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

FORM 8-K/A

AMENDMENT NO. 1

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported) February 13, 2002

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

Item 7. Financial Statements and Exhibits.

On February 13, 2002, Digi International Inc. ("Digi") completed its merger with NetSilicon, Inc. ("NetSilicon"). Pursuant to the Agreement and Plan of Merger, dated as of October 30, 2001, among Digi, Dove Sub Inc., a wholly owned subsidiary of Digi ("Dove Sub"), and NetSilicon (the "Merger Agreement"), NetSilicon merged with and into Dove Sub (the "Merger"). Dove Sub, as the surviving corporation in the Merger, will remain a wholly owned subsidiary of Digi and has adopted the name "NetSilicon, Inc." in connection with the Merger.

This Current Report on Form 8-K/A includes certain financial information required by Item 7 that was not contained in the Current Report on Form 8-K dated and filed February 22, 2002 (File No. 0-17972) relating to the Merger.

The following information follows or is attached hereto as an exhibit:

(a) Financial Statements of NetSilicon.

The following information is attached hereto as Exhibit 99.2:

Report of Independent Certified Public Accountants

Consolidated Balance Sheets as of January 31, 2002 and 2001

Consolidated Statements of Operations for the Year Ended January 31, 2002, 2001 and 2000

Consolidated Statements of Stockholders' Equity (Deficit) for the Years Ended January 31, 2002, 2001 and 2000

Consolidated Statements of Cash Flows for the Years Ended January 31, 2002, 2001 and 2000

Notes to Consolidated Financial Statements

(b) Pro Forma Financial Information.

The following information is attached hereto as Exhibit 99.3:

(i) NetSilicon

Introduction to Unaudited Pro Forma Combined Condensed Statement of Operations

Unaudited Pro Forma Combined Condensed Statement of Operations for the year ended September 30, 2001

Notes to Unaudited Pro Forma Combined Condensed Financial Statements

(ii) Digi International Inc.

Introduction to Unaudited Pro Forma Combined Condensed Financial Statements

Unaudited Pro Forma Combined Condensed Balance Sheet as of December 31, 2001

Unaudited Pro Forma Combined Condensed Statement of Operations for the three months ended December 31, 2001

Unaudited Pro Forma Combined Condensed Statement of Operations for the year ended September 30, 2001

Notes to Unaudited Pro Forma Combined Condensed Financial Statements

(c) Exhibits.

2 Agreement and Plan of Merger among Digi International Inc., Dove Sub Inc. and NetSilicon, Inc., dated as of October 30, 2001 (incorporated by reference to Annex A to the joint proxy statement/prospectus dated

January 9, 2002, included in a Registration Statement on Form S-4 filed by Digi International Inc. on January 4, 2002, as amended (Reg. No. 333-74118)).

23	Consent of Independent Certified Public Accountants.
99.1	Press Release dated February 13, 2002 (incorporated by reference to Exhibit 99 to the Registrant's Current Report on Form 8-K dated February 13, 2002 and filed with the Commission on February 22, 2002 (File No. 0-17972)).
99.2	Financial Statements of NetSilicon.
99.3	Pro Forma Financial Information.

SIGNATURES

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

DIGI INTERNATIONAL INC.

Date: April 26, 2002

By /s/ Subramanian Krishnan

Subramanian Krishnan
Senior Vice President,
Chief Financial Officer and Treasurer

EXHIBIT INDEX

No.	Exhibit	Manner of Filing
2	Agreement and Plan of Merger among Digi International Inc., Dove Sub Inc. and NetSilicon, Inc., dated as of October 30, 2001 (incorporated by reference to Annex A to the joint proxy statement/prospectus dated January 9, 2002, included in a Registration Statement on Form S-4 filed by Digi International Inc. on January 4, 2002, as amended (Reg. No. 333-74118)).	Incorporated by Reference
23	Consent of Independent Certified Public Accountants.	Filed Electronically
99.1	Press Release dated February 13, 2002 (incorporated by reference to Exhibit 99 to the Registrant's Current Report on Form 8-K dated February 13, 2002 and filed with the Commission on February 22, 2002 (File No. 0-17972)).	Incorporated by Reference
99.2	Financial Statements of NetSilicon.	Filed Electronically
99.3	Pro Forma Financial Information.	Filed Electronically

EXHIBIT 23

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-1821, 333-23857, 333-57869, 333-53366, 333-55488, 333-82668, 333-82670, 333-82672, 333-82674 and 333-82678) of Digi International Inc. of our report dated March 13, 2002 on our audits of the consolidated financial statements of NetSilicon, Inc. as of January 31, 2002 and 2001 and for the years ended January 2002, 2001 and 2000, which report is included in this Form 8-K/A.

/s/ BDO Seidman, LLP

Boston, Massachusetts
April 26, 2002

EXHIBIT 99.2

NETSILICON, INC.

CONSOLIDATED FINANCIAL STATEMENTS
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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors of
NetSilicon, Inc.

We have audited the accompanying consolidated balance sheets of NetSilicon, Inc. as of January 31, 2002 and 2001 and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the three years in the period ended January 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of NetSilicon, Inc. as of January 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended January 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

/S/ BDO SEIDMAN, LLP

Boston, Massachusetts
March 13, 2002

NETSILICON, INC.
CONSOLIDATED BALANCE SHEETS

January 31,	2002	2001
ASSETS		
CURRENT ASSETS		
Cash and equivalents	$ 4,427,300	$ 5,999,200
Short-term investments	1,821,900	6,794,400
Accounts receivable, net of allowances of $576,000 and $671,000	3,583,700	4,660,300
Inventory, net	4,315,200	6,707,000
Prepaid expenses and other current assets	1,038,500	757,400
Receivable from officer	740,000	871,200
TOTAL CURRENT ASSETS	15,926,600	25,789,500
PROPERTY AND EQUIPMENT, NET	1,828,200	2,335,200
OTHER ASSETS		
Capitalized software, net	547,600	990,800
Intangible assets, net	1,354,000	1,351,800
Other assets	652,700	933,800
TOTAL OTHER ASSETS	2,554,300	3,276,400
TOTAL ASSETS	$ 20,309,100	$ 31,401,100
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 2,624,500	$ 2,787,100
Deferred revenue	356,200	343,000
Other current liabilities	3,301,000	3,557,700
TOTAL CURRENT LIABILITIES	6,281,700	6,687,800
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock, $0.01 par value; 5,000,000 authorized; none issued	-	-
Common stock, $0.01 par value; 35,000,000 authorized; issued and outstanding:		
Voting, 7,093,700 and 6,810,100 shares	70,900	68,100
Non-voting, 6,972,700 shares	69,700	69,700
Additional paid-in capital	29,575,400	28,187,400
Accumulated other comprehensive income	4,800	26,500
Accumulated deficit	(15,693,400)	(3,638,400)
TOTAL STOCKHOLDERS' EQUITY	14,027,400	24,713,300
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 20,309,100	$ 31,401,100

See accompanying notes to consolidated financial statements.

NETSILICON, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

Fiscal Year Ended January 31,	2002	2001	2000
NET SALES	$ 27,650,000	$ 37,382,100	$ 31,840,900
COST OF SALES	13,211,100	15,188,300	15,422,900
GROSS MARGIN	14,438,900	22,193,800	16,418,000
OPERATING EXPENSES			
Selling and marketing	9,661,800	10,753,500	7,560,300
Engineering, research and development	8,212,100	7,054,200	3,083,500
General and administrative	8,344,500	4,689,900	3,550,500
Amortization of intangibles assets	631,600	337,700	-
Intangible and other asset impairment charges	-	1,497,900	-
TOTAL OPERATING EXPENSES	26,850,000	24,333,200	14,194,300
OPERATING INCOME (LOSS)	(12,411,100)	(2,139,400)	2,223,700
Interest income (expense), net of interest income of $364,700 in 2000	356,100	882,500	(206,100)
INCOME (LOSS) BEFORE INCOME TAXES	(12,055,000)	(1,256,900)	2,017,600
Income taxes	-	-	-
NET INCOME (LOSS)	$(12,055,000)	$ (1,256,900)	$ 2,017,600
NET INCOME (LOSS) PER COMMON SHARE			
Basic	$ (0.86)	$ (0.09)	$ 0.18
Diluted	$ (0.86)	$ (0.09)	$ 0.17
SHARES USED IN PER SHARE CALCULATIONS			
Basic	14,037,100	13,674,200	11,326,600
Diluted	14,037,100	13,674,200	11,978,200

See accompanying notes to consolidated financial statements.

