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

FORM 10-K

(Mark one)

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

For the fiscal year ended: September 30, 2000

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)

(952) 912-3444
(Registrant's telephone number, including area code)

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 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of voting stock held by nonaffiliates of the Registrant, based on a closing price of $7.38 per share as reported on the National Association of Securities Dealers Automated Quotation System-National Market System on December 12, 2000 was $110,919,562.

Shares of common stock outstanding as of December 8, 2000: 15,187,743

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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, 2000 and Proxy Statement for the Registrant's Annual Meeting of Stockholders scheduled for January 24, 2001, a definitive copy of which will be filed on or about December 21, 2000. All such information set forth below under the heading "Page/Reference" is incorporated herein by reference, or included in this Form 10-K on the pages indicated.

PART I

ITEM 1. BUSINESS

Digi International Inc. (Digi or the Company) was formed in 1985 as a Minnesota corporation and reorganized as a Delaware corporation in 1989 in conjunction with its initial public offering. The Company is a worldwide provider of communications hardware and software delivering seamless connectivity solutions for peripheral server-based remote access and local area networking (LAN) markets.

The Company operates exclusively in a single business segment and sells its products through a global network of distributors, systems integrators, value-added resellers (VARs) and original equipment manufacturers (OEMs). The Company also sells direct to select accounts and the government.

Digi International Inc. is traded on the Nasdaq National Market under the symbol DGII. The Company has its worldwide headquarters in Minnetonka, Minnesota, with regional and sales offices throughout the U.S. and worldwide, including Germany, Paris, Amsterdam, Copenhagen, Singapore, Hong Kong, and Sydney.

PRODUCTS

Digi is the worldwide leader in connecting peripherals to networks. From multi-port serial control to Universal Serial Bus (USB) connectivity to remote access to LAN infrastructure, Digi's products enable a virtually unlimited number of devices or users to be connected locally or remotely to LANs, multi-user systems and the Internet. The Company's products are compatible with all PC platforms, including Compaq, IBM, Hewlett-Packard and Sun Microsystems, as well as popular operating systems, such as Microsoft Windows NT/95/2000, Novell NetWare, Linux and UNIX.

The Company has sales offices located throughout North America, Europe, Australia and Asia. Digi products are available through 180 distributors in more than 65 countries. More than 650 VARs participate in the DigiVAR Program, introduced in July 1993.

The application markets where these products are most prominently used are Point-of-Sales Systems (POS), industrial automation, remote access, network fax, and data acquisition/data polling. In addition, the Company has expanded into new applications such as console management and high-density internet point-of presence (POP) testing.

The Company's primary product lines are its multi-port serial adapters, terminal servers, multi-function communications adapters, USB, and LAN connectivity products.

MULTI-PORT SERIAL ADAPTERS

The Company is the leader in this product category and offers the most comprehensive multi-port serial adapter family of products. The Company's products support a wide range of operating systems, port-density, bus type, expansion options, and a wide range of applications.

As Ethernet connections extend beyond current applications, the internal multi-port serial adapter products are expected to gradually transition to network-attached terminal server devices. The Company

ITEM 1. BUSINESS (CONTINUED)

MULTI-PORT SERIAL ADAPTERS (CONTINUED)

has strengthened its product offering to continue to successfully meet customer needs and believes that multi-port serial adapters will continue to be an important product category.

TERMINAL SERVER

The Company's terminal server family offers flexible and easy solutions for providing access to serial devices over Ethernet networks. As Ethernet connections extend beyond their current applications and into new market uses such as console port management on servers, routers, switches, and other network equipment, the Company believes that terminal servers will continue to be a major growth area.

UNIVERSAL SERIAL BUS

The Company expanded its product lines with its acquisition of Inside Out Networks, Inc. in October 2000. The acquisition creates the most comprehensive and complete USB product line in the industry, expanding on the USB technology acquired in the Central Data Corporation acquisition, and brings an extensive list of satisfied corporate customers such as Agilent, Gateway, Hewlett-Packard, IBM, Lucent Technologies, Microsoft, NCR Corporation, Sun Microsystems and others into the Company's customer base. The Company will also benefit from Inside Out Networks' pioneering EPIC software, which provides seamless transition between legacy software/systems and next-generation USB-attached devices, supporting feature-rich hardware and software flow control signaling. This provides ease of use and integration while protecting technology investments.

LAN CONNECTIVITY

The Company entered the LAN market with its acquisition of MiLAN Technology Corporation (MiLAN) in November 1993. The Company's LAN business, MiLAN Technology, provides cost-effective and power-efficient Ethernet, Fast and Gigabit Ethernet networking connectivity products that are installed on a LAN to increase its productivity. The Company has recently been awarded a multi-million dollar contract to provide fiber-optic LAN connectivity for a major school district in California. MiLAN specializes in fiber optic modular switches and media converters. The product strengths range from switches (fiber and copper), media converters and print servers extending to USB and wireless LAN solutions. The products are engineered to increase network performance, flexibility and productivity of small and medium size organizations.

SERVER-BASED COMMUNICATIONS

Server-based solutions benefit resellers and end users by presenting solutions that are easy to build, configure, and manage. They are comprised of a computer hardware platform and operating system (such as a PC running Windows NT), one or more communications adapters (like Digi's DataFire and AccelePort products), and specialized communications software, available from a wide range of companies. Server-based communications solutions are ideal for applications such as remote access, advanced fax, virtual private networking, Internet connectivity, unified messaging, and Internet POP.

Several significant alliances and agreements were announced in fiscal 2000 for Digi's multi-function communications adapters, including a marketing alliance between the Company and Compaq to jointly develop and market a family of server-based communications solutions. The solutions will incorporate

ITEM 1. BUSINESS (CONTINUED)

SERVER-BASED COMMUNICATIONS (CONTINUED)

Compaq Proliant servers, Digi DataFire RAS or AccelePort RAS communications adapters, Microsoft Windows NT and application software from Acotec, image LAN, and Compaq.

DISTRIBUTION AND PARTNERSHIPS

Significant U.S. distributors include: Ingram Micro, Tech Data Corporation, Gates/Arrow Distributing, Merisel, Avnet/Hallmark, Ameriquest/Robec, and Jones Business Systems. Canadian distributors include Gates/Arrow Electronics, EMJ Data Systems, Ingram Micro Canada, Merisel Canada and Tech Data Canada.

Significant European distributors include: Miel, Arecta, International Computer Products, Connect Service Riedlbauer, Mitrol, Euroline and Data Solutions.

Significant Latin American and Asia Pacific distributors include: Tech Pacific, Sumisho Datacom, Lantech, Sealcorp Computer Products, Ingram Dicom and Unisel.

Digi maintains strategic alliances with other industry leaders to develop and market technology solutions. These include most major communications software vendors, operating system suppliers, and computer hardware manufacturers. Key partners include: Citrix Systems, Compaq, Hewlett-Packard, IBM, Intel, Lotus, Micron, Motorola, Novell, Red Hat, Santa Cruz Operation, Sun Microsystems, and Tobit.

CUSTOMERS

The Company's customer base includes many of the world's largest companies. Long time customer IBM made the Company's adapter boards the first integrated communications offering for the AS400 in 2000, in addition to the products currently being sold into the RS6000 group. The Company is engaged in several developmental alliances, including a relationship with Red Hat, among others. The Company has OEM relationships with leading vendors, allowing them to ship the Company's boards with their systems. These vendors include NCR, Sun Microsystems, Silicon Graphics, Compaq and Bull. Many of the world's leading telecommunications companies and Internet service providers also rely on the Company's products, including Lucent, Nortel, AT&T and Siemens.

During the year ended September 30, 2000, two customers comprised more than 10% of net sales each: Tech Data at 13.4% and Ingram Micro at 10.0%. During the year ended September 30, 1999, two customers comprised more than 10% of net sales each: Tech Data at 15.4% and Ingram Micro at 13.4%. During the year ended September 30, 1998, two customers comprised more than 10% of net sales each: Ingram Micro at 15.5% and Tech Data at 13.7%.

COMPETITIVE CONDITIONS

The computer 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.

ITEM 1. BUSINESS (CONTINUED)

COMPETITIVE CONDITIONS (CONTINUED)

The Company believes that it is the global market leader in multi-port serial adapters. As this market continues to mature, the Company will focus on key applications, customers, and markets to drive additional growth and manage applications as they transition to other technologies such as Ethernet, USB, and wireless connectivity products. The Company also believes it is the leader in connecting peripheral devices to Ethernet LANs with its terminal server product line. With respect to the LAN business, the Company believes it commands less than a 5% market share. The Company is currently establishing its position in the remote access market for the Company's DSP-based RAS product lines.

Many of the Company's competitors and potential competitors have greater financial, technological, manufacturing, marketing and personnel resources than the Company. Present and future competitors may be able to identify new markets and develop products more quickly which are superior to those developed by the Company. They may also adapt new technologies faster, devote greater resources to research and development, promote products more aggressively and price products more competitively than the Company. There are no assurances that competition will not intensify or that the Company will be able to compete effectively in the markets in which the Company competes.

AETHERWORKS CORPORATION

In May 1998, the Company exchanged its previously purchased $13.8 million of convertible notes from AetherWorks Corporation, a development stage company engaged in the development of wireless and dial-up remote access technology, for a non-interest bearing $8.0 million non-convertible note. As a part of the exchange, the Company relinquished its rights to any future technology or claims on any of AetherWorks' intellectual properties. In exchange, the Company has been released from all of its guarantees of certain lease obligations of AetherWorks. Due to significant uncertainty as to its collectibility, the $8.0 million note, was recorded by the Company as having no carrying value. In March 2000, the Company received payment of $8.0 million, representing payment on the aforementioned non-convertible note of AetherWorks Corporation. The note was paid as a result of AetherWorks being acquired by Nx Networks, Inc. (See Note 6 to the consolidated financial statements.)

OPERATIONS

The Company's manufacturing operations procure all parts and certain services involved in the production of products and subcontracts most of its product manufacturing to outside firms that specialize in such services. The Company believes that this approach is beneficial because the Company can 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. Most of these components are available from multiple vendors. The Company has several single-sourced supplier relationships, either because alternative sources are not available or because the relationship is advantageous to the Company. If these suppliers are unable to provide a timely and reliable supply of components, the Company could experience manufacturing delays adversely affecting its results of operations.

ITEM 1. BUSINESS (CONTINUED)

OPERATIONS (CONTINUED)

During fiscal years 1998, 1999 and 2000, the Company's research and development expenditures were $15.9, $21.8, and $20.2 million, respectively.

Due to 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.

As of September 30, 2000, the Company had backlog orders which management believed to be firm in the amount of $4.4 million. All of these orders are expected to be filled in the current fiscal year. Backlog as of September 30, 1999 was $5.0 million.

The Company had 509 employees at September 30, 2000.

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 facility is 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 include a 63,000 square foot facility in Dortmund, Germany, a 46,170 square foot facility in Sunnyvale, California, the lease for which expires in April 2002, and a 5,000 square foot facility in Champaign, Illinois, the lease for which expires in January 2002.

The Company intends to sell the facility in Dortmund, Germany by the end of the second quarter of fiscal 2001.

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 production capacity to meet the Company's currently anticipated needs.

ITEM 3. LEGAL PROCEEDINGS

Between January 3, 1997 and March 7, 1997, the Company and certain of its previous officers were named as defendants in putative securities class action lawsuits filed in the United States District Court for the District of Minnesota by 21 lead plaintiffs on behalf of an alleged class of purchasers of the Company's common stock during the period January 25, 1996 through December 23, 1996. The putative class actions were thereafter consolidated (Master File No. 97-5 DWF/RLE). The Consolidated Amended Class Action Complaint (Consolidated Amended Complaint) alleges that the

ITEM 3. LEGAL PROCEEDINGS (CONTINUED)

Company and certain of its previous officers violated the federal securities laws by, among other things, misrepresenting and/or omitting material information concerning the Company's operations and financial results.

On February 25, 1997, the Company and certain of its previous officers also were named as defendants in a securities lawsuit filed in the United States District Court for the District of Minnesota by the Louisiana State Employees Retirement System (Civil File No. 97-440, Master File No. 97-5 DWF/RLE) (the Louisiana Amended Complaint). The Louisiana Amended Complaint alleges that the Company and certain of its previous officers violated the federal securities laws and state common law by, among other things, misrepresenting and/or omitting material information concerning the Company's operations and financial results.

In a decision issued on May 22, 1998, the Court dismissed without leave to replead all claims asserted in both cases, including all claims asserted against defendant Gary L. Deaner, except for certain federal securities law claims based upon alleged misrepresentations and/or omissions relating to the accounting treatment applied to the Company's AetherWorks investment. The Court also limited the claims asserted in the Louisiana Amended Complaint to the 11,000 shares of the Company's stock held subsequent to November 14, 1996, for which the Louisiana Amended Complaint claims damages of $184,276 and seeks an award of attorneys' fees, disbursements and costs. The Consolidated Amended Complaint seeks compensatory damages of approximately $43.1 million, plus interest, against all defendants, jointly and severally, and an award of attorneys' fees, experts' fees and costs.

On August 17, 2000, the Court granted defendants' motions for summary judgment and dismissed with prejudice the Consolidated Amended Complaint and the Louisiana Amended Complaint. Although the 21 lead plaintiffs in the consolidated putative class actions had previously moved for class certification, the Court dismissed the actions before ruling on that motion.

On September 1, 2000, the Louisiana State Employees Retirement System filed an appeal from the Court's August 17, 2000 decision. On September 14, 2000, the 21 lead plaintiffs in the consolidated putative class actions filed an appeal from both the Court's May 22, 1998 and August 17, 2000 decisions. The two appeals have been consolidated for briefing and argument, with briefing scheduled to be completed in January 2001, and oral argument to be held thereafter.

The ultimate outcomes of these actions cannot be determined at this time, and no potential assessment of their effect, if any, on the Company's financial position, liquidity or future operations can be made.

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

There were no matters submitted to the vote of security holders during the quarter ended September 30, 2000.

