

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A

(Mark One)

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

For the fiscal year ended September 30, 1996 or

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

For the transition period from _____ to _____

Commission file number 0-17972

DIGI INTERNATIONAL INC.

(Exact name of registrant as specified in its charter)

DELAWARE

41-1532464

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

11001 BREN ROAD EAST
MINNETONKA, MINNESOTA

55343

(Address of principal executive officers)

(Zip Code)

Registrant's telephone number, including area code: (612) 912-3444

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

COMMON STOCK, \$.01 PAR VALUE

(Title of each class)

Indicate by check mark whether the Registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding twelve months, and (2) has been subject to such
filing requirements for the past ninety days.

YES X NO
--- ---

The aggregate market value of voting stock held by nonaffiliates of the
Registrant, based on a closing price of \$14.875 per share as reported on the
National Association of Securities dealers Automated Quotation System -
National Market System on December 13, 1996 was \$166,239,400.

Shares of common stock outstanding as of December 13, 1996: 13,344,073.

DOCUMENTS INCORPORATED BY REFERENCE

The following table shows, except as otherwise noted, the location of information, required in this Form 10-K, in the Registrant's Annual Report to Stockholders for the year ended September 30, 1996 and Proxy Statement for the Registrant's Annual Meeting of Stockholders scheduled for January 30, 1997, a definitive copy of which the Registrant anticipates will be filed on or about January 2, 1997. All such information set forth below under the heading "Reference" is incorporated herein by reference.

PART I	ITEM IN FORM 10-K	REFERENCE
-----	-----	-----
Item 1.	Business	Business, pages 5 through 10, this document; Note 10, Notes to Consolidated Financial Statements Annual Report to Stockholders
Item 2.	Properties	Properties, pages 10 and 11, this document;
Item 3.	Legal Proceedings	Legal Proceedings, page 11, this document
Item 4.	Submission of Matters to a Vote of Security Holders	Submission of Matters to a Vote of Security Holders, page 11, this document
PART II		

Item 5.	Market for Registrant's Common Equity and Related Stockholder Matters	Stock Listing; Dividend Policy, page 32, Annual Report to Stockholders
Item 6.	Selected Financial Data	Financial Highlights, and Selected Financial Information, pages 4 and 5, Annual Report to Stockholders

- | | | |
|---------|---|--|
| Item 7. | Management's Discussion
And Analysis of Financial
Condition and Results of
Operations | Management's Discussion and Analysis
of Financial Condition and Results of
Operations, pages 16 through 19,
Annual Report to Stockholders |
| Item 8. | Financial Statements and
Supplementary Data | Annual Report to Stockholders, pages 20
through 30 |
| Item 9. | Changes in and Disagree-
ments with Accountants on
Accounting and Financial
Disclosure | Changes in and Disagreements with
Accountants on Accounting and Financial
Disclosure, page 11, this document |

PART III ITEM IN FORM 10-K

REFERENCE

- | | | |
|----------|--|---|
| Item 10. | Directors of the
Registrant | Election of Directors, Proxy Statement |
| | Executive Officers of
the Registrant | Executive Officers of the Registrant, pages
11 through 14, this document |
| | Compliance with Section
16(a) of the Exchange Act | Section 16(a) Reporting, Proxy Statement |
| Item 11. | Executive Compensation | Executive Compensation; Election of
Directors, Summary Compensation Table;
Option Grants in Last Fiscal Year;
Aggregated Option Exercises in the Last
Fiscal Year and Year-end Option Values,
Employment Contracts; Severance,
Termination of Employment and Change-in-
Control Arrangements; Performance
Evaluation, Proxy Statement |

Item 12. Security Ownership of
Certain Beneficial Owners
and Management Security Ownership of Principal
Stockholders and Management, Proxy
Statement

Item 13. Certain Relationships and
Related Transactions Certain Relationships and Related
Transactions, Proxy Statement

PART IV

Item 14. Exhibits, Financial
Statement Schedules and
Reports on Form 8-K Exhibits, Financial Statement Schedules and
Reports on Form 8-K, pages 15 through 17,
this document

DIGI INTERNATIONAL INC.

FORM 10-K

Year ended September 30, 1996

PART I

ITEM 1. BUSINESS

Digi International Inc. (the "Company") was formed in 1985 and is a leading producer of data communications hardware and software products that deliver solutions for multiuser environments, remote access markets both LAN and WAN, and the LAN connect market.

The Company's multiuser products connect terminals, PCs running terminal emulation software, and other serial devices, to a PC-based host. This pathway enables users to share the processing power of a single host computer. These products are ideal for companies-or work groups within companies-that need easy, low-cost system management and high performance at the lowest cost per user. These products are ideal for point-of-sale applications, on-line transaction processing, factory automation, dial-in/dial-out connections and data dissemination.

The Company's multiuser solutions support from one to 224 high-speed serial ports through a single expansion slot or as many as 1,792 ports through a single host (eight expansion slots). In addition to maximizing the capabilities of a multiuser system by enabling hundreds of users to be connected to a system, an equally important benefit is the product's ability to quickly and accurately transmit data, eliminating the information bottlenecks that result when multiple users or devices share one processing unit.

In 1994, the Company adopted a strategy to move into two growth areas, which were compatible with its existing product line, by entering into the remote access and LAN connect markets. The Company's remote access products address the need to connect telecommuters and branch offices to corporate LANs, other branches, other individuals through server-centric (hard port) and stand alone product solutions (soft port and internetworking solutions). Only the Company has solutions for each portion of this large and fast growing market. The Company entered the stand alone solution market with the acquisition of Lan Access Corporation in September 1995 in a cash transaction of approximately \$5.5 million.

The remote access product line was enhanced in 1996 by the opening of its Huntsville research and development office, which designs both hardware and software products and its Redmond, Washington facility which focuses solely on NT Software related to ISDN.

The Company's ISDN products address the need for high-speed remote access which is necessary for LAN-to-LAN (WAN) internetworking and for accessing the Internet.

The Company entered the LAN connect market with its acquisition of MiLAN Technology Corporation in November 1993. The Company's LAN connect group provides cost-effective and power-efficient Ethernet, Fast Ethernet and Token Ring networking products through three groups:

- 1) The original "physical layer" line of products that allow users to easily build and expand networks using single and multiport transceivers, converters, modular microhubs and modular repeaters.
- 2) Products based on the innovative FastPort line, which makes print sharing convenient and affordable. The FastPort line includes the industry's first multiprotocol network print server providing access to any printer on an Ethernet or Token Ring network without the inconvenience and expense of spooling through a workstation or server.
- 3) Network performance enhancement products, including the first comprehensive family of physical layer connectivity solutions for Fast Ethernet.

The Company's products are sold through a network of more than 168 distributors in the United States, Canada and 68 countries worldwide and through OEM (Original Equipment Manufacturers) contracts.

Committed to the development and evolution of innovative connectivity and networking solutions, the Company works closely with customers and marketing partners to meet the changing needs of the communications and networking marketplace.

The Company markets its products to a broad range of customers, including major domestic and international distributors, system integrators, VARs and OEMs. In July 1991, the Company opened a sales support office in Germany to increase sales support to the European distribution network for its multiuser products. In October 1993, the Company opened a sales support office in Singapore to increase sales support to the Pacific Rim distribution network for its products. In 1996, the Company opened similar offices in Hong Kong, Australia and Japan.

To serve these markets, the Company (i) offers products that, in the opinion of management, provide superior performance relative to current standards and application requirements, (ii) provides products that are compatible with a broad array of operating systems and microcomputer and workstation architectures, and (iii) provides, in the opinion of management, superior technical support, including frequent and timely product updates and ready access to the Company's support staff.

The microcomputer industry is characterized by rapid technological advances and evolving industry standards. The market can be significantly affected by new product introductions and marketing activities of industry participants. The Company competes for customers on the basis of product performance in relation to compatibility, support, quality and reliability, product development capabilities, price and availability. Many of the Company's competitors and potential competitors have greater financial, technological, manufacturing, marketing and personnel resources than the Company. The Company believes that it is the market leader in the multiuser market segment of the computer industry and is the leader in the server centric portion of the remote access portion of that market. With respect to the stand alone portion of the remote access market and the LAN connect market, the Company believes it commands less than a 5% market share.

The Company's manufacturing operations procure all parts and certain services involved in the production of products. The Company subcontracts most of its product manufacturing to outside firms that specialize in providing such services. The Company believes that this approach to manufacturing is beneficial because it permits the Company to reduce its fixed costs, maintain production flexibility and maximize its profit margins.

The Company's products are manufactured to its designs with standard and semi-custom components. Virtually all of these components are available from multiple vendors.

During fiscal years 1994, 1995 and 1996, the Company's research and development expenditures were \$9,833,859, \$14,676,683, and \$20,624,274 respectively.

Due to the rapidly changing technology in the computer industry, the Company believes that its success depends primarily upon the engineering, marketing, manufacturing and support skills of its personnel, rather than upon patent protection. Although the Company may seek patents where appropriate and has certain patent applications pending for proprietary technology, the Company's proprietary technology or products are generally not patented. The Company relies primarily on the copyright, trademark and trade secret laws to protect its proprietary rights in its products. The Company has established common law and registered trademark rights on a family of marks for a number of its products.

Through September 30, 1996, the Company purchased \$5.3 million in secured convertible notes from AetherWorks Corporation, a development stage company engaged in the development of wireless and dial-up remote access technology. The Company is obligated to purchase up to an additional \$8.5 million secured convertible notes from time to time at the request of AetherWorks, based on certain conditions. Secured convertible notes held by the Company were convertible at September 30, 1996 into 52% of AetherWorks' common stock, and the purchase of \$8.5 million additional principal amount of secured notes would increase the Company's ownership portion upon conversion to 62.7%, based on AetherWorks' present capitalization. Through September 30, 1996, the Company has also guaranteed \$1.1 million in lease obligations incurred by AetherWorks. The Company has reported its investment in AetherWorks on the equity method and has recorded a \$3.6 million loss which represents 100% of the AetherWorks' net loss for the year ended September 30, 1996. The percentage of AetherWorks' losses included in the Company's results of operations is based upon the percentage of financial support provided by the Company (versus other investors) to AetherWorks during fiscal 1996.

At September 30, 1996, the Company had 698 full-time employees.

During the year ended September 30, 1996, two customers comprised more than 10% of net sales: Tech Data at 13.9%, and Ingram Micro at 13.4%. For 1995, two customers accounted for more than 10% of net sales: Ingram Micro at 12.5% and IBM at 11.7%. During 1994, one company (Ingram Micro) accounted for 11.8% of net sales.

As of November 30, 1996, the Company had backlog orders which management believed to be firm in the amount of \$12.7 million. All of these orders are expected to be filled in the current fiscal year. Backlog at November 30, 1995 was \$11.3 million.

During fiscal years 1994, 1995 and 1996, the Company's net sales to customers outside the United States, primarily in Europe, amounted to approximately \$28 million, \$33 million and \$39.9 million respectively.

ITEM 2. PROPERTIES

The Company's headquarters and research facilities are located in a 130,000 square foot office building in Minnetonka, Minnesota which the Company acquired in August 1995 and has occupied since March 1996. The Company's primary manufacturing facilities are currently located in a 58,000 square foot building in Eden Prairie, Minnesota, which the Company purchased in May 1993 and has occupied since August 1993. Additional office and research facilities are located in a 17,146 square foot facility in Nashville, Tennessee, the lease for which expires in August 2000; a 32,000 square foot facility in Twinsburg, Ohio, the lease for which expires in January 2001; a 46,170 square foot facility in Sunnyvale, California, the lease for which expires in April 2002; a 10,525 square foot building in Torrance, California the lease for which expires in January 1997, which will be renewed for one year in 1997; a 8,028 square foot facility in Huntsville, Alabama, the lease for which expires February 1999; and a 4,886 square foot facility in Redmond, Washington, the lease for which expires December, 1998. The Company's sales support office in Germany is located in a 4,535 square foot office in Cologne, Germany, the lease for which expires in November 1998. The Company's sales support office in Asia is located in a 1,560 square foot office in Singapore, the lease for which expires in May 1997. The Company's sales support office in Australia is located in a

1,000 square foot office in Sydney, the lease for which expires in March 1998. The Company's sales support office in Hong Kong is located in a 1,400 square foot office in Causeway Bay, the lease for which expires in May 1998. Management believes that the Company's facilities are suitable and adequate for current office, research and warehouse requirements, and that its manufacturing facilities provide sufficient productive capacity to meet the Company's currently anticipated needs.

ITEM 3. LEGAL PROCEEDINGS

There are no material pending or threatened legal, governmental, administrative or other proceedings to which the Company or any of its subsidiaries is a party or to which any of its or its subsidiaries' property is subject.

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

There were no matters submitted to a vote of security holders during the quarter ended September 30, 1996.

PART II

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Age	Position
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John P. Schinas	59	Chairman of the Board of Directors
Ervin F. Kamm, Jr.	57	Director, President and Chief Executive Officer

David Rzasa	45	Vice President and General Manager Remote Access PMU
Jonathon E. Killmer	55	Vice President, Chief Financial Officer and Treasurer
Ray D. Wymer, Jr.	40	Vice President of the Company and General Manager of the Multi-Connect PMU
Michael D. Kelley	48	Vice President Business Technologies and Support Services
Douglas J. Glader	53	Vice President of Operations
Dana R. Nelson	48	Vice President of Sales

Mr. Schinas, founder of the Company, retired as Chief Executive Officer effective January 27, 1992. He has been a member of the Board of Directors since the Company's inception in July 1985 and was elected Chairman of the Board of Directors in July 1991. From July 1985 to July 1991, Mr. Schinas also served the Company as President and Treasurer.

Mr. Kamm has been a member of the Board of Directors since December 1994 and President and Chief Executive Officer of the Company since November 30, 1994. From May 1988 to November 1994, he served as President and Chief Operating Officer of Norstan Inc., a distributor of telecommunications products. Mr. Kamm is also a director of Secure Computing Corporation, Micromedics Inc., Zytec Corporation and the Institute for Advanced Technology.

David Rzasa joined the Company in October 1996, as Vice President and General Manager of Remote Access Product Marketing Unit. From October 1995 until August 1996, Rzasa was Executive Vice President and Chief Operating Officer for Three Five Systems, Inc., where he was responsible for day to day operations of the company. Three Five Systems, Inc. is a custom display module manufacturer focusing on passive LCD and LED technology. From 1991 through 1995, Mr. Rzasa was President of Rosemount Analytic Inc., a division of Emerson Electric Co.

Mr. Killmer joined the Company in October 1996, as Vice President, Chief Financial Officer and Treasurer. Prior to joining the Company, Killmer had been a partner in the professional services firm of Coopers & Lybrand L.L.P., most recently as the Managing Partner of the Minneapolis/St. Paul office from 1990 until his joining the Company.

Mr. Wymer has been Vice President of the Company since April 1993 when Star Gate Technologies, Inc. was acquired. From 1984 to September 30, 1995, he has served as President of Star Gate and currently is General Manager of Multi-Connect Product Marketing Unit.

Mr. Kelley joined the Company in February 1996 as Vice President-Business Technologies. In August 1996, Kelley assumed the additional responsibilities for external Support Services. He served as Executive Vice President and General Manager- Northern Area, at Norstan Communications Systems, Inc., Minneapolis, from 1991 to January 1996.

Mr. Glader was named Vice President of Operations in February 1995. Before that, he was formerly Director of Manufacturing and Operations for MiLAN Technology Corporation, which the Company acquired in November 1993. He began his career with Memorex Corporation and also worked for Measurex Corporation, Altus Corporation and Direct Incorporated. He founded and was vice president of operations for Greyhawk Systems, Inc., a manufacturer of electronic imaging hardware and software.

Mr. Nelson was named Vice President of Sales for the Company effective June 1995. From 1983 to May 1995, Nelson was with Ascom Timeplex, most recently as Vice President of Worldwide Sales. Ascom Timeplex is a worldwide leader in LAN and WAN networking solutions.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 10-K

(a) Consolidated Financial Statements and Schedules

1. Incorporated by reference to pages 20 through 30 of the Company's 1996 Annual Report to Stockholders:

Consolidated Statements of Operations for the fiscal years ended 1996, 1995 and 1994

Consolidated Balance Sheets as of September 30, 1996 and 1995

Consolidated Statements of Cash Flows for the fiscal years ended 1996, 1995 and 1994

Consolidated Statements of Stockholders' Equity for the fiscal years ended 1996, 1995 and 1994

Notes to Consolidated Financial Statements

Report of Independent Accountants

2. Included in Part II:

Report of Independent Accountants on Financial Statement Schedule

Report of Independent Accountants on AetherWorks Corporation

Schedule II - Valuation and Qualifying Accounts

All other schedules are omitted because they are not applicable or are not required.

(b) Reports on Form 8-K

There were no reports filed on Form 8-K during the quarter ended September 30, 1996.

(c) Exhibits

Exhibit Number	Description
-----	-----
3(a)	Restated Certificate of Incorporation of the Registrant*
3(b)	Amended and Restated By-Laws of the Registrant**
10(a)	Stock Option Plan of the Registrant
10(b)	Form of indemnification agreement with directors and officers of the Registrant*
10(c)	Amended and Restated Employment Agreement between the Company and John P.Schinas****
10(d)	Restated and Amended Note Purchase Agreement between the Company and AetherWorks Corporation, dated June 19, 1996
10(e)	Employment Arrangement between the Registrant and Mike Kelley, dated February 7, 1996
10(f)	401(k) Savings and Profit Sharing Plan of Digi International Inc.***
10(g)	Amended and Restated Employment Agreement between the Company and Ervin F. Kamm, Jr.*****
10(h)	Consulting Agreement between the Company and Mykola Moroz****
10(i)	Employment Arrangement between the Registrant and Jonathon E. Killmer, dated September 16, 1996
10(j)	Employment Arrangement between the Registrant and David Rzasa, dated September 30, 1996

- 10(k) Separation Agreement between the Company and Gerald A. Wall,
dated December 4, 1996
- 10(n) Employment Agreement with Ray D. Wymer, as amended by Amendment
No. 1 to Employment Agreement *****
- 10(p) Employment Arrangement between the Registrant and Douglas Glader

- 10(q) Employment Arrangement between the Registrant and Dana R. Nelson
for fiscal 1995 and 1996 *****
- 10(s) Employee Stock Purchase Plan of the Registrant*****
- 11 Detail computation of earnings per share
- 13 1996 Annual Report to Stockholders (only those portions
specifically incorporated by reference herein shall be deemed
filed with the Securities and Exchange Commission)
- 21 Subsidiaries of the Registrant
- 23.1 Consent of Independent Accountants
- 23.2 Consent of Independent Accountants
- 24 Powers of Attorney
- 27 Financial Data Schedule

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

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

*** Incorporated by reference to the corresponding exhibit number of the
Company's Form 10-K for the year ended September 30, 1991.

**** Incorporated by reference to the corresponding exhibit number of the Company's Form 10-K for the year ended September 30, 1994 (File no. 0-17972).

***** Incorporated by reference to Exhibit B to the Registrant's Proxy Statement for its Annual Meeting of Stockholders held on January 31, 1996.

***** Incorporated by reference to the corresponding exhibit number of the Company's Form 10-K for the year ended September 30, 1995 (File No. 0-17972).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

January 24, 1997 By: /s/ Jonathon E. Killmer

Date Jonathon E. Killmer
 Vice President & Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

January 24, 1997 /s/ Jerry A. Dusa

Date Jerry A. Dusa
 Interim Acting Chief Executive Officer

January 24, 1997 /s/ Jonathon E. Killmer

Date Jonathon E. Killmer
 Vice President & Chief Financial Officer

JOHN P. SCHINAS
WILLIS K. DRAKE
RICHARD E. EICHHORN
MYKOLA MOROZ
DAVID STANLEY
ROBERT S. MOE
 A majority of the Board of Directors*

*Jonathon E. Killmer, by signing his name hereto, does hereby sign this document on behalf of himself and each of the other above named directors and officer of the registrant pursuant to powers of attorney duly executed by such persons.

 /s/ Jonathon E. Killmer

Jonathon E. Killmer, Attorney-in-fact

INDEX TO EXHIBITS

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(continued)

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11	Detail computation of earnings per share	
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*** Incorporated by reference to the corresponding exhibit number of the Company's Form 10-K for the year ended September 30, 1991.

**** Incorporated by reference to the corresponding exhibit number of the Company's Form 10-K for the year ended September 30, 1994 (File No. 0-17972).

INDEX TO EXHIBITS
(continued)

- ***** Incorporated by reference to Exhibit B to the Registrant's Proxy Statement for its Annual Meeting of Stockholders held on January 31, 1996.
- ***** Incorporated by reference to the corresponding exhibit number of the Company's Form 10-K for the year ended September 30, 1995.

EXHIBIT 10(a)
STOCK OPTION PLAN OF THE REGISTRANT

DIGI INTERNATIONAL INC.
STOCK OPTION PLAN
AS AMENDED AND RESTATED*

1. PURPOSE OF PLAN. The purpose of this Digi International Inc. Stock Option Plan (the "Plan"), is to promote the interests of Digi International Inc., a Delaware corporation (the "Company"), and its stockholders by providing key personnel of the Company and its subsidiaries with an opportunity to acquire a proprietary interest in the Company and thereby develop a stronger incentive to put forth maximum effort for the continued success and growth of the Company and its subsidiaries. In addition, the opportunity to acquire a proprietary interest in the Company will aid in attracting and retaining key personnel of outstanding ability.

2. ADMINISTRATION OF PLAN. This Plan shall be administered by a committee of two or more directors (the "Committee") appointed by the Company's board of directors (the "Board"). No person shall serve as a member of the Committee unless such person shall be a "disinterested person" as that term is defined in Rule 16b-3(c), promulgated under the Securities Exchange Act of 1934, as amended (the "Act"), or any successor statute or regulation comprehending the same subject matter. A majority of the members of the Committee shall constitute a quorum for any meeting of the Committee, and the acts of a majority of the members present at any meeting at which a quorum is present or the acts unanimously approved in writing by all members of the Committee shall be the acts of the Committee. Subject to the provisions of this Plan, the Committee may from time to time adopt such rules for the administration of this Plan as it deems appropriate. The decision of the Committee on any matter affecting this Plan or the rights and obligations arising under this Plan or any option granted hereunder, shall be final, conclusive and binding upon all persons, including without limitation the Company, stockholders, employees and optionees. To the full extent permitted by law, no member of the Committee shall be liable for any action or determination taken or made in good faith with respect to this Plan or any option granted hereunder.

Notwithstanding any contrary provisions of this Plan, the Committee shall have no discretion with respect to the granting of options to any Outside Director (as hereinafter defined) or to alter or amend any terms, conditions and eligibility requirements of an option granted or to be granted to any Outside Director under this Plan, it being understood that the granting and terms, conditions and eligibility requirements of such options are governed solely by the provisions set forth in this Plan pertaining thereto.

3. SHARES SUBJECT TO PLAN. The shares that may be made subject to options granted under this Plan shall be authorized and unissued shares of common stock (the "Common Shares") of the Company, \$.01 par value, or Common Shares held in treasury, and they shall not exceed 3,629,400 in the aggregate, except that, if any option lapses or terminates for any reason before such option has

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* BOLD TEXT INDICATES AMENDMENT SUBMITTED FOR STOCKHOLDER APPROVAL; [brackets indicate deletions]; also gives effect to a two-for-one stock split effected in the form of a stock dividend distributed to stockholders on March 1, 1991, a three-for-two stock split effected in the form of a stock dividend distributed to stockholders on March 31, 1992 and all amendments to the Plan through December 13, 1995.

been completely exercised, the Common Shares covered by the unexercised portion of such option may again be made subject to options granted under this Plan. Appropriate adjustments in the number of shares and in the purchase price per share may be made by the Committee in its sole discretion to give effect to adjustments made in the number of outstanding Common Shares of the Company through a merger, consolidation, recapitalization, reclassification, combination, stock dividend, stock split or other relevant change, provided that fractional shares shall be rounded to the nearest whole share.

4. ELIGIBLE PARTICIPANTS. Options may be granted under this Plan to any key employee of the Company or any subsidiary thereof, including any such employee who is also an officer or director of the Company or any subsidiary thereof. Nonstatutory stock options, as defined in paragraph 5(a) hereof, also shall be granted to directors of the Company who are not employees of the Company or any subsidiary thereof (the "Outside Directors") in accordance with paragraph 6 hereof and may also be granted to other individuals or entities who are not "employees" but who provide services to the Company or a parent or subsidiary thereof in the capacity of an advisor or consultant. Options granted to Outside Directors shall have the terms and conditions specified in paragraph 6 and elsewhere in this Plan (other than paragraph 5) and options granted to employees and other individuals or entities shall have the terms and conditions specified in paragraph 5 and elsewhere in this Plan (other than paragraph 6). References herein to "employment" and similar terms shall include the providing of services in any such capacity or as a director.

