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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q/A

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

For the quarterly period ended: June 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 Number)

11001 Bren Road East  
Minnetonka, Minnesota 55343

-----  
(Address of principal executive offices) (Zip Code)

(612) 912-3444

-----  
(Registrant's telephone number, including area code)

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

Yes    X        No  
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On July 31, 1996, there were 13,308,297 shares of the registrant's \$.01 par value Common Stock outstanding.

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## PART I FINANCIAL INFORMATION

## ITEM 1: FINANCIAL STATEMENTS

DIGI INTERNATIONAL INC.  
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS FOR THE  
THREE MONTHS AND NINE MONTHS ENDED JUNE 30, 1996 AND 1995  
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30		NINE MONTHS ENDED JUNE 30	
	1996	1995	1996	1995
	----	----	----	----
Net sales	\$ 50,316,572	\$ 41,179,259	\$ 142,681,110	\$ 119,134,170
Cost of sales	25,191,439	19,048,547	67,760,818	56,089,539
	-----	-----	-----	-----
Gross margin	25,125,133	22,130,712	74,920,292	63,044,631
	-----	-----	-----	-----
Operating expenses:				
Sales & marketing	12,667,204	8,422,648	30,837,838	23,320,218
Research & development	5,418,486	3,838,933	13,991,515	10,289,890
General & administrative	5,073,797	2,983,629	13,178,447	9,266,713
	-----	-----	-----	-----
Total operating expenses	23,159,487	15,245,210	58,007,800	42,876,821
	-----	-----	-----	-----
Operating income	1,965,646	6,885,502	16,912,492	20,167,810
Other income (expense), net	(149,794)	610,450	394,841	1,428,656
AetherWorks Corporation net loss	(1,203,625)		(2,138,922)	
	-----	-----	-----	-----
Income before income taxes	612,227	7,495,952	15,168,411	21,596,466
Provision for income taxes	663,457	2,648,560	6,078,106	7,664,014
	-----	-----	-----	-----
Net income (loss)	\$ (51,230)	\$ 4,847,392	\$ 9,090,305	\$ 13,932,452
	-----	-----	-----	-----
	-----	-----	-----	-----
Income per common and common equivalent share	\$ -	\$ 0.35	\$ 0.66	\$ 0.99
	-----	-----	-----	-----
	-----	-----	-----	-----
Weighted average common and common equivalent shares outstanding	13,841,154	14,035,180	13,828,104	14,035,939
	-----	-----	-----	-----
	-----	-----	-----	-----

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

DIGI INTERNATIONAL INC.  
CONSOLIDATED CONDENSED BALANCE SHEETS

ASSETS	JUNE 30, 1996	SEPTEMBER 30, 1995
	-----	-----
Current assets:	(unaudited)	
Cash and cash equivalents	\$ 3,631,868	\$ 5,103,731
Marketable securities		27,968,775
Accounts receivable, net	40,998,055	31,960,936
Inventories, net	38,136,462	27,019,085
Other	5,175,576	2,225,058
	-----	-----
Total current assets	87,941,961	94,277,585
Property, equipment and improvements, net	24,820,549	17,716,819
Intangible assets, net	11,380,416	11,633,305
Investment in AetherWorks Corporation	2,657,602	
Other	4,306,240	2,415,755
	-----	-----
Total assets	\$ 131,106,768	\$ 126,043,464
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 17,516,008	\$ 12,106,515
Accrued expenses	4,296,628	8,110,402
	-----	-----
Total current liabilities	21,812,636	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; 14,656,026 and 14,562,958 shares outstanding	146,560	145,630
Additional paid-in capital	42,786,478	41,306,320
Retained earnings	90,694,831	81,604,526
	-----	-----
133,627,869	133,627,869	123,056,476
Less unearned stock compensation	(452,856)	(598,387)
Treasury stock, at cost, 1,347,729 and 1,032,729 shares	(23,880,881)	(16,631,542)
	-----	-----
Total stockholders' equity	\$ 109,294,132	\$ 105,826,547
	-----	-----
Total liabilities and stockholders' equity	\$ 131,106,768	\$ 126,043,464
	-----	-----