PART II

ITEM 6. SELECTED FINANCIAL DATA

SELECTED FINANCIAL INFORMATION	2000	1999	1998	1997	1996
Net sales	$132,525	$193,506	$ 182,932	$165,598	$193,151
Percentage (decrease) increase	(31.5)%	5.8%	10.5%	(14.3)%	17.1%
Net (loss) income	(16,825)	3,192	(71)	(15,791)	9,300
Percentage (decrease) increase	(627.1)%	4,589.5%	99.6%	(269.8)%	(51.9)%
Net (loss) income per share-basic	(1.12)	0.22	(0.01)	(1.18)	0.70
Percentage (decrease) increase	(609.1)%	2,300.0%	99.2%	(268.6)%	(50.7)%
Net (loss) income per share -- assuming dilution	(1.12)	0.22	(0.01)	(1.18)	0.68
Percentage (decrease) increase	(609.1)%	2,300.0%	99.2%	(268.6)%	(51.1)%
Total assets	142,922	176,330	191,521	118,311	129,939
Percentage (decrease) increase	(18.9)%	(7.9)%	61.9%	(8.9)%	3.1%
Long-term debt	7,081	9,206	11,124		
Percentage (decrease)	(23.1)%	(17.2)%			
Stockholders' equity	113,459	127,164	121,251	95,471	109,943
Percentage (decrease) increase	(10.8)%	4.9%	27.0%	(13.2)%	3.9%

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS AND PERCENTAGES)

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Annual Report contains certain statements that are "forward-looking statements" as that term is defined under the Private Securities Litigation Reform Act of 1995, and within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words "believe," "expect," "anticipate," "intend," "estimate," "target," "may," "will," "plan," "project," "should," "continue," or the negative thereof or other expressions, which are predictions of or indicate future events and trends and which do not relate to historical matters, identify forward-looking statements. Such statements are based on information available to management as of the time of such statements and relate to, among other things, expectations of the business environment in which the Company operates, projections of future performance, perceived opportunities in the market and statements regarding the Company's mission and vision. Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

The future operating results and performance trends of the Company may be affected by a number of factors, including, without limitation, the following: (i) the highly competitive market in which the Company operates; (ii) the Company's ability to respond to rapidly developing changes in its marketplace; (iii) delays in the Company's product development efforts; (iv) the useful life of products once developed; (v) the Company's ability to integrate its recent acquisitions and to develop marketable products from the acquired in-process research and development; (vi) the Company's reliance on distributors; (vii) declining prices of networking products; (viii) uncertainty in consumer acceptance of the Company's products; and (ix) changes in the Company's level of revenue or profitability. These and other risks, uncertainties and assumptions identified from time to time in the Company's filings with the Securities and Exchange Commission, including without limitation, its annual report on Form 10-K and its quarterly report on Form 10-Q, could cause the Company's actual future results to differ materially from those projected in the forward-looking statements as a result of the factors set forth in the Company's various filings with the Securities and Exchange Commission and of changes in general economic conditions, changes in interest rates and/or exchange rates and changes in the assumptions used in making such forward-looking statements.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

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

	2000	1999	1998	2000 over 1999	1999 over 1998
Net sales	100.0 %	100.0 %	100.0 %	(31.5) %	5.8 %
Cost of sales	47.4	49.3	48.4	(34.0)	7.7
Gross margin	52.6	50.7	51.6	(29.1)	4.0
Operating expenses:					
Sales and marketing	26.0	22.7	21.0	(21.5)	14.4
Research and development	15.2	11.3	8.7	(7.7)	37.3
General and administrative	14.6	12.2	9.3	(18.2)	39.1
Acquired in-process research and development	--	--	8.8	--	(100.0)
Impairment loss	19.7	--	--	--	--
Restructuring	1.1	0.3	0.5	127.5	(40.5)
Total operating expenses	76.6	46.5	48.3	12.8	1.8
Operating (loss) income	(24.0)	4.2	3.3	(486.5)	36.2
Other income (expense), net	2.0	(0.1)	1.0	1,140.8	(114.1)
AetherWorks Corporation gain	--	--	0.7	--	(100.0)
AetherWorks Corporation note recovery	6.0	--	--	--	--
(Loss) income before income taxes	(16.0)	4.1	5.0	(365.2)	(13.4)
Income tax (benefit) provision	(3.3)	2.5	5.0	(190.6)	(48.4)
Net (loss) income	(12.7) %	1.6 %	0.0 %	(627.1) %	4,589.5 %

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF (CONTINUED)

NET SALES

The $61.0 million or 31.5% decrease in net sales from 1999 to 2000 and the $10.6 million or 5.8% increase in net sales from 1998 to 1999 occurred within the Company's principal product groups as follows:

	Percent of Annual Net Sales			Annual Net Sales Increase (Decrease) Relative to Prior Year	
	2000	1999	1998	2000	1999
Server Based	90.0%	89.8%	79.8%	(31.3)%	18.9 %
Physical Layer	10.0%	10.2%	20.1%	(33.0)%	(46.2)%

Sales of Integrated Services Digital Network (ISDN) and Voice Over Internet Protocol (VoIP) products added in connection with the July 1998 acquisition of ITK and USB and Etherlite products added in connection with the July 1998 acquisition of CDC generated $25.2 million of net sales for the 2000 fiscal year, a decrease of $17.3 million relative to the net sales recognized during the year ago period from these products. The decrease in net sales of these products was primarily due to the elimination of the VoIP product line in the second quarter of fiscal 2000 and the slowdown in sales of the ISDN product line in Germany. The Company also experienced a decline in sales of its legacy products resulting in reduced revenues of $40.9 million due to an erosion in the asynchronous product market and the demand downturn associated with the post Year 2000 period, as well as a decline in sales of the Company's physical layer products of $6.5 million. Net sales of the Company's digital RAS products added $3.7 million during fiscal 2000. Net sales in fiscal 1999 increased from fiscal 1998 largely due to the full year impact of the acquisitions of ITK and CDC, as well as the ramp up in sales of new DSP RAS products in fiscal 1999. These events accounted for sales increases of $40.9 million. The increases were mitigated by a revenue decrease of $13.3 million in 1999 for legacy asynchronous products due to shrinking of the overall market, as well as a decrease of $17.0 million in the Company's physical layer product sales due principally to competitively lower prices.

Net sales to OEMs decreased 19.4% over 1999, but as a percentage of total net sales, increased to 29.3% versus 24.9% in 1999. The OEM sales were less affected by Year 2000 factors than the sales through other channel partners. Net sales to OEMs for 1998 were 22.2% of total net sales.

Net sales into the distribution channel declined 37.3% over 1999 and as a percentage of total net sales, declined 5.9% to 63.4% as compared to 69.3% in 1999. International distribution net sales decreased by 34.4% over fiscal 1999 primarily due to the decline in the overall asynchronous market and the post year 2000 effects experienced domestically. Domestic distribution net sales declined by 39.2% due to overall market conditions discussed previously. Net sales to the distribution market for 1998 represented 69.3% of total net sales.

During fiscal years 2000, 1999 and 1998, the Company's net sales to customers outside the United States, primarily in Europe, were approximately $46.1 million, $67.4 million and $46.7 million, respectively, comprising approximately 34.8%, 34.8% and 25.5% of total net sales, respectively.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

GROSS MARGIN

Gross margin in 2000 improved to 52.6%, compared to 50.7% in 1999, primarily due to fewer pricing and volume discount incentives offered to channel partners in 2000, an increase in sales of higher margin DSP RAS products, and an improved mix of higher margin physical layer products compared to the previous year.

Gross margin in 1999 decreased to 50.7% compared to 51.6% in 1998 due to the negative impact of lower gross margin ITK products, an increased percentage of lower margin OEM sales, market-driven erosion of gross margin on physical layer products and write-downs in the carrying value of certain inventories.

OPERATING EXPENSES

Operating expenses in 2000, excluding restructuring, reorganization and asset impairment charges, decreased $15.4 million or 17.2% as compared to operating expenses for 1999. Sales and marketing expenses declined by $9.4 million, primarily in the areas of salaries, co-op advertising, commissions, and travel. Salaries decreased by $3.6 million, largely related to 1999 restructuring activities. Co-op advertising costs and commissions were lower than in 1999 by $1.1 million and $0.7 million, respectively, resulting primarily from the lower sales volumes in 2000. Travel expenses were lower by $0.6 million in response to cost control measures implemented due to the lower sales volumes experienced in 2000. Marketing expenses were lower than in 1999 by $3.4 million due to fewer new product introductions and less trade show activity. Research and development expenses in 2000 decreased by $1.7 million relative to 1999, largely due to the discontinuance of the NetBlazer technology and the elimination of the related VoIP product line in Germany. General and administrative expenses in 2000 decreased by $4.3 million relative to 1999, of which $2.7 million resulted from the decrease in amortization associated with the write-off of the VoIP identifiable intangibles and goodwill, and prior year restructuring activities which created cost reductions in 2000 of approximately $0.6 million. An additional $1.0 million in savings was realized due to cost controls implemented across the entire Company, at all locations.

Operating expenses in 1999, excluding acquired in-process research and development charges of $16.1 million recorded in 1998, increased by 24.5% from 1998. Sales and marketing expenses increased by $5.5 million due to $6.2 million of expenses added by ITK and CDC, $3.0 million expended to promote new DSP RAS products, partially offset by a $3.7 million cost decline primarily due to reduced North American channel marketing efforts. Research and development expenses increased $5.9 million in 1999 as compared to 1998 due primarily to $3.5 million of additional costs added by the acquisitions of ITK and CDC with the remaining increase of $2.4 million primarily due to new product development costs for the DSP RAS products. General and administrative expenses increased by $6.6 million primarily due to increased amortization of acquisition-related goodwill and other identifiable intangibles of $8.0 million partially offset by $1.4 million of cost reductions related to reduced information systems implementation costs and other cost saving initiatives.

The $1.5 million of restructuring charges recorded in fiscal 2000 were associated with the board-approved plan to restructure the European organization located in Dortmund, Germany and Bagshot, England, by transitioning all product development, technical support and manufacturing functions to the

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

OPERATING EXPENSES (CONTINUED)

Company's corporate headquarters located in Minnetonka, Minnesota. The restructuring charge consists principally of severance and termination costs for the 75 positions affected by the restructuring.

Restructuring activities are expected to be completed by end of the second quarter of fiscal 2001. The Company anticipates annual cost savings of approximately $3.0 million from these restructurings. (See Note 4 to the Company's consolidated financial statements.)

The $1.2 million of net restructuring charges recorded in fiscal 1999 were associated with the board approved plan to reorganize the sales and marketing functions in Germany, England and the United States, by consolidating worldwide sales and marketing resources into strategic locations. The charges consist principally of existing commitments for rent on facilities vacated by the Company and termination payments associated with the elimination of 42 positions. These activities were completed by December 1999. The Company realized cost savings of approximately $2.2 million in fiscal year 2000 from these restructurings. (See Note 4 to the Company's consolidated financial statements.)

The $1.0 million restructuring charge recorded in fiscal 1998 was associated with a board-approved plan to consolidate existing offices in Germany with those acquired from ITK. The charge consists principally of rent, contractual payments on office equipment, write-offs of leasehold improvements and termination costs associated with the elimination of six positions. Activities were completed by June 30, 1999. The Company realized cost savings of approximately $0.5 million in fiscal year 2000 from these restructurings. (See Note 4 to the Company's consolidated financial statements.)

OTHER DEVELOPMENTS

On October 2, 2000, the Company acquired Inside Out Networks, a leading developer of data connection products based in Austin, Texas. The acquisition provides a comprehensive suite of local connectivity solutions to the market. (See Note 17 to the Company's consolidated financial statements.)

ACQUIRED IN-PROCESS RESEARCH AND DEVELOPMENT

ACQUISITION OF ITK INTERNATIONAL, INC.

In July 1998, the Company acquired all of the outstanding common stock of ITK. The transaction was accounted for using the purchase method of accounting. Accordingly, the purchase price was allocated to the estimated fair value of assets acquired and liabilities assumed, including estimated restructuring and integration costs of $3.5 million. (See Note 4 to the Company's consolidated financial statements.)

At the time of the Company's acquisition, ITK described itself as a Remote Access Server (RAS) product company. Although ITK did offer its own line of ISDN cards and networking boards, the Company's acquisition was made principally to acquire the VoIP technology under development by ITK. This VoIP technology, if successfully developed, would allow users to send packetized voice signals through the Internet. The Company believed that the VoIP technology under development at the time of the acquisition could provide for the development of products which would be a natural

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

ACQUIRED IN-PROCESS RESEARCH AND DEVELOPMENT (CONTINUED)

ACQUISITION OF ITK INTERNATIONAL, INC. (CONTINUED)

extension of the Company's current product offerings and could position the Company to address substantially larger markets than the markets served by the Company's current products.

At the time of the acquisition, ITK had developed a proof of concept prototype product (NetBlazer 8500) which demonstrated that the method of voice and data compression under development by ITK and the method of combining VoIP and remote access functionality under development by ITK had the potential to be further developed into a product marketable to "Carrier Class" telephone companies. However, the NetBlazer 8500 required further development before it could meet the technical and functional requirements of such customers. Accordingly, the Company was uncertain whether the VoIP technology being developed would ultimately meet the technical requirements of Carrier Class telephony customers or whether it would be commercially viable.

As of the date of the acquisition, the nature of the development efforts related to the purchased, in-process research and development projects, as well as the efforts required to complete development of those projects into commercially viable products, included development projects to address the following: (a) development of enhanced technical attributes, including enhanced port density, redundancy, network management capabilities, a higher fault tolerance, compliance with telephone industry standards such as "SS7" and "NEBS" compliancy; (b) development of significant hardware and software functions considered integral to a product with broad appeal to end users and the telephone companies, including computer-to-phone capabilities, interoperability with other vendor's gateways, one-stage dialing , local tone simulation and announcements, end-to-end transparent disconnect cause delivery and real-time FAX-over capabilities, among others; and (c) re-engineering of the prototype design to permit cost effective manufacture and commercial use, including migration from a UNIX operating system to a Windows NT operating system.

Management estimated that $11.3 million of the purchase price represented the fair value of purchased in-process research and development related to the VoIP projects referred to above, that had not yet reached technological feasibility and had no alternative future uses. These amounts were expensed as a non-recurring, non-tax-deductible charge upon consummation of the acquisition.

The identifiable intangible assets of $21.1 million included in the purchase price allocation were comprised of proven technology with an estimated fair value of $19.7 million and an assembled workforce with an estimated fair value of $1.4 million, which had estimated useful lives of five years and six years, respectively. The remaining unallocated purchase price represented goodwill of $17.7 million, which was being amortized over seven years. With regard to the proven technology, the Company intended to further enhance the strengths of this product range and implement a plan to gain leadership in the ISDN market. The Company's core asset was the comprehensive set of common application programming interface (CAPI) and CAPI-enhancing features combined with highly intelligent ISDN protocol implementation which provided for integration into server-based communication solutions for the media communication market.

In the second quarter of fiscal 2000, the Company recorded an $18.1 million charge reflecting the write-down of the carrying value of all of the intangible assets associated with the NetBlazer technology and

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

ACQUIRED IN-PROCESS RESEARCH AND DEVELOPMENT (CONTINUED)

ACQUISITION OF ITK INTERNATIONAL, INC. (CONTINUED)

some of the goodwill acquired in the Company's July 1998 purchase of ITK. The write-down resulted from the Company's March 2000 decision to discontinue development of the NetBlazer technology when the key technical members of the NetBlazer technology team elected to leave the Company and the Company concluded that it would not be able to successfully develop a competitive product from the technology. Accordingly, the Company determined that future undiscounted cash flows from the acquired ITK assets would be substantially reduced, and therefore, the carrying value of the acquired ITK assets would be impaired. (See Note 3 to the Company's consolidated financial statements.)