5. TERMS AND CONDITIONS OF EMPLOYEE OPTIONS.

(a) Subject to the terms and conditions of this Plan (other than paragraph 6), the Committee may, from time to time prior to November 29, 2004, grant to such eligible employees as the Committee may determine options to purchase such number of Common Shares of the Company on such terms and conditions as the Committee may determine; provided, however, that no employee may be granted options with respect to more than 250,000 Common Shares during any calendar year. In determining the employees to whom options shall be granted and the number of Common Shares to be covered by each option, the Committee may take into account the nature of the services rendered by the respective employees, their present and potential contributions to the success of the Company, and such other factors as the Committee in its sole discretion shall deem relevant. The date and time of approval by the Committee of the granting of an option shall be considered the date and the time of the grant of such option. The Committee in its sole discretion may designate whether an option is to be considered an "incentive stock option" (as that term is defined in Section 422 of the Internal Revenue Code of 1986, as amended, or any amendment thereto (the "Code")) or a nonstatutory stock option (an option granted under this Plan that is not intended to be an "incentive stock option"). The Committee may grant both incentive stock options and nonstatutory stock options to the same individual. However, if an incentive stock option and a nonstatutory stock option are awarded simultaneously, such options shall be deemed to have been awarded in separate grants, shall be clearly identified, and in no event shall the exercise of one such option affect the right to exercise the other. To the extent that the aggregate Fair Market Value (as defined in paragraph 5(c)) of Common Shares with respect to which incentive stock options (determined without regard to this sentence) are exercisable for the first time by any individual during any calendar year (under all plans of the Company and its parent and subsidiary corporations) exceeds \$100,000, such options shall be treated as nonstatutory stock options.

(b) The purchase price of each Common Share subject to an option granted pursuant to this paragraph 5 shall be fixed by the Committee. For nonstatutory stock options, such purchase price may

be set at not less than 50% of the Fair Market Value (as defined below) of a Common Share on the date of grant. For incentive stock options, such purchase price shall be no less than 100% of the Fair Market Value of a Common Share on the date of grant, provided that if such incentive stock option is granted to an employee who owns, or is deemed under Section 424(d) of the Code to own, at the time such option is granted, stock of the Company (or of any parent or subsidiary of the Company) possessing more than 10% of the total combined voting power of all classes of stock therein (a "10% Stockholder"), such purchase price shall be no less than 110% of the Fair Market Value of a Common Share on the date of grant.

(c) For purposes of this Plan, the "Fair Market Value" of a Common Share at a specified date shall, unless otherwise expressly provided in this Plan, mean the closing sale price of a Common Share on the date immediately preceding such date or, if no sale of such shares shall have occurred on that date, on the next preceding day on which a sale of such shares occurred, on the Composite Tape for New York Stock Exchange listed shares or, if such shares are not quoted on the Composite Tape for New York Stock Exchange listed shares, on the principal United States securities exchange registered under the Act, on which the shares are listed, or, if such shares are not listed on any such exchange, on the National Association of Securities Dealers, Inc. Automated Quotation System/National Market System or any similar system then in use or, if such shares are not included in the National Association of Securities Dealers, Inc. Automated Quotation System/National Market System or any similar system then in use, the mean between the closing "bid" and the closing "asked" quotation of such a share on the date immediately preceding the date as of which such Fair Market Value is being determined, or, if no closing bid or asked quotation is made on that date, on the next preceding day on which a quotation is made, on the National Association of Securities Dealers, Inc. Automated Quotation System or any similar system then in use, provided that if the shares in question are not quoted on any such system, Fair Market Value shall be what the Committee determines in good faith to be 100% of the fair market value of such a share as of the date in question. Notwithstanding anything stated in this paragraph, if the applicable securities exchange or system has closed for the day by the time the determination is being made, all references in this paragraph to the date immediately preceding the date in question shall be deemed to be references to the date in question.

(d) Each option agreement provided for in paragraph 14 hereof shall specify when each option granted under this Plan shall become exercisable.

(e) Each option granted pursuant to this paragraph 5 and all rights to purchase shares thereunder shall cease on the earliest of:

(i) ten years after the date such option is granted (or in the case of an incentive stock option granted to a 10% Stockholder, five years after the date such option is granted) or on such date prior thereto as may be fixed by the Committee on or before the date such option is granted;

(ii) the expiration of the period after the termination of the optionee's employment within which the option is exercisable as specified in paragraph 8(b) or 8(c), whichever is applicable; or

(iii) the date, if any, fixed for cancellation pursuant to paragraph 9 of this Plan.

In no event shall any option be exercisable at any time after its original expiration date. When an option is no longer exercisable, it shall be deemed to have lapsed or terminated and will no longer be outstanding.

6. TERMS AND CONDITIONS OF OUTSIDE DIRECTOR OPTIONS.

(a) Subject to the terms and conditions of this Plan (other than paragraph 5), the Committee shall grant options to each Outside Director who is not on the date such option would be granted the beneficial owner (as defined in Rule 13d-3 under the Act) of more than 5% of the outstanding Common Shares, on the terms and conditions set forth in this paragraph 6. During the term of this Plan and provided that sufficient Common Shares are available pursuant to paragraph 3:

(i) each person who is an Outside Director at the conclusion of each Annual Meeting of Stockholders HELD PRIOR TO THE DATE OF THE 1996 ANNUAL MEETING OF STOCKHOLDERS shall be granted a nonstatutory stock option on the date of such Annual Meeting of Stockholders. The date of such Annual Meeting of Stockholders also shall be the date of grant for options granted pursuant to this subparagraph 6(a)(i). The number of Common Shares covered by each such option shall be 15,000 (7,500 on or after the 1992 Annual Meeting of Stockholders);

(ii) each person who is elected to be an Outside Director between Annual Meetings of Stockholders AND PRIOR TO THE DATE OF THE 1996 ANNUAL MEETING OF STOCKHOLDERS shall be granted a nonstatutory stock option. The date such person is elected to be an Outside Director of the Company [(the "Date of Election")] by the Board shall be the date of grant for such options granted pursuant to this subparagraph 6(a)(ii). The number of Common Shares covered by each such option shall be 15,000 (7,500 on or after the 1992 Annual Meeting of Stockholders) multiplied by a fraction, the numerator of which shall be 12 minus the number of whole 30-day months that have elapsed from the date of the most recent Annual Meeting of Stockholders to the [Date of Election of such] DATE SUCH PERSON IS ELECTED TO BE AN Outside Director, and the denominator of which shall be 12;

(iii) EACH PERSON WHO IS ELECTED TO BE AN OUTSIDE DIRECTOR AT ANY TIME ON OR AFTER THE DATE OF THE 1996 ANNUAL MEETING OF STOCKHOLDERS AND WHO WAS NOT AT ANY TIME PREVIOUSLY A DIRECTOR OF THE COMPANY SHALL BE GRANTED A NONSTATUTORY STOCK OPTION. THE DATE SUCH PERSON IS ELECTED TO BE AN OUTSIDE DIRECTOR OF THE COMPANY SHALL BE THE DATE OF GRANT FOR SUCH OPTIONS GRANTED PURSUANT TO THIS SUBPARAGRAPH 6(a)(iii). THE NUMBER OF COMMON SHARES COVERED BY EACH SUCH OPTION SHALL BE 5,000;

(iv) EACH PERSON WHO IS AN OUTSIDE DIRECTOR AT THE CONCLUSION OF THE 1996 ANNUAL MEETING OF STOCKHOLDERS AND AT THE CONCLUSION OF EACH ANNUAL MEETING OF STOCKHOLDERS THEREAFTER SHALL BE GRANTED A NONSTATUTORY STOCK OPTION ON THE DATE OF SUCH ANNUAL MEETING OF STOCKHOLDERS. THE DATE OF SUCH ANNUAL MEETING OF STOCKHOLDERS SHALL ALSO BE THE DATE OF GRANT FOR OPTIONS GRANTED PURSUANT TO THIS SUBPARAGRAPH 6(a)(iv). THE NUMBER OF COMMON SHARES COVERED BY EACH SUCH OPTION SHALL BE 1,500;

(v) EACH PERSON WHO IS ELECTED TO BE AN OUTSIDE DIRECTOR BETWEEN ANNUAL MEETINGS OF STOCKHOLDERS AND AFTER THE DATE OF THE 1996 ANNUAL MEETING OF STOCKHOLDERS SHALL BE GRANTED A NONSTATUTORY STOCK OPTION. THE DATE SUCH PERSON IS ELECTED TO BE AN OUTSIDE DIRECTOR OF THE COMPANY BY THE BOARD SHALL BE THE DATE OF GRANT FOR SUCH OPTIONS GRANTED PURSUANT TO THIS SUBPARAGRAPH 6(a)(v). THE NUMBER OF COMMON SHARES COVERED BY EACH SUCH OPTION SHALL BE 1,500 MULTIPLIED BY A FRACTION, THE NUMERATOR OF WHICH SHALL BE 12 MINUS THE NUMBER OF WHOLE 30-DAY MONTHS THAT HAVE ELAPSED FROM THE DATE OF THE MOST RECENT ANNUAL MEETING OF STOCKHOLDERS TO THE DATE SUCH PERSON IS ELECTED TO BE AN OUTSIDE DIRECTOR, AND THE DENOMINATOR OF WHICH SHALL BE 12;

(vi) EACH PERSON WHO IS AN OUTSIDE DIRECTOR AT THE CONCLUSION OF THE 1996 ANNUAL MEETING OF STOCKHOLDERS AND EACH ANNUAL MEETING OF STOCKHOLDERS THEREAFTER MAY ELECT IN WRITING TO BE GRANTED A

NONSTATUTORY STOCK OPTION ON THE DATE OF SUCH ANNUAL MEETING OF STOCKHOLDERS IN LIEU OF ALL CASH COMPENSATION TO WHICH SUCH OUTSIDE DIRECTOR WOULD BE ENTITLED FOR THE BOARD YEAR OF THE COMPANY COMMENCING WITH SUCH ANNUAL MEETING OF STOCKHOLDERS. THE DATE OF SUCH ANNUAL MEETING OF STOCKHOLDERS SHALL ALSO BE THE DATE OF GRANT FOR OPTIONS GRANTED PURSUANT TO THIS SUBPARAGRAPH 6(a)(vi). THE NUMBER OF COMMON SHARES COVERED BY EACH SUCH OPTION SHALL BE 6,000. ANY SUCH ELECTION BY AN OUTSIDE DIRECTOR SHALL BE IRREVOCABLE AND MUST BE RECEIVED BY THE COMPANY AT LEAST SIX MONTHS PRIOR TO THE DATE IT IS TO BECOME EFFECTIVE, OR SUCH SHORTER PERIOD PRIOR TO THE DATE IT IS TO BECOME EFFECTIVE AS THE COMMITTEE MAY PERMIT; AND

(vii) EACH PERSON WHO IS ELECTED TO BE AN OUTSIDE DIRECTOR BETWEEN ANNUAL MEETINGS OF STOCKHOLDERS AND AFTER THE DATE OF THE 1996 ANNUAL MEETING OF STOCKHOLDERS MAY ELECT IN WRITING TO BE GRANTED A NONSTATUTORY STOCK OPTION IN LIEU OF ALL CASH COMPENSATION TO WHICH SUCH OUTSIDE DIRECTOR WOULD OTHERWISE BE ENTITLED FOR THE PERIOD COMMENCING WITH THE DATE SUCH PERSON IS ELECTED TO BE AN OUTSIDE DIRECTOR OF THE COMPANY BY THE BOARD AND ENDING ON THE DATE OF THE NEXT ANNUAL MEETING OF STOCKHOLDERS. THE DATE SUCH PERSON IS ELECTED TO BE AN OUTSIDE DIRECTOR OF THE COMPANY BY THE BOARD SHALL BE THE DATE OF GRANT FOR SUCH OPTIONS GRANTED PURSUANT TO THIS SUBPARAGRAPH 6(a)(vii). THE NUMBER OF COMMON SHARES COVERED BY EACH SUCH OPTION SHALL BE 6,000 MULTIPLIED BY A FRACTION, THE NUMERATOR OF WHICH SHALL BE 12 MINUS THE NUMBER OF WHOLE 30-DAY MONTHS THAT HAVE ELAPSED FROM THE DATE OF THE MOST RECENT ANNUAL MEETING OF STOCKHOLDERS TO THE DATE SUCH PERSON IS ELECTED TO BE AN OUTSIDE DIRECTOR, AND THE DENOMINATOR OF WHICH SHALL BE 12. SUCH ELECTION BY AN OUTSIDE DIRECTOR SHALL BE IRREVOCABLE AND MUST BE RECEIVED BY THE COMPANY AT LEAST SIX MONTHS PRIOR TO THE DATE IT IS TO BECOME EFFECTIVE, OR SUCH SHORTER PERIOD PRIOR TO THE DATE IT IS TO BECOME EFFECTIVE AS THE COMMITTEE MAY PERMIT.

(b) The purchase price of each Common Share subject to an option granted to an Outside Director pursuant to this paragraph 6 shall be the Fair Market Value of a Common Share on the date of grant.

(c)(i) Subject to the provisions of paragraphs 6(e) and 6(f) hereof, the options granted to Outside Directors pursuant to subparagraph 6(a)(i) shall vest and become exercisable in accordance with the following schedule:

ANNUAL MEETING OF STOCKHOLDERS	CUMULATIVE PERCENTAGE BECOMING EXERCISABLE
One Year After Grant.....	20%
Two Years After Grant.....	40%
Three Years After Grant.....	60%
Four Years After Grant.....	80%
Five Years After Grant.....	100%

(ii) Subject to the provisions of paragraph 6(e) hereof, the options granted to Outside Directors pursuant to subparagraph 6(a)(ii) shall vest and become exercisable in accordance with the following schedule:

ANNIVERSARY OF THE DATE OF GRANT	CUMULATIVE PERCENTAGE BECOMING EXERCISABLE
One Year After Grant	20%
Two Years After Grant	40%
Three Years After Grant	60%
Four Years After Grant	80%
Five Years After Grant	100%

(iii) SUBJECT TO THE PROVISIONS OF PARAGRAPHS 6(e) AND 6(f) HEREOF, (x) OPTIONS GRANTED TO OUTSIDE DIRECTORS PURSUANT TO SUBPARAGRAPH 6(a)(iv) AND (vi) AND (y) OPTIONS GRANTED TO OUTSIDE DIRECTORS PURSUANT TO SUBPARAGRAPH 6(a)(iii) IF THE DATE OF GRANT OF SUCH OPTIONS IS THE DATE OF AN ANNUAL MEETING OF STOCKHOLDERS SHALL VEST AND BECOME EXERCISABLE IN ACCORDANCE WITH THE FOLLOWING SCHEDULE:

ANNUAL MEETING OF STOCKHOLDERS	CUMULATIVE PERCENTAGE BECOMING EXERCISABLE
ONE YEAR AFTER GRANT	50%
TWO YEARS AFTER GRANT	100%

(iv) SUBJECT TO THE PROVISIONS OF PARAGRAPH 6(e) AND 6(f) HEREOF, (x) THE OPTIONS GRANTED TO OUTSIDE DIRECTORS PURSUANT TO SUBPARAGRAPHS 6(a)(v) AND (vii) AND (y) OPTIONS GRANTED TO OUTSIDE DIRECTORS PURSUANT TO SUBPARAGRAPH 6(a)(iii) IF THE DATE OF GRANT OF SUCH OPTIONS IS A DATE OTHER THAN THE DATE OF AN ANNUAL MEETING OF STOCKHOLDERS SHALL VEST AND BECOME EXERCISABLE IN ACCORDANCE WITH THE FOLLOWING SCHEDULE:

ANNIVERSARY OF THE DATE OF GRANT	CUMULATIVE PERCENTAGE BECOMING EXERCISABLE
ONE YEAR AFTER GRANT	50%
TWO YEARS AFTER GRANT	100%

(d) Notwithstanding the terms of paragraphs 6(a), 6(b) and 6(c) hereof, options shall be granted to Willis K. Drake ("Drake") and to Richard E. Eichhorn ("Eichhorn"), on the effective date of the merger (the "Merger") of Digiboard, Inc., a Minnesota corporation, with and into the Company, to purchase (i) 15,000 Common Shares at a purchase price of \$.50 per share, in substitution for options previously granted to Drake and Eichhorn on October 1, 1987 (the "1987 Options"), which 1987 Options shall vest and become exercisable in accordance with the following schedule:

DATE	CUMULATIVE PERCENTAGE BECOMING EXERCISABLE
Effective Date of this Plan	20%
October 1, 1989	40%
October 1, 1990	60%
October 1, 1991	80%
October 1, 1992	100%

and (ii) 15,000 Common Shares at a purchase price of \$.50 per share, in substitution for options previously granted to Drake and Eichhorn on October 1, 1988 (the "1988 Options"), which 1988 Options shall vest and become exercisable in accordance with the following schedule:

DATE	CUMULATIVE PERCENTAGE BECOMING EXERCISABLE
October 1, 1989.....	20%
October 1, 1990.....	40%
October 1, 1991.....	60%
October 1, 1992.....	80%
October 1, 1993.....	100%

(e) Notwithstanding the vesting schedules set forth in paragraphs 6(c) and 6(d) hereof, an option held by an Outside Director shall vest and become immediately exercisable upon the latest of (i) the date on which such Outside Director attains 62 years of age, (ii) the date on which such Outside Director has completed five years of Service (as hereinafter defined) and (iii) the first anniversary of the date of grant of such option or, if applicable, the Annual Meeting of Stockholders next succeeding the Annual Meeting at which such option was granted. Any option granted to an Outside Director on or after the first accelerated vesting date for such Outside Director shall automatically vest on the Annual Meeting of Stockholders next succeeding the Annual Meeting at which such option was granted. As used herein, "Service" shall mean service to the Company or any subsidiary thereof in the capacity of any advisor, consultant, employee, officer or director, and Service as a director from an Annual Meeting of Stockholders to the next succeeding Annual Meeting shall constitute a year of Service, notwithstanding that such period may actually be more or less than one year.

(f) Each option granted to an Outside Director pursuant to this paragraph 6 and all rights to purchase shares thereunder shall terminate on the earliest of:

- (i) ten years after the date such option is granted; provided, however, that the 1987 Options shall terminate on September 30, 1997, and the 1988 Options shall terminate on September 30, 1998;
- (ii) the expiration of the period specified in paragraph 8(b) or 8(c), whichever is applicable, after an Outside Director ceases to be a director of the Company; or
- (iii) the date, if any, fixed for cancellation pursuant to paragraph 9 of this Plan.

In no event shall such option be exercisable at any time after its original expiration date. When an option is no longer exercisable, it shall be deemed to have lapsed or terminated and will no longer be outstanding.

7. MANNER OF EXERCISING OPTIONS. A person entitled to exercise an option granted under this Plan may, subject to its terms and conditions and the terms and conditions of this Plan, exercise it in whole at any time, or in part from time to time, by delivery to the Company at its principal executive office, to the attention of its President, of written notice of exercise, specifying the number of shares with respect to which the option is being exercised, accompanied by payment in full of the purchase price of the shares to be purchased at the time. The purchase price of each share on the exercise of any option shall be paid in full in cash (including check, bank draft or money order) at the time of exercise or, at the discretion of the holder of the option, by delivery to the Company of unencumbered Common Shares having an aggregate Fair Market Value on the date of exercise equal to the purchase price, or

by a combination of cash and such unencumbered Common Shares. No shares shall be issued until full payment therefor has been made, and the granting of an option to an individual shall give such individual no rights as a stockholder except as to shares issued to such individual.

8. TRANSFERABILITY AND TERMINATION OF OPTIONS.

(a) During the lifetime of an optionee, only such optionee or his or her guardian or legal representative may exercise options granted under this Plan. No option granted under this Plan shall be assignable or transferable by the optionee otherwise than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined in the Code or Title I of the Employee Retirement Income Security Act ("ERISA"), or the rules thereunder.

(b) During the lifetime of an optionee, an option may be exercised only while the optionee is an employee of the Company or of a parent or subsidiary thereof, and only if such optionee has been continuously so employed since the date the option was granted, except that:

(i) an option granted to an individual who is not an Outside Director shall continue to be exercisable for three months after termination of such individual's employment but only to the extent that the option was exercisable immediately prior to such individual's termination of employment, and an option granted to an individual who is an Outside Director shall continue to be exercisable after such Outside Director ceases to be a director of the Company but only to the extent that the option was exercisable immediately prior to such Outside Director's ceasing to be a director;

(ii) in the case of an employee who is disabled (within the meaning of Section 22(e)(3) of the Code) while employed, such individual or his or her legal representative may exercise the option within one year after termination of such individual's employment; and

(iii) as to any individual whose termination occurs following a declaration pursuant to paragraph 9 of this Plan, such individual may exercise the option at any time permitted by such declaration.

(c) An option may be exercised after the death of the optionee by such individual's legal representatives, heirs or legatees, but only within one year after the death of such optionee.

(d) In the event of the disability (within the meaning of Section 22(e)(3) of the Code) or death of an optionee, any option held by such individual or his or her legal representative that was not previously exercisable shall become immediately exercisable in full if the disabled or deceased individual shall have been continuously employed by the Company or a parent or subsidiary thereof between the date such option was granted and the date of such disability, or, in the event of death, a date not more than three months prior to such death.

9. DISSOLUTION, LIQUIDATION, MERGER. In the event of (a) a proposed merger or consolidation of the Company with or into any other corporation, regardless of whether the Company is the surviving corporation, unless appropriate provision shall have been made for the protection of the outstanding options granted under this Plan by the substitution, in lieu of such options, of options to purchase appropriate voting common stock (the "Survivor's Stock") of the corporation surviving any such merger or consolidation or, if appropriate, the parent corporation of the Company or such surviving corporation, or, alternatively, by the delivery of a number of shares of the Survivor's Stock which has a Fair Market Value as of the effective date of such merger or consolidation equal to the product of (i) the

excess of (x) the Event Proceeds per Common Share (as hereinafter defined) covered by the option as of such effective date, over (y) the option price per Common Share, times (ii) the number of Common Shares covered by such option, or (b) the proposed dissolution or liquidation of the Company (such merger, consolidation, dissolution or liquidation being herein called an "Event"), the Committee shall declare, at least ten days prior to the actual effective date of an Event, and provide written notice to each optionee of the declaration, that each outstanding option, whether or not then exercisable, shall be cancelled at the time of, or immediately prior to the occurrence of, the Event (unless it shall have been exercised prior to the occurrence of the Event) in exchange for payment to each optionee, within ten days after the Event, of cash equal to the amount (if any), for each Common Share covered by the cancelled option, by which the Event Proceeds per Common Share (as hereinafter defined) exceeds the exercise price per Common Share covered by such option. At the time of the declaration provided for in the immediately preceding sentence, each option shall immediately become exercisable in full and each optionee shall have the right, during the period preceding the time of cancellation of the option, to exercise his or her option as to all or any part of the Common Shares covered thereby. Each outstanding option granted pursuant to this Plan that shall not have been exercised prior to the Event shall be cancelled at the time of, or immediately prior to, the Event, as provided in the declaration, and this Plan shall terminate at the time of such cancellation, subject to the payment obligations of the Company provided in this paragraph 9. For purposes of this paragraph, "Event Proceeds per Common Share" shall mean the cash plus the fair market value, as determined in good faith by the Committee, of the non-cash consideration to be received per Common Share by the stockholders of the Company upon the occurrence of the Event.

10. **SUBSTITUTION OPTIONS.** Options may be granted under this Plan from time to time in substitution for stock options held by employees of other corporations who are about to become employees of the Company or a subsidiary of the Company, or whose employer is about to become a subsidiary of the Company, as the result of a merger or consolidation of the Company or a subsidiary of the Company with another corporation, the acquisition by the Company or a subsidiary of the Company of all or substantially all the assets of another corporation or the acquisition by the Company or a subsidiary of the Company of at least 50% of the issued and outstanding stock of another corporation. The terms and conditions of the substitute options so granted may vary from the terms and conditions set forth in this Plan to such extent as the Board at the time of the grant may deem appropriate to conform, in whole or in part, to the provisions of the stock options in substitution for which they are granted, but with respect to stock options which are incentive stock options, no such variation shall be permitted which affects the status of any such substitute option as an incentive stock option under Section 422A of the Code.

11. **TAX WITHHOLDING.** Delivery of Common Shares upon exercise of any nonstatutory stock option granted under this Plan shall be subject to any required withholding taxes. A person exercising such an option may, as a condition precedent to receiving the Common Shares, be required to pay the Company a cash amount equal to the amount of any required withholdings. In lieu of all or any part of such a cash payment, the Committee may, but shall not be required to, permit the individual to elect to cover all or any part of the required withholdings, and to cover any additional withholdings up to the amount needed to cover the individual's full FICA and federal, state and local income tax liability with respect to income arising from the exercise of the option, through a reduction of the number of Common Shares delivered to the person exercising the option or through a subsequent return to the

Company of shares delivered to the person exercising the option; provided, however, that the Committee is required to permit an Outside Director to make such an election. Except as set forth in paragraph 11(c) below, any such election by an individual who is subject to the reporting requirements of Section 16 of the Act (a "Section 16 Individual"), also is subject to the following:

(a) Any such election by a Section 16 Individual may be made only during certain specified time periods, as follows:

(i) the election may be made during the period beginning on the third business day following the date of public release of the Company's quarterly or annual financial statements and ending on the twelfth business day following such date of public release; or

(ii) the election may be made at least six months prior to the date as of which the amount of tax to be withheld is determined;

provided, however, an election by such a person pursuant to clause (i) or (ii) may not be made within six months of the date of grant of the option being exercised unless death or disability of the individual to whom the option was granted occurs during said six-month period; and

(b) The Committee's approval of such an election by a Section 16 Individual, if given, may be granted in advance, but is subject to revocation by the Committee at any time; provided, however, that such an election by a Section 16 Individual who is an Outside Director is not subject to approval nor to revocation by the Committee. Once such an election is made by a Section 16 Individual, he or she may not revoke it.

(c) Notwithstanding the foregoing, a Section 16 Individual who tenders previously owned shares to the Company in payment of the purchase price of shares in connection with an option exercise may also tender previously owned shares to the Company in satisfaction of any tax withholding obligations in connection with such option exercise without regard to the specified time periods set forth in paragraph 11(a) above.