NETSILICON, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit
BALANCE AT JANUARY 31, 1999	10,000,000	$ 100,000	$ 2,463,000	$ -	$ (4,399,100)
Sale of common stock, net of issuance costs of $788,000	3,537,500	35,400	22,213,700	-	-
Issuance of common stock options to non-employees	-	-	78,700	-	-
Net income	-	-	-	-	2,017,600
Unrealized loss on short-term investments	-	-	-	(26,400)	-
Comprehensive income	-	-	-	-	-
BALANCE AT JANUARY 31, 2000	13,537,500	135,400	24,755,400	(26,400)	(2,381,500)
Common stock issued in connection with asset acquisition	90,000	900	2,270,700	-	-
Common stock issued under stock plans	155,300	1,500	1,086,300	-	-
Issuance of common stock options to non-employees	-	-	75,000	-	-
Net loss	-	-	-	-	(1,256,900)
Unrealized gain on short-term investments	-	-	-	52,900	-
Comprehensive loss	-	-	-	-	-
BALANCE AT JANUARY 31, 2001	13,782,800	137,800	28,187,400	26,500	(3,638,400)
Common stock issued in connection with business acquisition	241,700	2,400	1,255,300	-	-
Common stock issued under stock plans	41,900	400	132,700	-	-
Net loss	-	-	-	-	(12,055,000)
Foreign currency translation adjustment	-	-	-	(4,900)	-
Unrealized loss on short-term investments	-	-	-	(16,800)	-
Comprehensive loss	-	-	-	-	-
BALANCE AT JANUARY 31, 2002	14,066,400	$ 140,600	$ 29,575,400	$ 4,800	$(15,693,400)

	Total Stockholders' Equity (Deficit)	Comprehensive Income (Loss)
BALANCE AT JANUARY 31, 1999	$ (1,836,100)	
Sale of common stock, net of issuance costs of $788,000	22,249,100	
Issuance of common stock options to non-employees	78,700	
Net income	2,017,600	$ 2,017,600
Unrealized loss on short-term investments	(26,400)	(26,400)
Comprehensive income	-	$ 1,991,200
BALANCE AT JANUARY 31, 2000	22,482,900	
Common stock issued in connection		

with asset acquisition	2,271,600	
Common stock issued under stock plans	1,087,800	
Issuance of common stock options to non-employees	75,000	
Net loss	(1,256,900)	$ (1,256,900)
Unrealized gain on short-term investments	52,900	52,900
Comprehensive loss	-	$ (1,204,000)
BALANCE AT JANUARY 31, 2001	24,713,300	
Common stock issued in connection with business acquisition	1,257,700	
Common stock issued under stock plans	133,100	
Net loss	(12,055,000)	$(12,055,000)
Foreign currency translation adjustment	(4,900)	(4,900)
Unrealized loss on short-term investments	(16,800)	(16,800)
Comprehensive loss	-	$(12,076,700)
BALANCE AT JANUARY 31, 2002	$ 14,027,400	

See accompanying notes to consolidated financial statements.

NETSILICON, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

Fiscal Year Ended January 31,	2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$(12,055,000)	$ (1,256,900)	$ 2,017,600
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	2,315,200	1,815,400	1,127,300
Intangible and other asset impairment charges	-	1,497,900	-
Forgiveness of notes receivable to officer	908,500	-	-
Stock option compensation - non-employee	-	-	78,700
Changes in operating assets and liabilities, net of effects of acquisition:			
(Increase) decrease in accounts receivable	2,094,500	(2,302,800)	1,938,500
(Increase) decrease in inventories	2,446,400	(2,384,600)	(553,100)
(Increase) decrease in other assets	(504,500)	41,500	(560,300)
Increase (decrease) in accounts payable	(731,600)	(226,100)	223,400
Increase (decrease) in other current liabilities	(522,700)	224,800	2,112,100
Increase (decrease) in deferred revenue	13,200	290,500	52,500
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(6,036,000)	(2,300,300)	6,436,700
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale (purchases) of short-term investments	4,955,700	1,462,200	(8,230,100)
Purchases of property and equipment	(745,400)	(1,848,600)	(1,322,400)
Software development costs	(63,000)	(532,900)	(938,100)
Net cash acquired (paid) in acquisition	413,600	(439,800)	-
Other assets	(225,000)	(625,200)	(84,500)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	4,335,900	(1,984,300)	(10,575,100)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of notes receivable to officer	-	(871,200)	-
Repayments of affiliates advances	-	(56,900)	(5,147,900)
Repayments of short-term debt, net	-	(779,700)	(2,411,800)
Payments of capital lease obligation	-	(192,700)	(37,100)
Proceeds from issuance of stock (net of issuance costs)	133,100	-	22,249,100
Proceeds from exercise of stock options	-	1,087,800	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	133,100	(812,700)	14,652,300
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND EQUIVALENTS	(4,900)	-	-
INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(1,571,900)	(5,097,300)	10,513,900
CASH AND EQUIVALENTS BEGINNING OF YEAR	5,999,200	11,096,500	582,600
CASH AND EQUIVALENTS END OF YEAR	$ 4,427,300	$ 5,999,200	$ 11,096,500

See accompanying notes to consolidated financial statements.

NetSilicon, Inc. (the "Company") designs and manufactures integrated device networking platforms for manufacturers who want to build intelligence and Internet/Ethernet connectivity into their electronic products. These platforms integrate system-on-silicon and software to provide a complete solution for connecting devices to a network or the Internet. NetSilicon's NET+Works platform allows manufacturers to shorten their time to market, reduce development risk, lower costs, and free their engineers from the difficult task of integrating multi-vendor networking components. NetSilicon is enabling device intelligence and connectivity in a broad range of industries, including telecommunications, building controls, security, retail point-of-sale and office appliances.

The accompanying financial statements are the responsibility of the management of the Company.

A. THE COMPANY AND BASIS OF PRESENTATION

The Company was incorporated in Massachusetts on April 17, 1984 under the name of Digital Products, Inc. In September 1996, Sorrento Networks Corporation, formerly Osicom Technologies, Inc., ("Sorrento") acquired sole ownership of the Company through a merger with a newly-formed corporation in exchange for Sorrento common stock in a transaction accounted for as a pooling of interests. On September 15, 1999, the Company completed an initial public offering of its common stock. At January 31, 2002, Sorrento held a 49.6% non-voting interest in the Company. The accompanying financial statements represent only the assets, liabilities, operations and financial position of the Company and its subsidiaries.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, NetSilicon GmbH and NetSilicon Japan. All significant intercompany transactions and balances have been eliminated.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Equivalents and Short-term Investments -- All highly liquid debt instruments purchased with a remaining maturity of three months or less are classified as cash equivalents. Management determines the classification of debt and equity securities at the time of purchase and reevaluates the classification at each balance sheet date. The Company classifies its short-term investments as available-for-sale and therefore records them at fair value with unrealized gains and losses, net of taxes, if applicable, reported as a component of accumulated other comprehensive income (loss). All available-for-sale securities are classified as current assets. The cost of investments sold, for purposes of calculating realized gains and losses, is determined using the first-in, first-out method. Realized gains and losses are recognized in the statement of operations.

Use of Estimates -- The financial statements are prepared in conformity with accounting principles generally accepted in the United States of America which require management to make estimates that affect the reported amounts of assets, liabilities, revenues and expenses, the disclosure of contingent assets and liabilities and the values of purchased assets and assumed liabilities in acquisitions. Actual results could differ from these estimates.

Accounts and Notes Receivable -- In the normal course of business, the Company extends unsecured credit to its customers related to the sales of various products. Typically credit terms require payment within thirty days from the date of shipment. The Company evaluates and monitors the creditworthiness of each customer on a case-by-case basis.

Allowance for Doubtful Accounts -- The Company provides an allowance for doubtful accounts based on its continuing evaluation of its customers' credit risk. The Company generally does not require collateral from its customers.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory -- Inventory, comprised of raw materials, work in process, finished goods and spare parts, is stated at the lower of cost (first-in, first-out method) or market. Inventories consisted of:

	JANUARY 31, 2002	JANUARY 31, 2001
Raw material	$4,905,300	$7,041,500
Work in process	38,700	126,800
Finished goods	84,000	49,500
	5,028,000	7,217,800
Less: Valuation reserve	712,800	510,800
	$4,315,200	$6,707,000

Fair Value of Financial Instruments -- The fair value of financial instruments is determined by reference to various market data and other valuation techniques as appropriate. Management believes that there are no material differences between the recorded book values of its financial instruments, which include cash and cash equivalents, short-term investments, accounts receivable and accounts payable, and their estimated fair value.

Property and Equipment -- Property and equipment are recorded at historical cost. Depreciation and amortization is provided using the straight-line method over the estimated useful lives of two to seven years for computer and other equipment, purchased software, and furniture and fixtures. Leasehold improvements are amortized over the shorter of the remaining lease term or the estimated useful life of the improvement using the straight-line method.

Capitalized leases are initially recorded at the present value of the minimum payments at the inception of the contracts, with an equivalent liability categorized as appropriate under current or non-current liabilities. Such assets are depreciated on the same basis as described above. Interest expense, which represents the difference between the minimum payments and the present value of the minimum payments at the inception of the lease, is allocated to accounting periods using a constant rate of interest over the term of the lease.

Property and equipment are reviewed for impairment whenever events or circumstances indicate that the asset's undiscounted expected cash flows are not sufficient to recover its carrying amount. The Company measures impairment loss by comparing the fair market value, calculated as the present value of expected future cash flows, to its net book value. Impairment losses, if any, are recorded currently.

Software Development -- Software development costs where technological feasibility has not been established are expensed in the period in which they occurred, otherwise, development costs that will become an integral part of the Company's products are deferred in accordance with Statement of Financial Accounting Standards ("SFAS") Nos. 2 and 86. The deferred costs are amortized to cost of sales using the straight-line method over the remaining estimated two to three year economic life of the product or the ratio that current revenues for the product bear to the total of current and anticipated future revenues for that product. Amortization expense for the fiscal years ended January 31, 2002, 2001 and 2000 was $419,000, $435,100 and $382,700, respectively.

The recoverability of capitalized software costs are reviewed on an ongoing basis primarily based upon projections of discounted future operating cash flows from each software product line. The excess amount, if any, of the remaining net book value over the calculated amount is fully reserved.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible Assets -- Intangible assets consist of completed technology, assembled workforce, goodwill and other assets arising from the acquisition of a business or business assets. Goodwill is the excess of the purchase price over the fair value of net identifiable assets acquired in a business combination accounted for as a purchase. Goodwill is amortized on a straight-line basis over seven years. Other intangible assets are amortized using the straight-line method over their estimated useful lives of three to seven years.

Intangible assets are reviewed for impairment whenever events or circumstances indicate that the asset's undiscounted expected future cash flows are not sufficient to recover its carrying amount. The Company measures impairment loss by comparing the fair market value, calculated as the present value of expected future cash flows, to its net book value or carrying amount. Impairment losses, if any, are recorded currently.

Revenue Recognition -- The Company's revenues are derived primarily from the sale of product to its OEM customers and to a lesser extent from the sale of software licenses, fees associated with technical support, training and engineering services and royalties. The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, collectibility is probable and there are no post-delivery obligations. Revenue from the sale of hardware products, including embedded networking semiconductors and controller products, is generally recognized upon shipment. Revenue from service obligations is deferred and recognized at the time the service is provided or over the life of the underlying service or support contract, if applicable.

