

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

FORM 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended: December 31, 1996.

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_ to \_\_\_\_.

Commission file number: 0-17972

DIGI INTERNATIONAL INC.

(Exact name of registrant as specified in its charter)

Delaware

41-1532464

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification Number)

11001 Bren Road East  
Minnetonka, Minnesota 55343

(Address of principal executive offices) (Zip Code)

(612) 912-3444

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

On January 31, 1997, there were 13,376,019 shares of the registrant's \$.01 par value Common Stock outstanding.

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements	Page
	----
Condensed Consolidated Statements of Operations for the three months ended December 31, 1996 and 1995.....	3
Condensed Consolidated Balance Sheets as of December 31, 1996 and September 30, 1996.....	4
Condensed Consolidated Statements of Cash Flows for the three months ended December 31, 1996 and 1995.....	5
Notes to Condensed Consolidated Financial Statements.....	6
Independent Accountant's Report.....	8
ITEM 2. Management's Discussion and Analysis of Results of Operations and Financial Condition.....	9
Forward-looking Statements.....	13

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings.....	14
ITEM 2. Changes in Securities.....	14
ITEM 3. Defaults Upon Senior Securities.....	14
ITEM 4. Submission of Matters to a Vote of Securities Holders.....	14
ITEM 5. Other Information.....	15
ITEM 6. Exhibits and Reports on Form 8-K.....	15

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

DIGI INTERNATIONAL INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE  
 THREE MONTHS ENDED DECEMBER 31, 1996 AND 1995  
 (UNAUDITED)

	1996	1995
	----	----
Net sales	\$ 42,236,213	\$ 43,716,263
Cost of sales	22,595,738	19,987,202
	-----	-----
Gross margin	19,640,475	23,729,061
	-----	-----
Operating expenses:		
Sales and marketing	10,526,836	8,670,102
Research and development	5,439,456	4,144,836
General and administrative	5,413,865	3,898,356
	-----	-----
Total operating expenses	21,380,157	16,713,294
	-----	-----
Operating (loss) income	(1,739,682)	7,015,767
Other income, net	99,031	393,360
AetherWorks Corporation net loss	(1,519,789)	(279,307)
	-----	-----
(Loss) income before income taxes	(3,160,440)	7,129,820
(Benefit) provision for income taxes	(582,433)	2,607,899
	-----	-----
Net (loss) income	\$ (2,578,007)	\$ 4,521,921
	-----	-----
Net (loss) income per common and common equivalent share	\$ (0.19)	\$ 0.33
	-----	-----
Weighted average common and common equivalent shares outstanding	13,354,080	13,902,733
	-----	-----
	-----	-----

The accompanying notes to condensed consolidated financial statements are an integral part of this financial statement.

DIGI INTERNATIONAL INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	December 31, 1996 ----- (unaudited)	September 30, 1996 -----
Current assets:		
Cash and cash equivalents	\$ 7,607,580	\$ 8,943,390
Accounts receivable, net	41,207,824	42,874,898
Inventories	35,396,677	33,372,164
Income tax refund receivable	2,483,624	1,675,626
Other	3,013,454	2,825,828
	-----	-----
Total current assets	89,709,159	89,691,906
Property, equipment and improvements, net	25,114,285	24,230,101
Intangible assets, net	11,403,120	10,854,845
Investment in AetherWorks Corporation	2,152,960	1,672,749
Other	2,281,357	3,489,228
	-----	-----
Total assets	\$ 130,660,881	\$ 129,938,829
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 14,966,534	\$ 12,549,738
Accrued expenses:		
Advertising	4,182,403	3,761,619
Compensation	1,492,813	1,622,549
Other	2,414,057	2,061,782
	-----	-----
Total current liabilities	23,055,807	19,995,688
Commitments		
Stockholders' equity:		
Preferred stock, \$.01 par value; 2,000,000 shares authorized; none outstanding		
Common stock, \$.01 par value; 60,000,000 shares authorized; 14,682,967 and 14,677,150 shares issued	146,829	146,772
Additional paid-in capital	42,932,896	42,866,758
Retained earnings	88,326,740	90,904,746
	-----	-----
	131,406,465	133,918,276
Unearned stock compensation	(269,708)	(295,156)
Treasury stock, at cost, 1,326,651 and 1,338,894 shares	(23,531,683)	(23,679,979)
	-----	-----
Total stockholders' equity	107,605,074	109,943,141
	-----	-----
Total liabilities and stockholders' equity	\$ 130,660,881	\$ 129,938,829
	-----	-----

The accompanying notes to condensed consolidated financial statements are an integral part of this financial statement.

DIGI INTERNATIONAL INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE THREE MONTHS ENDED DECEMBER 31, 1996 AND 1995  
(UNAUDITED)

	1996 -----	1995 -----
Operating activities:		
Net (loss) income	\$ (2,578,007)	\$ 4,521,921
	-----	-----
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,994,649	1,251,733
AetherWorks Corporation net loss	1,519,789	279,307
Provision for doubtful accounts receivable	174,000	39,280
Provision for inventory obsolescence	964,000	179,012
Changes in operating assets and liabilities	332,471	(11,119,384)
Other	72,146	78,441
	-----	-----
Total adjustments	5,057,055	(9,291,611)
	-----	-----
Net cash provided by (used in) operating activities	2,479,048	(4,769,690)
	-----	-----
Investing activities:		
Purchase of property, equipment and improvements	(2,029,349)	(2,144,951)
Investment in AetherWorks Corporation	(2,000,000)	(3,363,235)
Sale of marketable securities, net	-	13,256,978
	-----	-----
Net cash (used in) provided by investing activities	(4,029,349)	7,748,792
	-----	-----
Financing activities:		
Stock benefit plan transactions, net	214,491	216,233
Purchase of treasury stock	-	(7,249,339)
	-----	-----
Net cash provided by (used in) financing activities	214,491	(7,033,106)
	-----	-----
Net decrease in cash and cash equivalents	(1,335,810)	(4,054,004)
Cash and cash equivalents, beginning of period	8,943,390	5,103,731
	-----	-----
Cash and cash equivalents, end of period	\$ 7,607,580	\$ 1,049,727
	-----	-----

The accompanying notes to condensed consolidated financial statements are an integral part of this financial statement.