12. **TERMINATION OF EMPLOYMENT.** Neither the transfer of employment of an individual to whom an option is granted between any combination of the Company, a parent corporation or a subsidiary thereof, nor a leave of absence granted to such individual and approved by the Committee, shall be deemed a termination of employment for purposes of this Plan. The terms "parent" or "parent corporation" and "subsidiary" as used in this Plan shall have the meaning ascribed to "parent corporation" and "subsidiary corporation", respectively, in Sections 424(e) and (f) of the Code.

13. **OTHER TERMS AND CONDITIONS.** The Committee shall have the power, subject to the terms and conditions of paragraph 6 hereof and subject to the other limitations contained herein, to fix any other terms and conditions for the grant or exercise of any option under this Plan. Nothing contained in this Plan, or in any option granted pursuant to this Plan, shall confer upon any employee holding an option any right to continued employment by the Company or any parent or subsidiary of the Company or limit in any way the right of the Company or any such parent or subsidiary to terminate an employee's employment at any time.

14. **OPTION AGREEMENTS.** All options granted under this Plan shall be evidenced by a written agreement in such form or forms as the Committee may from time to time determine, which agreement shall, among other things, designate whether the options being granted thereunder are nonstatutory stock options or incentive stock options under Section 422 of the Code.

15. AMENDMENT AND DISCONTINUANCE OF PLAN. The Board may at any time amend, suspend or discontinue this Plan; provided, however, that the Board shall not amend paragraph 6 hereof more than once every six months, other than to comport with changes in the Code, ERISA, or the rules thereunder; and provided, further, that no amendment by the Board shall, without further approval of the stockholders of the Company, if required in order for the Plan to continue to satisfy the conditions of Rule 16b-3 promulgated under the Act, or any successor statute or regulation comprehending the same subject matter or to meet the requirements of the Code:

(a) change the class of employees eligible to receive options;

(b) except as provided in paragraph 3 hereof, increase the total number of Common Shares of the Company which may be made subject to options granted under this Plan;

(c) except as provided in paragraph 3 hereof, change the minimum purchase price for the exercise of an option;

(d) increase the maximum period during which options may be exercised or otherwise materially increase the benefits accruing to participants under this Plan;

(e) extend the term of this Plan beyond November 29, 2004; or

(f) change the terms, conditions or eligibility requirements of an option granted or, subject to the right of the Board to discontinue this Plan, to be granted to each Outside Director under this Plan.

No amendment to this Plan shall, without the consent of the holder of the option, alter or impair any options previously granted under this Plan.

16. EFFECTIVE DATE. This Plan shall be effective upon the Merger.

EXHIBIT 10(d)

RESTATED AND AMENDED NOTE PURCHASE AGREEMENT
BETWEEN THE COMPANY AND
AETHERWORKS CORPORATION
DATED JUNE 19, 1996

AETHERWORKS CORPORATION

RESTATED AND AMENDED
NOTE PURCHASE AGREEMENT

THIS RESTATED AND AMENDED AGREEMENT is made and entered into as of June 19, 1996, by and between AetherWorks Corporation, a Minnesota corporation (the "Company"), and Digi International Inc., a Delaware corporation ("Digi"), sometimes referred to individually as a "Party" and collectively as the "Parties."

R E C I T A L S

As of October 10, 1995, the Company and Digi executed a Note Purchase Agreement (the "1995 Note Purchase Agreement"), pursuant to which Digi purchased, and the Company issued, a convertible secured promissory note, dated October 10, 1995, in the original principal amount of \$3,353,235 (the "1995 Convertible Note"). Digi also committed in the 1995 Note Purchase Agreement to purchase an additional convertible secured promissory note in the original principal amount of \$1,433,290.

Digi has held two seats on the Company's Board of Directors (the "Board of Directors" or the "Board") since October 10, 1995, and has participated in the decisions of the Board, including the election of the fifth member of the Board, the appointment of senior management of the Company, and Board-level decisions regarding the development of the ARMs and Jeeves, and the decision to acquire and develop V.Mach Technology (as hereinafter defined), which was not contemplated at the time of execution of the 1995 Note Purchase Agreement.

Digi has expressed interest in purchasing, and the Company desires to have Digi purchase, in part for the development and commercial exploitation of V.Mach Technology, convertible promissory notes of the Company, in the aggregate principal amount of \$9,000,000, in addition to one for \$1,433,290 originally to be issued pursuant to the 1995 Note Purchase Agreement and the 1995 Convertible Note previously issued pursuant to the 1995 Note Purchase Agreement.

In light of the mutual commercial opportunity presented by the V.Mach Technology, in recognition of the greater familiarity and closer relationship of the Parties and in order to provide for the additional development contemplated by the Parties, the Parties desire to amend and restate in its entirety the 1995 Note Purchase Agreement, most particularly to eliminate milestones set forth in the 1995 Note Purchase Agreement and the rights and obligations of the Parties in connection with such milestones, and to delineate the Parties' respective rights and obligations with respect to the V.Mach Technology.

A G R E E M E N T

NOW, THEREFORE, in consideration of the foregoing premises and the Parties' respective rights and obligations set forth in this Agreement, the Company and Digi hereby agree as follows:

1. AMENDMENT TO 1995 NOTE PURCHASE AGREEMENT AND COROLLARY DOCUMENTS. The 1995 Note Purchase Agreement shall be, and hereby is, amended and restated in its entirety by this Agreement. The 1995 Convertible Note shall be restated and amended in the form attached to this Agreement as Exhibit 1 upon execution of such form (and, as restated and amended, shall for purposes of this Agreement hereinafter be referred to as the "Amended 1995 Note"). Each of the Security Agreement, Manufacturing Agreement and Shareholder Voting Agreement issued pursuant to the 1995 Note Purchase Agreement shall

be amended and restated in its entirety in the forms attached to this Agreement as Exhibits 3, 4 and 5, respectively, upon execution of such forms (and, as restated and amended in their entirety, shall, for purposes of this Agreement, hereinafter be referred to as the "Security Agreement," "Manufacturing Agreement" and "Shareholder Voting Agreement," respectively). Each of this Agreement, the Amended 1995 Note, the Notes to be issued under this Agreement, the Security Agreement, the Manufacturing Agreement, the Technology Transfer Agreement and the Shareholder Voting Agreement may be referred to individually a "Transaction Document" and collectively, as the "Transaction Documents". The Parties expressly intend that the representations, warranties and agreements of the Principal Shareholder (Jonathan A. Henriksen Sachs, Ph.D.) set forth in the Note Purchase Agreement dated October 9, 1995 shall expire upon execution of this Agreement.

2. SALE AND PURCHASE OF CONVERTIBLE NOTES. Subject to the terms and conditions hereof, the Company agrees to issue and to sell to Digi, and Digi agrees to purchase from the Company, the convertible notes described in this Section 2 (each a "Note" and together, the "Notes"). The term "Notes" as used herein shall mean the (a) convertible notes issued pursuant to this Agreement, (b) where such term is used to refer to an issued Note, the Amended 1995 Note and (c) all notes of the Company issued in exchange or substitution for the foregoing.

2.1 PRINCIPAL AMOUNT OF NOTES AND TIMING OF PURCHASES. The Notes to be purchased by Digi subsequent to the date of this Agreement shall be in the amounts set forth below and shall, subject to satisfaction of the conditions set forth in Section 3 and elsewhere in this Agreement, be purchased according to the following schedule:

(a) Upon the execution of this Agreement, a Note of the Company, dated June 19, 1996, in the principal amount of \$1,433,290; and

(b) Within ten business days of the Company's written request, in one or more additional Notes as and when requested by the Company, whose principal amounts shall be in lawful money of the United States and in integral increments of \$1,000,000, provided that the aggregate principal amount of such Notes to the exclusion of the 1995 Convertible Note and the Note in 2.1(a) above, shall not exceed \$9,000,000.

2.2 TERMS OF EACH NOTE. Each Note shall be in substantially the form set forth in Exhibit 2 to this Agreement (the "Form of Note"). The Notes shall be convertible into shares of the Company's Common Stock, par value \$.01 per share (the "Common Stock"), in accordance with the terms set forth in the Form of Note, provided that conversion of any of the Notes issued pursuant to this Agreement shall not release Digi from its obligation to purchase additional Notes pursuant to this Section 2. The shares of Common Stock into which the Notes are convertible and all shares of Common Stock of the Company issued in exchange or substitution therefor are hereinafter sometimes referred to as the "Conversion Stock." Each Note shall be secured by a lien on those assets identified in, and in accordance with the terms of the Security Agreement. Each Note shall be due and payable on December 31, 1998. Interest on each Note shall accrue at the rate set forth in the Form of Note and shall be due and payable on the earlier of December 31, 1998 or from the proceeds of the Company's Initial Public Offering (as defined below) as provided in the Form of Note. AetherWorks shall have the option, upon written notice sixty (60) days prior to such date as interest becomes due and payable, to convert interest accrued on the Notes into either (a) Common Stock of the Company at the same rate and upon the same terms as the principal amount of the Notes issued on a Subsequent Closing as that term is defined in Section 3 or issued according to Section 2.1(b), or (b) principal evidenced by a new note bearing interest at the same rate, with principal and interest payable on mutually acceptable terms.

For all purposes under this Agreement, the term "Initial Public Offering" shall mean the

closing of the first public offering of the Company of shares of Common Stock of the Company registered under the Securities Act in which (1) the aggregate public offering price of the securities sold for cash by the Company in the offering is at least \$20,000,000, and (2) the offering is underwritten on a firm commitment basis by an underwriter, or a group of underwriters presented by an underwriter or underwriters, which is a member of the New York Stock Exchange. For this purpose, the term "closing" shall mean the delivery by the Company to the underwriters of certificates representing the shares of Common Stock offered to the public against delivery to the Company by the underwriters of payment therefor, and the term "firm commitment basis" with respect to the underwriting of such public offering shall mean a commitment pursuant to a written underwriting agreement under which the nature of the underwriters' commitment is such that all securities will be purchased by such underwriters if any securities are purchased by such underwriters.

3. CLOSING. The closing of the sale to, and purchase by Digi, of the Notes to be purchased pursuant to Section 2.1(a) of this Agreement (the "Initial Closing") shall occur at the offices of Digi International at 1:00 p.m. on June 19, 1996, or on such other day or at such other time or place as Digi and the Company shall agree upon (the "Initial Closing Date"). The closing of the sale of each Note to be purchased pursuant to the provisions of Section 2.1(b) subsequently by Digi (each a "Subsequent Closing") shall occur within ten business days of the Company's request therefor at such time and place as Digi and the Company shall agree upon (each a "Subsequent Closing Date"). The term "Closing" as used herein shall mean, as applicable, the Initial Closing or any Subsequent Closing. The term "Closing Date" as used herein shall mean, as applicable, the Initial Closing Date or any Subsequent Closing Date. At the Initial Closing, the Company will deliver to Digi the Note to be purchased at such closing in the original principal amount of \$1,433,290, dated June 19, 1996, and Digi shall deliver Digi's certified or bank cashier's check drawn on Norwest Bank Minnesota, National Association, in the principal amount of \$1,433,290. At each Subsequent Closing, the Company will deliver to Digi the Note to be purchased by Digi at such Closing against delivery to the Company of Digi's certified or bank cashier's check drawn on Norwest Bank Minnesota, National Association, in the principal amount of such Note, in payment of the total purchase price of such Note.

4. CONDITIONS TO THE PURCHASE OF EACH NOTE. The obligation to purchase and pay for each Note which Digi has agreed to purchase on the Initial Closing Date is subject to the fulfillment prior to or on such Initial Closing Date of the conditions set forth in Section 4.1 through 4.11, inclusive. The obligation to purchase and pay for each Note which Digi has agreed to purchase on a Subsequent Closing Date is subject to the fulfillment prior to or on such Subsequent Closing Date of the conditions set forth in Sections 4.1 through 4.4, inclusive, and Sections 4.6 and 4.11.

4.1 NO ERRORS, ETC. The representations and warranties of Section 6 of this Agreement shall be true in all material respects as of each Closing Date.

4.2 COMPLIANCE WITH AGREEMENT. The Company shall have performed and complied with all material agreements or conditions required by this Agreement to be performed and complied with by it prior to or as of each Closing Date, the nonperformance or noncompliance with which would have a material adverse effect on the operation of the Company's business.

4.3 NO EVENT OF DEFAULT. There shall exist at the time of each Closing, no condition or event which would constitute an Event of Default of the Company (as defined in Section 11) or which, after notice or lapse of time or both, would constitute an Event of Default of the Company.

4.4 CERTIFICATE OF OFFICERS. The Company shall have delivered to Digi a certificate, dated the Initial Closing Date or the Subsequent Closing Date, as the case may be, executed by the Chief Executive Officer and the senior financial officer of the Company and certifying to the satisfaction of the

conditions specified in Sections 4.1, 4.2 and 4.3 hereof.

4.5 OPINION OF COUNSEL. The Company shall have delivered to Digi an opinion or opinions of Briggs and Morgan, P.A., counsel for the Company in form acceptable to counsel for Digi, dated June 20, 1996.

4.6 QUALIFICATION UNDER STATE SECURITIES LAWS. All registrations, qualifications, permits and approvals required under applicable state securities laws for the lawful execution and delivery of this Agreement and the offer, sale, issuance and delivery of the Notes and the offer of the Conversion Stock shall have been obtained.

4.7 SECURITY AGREEMENT. Digi and the Company shall have executed the Security Agreement covering all of the Company's inventory, equipment, accounts arising from licenses and other transfers of V.Mach Wireline Technology (as defined in the Technology Transfer Agreement), and general intangibles arising from such technology, in substantially the form of Exhibit 3 hereto.

4.8 MANUFACTURING AGREEMENT. Digi and the Company shall have executed the Manufacturing Agreement, in substantially the form of Exhibit 4 hereto.

4.9 SHAREHOLDER VOTING AGREEMENT. Digi, and each of William H. Costigan, Robert C. Lind, Ph.D., Jonathan A. Henrikssen Sachs, Ph.D., each a shareholder of the Company, shall have entered into the Shareholder Voting Agreement in substantially the form of Exhibit 5 hereto.

4.10 V.MACH TECHNOLOGY TRANSFER AGREEMENT. Digi and the Company shall have entered into a Technology Transfer Agreement (the "Technology Transfer Agreement") governing the technology known to the Parties as V.Mach, which agreement shall be in substantially the form of Exhibit 6 hereto.

4.11 BUSINESS PLAN. Prior to the Initial Closing Date, management of the Company shall have caused to be prepared product development schedules for each of the Company's Arm, Jeeves, and V.Mach products and services. Prior to the next Subsequent Closing Date, management of the Company shall have caused to be prepared and the Company's Board of Directors shall have approved, the business plan contemplated by Section 7.4 of this Agreement.

5. REPRESENTATIONS AND WARRANTIES BY COMPANY. Except as disclosed in the disclosure schedule attached as Schedule A (the "Disclosure Schedule"), and subject to the provisions of Section 13 hereof, the Company represents and warrants to Digi that:

5.1 ORGANIZATION, STANDING, ETC. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Minnesota, and has the requisite corporate power and authority to own its properties and to carry on its business in all material respects as it is now being conducted. The Company has the requisite corporate power and authority to issue the Notes and the Conversion Stock, and to otherwise perform its obligations under this Agreement and the Notes. The copies of the Articles of Incorporation and Bylaws of the Company delivered to Digi or their agents prior to the execution of this Agreement are true and complete copies of the duly and legally adopted Articles of Incorporation and Bylaws of the Company in effect as of the date of this Agreement. As of the date of this Agreement, the Company does not have any direct or indirect equity interest in any other firm, corporation, partnership, joint venture association or other business organization.

5.2 QUALIFICATION. To the best of its knowledge, the Company is duly qualified or licensed as a foreign corporation in good standing in each jurisdiction wherein the nature of its activities or

of its properties owned or leased makes such qualification or licensing necessary and failure to be so qualified or licensed would have a material adverse impact on its business.

5.3 FINANCIAL STATEMENTS. Attached hereto as Schedule B is an unaudited balance sheet dated April 30, 1996 (the "Balance Sheet Date"), together with the related unaudited statements of operations, shareholders' equity and cash flow for the fiscal period then ended (such financial statements hereinafter referred to as the "Financial Statements"). Such Financial Statements (i) are in accordance with the books and records of the Company, (ii) present fairly the financial condition of the Company at the Balance Sheet Date and the results of its operations for the period therein specified, and (iii) have, in all material respects, been prepared in accordance with generally accepted accounting principles applied on a basis consistent with prior accounting periods; provided, however, that the unaudited financial statements omit the footnotes required under generally accepted accounting principles, including the description of business, summary of accounting policies, notes payable, income taxes, employment agreements, stock options and warrants, proposed issuance of convertible notes, and other necessary disclosures arising from this Agreement and the Notes, and do not reflect the leases, the payments on which might be capitalized under generally accepted accounting principles. Specifically, but not by way of limitation, to the Company's best knowledge and belief, the unaudited financial statements disclose all of the debts, liabilities and obligations of any nature (whether absolute or accrued) of the Company at the Balance Sheet Date which, individually or in the aggregate, are material and which in accordance with generally accepted accounting principles would be required to be disclosed in such unaudited financial statements, and the omission of which would, in the aggregate, have a material adverse impact on the Company. The unaudited balance sheet includes appropriate reserves for all taxes incurred through such Balance Sheet date.

5.4 TAX RETURNS AND AUDITS. To the best of the Company's knowledge, all required federal, state and local tax returns or appropriate extension requests of the Company have been filed, and all federal, state and local taxes required to be paid with respect to such returns have been paid or due provision for the payment thereof has been made. To the best of the Company's knowledge, the Company is not delinquent in the payment of any such tax or in the payment of any assessment or governmental charge. The Company has not received notice of any tax deficiency proposed or assessed against it, and has not executed any waiver of any statute of limitations on the assessment or collection of any tax. None of the Company's tax returns has been audited by governmental authorities in a manner to bring such audits to the Company's attention. To the best of the Company's knowledge, the Company does not have any tax liabilities except those reflected in the Financial Statements hereto and those incurred in the ordinary course of business since the Balance Sheet Date.

5.5 CHANGES, DIVIDENDS, ETC. Except for the transactions contemplated by this Agreement or transactions disclosed to the Company's Board of Directors prior to the date of this Agreement, since the Balance Sheet Date, the Company has not: (a) incurred any debts, obligations or liabilities, absolute, accrued or contingent, except current liabilities incurred in the ordinary course of business, which (individually or in the aggregate) will not materially and adversely affect the business, properties or prospects of the Company; (b) paid any obligation or liability other than, or discharged or satisfied any liens or encumbrances other than those securing current liabilities, in each case in the ordinary course of business; (c) mortgaged, pledged or subjected to lien, charge, security interest or other encumbrance any of its assets, tangible or intangible, except in the ordinary course of business; (d) sold, transferred or leased any of its assets except in the ordinary course of business; (e) canceled or compromised any debt or claim, or waived or released any right of material value; (f) suffered any physical damage, destruction or loss (whether or not covered by insurance) materially and adversely affecting the properties, business or prospects of the Company; (g) entered into any transaction other than in the ordinary course of business; (h) encountered any labor difficulties or labor union organizing activities; (i) increased the compensation payable, or to become payable, to any of its directors or employees, or made

any bonus payment or similar arrangement with any directors or employees or increased the scope or nature of any fringe benefits provided for its employees or directors; or (j) agreed to do any of the foregoing other than pursuant hereto. Except as disclosed to the Company's Board of Directors there has been no material adverse change in the financial condition, operations, results of operations or business of the Company since the Balance Sheet Date. For all purposes under this Agreement, "disclosed to the Company's Board of Directors" shall mean discussed in a duly convened Board meeting or reflected in written actions of the Board in lieu thereof.

5.6 TITLE TO PROPERTIES AND ENCUMBRANCES. To the best of its knowledge and belief, the Company has good and marketable title to all its owned properties and assets, including without limitation the properties and assets reflected in the Financial Statements and the properties and assets used in the conduct of its business, except for property leased by or disposed of in the ordinary course of business since the Balance Sheet Date, which properties and assets are not subject to any mortgage, pledge, lease, lien, charge, security interest, encumbrance or restriction, except (a) those incurred in the ordinary course of the Company's business, (b) which are shown and described in the Financial Statements or the notes thereto, or (c) Permitted Liens (as hereinafter defined). The offices and equipment owned and leased by the Company have been kept in good condition and repair in the ordinary course of business, and the Company has not been threatened with any action or proceeding under any building or zoning ordinance, law or regulation. For the purposes of this Agreement, "Permitted Liens" shall mean (a) liens for taxes and assessments or governmental charges or levies not at the time due or in respect of which the validity thereof shall currently be contested in good faith by appropriate proceedings; (b) liens in respect of pledges or deposits under worker's compensation laws or similar legislation, carriers', warehousepersons', mechanics', laborers' and materialpersons', landlords' and statutory and similar liens, if the obligations secured by such liens are not then delinquent or are being contested in good faith; (c) liens and encumbrances incidental to the conduct of the business of the Company which were not incurred in connection with the borrowing of money or the obtaining of advances or credits and which do not in the aggregate materially detract from the value of its property or materially impair the use thereof in the operation of its business; and (d) Permitted Encumbrances (as defined in the Security Agreement).

5.7 LITIGATION; GOVERNMENTAL PROCEEDINGS. There are no legal actions, suits, arbitration or other legal, administrative or governmental proceedings or investigations pending or, to the knowledge of the Company, threatened against the Company, its properties, assets or business, and except as previously disclosed to Digi, the Company is not aware of any facts which are likely to result in or form the basis for any such action, suit or other proceeding. The Company is not in default with respect to any judgment, order or decree of any court or any governmental agency or instrumentality. The Company has not been threatened with any action or proceeding under any business or zoning ordinance, law or regulation.

5.8 COMPLIANCE WITH APPLICABLE LAWS AND OTHER INSTRUMENTS. To the best of the Company's knowledge: The business and operations of the Company have been and are being conducted in accordance with all applicable laws, rules and regulations of all governmental authorities; neither the execution nor delivery of, nor the performance of or compliance with the Transaction Documents nor the consummation of the transactions contemplated hereby or thereby will conflict with, or, with or without the giving of notice or passage of time, result in any breach of, or constitute a default under, or result in the imposition of any lien or encumbrance upon any asset or property of the Company pursuant to, any applicable law, administrative regulation or judgment, order or decree of any court or governmental body, any agreement or other instrument to which the Company is a party or by which it or any of its properties, assets or rights is bound or affected, and will not violate the Articles of Incorporation or Bylaws of the Company; the Company is not in violation of its Articles of Incorporation or its Bylaws nor in violation of, or in default under, any lien, indenture, mortgage, lease, agreement, instrument, commitment or arrangement in any material respect other than as otherwise disclosed herein.

5.9 CONVERSION STOCK. The Conversion Stock has been reserved for issuance, and when issued upon conversion will be duly authorized, validly issued and outstanding, fully paid, nonassessable and free and clear of all pledges, liens, encumbrances and restrictions. The certificates representing the Conversion Stock to be delivered upon the conversion of the Notes will be genuine, and the Company has no knowledge of any fact which would impair the validity thereof.

5.10 SECURITIES LAWS. Based in part upon the representations and warranties contained in Section 6 hereof and the advice of the Company's counsel, no consent, authorization, approval, permit or order of or filing with any governmental or regulatory authority is required under current laws and regulations in connection with the execution and delivery of the Transaction Documents or the offer, issuance, sale or delivery of the Notes or the offer of the Conversion Stock other than the qualification thereof, if required, under applicable state securities laws, which qualification has been or will be effected as a condition of these sales. The Company has not, directly or through an agent, offered the Notes or the Conversion Stock, or any similar securities for sale to, or solicited any offers to acquire such securities from, persons other than Digi. Based on the advice of the Company's counsel, under the circumstances contemplated hereby, the offer, issuance, sale and delivery of the Notes and the offer of the Conversion Stock will not under current laws and regulations require compliance with the prospectus delivery or registration requirements of the Securities Act.

5.11 PATENTS AND OTHER INTANGIBLE RIGHTS. To the best of the Company's knowledge, the Company (a) owns or has the right to use, free and clear of all material liens, claims and restrictions, except in favor of Digi, all patents, trademarks, service marks, trade names, copyrights, licenses and rights with respect to the foregoing, used in the conduct of its business as now conducted or proposed to be conducted, (b) is not obligated or under any liability requiring but not having received the approval of the Company's Board of Directors to make any payments of a material nature by way of royalties, fees or otherwise to any owner of, licensor of, or other claimant to, any patent, trademark, trade name, copyright or other intangible asset, with respect to the use thereof or in connection with the current conduct of its business or otherwise, (c) owns or has sufficient rights to use all trade secrets, including know-how, inventions, designs, processes, computer programs and technical data necessary to the development, operation and sale of all products and services sold or proposed to be sold by it and (d) the Company is not, to the best of its knowledge, nor has it received notice with respect to, infringing upon or otherwise acting adversely to any known right or claimed right of any person under or with respect to any patents, trademarks, service marks, trade names, copyrights, licenses or rights with respect to the foregoing.