In September 2000, the Company recorded a charge of $5.8 million reflecting a write-down of the remaining carrying value of identifiable intangible assets and goodwill associated with the Integrated Services Digital Network (ISDN) technology and some of the other long-lived assets acquired in the Company's July 1998 purchase of ITK. The write-down resulted from the Company's September 2000 decision to discontinue all business activities in the ISDN market. The Company determined that it did not have the capability to invest at the levels necessary to achieve significant market share in the ISDN market and, therefore, has discontinued development activities associated with the ISDN product lines. Accordingly, the Company determined that future undiscounted cash flows from the remaining acquired ITK intangible assets would be reduced and, therefore, the carrying value of the remaining acquired ITK intangible assets would be impaired.

ACQUISITION OF CENTRAL DATA CORPORATION

In July 1998, the Company acquired all of the outstanding common stock of CDC. The transaction was accounted for using the purchase method of accounting. Accordingly, the purchase price was allocated to the estimated fair value of assets acquired and liabilities assumed, including estimated restructuring and integration costs of $0.8 million. (See Note 4 to the Company's consolidated financial statements.)

Although CDC did offer its own line of traditional serial port connectivity products, the Company's acquisition was made principally to acquire the USB technology under development by CDC. This USB technology, if successfully developed, would broaden the Company's product offerings to include this new, emerging industry-standard port technology. Management considers such a product offering integral to its future market share because the marketplace is migrating from the traditional serial I/O (input/output) technology (in which the Company has significant market share) to USB technology.

At the time of acquisition, CDC had developed a prototype of both the 2-port and 4-port USB connectivity technologies that demonstrated the validity of CDC's product development plan. However, the USB technology development was still in process, and required significant development work and field testing before it could meet the technical and functional requirements of customers and achieve commercial viability. Accordingly, the Company was uncertain whether the technology being developed could ultimately meet the technical and economic requirements of the marketplace and become commercially viable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

ACQUIRED IN-PROCESS RESEARCH AND DEVELOPMENT (CONTINUED)

ACQUISITION OF CENTRAL DATA CORPORATION (CONTINUED)

As of the date of the acquisition, the nature of the development efforts related to the purchased, in-process research and development projects, as well as the efforts required to complete development of those projects into commercially viable products included: (a) development of new hardware designs and software engineering relating to a complete reengineering of the in-process USB technology; (b) development of new hardware designs for 8-port USB products; and (c) development of a new "hub" architecture to support the CDC USB technology.

Management estimated that $4.7 million of the purchase price represented the fair value of purchased in-process research and development related to the USB projects referred to above, that had not yet reached technological feasibility and had no alternative future uses. These amounts were expensed as a non-recurring, non-tax-deductible charge upon consummation of the acquisition.

The identifiable intangible assets of $9.8 million included in the purchase price allocation were comprised of proven technology with an estimated fair value of $9.4 million, and an assembled workforce with an estimated fair value of $0.4 million, which had estimated useful lives of five years and six years, respectively. The remaining unallocated purchase price represented goodwill in the amount of $9.7 million, which was being amortized over seven years.

The Company has developed the acquired in-process USB research and development and released USB products, with initial product revenues generated during November 1998. USB revenues of approximately $0.5 million and $0.3 million, for fiscal years 2000 and 1999, respectively, are included in revenues from the first release of certain USB products.

Actual revenues are below original projections due to delays in the release and marketing of certain USB products. The Company's efforts have been more heavily focused on the terminal server technologies, which had already been developed and were generating most of the post-acquisition CDC revenues, and accordingly, the original revenue projections for USB have not been realized. On October 2, 2000, the Company acquired Inside Out Networks, a leading developer of data connection products. The acquisition will allow the Company to offer the most competitive and complete USB product line in the industry. As Inside Out Networks is the market leader in USB, the Company expects that the USB products currently being sold will eventually be superceded by the Inside Out Networks USB product lines. However, the Company expects to continue to utilize the USB technology purchased in the CDC acquisition.

OTHER INCOME (EXPENSE)

Other income of $10.7 million in 2000 consisted primarily of an $8.0 million gain recognized when Nx Networks, which acquired AetherWorks Corporation, paid the note the Company had previously written off. (See Note 6 to the Company's consolidated financial statements.) In addition, the Company recognized $2.7 million from interest income on short-term investments and $0.6 million of miscellaneous other income. These items were partially offset by $0.7 million of interest expense on the Company's borrowings.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

OTHER INCOME (EXPENSE) (CONTINUED)

Other expense of $0.3 million in 1999 consisted primarily of $1.0 million of interest expense on lines of credit and long-term debt partially offset by $0.9 million of interest income on short-term investments. Other income for 1998 included primarily interest income on cash equivalents and a fiscal 1998 third-quarter reversal of a $1.4 million previously accrued obligation related to lease guarantees for AetherWorks Corporation. As discussed in the next item below, the obligation was reversed because the Company is no longer the primary guarantor for these leases.

AETHERWORKS CORPORATION
WRITE-OFF AND NOTE RECOVERY

In connection with the Company's previously purchased $13.8 million of convertible notes from AetherWorks Corporation, in May 1998 the Company exchanged such notes for a non-interest bearing $8.0 million non-convertible note and was released from all of its guarantees of certain lease obligations of AetherWorks. Due to significant uncertainty as to its collectibility, the $8.0 million note was recorded by the Company as having no carrying value. In March 2000, the Company received payment of $8.0 million, representing payment on the aforementioned non-convertible note of AetherWorks Corporation. The note was paid as a result of AetherWorks Corporation being acquired by Nx Networks, Inc.

INCOME TAXES

The Company recorded a $4.3 million tax benefit for 2000, and tax provisions of $4.8 million and $9.3 million for fiscal years 1999 and 1998, respectively. The tax benefit in 2000 is recorded at a rate less than the U.S. statutory rate primarily due to non-deductible charges and amortization, partially offset by the non-taxable gain recognized upon recovery of the AetherWorks Corporation note. For fiscal 1999, the Company recorded taxes at a rate in excess of the U.S. statutory rate primarily due to the amortization of the identifiable assets and goodwill acquired in the purchase of ITK and CDC which were not deductible for income tax reporting purposes. For fiscal 1998, the Company recorded a tax provision despite incurring a loss primarily due to the write-off of acquired in-process research and development which was not deductible for income tax reporting purposes.

INFLATION

The Company believes inflation has not had a material effect on its operations or its financial condition.

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its operations principally with funds generated from operations, and, in prior years, with proceeds from earlier public offerings.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

The Company's working capital increased from $59.9 million at September 30, 1999, to $78.1 million at September 30, 2000, as compared to an increase of $22.0 million, from $37.9 million to $59.9 million, at September 30, 1999 versus September 30, 1998, respectively. The Company maintains lines of credit with various financial institutions providing for borrowings of up to $14.5 million, depending upon levels of eligible accounts receivable and inventories. As of September 30, 2000, $3.1 million had been borrowed under these line of credit agreements.

Net cash provided by operating activities totaled $27.4 million during fiscal 2000 as compared to $33.3 million during fiscal 1999. The decrease in net cash provided by operations during fiscal 2000 was primarily due to less favorable operating results as compared to fiscal 1999. Net cash provided by operating activities totaled $33.3 million during fiscal 1999 as compared to $10.4 million during fiscal 1998. The increase in net cash provided by operations during fiscal 1999 was due primarily to improved collections on accounts receivables balances.

Investing activities in 2000 consisted of net investments of $6.4 million in marketable securities and purchases of $2.5 million of equipment, capital improvements and other intangible assets. In 1999 investing activities included net investments of $13.6 million in marketable securities and purchases of $4.8 million of equipment and capital improvements, and expansion of the Company's enterprise-wide Enterprise Resource Planning (ERP) software system. Investing activities in fiscal 1998 consisted of purchases of equipment, capital improvements and other intangible assets of $5.8 million, business acquisitions of $27.4 million and a $2.0 million investment in AetherWorks Corporation.

Financing activities consisted of payments on line of credit and debt obligations totaling $1.4 million, $5.9 million and $0.1 million for 2000, 1999 and 1998, respectively. These payments were partially offset by $1.5 million, $3.0 million and $2.8 million in 2000, 1999 and 1998, respectively, received from the exercise of employee stock options and employee stock purchase plan transactions. In 1999 and 1998, the Company also repurchased $0.8 million and $0.2 million, respectively, to repurchase shares of its common stock.

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 future business operations.

Effective October 2, 2000, the Company acquired Inside Out Networks, a leading developer of data connection products based in Austin, Texas. The purchase price included an initial cash payment of $6.4 million, subject to possible post-closing adjustment, and additional contingent payments of up to $8.5 million over three years, depending upon whether Inside Out Networks achieves specific revenue and operating income targets during the next three years. The initial payment as well as any future additional contingent payments are expected to be paid using cash generated from operations. (See Note 17 to the Company's consolidated financial statements.)

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

FOREIGN CURRENCY TRANSLATION

Effective January 1, 1999, eleven countries of the European Union converted to a common currency called the "Euro." This action caused some of the Company's European transactions to be negotiated, invoiced, and paid in "Euros." The conversion will most likely add currency exchange costs and risks, although such costs and risks are not quantifiable at this time.

During 2000, the Company had approximately $46.1 million of net sales related to foreign customers, of which $41.0 million was denominated in U.S. dollars, $5.0 million was in Deutschemark- denominated sales, and $0.1 million was in Euro-denominated sales. During 2000, the average monthly exchange rate for the U.S. dollar to the Deutschemark dropped by approximately 17.0% from .5370 to .4455.

In future periods, a significant portion of sales will be made in Deutschemarks until full integration of the "Euro" is achieved. The Company has not implemented a hedging strategy to reduce the risk of foreign currency translation exposures.

YEAR 2000 DISCLOSURE

The Company experienced no adverse systems effects of the Year 2000 issue. While market stabilization has occurred in the last half of fiscal 2000, the Company experienced some adverse operational effects from the Year 2000 issue as a result of the industry wide slowdown in sales in the first and second quarters of fiscal 2000. While the Company has not been able to quantify the effects of the Year 2000 sales impact versus other market factors, management believes that there will be no further material adverse effects on sales from the Year 2000 issue.

RECENT ACCOUNTING DEVELOPMENTS

See Note 1 to the Company's consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company does not have material exposure to market risk from market risk sensitive financial instruments other than the currency risk associated with certain transactions being denominated in Deutschemarks.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CONSOLIDATED STATEMENTS OF OPERATIONS

For the fiscal years ended September 30	2000	1999	1998
Net sales	$ 132,524,630	$ 193,506,059	$ 182,931,670
Cost of sales	62,871,689	95,313,636	88,539,156
Gross margin	69,652,941	98,192,423	94,392,514
Operating expenses:			
Sales and marketing	34,423,150	43,844,557	38,334,312
Research and development	20,174,918	21,847,230	15,917,125
General and administrative	19,357,867	23,657,586	17,011,504
Acquired in-process research and development			16,064,933
Impairment loss	26,146,300		
Restructuring	1,381,642	607,398	1,020,000
Total operating expenses	101,483,877	89,956,771	88,347,874
Operating (loss) income	(31,830,936)	8,235,652	6,044,640
Other income (expense), net	2,667,816	(256,320)	1,818,286
AetherWorks Corporation gain			1,350,000
AetherWorks Corporation note recovery	8,000,000		
(Loss) income before income taxes	(21,163,120)	7,979,332	9,212,926
Income tax (benefit) provision	(4,338,440)	4,787,599	9,284,020
Net (loss) income	$ (16,824,680)	$ 3,191,733	$ (71,094)
Net (loss) income per common share, basic	$ (1.12)	$ 0.22	$ (0.01)
Net (loss) income per common share, assuming dilution	$ (1.12)	$ 0.22	$ (0.01)
Weighted average common shares, basic	15,061,774	14,696,057	13,729,765
Weighted average common shares, assuming dilution	15,061,774	14,831,242	13,729,765

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (CONTINUED)

CONSOLIDATED BALANCE SHEETS

At September 30,	2000	1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 38,785,936	$ 20,963,607
Marketable securities	20,150,132	13,714,422
Accounts receivable, net	18,175,226	33,955,669
Inventories, net	19,700,010	22,446,667
Other	3,655,511	5,394,346
Total current assets	100,466,815	96,474,711
Property, equipment and improvements, net	24,408,384	30,242,877
Intangible assets, net	16,397,744	47,804,611
Other	1,649,252	1,807,829
Total assets	$ 142,922,195	$ 176,330,028
LIABILITES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Borrowings under line of credit agreements	$ 3,147,900	$ 4,759,095
Current portion of long-term debt	330,305	330,028
Accounts payable	6,275,995	10,779,998
Income taxes payable	1,328,481	5,274,181
Accrued expenses:		
Advertising	1,143,565	2,461,437
Compensation	1,862,517	6,078,230
Other	6,760,841	6,357,348
Restructuring reserves	1,531,992	488,298
Total current liabilities	22,381,596	36,528,615
Long-term debt	7,081,396	9,205,918
Net deferred income taxes	--	3,431,133
Total liabilities	29,462,992	49,165,666
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value: 2,000,000 shares authorized; none outstanding		
Common stock, $.01 par value; 60,000,000 shares authorized; 16,322,949 and 16,192,997 shares issued	163,229	161,930
Additional paid-in capital	71,851,928	71,460,612
Retained earnings	61,409,861	78,234,541
Accumulated other comprehensive income (loss)	166,750	(1,027,533)
	133,591,768	148,829,550
Unearned stock compensation	(89,618)	(339,686)
Treasury stock, at cost, 1,196,463 and 1,271,612 shares	(20,042,947)	(21,325,502)
Total stockholders' equity	113,459,203	127,164,362
Total liabilities and stockholders' equity	$ 142,922,195	$ 176,330,028

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (CONTINUED)

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the fiscal years ended September 30,