The Company's software development tools and developments boards often include multiple elements -- hardware, software, post contract customer support (PCS), limited training and a basic hardware design review. Our customers purchase these products and services during their product development process in which they use the tools to build network connectivity into the devices they are manufacturing. The Company recognizes revenue related to these multiple element arrangements in accordance with Statement of Position ("SOP") No. 97-2 "Software Revenue Recognition," as amended by SOP 98-4, "Deferral of the Effective Date of Certain Provisions of SOP 97-2." Revenue related to the sale of these development products is allocated to the various elements based on vendor-specific objective evidence of fair value. The portion of revenue allocated to hardware and software licenses is recognized upon shipment. The portion of the revenue allocated to PCS is recognized ratably over the term of the PCS arrangement and the portion of revenue allocated to training and the hardware design review are recognized when the service is performed.

The Company's customers have a limited right of return. The Company records an estimated reserve for warranty costs and an allowance for sales returns during the month of shipment.

The Company's embedded networking semiconductor and controller products accounted for 85.8%, 87.3%, and 94.0% of total net sales in fiscal years 2002, 2001 and 2000, respectively. Software development tools and development boards accounted for 4.2%, 5.6%, and 2.0% of total net sales in fiscal years 2002, 2001 and 2000, respectively, and 6.8%, 6.1%, and 4.0% of net sales in fiscal years 2002, 2001, and 2000, respectively, related to royalty, maintenance and service revenue. Software licensing revenue accounted for 3.2%, 1.0% and 0% of revenue in fiscal years 2002, 2001 and 2000, respectively.

Income Taxes -- Income taxes are accounted for in accordance with SFAS No. 109 "Accounting for Income Taxes." The statement employs an asset and liability approach for financial accounting and reporting of deferred income taxes generally allowing for recognition of deferred tax assets in the current period for future benefit of net operating loss and research credit carryforwards as well as items for which expenses have been recognized for financial statement purposes but will be deductible in future periods. A valuation allowance is recognized if, on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income and Loss Per Common Share -- The Company follows the provisions of SFAS No. 128, "Earnings Per Share." SFAS 128 requires dual presentation of basic and diluted earnings per share on the face of the income statement. It also requires a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation. Basic income and loss per common share is computed by dividing net income or loss available to common shareholders by the weighted average number of common shares outstanding during each period presented. Diluted EPS is based on the weighted average number of common shares outstanding as well as dilutive potential common shares, which in the Company's case consist of warrants to acquire common stock and shares issuable related to options granted under stock option plans. Potential common shares are not included in the diluted loss per share computation if their effect would be anti-dilutive.

Stock-Based Compensation -- The Company follows SFAS No. 123, "Accounting for Stock Based Compensation." SFAS No. 123 encourages, but does not require, companies to record compensation cost for stock-based employee compensation. The Company has chosen to continue to account for employee stock-based compensation utilizing the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, compensation cost for stock options issued to employees is measured as the excess, if any, of the fair market price of the Company's stock at the date of grant over the amount an employee must pay to acquire the stock. As required by SFAS No. 123, the Company records compensation for stock options issued to non-employees, in exchange for product or services, utilizing the fair value method outlined in SFAS No. 123.

Foreign Currency Translation -- The functional currency of the foreign subsidiaries is the local currency. Accordingly, assets and liabilities of the subsidiaries are translated using the exchange rates in effect at the end of the period, while income and expenses are translated at average rates of exchange during the period. Gains and losses from translation of foreign operations are included as other comprehensive income or loss and were not significant for any of the periods presented.

Derivative Instruments -- In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 provides a comprehensive and consistent standard for the recognition and measurement of derivatives and hedging activities and requires all derivatives to be recorded on the balance sheet at fair value. SFAS 133, as amended, was effective for years beginning after June 15, 2000. To date, we have not engaged in derivative and hedging activities, and accordingly, the adoption of SFAS No. 133 has not had a material impact on our results of operations, financial position or cash flows.

Reclassifications -- Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications had no effect on net income (loss) or stockholders' equity.

Recent Accounting Pronouncements -- In June 2001, the Financial Accounting Standards Board finalized FASB Statement No. 141, "Business Combinations ("SFAS 141"), and No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 requires the use of the purchased method of accounting and prohibits the use of the pooling-of-interests method of accounting for business combinations initiated after June 30, 2001. SFAS 141 also requires that the Company recognize acquired intangible assets apart from goodwill if the acquired intangible assets meet certain criteria. SFAS 141 applies to all business combinations initiated after June 30, 2001 and for purchase business combinations completed on or after July 1, 2001. Upon adoption of SFAS 142, it requires that the Company reclassify the carrying amounts of intangible assets and goodwill based on the criteria in SFAS 141.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements (Continued)
SFAS 142 requires, among other things, that companies no longer amortize goodwill, but instead test goodwill for impairment at least annually. In addition, SFAS 142 requires that the Company identify reporting units for the purposes of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets, and cease amortization of intangible assets with an indefinite useful life. An intangible asset with an indefinite useful life should be tested for impairment in accordance with the guidance in SFAS 142. SFAS 142 is required to be applied in fiscal years beginning after December 15, 2001 to all goodwill and other intangible assets recognized at that date, regardless of when those assets were initially recognized. SFAS 142 requires the Company to complete a transitional goodwill impairment test six months from the date of adoption. The Company is also required to reassess the useful lives of other intangible assets within the first interim quarter after adoption of SFAS 142.

The Company's previous business combinations were accounted for using the purchase method. All future business combinations will be accounted for under the purchase method, which may result in the recognition of goodwill and other intangible assets, some of which may subsequently be charged to operations, either by amortization or impairment charges. For purchase business combinations completed prior to June 30, 2001, the net carrying amount of goodwill was $109,000 and other intangible assets was $1,245,000 as of January 31, 2002. Amortization expense during the years ended January 31, 2002 and 2001 was $631,600 and $337,700 respectively. The Company is assessing but has not yet determined how the adoption of SFAS 141 and SFAS 142 will affect its future financial position and results of operations.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets To Be Disposed Of," and APB Opinion No.30, "Reporting the Results of Operations - Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions for the Disposal of a Segment of a Business." SFAS No. 144 becomes effective for the fiscal years beginning after December 15, 2001. The Company is currently reviewing the effects of adopting SFAS No. 144 on its financial position and results of operations.

C. SHORT-TERM INVESTMENTS

Short-term investments consist of the following available-for-sale securities:

			Unrealized	
	Amortized Cost	Market Value	Holding Gains	Holding Losses
JANUARY 31, 2002:				
Corporate bonds	$1,311,700	$1,321,000	$ 9,300	$ --
Medium and short-term notes ..	500,500	500,900	400	--
Total	$1,812,200	$1,821,900	$ 9,700	$ --
JANUARY 31, 2001:				
Corporate bonds	$1,199,100	$1,203,800	$ 4,700	$ --
Medium and short-term notes ..	1,650,600	1,655,700	5,100	--
Euro dollar bonds	3,918,200	3,934,900	16,700	--
Total	$6,767,900	$6,794,400	$26,500	$ --

The corporate bonds, medium and short-term notes, and euro dollar bonds all mature within one year. The Company realized no gains or losses on the sale of short-term investments in 2002, 2001 and 2000.

D. PROPERTY AND EQUIPMENT

Property and equipment of the Company consisted of the following components:

	JANUARY 31, 2002	JANUARY 31, 2001
Manufacturing, engineering and plant equipment and software	$ 5,501,100	$ 5,116,800
Equipment held under capital lease	240,200	240,200
Office furniture and fixtures	1,011,500	740,000
Leasehold and building improvements	451,700	327,100
Total property and equipment	7,204,500	6,424,100
Less: Accumulated depreciation	(5,376,300)	(4,088,900)
Net book value	$ 1,828,200	$ 2,335,200

Depreciation expense was $1,264,600, $1,042,600 and $437,600 for the fiscal years ended January 31, 2002, 2001 and 2000, respectively.

E. OTHER CURRENT LIABILITIES

Other current liabilities consisted of the following:

	JANUARY 31, 2002	JANUARY 31, 2001
Commissions and royalties	$ 250,900	$ 410,300
External product development costs	150,000	440,000
Compensation and benefits	1,101,100	1,225,000
Professional services	743,300	556,600
Other	1,055,700	925,800
Total	$3,301,000	$3,557,700

F. RECEIVABLE FROM OFFICER

Pursuant to an amended employment agreement with the Company's Chairman and Chief Executive Officer, which considered the Company's merger with Digi International, Inc. in February 2002, the Company advanced compensation to the executive in the amount of $740,000 in December 2001. The advanced compensation is recorded as a current asset at January 31, 2002.

During the fiscal year 2001, the Company's Chairman and Chief Executive Officer signed two secured personal promissory notes, borrowing a total of $871,200 from the Company. The notes accrue interest at the rate of 8.0% per year, and were due in April and October 2001. The notes were secured by personal assets owned by the executive. In December 2001, pursuant to the executive's amended employment agreement, the Company forgave the payment obligations of the two promissory notes, including accrued interest, and made an additional payment necessary to cover the taxes owed by the Chairman and Chief Executive Officer as a result of the forgiveness. Compensation expense of $1,702,800 related to the forgiveness was recorded in December 2001.

