

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

FORM 10-Q

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

For the quarterly period ended: March 31, 1997.

OR

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

For the transition period from _____ to _____ .

Commission file number: 0-17972

DIGI INTERNATIONAL INC.

(Exact name of registrant as specified in its charter)

Delaware

41-1532464

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification Number)

11001 Bren Road East
Minnetonka, Minnesota 55343

(Address of principal executive offices) (Zip Code)

(612) 912-3444

(Registrant's telephone number, including area code)

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

Yes X No
--- ---

On April 30, 1997, there were 13,400,941 shares of the registrant's \$.01 par value Common Stock outstanding.

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1.	Financial Statements	Page

	Condensed Consolidated Statements of Operations for the three and six month periods ended March 31, 1997 and 1996.	3
	Condensed Consolidated Balance Sheets as of March 31, 1997 and September 30, 1996.	4
	Condensed Consolidated Statements of Cash Flows for the six month periods ended March 31, 1997 and 1996.	5
	Notes to Condensed Consolidated Financial Statements	6
	Review Report of Independent Accountants	9
ITEM 2.	Management's Discussion and Analysis of Results of Operations and Financial Condition.10
	Forward-looking Statements14

PART II. OTHER INFORMATION

ITEM 1.	Legal Proceedings.15
ITEM 2.	Changes in Securities.16
ITEM 3.	Defaults Upon Senior Securities.16
ITEM 4.	Submission of Matters to a Vote of Securities Holders.16
ITEM 5.	Other Information.16
ITEM 6.	Exhibits and Reports on Form 8-K16

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DIGI INTERNATIONAL INC.
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 FOR THE THREE MONTHS AND SIX MONTHS ENDED MARCH 31, 1997 AND 1996
 (UNAUDITED)

	Three months ended March 31		Six months ended March 31	
	1997	1996	1997	1996
Net sales	\$ 40,393,222	\$ 47,973,275	\$ 82,629,437	\$ 91,689,538
Cost of sales	21,099,206	22,582,177	43,694,943	42,569,379
Gross margin	19,294,016	25,391,098	38,934,494	49,120,159
Operating expenses:				
Sales and marketing	8,708,518	8,825,532	19,235,351	17,495,634
Research and development	4,552,040	4,428,193	9,991,497	8,573,029
General and administrative	5,343,188	4,206,294	10,757,054	8,104,650
Restructuring	10,471,482	-	10,471,482	-
Total operating expenses	29,075,228	17,460,019	50,455,384	34,173,313
Operating (loss) income	(9,781,212)	7,931,079	(11,520,890)	14,946,846
Other income, net	127,203	151,275	226,234	544,635
AetherWorks Corporation net loss	(1,589,681)	(655,990)	(3,109,470)	(935,297)
(Loss) income before income taxes	(11,243,690)	7,426,364	(14,404,126)	14,556,184
(Benefit) provision for income taxes	(1,843,473)	2,806,750	(2,425,905)	5,414,649
Net (loss) income	\$ (9,400,217)	\$ 4,619,614	\$(11,978,221)	\$ 9,141,535
Net (loss) income per common and common equivalent share	\$ (0.70)	\$ 0.34	\$ (0.90)	\$ 0.66
Weighted average common and common equivalent shares outstanding	13,381,615	13,693,597	13,367,885	13,787,075

The accompanying notes are an integral part to the condensed consolidated financial statements.

DIGI INTERNATIONAL INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	March 31 1997	September 30 1996
	-----	-----
Current assets:	(unaudited)	
Cash and cash equivalents	\$ 9,676,932	\$ 8,943,390
Accounts receivable, net	38,066,444	42,874,898
Inventories	30,009,443	33,372,164
Income tax refund receivable	4,374,640	1,675,626
Other	2,940,432	2,825,828
	-----	-----
Total current assets	85,067,891	89,691,906
Property, equipment and improvements, net	23,297,609	24,230,101
Intangible assets, net	7,024,724	10,854,845
Investment in AetherWorks Corporation	2,063,279	1,672,749
Other	1,564,945	3,489,228
	-----	-----
Total assets	\$ 119,018,448	\$ 129,938,829
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 11,814,183	\$ 12,549,738
Accrued expenses:		
Advertising	3,790,797	3,761,619
Compensation	1,766,039	1,622,549
Restructuring	1,248,858	-
Other	1,993,635	2,061,782
	-----	-----
Total current liabilities	20,613,512	19,995,688
Commitments and contingency		
Stockholders' equity:		
Preferred stock, \$.01 par value; 2,000,000 shares authorized; none outstanding		
Common stock, \$.01 par value; 60,000,000 shares authorized; 14,688,967 and 14,677,150 shares issued	146,887	146,772
Additional paid-in capital	42,771,095	42,866,758
Retained earnings	78,926,524	90,904,746
	-----	-----
Unearned stock compensation	121,844,506	133,918,276
Treasury stock, at cost, 1,306,961 and 1,338,894 shares	(232,489)	(295,156)
	-----	-----
Total stockholders' equity	98,404,936	109,943,141
	-----	-----
Total liabilities and stockholders' equity	\$ 119,018,448	\$ 129,938,829
	-----	-----

The accompanying notes are an integral part to the condensed consolidated financial statements.

