Server Farm. The Digi CM console server with patented RealPort and SAC support will enable MSN administrators to tackle problems at remote data centers.
- Digi introduced the first interoperable device server, the Digi One® IAP, to provide seamless industrial protocol bridging, enabling MODBUS®, Allen-Bradley® and ASCII devices to fully interoperate.
- Digi extended USB Plus series to include low profile card and compact box options. Digi enables powered USB deployment in smaller PC platforms and reduces space requirements for retail applications

First Fiscal Quarter 2006 and Full Year Guidance

For the first quarter of fiscal 2006, Digi expects revenue to be in the range of \$34 million to \$37 million. Digi expects first fiscal quarter 2006 earnings per diluted share to be in a range of \$0.12 to \$0.17.

For the full fiscal year, Digi forecasts fiscal 2006 revenues to be in a range of \$150 million to \$160 million, or an increase over fiscal 2005 revenues of 20% to 28%. Digi expects earnings per diluted share for fiscal year 2006 to be in a range of \$0.60 to \$0.70, or a growth of 15.4% to 35% over fiscal year 2005 earnings per diluted share, excluding the impact of the favorable tax settlement in 2005 and the impact of stock based compensation. Digi is required to adopt Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" (FAS 123R) effective on October 1, 2005. Digi estimates today that stock-based compensation expense will impact the financial statements by approximately \$0.07 per diluted share for the full fiscal year 2006. Digi estimates reported earnings per diluted share, including the impact of stock based compensation, to be in a range of \$0.53 to \$0.63.

Fourth Fiscal Quarter and Full Year 2005 Conference Call Details

Digi invites all those interested in hearing management's discussion of the quarter to attend its fourth fiscal quarter call, scheduled for Thursday, November 3, 2005, at 4:00 p.m. CT, either by phone or the Web. Participants can access the call directly at (800) 833-9611. International participants may access the call by dialing (212) 748-2808. A replay will be available for one week following the call by dialing (800) 633-8284 for domestic participants or (402) 977-9140 for international participants and entering access code 21264539 when prompted. Participants may also access a live webcast of the conference call through the investor relations section of Digi's website, www.digi.com.

About Digi International

Digi International, based in Minneapolis, makes device networking easy by developing products and technologies that are cost effective and easy to use. Digi markets its products through a global network of distributors and resellers, systems integrators and original equipment manufacturers (OEMs).

Forward-looking Statements

This press release contains statements that constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which generally can be identified by the use of forward-looking terminology such as “anticipate,” “believe,” “target,” “estimate,” “may,” “will,” “expect,” “plan,” “project,” “should,” or “continue” or the negative thereof or other variations thereon or similar terminology. Such statements are based on information available to management as of the time of such statements and relate to, among other things, expectations of the business environment in which the Company operates, projections of future performance, perceived opportunities in the market and statements regarding the Company’s mission and vision. Such statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, including risks related to the highly competitive market in which the Company operates; rapid changes in technologies that may displace products sold by the Company, declining prices of networking products, the Company’s reliance on distributors, delays in the Company’s product development efforts, uncertainty in consumer acceptance of the Company’s products, and changes in the Company’s level of revenue or profitability. These and other risks, uncertainties and assumptions identified from time to time in the Company’s filings with the Securities and Exchange Commission, including without limitation, its annual report on Form 10-K for the year ended September 30, 2004 and its quarterly reports on Form 10-Q, could cause the Company’s future results to differ materially from those expressed in any forward-looking statements made by or on behalf of the Company. Many of such factors are beyond the Company’s ability to control or predict. These forward-looking statements speak only as of the date for which they are made. The Company disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

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John Nesbett/Erika Moran
The Investor Relations Group
New York, NY
212-825-3210

Digi International Inc.
Condensed Consolidated Statement of Operations
(In thousands, except per share amounts)
(Unaudited)

	Three months ended		Twelve months ended	
	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004
Net sales	\$ 36,208	\$ 29,274	\$ 125,198	\$ 111,226
Cost of sales	15,026	11,390	49,516	43,443
Gross profit	21,182	17,884	75,682	67,783
Operating expenses:				
Sales and marketing	7,040	6,526	26,339	25,556
Research and development	4,681	4,200	16,531	17,159
General and administrative	2,818	2,035	10,005	8,064
Intangibles amortization	1,666	1,307	5,550	5,223
In-process research and development	—	—	300	—
Total operating expenses	16,205	14,068	58,725	56,002
Operating income	4,977	3,816	16,957	11,781
Other income, net	217	196	1,026	369
Income before income taxes	5,194	4,012	17,983	12,150
Income tax provision	1,773	1,127	318	3,487
Net income	<u>\$ 3,421</u>	<u>\$ 2,885</u>	<u>\$ 17,665</u>	<u>\$ 8,663</u>
Net income per common share, basic	<u>\$ 0.15</u>	<u>\$ 0.13</u>	<u>\$ 0.79</u>	<u>\$ 0.41</u>
Net income per common share, diluted	<u>\$ 0.15</u>	<u>\$ 0.13</u>	<u>\$ 0.76</u>	<u>\$ 0.39</u>
Weighted average common shares, basic	<u>22,654</u>	<u>21,727</u>	<u>22,450</u>	<u>21,196</u>
Weighted average common shares, diluted	<u>23,210</u>	<u>22,539</u>	<u>23,371</u>	<u>22,031</u>