G. LEASES AND OTHER COMMITMENTS

(i) LEASES

Rental expense under operating leases for office space and office equipment was $1,110,800, $622,500 and $455,800 for the years ended January 31, 2002, 2001 and 2000, respectively. Rent expense in 2002 includes a charge of $302,600 related to the Company's decision to vacate a portion of leased space at its headquarters in Massachusetts. The table below sets forth minimum payments under operating leases with remaining terms in excess of one year, at January 31, 2002:

	OPERATING LEASES
2003	$ 636,900
2004	152,900
2005	700
	$ 790,500

(ii) EMPLOYMENT CONTRACTS

The Company has an amended employment agreement with its Chairman and Chief Executive Officer. The agreement provides that, in the event of a change of control, the executive's unvested stock options will vest immediately and all of his stock options will remain in full force and effect and may be exercised at any time up to their latest possible date of expiration. Pursuant to the agreement, in December 2001, the Company forgave the payment obligations of two promissory notes, plus interest, and made additional payments necessary to cover taxes owed by the executive as a result of the forgiveness. As a result of the forgiveness of the promissory notes, the Company recorded a compensation charge in December 2001 of $1,702,800. In addition, pursuant to the executive's employment agreement, upon consummation of the Company's merger with Digi International, Inc., the executive will receive a transaction bonus of $740,000. In December 2001, the Company advanced compensation to the executive in the amount of $740,000. The advanced compensation is recorded as a current asset at January 31, 2002.

The Company has an employment agreement with its Executive Vice President of Finance and Operations and Chief Financial Officer pursuant to which the executive's unvested stock options with a per-share exercise price of $7.00 or less vest immediately upon the consummation of a change of control and are exercisable for a period of 24 months following the consummation of such a change in control. Furthermore, upon consummation of the Company's merger with Digi International, Inc., the executive will receive a payment equal to 0.25% of the total merger consideration, or approximately $140,100.

The Company also has employment agreements with its Vice President, Intelligent Device Markets EMEA and Vice President, Intelligent Device Markets Japan which provide for base annual salaries and other employment terms. The agreement with the Vice President, Intelligent Device Markets Japan requires the acceleration of certain bonus payments totaling $250,000 in the event of a change in control.

H. LITIGATION

On or about August 9, 2001, a purported securities class action lawsuit captioned "Ellis Investments, Ltd. v. NetSilicon, Inc., et al." (01-CV-7281) was filed in the United States District Court for the Southern District of New York. Later in August 2001, two additional nearly identical complaints were filed in the same Court in lawsuits captioned "Michael Rasner v. NetSilicon, Inc., et al." (01-CV-7651) and "Walter Weitz v. NetSilicon, Inc., et al." (01-CV-8217). The suits name as defendants the Company, certain of its officers and directors, and certain underwriters involved in the Company's initial public offering ("IPO"). The Ellis Investments suit also names Osicom Technologies, Inc. as a defendant. The Court consolidated the complaints in September 2001. The complaints in these actions are allegedly brought on behalf of purchasers of the Company's common stock during the period from September 15, 1999 to December 6, 2000, and assert, among other things, that the Company's IPO prospectus and registration statement violated federal securities laws because they contained material misrepresentations and/or omissions regarding the conduct of the Company's IPO underwriters in allocating shares in the Company's IPO to the underwriters' customers. The actions seek rescission or rescissory and other damages, fees and costs associated with the litigation, and interest. The Company understands that various plaintiffs have filed substantially similar lawsuits against approximately three hundred other publicly traded companies in connection with the underwriting of their initial public offerings. The Company and its officers and directors believe that the allegations in the complaints are without merit and intend to contest them vigorously. An unfavorable resolution of the actions could have a material adverse effect on the business, results of operations or financial condition of the Company.

Websprocket, LLC Legal Claims - On November 2, 2001, the Company and Websprocket, LLC entered into a Settlement Agreement and Mutual Release settling all claims between the companies, including all claims and counterclaims asserted in the litigation captioned Websprocket, LLC v. NetSilicon, Inc., Civil Action No. C-00-20915 RMV pending in the United States District Court for the Northern District of California. On November 13, 2001, the court approved and entered a Stipulation of Dismissal With Prejudice, in which the Company and Websprocket, LLC dismissed all claims in the litigation and waived all rights to appeal. During fiscal year 2002, the Company paid Websprocket, LLC the full settlement amount of $162,000 in accordance with the Settlement Agreement.

I. STOCKHOLDERS' EQUITY

The Company's authorized capital stock consists of:

35,000,000 shares of Common Stock ($0.01 par value) and 5,000,000 shares of Preferred Stock ($0.01 par value).

The Company's Board of Directors has discretion to issue preferred stock in such series and with such preferences as it may designate without the approval of the holders of common shares. As of January 31, 2002 no such designations have been made.

The Company has 7,093,700 shares of voting common stock outstanding and 6,972,700 shares of non-voting common stock held by Sorrento as of January 31, 2002.

On September 12, 2000, the Board of Directors of NetSilicon declared a dividend of one preferred share purchase right (a "Right") for each share of common stock outstanding on September 23, 2000 to the stockholders of record on that date, as part of a rights plan designed to protect the Company's investors against any potential takeover attempts that are coercive or unfair. The Rights will be exercisable only if a person or group acquires or announces a tender or exchange offer that would result in such person or group owning 15% or more of the voting securities of the Company. Each Right entitles the registered holder to purchase, at an exercise price of $200.00 per Right, Series A Junior Participating Preferred Stock of the Company having a market value of $400.00. The nature of the preferred shares' dividend, liquidation and voting rights are such that the value of the Preferred Stock purchasable upon exercise of the Right should approximate the value of a common share. The Rights will expire on September 12, 2010 unless the expiration date is extended or the Rights redeemed by the Company. The Company will generally be entitled to redeem the Rights at $0.01 per Right at any time prior to the 10th day after a person or group has acquired a 15% voting stock position.

I. STOCKHOLDERS' EQUITY (Continued)

In connection with the proposed merger with Digi International, Inc. ("Digi"), the Company's Rights Agreement was amended on October 30, 2001 to provide, among other things, that Digi would not become an "Acquiring Person"(as such term is defined in the Rights Agreement) as a result of the consummation of the merger of Digi and the Company. Additionally, the Rights Agreement was amended to provide that all outstanding Rights issued and outstanding under the Rights Agreement will expire immediately prior to the closing date of the merger with Digi and, notwithstanding anything in the Rights Agreement to the contrary, the Rights Agreement shall terminate and have no further force and effect upon the consummation of the merger with Digi.

J. BUSINESS ACQUISITIONS AND OTHER CAPITAL STOCK TRANSACTIONS

On February 16, 2001, the Company purchased all of the equity securities of Dimatech Corporation ("Dimatech") pursuant to a Stock Purchase Agreement, dated as of February 16, 2001, by and among Dimatech, Hiroyuki Kataoka and the Company. Prior to the acquisition, Dimatech was a major distributor of the Company's products in Japan and Asia and Hiroyuki Kataoka was the President and owner of Dimatech. Dimatech, under a new name, continues to operate in Japan and Asia as a distributor of the Company's products and provides technical support and other services to customers in the region. Hiroyuki Kataoka has joined NetSilicon as Vice President of Intelligent Device Markets for Japan.

The purchase price was allocated to the tangible and intangible assets acquired and liabilities assumed on the basis of their respective estimated fair values on the acquisition date. The following represents the allocation of the purchase price:

Cash	$ 761,400
Accounts receivable	1,017,900
Other tangible assets..................	161,900
Customer list	351,400
Workforce	148,000
Goodwill	134,400
Total purchase price	$2,575,000

The purchase price consisted of 241,667 shares of the common stock of the Company, valued at $1,257,700, assumed liabilities of $969,400, $250,000 in cash and $97,800 of acquisition related costs, including legal and accounting fees.

On August 31, 2000, the Company completed the acquisition of the strategic network technology assets (the "Purchased Assets") of Pacific Softworks Technology, Inc. ("Pacific"), a subsidiary of PASW, Inc. (formerly Pacific Softworks, Inc.). The Purchased Assets, which represented substantially all of the assets of Pacific, will be used by the Company to develop and license embedded network protocols, software that enables electronic devices to communicate over local and wide area networks.

The purchase price was allocated to the tangible and intangible assets acquired and liabilities assumed on the basis of their respective estimated fair values on the acquisition date, as follows:

Completed technology	$2,417,700
Workforce	228,700
Fixed assets...........................	103,700
Accounts receivable	91,500
Total purchase price	$2,841,600

J. BUSINESS ACQUISITIONS AND OTHER CAPITAL STOCK TRANSACTIONS (Continued)

The purchase price consisted of 90,000 shares of common stock of the Company, valued at $2,271,600 and $570,000 of acquisition-related costs, including $400,000 for investment banking fees and fees for legal, accounting and consulting. The purchased completed technology and workforce assets were being amortized over three years.

During the fourth quarter of fiscal year 2001, the Company recorded an impairment charge of $957,000 related to a component of the completed technology intangible assets resulting from the Company's decision to no longer sell or market the underlying products.

The summary table below, prepared on an unaudited pro forma basis, combines the results of operations of the Company with the results of operations of Dimatech as if the acquisition had occurred at February 1, 2000 and the operations of Pacific as if the acquisition had occurred on February 1, 1999. The unaudited pro forma results are not necessarily indicative of what would have occurred if the acquisitions had been in effect for the periods presented and are not necessarily indicative of future operating results. Pro forma results for the year ended 2002 are not included in the table as substantially all of the results of operations of Dimatech and Pacific for fiscal year 2002 are included in the consolidated financials of the Company for fiscal year 2002.

	Year Ended January 31, 2001	Year Ended January 31, 2000
Revenue	$ 41,269,300	$ 34,083,400
Net loss	$ (2,492,700)	$ (1,328,600)
Basic and diluted net loss per share	$ (0.18)	$ (0.12)

K. EMPLOYEE RETIREMENT SAVINGS PLAN

In fiscal year 2001, the Company established an employee retirement savings plan (the "Savings Plan") that is designed to qualify as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Under the Savings Plan, participating employees may defer a portion of their pre-tax earnings, up to the Internal Revenue Service annual contribution limit. Each Plan year, the Company may make discretionary matching contributions of a percent, if any, of employee pretax contributions. As of January 31, 2002 and 2001, there were no discretionary matching contributions made by the Company.