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

DIGI INTERNATIONAL INC.  
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS  
FOR THE NINE MONTHS ENDED JUNE 30, 1996 AND 1995  
(UNAUDITED)

	1996 ----	1995 ----
Operating activities:		
Net Income	\$ 9,090,305	\$ 13,932,452
Adjustments to reconcile net income to cash (used in) provided by operating activities:		
Depreciation and amortization	3,654,134	2,617,146
AetherWorks Corporation net loss	2,138,923	
Provision for losses on accounts receivable	323,838	113,927
Provision for inventory obsolescence	1,263,200	192,000
Stock compensation	158,031	106,461
Changes in operating assets and liabilities	(24,059,736)	(2,936,231)
	-----	-----
Net cash (used in) provided by operating activities	(7,431,305)	14,025,755
	-----	-----
Investing activities:		
Purchase of property, equipment and improvements	(11,417,259)	(4,698,119)
Sale (purchase) of marketable securities, net	27,968,775	(6,492,697)
Investment in AetherWorks Corporation	(4,796,525)	
	-----	-----
Net cash (used in) provided by investing activities	11,754,991	(11,190,816)
	-----	-----
Financing activities:		
Purchase of treasury stock	(7,249,339)	(5,930,313)
Stock option transactions, net	1,453,790	598,029
	-----	-----
Net cash used in financing activities	(5,795,549)	(5,332,284)
	-----	-----
Net decrease in cash and cash equivalents	(1,471,863)	(2,497,345)
Cash and cash equivalents, beginning of period	5,103,731	13,849,017
	-----	-----
Cash and cash equivalents, end of period	\$ 3,631,868	\$ 11,351,672
	-----	-----

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

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

1. BASIS OF PRESENTATION

The interim consolidated condensed financial statements included in this Form 10-Q/A have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been condensed or omitted, pursuant to such rules and regulations. These consolidated condensed financial statements should be read in conjunction with the financial statements and related notes thereto included in the Company's 1995 Annual Report and Form 10-K.

The consolidated condensed financial statements presented herein, as of June 30, 1996 and for the three month and nine month periods then ended, reflect, in the opinion of management, all adjustments (which consist only of normal, recurring adjustments) necessary for a fair presentation of financial position and the results of operations and cash flows for the periods presented. The results of operations for any interim period are not necessarily indicative of results for the full year.

2. INVESTMENT IN AETHERWORKS CORPORATION

Through June 30, 1996, the Company purchased \$4.8 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 \$9 million secured convertible notes from time to time at the request of AetherWorks, based on certain events. The Company has reported its investment in AetherWorks on the equity method and has recorded a \$1,203,645 loss for the quarter ended June 30, 1996 and a \$2,138,922 loss for the nine months ended June 30, 1996, which represents 100% of the AetherWorks' net loss for such periods. The percentage of AetherWorks' net loss included in the Company's financial statements is based upon the percentage of financial support provided by the Company (versus other investors) to AetherWorks during such periods.

NOTES TO CONSOLIDATED CONDENSED  
FINANCIAL STATEMENTS (CONTINUED)

3. INVENTORIES

Inventories are stated at the lower of cost or market, with cost determined on the first-in, first-out method. Inventories at June 30, 1996 and September 30, 1995 consist of the following:

	June 30	September 30
Raw materials	\$20,979,410	\$12,476,953
Work in process	11,246,767	7,645,002
Finished goods	5,910,285	6,897,130
	-----	-----
	\$38,136,462	\$27,019,085
	-----	-----

4. INCOME PER SHARE

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

5. COMMON STOCK

During the nine month period ended June 30, 1996, 93,068 shares of the Company's common stock were issued upon the exercise of outstanding stock options for 97,959 shares. The difference between the shares issued and options exercised results from the stock option plan's provision allowing the employees to elect to pay their withholding obligations through share reduction. Withholding taxes paid by the Company, as a result of the share reduction option, amounted to \$122,930.