	2000	1999	1998
Operating activities:			
Net (loss) income	$(16,824,680)	$ 3,191,733	$ (71,094)
Adjustments to reconcile net (loss) income to cash provided by operating activities:			
Impairment loss	26,146,300		
Acquired in-process research and development			16,064,933
Restructuring	1,381,642	(672,167)	1,020,000
Depreciation of property and equipment	4,296,143	5,988,640	5,174,725
Amortization of intangibles	8,463,573	12,807,568	3,665,879
AetherWorks Corporation gain			(1,350,000)
Loss on sale of fixed assets	85,809	243,524	159,498
Provision for losses on accounts receivable	1,150,068	179,366	708,992
Provision for inventory obsolescence	1,632,685	6,218,261	3,414,270
Deferred income taxes	(5,234,720)	(2,119,056)	(1,251,611)
Stock compensation	164,909	582,981	895,401
Changes in operating assets and liabilities:			
Accounts receivable	12,792,380	12,359,264	(17,687,833)
Inventories	898,344	(1,618,415)	(569,839)
Income taxes payable	(3,943,276)	1,761,296	883,900
Other assets	3,546,641	2,228,897	(3,227,695)
Accounts payable	(2,829,261)	(3,822,046)	279,236
Accrued expenses	(4,362,890)	(4,025,827)	2,280,156
Total adjustments	44,188,347	30,112,286	10,460,012
Net cash provided by operating activities	27,363,667	33,304,019	10,388,918
Investing activities:			
Purchase of property and equipment and certain other intangible assets	(2,544,171)	(4,759,893)	(5,816,163)
Proceeds from sale of fixed assets		843,995	
Proceeds from sale of held-to-maturity marketable securities	76,531,426	7,000,000	
Purchase of held-to-maturity marketable securities	(82,967,136)	(20,633,113)	
Business acquisitions, net of cash acquired			(27,356,560)
Investment in AetherWorks Corporation			(2,000,000)
Net cash used in investing activities	(8,979,881)	(17,549,011)	(35,172,723)
Financing activities:			
Payments on long-term debt	(859,264)	(1,072,747)	(73,000)
Payments on line of credit	(508,317)	(4,843,096)	
Proceeds from the issuance of long-term debt			2,064,865
Purchase of treasury stock		(815,000)	(153,750)
Stock option transactions	937,723	2,381,422	2,310,572
Employee stock purchase plan transactions	580,855	586,324	471,629
Net cash provided by (used in) financing activities	150,997	(3,763,097)	4,620,316
Effect of exchange rates changes on cash and cash equivalents	(712,454)	(1,383,672)	(810,809)
Net increase (decrease) in cash and cash equivalents	17,822,329	10,608,239	(20,974,298)
Cash and cash equivalents, beginning of period	20,963,607	10,355,368	31,329,666
Cash and cash equivalents, end of period	$ 38,785,936	$ 20,963,607	$ 10,355,368
Supplemental Cash Flows Information:			
Interest paid	$ 699,228	$ 937,306	$ 224,730
Income taxes paid	$ 4,358,892	$ 3,742,898	$ 7,463,578

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (CONTINUED)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

For the years ended September 30, 2000, 1999 and 1998

	Common Stock		Treasury Stock			Total
	Shares	Par Value	Shares	Value	Additional Paid-in-Capital	Stockholders' Equity
Balances, September 30, 1997	14,727,256	$ 147,273	1,269,492	$ (22,405,588)	$ 44,403,102	$ 95,471,031
Issuance of stock for acquisitions	775,837	7,758			21,829,797	21,837,555
Purchase of treasury stock, at cost			15,000	(153,750)		(153,750)
Employee stock purchase issuances			(37,398)	664,526	(192,897)	471,629
Issuance of stock options at below market prices					977,697	895,401
Stock compensation						
Issuance of stock upon exercise of stock options, net of withholding	287,882	2,879			2,307,742	2,310,621
Tax benefit realized upon exercise of stock options					1,305,001	1,305,001
Forfeiture of stock options					(169,319)	(815,809)
Foreign currency translation adjustment						
Net loss						(71,095)
Balances, September 30, 1998	15,790,975	157,910	1,247,094	(21,894,812)	70,461,123	121,250,585
Purchase of treasury stock, at cost			105,000	(815,000)		(153,750)
Employee stock purchase issuances			(80,482)	1,384,310	(797,986)	471,629
Stock compensation						
Issuance of stock upon exercise of stock options, net of withholding	402,022	4,020			2,377,402	2,310,621
Tax benefit realized upon exercise of stock options					198,041	1,305,001
Forfeiture of stock options					(777,968)	
Foreign currency translation adjustment						815,809)
Net income						(71,096)
Balances, September 30, 1999	16,192,997	161,930	1,271,612	(21,325,502)	71,460,612	
Employee stock purchase issuances			(75,149)	1,282,555	(701,700)	580,855
Stock compensation						
Issuance of stock upon exercise of stock options, net of withholding	129,952	1,299			936,424	937,723
Tax benefit realized upon exercise of stock options					241,751	241,751
Forfeiture of stock options					(85,159)	
Foreign currency translation adjustment						1,194,285
Net loss						(17,008,589)
Balances, September 30, 2000	16,322,949	$ 163,229	1,196,463	$ (20,042,947)	$ 71,851,928	$ 113,275,248

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

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (CONTINUED)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (CONTINUED)

For the years ended September 30, 2000, 1999 and 1998

	Retained Earnings	Unearned Stock Compensation	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Comprehensive (Loss) Income
Balances, September 30, 1997	$ 75,113,902	$ (1,787,658)		$ 95,471,031	
Issuance of stock for acquisitions				21,837,555	
Purchase of treasury stock, at cost				(153,750)	
Employee stock purchase issuances				471,629	
Issuance of stock options at below market prices		(977,697)			
Stock compensation		895,401		895,401	
Issuance of stock upon exercise of stock options, net of withholding				2,310,621	
Tax benefit realized upon exercise of stock options				1,305,001	
Forfeiture of stock options		169,319			
Foreign currency translation adjustment			$ (815,809)	(815,809)	(815,809)
Net loss	(71,094)			(71,094)	(71,094)
Balances, September 30, 1998	75,042,808	(1,700,635)	(815,809)	121,250,585	$ (886,903)
Purchase of treasury stock, at cost				(815,000)	
Employee stock purchase issuances				586,324	
Stock compensation		582,981		582,981	
Issuance of stock upon exercise of stock options, net of withholding				2,381,422	
Tax benefit realized upon exercise of stock options				198,041	
Forfeiture of stock options		777,968			
Foreign currency translation adjustment			(211,724)	(211,724)	(211,724)
Net income	3,191,733			3,191,733	3,191,733
Balances, September 30, 1999	78,234,541	(339,686)	(1,027,533)	127,164,362	$ 2,980,009
Employee stock purchase issuances				580,855	
Stock compensation		164,909		164,909	
Issuance of stock upon exercise of stock options, net of withholding				937,723	
Tax benefit realized upon exercise of stock options				241,751	
Forfeiture of stock options		85,159			
Foreign currency translation adjustment			1,194,283	1,194,283	1,194,283
Net loss	(16,824,680)			(16,824,680)	(16,824,680)
Balances, September 30, 2000	$ 61,409,861	$ (89,618)	$ 166,750	$ 113,459,203	$ (15,630,397)

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 is a worldwide provider of data communications products delivering seamless connectivity solutions for peripheral server-based remote access and LAN markets. Digi's communications products support a broad range of server platforms and network operating systems that enable people to access information.

Digi's products are marketed through a global network of distributors, system integrators, original equipment manufacturers (OEMs), and value-added resellers (VARs).

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. Those having original maturities in excess of three months are classified as marketable securities. Marketable securities consist of high-grade commercial paper and have maturities of less than one year. Marketable securities classified as held to maturity are carried at amortized cost. Gross unrealized holding gains and losses were $0 and $70,833, respectively, as of September 30, 2000, and were $10,561 and $5,383, respectively, as of September 30, 1999.

RESTRICTIONS ON MARKETABLE SECURITIES

The Company is required to maintain $5,000,000 deposited in a financial institution as a collateral pledge related to certain short-term borrowings at September 30, 2000. The collateral pledge is for a period of six months ending March 31, 2001.

REVENUE RECOGNITION

The Company recognizes revenue at the date that products are shipped to distributors or original equipment manufacturers. Sales to authorized domestic distributors and original equipment manufacturers are made with certain rights of return. Estimated reserves for future returns are established by the Company based on historical experience and current business factors and are charged against revenues in the same period as the corresponding sales are recorded. Estimated warranty costs are accrued based on historical experience and current business factors, and are recorded in the same period as the corresponding sales.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

REVENUE RECOGNITION (CONTINUED)

The Company offers rebates to authorized domestic and international distributors and authorized resellers. The rebates are incurred based on the level of sales to the respective distributors and resellers, and are charged to operations in the same period as the corresponding sales.

INVENTORIES

Inventories are stated at the lower of cost or fair market value, with cost determined on the first-in, first-out method. Fair market value for raw materials is based on replacement cost and for other inventory classifications based 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.

Furniture and fixtures and other equipment are depreciated over a period of three to five years. Building improvements and buildings are depreciated over 10 and 39 years, respectively.

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.

The Company's cost of business process reengineering activities, whether done internally or by third parties, is expensed as incurred.

INTANGIBLE ASSETS

Purchased proven 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 identifiable assets acquired and is being amortized on a straight-line basis over estimated useful life periods ranging from five to 15 years. Purchased in-process research and development costs (IPR&D) are expensed upon consummation of the purchase. All other intangible assets are amortized on a straight-line basis over their estimated useful lives of one to seven 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 cash flows on a basis consistent with generally accepted accounting principles.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 basis 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.

(LOSS) INCOME PER COMMON SHARE

Basic net (loss) income per share is calculated based on the weighted average of common shares outstanding during the period. Net (loss) income per share, assuming dilution, is computed by dividing net (loss) income by the weighted average number of common and common equivalent shares outstanding. The Company's only common equivalent shares are those that result from dilutive common stock options.

The following table is a reconciliation of the numerators and denominators in the (loss) income per share calculations:

	Income (Loss) (Numerator)	Shares (Denominator)	Per Share Amount
For the year ended September 30, 2000			
BASIC LOSS PER SHARE			
Income available to common stockholders	$ (16,824,680)	15,061,774	$ (1.12)
EFFECT OF DILUTIVE SECURITIES			
Common equivalent shares			
DILUTED LOSS PER SHARE			
Income available to common stockholders	$ (16,824,680)	15,061,774	$ (1.12)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(LOSS) INCOME PER COMMON SHARE (CONTINUED)

	Income (Loss) Numerator	Shares (Denominator)	Per Share Amount
For the year ended September 30, 1999			
BASIC INCOME PER SHARE			
Income available to common stockholders	$ 3,191,733	14,696,057	$ 0.22
EFFECT OF DILUTIVE SECURITIES			
Common equivalent shares		135,185	
DILUTED INCOME PER SHARE			
Income available to common stockholders	$ 3,191,733	14,831,242	$ 0.22
For the year ended September 30, 1998			
BASIC LOSS PER SHARE			
Income available to common stockholders	$ (71,094)	13,729,765	$ (0.01)
EFFECT OF DILUTIVE SECURITIES			
Common equivalent shares			
DILUTED LOSS PER SHARE			
Income available to common stockholders	$ (71,094)	13,729,765	$ (0.01)

Common equivalent shares of 160,853 and 835,670 at September 30, 2000 and 1998, respectively, were not included in the computation of diluted earnings per share because their effect is antidilutive.

Options to purchase 1,230,224, 811,753, and 451,725 shares at September 30, 2000, 1999, and 1998, respectively, were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of common shares.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FOREIGN CURRENCY TRANSLATION

Financial position and results of operations of the Company's international subsidiaries are measured using local currencies as the functional currency. Assets and liabilities of these operations are translated at the exchange rates in effect at each fiscal year-end. Statements of operations accounts are translated at the average rates of exchange prevailing during the year. Translation adjustments arising from the use of differing exchange rates from period to period are included in the cumulative translation account in stockholders' equity.

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.

COMPREHENSIVE INCOME

For the Company, comprehensive income (loss) includes net income (loss) and foreign currency translation adjustments. Foreign currency translation adjustments are charged or credited to the accumulated other comprehensive income (loss) account in stockholders' equity.

SEGMENT REPORTING

Operating segments are to be determined consistent with the way that management organizes and evaluates financial information internally, makes operating decisions, and assesses performance. The Company operates in one reportable segment.

RECENT ACCOUNTING DEVELOPMENTS

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FASB 133). In July 1999, the FASB issued Statement of Financial Accounting Standards No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133" which defers the effective date of FASB 133 to the Company's fiscal year ending September 30, 2001.

In June 2000, the FASB issued Statement of Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities - An Amendment of FASB Statement

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECENT ACCOUNTING DEVELOPMENTS (CONTINUED)

No. 133" (FASB 138). FASB 138 addresses a limited number of FASB 133 implementation issues. The adoption of FASB 133, as amended by FASB 138, is not expected to have a significant impact on the Company's consolidated financial position or results of operations.

In September 2000, the FASB issued Statement of Financial Accounting Standards No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities -- A replacement of FASB Statement No. 125" (FASB 140). FASB 140 revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but it carries over most of FASB Statement 125's provisions without reconsideration. FASB 140 is effective for the Company's fiscal year ending September 30, 2001. The adoption of FASB 140 is not expected to have a significant impact on the Company's consolidated financial position or results of operations.

In December 1999, the Staff of the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB 101) -- Revenue Recognition in Financial Statements. This SAB summarizes certain of the SEC's views regarding revenue recognition. The provisions of SAB 101, as amended by SAB 101A and SAB 101B, must be adopted by the fourth quarter of the Company's fiscal year ending September 30, 2001. However, any effects of the SAB must be reflected retroactively to October 1, 2000 (the first day of fiscal year 2001). The Company has considered the effect of the guidance outlined in SAB 101 and does not believe that it will impact the Company's revenue recognition practices or consolidated financial statements.

2. ACQUISITIONS

In July 1998, the Company acquired all of the outstanding common stock of ITK International, Inc. (ITK). The transaction was accounted for using the purchase method of accounting. Accordingly, the purchase price was allocated to the estimated fair value of assets acquired and liabilities assumed.

In July 1998, the Company acquired all of the outstanding common stock of Central Data Corporation (CDC). The transaction was accounted for using the purchase method of accounting. Accordingly, the purchase price was allocated to the estimated fair value of assets acquired and liabilities assumed.

The following unaudited pro forma condensed consolidated results of operations have been prepared as if the acquisitions of ITK and CDC had occurred as of the beginning of fiscal 1998:

	1998
Net sales	$220,271,670
Net loss	($20,206,426)
Net loss per share	($1.36)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. ACQUISITIONS (CONTINUED)

The unaudited pro forma condensed consolidated results of operations are not necessarily indicative of results that would have occurred had the acquisitions been in effect for the year presented, nor are they necessarily indicative of results that will be obtained in the future.

3. IMPAIRMENT LOSS

In March 2000, the Company recorded a charge of $18,068,249 reflecting the write-down of the carrying value of all of the intangible assets associated with the NetBlazer technology and some of the goodwill acquired in the Company's July 1998 purchase of ITK. The write-down resulted from the Company's March 2000 decision to discontinue development of the NetBlazer technology when the key technical members of the NetBlazer technology team elected to leave the Company and the Company concluded that it would not be able to successfully develop a competitive product from the technology. Accordingly, the Company determined that future undiscounted cash flows from the acquired ITK assets would be substantially reduced and, therefore, the carrying value of the acquired ITK assets would be impaired.