Digi International Inc.
Condensed Consolidated Balance Sheets
(In thousands)

	<u>September 30, 2005</u>	<u>September 30, 2004</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 12,990	\$ 19,528
Marketable securities	37,184	59,639
Accounts receivable, net	16,897	10,555
Inventories, net	18,527	11,231
Other	6,094	4,315
Total current assets	91,692	105,268
Marketable securities, long-term	—	2,500
Property, equipment and improvements, net	20,808	18,634
Identifiable intangible assets, net	26,342	14,417
Goodwill	38,675	5,816
Net deferred tax assets	—	3,013
Other	1,093	817
Total assets	\$ 178,610	\$ 150,465
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Capital lease obligation and short-term loan, current portion	\$ 460	\$ —
Accounts payable	6,272	4,945
Accrued expenses	10,726	9,126
Income taxes payable	3,306	9,107
Total current liabilities	20,764	23,178
Capital lease obligation, net of current portion	1,135	—
Net deferred tax liabilities	3,174	208
Total liabilities	25,073	23,386
Total stockholders' equity	153,537	127,079
Total liabilities and stockholders' equity	\$ 178,610	\$ 150,465

Digi International Inc.
Condensed Consolidated Statement of Cash Flows
(in thousands)
(Unaudited)

	Three months ended September 30, 2005	Twelve months ended September 30, 2005
Operating activities:		
Net income	\$ 3,421	\$ 17,665
Adjustments to reconcile net income to net cash provided by operating activities:		
Acquired in-process research and development	—	300
Depreciation of property, equipment and improvements	585	2,295
Amortization of identifiable intangible assets and other assets	1,908	6,575
Tax benefit related to the exercise of stock options	68	2,113
Deferred income taxes	4,654	1,052
Other	(211)	(690)
Changes in operating assets and liabilities:		
Accounts receivable	(781)	(2,730)
Inventories	(772)	(602)
Other assets	(27)	(736)
Accounts payable and accrued expenses	1,733	(147)
Income taxes payable	(3,763)	(7,039)
Total adjustments	<u>3,394</u>	<u>391</u>
Net cash provided by operating activities	<u>6,815</u>	<u>18,056</u>
Investing activities:		
Settlement of held-to-maturity marketable securities, net	5,119	24,955
Business acquisitions, net of cash acquired	(28)	(53,693)
Purchase of property, equipment, improvements and certain other intangible assets	(557)	(1,329)
Net cash provided by (used in) investing activities	<u>4,534</u>	<u>(30,067)</u>
Financing activities:		
Payments on line of credit	(24)	(1,274)
Payments on capital lease obligations	(105)	(142)
Borrowing on note payable	—	21,000
Payments on note payable	(5,000)	(21,000)
Proceeds from stock option plan transactions	186	5,600
Proceeds from employee stock purchase plan transactions	145	721
Net cash (used in) provided by financing activities	<u>(4,798)</u>	<u>4,905</u>
Effect of exchange rate changes on cash and cash equivalents	94	568
Net increase (decrease) in cash and cash equivalents	6,645	(6,538)
Cash and cash equivalents, beginning of period	6,345	19,528
Cash and cash equivalents, end of period	<u>\$ 12,990</u>	<u>\$ 12,990</u>

Digi International Announces Election of William Priesmeyer to Board of Directors

(Minneapolis, November 3, 2005) - Digi International® Inc. (NASDAQ: DGII) today announced that William Priesmeyer has been elected as a director.

Since 2001 Mr. Priesmeyer, 60, has been Chief Executive Officer of Cymbet Corporation, a privately held, venture-backed manufacturer of thin film energy cells for the semiconductor, medical device, security, consumer and other industries. Prior to joining Cymbet, Mr. Priesmeyer was the Chief Financial Officer of Jostens, Inc. (1997-2001), Waldorf Corporation (1994-1997), DataCard Corporation (1993-94) and Onan Corporation (1989-1993). Mr. Priesmeyer has a BA in Economics from Norwich University and an MBA degree from Long Island University.

Joe Dunsmore, Chairman, President and CEO, commented: "Digi is very fortunate to strengthen its Board of Directors by adding a capable senior executive like Bill Priesmeyer. His broad management experience, and his financial experience in particular, will bring additional depth to our Board."

Mr. Priesmeyer added: "I am pleased and honored to be joining the Digi Board and look forward to contributing to the company's future success."

About Digi International

Digi International, based in Minneapolis, makes device networking easy by developing products and technologies that are cost effective and easy to use. Digi markets its products through a global network of distributors and resellers, systems integrators and original equipment manufacturers (OEMs). For more information, visit Digi's web site at www.digi.com, or call 800-344-4273 (U.S.) or 952-912-3444 (International).

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