DIGI INTERNATIONAL INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

1. BASIS OF PRESENTATION

The interim condensed consolidated financial statements included in this Form 10-Q have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been condensed or omitted, pursuant to such rules and regulations. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in the Company's 1996 Annual Report and Form 10-K.

The condensed consolidated financial statements presented herein as of December 31, 1996 and for the three month periods ended December 31, 1996 and 1995, reflect, in the opinion of management, all adjustments (which consist only of normal, recurring adjustments) necessary for a fair presentation of the consolidated financial position and the consolidated results of operations and cash flows for the periods presented. The consolidated results of operations for any interim period are not necessarily indicative of results for the full year.

2. INVESTMENT IN AETHERWORKS CORPORATION

Through December 31, 1996, under a financing arrangement, the Company purchased \$7,296,525 of convertible notes from AetherWorks Corporation, a development stage company engaged in the development of wireless and dial-up remote access technology. At December 31, 1996, the Company is obligated to purchase up to an additional \$6.5 million of convertible notes from time to time at the request of AetherWorks, based on certain conditions. The convertible notes held by the Company at December 31, 1996 are convertible into 55% of AetherWork's common stock, and the purchase of \$6.5 million additional principal amount of convertible notes would increase the Company's ownership interest upon conversion to 62.7%, based on AetherWorks' present capitalization. Subsequent to December 31, 1996, the Company purchased \$500,000 of AetherWorks convertible notes. In connection with the financing arrangement, the Company has also guaranteed \$2.5 million of lease obligations of AetherWorks.

The Company has reported its investment in AetherWorks on the equity method and has reported a \$1,519,789 loss for the three month period ended December 31, 1996 and a \$279,307 loss for the three month period ended December 31, 1995. Such losses represent 100% of the AetherWorks net losses for the three month periods. The percentage of AetherWorks' net loss included in the Company's financial statements is based upon the percentage of financial support provided by the Company (versus other investors) to AetherWorks during the period.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. INVESTMENT IN AETHERWORKS CORPORATION (CONTINUED)

Investment in AetherWorks Corporation consists of the following:

	December 31	September 30
	-----	-----
Convertible notes receivable	\$7,296,525	\$5,296,525
Cumulative net loss	(5,143,565)	(3,623,776)
	-----	-----
	\$2,152,960	\$1,672,749
	-----	-----
	-----	-----

3. INVENTORIES

Inventories are stated at the lower of cost or market, with cost determined on the first-in, first-out method. Inventories at December 31, 1996 and September 30, 1996 consisted of the following:

	December 31	September 30
	-----	-----
Raw materials	\$17,981,708	\$19,145,019
Work in process	11,057,146	10,469,315
Finished goods	6,357,823	3,757,830

4. (LOSS) INCOME PER SHARE

(Loss) income per share is computed by dividing net (loss) income by the weighted average number of common shares and common equivalent shares outstanding during the period. Common stock equivalents result from dilutive stock options.

5. RECLASSIFICATION OF REBATE EXPENSES

Rebates approximating \$150,000 for the period ended December 31, 1995, which are now offset against net sales, were previously included in sales and marketing expenses. This reclassification had no impact on previously reported net income or stockholders' equity.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders and Board of Directors of  
Digi International Inc.:

We have reviewed the accompanying condensed consolidated balance sheet of Digi International Inc. and Subsidiaries as of December 31, 1996, and the related condensed consolidated statements of operations and cash flows for the three month periods ended December 31, 1996 and 1995. These condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet as of September 30, 1996, and the related consolidated statements of operations and cash flows for the year then ended (not presented herein); and in our report dated December 20, 1996, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of September 30, 1996, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ COOPERS & LYBRAND L.L.P.

Minneapolis, Minnesota  
February 6, 1997



ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

CONSOLIDATED RESULTS OF OPERATIONS

The following table sets forth selected information derived from the Company's interim condensed consolidated financial statements expressed as percentage of sales:

	Quarter ended December 31		Percentage Increase (decrease)
	1996	1995	
Net sales	100.0%	100.0%	(3.3%)
Cost of sales	53.5	45.7	13.1
Gross margin	46.5	54.3	(17.2)
Operating expenses:			
Sales and marketing	24.9	19.8	21.4
Research and development	12.9	9.5	31.2
General and administrative	12.8	8.9	38.9
Total operating expenses	50.6	38.2	27.9
Operating (loss) income	(4.1)	16.1	(124.8)
Other income, net	0.2	0.9	(74.8)
AetherWorks Corporation net loss	(3.6)	(0.6)	444.1
(Loss) income before income taxes	(7.5)	16.4	(144.3)
(Benefit) provision for income taxes	(1.4)	6.0	(122.3)
Net (loss) income	(6.1%)	10.3%	(157.0%)

NET SALES

Sales for the three month period ended December 31, 1996 were lower than sales for the corresponding three month period ended December 31, 1995 by \$1,480,050 or 3.3%, the majority of the decline being represented by a \$1.15 million increase in rebates in the 1996 period. Such increase was due to providing incentives to the distribution market. Rebates, which had been historically included as a part of sales and marketing expenses, have been offset against net sales for the three months ended December 31, 1996. Rebates in the statement for the three months ended December 31, 1995, amounting to \$150,000, have been reclassified to conform to the current presentation.

Net sales by product markets for the three month period ended December 31, 1996 and 1995 expressed in percentages were as follows:

	Quarter ended December 31		Percentage Increase (decrease)
	1996	1995	
Net sales:			
Multiuser	56.2%	65.0%	(16.4%)
Remote Access	21.4%	17.8%	15.9%
LAN Connect	22.4%	17.2%	26.1%

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (CONTINUED)

CONSOLIDATED RESULTS OF OPERATIONS (CONTINUED)

Sales to original equipment manufacturers (OEM's) across product markets increased from 14.2% of net sales in the quarter ended December 31, 1995 to 19.9% in 1996. However, on a quarter to quarter basis, such sales declined from 22.7% of net sales for the quarter ended September 30, 1996. The decline was due primarily to year-end inventory management by the Company's OEM customers. The Company expects the OEM portion of the Company's business to slightly increase in the second quarter.