DIGI INTERNATIONAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED MARCH 31, 1997 AND 1996
(UNAUDITED)

	1997	1996
Operating activities:		
Net (loss) income	\$ (11,978,221)	9,141,535
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Restructuring	10,270,361	-
Depreciation and amortization	3,770,910	2,830,774
AetherWorks Corporation net loss	3,109,470	935,297
Loss on sale of fixed assets	67,033	-
Provision for doubtful accounts receivable	522,236	142,379
Provision for inventory obsolescence	1,481,285	453,100
Stock compensation	50,225	104,967
Changes in operating assets and liabilities	(438,769)	(25,719,511)
	18,832,751	(21,252,994)
Total adjustments		
Net cash provided by (used in) operating activities	6,854,530	(12,111,459)
Investing activities:		
Purchase of property, equipment and improvements	(3,010,780)	(9,390,929)
Investment in AetherWorks Corporation	(3,500,000)	(3,363,235)
Sale of marketable securities, net	-	27,732,781
	(6,510,780)	14,978,617
Net cash (used in) provided by investing activities		
Financing activities:		
Stock benefit plan transactions, net	389,792	949,442
Purchase of treasury stock	-	(7,249,339)
	389,792	(6,299,897)
Net cash provided by (used in) financing activities		
Net decrease in cash and cash equivalents	733,542	(3,432,739)
Cash and cash equivalents, beginning of period	8,943,390	5,103,731
Cash and cash equivalents, end of period	\$ 9,676,932	\$ 1,670,992

The accompanying notes are an integral part to the condensed consolidated financial statements.

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

1. BASIS OF PRESENTATION

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

The condensed consolidated financial statements presented herein as of March 31, 1997 and for the three and six month periods ended March 31, 1997 and 1996, reflect, in the opinion of management, all adjustments (which, with the exception of the restructuring charge, consist only of normal, recurring adjustments) necessary for a fair presentation of the consolidated financial position and the consolidated results of operations and cash flows for the periods presented. The consolidated results of operations for any interim period are not necessarily indicative of results for the full year.

2. INVESTMENT IN AETHERWORKS CORPORATION

Through March 31, 1997, under a financing arrangement, the Company purchased \$8,796,525 of convertible notes from AetherWorks Corporation, a development stage company engaged in the development of wireless and dial-up remote access technology. At March 31, 1997, the Company is obligated to purchase up to an additional \$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 March 31, 1997 are convertible into 56.2% of AetherWorks' common stock, and upon the purchase of the additional \$5 million of convertible notes, the Company's ownership interest upon conversion would increase to 62.7%, based on AetherWorks' present capitalization. In connection with the financing arrangement, the Company has also guaranteed \$2.8 million of lease obligations of AetherWorks.

The Company has reported its investment in AetherWorks on the equity method and has reported losses of \$1,589,681 and \$3,109,470 for the three month and six month periods ended March 31, 1997, and recorded losses of \$655,990 and \$935,297 for the corresponding three and six month periods ended March 31, 1996. Such losses represent 100% of the AetherWorks net losses for these periods. The percentage of AetherWorks' net losses included in the Company's financial statements is based upon the percentage of financial support provided by the Company (versus other investors) to AetherWorks during such periods.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. INVESTMENT IN AETHERWORKS CORPORATION (CONTINUED)

Investment in AetherWorks Corporation consisted of the following:

	March 31, 1997 -----	September 30, 1996 -----
Convertible notes receivable	\$8,796,525	\$5,296,525
Cumulative net losses	(6,733,246)	(3,623,776)
	-----	-----
	\$2,063,279	\$1,672,749
	-----	-----

3. INVENTORIES

Inventories are stated at the lower of cost or market, with cost determined on the first-in, first-out method. Inventories at March 31, 1997 and September 30, 1996 consisted of the following:

	March 31 -----	September 30 -----
Raw materials	\$12,786,935	\$19,145,019
Work in process	9,061,793	10,469,315
Finished goods	8,160,715	3,757,830

4. (LOSS) INCOME PER SHARE

Net (loss) income per share is computed by dividing net (loss) income by the weighted average number of common and common equivalent shares outstanding during each period. Common stock equivalents result from dilutive stock options. No common stock equivalents were included in determining the weighted average common and common stock equivalents outstanding for the three and six month periods ended March 31, 1997, because their effect would be antidilutive.

In February 1997, the Financial Accounting Standards Board issued Statement No. 128 "Earnings Per Share." This Statement establishes standards for computing and presenting basic and diluted earnings per share (EPS) for financial statements issued for both interim and annual periods ending after December 15, 1997. The adoption of this Statement will not have a material effect on the Company's reported EPS.

5. RESTRUCTURING CHARGE

During the three month period ended March 31, 1997, the Company's Board of Directors approved a restructuring plan which resulted in a restructuring charge of \$10,471,482 (\$8,283,681, net of tax benefits or \$0.62 per share). The restructuring charge related to the closing of the Cleveland manufacturing facility, the reduction of selected product lines and the consolidation and closing of certain research and development facilities. These costs included (i) write downs of the carrying values of fixed assets related to the closed manufacturing and research and development facilities, (ii) write downs of the carrying values of goodwill and identifiable intangible assets (primarily licensing agreements related to the discontinued product lines) and related inventories and (iii) the accrual of severance costs associated with the elimination of 105 positions (total workforce reduction was 150).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. RESTRUCTURING CHARGE (CONTINUED)

The restructuring charge consists of \$1,449,979 in cash expenditures (primarily severance), of which \$201,121 had been paid as of March 31, 1997, and \$9,021,503 resulting from the write down of asset carrying values. As of March 31, 1997, \$9,222,624 had been charged to this restructuring reserve and the remaining reserve of \$1,248,858 is expected to be essentially utilized during fiscal 1997.

6. RECLASSIFICATION OF REBATE EXPENSES

Rebates to customers of approximately \$525,000 and \$675,000 for the three and six month periods ended March 31, 1996, now reflected as a reduction of sales, were previously included in sales and marketing expenses. This reclassification had no impact on previously reported operating income, net income or stockholders' equity.

7. LEGAL PROCEEDINGS

Discussion of legal matters is incorporated by reference from Part II, Item I of this Form 10-Q "Legal Proceedings" and should be considered an integral part of these Consolidated Condensed Financial Statements and Accompanying Notes.