The Company utilized a discounted cash flows valuation method as described in Statement of Financial Accounting Standards Board No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (FASB 121), to measure the March 2000 adjustment to the carrying value of the acquired ITK intangible assets.

In September 2000, the Company recorded a charge of $8,078,051 reflecting a write-down of the remaining carrying value of identifiable intangible assets and goodwill associated with the Integrated Services Digital Network (ISDN) technology and some of the other long-lived assets acquired in the Company's July 1998 purchase of ITK. The write-down resulted from the Company's September 2000 decision to discontinue all business activities in the ISDN market. The Company determined that it did not have the capability to invest at the levels necessary to achieve significant market share in the ISDN market and, therefore, has discontinued development activities associated with the ISDN product lines. Accordingly, the Company determined that future undiscounted cash flows from the remaining acquired ITK intangible assets would be reduced and, therefore, the carrying value of the remaining acquired ITK intangible assets would be impaired. As a result of discontinuing business activities in the ISDN market, as well as the decision to restructure the European operations to a sales and marketing organization, the Company determined that its Dortmund, Germany facility (the Dortmund Facility), including certain furniture and fixture items, would no longer be needed to support operations. During September 2000, the Company began efforts to sell the Dortmund Facility. As a result of placing the Dortmund Facility on the commercial real estate market, the Company determined that the Dortmund Facility's fair market value was less than its carrying value. An independent appraisal of the Dortmund Facility was completed. Based on the results of this appraisal, the Company wrote-down the carrying value of the Dortmund Facility to its estimated fair market value as of September 30, 2000. The Company expects that the Dortmund Facility will be sold by the end of the second quarter of fiscal year 2001. Certain furniture and fixtures amounts at the Dortmund Facility have been written down to estimated fair value, given the actions taken by the Company as described above. The estimated fair value of the Dortmund Facility, including the furniture and fixtures, is $5.3 million and is classified as part of property, equipment and improvements on the Company's balance sheet at September 30, 2000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. IMPAIRMENT LOSS (CONTINUED)

The Company utilized a discounted cash flows valuation method as described in FASB 121 to measure the September 2000 adjustment to the carrying value of the remaining acquired ITK intangible assets. The Company utilized an independent appraisal to measure the September 2000 adjustment to the carrying value of the acquired ITK manufacturing facility. The September 2000 adjustment to carrying value of the acquired ITK furniture and fixtures was based on the Company's estimate of selling prices for the furniture and fixtures.

The write-down of the carrying value of the long-lived assets, as described in the previous paragraphs, consists of the following:

Asset Description	Identifiable Intangible Assets and Goodwill Associated with the NetBlazer Technology	Identifiable Intangible Assets and Goodwill Associated with the ISDN Technology	Other Long Lived Assets	Total Impairment Loss
Current technology	$ 10,491,837	$ 2,241,167		$ 12,733,004
Assembled workforce	252,646	670,484		923,130
Goodwill	7,323,766	2,852,737		10,176,503
Building -- Dortmund facility			$ 1,955,366	1,955,366
Furniture and fixtures			358,297	358,297
Totals	$ 18,068,249	$ 5,764,388	$ 2,313,663	$ 26,146,300

The Company realized $5,327,981 of tax benefits as a result of the elimination of the deferred tax liabilities associated with the identifiable intangible assets of ITK's NetBlazer and ISDN technologies, which were written off as described above.

4. RESTRUCTURING

In September 2000, the Company's Board of Directors approved a restructuring plan related to its European operations headquartered in Dortmund, Germany, which provided for the transition of all product development, technical support and manufacturing functions to the Company's corporate headquarters located in Minnetonka, Minnesota. The plan also included the closure of the Company's office in Bagshot, England. The charge of $1,531,992 consisted of $1,252,531 for severance and termination costs related to the elimination of 73 positions in Dortmund, Germany and 2 positions in Bagshot, England; $134,227 related to the closure of the Bagshot office for lease cancellation; $100,684

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. RESTRUCTURING (CONTINUED)

of cancellation fees related to automobile leases, and maintenance contracts, and office equipment leases, and $44,550 for severance-related legal expenses. As of September 30, 2000, there had been no expenses paid relating to these restructuring accruals. Restructuring activities are expected to be completed by the end of the second quarter of fiscal 2001.

In March 1999, the Company's Board of Directors approved a restructuring plan related to the reorganization of sales and marketing functions in Germany, England and the United States, by consolidating worldwide sales and marketing resources into strategic locations. The original related charge of $1,452,909 ($581,164 net of tax benefits) consisted of $151,038 of existing commitments for rent on facilities vacated by the Company in Hamburg, Nurnberg, and Frankfurt, Germany and $1,301,871 of termination payments associated with the elimination of 44 positions in Dortmund, Germany; Bagshot, England; Sunnyvale, California; and Minnetonka, Minnesota.

As of December 31, 1999, the Company had paid $906,299 of termination costs relating to the elimination of 33 positions. Restructuring activities were completed as of December 1999. During the second quarter of fiscal 2000, the final severance and termination expenses were paid, and the Company adjusted the remaining restructuring accrual to zero. In fiscal 2000, severance and termination costs of $146,767 and rent commitment payments of $7,312 were charged to the restructuring accrual. Changes in estimate for severance and termination costs of $124,937 and rent commitments of $13,160 were recorded as a reduction of the restructuring accrual with a corresponding increase to operating income during the year ended September 30, 2000.

In July 1998, the Company's Board of Directors approved a restructuring plan related to the consolidation of its offices in Germany and England. The restructuring plan relates to the closure of existing leased facilities rendered redundant by the acquisition of ITK. The original charge of $1,020,000 ($647,000 net of tax benefits), consisted of $61,483 of noncancellable rent commitments the Company expected to incur following closure of the Cologne, Germany facility; $100,110 of contractual payment obligations for office furniture and other equipment the Company expected to incur following the closure of the Cologne, Germany facility; $202,039 related to the write-off of leasehold improvements in connection with the closure of the Cologne, Germany facility; and $656,368 of termination payments associated with the elimination of six positions in Cologne, Germany and Bagshot, England.

The Company closed the Cologne facility in December 1998. As of December 31, 1999, the Company had paid $301,044 of termination costs relating to the elimination of two positions. Restructuring activities were completed as of June 1999. In the third quarter of fiscal 2000, the Company adjusted the remaining restructuring accrual to zero, as all obligations had been satisfied. In fiscal year 2000, rent commitment payments of $12,636 and payments of $27,646 for write-off of leasehold improvements were charged to the restructuring accrual. Changes in estimate for rent commitments of $2,573 and write-off of leasehold improvements of $9,680 were recorded as a reduction of the restructuring accrual with a corresponding increase to operating income during the year ended September 30, 2000.

In connection with the Company's acquisition of ITK, the Company formulated a plan of reorganization and, accordingly, recognized a $3,484,000 restructuring liability which the Company has included as a component of total liabilities assumed in the acquisition. Components of the original estimated liability included $1,844,000 of termination payments associated with 10 employees the Company expected to

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. RESTRUCTURING (CONTINUED)

eliminate at the Chelmsford, Massachusetts ITK location and 20 employees the Company expected to eliminate at the Dortmund, Germany location and $1,640,000 of noncancellable rent obligations for facilities the Company expected to incur following closure of facilities in Chelmsford, Massachusetts and Bristol and Newbury, England.

The Company vacated the Chelmsford, Bristol, and Newbury facilities in March 1999, October 1998 and May 1999, respectively. Restructuring activities were completed as of June 1999. During the second quarter of fiscal 2000, the final severance, termination and facility closure costs were paid. In fiscal 2000, severance and termination costs of $5,217 and facility closure costs of $1,928 were charged against the restructuring accrual. Changes in estimate relating to severance and termination costs of $17,652 and facilities closures of $33,469 were recorded as a reduction in the restructuring accrual with corresponding offsets to goodwill during the year ended September 30, 2000.

In connection with the Company's acquisition of CDC, the Company formulated a plan of reorganization and, accordingly, recognized a $750,000 restructuring liability which the Company has included as a component of total liabilities assumed in the acquisition. Components of this estimated liability included $675,000 of termination payments, associated with 22 employees the Company expected to eliminate when it closed the Champaign, Illinois facility in January 1999 and $75,000 related to facility closure costs the Company expected to incur following closure and sale of the Champaign, Illinois facility. Restructuring activities were completed as of June 1999. During the second quarter of fiscal 2000, the Company paid the final severance costs of $7,128 associated with this restructuring and the accrual was adjusted to zero. Total payments against the restructuring accrual in fiscal year 2000 included severance and termination costs of $88,661. An additional expense of $3,340 was also recorded related to a change in estimate in the original restructuring accrual. Adjustments to the restructuring accrual were reflected as changes to the restructuring accrual with corresponding offsets to goodwill.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. RESTRUCTURING (CONTINUED)

The Company's restructuring activities are summarized as follows:

DESCRIPTION	BALANCE AT SEPTEMBER 30, 1999	PROVISION	PAYMENTS	CHANGE IN ESTIMATE ADJUSTMENTS	BALANCE AT SEPTEMBER 30, 2000
September 2000 European Restructuring Plan:					
- Severance and termination costs		$1,252,531			$ 1,252,531
- Office lease cancellation fees		134,227			134,227
- Other lease cancellation fees and contractual payments		100,684			100,684
- Legal costs		44,550			44,550
Subtotal		1,531,992			1,531,992
March 1999 Sales and Marketing Restructuring Plan:					
- Severance and termination costs	$ 271,704		$ (146,767)	$ (124,937)	-
- Rent commitments	20,472		(7,312)	(13,160)	-
Subtotal	292,176		(154,079)	(138,097)	-
July 1998 European Restructuring Plan:					
- Rent commitments	15,209		(12,636)	(2,573)	-
- Write-offs of leasehold improvements	37,326		(27,646)	(9,680)	-
Subtotal	52,535		(40,282)	(12,253)	-
July 1998 ITK Acquisition Restructuring Plan:					
- Severance and termination costs	22,869		(5,217)	(17,652)	-
- Facility closures	35,397		(1,928)	(33,469)	-
Subtotal	58,266		(7,145)	(51,121)	-
July 1998 CDC Acquisition Restructuring Plan:					
- Severance and termination costs	85,321		(88,661)	3,340	-
Subtotal	85,321		(88,661)	3,340	-
Totals	$ 488,298	$1,531,992	$ (290,167)	$ (198,131)	$ 1,531,992

5. SEGMENT INFORMATION AND MAJOR CUSTOMERS

The Company operates in one reportable segment. The operations of the Company are primarily conducted in the Unites States, the Company's country of domicile. Geographic data, determined by reference to the location of the Company's operations for the years ended September 30, are as follows:

Revenue by geographic area:

	Year Ended September 30,		
	2000	1999	1998
United States	$111,740,818	$164,329,109	$171,385,998
Europe	18,458,398	26,948,248	9,573,107
Asia	1,187,683	1,249,157	1,205,606
Australia	1,137,731	979,545	766,959
	$132,524,630	$193,506,059	$182,931,670

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. SEGMENT INFORMATION AND MAJOR CUSTOMERS (CONTINUED)

Net long-lived assets by geographic area:

	Year Ended September 30,		
	2000	1999	1998
United States	$35,232,754	$40,921,789	$48,218,876
Foreign	5,573,374	37,125,699	49,374,482
Total net long-lived assets	$40,806,128	$78,047,488	$97,593,358

The Company's foreign export sales, primarily to Europe, comprised 34.8%, 34.8%, and 25.5% of net sales for the years ended September 30, 2000, 1999 and 1998, respectively.

During 2000, one customer accounted for 13.4% of net sales and 14.7% of the trade accounts receivable as of September 30, 2000, while another accounted for 10.0% of net sales and 25.4% of the trade accounts receivable as of September 30, 2000.

During 1999, one customer accounted for 15.4% of net sales and 8.7% of the trade accounts receivable as of September 30, 1999, while another accounted for 13.4% of net sales and 22.5% of the trade accounts receivable as of September 30, 1999.

During 1998, one customer accounted for 15.5% of net sales and 26.0% of the trade accounts receivable as of September 30, 1998, while another accounted for 13.7% of net sales and 10.0% of the trade accounts receivable as of September 30, 1998.

6. INVESTMENT IN AETHERWORKS CORPORATION

In May 1998, the Company exchanged its previously purchased $13,796,525 of convertible notes from AetherWorks Corporation, a development stage company engaged in the development of wireless and dial-up remote access technology, for a non-interest bearing $8,000,000 non-convertible note. As a part of the exchange, the Company relinquished its rights to any future technology or claims on any of AetherWorks' intellectual properties. In exchange, the Company was released from all of its guarantees of certain lease obligations of AetherWorks. As a result, the Company reversed its $1,350,000 accrual established in the fourth quarter of 1997, for the estimated cost related to its guarantee of such lease obligations and included such amount in AetherWorks Corporation gain for the year ended September 30, 1998.

Due to the significant uncertainty as to its collectibility, the $8,000,000 note was recorded by the Company as having no carrying value.

In March 2000, the Company received a payment of $8,000,000 from AetherWorks, representing payment on the aforementioned non-convertible note. The note was paid as a result of AetherWorks Corporation being acquired by Nx Networks, Inc. As a result of this payment, the Company recorded $8,000,000 of other income during the year ended September 30, 2000.

6. INVESTMENT IN AETHERWORKS CORPORATION (CONTINUED)

The Company leased to AetherWorks $1,325,000 of computer equipment under a three-year direct financing lease, expiring in August 2000. The lease contained an option for AetherWorks to acquire the equipment for $132,598 upon termination of the lease, and with 30 days' prior written notice. AetherWorks did not exercise its option to acquire the equipment, and the equipment was returned to the Company in September 2000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. SELECTED BALANCE SHEET DATA

	2000	1999
Accounts receivable, net:		
Trade accounts receivable	$ 24,361,734	$ 40,716,380
Less reserve for product returns and doubtful accounts	6,186,508	6,760,711
	$ 18,175,226	$ 33,955,669
Inventories, net:		
Raw materials	$ 16,569,851	$ 17,487,552
Work in process	1,092,654	2,162,626
Finished goods	6,111,130	7,335,755
	23,773,635	26,985,933
Less reserve for obsolescence	4,073,625	4,539,266
	$ 19,700,010	$ 22,446,667
Property, equipment and improvements, net:		
Land	$ 2,202,241	$ 2,533,666
Buildings	17,641,451	19,338,618
Improvements	1,254,023	580,286
Equipment	22,218,933	22,991,088
Purchased software	9,504,099	8,872,121
Furniture and fixtures	1,505,238	1,462,338
	54,325,985	55,778,117
Less accumulated depreciation	29,917,601	25,535,240
	$ 24,408,384	$ 30,242,877
Intangible assets, net:		
Purchased technology	$ 9,400,000	$ 30,010,858
License agreements	2,915,600	2,559,067
Assembled workforce	400,000	1,800,000
Other	698,369	1,228,225
Goodwill	16,216,257	29,826,194
	29,630,226	65,424,344
Less accumulated amortization	13,232,482	17,619,733
	$ 16,397,744	$ 47,804,611

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. BORROWINGS UNDER LINE OF CREDIT AGREEMENTS

The Company maintains lines of credit with various financial institutions which provide for borrowings of up to $14,497,000, depending upon levels of eligible accounts receivable and inventories. As of September 30, 2000 and 1999, $3,147,900 and $4,759,095 was borrowed under these line of credit agreements. These lines of credit agreements provide for interest rates ranging from 5.75% to 15.75% as of September 30, 2000 and 1999. In addition, the Company maintains $5,000,000 deposited in a financial institution as a collateral pledge related to certain short-term debt balances outstanding at September 30, 2000. This collateral is included in marketable securities at September 30, 2000. The collateral pledge is for a period of six months ending March 31, 2001.