Sales to the distribution markets decreased both on a quarter to quarter basis, as well as in comparison to the corresponding 1996 quarter. Sales to the distribution markets decreased from 70.3% of net sales in the quarter ended December 31, 1995 to 68.9% for the quarter ended December 31, 1996. Sales to the distribution markets increased, however, from 63.7% of net sales for the quarter ended September 30, 1996. Actual sales dollars to the distribution markets declined from \$33.2 million for the quarter ended September 30, 1996 to \$29.1 million for the quarter ended December 31, 1996. The decline was due primarily to softness in demand and adjustments in inventory levels by the distributors, which not only impacted the Company, but the industry as a whole. Such declines were reflected in the percentage declines of multiuser sales. Other product market percentage increases were also adversely impacted by the year-end adjustments in inventory levels.

The Company believes that the softness in sales to the distribution markets will continue into the next quarter, and may have some effect in the third quarter, as well.

GROSS MARGIN

Gross margin as a percentage of net sales decreased to 46.5% for the quarter ended December 31, 1996 from 54.3% for the quarter ended December 31, 1995. The decrease in the gross margin for the quarter is primarily related to increased rebates and a higher percentage of sales in the LAN Connect market, which have traditionally resulted in lower margins. In addition, reserves for potential inventory obsolescence were increased by \$964,000 during the three months ended December 31, 1996, due to increased concerns regarding the impact of softness in sales and continued increases in inventory levels.

OPERATING EXPENSES

Operating expenses for the quarter ended December 31, 1996, increased 27.9% over operating expenses for the corresponding quarter ended December 31, 1995, and increased as a percentage of sales to 50.6% for the quarter ended December 31, 1996 from 38.2% for the quarter ended December 31, 1995. The increase was primarily due to the opening of two new research and development facilities in Huntsville, Ala. and Redmond, Wash., as well as additional marketing costs in connection with new product introductions. In addition, general and administrative expenses increased due to severance expenses and expansion and upgrades to the Company's infrastructure.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (CONTINUED)

CONSOLIDATED RESULTS OF OPERATIONS (CONTINUED)

Total operating expenses declined from \$23.5 million in the quarter ended September 30, 1996 to \$21.4 million in the quarter ended December 31, 1996. Such decline was due to decreased marketing costs and a reduction of funding levels for new product development. The Company expects to continue to reduce its sales and marketing, research and development and general and administrative costs during fiscal 1997.

OTHER INCOME

Other income for the quarter ended December 31, 1996 decreased by \$294,329, as compared to the quarter ended December 31, 1995, due to lower interest income resulting from a decrease in invested funds.

AETHERWORKS CORPORATION NET LOSS

In connection with the purchase of convertible notes from AetherWorks Corporation, a development stage company engaged in the development of wireless and dial-up remote access technology, the Company has the ability, under certain conditions, to convert its investment into a majority of AetherWorks' common stock. The Company has reported its investment in AetherWorks on the equity method and has recorded a \$1,519,789 and a \$279,307 loss for the quarters ended December 31, 1996 and 1995, respectively. Such losses represent 100% of AetherWorks' net losses for such periods. The percentage of AetherWorks' net losses included in the Company's financial statements is based upon the percentage of financial support provided by the Company (versus other investors) to AetherWorks during such periods. The Company anticipates that AetherWorks' losses for the remainder of 1997 will be at levels similar to or higher than those incurred during the quarter ended December 31, 1996.

INCOME TAXES

Due to the loss incurred in the quarter ended December 31, 1996, the Company has recorded an income tax benefit of \$582,433. Such benefit is not higher due to the non-deductibility of the AetherWorks' losses.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (CONTINUED)

CONSOLIDATED RESULTS OF OPERATIONS (CONTINUED)

FINANCIAL CONDITION

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its operations principally with funds generated from operations and proceeds remaining from earlier public stock offerings. Investing activities for the quarter ended December 31, 1996 consisted of purchases of equipment and capital improvements and the additional purchase of \$2,000,000 in convertible notes from AetherWorks Corporation. As of December 31, 1996, the Company is obligated to purchase up to an additional \$6.5 million in convertible notes from time to time at the request of AetherWorks, based on certain conditions. See also Note 2 of the Notes to the Condensed Consolidated Financial Statements.

At December 31, 1996, the Company had working capital of \$66.6 million and no debt. The Company has negotiated a \$5 million unsecured line of credit with its bank, but has not utilized such line. The Company's management believes that current financial resources, cash generated from operations and the Company's potential capacity for debt and /or equity financing will be sufficient to fund current and anticipated business operations.

FOREIGN CURRENCY TRANSLATION

Substantially all of the Company's foreign transactions are negotiated, invoiced and paid in U.S. dollars.

INFLATION

Management believes inflation has not had a material effect on the Company's operations or on its financial position.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (CONTINUED)

FORWARD-LOOKING STATEMENTS

Certain statements made above, which are summarized below, are forward-looking statements that involve risks and uncertainties, and actual results may be materially different. Factors that could cause actual results to differ include those identified below:

THE COMPANY'S MANAGEMENT EXPECTS THE OEM PORTION OF THE COMPANY'S BUSINESS TO INCREASE IN THE SECOND QUARTER. OEM orders are subject to cancellation at the option of the customer, and are historically subject to greater quarterly fluctuations than sales through the Company's other channels, as well as competitive conditions in markets served by the Company's OEM customers. OEM sales could also be adversely impacted by component shortages.

THE SOFTNESS IN SALES TO THE DISTRIBUTION MARKETS WILL CONTINUE INTO THE NEXT QUARTER, AND MAY HAVE SOME EFFECT IN THE THIRD QUARTER, AS WELL. General market conditions and competitive conditions within these markets may impact sales levels either unfavorably or favorably.

THE EXPECTATION TO CONTINUE TO REDUCE SALES AND MARKETING, RESEARCH AND DEVELOPMENT AND GENERAL AND ADMINISTRATIVE COSTS DURING FISCAL 1997. This expectation may be impacted by presently unanticipated opportunities or by unanticipated expenses.

THE EXPECTATION THAT THE AETHERWORKS CORPORATION LOSSES FOR THE REMAINDER OF FISCAL 1997 WILL BE SIMILAR TO OR GREATER THAN THOSE INCURRED IN THE QUARTER ENDED DECEMBER 31, 1996. This expectation may be impacted by presently unanticipated revenue opportunities or by unanticipated expenses.