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS

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

We have reviewed the accompanying condensed consolidated balance sheet of Digi International Inc. and Subsidiaries as of March 31, 1997, and the related condensed consolidated statements of operations for the three month and six month periods ended March 31, 1997 and 1996 and cash flows for the six month periods ended March 31, 1997 and 1996. These condensed consolidated financial statements are the responsibility of the Company's management.

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

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

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

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

Minneapolis, Minnesota
April 23, 1997

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

CONSOLIDATED RESULTS OF OPERATIONS

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

	Three months ended March 31			Six months ended March 31		% Increase (decrease)
	1997	1996	% Increase (decrease)	1997	1996	
Net sales	100.0%	100.0%	(15.8%)	100.0%	100.0%	(9.9%)
Cost of sales	52.2	47.1	(6.6)	52.9	46.4	2.6
Gross margin	47.8	52.9	(24.0)	47.1	53.6	(20.7)
Operating expenses:						
Sales and marketing	21.6	18.4	(1.3)	23.3	19.1	9.9
Research and development	11.3	9.2	2.8	12.1	9.4	16.5
General and administrative	13.2	8.8	27.0	13.0	8.8	32.7
Restructuring	25.9	0.0	100.0	12.7	0.0	100.0
Total operating expenses	72.0	36.4	66.5	61.1	37.3	47.6
Operating (loss) income	(24.2)	16.5	(223.3)	(13.9)	16.3	(177.1)
Other income, net	0.3	0.3	(15.9)	0.3	0.6	(58.5)
AetherWorks Corporation net loss	(3.9)	(1.4)	142.3	(3.8)	(1.0)	232.5
(Loss) income before income taxes	(27.8)	15.5	(251.4)	(17.4)	15.9	(199.0)
(Benefit) provision for income taxes	(4.6)	5.9	(165.7)	(2.9)	5.9	(144.8)
Net (loss) income	(23.3)	9.6	(303.5)	(14.5)	10.0	(231.0)

NET SALES

Sales for the three month and six month periods ended March 31, 1997 were lower than sales for the corresponding periods ended March 31, 1996 by \$7,580,053 and \$9,060,101 or 15.8% and 9.9%, respectively. The majority of decline was primarily due to a conscious effort by the Company to reduce inventory levels in the distribution channel in the three month period ended March 31, 1997 and softness in demand for networking products during the first quarter of fiscal 1997. In addition, sales for the three month and six month periods ended March 31, 1997 were also reduced by customer rebates of \$700,750 and \$2,000,750, respectively, an increase in such rebates of \$175,750 and \$1,325,750, respectively, over the corresponding period ended March 31, 1996. Such increases were due to providing incentives to the distribution market in the first quarter of fiscal 1997 that carried over into the second quarter.

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

CONSOLIDATED RESULTS OF OPERATIONS (CONTINUED)

Net sales to Original Equipment Manufacturers (OEMs), as a percentage of total net sales, rose to 25.0% and 22.4% for the three and six month periods ended March 31, 1997, as compared to 20.7% and 17.6% for the comparable periods in 1996. Sequentially, net sales from OEMs for the three month period ended March 31, 1997 increased 5.1% as compared to the three month period ended December 31, 1996. The increase for the three month period was due primarily to seasonal replenishment by OEM customers. The Company expects the OEM portion of the Company's business to remain relatively stable with the current level in the third quarter.

Net sales from the distribution markets, as a percentage of total sales, declined to 60.6% and 64.8% for the three month and six month periods ended March 31, 1997, as compared to 65.1% and 67.6% for the comparable periods for 1996. Sequentially, sales from the distribution market for the three month period ended March 31, 1997 declined 8.4%, as compared to the three month period ended December 31, 1996. The decline was due primarily to a conscious effort to reduce inventory levels in the distribution channel in the three month period ended March 31, 1997.

The effort by the Company to reduce inventory levels in the distribution channel is expected to continue in the third quarter.

GROSS MARGIN

Gross margin for the three and six month periods ended March 31, 1997 declined to 47.8% and 47.1%, respectively, as compared to 52.9% and 53.6% for the comparable periods in 1996. Such decline was principally due to the increase of OEM and LAN Connect net sales as a percentage of total net sales. Net sales of OEM and LAN Connect products generally provide lower gross margins, as compared to sales made through the distribution markets. In addition, due to the lower sales levels for the three and six month periods ended March 31, 1997, which are anticipated to continue into the third quarter of 1997, the Company has increased its reserves for excess and obsolete inventories by approximately \$300,000 and \$1,500,000 in the three and six month periods ended March 31, 1997.

OPERATING EXPENSES

Operating expenses for the three month period ended March 31, 1997 increased 66.5% over operating expenses for the corresponding period ended March 31, 1996 and increased as a percentage of sales to 72% for the three month period ended March 31, 1997 from 36.4% for the three month period ended March 31, 1996. Operating expenses for the six month period ended March 31, 1997 increased by 47.6% over the corresponding period ended March 31, 1996, and

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

CONSOLIDATED RESULTS OF OPERATIONS (CONTINUED)

OPERATING EXPENSES (CONTINUED)

increased as a percentage of sales to 61% for the six month period ended March 31, 1997, from 37.3% for the corresponding period in 1996. These increases were due principally to the restructuring charge of \$10.5 million, recorded in the three month period ended March 31, 1997. The restructuring charge related to the closing of the Cleveland manufacturing facility, the elimination of selected product lines and the consolidation and closing of certain research and development facilities. These costs included (i) write downs of the carrying values of fixed assets related to the closed manufacturing and research and development facilities, (ii) write downs of the carrying values of goodwill and identifiable intangible assets (primarily licensing agreements related to the discontinued product lines) and related inventories and (iii) the accrual of severance costs associated with the elimination of 105 positions (total workforce reduction was 150).