5.12 CAPITAL STOCK. The authorized capital stock of the Company consists of 10,000,000 common shares, of which 1,126,700 shares are issued and outstanding; all of these shares were duly authorized, validly issued and are fully paid and nonassessable. In addition, there are outstanding warrants to purchase 39,166 common shares, additional options and warrants may be issued to purchase up to 10,000 common shares pursuant to a Private Placement Memorandum previously authorized by the Company's Board of Directors, and options have been and will be granted to one of the members of the Company's Board of Directors. Other than the foregoing and the Amended 1995 Note, there are no outstanding subscriptions, options, warrants, calls, contracts, demands, commitments, or other securities which are at any time directly or indirectly convertible or exchangeable for shares of common stock of the Company (collectively, "Convertible Securities") or other agreements or arrangements of any character or nature whatever, except as otherwise disclosed in the Disclosure Schedule or as contemplated by this Agreement, under which the Company is or may be obligated to issue capital stock or other securities of any kind representing an ownership interest or contingent ownership interest in the Company. Except for the foregoing, neither the offer nor the issuance or sale of the Notes or the Conversion Stock constitutes an event, under any anti-dilution provisions of any securities issued or issuable by the Company or any agreements with respect to the issuance of securities by the Company, which will either increase the

number of shares issuable pursuant to such provisions or decrease the consideration per share to be received by the Company pursuant to such provisions. No holder of any security of the Company is entitled to any preemptive or similar rights to purchase securities from the Company except as otherwise contemplated by this Agreement, provided, however, that nothing in this Section 5.12 shall affect, alter or diminish any right granted to Digi in this Agreement. To the best of the Company's knowledge, all outstanding securities of the Company have been issued in full compliance with an exemption or exemptions from the registration and prospectus delivery requirements of the Securities Act and from the registration and qualification requirements of all applicable state securities laws.

5.13 OUTSTANDING DEBT. The Company has no indebtedness for borrowed money except as otherwise set forth in Schedule B. Except as otherwise disclosed in the Disclosure Schedules, the Company is not in default in the payment of the principal of or interest or premium on any such indebtedness for borrowed money, and no event has occurred or is continuing under the provisions of any instrument, document or agreement evidencing or relating to any such indebtedness for borrowed money which with the lapse of time or the giving of notice, or both, would constitute an event of default thereunder. As used herein, the phrase "indebtedness for borrowed money" shall include only indebtedness of the Company incurred as the result of a direct borrowing of money and shall not include any other indebtedness, including indebtedness with respect to trade accounts.

5.14 MATERIAL CONTRACTS. The Company has disclosed to its Board of Directors prior to the date of this Agreement each material contract, lease, commitment or other arrangements required to be disclosed to its Board of Directors to which it is a party or by which it is otherwise bound. Except as previously disclosed to its Board of Directors or in the Disclosure Schedules, the Company has in all material respects substantially performed all obligations required to be performed by it to date under such agreements. All of the foregoing agreements are in effect and enforceable according to their respective terms (except as the enforceability thereof may be limited by bankruptcy, insolvency, moratorium, reorganization or similar laws affecting the enforcement of creditors' rights generally, and except for judicial limitations on the enforcement of the remedy of specific performance and other equitable remedies), and there is not under any of such agreements any existing material default or event of default or event which, with notice or lapse of time or both, would constitute an event of default thereunder. All parties having material contractual arrangements with the Company are in substantial compliance therewith and none are in material default in any respect thereunder.

5.15 CORPORATE ACTS AND PROCEEDINGS. This Agreement has been duly authorized by all necessary corporate action on behalf of the Company, and has been duly executed and delivered by authorized officers of the Company. All corporate action necessary to the authorization, creation, issuance and delivery of the Notes, the Conversion Stock and the Security Agreement has been taken on the part of the Company, or will be taken by the Company on or prior to the Closing Date. This Agreement is, and each of the Notes when issued pursuant to the terms of this Agreement will be, and the Security Agreement and the Manufacturing Agreement when executed and delivered pursuant to the terms of this Agreement will be, a valid and binding agreement of the Company enforceable in accordance with its terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, moratorium, reorganization or other similar laws affecting the enforcement of creditors' rights generally, and except for judicial limitations on the enforcement of the remedy of specific enforcement and other equitable remedies.

5.16 ACCOUNTS RECEIVABLE. To the extent that they exceed the reserves for doubtful accounts set forth in the Financial Statements, the accounts receivable of the Company which are reflected in the Financial Statements and all of its accounts receivable which have arisen since the Balance Sheet Date (except such accounts receivable as have been collected since the Balance Sheet Date) are valid and enforceable claims, and the goods and services sold and delivered which gave rise to such accounts were sold and delivered in conformity with the applicable purchase orders, agreements and specifications. Such

accounts receivable are subject to no valid defense or offsets except routine customer complaints or warranty demands of an immaterial nature. The reserve for doubtful accounts that is included in the Financial Statements is adequate.

5.17 INVENTORIES. The inventories of the Company which are reflected in the Financial Statements and all inventory items which have been acquired since the Balance Sheet Date consist of raw materials, supplies, work-in-process and finished goods of such quality and in such quantities as are currently useable or saleable in the ordinary course of its business.

5.18 INSURANCE COVERAGE. There are in full force policies of insurance issued by insurers of recognized responsibility insuring the Company, its properties and business against such losses and risks, and in such amounts, as in the Company's best judgment, after advice from its insurance broker, are acceptable for the nature and extent of its business and the Company's resources.

5.19 NO BROKERS OR FINDERS. Other than the International Business Group, which is owed \$130,299.09 pursuant to the agreement with the Company dated 24 July 1995, the fees and reimbursable expenses of which shall be the sole obligation of the Company, no person, firm or corporation has or will have, as a result of any act or omission of the Company, any right, interest or valid claim against or upon the Company or Digi for any commission, fee or other compensation as a finder or broker, or in any similar capacity, in connection with the transactions contemplated by this Agreement.

The Company will indemnify and hold Digi harmless against any and all liability with respect to any such commission, fee or other compensation which may be payable or determined to be payable as a result of the actions of the Company in connection with the transactions contemplated by this Agreement.

5.20 LICENSES. To the best of the Company's knowledge, the Company possesses from the appropriate agency, commission, board and government body and authority, whether state, local or federal, all licenses, permits, authorizations, approvals, franchises and rights which (a) are necessary for it to engage in the business currently conducted by it, and (b) if not possessed by the Company, would have an adverse impact on the Company's business. The Company has no knowledge that would lead it to believe that it will not be able to obtain all licenses, permits, authorizations, approvals, franchises and rights that may be required for any business the Company proposes to conduct.

5.21 REGISTRATION RIGHTS. Other than under this Agreement, the Company has not agreed to register any of its authorized or outstanding securities under the Securities Act.

5.22 EMPLOYEE PLANS. Each plan in which any of the Company's employees participate that is subject to any provisions of the employee Retirement Income Security act of 1974 and the regulations adopted pursuant thereto ("ERISA") is operated in accordance with applicable law, including ERISA and the Internal Revenue Code and regulations promulgated thereunder (the "Code"), and each such plan intended to be tax qualified is so qualified. Each plan which is a "group health plan" as defined in the Code has not failed to comply in any material respect with the continuation coverage requirements imposed by the Code.

5.23 ENVIRONMENTAL AND SAFETY LAWS. To the best of the Company's knowledge: The Company is not in violation of any applicable statute, law or regulation relating to the environment or occupational health and safety, and no material expenditures are or will be required in order to comply with any such existing statute, law or regulation; the operations of the Company do not involve any hazardous substances or materials including, but not limited to, hazardous substances or materials under the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund

Amendments and Reauthorization Act, the Resource Conservation and Recovery Act, the Minnesota Environmental Response and Liability Act, or any other federal, state or local statute, regulation, code or ordinance.

5.24 EMPLOYEES. To the best of the Company's knowledge: No officer of the Company or employee of the Company whose annual compensation is in excess of \$20,000 has any plans to terminate his or her employment with the Company; the Company has complied in all material respects with all laws relating to the employment of labor, including provisions relating to wages, hours, equal opportunity, collective bargaining and payment of Social Security and other taxes, and the Company has not encountered any material labor difficulties; the Company does not have any worker's compensation liabilities, except those reflected in the Financial Statements.

5.25 ABSENCE OF RESTRICTIVE AGREEMENTS. To the best of the Company's knowledge: No employee of the Company is subject to any secrecy or non-competition agreement or any agreement or restriction of any kind that would impede in any way the ability of such employee to carry out fully all activities of such employee in furtherance of the business of the Company; no employer or former employer of any employee of the Company has any claim of any kind whatsoever in respect of any of the rights described in Section 5.10 hereof.

5.26 DISCLOSURE. The Company has not knowingly withheld from Digi any material facts relating to the assets, business, operations, financial condition or prospects of the Company. No representation or warranty in this Agreement or in any certificate, schedule, written statement or other document furnished to Digi pursuant hereto or in connection with the transactions contemplated hereby contains any untrue statement of a material fact or omits to state any material fact required to be stated herein or therein or necessary to make the statements herein or therein not misleading.

6. REPRESENTATIONS AND WARRANTIES OF DIGI. Digi represents and warrants that:

6.1 INVESTMENT INTENT. The Notes being acquired and to be acquired by Digi hereunder are being purchased or will be purchased, and the Conversion Stock acquired by Digi upon conversion of such Notes will be acquired, for Digi's own account and not with the view to, or for resale in connection with, any distribution or public offering thereof within the meaning of the Securities Act. Digi understands that the Notes and the Conversion Stock have not been registered under the Securities Act or any applicable state laws by reason of their issuance or contemplated issuance in a transaction exempt from the registration and prospectus delivery requirements of the Securities Act and such laws, and that the reliance of the Company upon this exemption is predicated in part upon this representation and warranty. Digi further understands that the Notes and Conversion Stock may not be transferred or resold without (a) registration under the Securities Act and any applicable state securities laws, or (b) an exemption from the requirements of the Securities Act and applicable state securities laws.

Digi understands that an exemption from such registration is not presently available pursuant to Rule 144 promulgated under the Securities Act by the Securities and Exchange Commission (the "Commission") and that in any event Digi may not sell any securities pursuant to Rule 144 prior to the expiration of a two-year period after Digi has acquired the securities. Digi understands that any sales pursuant to Rule 144 may only be made in full compliance with the provisions of Rule 144.

6.2 LOCATION OF PRINCIPAL OFFICE AND QUALIFICATION AS ACCREDITED INVESTOR. Digi's principal office is located in Minnetonka, Minnesota. Digi qualifies as an accredited investor within the meaning of Rule 501 under the Securities Act. Digi has such knowledge and experience in financial and business matters that Digi is capable of evaluating the merits and risks of the investment to be made hereunder by Digi. Digi has and has had access to all of the Company's material books and records and

access to the Company's executive officers has been provided to Digi or to Digi's agents.

6.3 ACTS AND PROCEEDINGS. The Transaction Documents have been duly authorized by all necessary action on the part of Digi, have been duly executed and delivered by Digi, and are valid and binding agreements upon the part of Digi.

6.4 NO BROKERS OR FINDERS. No person, firm or corporation has or will have, as a result of any act or omission by Digi, any right, interest or valid claim against the Company for any commission, fee or other compensation as a finder or broker, or in any similar capacity, in connection with the transactions contemplated by this Agreement. Digi will indemnify and hold the Company harmless against any and all liability with respect to any such commission, fee or other compensation which may be payable or determined to be payable as a result of the actions of Digi in connection with the transactions contemplated by this Agreement.

7. AFFIRMATIVE COVENANTS. Subject to the provisions of Section 13 hereof, the Company covenants and agrees that:

7.1 CORPORATE EXISTENCE. The Company will maintain its corporate existence in good standing and comply with all applicable laws and regulations of the United States or of any state or states thereof or of any political subdivision thereof and of any governmental authority where failure to so comply would have a material adverse impact on the Company or its business or operations.

7.2 BOOKS OF ACCOUNT AND RESERVES. The Company will keep books of record and account in which full, true and correct entries are made of all of its and their respective dealings, business and affairs, in accordance with generally accepted accounting principles. The Company will employ certified public accountants selected by the Board of Directors of the Company who are "independent" within the meaning of the accounting regulations of the Securities and Exchange Commission ("Commission") and who are one of the so-called "Big Six" accounting firms, and have annual audits made by such independent public accountants in the course of which such accountants shall make such examinations, in accordance with generally accepted auditing standards, as will enable them to give such reports or opinions with respect to the financial statements of the Company as will satisfy the requirements of the Commission in effect at such time with respect to certificates and opinions of accountants.

7.3 FURNISHING OF FINANCIAL STATEMENTS AND INFORMATION. The Company will deliver to Digi:

(a) as soon as practicable, but in any event within 30 days after the close of each month, unaudited consolidated balance sheets of the Company as of the end of such month, together with the related consolidated statements of operations and cash flow for such month, all in reasonable detail and certified by the principal accounting officer of the Company; and

(b) as soon as practicable, but in any event within 90 days after the end of each fiscal year, a consolidated balance sheet of the Company as of the end of such fiscal year, together with the related consolidated statements of operations, shareholders' equity and cash flow for such fiscal year, all in reasonable detail and duly certified by the Company's independent public accountants, which accountants shall have given the Company an opinion, unqualified as to the scope of the audit, regarding such statements, provided that the audit may contain a qualification regarding the Company's ability to continue as a going concern or any other generally accepted qualifications for a similar ongoing concern; and

(c) concurrently with the delivery in each year of the financial statements referred

to in paragraph (b) of this Section 7.3, a statement and report signed by the independent public accountants who certified such financial statements to the effect that they have read this Agreement and that in the course of the audit upon which their certificate was based they became aware of no condition or event which constituted an Event of Default of the Company (as hereinafter defined) or which, after notice or lapse of time or both, would constitute an Event of Default of the Company or if such accountants did become aware of any such condition or event, specifying the nature and period of existence thereof.

(d) with reasonable promptness, such other financial data relating to the business, affairs and financial condition of the Company as is available to the Company and as Digi from time to time may reasonably request.

7.4 PREPARATION AND APPROVAL OF BUSINESS PLAN AND BUDGETS. On or before the next scheduled meeting of the Company's Board of Directors following execution of this Agreement, the Company shall prepare a business plan to be presented for approval by its Board of Directors at such meeting. In addition, prior to the beginning of the fiscal year ending September 30, 1996, and thereafter of each fiscal year of the Company, the Company shall prepare and submit to the Board of Directors of the Company, for its review and approval, an annual plan for such year, which shall include capital and operating expense budgets, cash flow statements and profit and loss projections itemized in such detail as the Board of Directors of the Company may reasonably request. The business and annual plans shall be modified as often as is necessary in the judgment of the Board of Directors of the Company and the Company's executive officers to reflect changes required as a result of operating results and other events that occur, or may be reasonably expected to occur, during the year covered by the annual plan.

7.5 PAYMENT OF TAXES AND MAINTENANCE OF PROPERTIES. The Company will:

(a) pay and discharge promptly, or cause to be paid and discharged promptly when due and payable, all taxes, assessments and governmental charges or levies imposed upon it or upon its income or upon any of its properties, as well as all material claims of any kind (including claims for labor, material and supplies) which, if unpaid, might by law become a lien or charge upon its property; provided, however, that the Company shall not be required to pay any such tax, assessment, charge, levy or claim if the amount, applicability or validity thereof shall currently be contested in good faith by appropriate proceedings and if the Company shall have set aside on its books reserves (segregated to the extent required by generally accepted accounting principles) deemed adequate by it with respect thereto; and

(b) maintain and keep, or cause to be maintained and kept, its properties in good repair, working order and condition, and from time to time make, or cause to be made, all repairs and renewals and replacements which in the opinion of the Company are necessary and proper so that the business carried on in connection therewith may be properly and advantageously conducted at all times; the Company will maintain or cause to be maintained back-up copies of all valuable papers and software.

7.6 INSURANCE. The Company will obtain and maintain in force such property damage, public liability, business interruption, worker's compensation, indemnity bonds and other types of insurance as the Company's executive officers, after consultation with an accredited insurance broker, shall determine to be necessary or appropriate to protect the Company from the insurable hazards or risks associated with the conduct of the Company's business. The Company's executive officers shall periodically report to the Board of Directors on the status of such insurance coverage. All insurance shall be maintained in at least such amounts and to such extent as shall be determined to be reasonable by the Board of Directors; and all such insurance shall be effected and maintained in force under a policy or

policies issued by insurers of recognized responsibility, except that the Company may effect worker's compensation or similar insurance in respect of operations in any state or other jurisdiction either through an insurance fund operated by such state or other jurisdiction or by causing to be maintained a system or systems of self-insurance which is in accord with applicable laws.

7.7 PAYMENT OF INDEBTEDNESS AND DISCHARGE OF OBLIGATIONS. The Company will pay or cause to be paid the principal of and interest and premium, if any, on all indebtedness for borrowed money heretofore or hereafter incurred or assumed by it when and as the same shall become due and payable, unless such indebtedness for borrowed money is renewed or extended, except in the case of the existing notes the holders of which will be offered the right to convert the indebtedness evidenced thereby to Common Stock pursuant to the terms of the Private Placement Memorandum previously approved by the Company's Board of Directors. The Company will faithfully observe, perform and discharge all of the material covenants, conditions and obligations which are imposed on it by any and all indentures and other agreements securing or evidencing such indebtedness for borrowed money or pursuant to which such indebtedness for borrowed money is issued, and will not permit the continuance of any act or omission which is or under the provisions thereof may be declared to be a material default thereunder, unless such default is waived pursuant to the provisions thereof. The Company shall not be required to make any payment or to take any other action by reason of this Section 7.7 at any time while it shall be currently contesting in good faith by appropriate proceedings its obligations to make such payment or to take such action provided that the Company shall have set aside on its books reserves (segregated to the extent required by generally accepted accounting principles) deemed adequate by it with respect thereto. For purposes of this Section 7.7, the phrase "indebtedness for borrowed money" shall have the meaning ascribed to it pursuant to Section 5.13 of this Agreement.

7.8 DIRECTORS' AND SHAREHOLDERS' MEETINGS. Until the earliest to occur of (i) repayment in full of the Notes if the Notes are not converted, or (ii) the date of the Company's Initial Public Offering, the Company shall have a Board of Directors the composition of which shall be determined as follows: (a) so long as it is the holder of any Notes or Conversion Stock, Digi shall be entitled to designate two fifths (2/5) of the directors of the Company and to exercise any right of removal or replacement of any such director, (b) the holders of a majority of the outstanding Common Stock exclusive of Digi shall be entitled to designate two fifths (2/5) of the directors of the Company and to exercise any right of removal or replacement of any such director, (c) the remaining director or directors must be approved by both Digi and by the holders of a majority of the outstanding Common Stock exclusive of Digi and shall be a person (or persons) who is (are) not otherwise affiliated with the Company or Digi or any officer or other director of the Company or Digi, and (e) Digi and the Company agree that in submitting to the Company's shareholders or Board of Directors the names of nominees for election as directors or in filling interim vacancies, each will use its best efforts to cause any person designated pursuant to this Section 7.8 to be elected as a director. Failure of any of the persons so designated by the Company or Digi to be so elected shall be an Event of Default of the Company or an Event of Default of Digi respectively within the meaning of Section 11 hereof.

The Company shall reimburse all directors elected for the reasonable out-of-pocket expenses incurred by them pursuant to this Section 7.8 in connection with the attending of meetings by their director designee or carrying out any other duties by such director designee that may be specified by the Board of Directors; shall maintain at all times, director and officer liability insurance in an amount of not less than \$1 million from a carrier reasonably acceptable to the Board of Directors of the Company; and shall maintain as part of its Articles of Incorporation or Bylaws a provision for the indemnification of its directors to the full extent permitted by law.

7.9 RESERVATION OF SHARES; REPLACEMENT OF NOTES OR CERTIFICATES REPRESENTING CONVERSION STOCK. The Company shall at all times have authorized and reserved a sufficient number of

shares of its Common Stock for the purpose of issue upon the conversion of the Notes. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of any Notes or certificates representing Conversion Stock, and, in the case of any such loss, theft or destruction, upon delivery of a bond of indemnity satisfactory to the Company, or, in the case of any such mutilation, upon surrender and cancellation of the Notes or certificates representing Conversion Stock, as the case may be, the Company will issue new Notes or certificates representing Conversion Stock of like tenor, in lieu of such lost, stolen, destroyed or mutilated Notes or certificates representing Conversion Stock.

7.10 APPLICATION OF PROCEEDS. Unless otherwise approved by the Company's Board of Directors, the net proceeds received by the Company from the sale of the Notes shall be used to pay the existing payables and indebtedness, for general operating purposes, and for the development of the ARMs, Jeeves and V.Mach. Pending such use of the proceeds, they shall be deposited in a bank or banks having deposits of \$150,000,000 or more, invested in money market mutual funds having assets of \$500,000,000 or more, or invested in securities issued or guaranteed by the United States Government or the agencies or instrumentalities thereof.

7.11 RETIREMENT PLANS. The Company will cause each retirement plan of the Company in which any employees of the Company participate that is subject to the provisions of ERISA and the documents and instruments governing each such plan to be conformed to when necessary, and to be administered in a manner consistent with, those provisions of ERISA which may, from time to time, become effective and operative with respect to such plans; and at such time as such insurance shall be available at rates deemed commercially reasonable by the Company, maintain insurance against the contingent liability against the net worth of the Company imposed in respect of each such plan by the provisions of ERISA.

7.12 FILING OF REPORTS. The Company will, from and after such time as it has securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, or has securities registered pursuant to the Securities Act, make timely filing of such reports as are required to be filed by it with the Commission so that Rule 144 under the Securities Act or any successor provision thereto will be available to the security holders of the Company who are otherwise able to take advantage of the provisions of such Rule.

7.13 PATENTS AND OTHER INTANGIBLE RIGHTS. The Company will apply for, or obtain assignments of, or licenses to use, all patents, trademarks, trademark rights, trade names, trade name rights and copyrights which in the opinion of a prudent and experienced businessperson operating in the industry in which the Company is operating are desirable or necessary for the conduct and protection of the business of the Company.

7.14 RULE 144A. The Company agrees that, upon Digi's request, the Company shall promptly provide (but in any case within 15 days of a request) to Digi the following information: (a) a brief statement of the nature of the business of the Company and the products and services it offers; (b) the Company's most recent consolidated balance sheets and profit and loss and retained earnings statements, and similar financial statements for such part of the two preceding fiscal years prior to such request as the Company has been in operation (such financial information shall be audited, to the extent reasonably available); and (c) such other information about the Company and its business, financial condition and results of operations as the requesting person shall specify in order to comply with Rule 144A promulgated under the Securities Act and the anti-fraud provisions of the federal and state securities laws.

The Company hereby represents and warrants to any such requesting person that the information provided by the Company pursuant to this Section 7.14 will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements made, in light of the

circumstances under which they were made, not misleading.

8. NEGATIVE COVENANTS. Subject to the provisions of Section 13 hereof, the Company will be limited and restricted as follows:

8.1 CONSOLIDATION, MERGER, ACQUISITION, ETC. Without the prior approval of Digi, (a) the Company will not sell, lease, license or otherwise dispose of all or substantially all of its assets or any asset or assets in a manner which would require shareholder approval, and (b) the Company will not consolidate with or merge into any other corporation or entity, or permit any other corporation or entity to consolidate or merge into the Company, or enter into a plan of exchange with any other corporation or entity, or otherwise acquire any other corporation or entity; provided that the foregoing shall not apply to any transaction between the Company and a wholly-owned subsidiary.

8.2 DIVIDENDS ON OR REDEMPTION OF CAPITAL STOCK. Without the prior approval of Digi, which approval shall not be unreasonably withheld, the Company will not declare or pay any dividend or make any other distribution on any shares of capital stock or purchase, redeem or otherwise acquire for any consideration, or set aside a sinking fund or other fund for the redemption or repurchase of any shares of capital stock or any warrants, rights or options to purchase shares of capital stock.

8.3 ISSUANCE OF SECURITIES. Except as provided in the Disclosure Schedules, as disclosed to the Company's Board of Directors prior to the date of this Agreement or pursuant to a stock option plan approved by the Company's Board of Directors, the Company will not, without the prior approval of Digi, issue (i) any additional capital stock of the Company of any class, or securities convertible into any such class, or (ii) any options, warrants or other rights to purchase capital stock of the Company of any class, or securities convertible into shares of any such class.

8.4 CHANGE IN THE NATURE OF THE COMPANY'S BUSINESS. The Company will not, without the prior approval of Digi, which approval shall not be unreasonably withheld, make any material change in the nature of its business as carried on or as proposed to be carried out as of the date of this Agreement.

8.5 FUTURE REGISTRATION RIGHTS. Except for any registration expressly permitted by Section 10 hereof, the Company will not, without the prior approval of the Company's Board of Directors, agree with the holders of any securities issued or to be issued by the Company to register such securities under the Securities Act nor will it grant any incidental registration rights.

8.6 OTHER RESTRICTIONS. The Company will not without the prior approval of the Company's Board of Directors:

(a) guarantee, endorse or otherwise be or become contingently liable in connection with the obligations, securities or dividends of any person, firm, association or corporation, other than endorse negotiable instruments for collection in the ordinary course of business; or

(b) make loans or advances to any person (including without limitation to any officer, director or shareholder of the Company), firm, association or corporation, except loans and advances to the Company and advances to suppliers and employees made in the ordinary course of business; or

(c) purchase or invest in the stock or obligations of any other person, firm or corporation; or

(d) pay compensation, whether by way of salaries, bonuses, participations in

pension or profit sharing plans, fees under management contracts or for professional services or fringe benefits to any officer in excess of amounts fixed by the Board of Directors of the Company prior to any payment to such officer.

9. RESTRICTION ON TRANSFER OF SECURITIES.

9.1 RESTRICTIONS. The Notes and the Conversion Stock are transferable only pursuant to (a) a public offering registered under the Securities Act, (b) Rule 144 (or any similar rule then in effect) adopted under the Securities Act, if such rule is available, and (c) subject to the conditions elsewhere specified in this Section 9, any other legally available means of transfer.

9.2 LEGEND. Each Note shall be endorsed with the following legend:

"The securities evidenced hereby may not be transferred without (i) the opinion of counsel satisfactory to the Company that such transfer may be lawfully made without registration under the Federal Securities Act of 1933 and all applicable state securities laws or (ii) such registration."