9. LONG-TERM DEBT

Long-term debt consists of the following at September 30,

	2000	1999
5.5% fixed rate long-term collateralized note	$ 1,353,068	$ 1,688,260
5.2% fixed rate long-term collateralized note	944,370	1,143,660
6.3% fixed rate long-term collateralized note	3,194,044	4,356,800
6.0% fixed rate long-term uncollateralized notes	1,618,920	1,960,560
5.0% to 10.6% subsidized long-term notes	301,299	386,666
	7,411,701	9,535,946
Less current portion	330,305	330,028
	$ 7,081,396	$9,205,918

Debt Maturity Schedule
Maturities as of September 30,

FISCAL YEAR	AMOUNT
2001	$ 330,305
2002	1,518,187
2003	827,448
2004	348,967
2005	410,126
Thereafter	3,976,668
Total	$7,411,701

The 5.5% fixed rate long-term note is due on September 30, 2017, and is payable in semi-annual installments beginning September 2000. The 5.2% fixed rate long-term note is due on December 30, 2017, and is payable in semi-annual installments beginning June 2001. The 6.3% fixed rate long-term note is due on September 30, 2016, and is payable in semi-annual installments beginning March 2000. Interest on the notes is payable on a quarterly basis. These notes are collateralized by land, buildings and equipment with a carrying value of $5,074,872 of September 30, 2000. The 6.0% fixed rate long-term uncollateralized notes are due on November 5, 2001 ($1,169,220) and on September 15, 2003 ($449,700). Interest is payable annually on the 2001 note, and payable on a quarterly basis for the 2003 notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. LONG-TERM DEBT (CONTINUED)

The subsidized long-term notes bear interest rates ranging from 5% to 10.6% and are due at various dates through 2006. All borrowings under these notes are uncollateralized.

The Company expects to pay all long-term debt associated with the facility in Dortmund, Germany upon the sale of the facility (see Note 3), which is expected to take place by the end of the second quarter of fiscal 2001. Total long-term debt related to the facility in Dortmund, Germany is $7,411,701 at September 30, 2000.

10. INCOME TAXES

The components of the (benefit) provision for income taxes for the years ended September 30, 2000, 1999, and 1998 are as follows:

	2000	1999	1998
Currently payable:			
Federal	$ 667,992	$ 6,201,277	$9,768,927
State	228,288	705,378	766,704
Deferred	(5,234,720)	(2,119,056)	(1,251,611)
	$(4,338,440)	$ 4,787,599	$9,284,020

The net deferred tax asset at September 30, 2000 and 1999 consists of the following:

	2000	1999
Valuation reserves	$ 2,016,254	$ 3,059,266
Inventories	168,128	228,442
Compensation costs	589,685	600,991
Net operating loss carryforwards	2,582,194	5,772,000
Intangible assets	(2,113,800)	(9,203,133)
Net deferred tax asset	$ 3,242,461	$ 457,566

The net deferred tax asset consists of the following at September 30:

	2000	1999
Current deferred tax asset	$ 2,774,067	$ 3,888,699
Net non-current deferred tax asset	468,394	
Net non-current deferred tax liability		(3,431,133)
	$ 3,242,461	$ 457,566

As of September 30, 2000 and 1999, the Company's consolidated financial statements include $2,113,801 and $9,203,133, respectively, of deferred tax liabilities related to the identifiable intangible assets that were acquired as part of the ITK and CDC acquisitions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. INCOME TAXES (CONTINUED)

Deferred tax liabilities of $5,327,981 were eliminated as a result of the write-off of the identifiable intangible assets of ITK during fiscal year 2000. (See Note 3.)

As of September 30, 2000 and 1999, the Company had federal net operating loss carryforwards of approximately $7.6 million and $14.8 million, respectively, which expire at various dates through 2011.

The reconciliation of the statutory federal income tax rate with the Company's effective income tax rate for the years ended September 30, 2000, 1999, and 1998 is as follows:

	2000	1999	1998
Statutory income tax rate	(34.0)%	35.0 %	35.0 %
Increase (reduction) resulting from:			
State taxes, net of federal benefits	(0.7)	5.7	5.4
Utilization of low income housing credits	(1.9)	(5.0)	(3.9)
AetherWorks Corporation recovery	(12.9)		
Acquired in-process research and development			61.0
Impairment loss, net of deferred taxes	13.1		
Non-deductible intangible amortization	3.8	15.3	2.7
Foreign operations	6.8	2.9	5.4
Other	5.3	6.1	(4.8)
	(20.5)%	60.0 %	100.8 %

11. STOCK OPTIONS AND EMPLOYEE STOCK PURCHASE PLAN

The Company's stock option plan (the Stock Option Plan) 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 Company's Non-Officer Stock Option Plan (the Non-Officer Plan and, together with the Stock Option Plan, the Plans), provides for the issuance of nonstatutory stock options to key employees who are not officers or directors of the Company. Options granted under the plans will expire if unexercised after ten years from the date of grant.

The option price for ISOs and non-employee directors options granted under the Stock Option Plan is set at the fair market value of the Company's common stock on the date of grant. The option price for nonstatutory options granted under the Plans is set by the Compensation Committee of the Board of Directors. The authority to grant options under the Plans and set other terms and conditions rests with the Compensation Committee. The Stock Option Plan terminates in 2006. The Non-Officer Plan does not have a designated termination date.

During the years ended September 30, 2000, 1999, and 1998, 129,952, 402,022, and 287,882 shares of the Company's common stock, respectively, were issued upon the exercise of options for 129,952, 402,022, and 289,353 shares, respectively. The difference between shares issued and options exercised results from the provision in the Plans allowing employees to elect to pay their withholding obligation

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. STOCK OPTIONS AND EMPLOYEE STOCK PURCHASE PLAN (CONTINUED)

through share reduction. No employees elected to pay tax withholding obligations through share reduction during fiscal 2000 or 1999. Withholding taxes paid by the Company as a result of the share withholding provision amounted to $28,871 during the year ended September 30, 1998.

During the year ended September 30, 1998 the Board of Directors authorized the issuance of incentive stock options for the purchase of 486,631 shares. In addition, during the year ended September 30, 1998 the Board of Directors authorized the issuance of nonstatutory stock options for the purchase of 543,461 shares, at prices below the market value of the stock on the grant dates.

The difference between the option price and market value at the date of grant for the above option arrangements has been recorded as additional paid-in capital with an offsetting debit within stockholders' equity to unearned stock compensation. The compensation expense related to these option grants is amortized to operations over the contractual vesting period in which employees perform services and amounted to $164,909 in 2000, $582,981 in 1999, and $895,401 in 1998.

Stock options and common shares reserved for grant under the Plans are as follows:

	Available For Grant	Options Outstanding	Weighted Average Price Per Share
Balances, September 30, 1997	1,224,449	1,916,108	$ 10.01
Additional shares approved for grant	750,000		
Granted	(1,254,525)	1,254,525	15.96
Exercised		(289,353)	8.56
Cancelled	150,013	(150,013)	12.79
Balances, September 30, 1998	869,937	2,731,267	$ 12.75
Granted	(1,019,100)	1,019,100	9.32
Exercised		(402,022)	5.95
Cancelled	1,244,635	(1,244,635)	14.26
Balances, September 30, 1999	1,095,472	2,103,710	$ 11.50
Additional shares approved for grant	500,000		
Granted	(1,158,450)	1,158,450	9.42
Exercised		(129,952)	7.44
Cancelled	525,995	(529,498)	10.16
Balances, September 30, 2000	963,017	2,602,710	$ 11.05

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. STOCK OPTIONS AND EMPLOYEE STOCK PURCHASE PLAN (CONTINUED)

Commencing April 1996, the Company has sponsored an Employee Stock Purchase Plan (the Purchase Plan) which covers all domestic employees with at least 90 days of service. The Purchase Plan allows eligible participants the right to purchase common stock on a quarterly basis at the lower of 85% of the market price at the beginning or end of each three-month offering period. Employee contributions to the plan were $580,855 in 2000, $586,324 in 1999, and $658,118 in 1998. Pursuant to the Purchase Plan, 75,149, 80,482, and 37,398 shares were issued to employees during the fiscal years ended 2000, 1999 and 1998, respectively. As of September 30, 2000, 228,734 shares are available for future issuances under the Purchase Plan.

12. STOCK-BASED COMPENSATION

In accordance with Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123), the Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Accordingly, compensation costs for stock options granted to employees are measured as the excess, if any, of the fair value of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock. Such compensation costs, if any, are amortized on a straight-line basis over the option vesting schedule.

Had the Company used the fair-value-based method of accounting for its stock options granted in 2000, 1999 and 1998, and charged operations over the option vesting periods based on the fair value of options at the date of grant, net (loss) income and net (loss) income per common share would have been changed to the following pro forma amounts:

	2000	1999	1998
Net (loss) income:			
As reported	$(16,824,680)	$ 3,191,733	$ (71,094)
Pro forma	$(20,981,166)	$ 281,852	$(3,244,655)
Net (loss) income per share - basic:			
As reported	$ (1.12)	$ 0.22	$ (0.01)
Pro forma	$ (1.39)	$ 0.02	$ (0.24)
Net (loss) income per share - assuming dilution:			
As reported	$ (1.12)	$ 0.22	$ (0.01)
Pro forma	$ (1.39)	$ 0.02	$ (0.24)

The weighted average fair value of options granted in fiscal years 2000, 1999 and 1998 was $11.05 $11.50, and $12.29, respectively. The weighted average fair value was determined based upon the fair

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. STOCK-BASED COMPENSATION (CONTINUED)

value of each option on the grant date, utilizing the Black-Scholes option-pricing model and the following assumptions:

Assumptions:	2000	1999	1998
Risk free interest rate	5.88%	5.75%	5.49%
Expected option holding period	4 years	4 years	4 years
Expected volatility	50%	50%	60%
Expected dividend yield	0	0	0

At September 30, 2000, the weighted average exercise price and remaining life of the stock options are as follows:

RANGE OF EXERCISE PRICES	$2.36	$5.75-8.00	$8.875-13.125	$13.625-20.3438	$20.50-29.25	Total
Total options outstanding	13,135	1,322,351	707,050	263,445	296,729	2,602,710
Weighted average remaining contractual life (years)	7.09	8.25	8.32	6.18	5.83	7.78
Weighted average exercise price	$ 2.36	$ 7.31	$ 11.61	$ 14.77	$ 23.48	$ 11.05
Options exercisable	8,722	463,755	195,122	166,096	232,884	1,066,579
Weighted average price of exercisable options	$ 2.36	$ 7.77	$ 10.65	$ 15.10	$ 23.46	$ 12.82

13. SHARE RIGHTS PLAN

The Company has adopted a share rights plan. Under the plan, the Company distributed as a dividend one right for each share of the Company's common stock outstanding on June 30, 1998. Each right entitles its holder to buy one one-hundredth of a share of a new series of junior participating preferred stock at an exercise price of $115, subject to adjustment. The rights are exercisable only if certain ownership considerations are met. The Company will be entitled to redeem the rights prior to the rights becoming exercisable.

14. COMMITMENTS

The Company has entered into various operating lease agreements, the last of which expires in fiscal 2013. Below is a schedule of future minimum commitments under noncancellable operating leases:

FISCAL YEAR	AMOUNT
2001	$1,072,294
2002	620,713
2003	156,834
2004	70,433
2005	59,760
Thereafter	488,038
Total	$2,468,072

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. COMMITMENTS (CONTINUED)

Total rental expense for all operating leases for the years ended September 30, 2000, 1999 and 1998 was $1,966,579, $1,838,242, and $1,786,715, respectively.

15. 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 pre-tax earnings, not to exceed amounts allowed under the Code. In addition, the Company may make contributions to the plan at the discretion of the Board of Directors.

The Company provided matching contributions of $508,000, $325,000, and $240,000 for the fiscal years ending September 30, 2000, 1999, and 1998, respectively.

16. CONTINGENCIES

During fiscal 1997, the Company and certain of its previous officers were named as defendants in a series of putative securities class action lawsuits 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 were consolidated, through a Consolidated Amended Complaint filed in May 1997. Also in 1997, a similar but separate action was filed by the Louisiana State Employees Retirement System. The Consolidated Amended Complaint and the Louisiana Amended Complaint allege 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 Louisiana Amended Complaint also alleges misrepresentations in violation of state common law.

In a decision issued on May 22, 1998, the District Court granted in part and denied in part the motions of the Company and its three former officers to dismiss the Consolidated Amended Complaint and the Louisiana Amended Complaint. The Court dismissed without leave to replead all claims asserted in both cases, except for certain federal securities law claims based upon alleged misrepresentations and/or omissions relating to the accounting treatment applied to the Company's AetherWorks investment. The Court also limited the claims asserted in the Louisiana Amended Complaint to the 11,000 shares of the Company's stock held subsequent to November 14, 1996.

On August 17, 2000, the Court granted defendants' motions for summary judgement and dismissed with prejudice the Consolidated Amended Complaint and the Louisiana Amended Complaint. Although the 21 lead plaintiffs in the consolidated putative class actions had previously moved for class certification, the Court dismissed the actions before ruling on that motion.

On September 1, 2000, the Louisiana State Employees Retirement System filed an appeal from the Court's August 17, 2000 decision. On September 14, 2000, the 21 lead plaintiffs in the consolidated putative class actions filed an appeal from both the Court's May 22, 1998 and August 17, 2000 decisions. The two appeals have been consolidated for briefing and argument, with briefing scheduled to be completed in January 2001, and oral argument to be held thereafter.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. CONTINGENCIES (CONTINUED)

The ultimate outcomes of these actions cannot be determined at this time, and no potential assessment of the probable or possible effects of such litigation if any, on the Company's financial position, liquidity or future operations can be made.