THE BELIEF THAT THE COMPANY'S CURRENT FINANCIAL RESOURCES, CASH GENERATED FROM OPERATIONS AND THE COMPANY'S POTENTIAL CAPACITY FOR DEBT AND/OR EQUITY FINANCING WILL BE SUFFICIENT TO FUND CURRENT AND ANTICIPATED BUSINESS OPERATIONS. Changes in anticipated operating results, credit availability and equity market conditions may further enhance or inhibit the Company's ability to maintain or raise appropriate levels of cash.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

On January 3, 1997, the Company and certain of its previous officers were named as defendants in a putative securities class action lawsuit in the United States District Court for the District of Minnesota on behalf of an alleged class of purchasers of its common stock during the period January 25, 1996, through December 23, 1996, inclusive, which is captioned DENNIS D'HONDT, INDIVIDUALLY AND ON BEHALF OF ALL PERSONS SIMILARLY SITUATED, PLAINTIFF, VS. DIGI INTERNATIONAL INC., ERVIN F. KAMM, JR., GERALD A. WALL, AND GARY L. DEANER, DEFENDANTS. The complaint in the action alleges the Company and certain of its previous officers violated federal securities laws by, among other things, misrepresenting and/or omitting material information concerning the Company's operations and financial results. The complaint seeks compensatory damages in an unspecified amount plus interest against all defendants, jointly and severally, and an award of attorneys' fees, experts' fees and costs.

On January 17, 1997 and February 6, 1997, two additional putative securities class action lawsuits were filed in the United States District Court for the District of Minnesota captioned RUTH LINEHAN, INDIVIDUALLY AND ON BEHALF OF ALL PERSONS SIMILARLY SITUATED, PLAINTIFF AND RUSSELL SIEGEL AND ANNE BUTLER, AS EXECUTRIX OF THE ESTATE OF MICHAEL BUTLER, ON BEHALF OF THEMSELVES AND ALL OTHER SIMILARLY SITUATED, PLAINTIFFS, VS. DIGI INTERNATIONAL INC., ERVIN F. KAMM, JR., GERALD A. WALL, AND GARY L. DEANER, DEFENDANTS, which make the same allegations against the same defendants as those asserted in the lawsuit described in the previous paragraph.

These lawsuits are in a preliminary stage and, accordingly, their ultimate outcome or potential impact on the financial position, results of operations or cash flows of the Company cannot be determined at this time.

### ITEM 2. CHANGES IN SECURITIES

None

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the annual meeting of stockholders held on January 30, 1997, the stockholders approved the following:

- (a) Proposal to elect three directors, Willis K. Drake and David Stanley for three year terms and Robert S. Moe for a term of two years. Mr. Drake was elected on a vote of 10,901,684 in favor, with 330,754 shares withholding authority to vote. Mr. Stanley was elected on a vote of 10,927,087 in favor, with 305,351 withholding authority to vote. Mr. Moe was elected on a vote of 11,024,190 in favor, with 208,248 withholding authority to vote.

PART II. OTHER INFORMATION (CONTINUED)

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS  
(CONTINUED)

- (b) Proposal to amend the Digi International Inc. Stock Option Plan to reserve additional shares for future awards and extend the Plan's expiration date. The proposal passed on a vote of 9,425,554 in favor, 1,756,383 against, 50,501 abstentions and no broker non-votes.
- (c) Proposal to ratify the appointment of Coopers & Lybrand L.L.P. as independent public accountants of the Company for fiscal year 1997. The proposal passed on a vote of 10,967,099 in favor, 238,102 against, 27,237 abstentions and no broker non-votes.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

No reports on Form 8-K have been filed during the quarter ended December 31, 1996. The Exhibits filed as part of this report are listed below.

Exhibit No.	Description
3(a)	Amended and Restated Certificate of Incorporation of the Registrant*
3(b)	Amended and Restated By-Laws of the Registrant**
10(l)	Separation Agreement between the Company and Ervin F. Kamm, Jr., dated January 3, 1997
10(p)(i)	Amendment to Employment Arrangement Between the Company and Douglas Glader
11	Detail Computation of Earnings Per Share
15	Letter Re: Unaudited Interim Financial Information
27	Financial Data Schedule

\*Incorporated by reference to the corresponding exhibit number of the Company's Registration Statement on Form S-1 (File No. 33-30725)

\*\*Incorporated by reference to the corresponding exhibit number of the Company's Registration Statement on Form S-1 (File No. 33-42384)

SIGNATURE

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: February 7, 1997

By: /s/ Jonathon E. Killmer

-----  
Jonathon E. Killmer  
Chief Financial Officer  
(duly authorized officer and  
Principal Financial Officer)



EXHIBIT 10(1)

SEPARATION AGREEMENT BETWEEN THE COMPANY  
AND ERVIN F. KAMM, JR.  
DATED JANUARY 3, 1997

SEPARATION AGREEMENT

This Separation Agreement ("Agreement") is made and entered into by and between Ervin F. Kamm, Jr. ("Kamm") and Digi International Inc., a Delaware corporation (the "Company"), on the dates set forth below.

WHEREAS, Kamm has been employed by the Company since October 1994 pursuant to a written Employment Agreement; and

WHEREAS, the Company and Kamm have agreed that it is in their mutual interests that Kamm resign as a director, officer, and employee of the Company and its subsidiaries and AetherWorks Corporation as of December 31, 1996; and

WHEREAS, the parties are attempting to conclude their employment relationship amicably, but mutually recognize that any significant employment relationship may give rise to potential claims or liabilities; and

WHEREAS, Kamm and the Company expressly deny that they may be liable to each other on any basis or that they have engaged in any improper or unlawful conduct or wrongdoing against each other; and

WHEREAS, Kamm and the Company desire to resolve all issues potentially in dispute between them; and

WHEREAS, Kamm and the Company have agreed to a full settlement of all issues potentially in dispute between them; and

WHEREAS, it is one of the purposes of this Agreement to provide for the exchange of consideration between the parties, to provide for the exchange of releases of potential claims between the parties, and to consolidate within one document the parties' obligations to each other,

NOW, THEREFORE, in consideration of the mutual promises and provisions contained in this Agreement and the Releases referred to below, the parties agree as follows:

1. RELEASE OF CLAIMS BY KAMM. At the same time Kamm executes this Agreement, he also will execute a Release, in the form attached to this Agreement as Exhibit A, in favor of the Company, its insurers, parent companies, subsidiaries, AetherWorks Corporation, joint venture partners, divisions, committees, directors, officers, employees, agents, predecessors, successors, and assigns (the "Kamm Release"). This Agreement will not be interpreted or construed to limit in any manner the Kamm Release. The existence of any dispute respecting the interpretation of this Agreement will not nullify or otherwise affect the validity or enforceability of the Kamm Release.