The increases in operating expense also resulted partially from increased general and administration expenses due to the opening of new research and development facilities in Huntsville, Ala. and Redmond, Wash in the second half of fiscal 1996. In addition, general and administrative expenses increased due to severance expenses, not a part of the restructuring previously discussed, and expansion and upgrades to the Company's infrastructure.

Sales and marketing, research and development and general and administrative costs declined from \$23.3 million and \$21.4 million in the three month periods ended September 30, 1996 and December 31, 1996, respectively, to \$18.6 million in the three month period ended March 31, 1997. Such decline was due to decreased marketing costs and a reduction of funding levels for new product development. The Company expects to continue to reduce such costs during the remainder of fiscal 1997.

OTHER INCOME

Other income for the three and six month periods ended March 31, 1997 decreased to \$127,203 and \$226,234, respectively, as compared to \$151,275 and \$544,635 for the corresponding periods in 1996. The decline was due to lower interest income resulting from a decrease in invested funds.

AETHERWORKS CORPORATION NET LOSS

In connection with the purchase of convertible notes from AetherWorks Corporation, a development stage company engaged in the development of wireless and dial-up remote access technology, the Company has the ability, under certain conditions, to convert its investment into a majority of AetherWorks' common stock. The Company has reported its investment in AetherWorks on the equity method and has recorded \$1,589,681 and \$3,109,470 of net losses for

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

CONSOLIDATED RESULTS OF OPERATIONS (CONTINUED)

AETHERWORKS CORPORATION NET LOSS (CONTINUED)

the three and six month periods ended March 31, 1997, respectively. The Company recorded AetherWorks net losses of \$655,990 and \$935,297 for the corresponding three and six month periods ended March 31, 1996. These net losses represent 100% of AetherWork's net losses for such periods. The percentage of AetherWorks' net losses included in the Company's financial statements is based upon the percentage of financial support provided by the Company (versus other investors) to AetherWorks during such periods. The Company anticipates that AetherWorks' net losses for the remainder of fiscal 1997 will be at levels similar to or higher than those incurred during the three and six month periods ended March 31, 1997.

INCOME TAXES

Due to the net losses incurred in both the three and six month periods ended March 31, 1997, the Company has recorded an income tax benefit of \$1,843,473 and \$2,425,905, respectively. Such benefits are not higher due to the non-deductibility of certain intangible assets written off as part of the restructuring charge and the AetherWorks net losses.

FINANCIAL CONDITION

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its operations principally with funds generated from operations and proceeds from earlier public offerings. Investing activities for the three and six month periods ended March 31, 1997 consisted of purchases of equipment and capital improvements, including a new enterprise wide computer system, and the purchase of additional convertible notes from AetherWorks Corporation. Such notes purchases totaled \$1.5 million and \$3.5 million in the three and six month periods ended March 31, 1997, respectively. As of March 31, 1997, the Company is obligated to purchase up to an additional \$5 million in convertible notes from time to time at the request of AetherWorks. See also Note 2 of the Notes to the Condensed Consolidated Financial Statements.

At March 31, 1997, the Company had working capital of \$64 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, including the Company's obligation to purchase additional convertible notes from AetherWorks Corporation.

FOREIGN CURRENCY TRANSLATION

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

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

FINANCIAL CONDITION (CONTINUED)

INFLATION

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

FORWARD LOOKING STATEMENTS

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

THE EXPECTATION THAT THE OEM PORTION OF THE COMPANY'S BUSINESS WILL REMAIN RELATIVELY STABLE WITH THE CURRENT LEVEL IN THE THIRD QUARTER. This expectation may be impacted by unanticipated revenue opportunities or changes in ordering levels that may reduce current levels of net sales to OEMs.

THE EFFORT TO REDUCE INVENTORY LEVELS IN THE DISTRIBUTION CHANNEL WILL CONTINUE IN THE NEXT QUARTER. General market conditions and competitive conditions within these markets may impact sales levels either unfavorably or favorably.

THE EXPECTATION THAT LOWER SALES LEVELS ARE ANTICIPATED TO CONTINUE INTO THE THIRD QUARTER OF 1997. General market conditions and competitive conditions within these markets may impact sales levels either unfavorably or favorably.

THE EXPECTATION THAT THE REDUCTION IN SALES AND MARKETING, RESEARCH AND DEVELOPMENT AND GENERAL AND ADMINISTRATIVE COSTS WILL CONTINUE DURING THE REMAINDER OF FISCAL 1997. This expectation may be impacted by presently unanticipated revenue opportunities or by unanticipated expenses.

THE EXPECTATION THAT THE AETHERWORKS CORPORATION NET LOSSES FOR THE REMAINDER OF FISCAL 1997 WILL BE SIMILAR OR GREATER THAN THOSE INCURRED DURING THE THREE AND SIX MONTH PERIODS ENDED MARCH 31, 1997. This expectation may be impacted by presently unanticipated revenue opportunities or by unanticipated expenses.

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

On January 17, 1997, February 6, 1997 and February 14, 1997, three additional putative securities class action lawsuits were filed in the United States District Court for the District of Minnesota captioned RUTH LINEHAN, INDIVIDUALLY AND ON BEHALF OF ALL PERSONS SIMILARLY SITUATED, PLAINTIFF AND RUSSELL SIEGEL AND ANNE BUTLER, AS EXECUTRIX OF THE ESTATE OF MICHAEL BUTLER, ON BEHALF OF THEMSELVES AND ALL OTHER SIMILARLY SITUATED, PAUL HOLM, INDIVIDUALLY AND ON BEHALF OF ALL PERSONS SIMILARLY SITUATED, PLAINTIFFS, VS. DIGI INTERNATIONAL INC., ERVIN F. KAMM, JR., GERALD A. WALL, AND GARY L. DEANER, DEFENDANTS, which make the same allegations against the same defendants as those asserted in the lawsuit described in the previous paragraph.