Upon the conversion of any Notes, unless the Company receives an opinion of counsel from Digi satisfactory to the Company to the effect that a sale, transfer, assignment, pledge or distribution of the Conversion Stock issuable upon such conversion may be made without registration, or unless such Conversion Stock is being disposed of pursuant to registration under the Securities Act and any applicable state act, the same legend shall be endorsed on the certificate evidencing such Conversion Stock.

9.3 STOP TRANSFER ORDER. A stop transfer order shall be placed with the Company's transfer agent preventing transfer of any of the securities subject to the legend referred to in Section 9.2 above pending compliance with the conditions set forth in any such legend.

9.4 REMOVAL OF LEGEND. Any legend endorsed on a certificate or instrument evidencing a security pursuant to Section 9.2 hereof shall be removed, and the Company shall issue a certificate or instrument without such legend to Digi, if such security is being disposed of pursuant to registration under the Securities Act and any applicable state acts or pursuant to Rule 144 or any similar rule then in effect, or if Digi provides the Company with an opinion of counsel satisfactory to the Company to the effect that a sale, transfer, assignment, offer, pledge or distribution for value of such security may be made without registration and that such legend is not required to satisfy the applicable exemption from registration.

10. REGISTRATION OF SECURITIES.

10.1 DIGI DEMAND FOR REGISTRATION. If the Company shall receive a written request therefor from Digi, the Company shall prepare and file a registration statement under the Securities Act covering the Conversion Stock which is the subject of such request and shall use its best efforts to cause such registration statement to become effective; provided, however, Digi may not make such a request prior to the expiration of six (6) months from the date of this Agreement. In addition, if the registration requested by Digi would result in the Company's first registration of securities under the Securities Act, the Company shall have the right to defer filing such registration for a period of not more than twelve (12) months after the Company's receipt of Digi's request. The Company shall be obligated to prepare, file and cause to become effective only one registration statement (other than on Form S-3 or any successor form promulgated by the Commission ("Form S-3")) pursuant to this Section 10.1, and to pay the expenses associated with such registration statements; notwithstanding the foregoing, Digi may require, pursuant to this Section 10.1, the Company to file, and to pay the expenses associated with, any number of registration

statements on Form S-3, if such form is then available for use by the Company and such record holder or holders. In the event that Digi determines for any reason not to proceed with a registration at any time before a registration statement has been declared effective by the Commission, and such registration statement, if theretofore filed with the Commission, is withdrawn with respect to the Conversion Stock covered thereby, and Digi agrees to bear its own expenses incurred in connection therewith and to reimburse the Company for the expenses incurred by it attributable to the registration of such Conversion Stock, then Digi shall not be deemed to have exercised its right to require the Company to register Conversion Stock pursuant to this Section 10.1, provided, however, that in such event Digi may not exercise its deferral rights under Section 10.2 should the Company determine to continue with such a registration.

If, at the time any written request for registration is received by the Company pursuant to this Section 10.1, the Company has determined to proceed with the actual preparation and filing of a registration statement under the Securities Act in connection with the proposed offer and sale for cash of any of its securities by it or any of its security holders, such written request shall be deemed to have been given pursuant to Section 10.2 hereof rather than this Section 10.1, and the rights of Digi covered by such written request shall be governed by Section 10.2 hereof.

10.2 INCIDENTAL REGISTRATION. Each time the Company shall determine to proceed with the actual preparation and filing of a registration statement under the Securities Act in connection with the proposed offer and sale for cash of any of its securities by it or any of its security holders (other than a registration statement on a form that does not permit the inclusion of shares by its security holders), the Company will give written notice of its determination to Digi. If the registration which is the subject of the notice to Digi by the Company would result in the Company's first registration of securities under the Securities Act, Digi shall have the right to defer filing such registration for a period of not more than twelve (12) months after Digi's receipt of the Company's notice. Upon the written request of Digi given within 30 days after receipt of any such notice from the Company, the Company will, except as herein provided, cause all Conversion Stock for which Digi has requested registration to be included in such registration statement, all to the extent requisite to permit the sale or other disposition by Digi of such Conversion Stock; provided, however, that nothing herein shall prevent the Company from, at any time, abandoning or delaying any such registration initiated by it; provided further, however, that if the Company determines not to proceed with a registration after the registration statement has been filed with the Commission and the Company's decision not to proceed is primarily based upon the anticipated public offering price of the securities to be sold by the Company, and if Digi so requests the Company shall promptly complete the registration for Digi's benefit and Digi shall bear all expenses in excess of \$25,000 incurred by the Company as the result of such registration after the Company has decided not to proceed. If any registration pursuant to this Section 10.2 shall be underwritten in whole or in part, the Company may require that the Conversion Stock requested for inclusion pursuant to this Section 10.2 be included in the underwriting on the same terms and conditions as the securities otherwise being sold through the underwriters. In the event that the Conversion Stock requested for inclusion pursuant to this Section 10.2 would constitute more than 25% of the total number of shares to be included in a proposed underwritten public offering, and if in the good faith judgment of the managing underwriter of such public offering the inclusion of all of the Conversion Stock originally covered by a request for registration would reduce the number of shares to be offered by the Company or interfere with the successful marketing of the shares of stock offered by the Company, the number of Conversion Stock otherwise to be included in the underwritten public offering may be reduced. Conversion Stock which is thus excluded from the underwritten public offering shall be withheld from the market by Digi for a period not to exceed 90 days, which the managing underwriter reasonably determines is necessary in order to effect the underwritten public offering.

10.3 REGISTRATION PROCEDURES. If and whenever the Company is required by the

provisions of Section 10.1 or 10.2 hereof to effect the registration of Conversion Stock under the Securities Act, the Company will:

(a) prepare and file with the Commission a registration statement with respect to such securities, and use its best efforts to cause such registration statement to become and remain effective for such period as may be reasonably necessary to effect the sale of such securities, not to exceed nine months;

(b) prepare and file with the Commission such amendments to such registration statement and supplements to the prospectus contained therein as may be necessary to keep such registration statement effective for such period as may be reasonably necessary to effect the sale of such securities, not to exceed nine months;

(c) furnish to Digi and to the underwriters of the securities being registered such reasonable number of copies of the registration statement, preliminary prospectus, final prospectus and such other documents as such underwriters may reasonably request in order to facilitate the public offering of such securities;

(d) use its best efforts to register or qualify the securities covered by such registration statement under such state securities or blue sky laws of such jurisdictions as Digi may reasonably request in writing within 20 days following the original filing of such registration statement, except that the Company shall not for any purpose be required to execute a general consent to service of process or to qualify to do business as a foreign corporation in any jurisdiction wherein it is not so qualified;

(e) notify Digi, promptly after it shall receive notice thereof, of the time when such registration statement has become effective or a supplement to any prospectus forming a part of such registration statement has been filed;

(f) notify Digi promptly of any request by the Commission for the amending or supplementing of such registration statement or prospectus or for additional information;

(g) prepare and file with the Commission, promptly upon the request of Digi, any amendments or supplements to such registration statement or prospectus which, in the opinion of counsel for Digi (and concurred in by counsel for the Company), is required under the Securities Act or the rules and regulations thereunder in connection with the distribution of the Conversion Stock by Digi;

(h) prepare and promptly file with the Commission and promptly notify Digi of the filing of such amendment or supplement to such registration statement or prospectus as may be necessary to correct any statements or omissions if, at the time when a prospectus relating to such securities is required to be delivered under the Securities Act, any event shall have occurred as the result of which any such prospectus or any other prospectus as then in effect would include an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances in which they were made, not misleading;

(i) advise Digi, promptly after it shall receive notice or obtain knowledge thereof, of the issuance of any stop order by the Commission suspending the effectiveness of such registration statement or the initiation or threatening of any proceeding for that purpose and promptly use its best efforts to prevent the issuance of any stop order or to obtain its withdrawal if such stop order should be issued;

(j) not file any amendment or supplement to such registration statement or prospectus to which Digi shall have reasonably objected on the grounds that such amendment or supplement does not comply in all material respects with the requirements of the Securities Act or the rules and regulations thereunder, after having been furnished with a copy thereof at least five business days prior to the filing thereof, unless in the opinion of counsel for the Company the filing of such amendment or supplement is reasonably necessary to protect the Company from any liabilities under any applicable federal or state law and such filing will not violate applicable law; and

(k) at the request of Digi, furnish: (i) an opinion, dated as of the closing date, of the counsel representing the Company for the purposes of such registration, addressed to the underwriters, if any, and to Digi, covering such matters as such underwriters and Digi may reasonably request; and (ii) letters dated as of the effective date of the registration statement and as of the closing date, from the independent certified public accountants of the Company, addressed to the underwriters, if any, and to Digi, covering such matters as such underwriters and Digi may reasonably request.

10.4 EXPENSES. With respect to each registration, including registrations pursuant to Form S-3, requested pursuant to Section 10.1 hereof (except as otherwise provided in such Section with respect to registrations voluntarily terminated at the request of Digi) and with respect to each inclusion of Conversion Stock in a registration statement pursuant to Section 10.2 hereof (except as otherwise provided in Section 10.2 with respect to registrations initiated by the Company but with respect to which the Company has determined not to proceed), the Company shall bear the following fees, costs and expenses: all registration, filing and NASD fees, printing expenses, fees and disbursements of counsel and accountants for the Company, fees and disbursements of counsel for the underwriter or underwriters of such securities (if the Company and/or Digi are required to bear such fees and disbursements), all internal Company expenses, all legal fees and disbursements and other expenses of complying with state securities or blue sky laws of any jurisdictions in which the securities to be offered are to be registered or qualified, and the premiums and other costs of policies of insurance against liability (if any) arising out of such public offering. Fees and disbursements of counsel and accountants for Digi, underwriting discounts and commissions and transfer taxes relating to the shares included in the offering by Digi, and any other expenses incurred by Digi not expressly included above, shall be borne by Digi.

10.5 INDEMNIFICATION. In the event that any Conversion Stock is included in a registration statement under Section 10.1 or 10.2 hereof:

(a) The Company will indemnify and hold harmless Digi pursuant to the provisions of this Section 10, its directors and officers, and any underwriter (as defined in the Securities Act) for Digi and each person, if any, who controls Digi or such underwriter within the meaning of the Securities Act, from and against, and will reimburse Digi and each such underwriter and controlling person with respect to, any and all loss, damage, liability, cost and expense to which Digi or any such underwriter or controlling person may become subject under the Securities Act or otherwise, insofar as such losses, damages, liabilities, costs or expenses are caused by any untrue statement or alleged untrue statement of any material fact contained in such registration statement, any prospectus contained therein or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading; provided, however, that the Company will not be liable in any such case to the extent that any such loss, damage, liability, cost or expense arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission so

made in conformity with information furnished by Digi, such underwriter or such controlling person in writing specifically for use in the preparation thereof.

(b) Digi will indemnify and hold harmless the Company, its directors and officers, any controlling person and any underwriter from and against, and will reimburse the Company, its directors and officers, any controlling person and any underwriter with respect to, any and all loss, damage, liability, cost or expense to which the Company or any controlling person and/or any underwriter may become subject under the Securities Act or otherwise, insofar as such losses, damages, liabilities, costs or expenses are caused by any untrue or alleged untrue statement of any material fact contained in such registration statement, any prospectus contained therein or any amendment or supplement thereto, or arise out of or are based upon the omission or the alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was so made in reliance upon and in strict conformity with written information furnished by Digi specifically for use in the preparation thereof.

(c) Promptly after receipt by an indemnified party pursuant to the provisions of paragraph (a) or (b) of this Section 10.5 of notice of the commencement of any action involving the subject matter of the foregoing indemnity provisions such indemnified party will, if a claim thereof is to be made against the indemnifying party pursuant to the provisions of said paragraph (a) or (b), promptly notify the indemnifying party of the commencement thereof; but the omission to so notify the indemnifying party will not relieve it from any liability which it may have to any indemnified party otherwise than hereunder. In case such action is brought against any indemnified party and it notifies the indemnifying party of the commencement thereof, the indemnifying party shall have the right to participate in, and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party, provided, however, if the defendants in any action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there may be legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party, or if there is a conflict of interest which would prevent counsel for the indemnifying party from also representing the indemnified party, the indemnified party or parties shall have the right to select separate counsel to participate in the defense of such action on behalf of such indemnified party or parties. After notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party will not be liable to such indemnified party pursuant to the provisions of said paragraph (a) or (b) for any legal or other expense subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation, unless (i) the indemnified party shall have employed counsel in accordance with the proviso of the preceding sentence, (ii) the indemnifying party shall not have employed counsel satisfactory to the indemnified party to represent the indemnified party within a reasonable time after the notice of the commencement of the action, or (iii) the indemnifying party has authorized the employment of counsel for the indemnified party at the expense of the indemnifying party.

11. DEFAULT.

11.1 EVENTS OF DEFAULT BY THE COMPANY. Each of the following events shall be an event of default by the Company for purposes of this Agreement (an "Event of Default of the Company"):

(a) if default shall be made in the punctual payment of interest on the Notes, and

such default shall have continued for a period of 15 days after written notice thereof to the Company by Digi;

(b) if default shall be made in the punctual payment of the principal of the Notes;

(c) if any judgment, writ or warrant of attachment or of any similar process in an amount in excess of \$250,000 shall be entered or filed against the Company or against any of its property or assets and either remains unpaid, unvacated, unbonded or unstayed for a period of 30 days or adequate reserves are not established on the Company's books;

(d) if an order for relief shall be entered in any Federal bankruptcy proceeding in which the Company is the debtor; or if bankruptcy, reorganization, arrangement, insolvency, or liquidation proceedings, or other proceedings for relief under any bankruptcy or similar law or laws for the relief of debtors, are instituted by or against the Company and, if instituted against the Company, are consented to or, if contested by the Company, are not dismissed by the adverse parties or by an order, decree or judgment within 60 days after such institution;

(e) if the Company shall default in any material respect in the due and punctual performance of any covenant or agreement in any note (including without limitation any of the Notes), bond, indenture, loan agreement, note agreement, mortgage, security agreement including without limitation the Security Agreement) or other instrument evidencing or related to indebtedness for borrowed money, other than the outstanding notes described in Section 7.7 hereof, and such default shall continue for more than the period of notice and/or grace, if any, therein specified and shall not have been waived;

(f) (i) if any representation or warranty made by or on behalf of the Company in this Agreement or in any certificate, report or other instrument delivered under or pursuant to any term hereof or thereof shall prove to have been untrue or incorrect in any material respect as of the date of this Agreement or as of any Closing Date, or (ii) if any report, certificate, financial statement or financial schedule or other instrument prepared or purported to be prepared by the Company or any officer of the Company furnished or delivered under or pursuant to this Agreement after any such Closing Date shall prove to be untrue or incorrect in any material respect as of the date it was made, furnished or delivered;

(g) if any of Digi's designees to the Company's Board of Directors shall fail to be elected to the Board of Directors in the manner and under the terms and conditions set forth in Section 7.8 hereof; or

(h) if default shall be made by the Company in the due and punctual performance or observance of any other term contained in this Agreement or in any other Transaction Document, and such default shall not have been remedied, or the Company shall have not taken steps to remedy such default to Digi's reasonable satisfaction, within 15 days after written notice thereof to the Company by Digi.

11.2 EVENTS OF DEFAULT BY DIGI. Each of the following events shall be an event of default by Digi for purposes of this Agreement (an "Event of Default of Digi"):

(a) Digi does not purchase a Note when required by the terms and conditions contained in this Agreement;

(b) if default shall be made by Digi in any material respect in the performance or observance of any other term contained in this Agreement or in any other Transaction Document, and such default shall not have been remedied, or Digi shall have not taken steps to remedy such default to the Company's reasonable satisfaction, within 15 days after written notice thereof to Digi by the Company;

(c) (i) if any representation or warranty made by or on behalf of Digi in this Agreement or in any certificate, report or other instrument delivered under or pursuant to any term hereof or thereof shall prove to have been untrue or incorrect in any material respect as of the date of this Agreement or (ii) if any report, certificate, financial statement or financial schedule or other instrument prepared or purported to be prepared by Digi or any officer of Digi furnished or delivered under or pursuant to this Agreement after any such Closing Date shall prove to be untrue or incorrect in any material respect as of the date it was made, furnished or delivered.

11.3 REMEDIES UPON EVENTS OF DEFAULT OF THE COMPANY. Upon the occurrence of an Event of Default of the Company as herein defined, then, unless such Event of Default shall have been waived by Digi, Digi shall be entitled so long as such Event of Default of the Company continues unremedied, by notice to the Company (a) to declare the principal of and any accrued interest on the Notes, to be immediately due and payable, and thereupon the Notes, including both principal and interest shall become immediately due and payable (provided, however, that when any Event of Default of the Company described in Section 11.1(d) hereof has occurred, the Notes shall immediately become due and payable without presentment, demand or notice of any kind), and (b) to designate a majority of the Board of Directors of the Company, as provided in Section 11.4 below.

11.4 DESIGNATION OF MAJORITY OF BOARD OF DIRECTORS. In the event Digi is entitled to designate a majority of the Board of Directors of the Company pursuant to Section 11.3 hereof, the Company shall, immediately upon receiving written notice from Digi, call a special shareholders' meeting to be held as soon as possible, but in any event within fifteen days of the date of the notice of such meeting. At such special shareholders' meeting a majority of the directors of the Company shall be elected from designees nominated by Digi. Any right of Digi to continue to designate a majority of the Board of Directors of the Company shall expire, and a shareholders' meeting to elect new directors shall be called, six months after the later of (a) the curing of the Event of Default upon which the right was exercised, or (b) the curing of any Event of Default occurring after the Event of Default upon which such right was exercised.

11.5 NOTICE OF DEFAULTS. When, to its knowledge, any Event of Default of the Company has occurred or exists, the Company agrees to give prompt written notice of such Event of Default of the Company, to Digi, but in any event within ten business days. When, to its knowledge, any Event of Default of Digi has occurred or exists, Digi agrees to give prompt written notice of such Event of Default of Digi, to the Company, but in any event within ten business days.

11.6 SUITS FOR ENFORCEMENT; REMEDIES CUMULATIVE AND NOT WAIVED. In case an Event of Default of the Company shall have occurred and be continuing, unless such Event of Default of the Company shall have been waived in the manner provided in Section 13 hereof, Digi may proceed to protect and enforce its rights under this Section 11 by suit in equity or action at law. In case an Event of Default of Digi shall have occurred and be continuing, unless such Event of Default of Digi shall have been waived in the manner provided in Section 13 hereof, the Company may proceed to protect and enforce its rights under this Agreement by suit in equity or action at law. No right, power or remedy conferred upon either Party hereto shall be exclusive, and each such right, power or remedy shall be cumulative and in addition to every other right, power or remedy, whether conferred hereby or by any such security or now or hereafter available at law or in equity or by statute or otherwise. No course of dealing between the

Company and Digi and no delay in exercising any right, power or remedy conferred hereby or by any such security or now or hereafter existing at law or in equity or by statute or otherwise, shall operate as a waiver of or otherwise prejudice any such right, power or remedy; provided, however, that this sentence shall not be construed or applied so as to negate the provisions and intent of any statute which is otherwise applicable.

12. TERMINATION OF CERTAIN COVENANTS. The obligations of the Company under Sections 7 (other than its obligations under Sections 7.8, 7.9 and 7.14 hereof), 8 and 11.1 of this Agreement and the obligations of Digi under section 11.2 shall notwithstanding any provisions hereof apparently to the contrary, terminate and be of no further force or effect from and after the earlier of the repayment in full of the Notes or the Initial Public Offering of the Company. The obligation of Digi to purchase Notes of the Company shall terminate upon the earlier of December 31, 1988 or the Initial Public Offering of the Company.

13. CONSENTS; WAIVERS AND AMENDMENTS. With the written consent of either Party hereto, any obligation of the other Party to this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), and by mutual written consent the Parties may enter into a supplementary agreement for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Agreement or of any supplemental agreement or modifying in any manner the rights and obligations of either Party.

14. CHANGES, WAIVERS, ETC. Neither this Agreement nor any provision hereof may be changed, waived, discharged or terminated orally, but only by a statement in writing signed by the Party against which enforcement of the change, waiver, discharge or termination is sought.

15. PAYMENT OF FEES AND EXPENSES. Each Party will bear the out-of-pocket expenses incurred by it in connection with the transactions herein contemplated, including without limitation the fees and out-of-pocket expenses of agents, finders (if any) and counsel.

16. NOTICES. All notices, requests, consents and other communications required or permitted hereunder shall be in writing and shall be delivered, or mailed first-class postage prepaid, registered or certified mail,

(a) if to Digi, addressed to it at 11001 Bren Road East, Minnetonka MN 55343, Attn: Chief Financial Officer, or at such other address as Digi may specify by written notice to the Company, or

(b) if to the Company, addressed to it at 10000 West 76th Street, Eden Prairie, MN 55344-3767, Attn: Dr. Jonathan A. Henrikssen Sachs, with a copy to William T. Dolan, Esq., Briggs and Morgan P.A., 2400 IDS Center, Minneapolis, Minnesota 55402 or to such other addresses as the Company may specify by written notice to Digi,

and such notices and other communications shall for all purposes of this Agreement be treated as being effective or having been given if delivered personally, or, if sent by certified mail, when received.

17. PARTIES IN INTEREST. All the terms and provisions of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the Parties hereto.

18. HEADINGS. The headings of the Sections and paragraphs of this Agreement have been inserted for convenience of reference only and do not constitute a part of this Agreement.

19. CHOICE OF LAW. It is the intention of the Parties that the laws of Minnesota shall govern the validity of this Agreement, the construction of its terms and the interpretation of the rights and duties of the Parties.

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

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date first above written.

DIGI INTERNATIONAL INC.

By /s/ ERVIN F. KAMM, JR.

Name: Ervin F. Kamm, Jr.
Its: President & C.E.O.

AETHERWORKS CORPORATION

By /s/ JONATHAN A. HENRIKSSSEN SACHS, Ph.D.

Name: Jonathan A. Henrikssen Sachs, Ph.D.
Its: President & C.E.O.

EXHIBIT 10(e)

EMPLOYMENT ARRANGEMENT BETWEEN THE REGISTRANT
AND MIKE KELLEY, DATED FEBRUARY 7, 1996

[LOGO] Digi International
6400 Flying Cloud Drive
Eden Prairie, MN 55344

612-943-9020 tel
612-943-5398 fax

February 7, 1996

Mr. Mike Kelley
3895 Bayside Road
Long Lake, MN 55364

Dear Mike:

This letter is to confirm your acceptance of Digi International's offer as Vice President, Business Technologies, reporting directly to me. In this capacity, you will be totally responsible for identifying Digi's information system needs, development of a plan for implementation, and for the actual implementation. Mr. Ed Gull, MIS Director and Digi's MIS department will report to you. Additionally, you will be responsible for the company's oversight of our investment in Aetherworks Corporation.

Your starting base salary will be \$135,000 per year. You will also be eligible for an annual cash bonus with a target payout of 100% of your base salary. Any bonus payout is based solely upon Digi International Inc. meeting after-tax earnings targets. In the first year of employment, you will be guaranteed a bonus payout of 75% of base salary, which will be paid in November 1996 consistent with the bonus payout to all employees.

You will also receive a stock option for 20,000 shares of Digi Common Stock, vesting over five years, at the market price on the day you join the company. In addition, Digi offers a comprehensive benefit program which includes medical, dental and disability insurance, a 401(k) savings plan and a medical and dependent care reimbursement plan. You will accrue vacation at a rate of four weeks per year.

We have also agreed that in the event Norstan does not pay you your earned bonus for FY96, that Digi will advance you these funds in the form of a non-interest bearing promissory note. This note will be self liquidating over your employment at Digi and fully paid after five (5) years of employment, except that, should you leave Digi for any reason of your choosing within the first three years, the note will be due in full on your last day of employment.

You will also be eligible for participation in Digi's health insurance programs on the first day of the month following 90 days employment with the company. You will be eligible for participation in the 401(k) plan on the first quarter following 90 days employment. In addition, you may elect to become a participant in Digi's Employee Stock Purchase Plan which was approved at our company's recent Annual Stockholder's Meeting on January 31, 1996. Participation in the Employee Stock Purchase Plan will commence April 1, 1996. Please feel free and contact either Tuffy Bryant or Jerry Nichols in Human Resources if you have any questions with regard to benefits.

I am very pleased that you are willing to take on the challenge of our infrastructure at Digi. I see this position as a first step for you toward greater Senior Management responsibilities. Great things are happening at Digi, and I am delighted that you will be joining our team. Please sign and return one copy signing your acceptance. Welcome aboard!

Sincerely,

/s/ ERVIN F. KAMM, JR.

Ervin F. Kamm, Jr.
President and Chief Executive Officer

Accepted: /s/ MIKE KELLEY

Mike Kelley

2-9-96

Date

EXHIBIT 10(i)

EMPLOYMENT ARRANGEMENT BETWEEN THE REGISTRANT
AND JONATHON E. KILLMER DATED SEPTEMBER 16, 1996

[LOGO]

September 16, 1996

PERSONAL AND CONFIDENTIAL

Jonathon E. Killmer
10512 Rigby Drive
Eden Prairie, MN 55347

Re: Terms of Employment

Dear Jon:

I am pleased to send you this letter confirming the terms of your acceptance of Digi's offer of employment offer that we have discussed.

Your title will be Vice President, Chief Financial Officer & Treasurer, effective October 1, 1996. In this capacity you will report directly to me. Your duties will include being fully responsible for all aspects of Digi's financial reporting, administration and systems. Additionally, the legal, investor relations and facilities functions will report directly to you. You know well my concerns over the timely and accurate reporting of information and the effectiveness of our communications with the investment community. Your responsibilities will also include development and monitoring of annual and strategic budgets.