2. RELEASE OF CLAIMS BY THE COMPANY. At the same time the Company executes this Agreement, the Company also will execute a Release, in the form attached to this Agreement as Exhibit B (the "Company Release"), in favor of Kamm and his heirs, representatives, successors, and assigns. The Company Release releases claims by the Company and its subsidiaries against Kamm and his heirs, representatives, successors and assigns. The Company will indemnify Kamm for any liability arising to AetherWorks Corporation for actions or inactions occurring prior to the date hereof. This Agreement will not be interpreted or construed to limit in any manner the Company Release. The existence of

any dispute respecting the interpretation of this Agreement will not nullify or otherwise affect the validity or enforceability of the Company Release.

3. RESIGNATIONS BY KAMM. At the same time Kamm executes this Agreement, he will also sign two documents, in the form attached to this Agreement as Exhibits C-1 and C-2, respectively, resigning, effective as of December 31, 1996, (i) as a director, an officer, and an employee of the Company, and as a director and/or an officer of any of the Company's subsidiaries and (ii) as a director of AetherWorks Corporation.

4. PAYMENTS. Provided that (i) Kamm has not rescinded this Agreement or the Kamm Release within the applicable rescission period, (ii) the Company has received written confirmation from Kamm, in the form attached to this Agreement as Exhibit D, dated not earlier than the day after the expiration of the applicable rescission period, that Kamm has not rescinded and will not rescind this Agreement or the Kamm Release, and (iii) Kamm has not breached his obligations pursuant to this Agreement or the Kamm Release, then the Company will make the following payments.

a. VACATION PAY. The Company will pay Kamm \$19,230.77, less all applicable payroll withholding, for his accrued and earned vacation not yet taken as of December 31, 1996, in a lump sum on the first business day following the expiration of the applicable rescission period (the "Payment Date").

b. SEVERANCE PAY. The Company will pay Kamm \$250,000.00, less all applicable payroll withholding, in a lump sum on the Payment Date.

c. MEDICAL INSURANCE REIMBURSEMENT. The Company will apply \$5,385.60 to offset the premiums that Kamm otherwise would be required to pay for the

continuation of his group medical and dental insurance coverages under the terms of paragraph 7 below; provided, however, that if Kamm does not elect such coverages, or discontinues such coverages before the full \$5,385.60 is so applied, then the Company will pay the balance of the \$5,385.60, less all applicable payroll withholding, to Kamm promptly after the date on which Kamm declines or discontinues such coverages.

5. STOCK OPTIONS. The Company will accelerate the exercisability of all unvested options to purchase shares of the Company's stock held by Kamm (to wit, 236,900 options), which acceleration will be deemed to have occurred immediately prior to the termination of his employment with the Company as of December 31, 1996. Assuming that Kamm serves as a consultant to the Company through March 31, 1997 as provided in paragraph 6 below, such options must be exercised on or before three months after March 31, 1997, in accordance with the terms of the Company's Stock Option Plan and applicable stock option agreements between Kamm and the Company, at which time all unexercised options held by Kamm will lapse. Kamm understands that he will be solely responsible for the tax consequences of the exercise of his options, and he acknowledges that he is not relying on any representations by the Company regarding such tax consequences.

6. KAMM'S CONSULTANT RELATIONSHIP WITH THE COMPANY. Kamm will serve as a consultant to the Company during regular business hours for reasonable amounts of time immediately upon the termination of his employment with the Company and until March 31, 1997. Kamm's consultant relationship with the Company cannot be terminated by either party for any reason before March 31, 1997. While he is a consultant to the Company, Kamm will complete in a timely fashion work suitable to his skills and abilities that will be

assigned to him from time to time by the Company's Board of Directors or its Chairman. As a consultant to the Company, Kamm will be an independent contractor and not an employee of the Company. During the time he is a consultant to the Company, the Company will provide Kamm with appropriate secretarial and clerical support and other office services, including the continuation of the direct dial telephone number and voice mail accounts he used during his employment. Kamm will incur no liability to the Company for services he provides as a consultant, provided that he acts in good faith, has no reasonable cause to believe that his conduct was unlawful, and reasonably believes that his conduct is in the best interests of the Company.

7. INSURANCE CONTINUATION. After January 1, 1997, Kamm will be entitled to continue his group medical, dental, and life insurance coverages under such terms as are made available to similarly situated former employees of the Company, provided that Kamm pays the entire cost of such insurance as provided by law.

8. SAVINGS AND PROFIT SHARING PLAN. Kamm is a participant in the Company's 401-K Savings and Profit Sharing Plan (the "Plan"). Kamm acknowledges that no further salary reduction contributions will be made to the Plan from his compensation after December 31, 1996, and that he will not be eligible for any matching or profit sharing contributions to the Plan for 1996. Kamm will continue to be a participant in the Plan in accordance with the terms and conditions set forth in the Plan. Kamm will be entitled to begin receiving benefits from his Plan account or to roll-over the amount in his account at the times and under the terms and conditions set forth in the Plan.

9. EMPLOYEE BENEFITS. Except as expressly provided in this Agreement, Kamm will not be eligible to participate in any of the Company's employee benefit plans after December 31, 1996.

10. NON-COMPETITION, CONFIDENTIALITY, AND TRADE SECRETS.

a. AGREEMENT NOT TO COMPETE. Before January 1, 1998 Kamm will not, unless he receives the prior approval of the Board of Directors of the Company, directly or indirectly engage in any of the following actions:

(i) Own an interest in (except as provided below), manage, operate, join, control, lend money or render financial or other assistance to, or participate in or be connected with, as an officer, employee, partner, stockholder, consultant, or otherwise, any entity whose products or services compete directly or indirectly with those of the Company, or any of its subsidiaries or AetherWorks Corporation. However, nothing in this subparagraph 10.a. will preclude Kamm from holding less than one percent of the outstanding capital stock of any corporation required to file periodic reports with the Securities and Exchange Commission under Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the securities of which are listed on any securities exchange, quoted on the National Association of Securities Dealers Automated Quotation System, or traded in the over-the-counter market.