On February 25, 1997, an additional securities lawsuit was filed in the United States District Court for the District of Minnesota captioned LOUISIANA STATE EMPLOYEES RETIREMENT SYSTEM IN BEHALF OF ITSELF AND IN BEHALF OF ALL OTHER PARTIES SIMILARLY SITUATED AND CIRCUMSTANCED WHO DESIRE TO PERSONALLY JOIN IN THIS ACTION AND TO CONTRIBUTE TO THE COSTS AND EXPENSES THEREOF, PLAINTIFFS, VS. DIGI INTERNATIONAL INC., GARY L. DEANER, ERVIN F. KAMM, JR., GERALD A. WALL, AND "JOHN DOE AND "RICHARD ROE" BEING FICTITIOUS, THE PARTIES INTENDED BEING THOSE PARTIES, PRESENTLY UNKNOWN TO THE PLAINTIFF, WHO PARTICIPATED IN THE WRONGFUL ACTS SET FORTH HEREIN, DEFENDANTS, which make the same allegations as those asserted in the lawsuit described in the first paragraph above. This lawsuit, unlike the other lawsuits, is not a class action.

On March 7, 1997, an additional securities class action lawsuit was filed in the United States District Court for the District of Minnesota captioned EDWARD HENRY CHAPMAN, III ON BEHALF OF HIMSELF AND ALL OTHERS SIMILARLY SITUATED, PLAINTIFF, VS. DIGI INTERNATIONAL INC.; ERVIN F. KAMM, JR.; GERALD A. WALL; JONATHON E. KILLMER; AND GARY L. DEANER, DEFENDANTS, which make the same allegations as those asserted in the lawsuit described in the first paragraph above.

By Memorandum Order dated April 2, 1997, the District Court consolidated all of the above lawsuits for pretrial purposes, and consolidated the five class action lawsuits for all purposes including trial. The District Court appointed 21 persons to serve as lead plaintiffs in the consolidated class actions, and granted the lead plaintiffs 30 days from April 2, 1997 within which to file and serve a consolidated class action complaint that will supersede the five separate complaints. To date, plaintiffs have not filed or served a consolidated class action complaint.

PART II. OTHER INFORMATION (CONTINUED)

ITEM 1. LEGAL PROCEEDINGS (CONTINUED)

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

ITEM 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

Exhibit No.	Description
3(a)	Amended and Restated Certificate of Incorporation of the Registrant*
3(b)	Amended and Restated By-Laws of the Registrant**
10(m)	Employment Agreement with Jerry A. Dusa, dated March 12, 1997
15	Letter Re: Unaudited Interim Financial Information
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. 0-017972)

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

PART II. OTHER INFORMATION (CONTINUED)

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K (CONTINUED)

(b) Reports on Form 8-K:

Form 8-K dated February 18, 1997, regarding the announcement of the Company recording a restructuring charge during the second quarter of fiscal 1997.

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: May 1, 1997

By: /s/ Jonathon E. Killmer

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

EXHIBIT 10(m)
EMPLOYMENT AGREEMENT WITH JERRY A. DUSA
DATED MARCH 12, 1997

EMPLOYMENT AGREEMENT
(Jerry A. Dusa)

This Agreement is made as of March 12, 1997 by and between DIGI INTERNATIONAL INC., a Delaware corporation (the "Company"), and Jerry A. Dusa (the "Executive").

WHEREAS the Company desires to employ Executive in accordance with the terms and conditions stated in this Agreement; and

WHEREAS Executive desires to accept that employment pursuant to the terms and conditions of this Agreement;

NOW THEREFORE, in consideration of the covenants and agreements contained herein, the parties hereto agree as follows:

I. EMPLOYMENT

1.1 EMPLOYMENT AS SENIOR EXECUTIVE. The Company hereby agrees to employ Executive, commencing the date hereof and continuing until the date his employment terminates pursuant to Article III hereof, in a senior executive capacity, initially as President and Chief Executive Officer of the Company. Executive accepts such employment pursuant to the terms of this Agreement. Executive shall perform such duties and responsibilities as may be determined from time to time by the Board of Directors of the Company, which shall be consistent with his position as an officer of the Company.

1.2 EXCLUSIVE SERVICES. Commencing on the date hereof, Executive agrees to devote his full time, attention and energy to performing his duties and responsibilities to the Company under this Agreement.

II. COMPENSATION, BENEFITS AND PERQUISITES

2.1 BASE SALARY. During the period this Agreement is in effect, the Company shall pay Executive a base salary at the annual rate of \$250,000, payable semi-monthly. Beginning on or about October 1, 1997, the Board of Directors of the Company (the "Board", which term shall include a duly authorized committee of the Board of Directors) will review the base salary annually, and may in its sole discretion increase it to reflect performance and other factors. However, the Board is not obligated to provide for any increases.

2.2 BONUSES. Executive shall be eligible to receive a cash performance bonus of up to 100% base salary paid for each fiscal year during which this Agreement is in effect, as follows:

(a) Executive shall be entitled to the target bonus amount if the objectives set by the Board of Directors in its sole discretion for the fiscal year are met. Such objectives may include, in the sole discretion of the Board, the achievement of financial objectives set forth in the Board-approved Budget Plan for a particular fiscal year, or such other objectives as the Board, in its sole discretion, shall determine.

(b) If some or all of the objectives are not met for a fiscal year, then the Board will determine in its discretion what portion, if any, of the target bonus amount will be paid to Executive for that year.