On March 27, 1995, the Company's Board of Directors authorized a one million share repurchase program, which will be funded by available cash balances over an unspecified period of time. During the nine month period ended June 30, 1996, \$7,249,339 were used for treasury stock purchases. On January 31, 1996, the Company's Board of Directors authorized a separate 500,000 share repurchase program for the purpose of purchasing Common Stock for the Company's Employee Stock Purchase Plan.

6. RESTATEMENT

The consolidated condensed financial statements for the three months and nine months ended June 30, 1996, have been restated to reflect the accounting for the Company's investment in AetherWorks Corporation on the equity method. (See Note 2.)

In addition, results for the three months ended June 30, 1996 also have been restated to reflect additional third quarter costs related principally to returned goods and inventory adjustments amounting to approximately \$860,000 which were previously not included in operations for the period indicated.

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

RESULTS OF OPERATIONS

NET SALES

Sales for the three month and nine month period ended June 30, 1996 increased by \$9,137,313 and \$23,546,945 or 22.2% and 19.7%, respectively, over the corresponding periods ended June 30, 1995. Sales in all product markets increased over prior year periods, as set forth in the following table:

PRODUCT MARKET	QUARTERLY INCREASE	NINE MONTH PERIOD INCREASE	PERCENT OF NINE MONTH REVENUE
-----	-----	-----	-----
Multiuser	14.2%	14.4%	65.5%
Remote Access	50.3%	44.2%	16.3%
LAN Connect	30.8%	21.9%	18.2%

The Company believes that the revenues from sales of its Remote Access and LAN Connect products will continue to grow as a result of the Company's efforts to increase market awareness for products introduced earlier in fiscal year 1996, the introduction of new products, and growth in the market for Remote Access and LAN Connect products generally. The Company believes that sales of its Multiuser products may grow at a reduced rate or even decline as the market for such products continues to mature.

For the three month period ended June 30, 1996, sales to original equipment manufacturer ("OEM") customers across all product markets increased to \$11,186,288, representing 15.1% increase over sales for the three month period ended June 30, 1995, but decreased to 22.2% from 23.6% as a percent of total sales for the respective quarters, due to increased sales to distributors. For the nine month period ended June 30, 1996, OEM sales decreased by 1.6% from sales for the corresponding period in 1995, and decreased to 19.2% from 23.4%, respectively, as a percent to total sales for the period. The decrease in OEM business for the nine month period was due primarily to industry-wide allocation of components during the Company's first fiscal quarter. The Company expects the increase in OEM sales experienced in its most recent quarter to continue, based on firm orders and increased component availability.

International sales of the Company's products for the three month period ended June 30, 1996 increased by 10.6% over the three month period ended June 30, 1995. International sales for the nine month period ended June 30, 1996 increased by 19.6% over the corresponding period in 1995. International sales for the three month period ended June 30, 1996 accounted for approximately 18.1% of total sales, down from 20.7% in the previous quarter. Total international sales decreased 11.3% quarter to quarter, due primarily to softness in the European market.



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

RESULTS OF OPERATIONS (CONTINUED)

GROSS MARGIN

Gross margin as a percent of net sales decreased to 49.9% for the three month period ended June 30, 1996 from 53.7% for the three month period ended June 30, 1995. For the nine month period, gross margin as a percent of net sales was 52.5% for the period ended June 30, 1996 compared to 52.9% for the period ended June 30, 1995. The decrease in gross margin percentage for the three month period was due to increasing reserves for potential inventory obsolescence and to increased sales in the LAN Connect product market, which are typically lower margin products.