Your base salary for your initial year will be \$150,000 per year, subject to review and adjustment annually, and you will have a bonus potential of 100% of your base salary, depending solely upon Digi meeting its profit targets. During the first year of employment 2/3 of your bonus will be guaranteed and will be paid monthly. You will also be awarded a stock option of 30,000 shares at a price of \$14.50 per share. The stock will vest over five (5) years with 20% (i.e. 6,000 shares) vesting on each of your first through fifth anniversary dates. Additionally, you will be eligible to receive future stock option awards, based on annual performance.

We also will support your continued involvement in civic and charitable organizations, including the Minneapolis Downtown Council, the Minnesota Orchestral Association, and the Salvation Army, recognizing that at the times these organizations will require your time during normal working hours.

In addition you will be entitled to all of the standard medical and other employee benefits provided to Digi employees. I note that Digi's benefits plans provide employees a certain benefit allowance. Employees can either apply the amount to pay for the portion of benefits offered but not paid directly by Digi or they can receive the unused portion of the allowance in cash.

Jon, the Board of Directors and I are very pleased to attract of person of your stature, experience, and reputation, who is also heavily involved in making a real commitment to our community. We are confident that your joining Digi will have a highly positive influence on both the investment community and the local community as well. I am personally excited to attract someone who shares a common platform in terms of philosophy and values.

Please signify your acceptance of these terms by signing in the space provided below and returning a signed copy to me. If you have any questions regarding the above please feel free to contact me.

Very truly, yours,

/s/ Erv F. Kamm, Jr.

Erv F. Kamm, Jr.
President and Chief Executive Officer

ACCEPTED:

/s/ Jonathon E. Killmer

Jonathon E. Killmer

Dated: 9/19/96

EXHIBIT 10(j)

EMPLOYMENT ARRANGEMENT BETWEEN THE REGISTRANT
AND DAVID RZASA, DATED SEPTEMBER 30, 1996

[LOGO]

September 30, 1996

PERSONAL AND CONFIDENTIAL

David M. Rzasa
12180 E. Paradise Drive
Scottsdale, AZ 85259

Re: Terms of Employment

Dear David:

I am pleased to send you this letter confirming the terms of the employment offer that we have discussed.

Your title will be Vice President and General Manager - Remote Access PMU. In this capacity you will report directly to me. Your duties will include being fully responsible for all aspects of the Remote Access PMU.

Your base salary will be \$150,000.00 per year, and it will be reviewed annually. You will have a bonus potential of one hundred ten percent (110%) of your base salary. Your bonus will be earned solely on the basis of meeting Digi's approved net earnings goal for FY 97. One-third (1/3) of the first year's bonus is guaranteed and will be paid quarterly.

Your start date will be October 14, 1996. You will be entitled to all of the standard medical and other employee benefits at Digi. I understand that you have concerns about the waiting period before you are eligible for Digi's benefits. Although we cannot change the waiting period I am willing to address this issue once you advise me of the details of your insurance situation with your current employer. If appropriate, Digi is willing to pay for your COBRA payments during the 90 day waiting period before you are eligible for the standard employee benefits.

In addition you will be granted an option to purchase 30,000 shares of Digi stock. The strike price will be the price of Digi stock at the close of the day you accept employment at Digi. The stock will vest over five (5) years at a rate of twenty percent (20%) per year on each of the first through fifth anniversaries of your start date at Digi, i.e. 6,000 shares per year.

In addition Digi will pay for your direct relocation expenses, including the cost of moving your household goods and closing costs for the sale of your present home and the purchase of a new home, such as real estate brokers' commissions. Digi will also pay for up to three months of your interim living expenses, if necessary. Also, if necessary, Digi will help you obtain interim or bridge financing, at no cost to you, for the purchase of your new home for the period of time between closing on the purchase of your new home and the closing on the sale of your present home (up to a maximum of 90 days). More specifically, Digi will pay any lender's fees and interest on the bridge loan for the purchase of your new home up to a maximum of 90 days. In the event that you obtain both a bridge loan (for the amount of your equity in your present home) and a permanent loan for the remainder of your purchase price of your new home, Digi will pay both the bridge loan lender's fees and expenses for up to 90 days plus the mortgage payments on the permanent financing for 90 days. If necessary Digi's help will be in the form of guaranty by Digi of such interim or bridge financing and, at Digi's option, such guaranty may be secured by your present home.

In the event that Digi were to terminate your employment before October 21, 1997, for any reason other than "cause", Digi will pay you severance of \$112,500. The definition of "cause" is attached for your information.

Please signify your acceptance of these terms by signing in the space provided below and returning a signed copy to me no later than Friday, October 4, 1996. If you have any questions regarding the above please feel free to contact me.

Dave, let me also state my distinct pleasure to have you on our management team. I thought we would get together after we first met over a year ago. I'm proud that it is now a reality.

Very truly, yours,

/s/ Erv F. Kamm, Jr.

Erv F. Kamm, Jr.
President and Chief Executive Officer

ACCEPTED:

/s/ David M. Rzasa

David M. Rzasa

Dated: 10-4-96

DEFINITION OF CAUSE

For the purpose of Erv Kamm's letter of September 30, 1996, "cause shall mean only the following :

- (i) indictment or conviction of, or a plea of nolo contendere to (a) any felony (other than a felony arising out of negligence) or any misdemeanor involving moral turpitude, or (b) any crime or offense involving dishonesty with respect to Digi International, Inc. or any of its subsidiaries, (collectively, the "Company");
- (ii) theft or embezzlement of Company property or commission of similar acts involving dishonesty or moral turpitude;
- (iii) repeated material negligence in the performance of your duties;
- (iv) your failure to devote substantially all of your working time and efforts during normal business hours to the Company;
- (v) knowing engagement in conduct which is materially injurious to the Company;
- (vi) knowing failure, for your own benefit, to comply with the Company's policies concerning confidentiality;
- (vii) knowingly providing materially misleading information concerning the Company to the Company's Chief Executive Officer or Board of Directors, any governmental body or regulatory agency or any lender or other financing source or proposed financing source of the Company; or
- (viii) nonperformance resulting from your disability) which failure is not cured within thirty (30) days after written notice from the Chairman of the Board or the Chief Executive Officer of the Company specifying the act of nonperformance or within such longer period (but no longer than ninety (90) days in any event) as is reasonably required to cure such nonperformance.

EXHIBIT 10(k)

SEPARATION AGREEMENT BETWEEN THE COMPANY
AND GERALD A. WALL DATED DECEMBER 4, 1996

SEPARATION AGREEMENT

This Separation Agreement ("Agreement") is made and entered into by and between Gerald A. Wall ("Wall") and Digi International Inc. (the "Company") on the dates set forth below.

WHEREAS, Wall has been employed by the Company since August 1989; and

WHEREAS, the Company and Wall have agreed that it was in their mutual interests that Wall resign as Vice President, Chief Financial Officer and Treasurer ("CFO") as of September 30, 1996; and

WHEREAS, Wall was replaced as CFO on October 1, 1996; and

WHEREAS, Wall ceased to be an officer of the Company as of September 30, 1996; and

WHEREAS, Wall's employment relationship with the Company will terminate in accordance with the provisions of this Agreement; and

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

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

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

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

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

1. RELEASE OF CLAIMS BY WALL. At the same time Wall executes this Agreement, he also will execute a General Release, in the form attached to this Agreement as Exhibit A, in favor of the Company, its insurers, subsidiaries, divisions, joint venture partners, committees, directors, officers, employees, agents, predecessors, successors, and assigns (the "General Release"). Wall will re-execute the General Release as of the later of June 30, 1997 or the date upon which the last payment will be made to Wall under this Agreement as set forth in paragraph 4 of this Agreement (the "Termination Date"). This Agreement will not be interpreted or construed to limit in any manner the General Release. The existence of any dispute respecting the interpretation of this Agreement will not nullify or otherwise affect the validity or enforceability of the General Release.

2. RESIGNATIONS BY WALL. Wall hereby acknowledges that as of September 30, 1996 he resigned as an officer of the Company and as an officer and/or director of any of the Company's subsidiaries or affiliates.

3. SALARY AND VACATION PAY. The Company has paid Wall his base salary and for any earned and accrued vacation pay, less all applicable payroll withholding, through November 15, 1996. Such amounts fully compensate Wall for all his earned and accrued vacation pay.

4. ADDITIONAL PAYMENTS. Provided that (i) Wall has not rescinded this Agreement or the General Release within the applicable rescission period, (ii) the Company has received written confirmation from Wall, in the form attached to this Agreement as Exhibit B, dated not earlier than the day after the expiration of the applicable rescission period, that Wall has not rescinded and will not rescind this Agreement or the General Release, and (iii) Wall has not breached his obligations pursuant to this Agreement or the General Release, then the Company will pay Wall \$74,712.00 in 15 equal bi-weekly installments of \$4,981.00, less all applicable payroll withholding. Such amount will be paid to Wall commencing on the Company's first regular payroll date after the expiration of the applicable rescission period and ending on the date upon which the last payment is made to Wall under this Agreement. Each installment payment will be directly deposited into Wall's bank account in accordance with past practice.

5. STOCK OPTIONS. The Company will accelerate the exercisability of all unvested options to purchase shares of the Company's stock held by Wall, which acceleration will be deemed to have occurred immediately prior to the termination of his employment. Assuming that Mr. Wall remains continuously employed by the Company through the Termination Date, such options must be exercised on or before three months after the Termination Date, in accordance with the terms of the Company's Stock Option Plan and applicable stock option agreements between Wall and the Company, at which time all unexercised options held by Wall will lapse. Wall understands that he will be solely responsible for the tax consequences of the exercise of his options, and he acknowledges that he is not relying on any representations by the Company regarding such tax consequences.

6. WALL'S CONSULTANT RELATIONSHIP WITH THE COMPANY. Until the Termination Date, Wall will serve as a consultant to the Company during regular business hours for reasonable amounts of time, and he will complete in a timely fashion work suitable to his skills and abilities that will be assigned to him from time to time by the Company's Chief Executive Officer ("CEO"), CFO or the Audit Committee of the Company's Board of Directors.

7. INSURANCE CONTINUATION. Wall's current group medical and life insurance coverages will remain in effect until the Termination Date. Thereafter, Wall will be entitled to continue his group medical and life insurance under such terms as are made available to similarly situated former employees of the Company, provided that Wall pays the entire cost of such insurance as provided by law.

8. SAVINGS AND PROFIT SHARING PLAN. Wall is a participant in the Company's 401-K Savings and Profit Sharing Plan (the "Plan"). Wall acknowledges that no further salary reduction contributions will be made to the Plan from his compensation after November 15, 1996, and that he will not be eligible for any matching or profit sharing contributions to the Plan for 1996. Wall will continue to be a participant in the Plan in accordance with the terms and conditions set forth in the Plan. Wall will be entitled to begin receiving benefits from his Plan account or to roll-over the amount in his account at the times and under the terms and conditions set forth in the Plan.

9. EMPLOYEE BENEFITS. Except as expressly provided in this Agreement, Wall will not be eligible to participate in any of the Company's employee benefit plans after November 15, 1996.

10. REFERENCES. The Company will provide Wall with a letter of reference in the form attached to this Agreement as Exhibit C promptly after the expiration of the applicable rescission period. It is Wall's responsibility to direct or cause to be directed all future official requests for references concerning him to the Chief Executive Officer or the Director of Human Resources of the Company. The Chief Executive Officer or the Director of Human Resources of the Company will respond to all future official reference requests concerning Wall by confirming the dates of his employment, identifying the positions he held, and, upon Wall's request, confirming his final salary while he worked at the Company.

11. NON-DISCLOSURE AGREEMENT.

A. TRADE SECRETS AND CONFIDENTIAL INFORMATION. Wall will not disclose to any person, other than an officer of the Company, any trade secrets of the Company. Wall will not, without the written consent of the Company, disclose to any person, other than an employee of the Company or any of its subsidiaries, except where such disclosure may be required by law, any confidential information obtained by him while in the employ of the Company with respect to any of the Company's products, technology, know-how, services, customers, methods, or future plans, all of which Wall acknowledges are valuable, special, and unique assets the disclosure of which Wall acknowledges may be materially damaging to the Company. Wall acknowledges that the Company's remedy at law for any breach or threatened breach by him of this subparagraph will be inadequate. Therefore, the Company will be entitled to injunctive and other equitable relief restraining Wall from violating the provisions of this subparagraph, in addition to any other remedies that may be available to the Company under this Agreement or applicable law.

B. SCOPE OF RESTRICTIONS. The parties intend that, if any court of competent jurisdiction holds that any restriction in subparagraph 10.a. exceeds the limit of restrictions that are enforceable under applicable law, then the restriction will nevertheless apply to the maximum extent that is enforceable under applicable law.

12. FUTURE EMPLOYMENT. Except for Wall's consultant relationship with the Company as provided for in paragraph 5 of this Agreement, Wall will not apply for or seek re-employment at any time in the future with the Company. Wall also will not apply for or seek employment at any time in the future with any of the Company's present or future subsidiaries.

13. RECORDS, DOCUMENTS, AND PROPERTY. Wall acknowledges that he has returned to the Company all records, correspondence, documents, financial data, plans, computer disks, computer tapes, keys, credit cards, and other tangible property in his possession belonging to the Company.

14. MUTUAL CONFIDENTIALITY.

A. GENERAL STANDARD. It is the intent of the parties that the terms of Wall's separation from the Company, including the provisions of this Agreement and General Release (collectively "Confidential Separation Information"), will be forever treated as confidential. Accordingly, Wall and the Company will not disclose Confidential Separation Information to anyone at any time, except as provided in subparagraph 14.b.

B. EXCEPTIONS.

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

II. It will not be a violation of this Agreement for Wall to disclose to employers and/or prospective employers that he is constrained from disclosing trade secrets or confidential information as a result of the terms of subparagraph 10.a. of this Agreement.

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

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

15. NON-DISPARAGEMENT. Wall will not disparage, defame, or besmirch the reputation, character, image, products, or services of the Company, or the reputation or character of its directors, officers, employees, or agents. The Company will not disparage, defame, or besmirch the reputation, character, or image of Wall.

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

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

18. WALL REPRESENTATION. Wall represents that, during the entire period that he was an employee or officer of the Company, he acted in good faith, had no reasonable cause to believe that his conduct was unlawful, and reasonably believed that his conduct was

in the best interests of the Company. The parties intend that the terms used in this paragraph will have the same meaning as the same terms used in Section 145 of the Delaware General Corporation Law.

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

20. TIME TO CONSIDER AGREEMENT. Wall understands that he may take at least 21 calendar days to decide whether to sign this Agreement and the General Release, which 21-day period will commence on the date on which Wall first receives copies of this Agreement and the General Release for review. Wall represents that if he signs this Agreement and the General Release before the expiration of the 21-day period, it is because he has decided that he does not need any additional time to decide whether to sign this Agreement and the General Release.

21. RIGHT TO RESCIND OR REVOKE. Wall understands that he has the right to rescind or revoke this Agreement and the General Release for any reason within 15 calendar days after he signs them. Wall understands that this Agreement and the General Release will not become effective or enforceable unless and until he has not rescinded this Agreement and the General Release and the applicable rescission period has expired. Wall understands that if he wishes to rescind, the rescission must be in writing and hand-delivered or mailed to the Company. If hand-delivered, the rescission must be: (a) addressed to Ervin F. Kamm, Jr., Chief Executive Officer, Digi International Inc., 11011 Bren Road East, Minnetonka, MN

55343 and (b) delivered to Ervin F. Kamm, Jr. within the 15-day period. If mailed, the rescission must be: (a) postmarked within the 15-day period; (b) addressed to Ervin F. Kamm, Jr., Chief Executive Officer, Digi International Inc., 11001 Bren Road East, Minnetonka, MN 55343 and (c) sent by certified mail, return receipt requested. Whether hand-delivered or mailed, Wall will, in addition, simultaneously provide a copy of his rescission to the Company's Director of Human Resources, at the address of the Company listed in this paragraph.

22. WALL'S DUTY TO INFORM COMPANY OF DECISION TO REVOKE. If Wall decides to rescind or revoke this Agreement and the General Release by mail, as provided for in paragraph 21, he will inform Chief Executive Officer Ervin F. Kamm, Jr. of his decision by telephone before 5:00 p.m. on the 15th day of the rescission period.

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

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

Agreement as an admission that the Company has engaged in any improper or unlawful conduct or wrongdoing against him.

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

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

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

28. INVALIDITY. In the event that any provision of this Agreement or the General Release is determined by a court of competent jurisdiction to be invalid, illegal, or unenforceable in any respect, such a determination will not affect the validity, legality, or enforceability of the remaining provisions of this Agreement or the General Release, and the

remaining provisions of this Agreement and the General Release will continue to be valid and enforceable, and any court of competent jurisdiction may so modify the objectionable provision as to make it valid and enforceable.

29. ENTIRE AGREEMENT. Before executing this Agreement, the parties had several discussions, including negotiations, and generated certain documents, in which the parties discussed the matters that are the subject of this Agreement and the General Release. In such discussions and documents, the parties may have expressed their judgments and beliefs concerning the intentions, capabilities, and practices of the parties, and may have forecast future events. The parties recognize, however, that all business transactions, including the transactions upon which the parties' judgments, beliefs, and forecasts are based, contain an element of risk, and that it is normal business practice to limit the legal obligations of contracting parties only to those promises and representations that are essential to the transaction so as to provide certainty as to their respective future rights and remedies. Accordingly, this Agreement, the General Release, the Plan, and the parties' indemnification agreement are intended to define the full extent of the legally enforceable undertakings of the parties, and no promises or representations, written or oral, that are not set forth explicitly in this Agreement, the General Release, the Plan, or the parties' indemnification agreement are intended by either party to be legally binding, and all other agreements and understandings between the parties are hereby superseded.

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

EXHIBIT 11

DETAIL COMPUTATION OF EARNINGS PER SHARE

Digi International

Exhibit 11

Detail Computation of Earnings Per Share

	Years Ended September 30:		
	1994	1995	1996
PER SHARE DATA			
Net income	\$16,701,092	\$19,331,093	\$ 9,300,220
Net income per common and common equivalent share:			
Primary	\$1.15	\$1.38	\$0.69
Fully diluted	\$1.15	\$1.38	\$0.67
WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON EQUIVALENT SHARES			
Primary:			
Weighted average of common shares outstanding	14,262,206	13,656,150	13,323,564
Dilutive stock options, using treasury stock method	248,363	400,959	199,341
	14,510,569	14,057,109	13,522,905
Fully diluted:			
Weighted average of common shares outstanding	14,262,206	13,656,150	13,323,564
Dilutive stock options, using treasury stock method	245,690	611,033	557,583
	14,507,896	14,267,183	13,881,147

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

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2450 Edison Boulevard
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(216) 425-0723 Tel
(216) 425-2492 Fax
(800) 782-7428 Sales/Technical Support

2730 Monterey Street, Suite 105
Torrance, CA 90503
(310) 328-9700 Tel
(310) 328-9696 Fax

1299 Orleans Drive
Sunnyvale, CA 94089
(408) 744-2775 Tel
(408) 744-2793 Fax

6703 Odyssey Drive, Suite 303
Huntsville, AL 35806
(205) 922-9440 Tel
(205) 922-9437 Fax

Westpark, Building M, Second Floor
8440 154th Avenue NE
Redmond, WA 98052
(206) 867-3893 Tel
(206) 867-0954 Fax

GROSS MARGIN GRAPH

The first graph on page 4 shows gross margin in millions of dollars for fiscal 1992, 1993, 1994, 1995 and 1996. Gross margin dollars for 1992 were \$40.7, for 1993 were \$52.4, for 1994 were \$67.8, for 1995 were \$86.0, and, for 1996 were \$102.7.

OPERATING INCOME GRAPH

The second graph on page 4 shows operating income in millions of dollars for fiscal 1992, 1993, 1994, 1995 and 1996. Operating income dollars for 1992 were \$16.7, for 1993 were \$20.8, for 1994 were \$24.3, for 1995 were \$27.4, and, for 1996 were \$20.1.

WORKING CAPITAL GRAPH

The third graph on page 4 shows working capital in millions of dollars for fiscal 1992, 1993, 1994, 1995 and 1996. Working capital dollars for 1992 were \$56.1, for 1993 were \$69.6, for 1994 were \$72.7, for 1995 were \$74.1, and, for 1996 were \$69.7.

NET SALES/EMPLOYEE GRAPH

The fourth graph on page 4 shows net sales per employee in thousands of dollars for fiscal 1992, 1993, 1994, 1995 and 1996. Net sales per employee for 1992 were \$290, for 1993 were \$312, for 1994 were \$343, for 1995 were \$322, and, for 1996 were \$281.

FINANCIAL HIGHLIGHTS

FOR THE YEARS ENDED SEPTEMBER 30	1996	1995	1994	1993	1992
Net sales	\$ 195,833	\$ 164,978	\$ 130,945	\$ 93,385	\$ 70,867
AetherWorks Corporation net loss	(3,624)	--	--	--	--
Income before taxes	16,805	29,366	25,351	22,510	18,256
Net income	9,300	19,331	16,701	14,905	12,555
Net income per share	.69	1.38	1.15	1.03	.87
Average shares outstanding	13,523	14,048	14,511	14,564	14,443
Working capital	\$ 69,696	\$ 74,061	\$ 72,671	\$ 69,648	\$ 56,147
Total assets	129,939	126,043	102,758	88,859	69,788
Stockholders' equity	109,943	105,827	91,113	80,467	64,076
Book value per share	8.24	7.82	6.64	5.68	4.58
Return on sales	4.8%	11.7%	12.8%	16.0%	17.7%
Number of employees	698	605	430	333	266

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS, PERCENTAGES AND NUMBER OF EMPLOYEES.)

SELECTED FINANCIAL INFORMATION

	1996	1995	1994	1993	1992
Net sales	\$ 195,833	\$ 164,978	\$ 130,945	\$ 93,385	\$ 70,867
% change	19%	26%	40%	32%	39%
Net income	9,300	19,331	16,701	14,905	12,555
% change	(52)	16	12	19	54
Net income per share	.69	1.38	1.15	1.03	.87
% change	(50)	20	12	18	36
Total assets	129,939	126,043	102,758	88,859	69,788
% change	3	23	16	27	24
Stockholders' equity	109,943	105,827	91,113	80,467	64,076
% change	4	16	13	26	25

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS AND PERCENTAGES. PERCENTAGE CHANGE REPRESENTS PERCENT INCREASE (DECREASE) OVER PREVIOUS YEAR.)

NET SALES GRAPH

The first graph on page 5 shows net sales in millions of dollars for fiscal 1992, 1993, 1994, 1995 and 1996. Net sales dollars for 1992 were \$70.9, for 1993 were \$93.4, for 1994 were \$130.9, for 1995 were \$165.0, and, for 1996 were \$195.8.

NET INCOME GRAPH

The second graph on page 5 shows net income in millions of dollars for fiscal 1992, 1993, 1994, 1995 and 1996. Net income dollars for 1992 were \$12.6, for 1993 were \$14.9, for 1994 were \$16.7, for 1995 were \$19.3, and, for 1996 were \$9.3.

NET INCOME PER SHARE GRAPH

The third graph on page 5 shows net income per share in the following amounts for fiscal 1992, 1993, 1994, 1995 and 1996: for 1992, \$. 87; for 1993, \$1.03; for 1994, \$1.15; for 1995 were \$1.38; and, for 1996; \$.69.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

The following table sets forth selected information derived from the Company's Consolidated Statements of Operations expressed as percentage of net sales.

	YEAR ENDED SEPTEMBER 30			PERCENTAGE INCREASE/ (DECREASE)	
	1996	1995	1994	1996 over 1995	1995 over 1994
Net sales	100.0%	100.0%	100.0%	18.7%	26.0%
Cost of sales	47.5	47.8	48.2	18.0	25.1
Gross margin	52.5	52.2	51.8	19.4	26.8
Operating expenses:					
Sales & marketing	22.5	19.1	17.2	39.9	39.9
Research & development	10.5	8.9	7.5	40.5	49.2
General & administrative	9.2	7.6	8.6	43.7	11.3
	42.2	35.6	33.3	40.9	34.6
Operating income	10.3	16.6	18.5	(26.6)	12.8
Other income, principally interest	.2	1.2	.9	(83.1)	84.4
AetherWorks Corporation net loss	(1.9)			100.0	
Income before income taxes	8.6	17.8	19.4	(42.8)	15.8
Provision for income taxes	3.8	6.1	6.6	(25.2)	16.0
Net income	4.8%	11.7%	12.8%	(51.9%)	12.1%

NET SALES

The increase in net sales from 1995 to 1996 of \$30.9 million and from 1994 to 1995 of \$34.0 million spanned all product markets as follows:

PRODUCT MARKET	PERCENT OF ANNUAL SALES			ANNUAL SALES INCREASE	
	1996	1995	1994	1996	1995
Multiuser	64.4%	67.8%	74.2%	13%	17%
Remote Access	16.7%	13.8%	10.7%	43%	63%
LAN Connect	18.9%	18.4%	15.1%	22%	54%

Sales increases are primarily due to volume, not price increases.

Sales to original equipment manufacturers (OEMs) increased from 20.6% in 1994 to 22.9% in 1995 and decreased to 20.0% in 1996. Sales to the distribution markets increased from 57.9% of net sales for 1994 to 61.2% and 65.9% for 1995 and 1996, respectively. The Company sees these markets continuing to grow.

The Company believes that revenue from its Remote Access and LAN Connect markets will continue to show rapid growth, while the multiuser market growth will slow.