(c) The target bonus for each fiscal year shall be paid to Executive on September 30 of each year or as soon thereafter as the Company determines whether the objectives for such bonus have been met for that year.

(d) In any fiscal year in which the objectives for the cash bonus are based upon financial objectives in the Board-approved Budget Plan for such fiscal year, the Board will consult with Executive before determining the Budget Plan for each fiscal year. However, the Board will have authority to establish the Budget Plan for each year in its sole discretion.

(e) In any fiscal year in which the objectives for the cash bonus are based upon financial objectives in the Board-approved Budget Plan for such fiscal year, the objectives set by the Company's Board-approved Budget Plan for such fiscal year shall not be adjusted for the acquisition, by any means, of any businesses or business units (and expenses related thereto) that may occur during a particular fiscal year. The objectives set by the Company's Board-approved Budget Plan for any such fiscal year shall be equitably adjusted by the Board for the divestiture, by any means, of any businesses or business units (and expenses related thereto) that may occur during a particular fiscal year and to eliminate any reorganization, restructuring or other extraordinary charge that may be incurred during a particular fiscal year.

2.3 OVERACHIEVEMENT BONUSES. If the objectives set by the Board of Directors for a cash performance bonus are exceeded for a fiscal year, the Board may in its discretion award Executive a bonus that is larger than the target bonus.

2.4 STOCK OPTIONS. As of the date of this Agreement, Executive has been awarded a non-statutory stock option under the Digi International Inc. Stock Option Plan (the "Stock Option Plan") for 240,000 Common Shares of the Company (as defined in the Stock Option Plan). On or about September 30 of each year the Compensation Committee of the Board of the Company considers and awards stock options to key employees of the Company and its subsidiaries. These awards are made in the discretion of the Compensation Committee and are principally intended to recognize performance over the preceding fiscal year. Executive acknowledges that he has received the maximum stock option grant permitted under the Stock Option Plan for calendar 1997 and consequently would not be eligible for consideration for additional stock option grants until on or after January 1, 1998.

2.5 FORM OF STOCK OPTION AGREEMENT. Stock option awards to Executive shall be pursuant to stock option agreements in substantially the form of Schedule II, with such additions thereto and deletions therefrom as Executive and the Chairman of the Board, the Chairman of the Compensation Committee or another duly authorized officer of the Company shall agree, such agreement to be conclusively evidenced by their execution and delivery thereof.

2.6 VACATIONS. Executive shall be entitled to vacation in accordance with policies of the Company.

2.7 EMPLOYEE BENEFITS. Executive shall be entitled to the benefits and perquisites which the Company generally provides to its other employees under the applicable Company plans and policies, and to future benefits and perquisites made generally available to employees of the Company. Executive's participation in such benefit plans shall be on the same basis as applies to other employees of the Company. Executive shall pay any contributions which are generally required of employees to receive any such benefits.

2.8 EMPLOYMENT TAXES AND WITHHOLDING. Executive recognizes that the compensation, benefits and other amounts provided by the Company under this Agreement may be subject to federal, state or local income taxes. It is expressly understood and agreed that all such taxes shall be the responsibility of the Executive. To the extent that federal, state or local law requires withholding of taxes on compensation, benefits or other amounts provided under this Agreement, the Company shall withhold the necessary amounts from the amounts payable to Executive under this Agreement.

2.9 COMPANY RESPONSIBILITY FOR INSURED BENEFITS. In this Article II, the Company is agreeing to provide certain benefits which are provided in the form of premiums of insurance coverage. The Company is not itself promising to pay the benefit an insurance company is obligated to pay under the policy the insurance company has issued. If an insurance company becomes insolvent and cannot pay benefits it owes to Executive or his beneficiaries under the insurance policy, neither Executive nor his personal representative or beneficiary shall have any claim for benefits against the Company.

2.10 EXPENSES. During the term of his employment hereunder, Executive shall be entitled to receive prompt reimbursement from the Company (in accordance with the policies and procedures in effect for the Company's employees) for all reasonable travel and other expenses incurred by him in connection with his services hereunder.

2.11 RELOCATION. Executive shall relocate to the general vicinity of the Minneapolis/St. Paul metropolitan area. The Company will pay for Executive's direct relocation expenses, including the cost of moving Executive's household goods.

2.12 COMPENSATION AS INTERIM ACTING CHIEF EXECUTIVE OFFICER. Executive and the Company hereby confirm the terms of Executive's engagement and compensation as interim

acting Chief Executive Officer for the period January 3, 1997 to the date hereof as set forth on Schedule III hereto. Executive and the Company agree that the stock option agreement pertaining to the 10,000 share option referred to in Schedule III hereto shall be amended to add the terms of Section 6(c) (Termination Without Cause) and (d) (Change in Control) set forth in Schedule II hereto.

III. TERMINATION OF EXECUTIVE'S EMPLOYMENT

3.1 TERMINATION OF EMPLOYMENT. Executive's employment under this Agreement may be terminated by the Company at any time for any reason; provided, however, that if Executive's employment is terminated by the Company during the term of this Agreement for a reason other than for cause, he shall be entitled to continue to receive his base salary under Section 2.1 for a period of 12 months from his date of termination. Executive's employment under this Agreement may be terminated by Executive at any time for any reason. The termination shall be effective as of the date specified by the party initiating the termination in a written notice delivered to the other party, which date shall not be earlier than the date such notice is delivered to the other party. Except as expressly provided to the contrary in this section or applicable law, Executive's rights to pay and benefits shall cease on the date his employment under this Agreement terminates. This Agreement shall terminate in its entirety immediately upon the death of Executive.