In the normal course of business, the Company is subject to various claims and litigation. Management of the Company expects that these various litigation items will not have a material adverse effect on the results of operations or financial condition of the Company.

17. SUBSEQUENT EVENT

On October 2, 2000, the Company acquired Inside Out Networks (ION), a leading developer of data connections products based in Austin, Texas. The transaction is being accounted for using the purchase method of accounting. Accordingly, the purchase price will be allocated to the estimated fair value of assets acquired and liabilities assumed.

Components of the purchase consideration consist of $6,410,000 in cash, a purchase price adjustment based on the values of liabilities and net worth contained on the closing balance sheet of ION as of September 30, 2000, and contingent consideration of up to $8,500,000 over the subsequent three year period, subject to ION achieving specific revenue and operating income targets during this period. in exchange for all of the outstanding common and preferred stock of ION, including all shares underlying outstanding options and warrants.

18. FOURTH QUARTER FISCAL 1998 INFORMATION (UNAUDITED)

During the third quarter of fiscal year 1998, management of the Company established $3,000,000 of inventory valuation reserves including $1,000,000 which related to an estimated overstatement of inventories resulting from certain system difficulties encountered in connection with the implementation of a new enterprise-wide computer system during the third quarter, and $2,000,000 which related to estimated adjustments to the value of certain remote access server products which the Company believed were approaching technological obsolescence, primarily due to the expected introduction of the Company's new remote access server products in the fourth quarter of fiscal year 1998.

During the fourth quarter of 1998 the Company was advised by a third-party vendor that it would delay delivery of a new modem which was integral to the Company's planned introduction of its new remote access server products. When the Company became aware of this delay, management reassessed the estimated timing and effect of technological obsolescence on the value of its old remote access product inventories, which resulted in a $900,000 reduction in management's estimate of the required obsolescence provision in the fourth quarter.

In addition, in connection with its normal year-end closing procedures, the Company conducted a physical inventory count of its inventories as of September 30, 1998. This physical inventory count indicated that any previous inventory record discrepancies that had resulted from the system implementation were no longer impacting the Company's reported inventory balances as of September 30, 1998. Accordingly, the Company determined, during the fourth quarter of 1998, that the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. FOURTH QUARTER FISCAL 1998 INFORMATION (UNAUDITED) (CONTINUED)

system difficulties encountered in the third quarter had been corrected and, therefore eliminated the related $1,000,000 provision during the fourth quarter.

REPORT OF MANAGEMENT

TO THE STOCKHOLDERS OF DIGI INTERNATIONAL INC.

The Company's management is responsible for the integrity, objectivity and consistency of the financial information presented in this Annual Report on Form 10-K and the Company's 2000 Annual Report to Shareholders. The consolidated financial statements contained herein were prepared in accordance with generally accepted accounting principles and were based on informed judgments and management's best estimates as required. Financial information elsewhere in this annual report is consistent with that contained in the consolidated financial statements.

The Company maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly executed in accordance with management's authorization, and accounting records may be relied upon for the preparation of financial statements and other financial information. The system is monitored by direct management review. Limitations exist in any system of internal control, based upon the recognition that the cost of the system should not exceed the benefits derived.

The Company's consolidated financial statements have been audited by PricewaterhouseCoopers LLP, independent certified public accountants. Their audit was conducted in accordance with auditing standards generally accepted in the United States of America. As part of their audits of the Company's consolidated financial statements, these independent accountants considered the Company's internal controls to the extent they deemed necessary to determine the nature, timing and extent of their audit tests.

The Audit Committee of the Board of Directors is composed entirely of non-employee directors and is responsible for monitoring and overseeing the quality of the Company's accounting and reporting policies, internal controls and other matters deemed appropriate. The independent certified public accountants have free access to the Audit Committee without management present.

/s/ Joseph T. Dunsmore

Joseph T. Dunsmore
Chairman, President and
Chief Executive Officer

/s/ Subramanian Krishnan

Subramanian Krishnan
Senior Vice President, Chief Financial Officer and Treasurer

December 21, 2000

REPORT OF INDEPENDENT ACCOUNTANTS

TO THE STOCKHOLDERS AND BOARD OF DIRECTORS OF DIGI INTERNATIONAL INC.

In our opinion, the consolidated financial statements listed in the index appearing under Item 14(a)(1) on page 55 present fairly, in all material respects, the financial position of Digi International Inc. and its subsidiaries (the Company) at September 30, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2000 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 14(a)(2) on page 55 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
Minneapolis, Minnesota
December 8, 2000

QUARTERLY FINANCIAL DATA (UNAUDITED)

In thousands except per share amounts	Quarter ended			
	Dec. 31	Mar. 31	June 30	Sept. 30
2000				
Net sales	$ 40,140	$ 25,800	$ 32,354	$ 34,231
Gross margin	22,175	12,273	17,175	18,030
Impairment loss		18,068		8,078
Restructuring		(138)	(12)	1,532
Net income (loss)	1,018	(13,282)	2,513	(7,074)
Net income (loss) per share - basic	0.07	(0.88)	0.17	(0.47)
Net income (loss) per share - assuming dilution	0.07	(0.88)	0.17	(0.47)
1999				
Net sales	$ 51,395	$ 42,631	$ 51,145	$ 48,335
Gross margin	26,491	18,478	27,147	26,076
Restructuring		1,453	(685)	(161)
Net income (loss)	475	(2,251)	2,253	2,715
Net income (loss) per share - basic	0.03	(0.15)	0.15	0.18
Net income (loss) per share - assuming dilution	0.03	(0.15)	0.15	0.18
1998				
Net sales	$ 42,590	$ 45,059	$ 46,449	$ 48,833
Gross margin	21,369	23,066	24,559 (a)	25,399 (a)
Acquired in-process research and development				16,065
Restructuring				1,020
AetherWorks Corporation gain			1,350	
Net income (loss)	3,842	4,665	6,411	(14,989)
Net income (loss) per share - basic	0.28	0.35	0.47	(1.05)
Net income (loss) per share - assuming dilution	0.27	0.33	0.45	(1.05)

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) see Note 18 to the Company's consolidated financial statements.

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

None.

PART III

ITEM 10. EXECUTIVE OFFICERS OF THE REGISTRANT

As of the date of filing this Form 10-K, the following individuals were executive officers of the Registrant:

Name	Age	Position
Joseph T. Dunsmore	42	Chairman, President and Chief Executive Officer
Douglas J. Glader	57	Executive Vice President and General Manager of MiLAN Technology
Subramanian Krishnan	46	Senior Vice President, Chief Financial Officer and Treasurer
Bruce Berger	40	Vice President and Managing Director of European Operations

Mr. Dunsmore joined the Company on October 24, 1999, as President and Chief Executive Officer and as a member of the Board of Directors. Prior to joining Digi, Mr. Dunsmore had been Vice President of Access for Lucent Microelectronics, a telecommunications company, since July 1999. From October 1998 to June 1999, he acted as an independent consultant to various high technology companies. From February 1998 to October 1998, Mr. Dunsmore was Chief Executive Officer of NetFax, Inc., a telecommunications company. From October 1995 to February 1998, he held executive management positions at US Robotics and then at 3COM after 3COM acquired US Robotics in June 1997. Prior to that, Mr. Dunsmore held various marketing management positions at AT&T Paradyne Corporation since May 1983.

Mr. Glader was named Executive Vice President and General Manager of MiLAN Technology on May 8, 2000, Executive Vice President and Chief Operating Officer on April 19, 1999, Senior Vice President, Manufacturing Operations on April 23, 1997 and Vice President of Operations in February 1995. Before that, he was 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. Krishnan was named Senior Vice President, Chief Financial Officer and Treasurer on February 1, 1999, prior to which he served as the Company's Controller since January 11, 1999. Prior to joining the Company, he served as a principal with LAWCO Financial, an investment banking firm in Minneapolis, MN from January 1997 to January 1999. Prior to LAWCO, he served for 13 years with the Valspar Corporation as the Director of Corporate Financial Planning and Reporting and Taxes and was primarily responsible for mergers, acquisitions and joint ventures.

Mr. Berger was named Vice President and Managing Director of European Operations in May 2000. Prior to joining the Company he served as Vice President and General Manager, Business Development at TeCom Incorporated where he was responsible for development of TeCom's original business plan, PART III

ITEM 10. EXECUTIVE OFFICERS OF THE REGISTRANT (CONTINUED)

development and implementation of the strategic plan and management of aspects of the business. Prior to TeCom his tenure included 11 years with AT&T Paradyne Corporation in a variety of product management positions, international sales and marketing and business development experience. At AT&T Paradyne, Mr. Berger was responsible for international sales channel development in Europe, Canada, Latin America, the Far East and Australia.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Consolidated Financial Statements and Schedules of the Company

1. Consolidated Statements of Operations for the fiscal years ended September 30, 2000, 1999 and 1998

   Consolidated Balance Sheets as of September 30, 2000 and 1999

   Consolidated Statements of Cash Flows for the fiscal years ended September 30, 2000, 1999 and 1998

   Consolidated Statements of Stockholders' Equity for the fiscal years ended September 30, 2000, 1999 and 1998

   Notes to Consolidated Financial Statements

   Report of Independent Accountants

2. Schedule of Valuation and Qualifying Accounts.

(b) Reports on Form 8-K

There were no reports on Form 8-K during the quarter ended September 30, 2000.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K (CONTINUED)

(c) Exhibits

Exhibit Number	Description
3(a)	Restated Certificate of Incorporation of the Company (1)
3(b)	Amended and Restated By-Laws of the Company (2)
4(a)	Form of Rights Agreement, dated as of June 10, 1998 between Digi International Inc. and Wells Fargo Bank Minnesota, National Association (formerly known as Norwest Bank Minnesota, National Association), as Rights Agent(3)
4(b)	Amendment dated January 26, 1999, to Share Rights Agreement, dated as of June 10, 1998 between Digi International Inc. and Wells Fargo Bank Minnesota, National Association (formerly known as Norwest Bank Minnesota, National Association), as Rights Agent (4)
10(a)	Stock Option Plan of the Company (5)
10(b)	Form of indemnification agreement with directors and officers of the Company (6)
10(c)	Amended and Restated Employment Agreement between the Company and John P. Schinas (7)
10(d)	Employment Arrangement between the Company and Douglas Glader *(8)
10(d)(i)	Amendment to Employment Agreement between the Company and Douglas Glader, dated as of December 13, 2000*
10(e)	Agreement between the Company and Subramanian Krishnan dated March 26, 1999*(9)
10(e)(i)	Amendment to Agreement between the Company and Subramanian Krishnan dated November 20, 2000*
10(f)	Employment Agreement between the Company and Joseph T. Dunsmore dated October 24, 1999*(10)
10(g)	Agreement between the Company and Bruce Berger dated March 29, 2000*
10(h)	Employee Stock Purchase Plan of the Company (11)

[FN]

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*Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K (CONTINUED)

(c) Exhibits (continued)

Exhibit Number	Description
13	2000 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 Company
22	Valuation and Qualifying Accounts Schedule
23	Consent of Independent Accountants
24	Powers of Attorney
27	Financial Data Schedule

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K (CONTINUED)

(1) Incorporated by reference to Exhibit 3(a) to the Company's Form 10-K for the year ended September 30, 1993 (File no. 0-17972).

(2) Incorporated by reference to Exhibit 3(b) to the Company's Registration Statement on Form S-1 (File no. 33-42384).

(3) Incorporated by reference of Exhibit 1 to the Company's Registration Statement on Form 8-A dated June 24, 1998 (File no. 0-17972).

(4) Incorporated by reference to Exhibit 1 to Amendment No. 1 to the Company's Registration Statement on Form 8-A dated February 5, 1999 (File no. 0-17972).

(5) Incorporated by reference to the corresponding exhibit number to the Company's Form 10-K for the year ended September 30, 1998 (File no. 0-17972).

(6) Incorporated by reference to Exhibit 10(b) to the Company's Registration Statement on Form S-1 (File no. 33-30725).

(7) Incorporated by reference to Exhibit 10(c) to the Company's Form 10-K for the year ended September 30, 1994 (File no. 0-17972).

(8) Incorporated by reference to Exhibit 10(q) to the Company's Form 10-K for the year ended September 30, 1995 (File no. 0-17972).

(9) Incorporated by reference to Exhibit 10(k) to the Company's Form 10-Q for the quarter ended March 31, 1999 (File no. 0-17972).

(10) Incorporated by reference to Exhibit 10(j) to the Company's Form 10-K for the year ended September 30, 1999 (File no. 0-17972).

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

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.

December 21, 2000 By: /s/ Joseph T. Dunsmore

Joseph T. Dunsmore
President, Chief Executive Officer, and Chairman

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.

December 21, 2000 /s/ Joseph T. Dunsmore

Joseph T. Dunsmore
President, Chief Executive Officer, and Chairman
(Principal Executive Officer)

December 21, 2000 /s/ Subramanian Krishnan

Subramanian Krishnan
Senior Vice President, Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)

JOSEPH T. DUNSMORE RICHARD E. EICHHORN KENNETH E. MILLARD ROBERT S. MOE MYKOLA MOROZ MICHAEL SEEDMAN DAVID STANLEY JAMES TUCKER	A majority of the Board of Directors*

*Subramanian Krishnan, by signing his name hereto, does hereby sign this document on behalf of each of the above named directors of the Registrant pursuant to Powers of Attorney duly executed by such persons.