L. STOCK OPTION PLANS AND STOCK AWARD PLAN

The Company adopted two stock option plans in August 1998: The 1998 Incentive and Non-Qualified Stock Option Plan and the 1998 Director Option Plan. In addition, the Company adopted The 2001 Stock Option and Incentive Plan in July, 2001. The purpose of these plans is to attract, retain, motivate and reward officers, directors, employees and consultants of the Company to maximize their contribution towards the Company's success. All options are granted at prices not less than fair value at the date of grant and have terms varying up to 10 years. The Company's stock option plans authorize the issuance of 8,800,000 shares of common stock for the grant of stock options.

Additionally, certain employees of the Company held options to purchase Sorrento common stock under Sorrento's stock option plans. All of these options were granted prior to the Company's initial public offering in September 1999.

Pursuant to the Company's Agreement and Plan of Merger, dated October 30, 2001, with Digi International Inc., Company stock options with per share exercise prices in excess of $7.00 and exercisable for 1,005,200 shares of common stock were effectively canceled and, based on the terms of the underlying option agreements, were rendered fully vested and exercisable for thirty days following the notification to option holders on January 11, 2002. None of these options were exercised during the thirty-day period that concluded on February 11, 2002.

L. STOCK OPTION PLANS AND STOCK AWARD PLAN (Continued)

The following table summarizes the activity in the Company's stock option plans:

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Shares under option at January 31, 1999	-	-
Granted	3,320,778	$ 7.53
Exercised	-	-
Canceled	(5,325)	7.00
Shares under option at January 31, 2000	3,315,453	7.53
Granted	2,549,030	15.53
Exercised	(155,280)	7.00
Canceled	(658,054)	13.75
Shares under option at January 31, 2001	5,051,149	10.85
Granted	1,291,400	3.99
Exercised	-	
Canceled	(1,125,219)	9.63
Shares under option at January 31, 2002	5,217,330	$ 9.41

Additional information about outstanding options to purchase the Company's common stock held at January 31, 2002 is as follows:

	OUTSTANDING			EXERCISABLE	
		WEIGHTED AVERAGE			
EXERCISE PRICE PER SHARE	SHARES	LIFE (YEARS)	EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
$2.10 to $6.94	1,644,905	9.21	$ 4.16	337,091	$ 4.10
$7.00	2,397,274	7.62	7.00	1,280,450	7.00
$13.13 to $34.13	1,175,151	1.10	21.69	1,062,651	22.08
$2.10 to $34.13	5,217,330	6.66	9.41	2,680,192	12.62

L. STOCK OPTION PLANS AND STOCK AWARD PLAN (Continued)

All stock options issued to employees have an exercise price not less than the fair market value of the common stock on the date of grant, and in accordance with the accounting for such options utilizing the intrinsic value method there is no related compensation expense recorded in the Company's financial statements. Had compensation cost for stock-based compensation related to the grant of Company and Sorrento options been determined based on the fair value at the grant dates in accordance with the method delineated in SFAS No. 123, the Company's income (loss) and per share amounts for the years ended January 31, 2002, 2001 and 2000 would have been revised to the pro forma amounts presented below:

	JANUARY 31,		
	2002	2001	2000
Net income (loss):			
As reported	$ (12,055,000)	$ (1,256,900)	$ 2,017,600
Pro forma	(21,286,100)	(8,590,500)	734,200
Basic income (loss) per share:			
As reported	$ (0.86)	$ (0.09)	$ 0.18
Pro forma	(1.52)	(0.63)	0.06
Diluted income per share:			
As reported	$ (0.86)	$ (0.09)	$ 0.17
Pro forma	(1.52)	(0.63)	0.06

The fair value of option grants is estimated on the date of grant utilizing the Black-Scholes option-pricing model with the following weighted average assumptions for grants during the year ended January 31, 2002, 2001 and 2000, respectively: expected life of option 4.5 years, expected volatility of 80.0%, 80.0% and 45.8%, risk-free interest rate of 4.25%, 4.5% and 5.88% and a 0% dividend yield in each year. The fair value, at date of grant, using these assumptions was $1.95 to $22.16 per option and the weighted average was $2.55, $10.06, and $3.42, respectively, in fiscal years 2002, 2001 and 2000.

The assumptions for grants of Sorrento options for the year ended January 31, 2000 were: expected life of 3 years, expected volatility of 45%, risk-free interest rate of 5.28% and a 0% dividend yield. The fair value, at date of grant, using these assumptions was $1.23 to $9.52 per option and the weighted average was $5.57 in 2000. There were no grants of Sorrento options to NetSilicon employees in the years ended January 31, 2001 and 2002.

During fiscal year 2001, the Company issued warrants to purchase 20,000 shares of common stock at a weighted average exercise price of $ 17.56 per share. The warrants were issued in connection with a third party product development agreement. The Company capitalized the fair value of the warrants, $75,000, as capitalized software costs on the balance sheet. During the year ended January 31, 2000, the Company issued non-statutory options to non-employees for the purchase of 25,000 shares of common stock at a weighted average exercise price of $7.00 per share. Such options were granted for services provided during the year. Accordingly, the Company recorded the $78,700 fair value of such awards as an expense in the accompanying financial statements.

In April 2000, the Company's board of directors adopted the 2000 Employee Stock Purchase Plan ("ESPP"). The aggregate number of shares that may be issued under the plan is 500,000 and is subject to adjustment. The ESPP allows eligible participating employees to purchase shares of common stock as determined at specific dates at six-month intervals. As of January 31, 2002, approximately $85,500 of payroll deductions was withheld from employees for future purchases under the plan.

M. INCOME TAXES

The Company's provision for taxes on income for the fiscal years ended January 31 consists of:

	YEARS ENDED JANUARY 31,		
	2002	2001	2000
Income taxes:			
Current	$ --	$ --	$ --
Deferred	--	--	--
Total	$ --	$ --	$ --

The Company's operations generate permanent and temporary differences for depreciation, amortization and valuation allowances. The Company has recorded a 100% valuation allowance against its deferred tax assets, including net operating loss and research credit carryforwards, in accordance with the provisions of Statement of Financial Accounting Standards No. 109. Such allowance is recognized if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. Deferred tax assets and liabilities are comprised of the following at January 31:

	JANUARY 31,	
	2002	2001
Deferred tax assets:		
Reserves and allowances	$ 1,007,000	$ 741,700
Research and development credits	785,000	457,100
Tax loss carryforward	7,133,000	1,927,500
Intangible assets	622,000	512,800
Fixed assets	(37,200)	207,400
Gross deferred tax assets	9,509,800	3,846,500
Less: valuation allowance	(9,278,800)	(3,428,900)
Deferred tax asset	231,000	417,600
Deferred tax liabilities:		
Software developments costs	(231,000)	(417,600)
Deferred tax liabilities	(231,000)	(417,600)
Net deferred tax asset (liability)	$ --	$ --

At January 31, 2002, the Company has federal net operating losses of approximately $17,200,000 and research and development credits of $785,000 that may be available to reduce future taxable income; these carryforwards expire at various dates through 2023. The Internal Revenue Code of 1986, as amended, reduces the extent to which NOLs and tax credit carryforwards may be utilized in a single taxable year in the event there has been an ownership change of a company as defined by applicable Code provisions. The acquisition of the Company by Sorrento in September 1996 resulted in such an ownership change. Further ownership changes, as defined by the Code, may reduce the extent to which any net operating losses and credits may be utilized.

M. INCOME TAXES (Continued)

These carryforwards expire as follows:

	NOL	CREDITS
2008	$ --	$ 54,800
2009	--	102,300
2010	384,800	63,900
2013	998,100	--
2014	2,130,500	--
2022	1,097,600	236,100
2023	12,589,000	327,900
	$17,200,000	$ 785,000

The reconciliation between income tax expense and a theoretical United States tax computed by applying a rate of 35% for the fiscal years ended January 31, 2002, 2001 and 2000 is as follows:

	YEARS ENDED JANUARY 31,		
	2002	2001	2000
Income (loss) before income taxes	$(12,055,000)	$(1,256,900)	$ 2,017,600
Theoretical tax expense (benefit) at 35%	$ (4,219,300)	$ (439,900)	$ 706,200
Taxable income absorbed by former parent	--	--	(988,600)
Impact of non-qualified stock options	--	(353,900)	--
Impact of state taxes and other taxes	(656,100)	(159,900)	186,300
R&E tax credit	(200,000)	(457,100)	--
Change in valuation allowance	5,120,900	1,341,500	96,100
Foreign rate differential	(500)	--	--
Other	(45,000)	69,300	--
Tax benefit	$ --	$ --	$ --

N. EARNINGS PER SHARE CALCULATION

The following data shows the amounts used in computing basic earnings per share:

	YEARS ENDED JANUARY 31,		
	2002	2001	2000
Net income (loss)	$(12,055,000)	$ (1,256,900)	$ 2,017,600
Less: preferred dividends	--	--	--
Net income (loss) available to common shareholders used in basic EPS	$(12,055,000)	$ (1,256,900)	$ 2,017,600
Average number of common shares used in basic EPS	14,037,100	13,674,200	11,326,600

N. EARNINGS PER SHARE CALCULATION (Continued)

The Company had a net loss for the fiscal years ending January 31, 2002 and 2001. Accordingly, the effect of dilutive securities including warrants to acquire common stock and stock options, vested and non-vested, are not included in the calculations of EPS because their effect would be anti-dilutive. The following data shows the effect on income and the weighted average number of shares of dilutive potential common stock.

	YEARS ENDED JANUARY 31,		
	2002	2001	2000
Net income (loss) available to common shareholders used in basic EPS	$(12,055,000)	$ (1,256,900)	$ 2,017,600
Adjustments	--	--	--
Net income (loss) available to common shareholders after assumed conversions of dilutive securities	$(12,055,000)	$ (1,256,900)	$ 2,017,600
Average number of common shares used in basic EPS	14,037,100	13,674,200	11,326,600
Effect of dilutive securities:			
Stock options	--	--	651,600
Average number of common shares and dilutive potential common stock used in dilutive EPS	14,037,100	13,674,200	$11,978,200

The shares issuable upon exercise of options and warrants represent the shares issuable at exercise net of the shares assumed to have been purchased, at the average market price for the period, with the assumed exercise proceeds. Accordingly, options with exercise prices in excess of the average market price for the period are excluded because their effect would be anti-dilutive.