3.2 CAUSE. For purposes of this Article III, "cause" shall mean only the following: (i) indictment or conviction of, or a plea of nolo contendere to, (A) any felony (other than any felony arising out of negligence) or any misdemeanor involving moral turpitude, or (B) any crime or offense involving dishonesty with respect to 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 Executive's duties; (iv) Executive's failure to devote substantially all of his working time and efforts during normal business hours to the Company's business; (v) knowing engagement in conduct which is materially injurious to the Company; (vi) knowing failure, for Executive's own benefit, to comply with the covenants contained in Sections 4.1 or 4.2 of this Agreement; (vii) knowingly providing materially misleading information concerning the Company to the Company's Board of Directors, any governmental body or regulatory agency or to any lender or other financing source or proposed financing source of the Company; (viii) failure of the Company to meet at least 70% of the Board-approved Budget Plan for either net sales or after tax earnings in any fiscal year; or (ix) any other failure by Executive to substantially perform his material duties under this Agreement (excluding nonperformance resulting from Executive's disability) which failure is not cured within thirty (30) days after written notice from the Chairman of the Board or the Chairman of the Compensation Committee 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. For purposes of Section 3.2(viii), the net sales and after-tax earnings targets set by the Company's Board-approved Budget Plan for any fiscal year shall not be adjusted for the acquisition, by any means, of any businesses or business units (and expenses related thereto) that may occur during a particular fiscal year, but shall be equitably adjusted by the Board for the

divestiture, by any means, of any businesses or business units (and expenses related thereto) that may occur during a particular fiscal year and to eliminate any reorganization, restructuring or other extraordinary charge that may be incurred during a particular fiscal year.

3.3 DISABILITY. If Executive has become disabled from performing his duties under this Agreement and the disability has continued for a period of more than sixty (60) days, the Board may, in its discretion, determine that Executive will not return to work and terminate his employment under this Agreement. Upon any such termination for disability, Executive shall be entitled to such disability, medical, life insurance, and other benefits as may be provided generally for disabled employees of the Company during the period he remains disabled.

3.4 RESIGNATION. Executive agrees that, upon termination of Executive's employment hereunder for any reason, he shall be deemed to have resigned as a director of the Company and as a director, officer and/or employee of any parent company of the Company or any of their subsidiaries, unless prior to termination of Executive's employment hereunder the provisions of this Section 3.4 shall have been waived by vote of the Board (excluding Executive).

IV. NON-COMPETITION, CONFIDENTIALITY AND TRADE SECRETS

4.1 AGREEMENT NOT TO COMPETE. In consideration of the covenants and agreements contained in this Agreement, Executive agrees that, on or before the date which is one year after the date Executive's employment by the Company, any parent company of the Company or any of their subsidiaries terminates, he will not, unless he receives the prior approval of the Board of Directors of the Company, directly or indirectly engage in any of the following actions:

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

(b) Intentionally solicit, endeavor to entice away from the Company, any parent company of the Company or any of their subsidiaries, or otherwise interfere with the relationship of the Company, any parent company of the Company or any of their subsidiaries with, any person who is employed by or otherwise engaged to perform services for the Company, any parent company of the Company or any of their

subsidiaries (including, but not limited to, any independent sales representatives or organizations), or any persons or entity who is, or was within the then most recent 12-month period, a customer or client of the Company, any parent company of the Company or any of their subsidiaries, whether for Executive's own account or for the account of any other individual, partnership, firm, corporation or other business organization.

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

4.2 NON-DISCLOSURE OF INFORMATION. During the period of his employment hereunder, and at all times thereafter, Executive shall not, without the written consent of the Company disclose to any person, other than an employee of the Company, any parent company of the Company or any of their subsidiaries or a person to whom disclosure is reasonably necessary or appropriate in connection with the performance by Executive of his duties as an executive of the Company, except where such disclosure may be required by law, any material confidential information obtained by him while in the employ of the Company, any parent company of the Company or any of their subsidiaries with respect to any products, technology, know-how or the like, services, customers, methods or future plans of the Company, any parent company of the Company or any of their subsidiaries, all of which Executive acknowledges are valuable, special and unique assets, the disclosure of which Executive acknowledges may be materially damaging.

4.3 REMEDIES. Executive acknowledges that the Company's remedy at law for any breach or threatened breach by Executive of Section 4.1 or Section 4.2 will be inadequate. Therefore, the Company shall be entitled to injunctive and other equitable relief restraining Executive from violating those requirements, in addition to any other remedies that may be available to the Company under this Agreement or applicable law.

V. MISCELLANEOUS

5.1 AMENDMENT. This Agreement may be amended only in writing, signed by both parties and approved by the Board.

5.2 ENTIRE AGREEMENT. Before signing this Agreement the parties had numerous conversations, including preliminary discussions, formal negotiations and informal conversations, and generated correspondence and other writings, in which the parties discussed the employment which is the subject of this Agreement and their aspirations for its success. In such conversations and writings, individuals representing the parties may have expressed their judgments and beliefs concerning the intentions, capabilities and practices of the parties, and may have forecasted future events. The parties recognize that such

conversations and writings often involve an effort by both sides to be positive and optimistic about the prospects for the employment. It is also recognized, however, that all business transactions contain an element of risk, and that it is normal business practice to limit the legal obligations of contracting parties to only those promises and representations which are essential to their transaction so as to provide certainty as to their respective future rights and remedies. Accordingly, this Agreement is intended to define the full extent of the legally enforceable undertakings of the parties hereto, and no related promise or representation, written or oral, which is not set forth explicitly in this Agreement is intended by either party to be legally binding. Both parties acknowledge that in deciding to enter into this transaction they have relied on no representations, written or oral, other than those explicitly set forth in this Agreement. Executive has relied entirely on his own judgment and that of his advisers in entering into this Agreement.