(ii) Intentionally solicit, endeavor to entice away from the Company, or any of its subsidiaries or AetherWorks Corporation, or otherwise interfere with the relationship of the Company, or any of its subsidiaries or AetherWorks Corporation with, any person who is employed by or otherwise engaged to perform services for the Company, or any of its subsidiaries or AetherWorks Corporation (including, but not limited to, any independent sales representatives or organizations), or any person or entity who is, or was within the then most recent 12-month period, a customer or client of the Company, or any of its subsidiaries or AetherWorks Corporation, whether for Kamm's own account or for the account of any other individual, partnership, firm, corporation, or other business organization.

If the scope of the restrictions in this subparagraph 10.a. are determined by a court of competent jurisdiction to be too broad to permit enforcement of such restrictions to their full extent, then such restrictions will be construed or re-written (i.e., blue-lined) so as to be enforceable to the maximum extent permitted by law, and Kamm hereby consents, to the extent he may lawfully do so, to the judicial modification of the scope of such restrictions in any proceeding brought to enforce them.

b. NON-DISCLOSURE OF INFORMATION. After December 31, 1996 Kamm will not, without the written consent of the Company, disclose to any person, other than an employee of the Company, any parent company of the Company, or any of their



subsidiaries or other affiliates, except where such disclosure may be required by law, any material confidential information obtained by him while in the employ of the Company, with respect to any products, technology, know-how or the like, services, customers, methods, or future plans of the Company, or any of its subsidiaries or AetherWorks Corporation, all of which Kamm acknowledges are valuable, special, and unique assets, the disclosure of which Kamm acknowledges may be materially damaging.

c. REMEDIES. Kamm acknowledges that the Company's remedy at law for any breach or threatened breach by Kamm of subparagraphs 10.a. and 10.b. will be inadequate. Therefore, the Company will be entitled to injunctive and other equitable relief restraining Kamm from violating those provisions, in addition to any other remedies that may be available to the Company under this Agreement or applicable law.

11. FUTURE EMPLOYMENT. Except for Kamm's relationship with the Company as a consultant as provided for in paragraph 5 above, Kamm will not apply for or seek re-employment at any time in the future with the Company. Kamm also will not apply for or seek employment at any time in the future with any of the Company's present or future subsidiaries, or AetherWorks Corporation or any of its present or future subsidiaries (so long as AetherWorks Corporation remains an affiliate of the Company); provided, however, that this sentence shall not prohibit Kamm's continued employment by any entity that becomes a subsidiary of the Company or AetherWorks.

12. RECORDS, DOCUMENTS, AND PROPERTY. On or before December 31, 1996, or as soon as possible thereafter, Kamm will return to the Company all records,

correspondence, documents, financial data, plans, computer disks, computer tapes, keys, credit cards, and other tangible property in his possession belonging to the Company.

13. MUTUAL CONFIDENTIALITY.

a. GENERAL STANDARD. It is the intent of the parties that the terms of Kamm's separation from the Company, including the provisions of this Agreement, the Kamm Release, and Company Release (collectively "Confidential Separation Information"), will be forever treated as confidential. Accordingly, Kamm and the Company will not disclose Confidential Separation Information to anyone at any time, except as provided in subparagraph 13.b.

b. EXCEPTIONS.

(i) It will not be a violation of this Agreement for the parties to disclose Confidential Separation Information to the Company's directors and stockholders or in public filings in the form of proxy statements or other reports required by securities laws or to governmental agencies as required by law, including, but not limited to, the Securities and Exchange Commission and any federal or state tax authority.

(ii) It will not be a violation of this Agreement for Kamm to disclose Confidential Separation Information to his immediate family, his attorneys, his accountants or tax advisors, or any federal or state tax authority, or as may be required by law.

(iii) It will not be a violation of this Agreement for Kamm to disclose to employers and/or prospective employers that he is constrained from certain activities as a result of the terms of paragraph 10 above.

(iv) It will not be a violation of this Agreement for the Company to disclose Confidential Separation Information to its auditors, its attorneys, and its employees and agents who have a legitimate reason to obtain the Confidential Separation Information in the course of performing their duties or responsibilities for the Company, or as may be required by law.

(v) It will not be a violation of this Agreement for the Company to release a media statement in the form attached to this Agreement as Exhibit E.

(vi) If Kamm or a director or senior executive officer of the Company is asked by any person about any matters related to the termination of Kamm's employment, it will not be a violation of this Agreement to say in response only that "all matters relating to Kamm's separation from the Company were amicably and satisfactorily resolved" and/or that Kamm and the Company have "agreed not to discuss Kamm's separation from the Company."

14. NON-DISPARAGEMENT. Kamm will not disparage, defame, or besmirch the reputation, character, image, products, or services of the Company, or the reputation or

character of its directors, officers, employees, or agents. The Company will not disparage, defame, or besmirch the reputation, character, or image of Kamm.

15. CLAIMS INVOLVING THE COMPANY. Kamm will not recommend or suggest to any potential claimants or plaintiffs or their attorneys or agents that they initiate claims or lawsuits against the Company, any of its subsidiaries or AetherWorks Corporation, or any of its or their directors, officers, employees, or agents, nor will Kamm voluntarily aid, assist, or cooperate with any claimants or plaintiffs or their attorneys or agents in any claims or lawsuits now pending or commenced in the future against the Company, any of its subsidiaries or AetherWorks Corporation, or any of its or their directors, officers, employees, or agents; provided, however, that this paragraph will not be interpreted or construed to prevent Kamm from giving testimony in response to questions asked pursuant to a legally enforceable subpoena, deposition notice, or other legal process, during any legal proceedings involving the Company, any of its subsidiaries or AetherWorks Corporation, or any of its or their directors, officers, employees, or agents.