NET SALES GRAPH

The first graph on page 17 shows net sales in millions of dollars for fiscal 1994, 1995 and 1996. Net sales dollars for 1994 were \$130.9, for 1995 were \$165.0, and, for 1996 were \$195.8.

COST OF SALES GRAPH

The second graph on page 17 shows cost of sales in millions of dollars for fiscal 1994, 1995 and 1996. Cost of sales dollars for 1994 were \$63.1, for 1995 were \$78.9, and, for 1996 were \$93.1.

GROSS MARGIN

Gross margin increased slightly from 52.2% of net sales in 1995 to 52.5% in 1996. Gross margin increased from 51.8% to 52.2% from 1994 to 1995, due primarily to purchasing efficiencies and product redesign.

GROSS MARGIN GRAPH

The third graph on page 17 shows gross margin as a percent of net sales for fiscal 1994, 1995 and 1996. Gross margin for 1994 was 51.8%, for 1995 was 52.2%, and, for 1996 was 52.5%.

OPERATING EXPENSES

Operating expenses for 1996 increased 40.9% over such expenses for 1995 and increased as a percent of sales to 42.2% for 1996 as compared to 35.6% for 1995. Operating expenses for 1995 had increased 34.6% over 1994, while such expenses as a percent of sales, increased from 33.3% in 1994. The 1996 increases were primarily due to increases in research and development for new products, including the effect of the acquisition of LAN Access Corporation located in Torrance, Calif., late in fiscal 1995, the opening of two new research and development facilities in Huntsville, Ala. and Redmond, Wash., as well as additional marketing costs in connection with new product introductions, programs for the establishment of the Company in the Remote Access and LAN Connect markets, and the consolidation, under the "Digi" brand, of products previously sold under the identities of subsidiaries of the Company. The 1996 general and administrative expenses increased due to expansion of and upgrades to the Company's infrastructure, including a new corporate headquarters, three new research and

development sites, three additional international sales offices and increased systems capabilities. The 1995 increases in operating expenses were due primarily to increased research and development spending for new products and markets, principally for Remote Access and LAN Connect markets, plus increased staffing levels. The Company expects to continue the funding levels for new product development, but also expects the marketing costs to level off after the first quarter of fiscal 1997.

SALES AND MARKETING GRAPH

This graph shows sales and marketing expenses in millions of dollars for fiscal 1994, 1995 and 1996. Sales and marketing dollars for 1994 were \$22.5, for 1995 were \$31.5, and, for 1996 were \$44.1.

GENERAL AND ADMINISTRATIVE GRAPH

This graph shows general and administrative expenses in millions of dollars for fiscal 1994, 1995 and 1996. General and administrative dollars for 1994 were \$11.2, for 1995 were \$12.5, and, for 1996 were \$17.9.

RESEARCH AND DEVELOPMENT GRAPH

This graph shows research and development expenses in millions of dollars for fiscal 1994, 1995 and 1996. Research and development dollars for 1994 were \$9.8, for 1995 were \$14.7, and, for 1996 were \$20.6.

TOTAL OPERATING EXPENSES GRAPH

This graph shows total operating expenses in millions of dollars for fiscal 1994, 1995 and 1996. Total operating dollars for 1994 were \$43.6, for 1995 were \$58.6, and, for 1996 were \$82.6.

OTHER INCOME

Other income for 1996 declined by 83% from 1995 levels due primarily to lower interest income resulting from a decrease in invested funds as well as the loss on disposal of capital assets. The increase in other income from 1994 to 1995 resulted from an increase of available funds and an increase in interest rates.

AETHERWORKS CORPORATION OPERATING LOSSES

During 1996, the Company purchased secured convertible notes from AetherWorks Corporation, a development stage company engaged in the development of wireless and dial-up remote access technology. The Company has reported its investment in AetherWorks on the equity method and has recorded a \$3.6 million loss representing 100% of the AetherWorks losses for 1996. The percentage of the AetherWorks losses recorded by the Company is based upon the percentage of financial support provided by the Company (versus other investors) to AetherWorks during the year. The Company anticipates that AetherWorks' losses for 1997 will be greater than 1996 levels.

INCOME TAXES

The Company's effective income tax rate increased from 34.2% in 1995 to 44.7% in 1996 due primarily to the non-deductibility of the AetherWorks losses. The effective tax rate in the fourth quarter of 1996, excluding Aetherworks was 36.7%. The increase in the effective rate from 1994 to the 1995 rate of 34.2% resulted primarily from a decrease in the federal R&D credit.

INFLATION AND OTHER

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

Due principally to anticipated OEM (original equipment manufacturer) revenue shortfalls and delays in new product rollouts, the Company believes it will likely report earnings in fiscal first quarter 1997 lower than analyst expectations. The range of estimates for first quarter 1997 earnings per share is \$.23 - \$.27 per share, according to First Call.

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its operations principally with funds generated from operations and proceeds remaining from earlier public stock offerings.

During 1996, the Company sold in excess of \$27.9 million in marketable securities to finance growth in accounts receivable and inventories, as well as to fund new product technology. The increase in accounts receivable for 1996 was due primarily to increased sales volume, particularly late in the 1996 fiscal year. The 1996 inventory increase is reflective of expanded product lines and anticipated increased sales levels.

Investing activities for 1996 consisted primarily of the redemption of maturing investments offset by purchases of property and equipment, and the purchase of \$5.3 million in secured convertible notes from AetherWorks Corporation. The Company is obligated to purchase up to an additional \$8.5 million secured convertible notes from time

to time at the request of AetherWorks, based on certain conditions. Secured convertible notes held by the Company are presently convertible into 52% of AetherWorks' common stock, and the purchase of \$8.5 million additional principal amount of secured notes would increase the Company's ownership portion upon conversion to 62.7% based on AetherWorks' present capitalization. In connection with the financing arrangement, the Company has also guaranteed \$1.1 million in lease obligations incurred by AetherWorks. Subsequent to September 30, 1996, the Company purchased \$1.5 million in additional secured notes.

During 1996, the Company made open market purchases of the Company's common stock aggregating \$7.3 million pursuant to a 1-million-share repurchase program authorized by the Company's Board of Directors on March 27, 1995. On January 31, 1996, the Board of Directors authorized a separate 500,000-share repurchase program for the purpose of purchasing Common Stock to be utilized for the Company's Employee Stock Purchase Plan, which purchase will be funded through employee withholding. The Company's Board of Directors suspended all existing stock purchase programs at its October 1996 board meeting.

Investing activities for 1995 included new investments of excess cash, reinvestment of maturing investments, \$4.5 million for purchase of a new office and research facility plus the acquisition of LAN Access Corporation.

At September 30, 1996, the Company had working capital of \$69.7 million and no debt. The Company has negotiated a \$5 million unsecured line of credit with its bank, but has not utilized such line. The Company's management believes that current financial resources, cash generated from operations and the Company's potential capacity for debt and/or equity financing will be sufficient to fund current and anticipated business operations.

FOREIGN CURRENCY TRANSLATION

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

FORWARD-LOOKING STATEMENTS

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

- CONTINUED GROWTH IN SALES OF THE COMPANY'S REMOTE ACCESS AND LAN CONNECT PRODUCTS - General market conditions and competitive conditions within these markets, development and acceptance of new products offered by the Company, and the introduction of products by competitors in these markets.
- THAT SALES OF THE COMPANY'S MULTIUSER PRODUCTS MAY GROW AT A REDUCED RATE - Potential market penetration in emerging third world countries and the development of new applications for these products in existing markets.
- CONTINUED INCREASE IN OEM SALES - OEM orders are subject to cancellation at the option of the customer, and are subject to greater quarterly fluctuations than sales through the Company's other channels, as well as competitive conditions in markets served by the Company's OEM customers. OEM sales could also be adversely impacted by component shortages.
- THE EXPECTATION THAT MARKETING EXPENSES WILL LEVEL OFF AFTER THE FIRST QUARTER OF FISCAL 1997 - This expectation may be adversely impacted by presently unanticipated expenses or opportunities.
- THE EXPECTATION THAT THE AETHERWORKS CORPORATION LOSSES FOR 1997 WILL BE GREATER THAN 1996 LEVELS - This expectation may be impacted by presently unanticipated revenue opportunities or by unanticipated expenses.
- THE EXPECTATION THAT EARNINGS WILL BE LOWER THAN ANALYST EXPECTATIONS FOR FISCAL FIRST QUARTER 1997 - This expectation may be impacted by presently unanticipated revenue opportunities or by unanticipated expenses.

CONSOLIDATED STATEMENTS OF OPERATIONS

 DIGI INTERNATIONAL INC.

FISCAL YEARS ENDED SEPTEMBER 30	1996	1995	1994

NET SALES	\$ 195,832,640	\$ 164,978,018	\$ 130,945,343
Cost of sales	93,108,624	78,933,221	63,100,733

GROSS MARGIN	102,724,016	86,044,797	67,844,610

Operating expenses:			
Sales & marketing	44,079,859	31,497,005	22,518,353
Research & development	20,624,274	14,676,683	9,833,859
General & administrative	17,922,536	12,472,581	11,208,071

TOTAL OPERATING EXPENSES	82,626,669	58,646,269	43,560,283

OPERATING INCOME	20,097,347	27,398,528	24,284,327

Other income, principally interest	331,789	1,967,565	1,066,765
AetherWorks Corporation net loss	(3,623,776)		

Income before income taxes	16,805,360	29,366,093	25,351,092
Provision for income taxes	7,505,140	10,035,000	8,650,000

NET INCOME	\$ 9,300,220	\$ 19,331,093	\$ 16,701,092

Income per common and common equivalent share:	\$.69	\$ 1.38	\$ 1.15

Weighted average common and common equivalent shares outstanding	13,522,905	14,057,109	14,510,569

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED
 FINANCIAL STATEMENTS.

CONSOLIDATED BALANCE SHEETS

DIGI INTERNATIONAL INC.

AS OF SEPTEMBER 30

1996

1995

ASSETS

Current assets:

Cash and cash equivalents	\$ 8,943,390	\$ 5,103,731
Marketable securities, at cost		27,968,775
Accounts receivable, net	42,874,898	31,960,936
Inventories, net	33,372,164	27,019,085
Income tax refunds receivable	1,675,626	130,165
Other	2,825,828	2,094,893

TOTAL CURRENT ASSETS 89,691,906 94,277,585

Property, equipment and improvements, net	24,230,101	17,716,819
Intangible assets, net	10,854,845	11,633,305
Investment in AetherWorks Corporation	1,672,749	
Other	3,489,228	2,415,755

TOTAL ASSETS \$ 129,938,829 \$ 126,043,464

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable	\$ 12,549,738	\$ 12,106,515
Accrued expenses		
Advertising	3,761,619	2,235,946
Compensation	1,622,549	4,932,987
Other	2,061,782	941,469

TOTAL CURRENT LIABILITIES 19,995,688 20,216,917

Commitments

Stockholders' equity:

Preferred stock, \$.01 par value; 2,000,000 shares authorized; none outstanding		
Common stock, \$.01 par value; 60,000,000 shares authorized; 14,677,150 and 14,562,958 shares outstanding	146,772	145,630
Additional paid-in capital	42,866,758	41,306,320
Retained earnings	90,904,746	81,604,526

	133,918,276	123,056,476
Unearned stock compensation	(295,156)	(598,387)
Treasury stock, at cost, 1,338,894 and 1,032,729 shares	(23,679,979)	(16,631,542)

TOTAL STOCKHOLDERS' EQUITY 109,943,141 105,826,547

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY \$ 129,938,829 \$ 126,043,464

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF CASH FLOWS

DIGI INTERNATIONAL INC.

FOR THE YEARS ENDED SEPTEMBER 30	1996	1995	1994
OPERATING ACTIVITIES:			
Net income	\$ 9,300,220	\$ 19,331,093	\$ 16,701,092
Adjustments to reconcile net income to cash (used in) provided by operating activities:			
Depreciation of property and equipment	5,017,735	2,289,554	1,491,964
AetherWorks Corporation net loss	3,623,776		
Amortization of intangibles	1,320,457	1,132,006	1,139,076
Loss on sale of fixed assets	238,222		
Provision for losses on accounts receivable	262,164	243,895	608,001
Provision for inventory obsolescence	1,455,895	716,300	1,071,741
Deferred income taxes	(393,153)	(84,750)	(80,000)
Stock compensation	204,973	166,667	153,076
Changes in operating assets and liabilities:			
Accounts receivable	(11,176,126)	(10,457,106)	(7,452,502)
Inventories	(7,808,974)	(4,043,377)	(9,785,911)
Income taxes payable/receivable	(1,545,461)	(1,157,823)	279,746
Other assets	(1,953,252)	(1,266,098)	(345,891)
Accounts payable	443,223	7,420,550	(833,303)
Accrued expenses	(664,452)	1,365,901	(363,231)
Total adjustments	(10,974,973)	(3,674,281)	(14,117,234)
Net cash (used in) provided by operating activities	(1,674,753)	15,656,812	2,583,858
INVESTING ACTIVITIES:			
Purchase of property and equipment	(12,902,436)	(9,573,995)	(3,944,632)
Proceeds from sale of fixed assets	1,133,197		
Proceeds from held-to-maturity marketable securities	20,640,962	25,004,985	41,480,965
Proceeds from available-for-sale marketable securities	13,060,000		
Purchases of held-to-maturity marketable securities	(482,187)	(21,751,326)	(31,194,880)
Purchases of available-for-sale marketable securities	(5,250,000)	(7,810,000)	
Business acquisitions, net of cash acquired		(5,487,374)	(2,536,766)
Investment in AetherWorks Corporation	(5,296,525)		
Net cash provided by (used in) investing activities	10,903,011	(19,617,710)	3,804,687
FINANCING ACTIVITIES:			
Purchase of treasury stock	(7,048,437)	(5,930,313)	(11,152,498)
Stock option transactions	1,659,838	1,145,925	781,712
Net cash used in financing activities	(5,388,599)	(4,784,388)	(10,370,786)
Net increase (decrease) in cash and cash equivalents	3,839,659	(8,745,286)	(3,982,241)
Cash and cash equivalents, beginning of year	5,103,731	13,849,017	17,831,258
Cash and cash equivalents, end of year	\$ 8,943,390	\$ 5,103,731	\$ 13,849,017
Supplemental cash flow disclosure: Income taxes paid	\$ 8,944,627	\$ 10,815,846	\$ 7,878,279

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

DIGI INTERNATIONAL INC. For the years ended September 30, 1996, 1995 and 1994

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Unearned Stock Compensation	Total Stockholders' Equity
	Shares	Par Value	Shares	Value				
Balances, September 30, 1993	14,178,336	\$141,783	229	(\$4,981)	\$35,190,341	\$45,572,341	(\$432,626)	\$80,466,858
Treasury stock, at cost			780,000	(11,152,498)				(11,152,498)
Issuance of stock options at below market prices					182,554		(182,554)	
Stock compensation							153,076	153,076
Issuance of stock for MiLAN purchase	186,100	1,861	(25,000)	456,250	3,705,823			4,138,934
Issuance of stock upon exercise of stock options, net of withholding	110,227	1,103			207,635			208,738
Tax benefit realized upon exercise of stock options					571,975			571,975
Forfeiture of stock options					(69,772)		69,772	
Net income						16,701,092		16,701,092
Balances, September 30, 1994	14,474,663	144,747	755,229	(10,701,229)	39,788,556	62,273,433	(392,332)	91,113,175
Treasury stock, at cost			277,500	(5,930,313)				(5,930,313)
Issuance of stock options at below market prices					448,750		(448,750)	
Stock compensation							166,667	166,667
Issuance of stock upon exercise of stock options, net of withholding	88,295	883			683,315			684,198
Tax benefit realized upon exercise of stock options					461,727			461,727
Forfeiture of stock options					(76,028)		76,028	
Net income						19,331,093		19,331,093
Balances, September 30, 1995	14,562,958	145,630	1,032,729	(16,631,542)	41,306,320	81,604,526	(598,387)	105,826,547
Treasury stock, at cost			306,165	(7,048,437)				(7,048,437)
Issuance of stock options at below market prices					12,500		(12,500)	
Stock compensation							204,973	204,973
Issuance of stock upon exercise of stock options, net of withholding	114,192	1,142			1,159,569			1,160,711
Tax benefit realized upon exercise of stock options					499,127			499,127
Forfeiture of stock options					(110,758)		110,758	
Net income						9,300,220		9,300,220
Balances, September 30, 1996	14,677,150	\$146,772	1,338,894	(\$23,679,979)	\$42,866,758	\$90,904,746	(\$295,156)	\$109,943,141

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS DESCRIPTION

Digi International Inc. (the Company) is a leading ISO 9001-compliant provider of data communications hardware and software that delivers seamless connectivity solutions for multiuser environments, Remote Access and LAN Connect markets. The Company markets its products through an international network of distributors and resellers, system integrators and original equipment manufacturers (OEMs).

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

CASH EQUIVALENTS AND MARKETABLE SECURITIES

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents, while those having original maturities in excess of three months are classified as marketable securities and generally consist of U.S. Government or U.S. Government-backed obligations. Marketable securities classified as held-to-maturity are carried at amortized cost. Marketable securities classified as available-for-sale are recorded at market value. (See Note 3)

REVENUE RECOGNITION

Sales are recognized at the date of shipment. Estimated warranty costs and customer returns are recorded at the time of sale. Accounts receivable are net of allowances for returns and doubtful accounts of \$735,442 at September 30, 1996 and \$656,500 at September 30, 1995.

INVENTORIES

Inventories are stated at the lower of cost or market, with cost determined on the first-in, first-out method. Market for raw materials is based on replacement cost and for other inventory classifications on net realizable value. Appropriate consideration is given to deterioration, obsolescence and other factors in evaluating net realizable value.

PROPERTY, EQUIPMENT AND IMPROVEMENTS

Property, equipment and improvements are carried at cost. Depreciation is provided by charges to operations using the straight-line method based on estimated useful lives.

Expenditures for maintenance and repairs are charged to operations as incurred, while major renewals and betterments are capitalized. The assets and related accumulated depreciation accounts are adjusted for asset retirements and disposals with the resulting gain or loss included in operations.

INTANGIBLE ASSETS

Purchased technology, license agreements, covenants not to compete and other intangible assets are recorded at cost. Goodwill represents the excess of cost over the fair value of assets acquired and is being amortized on a straight-line basis over its estimated useful life of 10 to 15 years. All other intangible assets are amortized on a straight-line basis over their estimated useful lives of one to five years.

The Company periodically, at least quarterly, analyzes intangible assets for potential impairment, assessing the appropriateness of lives and recoverability of unamortized balances through measurement of undiscounted operating unit cash flows on a basis consistent with generally accepted accounting principles.

RESEARCH AND DEVELOPMENT

Research and development costs are expensed when incurred. Software development costs are expensed as incurred. Such costs are required to be expensed until the point that technological feasibility and proven marketability of the product are established. Costs otherwise capitalized after such point also are expensed because they are insignificant.

INCOME TAXES

Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Income tax expense is the tax payable for the period and the change during the period in deferred tax assets and liabilities.

Tax credits are accounted for under the flow-through method, which recognizes the benefit in the year in which the credit is utilized.

INCOME PER COMMON SHARE

Income per common share is computed by dividing net income by the weighted average number of shares of common stock and common stock equivalents outstanding during each period. Common stock equivalents result from dilutive stock options.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant areas which require the use of management's estimates relate to the determination of the allowance for obsolete inventory and uncollectable accounts receivable, along with accrued warranty costs and sales returns.

2. ACQUISITIONS

On November 15, 1993, the Company acquired MiLAN Technology Corporation, a provider of networking products, for stock and cash valued at approximately \$6.8 million. On September 29, 1995, the Company acquired LAN Access Corporation, a provider of remote access products, for cash of approximately \$5.5 million, substantially all of which was allocated to goodwill. These acquisitions have been accounted for as purchases. Results of operations since the effective dates of the transactions are included in the Consolidated Statement of Operations.

Pro forma data (unaudited) as though the acquisitions had been effective at the beginning of 1994 is as follows:

FOR THE YEARS ENDED SEPTEMBER 30

	1995	1994
Net sales	\$166,784	\$132,829
Net income	18,284	16,060
Net income per share	1.30	1.11

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

3. MARKETABLE SECURITIES

The Company adopted Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities (SFAS 115), as of September 30, 1994. The adoption of SFAS 115 did not impact net income or stockholders' equity for fiscal 1994. In accordance with SFAS 115, prior-period financial statements have not been restated to reflect the change in accounting principle.

Held-to-maturity marketable securities, which consist of state and political subdivision debt securities, will be held to their maturity of less than one year. As of September 30, 1996, the Company had no held-to-maturity marketable securities. At September 30, 1995, the amortized cost and estimated fair value were \$20,158,775 and \$20,232,038, respectively. Unrealized holding gains and losses were not significant.

Available-for-sale marketable securities, which consist of state and political subdivision debt securities, will be sold within the next year. As of September 30, 1996, the Company had no available-for-sale marketable securities. At September 30, 1995, the estimated fair value approximated amortized cost of \$7,810,000. Unrealized and realized gains and losses were not significant.

4. INVESTMENT IN AETHERWORKS CORPORATION

During 1996, under a financing arrangement, the Company purchased \$5,296,525 of convertible notes from AetherWorks Corporation, a development stage company engaged in the development of wireless and dial-up remote access technology. At September 30, 1996, the Company is obligated to purchase up to an additional \$8.5 million of convertible notes from time to time at the request of AetherWorks, based on certain conditions. The convertible notes held by the Company at September 30, 1996 are convertible into 52% of AetherWorks' common stock, and the purchase of \$8.5 million additional principal amount of convertible notes would increase the Company's ownership interest upon conversion to 62.7%, based on AetherWorks' present capitalization.

Subsequent to September 30, 1996, the Company purchased \$1.5 million of AetherWorks convertible notes. In connection with the financing arrangement, the Company has also guaranteed \$1.1 million of lease obligations incurred by AetherWorks.

The Company has reported its investment in AetherWorks on the equity method and has recorded a \$3.6 million loss. Such loss represents 100% of the AetherWorks net loss for the year ended September 30, 1996. 100% of AetherWorks losses have been recorded due to the Company providing 100% of the financial support for AetherWorks during the year.

Investment in AetherWorks Corporation consists of the following at September 30, 1996:

Convertible notes receivable	\$	5,296,525
Net loss		(3,623,776)

	\$	1,672,749

The following is condensed financial information related to AetherWorks Corporation:

BALANCE SHEET DATA, AS OF SEPTEMBER 30, 1996:

Current assets	\$	72,974
Fixed assets, net		3,869,245
Total assets		4,264,200
Current liabilities		4,607,397
Notes payable		5,296,525
Shareholders' deficit		(5,639,721)

OPERATING DATA FOR THE YEAR ENDED SEPTEMBER 30, 1996:

Operating expenses:		
Research and development	\$	2,531,046
General and administrative		922,570
Other		594,482
Eliminations		(424,322)

Net loss		(3,623,776)

5. SELECTED BALANCE SHEET DATA

	1996	1995

Inventories:		
Raw materials	\$ 19,145,019	\$ 13,288,953
Work in process	10,469,315	7,645,002
Finished goods	4,925,930	6,897,130

Less reserve for obsolescence	1,168,100	812,000

	\$ 33,372,164	\$ 27,019,085

Property, equipment and improvements:		
Land	\$ 1,800,000	\$2,103,174
Buildings	10,519,731	7,209,840
Improvements	631,362	274,811
Equipment	18,629,353	11,922,087
Purchased software	1,968,127	1,778,712
Furniture & fixtures	1,899,928	1,855,639

	35,448,501	25,144,263

Less accumulated depreciation	11,218,400	7,427,444

	\$ 24,230,101	\$ 17,716,819

Intangible assets:		
Purchased technology	\$ 1,672,850	\$ 1,621,858
License agreements	1,174,908	1,472,000
Covenants not to compete	520,250	1,670,000
Goodwill	11,185,506	11,418,393
Other	20,449	44,193

	14,573,963	16,226,444

Less accumulated amortization	3,719,118	4,593,139

	\$ 10,854,845	\$ 11,633,305

6. STOCK OPTIONS

The Company has a stock option plan (the "Plan") that provides for the issuance of nonstatutory stock options and incentive stock options (ISOs) to key employees and nonemployee board members holding less than 5% of the outstanding shares of the Company's common stock.

The option price for ISOs and board member options is set at fair market value of the Company's common stock on the date of grant. The option price for nonstatutory options is set by the Compensation Committee of the Board of Directors. The authority to grant options and set other terms and conditions rests with the Compensation Committee. The Plan terminates in 2004.

During the years ended September 30, 1996, 1995, and 1994, 114,192, 88,295, and 110,227 shares of the Company's Common Stock, respectively, were issued upon the exercise of options for 123,959, 95,367, and 122,200 shares, respectively. The difference between shares issued and options exercised results from the Plan's provision allowing employees to elect to pay their withholding obligation through share reduction. Withholding taxes paid by the Company as a result of the share withholding provision amounted to \$186,927 in 1996, \$413,000 in 1995, and \$223,000 in 1994.

During the years ended September 30, 1996, 1995, and 1994, the Board of Directors authorized the issuance of nonstatutory stock options totaling 2,500, 50,000, and 17,338 shares respectively, at prices below the market value of the stock. The difference between the option price and market value at the date of grant has been recorded as additional paid in capital. The compensation expense related to these shares is amortized over the five-year period in which the employees perform services and amounted to \$204,793 in 1996, \$166,667 in 1995, and \$153,076 in 1994.