5.3 ASSIGNMENT. The Company may in its sole discretion assign this Agreement to any entity which succeeds to some or all of the business of the Company through merger, consolidation, a sale of some or all of the assets of the Company, or any similar transaction. Executive acknowledges that the services to be rendered by him are unique and personal. Accordingly, Executive may not assign any of his rights or obligations under this Agreement.

5.4 SUCCESSORS. Subject to Section 5.3, the provisions of this Agreement shall be binding upon the parties hereto, upon any successor to or assign of the Company, and upon Executive's heirs and the personal representative of Executive or Executive's estate.

5.5 NOTICES. Any notice required to be given under this Agreement shall be in writing and shall be delivered either in person or by certified or registered mail, return receipt requested. Any notice by mail shall be addressed as follows:

If to the Company, to:

Digi International Inc.
11001 Bren Road East
Minnetonka, MN 55343

Attention: Chairman of the Board

With a copy to:

Faegre & Benson LLP
2200 Norwest Center
90 South Seventh Street
Minneapolis, MN 55402-3601
Attention: James E. Nicholson

If to Executive, to:

Jerry A. Dusa
Digi International Inc.
11001 Bren Road East
Minnetonka, MN 55343

or to such other addresses as either party may designate in writing to the other party from time to time.

5.6 WAIVER OF BREACH. Any waiver by either party of compliance with any provision of this Agreement by the other party shall not operate or be construed as a waiver of any other provision of this Agreement, or of any subsequent breach by such party of a provision of this Agreement. No waiver by the Company shall be valid unless in writing and signed by the Chairman of the Board of Directors or Chairman of the Compensation Committee.

5.7 SEVERABILITY. If any one or more of the provisions (or portions thereof) of this Agreement shall for any reason be held by a final determination of a court of competent jurisdiction to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions (or portions of the provisions) of this Agreement, and the invalid, illegal or unenforceable provisions shall be deemed replaced by a provision that is valid, legal and enforceable and that comes closest to expressing the intention of the parties hereto.

5.8 GOVERNING LAW. THIS AGREEMENT SHALL BE INTERPRETED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF THE STATE OF MINNESOTA, APPLICABLE TO CONTRACTS EXECUTED AND FULLY PERFORMED WITHIN THE STATE OF MINNESOTA WITHOUT GIVING EFFECT TO CONFLICT OF LAW PRINCIPLES. EXECUTIVE HEREBY IRREVOCABLY SUBMITS TO THE JURISDICTION OF ANY MINNESOTA STATE OR FEDERAL COURT IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, AND THE COMPANY AND EXECUTIVE HEREBY IRREVOCABLY AGREE THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED ONLY IN SUCH MINNESOTA STATE COURT OR SUCH FEDERAL COURT AND IN NO OTHER COURT. EXECUTIVE HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT HE MAY EFFECTIVELY DO SO, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING. EACH OF THE COMPANY AND EXECUTIVE HEREBY IRREVOCABLY CONSENTS TO THE SERVICE OF COPIES OF THE SUMMONS AND COMPLAINT AND ANY OTHER PROCESS WHICH MAY BE SERVED IN ANY SUCH ACTION OR PROCEEDING BY CERTIFIED MAIL, RETURN RECEIPT REQUESTED, OR BY DELIVERING OF A COPY OF SUCH PROCESS TO OF THE COMPANY OR EXECUTIVE, AS THE CASE MAY BE, AT THE RESPECTIVE ADDRESS SPECIFIED IN SECTION 5.5 OR BY ANY OTHER METHOD PROVIDED BY LAW. EACH OF THE COMPANY AND EXECUTIVE AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE

AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR BY ANY OTHER MANNER PROVIDED BY LAW.

5.9 HEADINGS. The headings of articles and sections herein are included solely for convenience and reference and shall not control the meaning or interpretation of any of the provisions of this Agreement.

5.10 COUNTERPARTS. This Agreement may be executed by either of the parties hereto in counterparts, each of which shall be deemed to be an original, but all such counterparts shall constitute a single instrument.

IN WITNESS WHEREOF, the parties have executed this Agreement in Minnetonka, Minnesota, effective as of the date set forth above.

DIGI INTERNATIONAL INC.

By /s/ JOHN P. SCHINAS

Its Chairman of the Board

EXECUTIVE

/s/ JERRY A. DUSA

Jerry A. Dusa

EXHIBIT 15

LETTER RE: UNAUDITED INTERIM FINANCIAL INFORMATION

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

We are aware that our report dated April 23, 1997 on the reviews of interim condensed consolidated financial information of Digi International Inc. and Subsidiaries (the Company) for the three and six month periods ended March 31, 1997 and 1996, and included in the Company's Form 10-Q for the quarter ended March 31, 1997, is incorporated by reference in the Company's registration statements on Form S-8 (Registration Nos. 33-32956, 33-38898, 333-99 and 333-1821 and 333-23857) and Form S-3 (Registration No. 33-59223). Pursuant to Rule 436(c), under the Securities Act of 1933, this report should not be considered a part of the registration statements prepared or certified by us within the meaning of Sections 7 and 11 of that Act.

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

Minneapolis, Minnesota
April 29, 1997

6-MOS

	SEP-30-1997	
	OCT-01-1996	
	MAR-31-1997	
	9,676,932	
	0	
	38,066,444	
	0	
	30,009,443	
	85,067,891	
	23,297,609	
	0	
	119,018,448	
20,613,512		0
	0	
	0	
	146,887	
	98,258,049	
119,018,448		
	82,629,437	
	82,629,437	
	43,694,943	
	39,983,902	
	13,580,952	
	0	
	0	
	(14,404,126)	
	(2,425,905)	
(11,978,221)		
	0	
	0	
	0	
	(11,978,221)	
	(.90)	
	(.90)	

AetherWork loss 3,109,470; Restructuring charge 10,471,482