16. KAMM'S CONTINUED AVAILABILITY. Kamm will make himself reasonably available upon request to confer with the Company's senior executive officers, directors, and lawyers at mutually convenient times during regular business hours for reasonable amounts of time regarding the Company's significant business matters and legal affairs. The Company will reimburse Kamm for any actual out-of-pocket expenses that he incurs when conferring with the Company's senior executive officers, directors, and lawyers, but will not make any other payments to him for so conferring unless the time spent conferring exceeds 20 hours per year. If Kamm spends more than 20 hours per year

conferring with the Company's senior executive officers, directors, and lawyers, the Company will reasonably compensate Kamm for the time spent in excess of 20 hours.

17. INDEMNIFICATION. Notwithstanding Kamm's separation from the Company, with respect to events that occurred during his tenure as a director, an officer, or an employee of the Company, Kamm will be entitled, as a former director, officer, and employee of the Company, to the same rights as are afforded to senior executive officers of the Company now or in the future, to indemnification and advancement of expenses provided in the charter documents of the Company, under applicable law, and under the Company's indemnification agreement with Kamm dated November 30, 1994 (the "Indemnification Agreement"), and to coverage and a legal defense under any applicable general liability and/or directors' and officers' liability insurance policies maintained by the Company.

18. KAMM REPRESENTATION. Kamm represents that, during the entire period that he was a director, an officer, and an employee of the Company, he acted in good faith, had no reasonable cause to believe that his conduct was unlawful, and reasonably believed that his conduct was in the best interests of the Company. The parties intend that the terms used in this paragraph will have the same meaning as the same terms used in Section 145 of the Delaware General Corporation Law.

19. COMPANY REPRESENTATION. The Company represents that, at the time it executes this Agreement, the members of its Board of Directors are not aware of the existence of any facts upon which any claim or cause of action could be asserted against Kamm.

20. TIME TO CONSIDER AGREEMENT. Kamm understands that he may take at least 21 calendar days to decide whether to sign this Agreement and the Kamm Release,

which 21-day period will commence on the date on which Kamm first receives copies of this Agreement and the Kamm Release for review. Kamm represents that if he signs this Agreement and the Kamm Release before the expiration of the 21-day period, it is because he has decided that he does not need any additional time to decide whether to sign this Agreement and the Kamm Release.

21. RIGHT TO RESCIND OR REVOKE. Kamm understands that he has the right to rescind or revoke this Agreement and the Kamm Release for any reason within 15 calendar days after he signs them. Kamm understands that this Agreement and the Kamm Release will not become effective or enforceable unless and until he has not rescinded this Agreement and the Kamm Release and the applicable rescission period has expired. Kamm understands that if he wishes to rescind, the rescission must be in writing and hand-delivered or mailed to the Company. If hand-delivered, the rescission must be: (a) addressed to John P. Schinas, Chairman of the Board, Digi International Inc., 11011 Bren Road East, Minnetonka, MN 55343 and (b) delivered to Mr. Schinas within the 15-day period. If mailed, the rescission must be: (a) postmarked within the 15-day period; (b) addressed to John P. Schinas, Chairman of the Board, Digi International Inc., 11001 Bren Road East, Minnetonka, MN 55343 and (c) sent by certified mail, return receipt requested. Whether hand-delivered or mailed, Kamm will, in addition, simultaneously provide copies of his rescission to the Company's Director of Human Resources at the address of the Company listed in this paragraph and to Faegre & Benson, 2200 Norwest Center, 90 South Seventh Street, Minneapolis, MN 55402-3901, Attention: James E. Nicholson.

22. KAMM'S DUTY TO INFORM COMPANY OF DECISION TO REVOKE. If Kamm decides to rescind or revoke this Agreement and the Kamm Release by mail, as provided for in paragraph 21 above, he will so inform John P. Schinas, Chairman of the Board, of his decision by telephone before 5:00 p.m. on the 15th day of the rescission period.

23. FULL COMPENSATION. Kamm understands that the payments made and other consideration provided by the Company under this Agreement will fully compensate Kamm for and extinguish any and all of the claims Kamm is releasing in the Kamm Release, including, but not limited to, his claims for attorneys' fees, costs, and disbursements, and any and all claims for any type of equitable or legal relief.

24. NO ADMISSION OF WRONGDOING. Kamm understands that this Agreement does not constitute an admission that the Company has violated any local ordinance, state or federal statute, or principle of common law, or that the Company has engaged in any improper or unlawful conduct or wrongdoing against Kamm. Kamm will not characterize this Agreement or the payment of any money or the giving of other consideration in accordance with this Agreement as an admission that the Company has engaged in any improper or unlawful conduct or wrongdoing against him.

25. AUTHORITY. Kamm represents that he has the authority to enter into this Agreement and the Kamm Release, and that no causes of action, claims, or demands released pursuant to this Agreement and the Kamm Release have been assigned to any person or entity not a party to this Agreement.

26. REPRESENTATION. Kamm acknowledges that he has had a full opportunity to consult with his own attorneys in this matter, that he has had a full opportunity

to consider this Agreement and the Kamm Release, that he has had a full opportunity to ask any questions that he may have concerning this Agreement and the Kamm Release, or the settlement of his claims against the Company, and that he has not relied upon any statements or representations made by the Company or its attorneys, written or oral, other than the statements and representations that are explicitly set forth in this Agreement, the Kamm Release, the Company Release, the Plan, and the Indemnification Agreement.

27. SUCCESSORS AND ASSIGNS. This Agreement will be binding upon and inure to the benefit of the parties and their respective heirs, representatives, successors, and assigns, but will not be assignable by either party without the prior written consent of the other party.

28. INVALIDITY. In the event that any provision of this Agreement or the Kamm Release or the Company Release is determined by a court of competent jurisdiction to be invalid, illegal, or unenforceable in any respect, such a determination will not affect the validity, legality, or enforceability of the remaining provisions of this Agreement or the Kamm Release or the Company Release, and the remaining provisions of this Agreement and the Kamm Release and the Company Release will continue to be valid and enforceable, and any court of competent jurisdiction may so modify the objectionable provision as to make it valid and enforceable.