For the years ended January 31, 2002, 2001 and 2000, options for approximately 5,217,300 shares, 5,051,100 shares and 42,000 shares, respectively, were excluded from the calculation of diluted income per share, as their effect would be anti-dilutive.

O. SUBSEQUENT EVENTS

On November 5, 2001, the Company and Digi International, Inc. ("Digi"), announced the signing of an Agreement and Plan of Merger dated October 30, 2001 (the "Agreement") pursuant to which the Company became a wholly-owned subsidiary of Digi on February 13, 2002. Under the terms of the Agreement, each outstanding share of the Company's common stock was converted into the right to receive either cash, Digi common stock or a combination of cash and Digi common stock at the election of the holder. The Agreement provided that each holder of the Company's common stock may elect to receive 0.6500 of a share of Digi common stock for each share of the Company's common stock, or cash in the amount of 0.6500 multiplied by the average per-share closing price of Digi common stock during the period of ten trading days ending on the third trading day before the date of closing, or a combination of both stock and cash, provided that the maximum amount of cash to be paid by Digi would be $15 million. Additionally, outstanding stock options were either assumed or cancelled (see Note L) and certain executives received transaction related bonuses totalling approximately $1,130,000.

P. SUPPLEMENTAL CASH FLOW DISCLOSURES

Cash paid for interest and income taxes are as follows:

	YEARS ENDED JANUARY 31,		
	2002	2001	2000
Interest	$5,300	$21,900	$898,400
Income taxes ..	$ --	$ --	$ --

Non-cash investing and financing activities are as follows:

	YEARS ENDED JANUARY 31,		
	2002	2001	2000
Forgiveness of notes receivable to officer (including accrued interest)	$ 908,500	$ --	$ --
Unrealized gains (losses) on investments	$ (16,800)	$52,900	$ (26,400)
Common stock options issued to non-employees ..	$ --	$75,000	$ 78,700
Capital leases entered in during the year	$ --	$ --	$ 240,200

Q. CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of temporary cash investments and trade receivables. The Company places its temporary cash investments with high credit financial institutions.

Substantially all of the Company's OEM office imaging customers are headquartered in Japan. The current economic conditions existing in many Asian countries, including Japan, are uncertain and may have a significant effect on the business operations of such OEM customers. Consequently, the Company's dependence on its OEM office imaging customers in Japan and the uncertain factors affecting Japan's economic condition could have a material adverse effect on the Company's business, operating results, cash flows and financial condition.

Although the Company is directly affected by the economic well being of its significant customers listed in the following tables, management does not believe that significant credit risk exists at January 31, 2002. The Company performs ongoing credit evaluations of its customers' financial condition and does not require collateral.

Q. CONCENTRATIONS OF CREDIT RISK (Continued)

The following data shows the customers accounting for more than 10% of net receivables:

	JANUARY 31,	
	2002	2001
Customer A	38.6 %	17.1 %
Customer B	14.4	--
Customer C	--	11.0

The following data shows the net sales to major customers (customers who represented 10% or more of net sales during any of the periods shown) as a percentage of net sales:

	YEARS ENDED JANUARY 31,		
	2002	2001	2000
Customer A	25.6 %	20.0 %	25.8 %
Customer B	17.3	3.9	5.1
Customer C	12.9	4.9	12.5
Customer D	--	23.2	23.8

R. SEGMENT INFORMATION

Information in the tables below is presented on the same basis utilized by the Company to manage its business. The Company manages its business primarily on a geographic basis. The Company operates in one principle industry segment: the development and marketing of embedded networking solutions. The Company's primary products include integrated semiconductor and controller products and are sold to customers in a broad range of industries, including telecommunications, building controls, security, retail point-of-sale and office appliances. The Company also licenses software products that are embedded into electronic devices to enable Internet and Web-based communications. Revenue from these software product licenses was 3.2% of total net sales in fiscal year 2002 and 1% in fiscal year 2001. The Company also receives revenue from royalty and services, including technical support.

Summary information by geography is as follows:

Geographic:	YEARS ENDED JANUARY 31,		
	2002	2001	2000
Net sales:			
United States	$12,909,500	$16,669,100	$15,917,000
Japan	11,660,600	15,090,900	14,153,100
Europe, Middle East, Africa	2,889,500	3,222,800	1,575,700
Other	190,400	2,399,300	195,100
Total net sales	$27,650,000	$37,382,100	$31,840,900

Export sales and certain income and expense items are reported in the geographic area where the final sale to customers is made, rather than where the transaction originates. Other net sales include sales to Australia, New Zealand, Canada and South America for each period presented. The Company does not have significant long-lived assets at foreign locations.

R. SEGMENT INFORMATION (Continued)

Summary information by product and service is as follows:

	YEARS ENDED JANUARY 31,		
	2002	2001	2000
Net sales:			
Semiconductor and controller products, including development tools ...	$25,772,500	$35,101,900	$30,567,300
Royalty, maintenance, service and other ...	1,877,500	2,280,200	1,273,600
Total net sales	$27,650,000	$37,382,100	$31,840,900

S. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table sets forth certain unaudited quarterly results of operations of the Company for the fiscal years ended January 31, 2002 and 2001. In the opinion of management, this information has been prepared on the same basis as the audited financial statements and includes all adjustments necessary for a fair presentation of Company's operations. This quarterly information should be read in conjunction with the audited financial statements and accompanying notes included in this annual report on Form 10-K. Operating results for the quarterly periods are not necessarily indicative of future results of operations.

	FISCAL YEAR 2002				FISCAL YEAR 2001			
	Q1-02	Q2-02	Q3-02	Q4-02	Q1-01	Q2-01	Q3-01	Q4-01
Net Sales	$ 6,977	$ 7,053	$ 7,171	$ 6,449	$ 9,010	$ 9,857	$10,688	$ 7,827
Cost of sales	2,970	3,410	3,306	3,525	3,512	4,129	4,429	3,118
Gross margin	4,007	3,643	3,865	2,924	5,498	5,728	6,259	4,709
Operating expenses	6,182	6,028	6,935	7,705	4,941	5,223	5,805	8,364
Operating income (loss)	(2,175)	(2,385)	(3,070)	(4,781)	557	505	454	(3,655)
Interest income	117	90	106	43	224	241	218	199
Taxes on income	--	--	--	--	--	--	--	--
Net income (loss)	$ (2,058)	$ (2,295)	$ (2,964)	$ (4,738)	$ 781	$ 746	$ 672	$ (3,456)
Earnings (loss) per share:								
Basic	$ (0.15)	$ (0.16)	$ (0.21)	$ (0.34)	$ 0.06	$ 0.05	$ 0.05	$ (0.25)
Diluted	$ (0.15)	$ (0.16)	$ (0.21)	$ (0.34)	$ 0.06	$ 0.05	$ 0.04	$ (0.25)
Weighted shares outstanding:								
Basic	13,979	14,036	14,055	14,066	13,569	13,621	13,718	13,782
Diluted	13,979	14,036	14,055	14,066	15,865	15,928	15,813	13,782

T. VALUATION AND QUALIFYING ACCOUNTS

Changes in the inventory valuation reserve were as follows:

Balance at January 31, 1999	$ 124,600
Additions charged to costs and expenses	554,500
Amounts used during year	(54,100)
Balance at January 31, 2000	625,000
Additions charged to costs and expenses	--
Amounts used during year	(114,200)
Balance at January 31, 2001	510,800
Additions charged to costs and expenses	295,300
Amounts used during year	(93,300)
Balance at January 31, 2002	$ 712,800

Changes in the accounts receivable and sales valuation reserves were as follows:

Balance at January 31, 1999	$ 300,000
Additions charged to costs and expenses	443,900
Amounts used during year	(40,900)
Balance at January 31, 2000	703,000
Additions charged to costs and expenses	--
Amounts used during year	(32,000)
Balance at January 31, 2001	671,000
Additions charged to costs and expenses (recoveries)	(46,700)
Amounts used during year	(48,300)
Balance at January 31, 2002	$ 576,000

NETSILICON, INC.
UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENT OF OPERATIONS

On March 2, 2001, NetSilicon, Inc. (NSI) filed a Current Report on Form 8-K to report its acquisition of Dimatech Corporation (Dimatech). NSI purchased all of the equity securities of Dimatech pursuant to a stock purchase agreement, dated as of February 16, 2001, among Dimatech, Hiroyuki Kataoka, and NSI.

The following unaudited pro forma combined condensed statement of operations for the twelve-month period ended September 30, 2001, gives effect to the acquisition of Dimatech as if it had occurred as of October 1, 2000.

The unaudited pro forma information is based on the historical financial statements of NSI and Dimatech and was prepared using the purchase method of accounting. The unaudited pro forma combined condensed statements of operations and accompanying notes are qualified in their entirety and should be read in conjunction with the historical financial statements and accompanying notes of NSI.

NSI has a fiscal year end of January 31 and, prior to the acquisition, Dimatech had a fiscal year end of December 31. The unaudited pro forma combined condensed statement of operations for the twelve months ended September 30, 2001 includes NSI's operations for the twelve months ended September 30, 2001 and Dimatech's operations for the period from October 1, 2000 through February 16, 2001. Dimatech's operations for the period from February 17, 2001 through September 30, 2001 are included in the NSI statement of operations for the twelve months ended September 30, 2001.