OPERATING EXPENSES

Operating expenses for the three month period ended June 30, 1996 increased 51.9% over operating expenses for the corresponding period ended June 30, 1995, and increased as a percent of sales to 46.0% for the three month period ended June 30, 1996 from 37.0% for the three month period ended June 30, 1995. Operating expenses for the nine month period ended June 30, 1996, increased by 35.3% over the corresponding period ended June 30, 1995, and increased as a percent of sales to 40.6% for the nine months ended June 30, 1996, from 36.0% for the corresponding period in 1995. The period increases primarily were due to the impact of expenditures planned for the previous quarter that were delayed to the third quarter and to the third quarter planned increases in research and development for new products and additional marketing costs in connection with new product introductions. Also impacting the quarter were the continuing programs for the establishment of the Company in the Remote Access and LAN Connect markets, the consolidation, under the "Digi" brand, of products formerly sold under the identities of subsidiaries of the Company, and to the expansion of and upgrades to the Company's infrastructure. A significant portion of the expenditures in connection with each of the foregoing was due to increases in personnel required to support such efforts.

The increased level of operating expenses were to be compensated for by the planned sales for the quarter which would have reduced operating expenses as a percent of sales. The shortfall in planned sales was not identified until late in the period, due to the fact that a majority of the Company's sales typically occur in the last month of the quarter.

OTHER INCOME, (EXPENSE)

Other income (expense), net for the three month period ended June 30, 1996 decreased by \$719,744. This change is primarily due to loss on the disposal of fixed assets and lower interest income resulting from a decrease in invested funds. For the nine month period ended June 30, 1996, other income (expense) decreased to \$394,841 from \$1,428,656 for the corresponding period in 1995. The period decreases are primarily the result of a decrease in funds invested.

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

RESULTS OF OPERATIONS (CONTINUED)

AETHERWORKS CORPORATION NET LOSS

In connection with the purchase of 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 the ability, under certain conditions, to convert its investment into a majority of AetherWorks' common stock. The Company has reported its investment in AetherWorks on the equity method and has recorded a \$1,203,645 loss for the quarter ended June 30, 1996 and a \$2,138,922 loss for the nine months ended June 30, 1996, which represents 100% of AetherWorks' net loss for such periods. The percentage of AetherWorks' net loss included in the Company's financial statements is based upon the percentage of financial support provided by the Company (versus other investors) to AetherWorks during such periods.

INCOME TAXES

The Company's effective income tax rate for the three month and nine month periods ended June 30, 1996 was 108% and 40%, respectively, compared to 35.3% and 35.5%, respectively, in the corresponding periods in 1995. The period increases are due to the non-deductibility of AetherWorks' losses. Excluding the AetherWorks losses, the Company's effective tax rate would have been 36.5% and 35.1% for the three and nine month periods ended June 30, 1996.

LIQUIDITY AND CAPITAL RESOURCES

The Company traditionally has financed its operations principally with funds generated from operations and proceeds from public stock offerings. From the time of its last public offering in 1991, the Company has financed its operations almost exclusively through funds generated from operations. The Company customarily holds excess funds generated from operations in the form of cash and cash equivalents and marketable securities.

In the nine months ended June 30, 1996, the Company sold in excess of \$27,968,775 in marketable securities to finance growth in the Company's accounts receivable and inventories, and its investment in AetherWorks, as well as the acquisition of new product technology. The increase in accounts receivable was due primarily to increased sales volume, particularly late in the quarter ended June 30, 1996. The Company increased inventories in anticipation of additional sales.