29. ENTIRE AGREEMENT. Before executing this Agreement, the parties had several discussions, including negotiations, and generated certain documents, in which the parties discussed the matters that are the subject of this Agreement and the Kamm Release and the Company Release. In such discussions and documents, the parties may have



expressed their judgments and beliefs concerning the intentions, capabilities, and practices of the parties, and may have forecast future events. The parties recognize, however, that all business transactions, including the transactions upon which the parties' judgments, beliefs, and forecasts are based, contain an element of risk, and that it is normal business practice to limit the legal obligations of contracting parties only to those promises and representations that are essential to the transaction so as to provide certainty as to their respective future rights and remedies. Accordingly, this Agreement, the Kamm Release, the Company Release, the Plan, and the Indemnification Agreement are intended to define the full extent of the legally enforceable undertakings of the parties, and no promises or representations, written or oral, that are not set forth explicitly in this Agreement, the Kamm Release, the Company Release, the Plan, or the Indemnification Agreement are intended by either party to be legally binding, and all other agreements and understandings between the parties are hereby superseded.

30. HEADINGS. The descriptive headings of the paragraphs and subparagraphs of this Agreement are inserted for convenience only, and do not constitute a part of this Agreement.

31. COUNTERPARTS. This Agreement may be executed simultaneously in two or more counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument.

32. GOVERNING LAW. This Agreement and the Kamm Release and the Company Release will be interpreted and construed in accordance with, and any dispute or controversy arising from any breach or asserted breach of this Agreement or the Kamm Release or the Company Release will be governed by, the laws of Minnesota.

IN WITNESS WHEREOF, the parties have executed this Agreement on the dates indicated at their respective signatures below.

Dated: January 3, 1997.

/s/ Ervin F. Kamm, Jr.  
-----  
ERVIN F. KAMM, JR.

DIGI INTERNATIONAL INC.

Dated: January 3, 1997.

/s/ John P. Schinas  
-----  
By: John P. Schinas  
Its: Chairman of the Board

EXHIBIT 10(p)(i)

AMENDMENT TO EMPLOYMENT ARRANGEMENT  
BETWEEN THE COMPANY AND DOUGLAS GLADER

January 16, 1997

PERSONAL AND CONFIDENTIAL

Mr. Douglas J. Glader  
Digi International Inc.  
11001 Bren Road East  
Minnetonka, MN 55343

Dear Doug:

This letter confirms the terms of the amendment to your employment agreement with the Company dated February 6, 1995 (the "Agreement"). Except as specifically provided for herein, the terms of the Agreement remain in full force and effect.

If you are terminated by the Company without "cause" on or before July 31, 1998, you would be entitled to severance equal to one year's base salary and a bonus (if earned) that would be pro-rated for the portion of the fiscal year through the termination date. The definition of cause is attached as an appendix to the Agreement.

In addition, with regard to your relocation expenses associated with your move from California to Minnesota, the Company has agreed to gross up the amount paid to you to cover any taxes that you may be obligated to pay as a result of the Company's reimbursement.

The Agreement as amended by this letter constitutes the entire agreement between you and the Company regarding the subject matter contained therein and supersedes all prior agreements and understandings relating thereto.

If the terms outlined above are acceptable, please confirm by signing the enclosed copy below and returning it to me.

Very truly yours,  
DIGI INTERNATIONAL INC.

/S/RICHARD E. EICHHORN

-----  
By Richard E. Eichhorn  
Chairman, Compensation Committee

ACCEPTED:

/S/DOUGLAS J. GLADER

-----  
Douglas J. Glader

EXHIBIT 11

DETAIL COMPUTATION OF EARNINGS PER SHARE

Digi International  
 Exhibit 11  
 Detail Computation of Earnings Per Share

	Three month period ended December 31	
	1996	1995
<b>PER SHARE DATA</b>		
Net (loss) income	\$ (2,578,007)	\$4,521,901
	-----	-----
	-----	-----
Net (loss) income per common and common equivalent share		
Primary	\$ (0.19)	\$ 0.33
	-----	-----
	-----	-----
Fully diluted	\$ (0.19)	\$ 0.33
	-----	-----
	-----	-----
<b>WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON EQUIVALENT SHARES</b>		
Primary:		
Weighted average of common shares outstanding	13,354,080	13,427,011
Dilutive stock options, using treasury stock method	-	475,722
	-----	-----
	13,354,080	13,902,733
	-----	-----
	-----	-----
Fully diluted:		
Weighted average of common shares outstanding	13,354,080	13,427,011
Dilutive stock options, using treasury stock method	-	475,676
	-----	-----
	13,354,080	13,902,687
	-----	-----
	-----	-----

NOTE: The calculation of fully diluted earnings per share is submitted in compliance with Regulation S-K Item 601(b) (11) although not required by footnote 2 to paragraph 14 of APB Opinion No. 15 because it results in less than 3% dilution.

EXHIBIT 15

LETTER RE: UNAUDITED INTERIM FINANCIAL INFORMATION

Securities and Exchange Commission  
450 Fifth Street N.W.  
Washington, D.C. 20549

We are aware that our report dated February 6, 1997 on the reviews of interim condensed consolidated financial information of Digi International Inc. and Subsidiaries (the Company) for the three month period ended December 31, 1996 and 1995, and included in the Company's Form 10-Q for the quarter ended December 31, 1996, is incorporated by reference in the Company's registration statements on Form S-8 (Registration Nos. 33-32956, 33-38898, 333-99 and 333-1821) and Form S-3 (Registration No. 33-59223). Pursuant to Rule 436(c), under the Securities Act of 1933, this report should not be considered a part of the registration statements prepared or certified by us within the meaning of Sections 7 and 11 of that Act.

/s/ COOPERS & LYBRAND L.L.P.

Minneapolis, Minnesota  
February 6, 1997





3-MOS			
	SEP-30-1997		
	OCT-01-1996		
	DEC-31-1996		
		7,607,580	
		0	
	41,207,824		
		0	
	35,396,677		
	89,709,160		
		25,114,285	
		0	
	130,660,881		
23,055,806			
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	0		
		0	
		146,827	
	107,458,247		
130,660,881			
			0
	42,236,213		
		22,595,738	
	21,380,157		
	1,519,789		
		0	
		0	
	(3,160,440)		
		(582,433)	
(2,578,007)			
		0	
		0	
			0
	(2,578,007)		
		(.19)	
		(.19)	

Aetherworks Corp net loss