STOCK OPTIONS AND COMMON SHARES RESERVED FOR GRANT UNDER THE PLAN ARE AS FOLLOWS:

	AVAILABLE FOR GRANT	OPTIONS OUTSTANDING	PRICE PER SHARE
Balances, September 30, 1993	283,400	739,300	\$.50 - 24.25
Granted	(293,338)	293,338	11.50 - 23.75
Exercised		(122,200)	11.50 - 24.25
Cancelled	17,100	(17,100)	11.83 - 23.75
Balances, September 30, 1994	7,162	893,338	\$.50 - 24.25
Additional shares approved for grant	2,000,000		
Granted	(808,375)	808,375	15.25 - 29.25
Exercised		(95,367)	.50 - 21.25
Cancelled	119,251	(119,251)	3.33 - 23.13
Balances, September 30, 1995	1,318,038	1,487,095	\$.50 - 29.25
Granted	(1,186,525)	1,186,525	14.25 - 28.50
Exercised		(123,959)	.50 - 21.25
Cancelled	223,001	(223,001)	9.40 - 28.50
Balances, September 30, 1996	354,514	2,326,660	\$.50 - 29.25

Of options outstanding at September 30, 1996, options for 535,422 shares were exercisable, at prices ranging from \$.50 to \$29.25 per share.

7. LINE OF CREDIT

During April of 1996, the Company negotiated a \$5,000,000 uncollateralized line of credit with its bank, to be used to fund general corporate cash needs, effective until February of 1997. The interest rate varies depending on the "base" or "prime" rate established by the bank. During fiscal 1996, the Company did not use this line of credit.

8. COMMITMENTS

The Company has entered into various operating lease agreements, the last of which expires in fiscal year 2003. Below is a schedule of future minimum commitments under noncancelable operating leases:

FISCAL YEAR	AMOUNT
1997	\$ 1,296,359
1998	1,148,472
1999	961,489
2000	892,203
2001	483,280
Thereafter	245,980

Total rental expense for all operating leases for the years ended September 30, 1996, 1995, and 1994 was \$965,710, \$946,000, and \$627,000, respectively.

9. INCOME TAXES

The components of the provision for income taxes for the years ended September 30, 1996, 1995, and 1994 are as follows:

	1996	1995	1994

Currently payable:			
Federal	\$6,977,337	\$ 9,505,650	\$8,364,428
State	920,956	614,100	365,572
Deferred	(393,153)	(84,750)	(80,000)

	\$7,505,140	\$10,035,000	\$8,650,000

The net deferred tax asset at September 30, 1996 and 1995 consists of the following:

	1996	1995
Valuation reserves	\$ 615,631	\$ 393,100
Inventory valuation	432,225	300,400
Vacation costs	311,250	178,700
Depreciation	(164,850)	(71,097)
Net deferred tax asset	\$ 1,194,256	\$ 801,103

The reconciliation of the statutory federal income tax rate with the effective income tax rate for the years ended September 30, 1996, 1995, and 1994 is as follows:

	1996	1995	1994
Statutory income tax rate	35.0%	35.0%	35.0%
Increase (reduction) resulting from:			
Utilization of research and development tax credits	(1.7)	(1.7)	(1.9)
State taxes, net of federal benefits	3.6	2.5	2.4
AetherWorks Corporation net loss	8.0		
Foreign and other	(.2)	(1.6)	(1.4)
	44.7%	34.2%	34.1%

10. FOREIGN SALES AND MAJOR CUSTOMERS

The Company maintains foreign sales offices, but does not otherwise have any foreign operations.

Foreign export sales primarily in Europe, comprised approximately 20%, 20%, and 21% of net sales for the years ended September 30, 1996, 1995, and 1994, respectively.

During 1996, one customer (customer C) accounted for 13.9% of net sales while another (customer A) accounted for 13.4%. During 1995, one customer (customer A) accounted for 12.5% of net sales and another customer (customer B) accounted for 11.7%. One customer (customer A) comprised 11.8% of net sales in 1994.

11. EMPLOYEE BENEFIT PLAN

The Company has a savings and profit sharing plan pursuant to Section 401(k) of the Internal Revenue Code ("the Code"), whereby eligible employees may contribute up to 15% of their earnings, not to exceed amounts allowed under the Code. In addition, the Company may make contributions at the discretion of the Board of Directors. During 1995 and 1994, the Company provided for matching contributions totaling \$125,000, and \$100,000 respectively. No contribution was made in 1996.

12. NEW ACCOUNTING STANDARDS

The Financial Accounting Standards Board (FASB) has issued Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-lived Assets and for Long-lived Assets to be Disposed of," and Statement No. 123, "Accounting for Stock-Based Compensation." The Company plans to adopt these statements in fiscal 1997. With regards to Statement No. 123, the Company intends to follow the option that permits entities to continue to apply current accounting standards to stock-based employee compensation arrangements. Effective with year-end 1997 reporting, the Company will disclose pro forma net income and earnings per share amounts as if Statement No. 123 accounting was applied. The Company does not expect the adoption of Statement No. 121 to have a materially adverse effect on its financial position or results of operations.

13. EVENT (UNAUDITED) SUBSEQUENT TO DATE OF INDEPENDENT ACCOUNTANTS REPORT

On January 3, 1997, the Company and certain of its previous officers were named as defendants in a putative securities class action lawsuit in the United States District Court for Minnesota on behalf of an alleged class of purchasers of its common stock during the period January 25, 1996, through December 23, 1996, inclusive. The complaint in the action alleges the Company and certain of its previous officers violated federal securities laws by, among other things, misrepresenting and/or omitting material information concerning the Company's operations and financial results. This lawsuit is in a preliminary stage and, accordingly, its ultimate outcome cannot be determined at this time.

REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the consolidated balance sheets of Digi International Inc. and subsidiaries as of September 30, 1996 and 1995, and the related consolidated statements of operations, cash flows and stockholders' equity for each of the three years in the period ended September 30, 1996. 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. As discussed in Note 4, the Company has recorded its investment in AetherWorks Corporation (AetherWorks) on the equity method; the 1996 consolidated statement of operations includes the AetherWorks net loss for the year ended September 30, 1996 of \$3,623,776. We did not audit the financial statements of AetherWorks, which statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for AetherWorks, is based solely on the report of other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and, for the year ended September 30, 1996, the report of other auditors provides a reasonable basis for our opinion.

In our opinion, based on our audits and, for the year ended September 30, 1996, the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Digi International Inc. and subsidiaries as of September 30, 1996 and 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 30, 1996, in conformity with generally accepted accounting principles.

/s/ Coopers & Lybrand L.L.P.

Minneapolis, Minnesota
December 20, 1996

Quarterly Financial Data	(UNAUDITED)			
(in thousands except per share amounts)	Dec. 31	Mar. 31	June 30	Quarter Ended Sept. 30
1996				
Net sales	\$ 43,866	\$ 48,498	\$ 50,317	\$ 53,152
Gross margin	23,879	25,916	25,125	27,804
AetherWorks Corporation net loss	(279)	(656)	(1,204)	(1,485)
Net income (loss)	4,522 (a)	4,620 (a)	(51) (a)	209
Net income per share	.33 (a)	.34 (a)	(0) (a)	.02
1995				
Net sales	37,879	40,076	41,179	45,844
Gross margin	19,745	21,169	22,131	23,000
Net income	4,491	4,597	4,847	5,396
Net income per share	.32	.33	.35	.38
1994				
Net sales	25,989	31,647	35,185	38,124
Gross margin	14,736	16,672	17,696	18,741
Net income	4,036	4,123	4,216	4,326
Net income per share	.28	.28	.29	.31

The summation of quarterly net income per share may not equate to the year-end calculation as quarterly calculations are performed on a discrete basis.

(a) Restated for inclusion of AetherWorks Corporation net loss.

DIRECTORS AND OFFICERS

DIRECTORS

JOHN P. SCHINAS (3) Mr. Schinas is a founder of the Company and has been its Chairman of the Board since July 1991. He has been a member of the Board of Directors since the Company's inception in July 1985 and served as the Company's CEO from July 1985 to January 1992.

WILLIS K. DRAKE (2) Mr. Drake has been a member of the Board of Directors since 1987 and a private investor since 1983.

RICHARD E. EICHHORN (1) (2) Mr. Eichhorn has been a member of the Board of Directors since 1987. Since April 1992, Mr. Eichhorn has been a private investor.

ERVIN F. KAMM, JR. Mr. Kamm has been a member of the Board of Directors since December 1, 1994 and was named President and CEO November 30, 1994. Mr. Kamm was President and Chief Operating Officer of Norstan, Inc., from 1988 to 1994. Prior to Norstan, Mr. Kamm held a variety of CEO/COO positions with privately held companies.

ROBERT S. MOE Mr. Moe has been a member of the Board of Directors since October 1996. From 1981 to his retirement in 1993, he was the Chief Financial Officer of Polaris Industries, Minneapolis, a manufacturer of snowmobiles, all-terrain vehicles and personal watercraft.

MYKOLA MOROZ Mr. Moroz has been a member of the Board of Directors since July 1991. Mr. Moroz was a founder of the Company and CEO from January 1992 to September 1994. Mr. Moroz was Chief Operating Officer of the Company from July 1991 to January 1992. From October 1985 to July 1991, he occupied various management positions with the Company. He is now a private consultant.

DAVID STANLEY (1) (3) Mr. Stanley has been a member of the Board of Directors of the Company since 1990. Mr. Stanley has been Chairman and CEO of Payless Cashways, Inc., a building materials retailer, since 1984.

- (1) AUDIT COMMITTEE
- (2) COMPENSATION COMMITTEE
- (3) CORPORATE GOVERNANCE AND NOMINATING COMMITTEE

CORPORATE OFFICERS

ERVIN F. KAMM, JR.
President and Chief Executive Officer

DOUGLAS J. GLADER
Vice President

MICHAEL D. KELLEY
Vice President

JONATHON E. KILLMER
Vice President, Chief Financial Officer
and Treasurer

DAVID M. RZASA
Vice President

DANA R. NELSON
Vice President

RAY D. WYMER
Vice President

JAMES E. NICHOLSON
Partner, Faegre & Benson LLP
Secretary

CORPORATE GOVERNANCE

- - The majority of the board's membership is comprised of outside directors.
- - The compensation and audit committees are comprised of all outside directors.
- - The positions of Chairman of the Board and Chief Executive Officer are separate.
- - The corporate governance and nominating committee is comprised of the Chairman and two outside directors.

STOCKHOLDER AND INVESTOR INFORMATION

STOCK LISTING

The Company's common stock has been publicly traded since its initial public offering on October 5, 1989. The Company's common stock trades on the Nasdaq National Market tier of The Nasdaq Stock Market-SM- under the symbol "DGII." At December 13, 1996, the number of holders of the Company's Common Stock was approximately 11,709 consisting of 415 record holders and approximately 11,294 stockholders whose stock is held by a bank, broker or other nominee.

High and low sale prices for each quarter during the years ended September 30, 1996 and 1995, as reported on The Nasdaq Stock Market were as follows:

1996	First	Second	Third	Fourth
High	\$ 28.75	\$ 30.00	\$ 30.75	\$ 27.375
Low	17.125	17.75	23.875	11.875
1995	First	Second	Third	Fourth
High	\$ 19.25	\$ 24.25	\$ 26.00	\$ 30.25
Low	13.25	18.00	18.25	22.00

DIVIDEND POLICY

The Company has never paid cash dividends on its common stock. The Board of Directors presently intends to retain all earnings for use in the Company's business and does not anticipate paying cash dividends in the foreseeable future.

The Company does not have a Dividend Reinvestment Plan or a Direct Stock Purchase Plan.

STOCKHOLDER INFORMATION

TRANSFER AGENT AND REGISTRAR

Norwest Bank Minnesota, N.A.
 Norwest Shareowners Services
 P.O. Box 64854
 St. Paul, MN 55164-0854
 (612) 450-4064
 (800) 468-9716

LEGAL COUNSEL

Faegre & Benson LLP
 2200 Norwest Center
 Minneapolis, MN 55402-3901

INDEPENDENT PUBLIC ACCOUNTANTS

Coopers & Lybrand L.L.P.
 650 Third Avenue South
 Minneapolis, MN 55402-4333

ANNUAL MEETING The Company's Annual Meeting of Stockholders will be held on Thursday, January 30, 1997, at 3:30 pm, at Radisson Plaza Hotel, 35 South Seventh Street, Minneapolis, Minn.

INVESTOR RELATIONS: A COPY OF THE COMPANY'S FORM 10-K, FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, IS AVAILABLE FREE UPON WRITTEN REQUEST. CONTACT:

MAUREEN MCGARRIGLE
 DIRECTOR, INVESTOR RELATIONS
 DIGI INTERNATIONAL INC.
 11001 BREN ROAD EAST
 MINNETONKA, MN 55343
 (612) 912-3444
 EMAIL: IR@DGII.COM

REPORT OF INDEPENDENT ACCOUNTANTS

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

Our report on the consolidated financial statements of Digi International Inc. has been incorporated by reference in this Form 10-K from page 30 of the 1996 Annual Report to Stockholders of Digi International Inc. In connection with our audits of such financial statements, we have also audited the related financial statement schedule listed in Item 14(a)2 on page 15 of this Form 10-K.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basis financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

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

Minneapolis, Minnesota
December 20, 1996

Report of Independent Auditors

Board of Directors and Shareholders
AetherWorks Corporation

We have audited the accompanying balance sheets of AetherWorks Corporation (a development stage company) as of September 30, 1996 and 1995, and the related statements of operations, shareholders' equity (deficit) and cash flows for the year ended September 30, 1996, the eighteen month period ended September 30, 1995 and the period from February 24, 1993 (inception) to September 30, 1996. 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 generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of AetherWorks Corporation (a development stage company) at September 30, 1996 and 1995, and the results of its operations and its cash flows for the year ended September 30, 1996, the eighteen month period ended September 30, 1995 and the period from February 24, 1993 (inception) to September 30, 1996, in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 16 to the financial statements, the Company's deficit accumulated during the development stage raises substantial doubt about its ability to continue as a going concern. The Company intends to obtain additional financing to permit it to continue its operations. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Ernst & Young LLP

/s/ Ernst & Young LLP

Minneapolis, Minnesota
November 8, 1996

Digi International Inc.
Schedule II
Valuation and Qualifying Accounts

		Balance at Beginning of Year -----	Charged to Expense -----	Charged to Other Accounts -----	Deductions from Allowance -----	Balance at End of Year -----
Deducted from Accounts Receivable- Allowance for Doubtful Accounts:						
Year ended September 30:	1994	\$359,000	\$ 608,001	\$84,581(2)	\$ 410,082(1)	\$ 641,500
		-----	-----	-----	-----	-----
	1995	\$641,500	\$ 243,895		\$ 228,895(1)	\$ 656,500
		-----	-----		-----	-----
	1996	\$656,500	\$ 262,164		\$ 183,222(1)	\$ 735,442
		-----	-----		-----	-----
Deducted from Inventory-Allowance for Inventory Obsolescence:						
Year ended September 30:	1994	\$355,000	\$1,071,741	\$72,441(2)	\$ 817,182(3)	\$ 682,000
		-----	-----	-----	-----	-----
	1995	\$682,000	\$ 716,300		\$ 586,300(3)	\$ 812,000
		-----	-----		-----	-----
	1996	\$812,000	\$1,455,895		\$1,099,735(3)	\$1,168,176
		-----	-----		-----	-----

- (1) Uncollectible accounts charged against allowance.
- (2) Balance of Milan Technology Corporation at date of acquisition.
- (3) Scrapped inventory charged against allowance.

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

EXHIBIT 21

SUBSIDIARIES OF REGISTRANT

DIGI INTERNATIONAL ASIA PTE., LTD.
DIGI INTERNATIONAL GMBH
DIGIBOARD INCORPORATED FSC
DIGI INTERNATIONAL ISRAEL INC.

EXHIBIT 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Form S-8 registration statements (File No. 33-32956, File No. 33-38898, and File No. 333-99) of Digi International Inc. for its Stock Option Plan; Form S-3 Registration Statement (File No. 33-59223) of Digi International Inc. for the common shares issued as part of the MiLAN Technologies acquisition; and, Form S-8 (File No. 333-1821) of Digi International Inc. for its Employee Stock Purchase Plan of our report dated November 8, 1996, with respect to the financial statements of AetherWorks Corporation for the year ended September 30, 1996, the eighteen month period ended September 30, 1995 and the period from February 24, 1993 (inception) to September 30, 1996 included in the Annual Report (Form 10-K) of Digi International Inc. for the year ended September 30, 1996 filed with the Securities and Exchange Commission.

Ernst & Young LLP
/s/ Ernst & Young LLP

Minneapolis, Minnesota
December 27, 1996

EXHIBIT 23.2

CONSENT OF INDEPENDENT ACCOUNTANTS

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Form S-8 registration statements (File No. 33-32956, File No. 33-38898, and File No. 333-99) of Digi International Inc. for its Stock Option Plan; Form S-3 Registration Statement (File No. 33-59223) of Digi International Inc. for the common shares issued as part of the MiLAN Technologies acquisition; and, Form S-8 (File No. 333-1821) of Digi International Inc. for its Employee Stock Purchase Plan of our reports dated December 20, 1996, on our audits of the consolidated financial statements and financial statement schedule of Digi International Inc. as of September 30, 1996 and 1995, and for the years ended September 30, 1996, 1995 and 1994, which reports are included in or incorporated by reference in this Annual Report on Form 10-K.

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

Minneapolis, Minnesota
December 30, 1996

EXHIBIT 24
POWERS OF ATTORNEY

DIGI INTERNATIONAL INC.

Power of Attorney
of Director and/or Officer

The undersigned director and/or officer of Digi International Inc., a Delaware corporation, does hereby make, constitute and appoint Ervin F. Kamm, Jr. and Jonathon E. Killmer, and either of them, the undersigned's true and lawful attorneys-in-fact, with power of substitution, for the undersigned and in the undersigned's name, place and stead, to sign and affix the undersigned's name as such director and/or officer of said Corporation to an Annual Report on Form 10-K or other applicable form, and all amendments thereto, to be filed by said Corporation with the Securities and Exchange Commission, Washington, D.C., under the Securities Act of 1934, as amended, with all exhibits thereto and other supporting documents, with said Commission, granting unto said attorneys-in-fact, and either of them, full power and authority to do and perform any and all acts necessary or incidental to the performance and execution of the powers herein expressly granted.

IN WITNESS WHEREOF, the undersigned has hereunto set the undersigned's hand this 16th day of December, 1996.

/s/ Jonathon E. Killmer

Jonathon E. Killmer

DIGI INTERNATIONAL INC.

Power of Attorney
of Director and/or Officer

The undersigned director and/or officer of Digi International Inc., a Delaware corporation, does hereby make, constitute and appoint Ervin F. Kamm, Jr. and Jonathon E. Killmer, and either of them, the undersigned's true and lawful attorneys-in-fact, with power of substitution, for the undersigned and in the undersigned's name, place and stead, to sign and affix the undersigned's name as such director and/or officer of said Corporation to an Annual Report on Form 10-K or other applicable form, and all amendments thereto, to be filed by said Corporation with the Securities and Exchange Commission, Washington, D.C., under the Securities Act of 1934, as amended, with all exhibits thereto and other supporting documents, with said Commission, granting unto said attorneys-in-fact, and either of them, full power and authority to do and perform any and all acts necessary or incidental to the performance and execution of the powers herein expressly granted.

IN WITNESS WHEREOF, the undersigned has hereunto set the undersigned's hand this 23rd day of December, 1996.

/s/ Ervin F. Kamm, Jr.

Ervin F. Kamm, Jr.

DIGI INTERNATIONAL INC.

Power of Attorney
of Director and/or Officer

The undersigned director and/or officer of Digi International Inc., a Delaware corporation, does hereby make, constitute and appoint Ervin F. Kamm, Jr. and Jonathon E. Killmer, and either of them, the undersigned's true and lawful attorneys-in-fact, with power of substitution, for the undersigned and in the undersigned's name, place and stead, to sign and affix the undersigned's name as such director and/or officer of said Corporation to an Annual Report on Form 10-K or other applicable form, and all amendments thereto, to be filed by said Corporation with the Securities and Exchange Commission, Washington, D.C., under the Securities Act of 1934, as amended, with all exhibits thereto and other supporting documents, with said Commission, granting unto said attorneys-in-fact, and either of them, full power and authority to do and perform any and all acts necessary or incidental to the performance and execution of the powers herein expressly granted.

IN WITNESS WHEREOF, the undersigned has hereunto set the undersigned's hand this 23rd day of December, 1996.

/s/ Mykola Moroz

Mykola Moroz

DIGI INTERNATIONAL INC.

Power of Attorney
of Director and/or Officer

The undersigned director and/or officer of Digi International Inc., a Delaware corporation, does hereby make, constitute and appoint Ervin F. Kamm, Jr. and Jonathon E. Killmer, and either of them, the undersigned's true and lawful attorneys-in-fact, with power of substitution, for the undersigned and in the undersigned's name, place and stead, to sign and affix the undersigned's name as such director and/or officer of said Corporation to an Annual Report on Form 10-K or other applicable form, and all amendments thereto, to be filed by said Corporation with the Securities and Exchange Commission, Washington, D.C., under the Securities Act of 1934, as amended, with all exhibits thereto and other supporting documents, with said Commission, granting unto said attorneys-in-fact, and either of them, full power and authority to do and perform any and all acts necessary or incidental to the performance and execution of the powers herein expressly granted.

IN WITNESS WHEREOF, the undersigned has hereunto set the undersigned's hand this 20th day of December, 1996.

/s/ Willis K. Drake

Willie K. Drake

DIGI INTERNATIONAL INC.

Power of Attorney
of Director and/or Officer

The undersigned director and/or officer of Digi International Inc., a Delaware corporation, does hereby make, constitute and appoint Ervin F. Kamm, Jr. and Jonathon E. Killmer, and either of them, the undersigned's true and lawful attorneys-in-fact, with power of substitution, for the undersigned and in the undersigned's name, place and stead, to sign and affix the undersigned's name as such director and/or officer of said Corporation to an Annual Report on Form 10-K or other applicable form, and all amendments thereto, to be filed by said Corporation with the Securities and Exchange Commission, Washington, D.C., under the Securities Act of 1934, as amended, with all exhibits thereto and other supporting documents, with said Commission, granting unto said attorneys-in-fact, and either of them, full power and authority to do and perform any and all acts necessary or incidental to the performance and execution of the powers herein expressly granted.

IN WITNESS WHEREOF, the undersigned has hereunto set the undersigned's hand this 23rd day of December, 1996.

/s/ John P. Schinas

John P. Schinas

DIGI INTERNATIONAL INC.

Power of Attorney
of Director and/or Officer

The undersigned director and/or officer of Digi International Inc., a Delaware corporation, does hereby make, constitute and appoint Ervin F. Kamm, Jr. and Jonathon E. Killmer, and either of them, the undersigned's true and lawful attorneys-in-fact, with power of substitution, for the undersigned and in the undersigned's name, place and stead, to sign and affix the undersigned's name as such director and/or officer of said Corporation to an Annual Report on Form 10-K or other applicable form, and all amendments thereto, to be filed by said Corporation with the Securities and Exchange Commission, Washington, D.C., under the Securities Act of 1934, as amended, with all exhibits thereto and other supporting documents, with said Commission, granting unto said attorneys-in-fact, and either of them, full power and authority to do and perform any and all acts necessary or incidental to the performance and execution of the powers herein expressly granted.

IN WITNESS WHEREOF, the undersigned has hereunto set the undersigned's hand this 12th day of December, 1996.

/s/ David Stanley

David Stanley

DIGI INTERNATIONAL INC.

Power of Attorney
of Director and/or Officer

The undersigned director and/or officer of Digi International Inc., a Delaware corporation, does hereby make, constitute and appoint Ervin F. Kamm, Jr. and Jonathon E. Killmer, and either of them, the undersigned's true and lawful attorneys-in-fact, with power of substitution, for the undersigned and in the undersigned's name, place and stead, to sign and affix the undersigned's name as such director and/or officer of said Corporation to an Annual Report on Form 10-K or other applicable form, and all amendments thereto, to be filed by said Corporation with the Securities and Exchange Commission, Washington, D.C., under the Securities Act of 1934, as amended, with all exhibits thereto and other supporting documents, with said Commission, granting unto said attorneys-in-fact, and either of them, full power and authority to do and perform any and all acts necessary or incidental to the performance and execution of the powers herein expressly granted.

IN WITNESS WHEREOF, the undersigned has hereunto set the undersigned's hand this 17th day of December, 1996.

/s/ Richard E. Eichhorn

Richard E. Eichhorn

DIGI INTERNATIONAL INC.

Power of Attorney
of Director and/or Officer

The undersigned director and/or officer of Digi International Inc., a Delaware corporation, does hereby make, constitute and appoint Ervin F. Kamm, Jr. and Jonathon E. Killmer, and either of them, the undersigned's true and lawful attorneys-in-fact, with power of substitution, for the undersigned and in the undersigned's name, place and stead, to sign and affix the undersigned's name as such director and/or officer of said Corporation to an Annual Report on Form 10-K or other applicable form, and all amendments thereto, to be filed by said Corporation with the Securities and Exchange Commission, Washington, D.C., under the Securities Act of 1934, as amended, with all exhibits thereto and other supporting documents, with said Commission, granting unto said attorneys-in-fact, and either of them, full power and authority to do and perform any and all acts necessary or incidental to the performance and execution of the powers herein expressly granted.

IN WITNESS WHEREOF, the undersigned has hereunto set the undersigned's hand this 23rd day of December, 1996.

/s/ Robert S. Moe

Robert S. Moe

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OCT-01-1995
SEP-30-1996
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Aetherworks Corporation Net Loss