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

UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2001
(In thousands, except per share data)

	NETSILICON, INC. HISTORICAL	DIMATECH CORPORATION HISTORICAL (1)	PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED
Net sales	$ 32,214	$ 4,295	$ (3,502)(a)(b)	$ 33,007
Cost of sales	13,978	3,009	(3,000)(a)	13,987
Gross margin	18,236	1,286	(502)	19,020
Operating expenses:				
Sales and marketing	10,666	1,498	(502)(b)	11,662
Research and development	8,504			8,504
General and administrative	8,072		45 (c)	8,117
Total operating expenses	27,242	1,498	(457)	28,283
Operating loss	(9,006)	(212)	(45)	(9,263)
Other income, net	603	159		762
Loss before income taxes	(8,403)	(53)	(45)	(8,501)
Income tax provision (benefit)	68	(62)		6
Net (loss) income	$ (8,471)	$ 9	$ (45)	$ (8,507)
Net loss per share, basic	$ (.61)			$ (.61)
Net loss per share, assuming dilution	(.61)			(.61)
Weighted average shares, basic	13,936		97 (d)	14,033
Weighted average shares, assuming dilution	13,936		97 (d)	14,033

(1) These amounts reflect Dimatech statement of operations for the period from October 1, 2000 through February 16, 2001. Dimatech's operations for the period from February 17, 2001 through September 30, 2001 are included in the NSI statement of operations.

The accompanying notes are an integral part of the pro forma financial statements.

NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PRO FORMA PRESENTATION

The accompanying unaudited pro forma combined condensed financial statements and related notes of NSI are unaudited. In the opinion of NSI management, the pro forma financial statements include all adjustments necessary for a fair presentation of NSI's results of operations for the periods presented. These financial statements should be read in conjunction with the audited financial statements and accompanying notes included in NSI's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on May 1, 2001.

In accordance with the rules and regulations of the Securities and Exchange Commission, unaudited combined statements may omit or condense certain information and disclosures normally required for a complete set of financial statements prepared in accordance with generally accepted accounting principles. However, management of NSI believes that the notes to the unaudited combined statement of operations contains disclosures adequate to make the information presented not misleading.

2. PURCHASE PRICE ALLOCATION AND ACQUISITION COSTS

On February 16, 2001, NSI purchased all of the equity securities of Dimatech. Prior to the acquisition, Dimatech was a major distributor of NSI's product in Japan.

The purchase price has been allocated to the tangible and intangible assets acquired and liabilities assumed on the basis of their respective fair values on the acquisition date. The following represents the purchase price allocation.

Cash	$ 762,000
Accounts receivable	1,018,000
Other tangible assets	162,000
Customer list	351,000
Workforce	148,000
Goodwill	134,000
Total purchase price	$2,575,000

The purchase price consisted of 242,000 shares of the common stock of NSI valued at $1,258,000 based on the average NSI stock price during a period of five business days before and after the acquisition date, $250,000 of cash and assumed liabilities of approximately $969,000. NSI incurred approximately $98,000 of costs associated with the acquisition, including fees for legal, accounting and consulting services. This unaudited pro forma combined condensed statement of operations does not reflect the provisions of Statement of Financial Accounting Standards Board No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets."

3. PRO FORMA ADJUSTMENTS

The following pro forma adjustments have been made to the historical financial statements of NSI and Dimatech based upon assumptions made by NSI management for the purpose of preparing the unaudited pro forma combined condensed statements of operations.

(a) To eliminate the effect of sales made by NSI to Dimatech.

(b) To eliminate the effect of commissions paid by NSI to Dimatech.

(c) To record amortization expense for acquired intangible assets of Dimatech.

(d) To record NSI common shares issued in connection with the acquisition of Dimatech.

4. PRO FORMA EARNINGS PER SHARE

Basic earnings (loss) per share is computed based on the weighted average number of shares outstanding during the historical period plus the effect of shares issued in connection with the acquisition of Dimatech. Diluted earnings (loss) per share is computed based on the weighted average number of shares outstanding during the historical period plus shares issued in connection with the acquisition of Dimatech and the effect of dilutive potential common shares which consist of shares issuable under stock benefit plans.

DIGI INTERNATIONAL INC.
UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL STATEMENTS

The following unaudited pro forma combined condensed financial information has been prepared to give effect to the acquisition of NetSilicon, Inc. (NSI) by Digi International Inc. (Digi) as well as the sale of substantially all of the assets of Digi's former wholly owned subsidiary, MiLAN Technologies (MiLAN), to Communications Systems, Inc. (CSI). The acquisition of NSI occurred on February 13, 2002. The sale of substantially all of the MiLAN assets occurred on March 25, 2002. Digi has a fiscal year end of September 30 while NSI has a fiscal year end of January 31.

The pro forma combined condensed financial information is based on the following:

1. Digi's unaudited historical condensed consolidated financial statements as of December 31, 2001 and for the three month period then ended;

2. NSI's unaudited historical condensed consolidated financial statements as of December 31, 2001 and for the three month period then ended;

3. MiLAN's unaudited historical condensed financial statements as of December 31, 2001 and for the three months then ended;

4. Digi's audited historical consolidated financial statements for the year ended September 30, 2001;

5. NSI's unaudited pro forma combined condensed financial statements for the year ended September 30, 2001 (as described in the preceding pro forma financial statements);

6. MiLAN's unaudited historical condensed financial statements for the year ended September 30, 2001; and

7. Pro forma adjustments as described in the accompanying notes.

The pro forma combined condensed balance sheet at December 31, 2001 gives effect to the acquisition of NSI and the sale of substantially all of the assets of MiLAN as if they occurred as of December 31, 2001. The pro forma combined condensed statements of operations for the three months ended December 31, 2001 and the year ended September 30, 2001 give effect to the acquisition of NSI and the sale of substantially all of the assets of MiLAN as if they occurred as of October 1, 2000. The related adjustments are described in the accompanying notes. The unaudited pro forma combined condensed financial information is based upon available information and certain assumptions set forth in the notes to the unaudited pro forma combined condensed financial information, which have been made solely for purposes of developing such unaudited pro forma financial information. The unaudited pro forma combined condensed financial information does not purport to represent what Digi's results of operations or financial condition would actually have been had the acquisition of NSI or the sale of substantially all of the assets of MiLAN occurred as of October 1, 2000, or to project Digi's results of operations or financial condition for any future period or date.

The unaudited pro forma combined condensed financial information should be read in conjunction with Digi's historical financial statements and notes thereto, including the Annual Report on Form 10-K for the year ended September 30, 2001 and the Quarterly Report on Form 10-Q for the quarter ended December 31, 2001, NSI's historical financial statements and notes thereto, including NSI's Annual Report on Form 10-K for the year ended January 31, 2001 and NSI's Quarterly Report on Form 10-Q for the quarter ended October 27, 2001.

PRO FORMA COMBINED CONDENSED BALANCE SHEET
DECEMBER 31, 2001
(UNAUDITED)
(in thousands)

	DIGI INTERNATIONAL INC. HISTORICAL	SALE OF SUBSTANTIALLY ALL OF THE MILAN ASSETS	DIGI INTERNATIONAL. INC. PRO FORMA	NETSILICON, INC. HISTORICAL	PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED
ASSETS						
Current assets:						
Cash and cash equivalents	$ 22,422	$ 8,726 (m)	$ 31,148	$ 4,735	$(15,000) (a)	$ 20,883
Marketable securities	37,835		37,835	2,351		40,186
Accounts receivable, net	12,895	(4,280) (m)	8,615	2,947		11,562
Inventories, net	16,371	(4,203) (m)	12,168	4,779	123 (b)	17,070
Other	5,656		5,656	2,433		8,089
Total current assets	95,179	243	95,422	17,245	(14,877)	97,790
Property, equipment and improvements, net	21,849	(258) (m)	21,591	1,874		23,465
Intangible assets, net	21,858	(2,734) (m)	19,124	1,406	62,070 (d) (1,406) (b)	81,194
Other	1,515		1,515	2,133	(2,083) (b)	1,565
Total assets	$ 140,401	$ (2,749)	$ 137,652	$ 22,658	$ 43,704	$ 204,014
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Borrowings under line of credit agreements	$ 452		$ 452			$ 452
Current portion of long-term debt	244		244			244
Accounts payable	7,277		7,277	$ 2,258		9,535
Income taxes payable	3,149	$ (827) (m)	2,322	12		2,334
Accrued expenses	9,210	987 (m)	10,197	3,600	$ 6,395 (f)	20,192
Restructuring reserves	276		276			276
Total current liabilities	20,608	160	20,768	5,870	6,395	33,033
Long term debt	5,371		5,371			5,371
Net deferred income taxes	1,713		1,713		6,903 (g)	8,616
Total liabilities	27,692	160	27,852	5,870	13,298	47,020
Stockholders' equity:						
Common stock	164		164	141	67 (a) (141) (e)	231
Additional paid-in capital	70,921		70,921	29,575	50,771 (a) (29,575) (e)	121,692
Retained earnings (accumulated deficit)	59,120	(2,909) (m)	56,211	(12,832)	(3,100) (c) 12,832 (e)	53,111
Accumulated other comprehensive income (loss)	114		114	(96)	96 (e)	114
	130,319	(2,909)	127,410	16,788	30,950	175,148
Unearned stock compensation					(544) (a)	(544)
Treasury stock	(17,610)		(17,610)			(17,610)
Total stockholders' equity	112,709	(2,909)	109,800	16,788	30,406	156,994
Total liabilities and stockholders' equity	$140,401	$(2,749)	$ 137,652	$ 22,658	$ 43,704	$ 204,014

The accompanying notes are an integral part of the pro forma financial statements.