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

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

Investing activities for the nine month period ended June 30, 1996, consisted primarily of redemption of maturing investments offset by purchases of property, equipment and improvements and an increase in notes receivable. The increase in other assets arose from the sale of the Company's former corporate headquarters facility. The investment in AetherWorks Corporation resulted from the Company's purchase of 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, under the terms of amended and restated agreements, to purchase additional secured convertible notes aggregating \$9 million from time to time at the request of AetherWorks, based on certain conditions. Secured convertible notes held by the Company are presently convertible into 51% of AetherWorks' common stock, and the purchase of \$9 million additional principal amount of secured convertible notes would increase the Company's ownership position upon conversion to 62.7%, based on AetherWorks' present capitalization. The Company has reported its investment in AetherWorks on the equity method and has recorded a \$1,203,625 loss for the quarter ended June 30, 1996 and a \$2,138,922 loss for the nine months ended June 30, 1996, which represents 100% of the AetherWorks' net loss for such periods. The percentage of AetherWorks' net loss included in the Company's financial statements is based upon the percentage of financial support provided by the Company (versus other investors) to AetherWorks during such periods. The Company anticipates that the AetherWorks' losses will continue for fiscal 1996 and fiscal 1997 and that the 1997 levels will be greater than in 1996.

During the nine month period ended June 30, 1996, the Company made open market purchases of the Company's common stock aggregating \$7,249,339, pursuant to a one million share repurchase program authorized by the Company's board of directors on March 27, 1995. On January 31, 1996, the Company's 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.

At June 30, 1996, the Company had working capital of \$66.4 million and no debt. The Company has negotiated a \$5,000,000 unsecured line of credit with its bank. The Company's management believes that current financial resources, cash generated by operations and the Company's potential capacity for debt and/or equity financing will be sufficient to fund current and anticipated business operations.

The Financial Accounting Standards Board (FASB) has issued Statement No. 123, "Accounting for Stock-Based Compensation." The Company plans to adopt this Statement in fiscal year 1997. Although it has not made a definite determination of its impact, the Company does not expect the adoption of Statement No. 123 to have a materially adverse effect on its financial position or results of operations.

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

FORWARD-LOOKING STATEMENTS

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

- - 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 MULTI-USER PRODUCTS MAY GROW AT A REDUCED RATE OR EVEN DECLINE -- 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 TOTAL OPERATING EXPENSES WILL DECREASE IN ABSOLUTE DOLLARS IN THE FOURTH QUARTER OF FISCAL 1996 AND THE FIRST QUARTER OF FISCAL 1997 -- This expectation may be adversely impacted by presently unanticipated expenses or opportunities.
- - THE EXPECTATION THAT OPERATING EXPENSES WILL FURTHER DECREASE AS A PERCENT OF SALES -- Meeting this expectation depends upon the Company's ability to control costs and achieving a higher level of sales, which may not occur for a variety of reasons, including those stated above with regard to the Company's Remote Access and LAN Connect products.
- - 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.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

EXHIBIT NUMBER	DESCRIPTION
3(a)	RESTATED CERTIFICATE OF INCORPORATION OF THE REGISTRANT*
3(b)	AMENDED AND RESTATED BY-LAWS OF THE REGISTRANT**
27	FINANCIAL DATA SCHEDULE

\* INCORPORATED BY REFERENCE TO THE CORRESPONDING EXHIBIT NUMBER OF THE COMPANY'S FORM 10-K FOR THE YEAR ENDED SEPTEMBER 30, 1992 (FILE NO. 0-17972).

\*\* INCORPORATED BY REFERENCE TO THE CORRESPONDING EXHIBIT NUMBER OF THE COMPANY'S REGISTRATION STATEMENT ON FORM S-1 (FILE NO.33-42384).

(b) Reports on Form 8-K:  
There were no reports filed on form 8-K during the quarter ended June 30, 1996.

SIGNATURE

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

DIGI INTERNATIONAL INC.

Date: December 23, 1996

By: /s/Jonathon E. Killmer

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



9-MOS  
 SEP-30-1996  
 OCT-01-1995  
 JUN-30-1996  
 3,631,868  
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 40,998,055  
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 38,136,462  
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 131,106,768  
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 9,090,305  
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AETHERWORKS CORPORATION NET LOSS