PRO FORMA COMBINED CONDENSED STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2001
(UNAUDITED)
(in thousands, except per share data)

	DIGI INTERNATIONAL INC. HISTORICAL	SALE OF SUBSTANTIALLY ALL OF THE MILAN ASSETS	DIGI INTERNATIONAL INC. PRO FORMA	NETSILICON, INC. HISTORICAL	PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED
Net sales	$ 25,150	$ (4,444) (n)	$ 20,706	$ 6,155		$ 26,861
Cost of sales	11,700	(2,890) (n)	8,810	2,757		11,567
Gross margin	13,450	(1,554)	11,896	3,398		15,294
Operating expenses:						
Sales and marketing	6,697	(1,461) (n)	5,236	2,158		7,394
Research and development	3,726	(795) (n)	2,931	2,222		5,153
General and administrative	4,189	(395) (n)	3,794	2,623	$ 742 (h)	7,159
Total operating expenses	14,612	(2,651)	11,961	7,003	742	19,706
Operating (loss) income	(1,162)	1,097	(65)	(3,605)	(742)	(4,412)
Other income (expense), net	345		345	70	(150) (i)	265
(Loss) income before income taxes	(817)	1,097	280	(3,535)	(892)	(4,147)
Income tax (benefit) provision	(311)	376 (n)	65	(26)	(1,706) (j)	(1,667)
Net (loss) income	$ (506)	$ 721	$ 215	$ (3,509)	$ 814	$ (2,480)
Net (loss) income per share, basic	$ (.03)		$ .01	$ (.25)		$ (.11)
Net (loss) income per share, assuming dilution	(.03)		.01	(.25)		(.11)
Weighted average shares, basic	15,369		15,369	14,066	6,720 (k) (14,066) (e)	22,089
Weighted average shares, assuming dilution	15,369	15 (o)	15,384	14,066	6,720 (k) (14,066) (e) (15) (k)	22,089

The accompanying notes are an integral part of the pro forma financial statements.

PRO FORMA COMBINED CONDENSED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2001
(UNAUDITED)
(in thousands, except per share data)

	DIGI INTERNATIONAL INC. HISTORICAL	SALE OF SUBSTANTIALLY ALL OF THE MILAN ASSETS	DIGI INTERNATIONAL INC. PRO FORMA	NETSILICON, INC. PRO FORMA	PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED
Net sales	$ 130,405	$(21,911) (n)	$ 108,494	$ 33,007		$ 141,501
Cost of sales	66,193	(13,997) (n)	52,196	13,987		66,183
Gross margin	64,212	(7,914)	56,298	19,020		75,318
Operating expenses:						
Sales and marketing	30,716	(5,309) (n)	25,407	11,662		37,069
Research and development	18,335	(3,291) (n)	15,044	8,504		23,548
General and administrative	16,252	(1,333) (n)	14,919	8,117	$ 2,968 (h)	26,004
Restructuring	1,121	(226) (n)	895			895
Total operating expenses	66,424	(10,159)	56,265	28,283	2,968	87,516
Operating (loss) income	(2,212)	2,245	33	(9,263)	(2,968)	(12,198)
Other income (expense), net	2,396		2,396	762	(600) (i)	2,558
Income (loss) before income taxes and cumulative effect of accounting change	184	2,245	2,429	(8,501)	(3,568)	(9,640)
Income tax provision (benefit)	66	448 (n)	514	6	(4,625) (j)	(4,105)
Net income (loss) before cumulative effect of accounting change	$ 118	$ 1,797	$ 1,915	$ (8,507)	$ 1,057	$ (5,535)
Net loss per share, from continuing operations, basic	$ (.01)(l)		$ .11	$ (.61)		$ (.25)
Net loss per share, from continuing operations, assuming dilution	(.01)(l)		.11	(.61)		(.25)
Weighted average shares, basic	15,235		15,235	14,033	6,720 (k) $ (14,033) (e)	21,955
Weighted average shares, assuming dilution	15,288		15,288	14,033	6,720 (k) (14,033) (e) (53) (k)	21,955

The accompanying notes are an integral part of the pro forma financial statements.

1. BASIS OF PRO FORMA PRESENTATION

The unaudited pro forma combined condensed financial statements of Digi have been prepared on the basis of assumptions relating to the allocation of consideration paid to the acquired assets and liabilities of NSI based on management's best estimates. Below are tables of the estimated acquisition costs and estimated purchase price allocation for NSI:

Cash and fair value of Digi's common stock and common stock options issued	$65,838,000
Direct acquisition costs	1,315,000
Total purchase price	$67,153,000
Estimated fair value of net tangible assets acquired	$ 8,342,000
Unearned stock compensation related to unvested portion of stock options issued	544,000
Estimated fair value of:	
Acquired in-process research and development	3,100,000
Identifiable intangible assets, net of deferred tax liabilities of $6,903,000	10,797,000
Goodwill and assembled workforce	44,370,000
	$67,153,000

On March 25, 2002, Digi announced its sale of substantially all of the MiLAN assets to CSI for $8,059,000, resulting in a net loss of $3,107,000. The historical financial information of Digi has been adjusted in the pro forma combined condensed financial statements to reflect the results of this transaction.

2. PRO FORMA ADJUSTMENTS

(a) Adjustment reflects the components of the purchase consideration and related transaction costs, which includes $15,000,000 in cash, Digi's common stock with a market value of $41,732,000 and replacement stock options issued by Digi to certain NSI common stock option holders with an estimated fair value of $9,106,000. The cash and Digi's common stock were issued in exchange for outstanding shares of NSI's common stock and Digi's common stock options were issued in exchange for certain outstanding NSI common stock options. The value of the Digi common stock was based on a per share value of approximately $6.21, calculated as the average market price of Digi's common stock during the five business days immediately preceding and subsequent to the date the parties reached agreement on terms and announced the proposed acquisition. The value of Digi's common stock options is based on the estimated fair value of these options, as of the date the transaction was announced, using the Black-Scholes valuation model. Unearned compensation of $544,000 has been recorded related to the intrinsic value of the unvested replacement common stock options for which future services are required before the option holders vest in the replacement options.

(b) These amounts represent adjustments to increase the carrying values of inventories and to eliminate the historical carrying value of intangible assets and capitalized software costs that are recorded at their fair values in adjustment (d).

(c) Digi utilized the income valuation approach to determine the estimated fair value of the purchased in-process research and development. Management estimates that $3,100,000 of the purchase price represents the fair value of purchased in-process research and development that has not yet reached technological feasibility and will have no alternative future uses as of the acquisition date. This amount has been expensed as a non-recurring, non tax-deductible charge upon consummation of the acquisition and deducted from retained earnings in the pro forma combined condensed balance sheet.

(d) Goodwill (including assembled workforce) and intangible asset adjustments represent the consideration paid in excess of the fair value of net tangible assets acquired. The identifiable intangible assets included in the estimated purchase price allocation set forth in Note 1 is comprised principally of proven technology, customer maintenance contracts, license agreements, patents, trademark, and customer relationships with an estimated fair value of $17,700,000, and with estimated useful lives ranging from six to ten years. The remaining unallocated portion of the purchase price in excess of the fair value of tangible net assets represents goodwill and assembled workforce. Goodwill and assembled workforce are not amortized in accordance with the provisions of Statement of Financial Accounting Standards Board No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets." Digi has not yet adopted Statement of Financial Accounting Standards Board No. 142 "Goodwill and Other Intangible Assets. " The historical financial information of Digi and NSI does not reflect the adoption of Financial Accounting Standards Board No. 142, "Goodwill and Other Intangible Assets."

(e) Adjustments reflect the elimination of the existing stockholders' equity of NSI.

(f) Amount represents accrual for the following items:

Digi's direct acquisition costs	$1,315,000
NetSilicon's acquisition related costs payable by Digi	2,500,000
Compensation payable to certain members of NetSilicon management upon completion of the acquisition	2,580,000
Total	$6,395,000

(g) Amount represents the deferred tax liabilities generated as a result of the acquisition of identifiable intangible assets assuming a blended U.S. federal and state statutory income tax rate of 39%.

(h) Adjustment represents amortization of acquired identifiable intangibles of NSI based on estimated lives ranging from six to ten years. In addition, the amortization of unearned stock compensation (as the stock options vest) of $211,000 for the twelve months ended September 30, 2001 and $53,000 for the three months ended December 31, 2001 is included in this adjustment. Amortization is not recorded for goodwill established in connection with the NSI acquisition, in accordance with the provisions of Statement of Financial Accounting Standards Board No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets."

(i) Adjustments represent interest income assumed to be foregone at a weighted-average rate of 4% due to the cash paid for the acquisition of NSI.

(j) Adjustments to income tax provision relating to intangible asset amortization and adjustment (i) assuming a blended U.S. federal and state statutory income tax rate of 39%. In addition, the utilization of NSI operating losses in the Digi consolidated income tax provision is reflected in this adjustment.

(k) Adjustment relates to the following items:

- To reflect the increase in weighted average basic shares and weighted average dilutive shares outstanding for the common stock and common stock options issued in connection with the acquisition. Pro forma basic earnings per common share for the period presented were calculated assuming that 6,720,000 shares of Digi common stock issued in connection with the acquisition were issued at the beginning of the period presented.

- Pro forma diluted earnings per common share for the twelve months ended September 30, 2001 excludes 53,000 shares of Digi historical common equivalent shares because their effect was antidilutive on a combined pro forma basis. Pro forma diluted earnings per common share for the three months ended December 31, 2001 excludes 15,000 shares of Digi historical common equivalent shares because their effect was antidilutive on a combined pro forma basis.

- Common equivalent shares attributable to the common stock options issued by Digi in connection with the acquisition, to replace existing NSI common stock options (2,743,000 Digi common stock options), were excluded in determining the weighted average dilutive shares outstanding for the year ended September 30, 2001 because their effect was antidilutive.

(l) Per share net income from continuing operations equals amounts in the audited financial statements of Digi for the year ended September 30, 2001, but does not equate to mathematically determined amounts due to rounding.

(m) Reflects the sale of substantially all of the MiLAN assets to CSI occurring on December 31, 2001 for $8,059,000, resulting in a net loss of $3,327,000. The net loss has been recorded as a non-recurring charge and deducted from retained earnings in the pro forma combined condensed balance sheet.

(n) Reflects the results of MiLAN as if the sale of substantially all of the MiLAN assets to CSI occurred on October 1, 2000 for $8,059,000, resulting in a net loss of $3,702,000. The net loss has been recorded as a non-recurring charge which is excluded from the pro forma combined condensed statement of operations.

(o) Adjustment to include common equivalent shares that were excluded from the Digi historical financial information because their effect was antidilutive.