December 21, 2000 /s/ Subramanian Krishnan

Subramanian Krishnan
Attorney-in-fact

EXHIBIT INDEX

Exhibit	Description	Page
3(a)	Restated Certificate of Incorporation of the Registrant, as amended	Incorporated by Reference
3(b)	Amended and Restated By-Laws of the Registrant	Incorporated by Reference
4(a)	Form of Rights Agreement, dated as of June 10, 1998 between Digi International Inc. and Wells Fargo Bank Minnesota, National Association (formerly known as Norwest Bank Minnesota, National Association), as Rights Agent	Incorporated by Reference
4(b)	Amendment dated January 26, 1999, to Shares Rights agreement, dated as of June 10, 1998 between Digi International Inc. and Wells Fargo Bank Minnesota, National Association (formerly known as Norwest Bank Minnesota, National Association), as Rights Agent	Incorporated by Reference
10(a)	Stock Option Plan of the Registrant	Incorporated by Reference
10(b)	Form of indemnification agreement with directors and officers of the Registrant	Incorporated by Reference
10(c)	Amended and Restated Employment Agreement between the Registrant and John P. Schinas	Incorporated by Reference
10(d)	Employment Arrangement between the Registrant and Douglas Glader	Incorporated by Reference
10(d)(i)	Amendment to Employment Agreement between the Registrant and Douglas Glader, dated as of December 13, 2000	Filed Electronically
10(e)	Agreement between the Registrant and Subramanian Krishnan dated March 26, 1999	Incorporated by Reference
10(e)(i)	Amendment to the Agreement between the Registrant and Subramanian Krishnan dated November 20, 2000	Filed Electronically
10(f)	Employment Agreement between the Registrant and Joseph T. Dunsmore, dated October 24, 1999	Incorporated by Reference
10(g)	Agreement between the Registrant and Bruce Berger dated March 29, 2000	Filed Electronically
10(h)	Employee Stock Purchase Plan of the Registrant	Incorporated by Reference
13	2000 Annual Report to Stockholders	Filed Electronically
21	Subsidiaries of the Registrant	Filed Electronically
22	Valuation and Qualifying Accounts Schedule	Filed Electronically
23	Consent of Independent Accountants	Filed Electronically
24	Powers of Attorney	Filed Electronically
27	Financial Data Schedule	Filed Electronically

EXHIBIT 10(d)(i)

December 13, 2000

PERSONAL AND CONFIDENTIAL

Mr. Douglas J. Glader
MiLAN Technology Corporation
1299 Orleans Avenue
Sunnyvale, CA 94089

Dear Doug:

This letter, dated as of the date set forth above, confirms the terms of an amendment to your Employment Agreement with the Company dated February 6, 1995, as previously amended by letter agreements dated January 16, 1997 and November 20, 2000 (the "Agreement"). This letter also clarifies certain items contained in a memorandum dated April 19, 2000 regarding your relocation to California (the "Memorandum").

1. The Company shall satisfy any obligation that you incur for federal and state income taxes on amounts that the Company either paid on your behalf or paid to you in reimbursement of your expenses related to the following items: house-hunting trips, temporary housing, household moving and insurance, temporary storage, and closing costs on both your previous residence in Minnesota and your current residence in California.

2. The Company shall pay you (a) $8,481.66 per month and (b) the difference between annual real estate taxes you pay on your current residence in California and the 2000 homestead property tax on your former residence in Minnesota (the amounts in (a) and (b) are referred to as "Housing Normalization Payments") until the earliest of (i) the date on which you sell your current residence in California, (ii) the date on which you cease to be an employee of the Company, or (iii) the first date on which you are both free to trade under the Company's insider trading policy and you are legally entitled to sell shares of the Company's Common Stock that can be acquired under stock options granted to you by the Company and the net profit from such a sale (whether or not such sale actually occurs) after your payment of federal and state income taxes (whether or not such taxes are actually paid) would equal at least one million dollars. In addition, the Company agrees to make an additional after-tax payment to you in the full amount necessary to cover the additional federal and state income tax liability imposed on you because of your receipt of the Housing Normalization Payments, but reduced by any tax benefit you derive as a result of the deductibility of payments you make that are attributable to the Housing Normalization Payments.

3. You shall repay to the Company $243,056.00 on or before January 26, 2001.

4. If your employment is terminated by the Company without "cause", you shall be entitled to severance pay equal to one year's base salary and a bonus (if earned) that would be prorated for the portion of the fiscal year through your employment termination date. The definition of "cause", which was originally attached as an appendix to the Agreement, is now attached to this letter. This letter shall not be construed so as to amend the definition of "cause" contained in the terms and conditions of your options to purchase shares of the Company's Common Stock.

This letter constitutes the entire agreement between you and the Company regarding the subject matters contained herein and supersedes the January 16, 1997 and November 20, 2000 letter agreements, the Memorandum, and all other prior agreements and understandings relating to such subject matters.

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

Yours very truly,

DIGI INTERNATIONAL INC.

/s/ Joseph T. Dunsmore

By Joseph T. Dunsmore
President and Chief Executive Officer

ACCEPTED:

/s/ Douglas J. Glader

Douglas J. Glader

APPENDIX

Definition of Cause - Douglas J. Glader
December 13, 2000

For purposes of Douglas J. Glader's letter dated as of December 13, 2000, "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 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's business; (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 to any lender or other financing source or proposed financing source of the Company; or (viii) any other failure by you to substantially perform your material duties (excluding 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(e)(i)

November 20, 2000

PERSONAL AND CONFIDENTIAL
Mr. Subramanian Krishnan
Digi International Inc.
11001 Bren Road East
Minnetonka, MN 55343

Dear Kris:

This letter confirms the terms of an amendment to your severance agreement with the Company as set forth in the letter agreement dated March 26, 1999 (the "Agreement"). Except as specifically provided for herein, the terms of the Agreement remain in full force and effect.

If you are terminated by the Company without "cause" on or before the date of the January 2001 Annual Meeting of Shareholders or any adjournment thereof, you would be entitled to severance equal to one year's base salary and a bonus (if earned), based on your cash bonus target that would be pro-rated for the portion of the fiscal year through the termination date.

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

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

Very truly yours,

DIGI INTERNATIONAL INC.

By Joseph T. Dunsmore
President and Chief Executive Officer

ACCEPTED:

/s/ Subramanian Krishnan

Subramanian Krishnan

EXHIBIT 10(g)

3/29/00

Mr. Bruce Berger
2916 Bethany Place
Clearwater, Florida 33759

Dear Bruce,

On behalf of Digi International Inc., I am pleased to offer you employment as Vice President and General Manager, European Operations reporting to Joe Dunsmore.

TERMS OF ASSIGNMENT

The first three months of your employment will be a temporary assignment in Minneapolis. You will then be placed on expatriate status and relocated to Germany. Please refer to the attached copy of your Temporary Assignment Agreement for further details of Digi's expatriate program.

COMPENSATION

Your starting annualized total compensation target for this position is $380,000. This is based on an annualized base salary of $200,000 and an annualized incentive target of $180,000.

INCENTIVE PLAN: You will participate in Digi's corporate incentive program. Your target incentive is 90% of base salary. Incentive payouts are based 50% on individual performance and 50% on corporate performance. This program requires a threshold level of corporate performance before incentive payouts are made. Your fiscal 2000 incentive payment will be guaranteed at target (on a pro rata basis).

STOCK OPTIONS

We will recommend to the Board of Directors an initial grant of 75,000 stock options. Your options will be at the market price as of closing on the day that the board approves your grant. Options will vest over four years at a rate of 25% (18,750 shares) upon completion of one year, then proportionate monthly vesting thereafter. In the event that the Board of Directors does not approve the full grant of 75,000 shares, we will re-negotiate the terms of your compensation package. Joe Dunsmore will make a special request to the Board of Directors requesting a full acceleration of the vesting of your options upon involuntary termination for reasons other than cause (to be outlined in the stock option agreement). Please understand that the current policy of the Board is to approve this request only for officers of the company and that we can not predict or guarantee approval of this request. If the request is denied, no adjustments will be made to any terms of this offer or your expatriate agreement.

BENEFITS

While on expatriate assignment, you will participate in the U.S. based benefit plans as allowed by U.S. and German insurance and tax regulations. Digi's benefit program includes Medical, Dental, Life and Disability Insurance, Medical and Dependent Care Reimbursement Plans, 401(k) Savings Plan, Employee Stock Purchase Plan, and a Tuition Reimbursement Program. You will be eligible for participation in Digi's health insurance programs on the first day active employment with the company and will be eligible for participation in the 401(k) Savings Plan on the first day of the month following date of hire. Stock Purchase Plan participation eligibility begins on the first of January, April, July and October following date of hire.

Vacation accrual begins on the date of hire. Your annualized accrual will be 4 weeks. You will be entitled to the local holidays observed by the European office while on assignment.

RELOCATION

Digi will cover the relocation costs resulting for the move to Germany and the subsequent move to Minneapolis or other mutually agreed upon location at the end of your European assignment. Refer to the copy dated 3/29/00 of the expatriate agreement for full details on the relocation benefits. Covered expenses include:

- Purchase of your current residence if it does not sell within 90 days of the date it is listed. The home purchase will be based on the average of two independent appraisals. Our target is to have this property sold (either to the final buyer or Digi International) prior to your departure to Germany.

- Realtor fees and closing costs on the sale of your existing home.

- Temporary housing expenses during your initial three-month assignment in Minneapolis. This includes a fully furnished apartment, rental car expense for two vehicles, and storage costs for your household goods. Digi will provide a $1,500 gross payment to cover all other incidental expenses resulting from your temporary move to Minneapolis.

- One advance house hunting trip to Germany for you and your spouse. This can be up to one week in duration.

- Shipment and temporary storage of household goods. Storage of your household goods not shipped to Germany.

- Upon your relocation to Minneapolis or other mutually agreed upon location at the end of your expatriate assignment, relocation benefits include one advance house hunting trip, the closing costs on the purchase of a new home and 90 days of temporary housing costs. Closing costs do not include points paid on the purchase of a new home. Shipment of household goods will be covered as detailed in the expatriate agreement.

- A "gross-up" of all taxable relocation expenses.

PRE-EMPLOYMENT TRIP TO GERMANY

Digi International will provide you and your spouse with a trip to Germany prior to your acceptance of this offer. The trip includes airfare (economy class), lodging, transportation, meals and other incidental expenses. Please contact me to initiate the arrangements for this trip.

OTHER

If Digi International should terminate your employment at any point after your successful repatriation to a United States assignment, you will be provided with six months of severance pay (based on your base salary at the time of the event). You will also receive a pro-rata bonus payment based on number of months worked in the fiscal year and actual company fiscal year performance against objectives.

This does not include any situations where you were involuntarily terminated for cause. Typical reasons for termination for cause include but are not limited to: failure to perform job duties; violation of company policies; being in competition with the employer; fighting or other unacceptable conduct; and insubordination or failure to carry out an order.

DIGI INTERNATIONAL EMPLOYMENT AGREEMENT

This offer of employment is contingent upon your signature on the enclosed Digi International Employment Agreement. Your signature constitutes acceptance of the terms and conditions contained in the Agreement, so please read it thoroughly prior to signing. This offer is also conditioned upon Digi's determination that you are not subject to any agreement with any former employer or any other party that would prohibit you from working in the position of MANAGING DIRECTOR, EUROPEAN OPERATIONS. If at any time in the future the Company determines that you are subject to an agreement that, in Digi's sole discretion, would prohibit your employment by Digi, Digi may withdraw this offer of employment or terminate your employment with the Company.

Employment with Digi International Inc. is "at will," which means that it is for no definite period and may be terminated by either you or Digi at any time for any reason without prior notice. I understand, agree, and acknowledge that any reliance on any statements by any representative of the company contrary to this "at will" arrangement is unreasonable and may not form any basis for my reliance thereon.

Your start date is targeted for April 17, 2000. Please inform Joe of your acceptance of this offer within one week of your trip to Germany and acknowledge your acceptance by signing one of the enclosed copies and returning it to me along with your signed Employment Agreement prior to your first day of employment.

Bruce, you will be a great addition to the "Digi team". Please contact me with any questions you may have and to negotiate a start date.

Sincerely,

DIGI INTERNATIONAL INC.

/s/ Tracy Roberts
- --------------------------
Tracy Roberts
Director, Human Resources

OFFER ACCEPTED:

/s/ Bruce Berger	April 3, 2000	May 1, 2000
Bruce Berger	Date	Start Date

EXHIBIT 13

2000 Annual Report

Digi International (NASDAQ: DGII) is the worldwide leader in connecting peripherals to networks. From multiport serial control to USB connectivity to remote access to LAN infrastructure, Digi's products enable a virtually unlimited number of devices or users to be connected locally or remotely to LANs, multi-user systems and the Internet. The Company's products are compatible with all PC platforms, including Compaq, IBM, Hewlett-Packard and Sun Microsystems, as well as popular operating systems, such as Microsoft Windows 2000, Novell NetWare, Linux and UNIX.

Digi sells and markets its products through a global network of distributors, systems integrators, Value Added Resellers (VARs) and Original Equipment Manufacturers (OEMs). The company also sells direct to select accounts and the government. With sales offices located throughout North America, Europe, Australia and Asia, Digi products are available through 180 distributors in more than 65 countries. More than 650 VARs participate in the DigiVAR Program, introduced in July 1993. Digi is headquartered in Minnetonka, Minn., a suburb of Minneapolis, and employs 525 people worldwide.

This annual report, including the data set forth below, should be read in conjunction with Digi International Inc.'s Annual Report on Form 10-K for the year ended September 30, 2000, which includes Digi's financial statements, notes thereto and other information regarding the company.

2000 Financial Highlights

	2000	1999	1998	1997	1996
Net sales	$132,525	$193,506	$182,932	$165,598	$193,151
Acquired in-process research and development			16,065		
Restructuring	1,382	607	1,020	10,472	
AetherWorks Corporation net operating loss				(5,764)	(3,624)
AetherWorks Corporation gain (write-off)			1,350	(5,759)	
(Loss) income before taxes	(21,163)	7,979	9,213	(15,699)	16,805
Net (loss) income	(16,825)	3,192	(71)	(15,791)	9,300
Net (loss) income per share - basic	(1.12)	0.22	(0.01)	(1.18)	0.70
Net (loss) income per share - assuming dilution	(1.12)	0.22	(0.01)	(1.18)	0.68
Weighted average shares outstanding - basic	15,062	14,696	13,730	13,393	13,324
Weighted average shares outstanding - -assuming dilution	15,062	14,831	13,730	13,393	13,583
Working capital	$ 78,085	$ 59,946	$ 37,896	$ 61,979	$ 69,696
Total assets	142,922	176,330	191,521	118,311	129,939
Stockholders' equity	113,459	127,164	121,251	95,471	109,943
Book value per share	7.45	8.52	8.34	7.09	8.24
Number of employees	525	583	703	481	698

(In thousands except per share amounts and number of employees)

Upon joining Digi in October 1999, I had the opportunity to spend the better part of the first 90 days on the road with our sales people and customers to understand Digi's position in the market and opportunities for growth. In the process it became clear that our business was in the midst of some fundamental challenges. The market for asynchronous serial connectivity products, a market Digi has led for many years, was experiencing continued erosion. The Y2K lockdown impact on our business was proving to be much more severe than originally expected. Simultaneously, development delays and a changing competitive landscape in the remote access market threatened Digi's ability to gain share. Finally, the local area network media conversion market, represented by our MiLAN products, was shifting to fiber connectivity as network hubs and switches increasingly became commodities.

Our mission for fiscal 2000 quickly became clear: Digi must rebuild to create a solid foundation for growth, refocus its efforts to reach growth markets, and, most importantly, execute crisply against our new objectives. We executed against these objectives in parallel throughout the year.

Joe Dunsmore

Rebuild
We identified leadership as an element critical to Digi's success, and quickly began to fill vacancies in the senior management team. Over the course of the year, we brought aboard new vice presidents of engineering (Joel Young), sales (Gregg Wilkes), marketing (Burk Murray) and European operations (Bruce Berger), each with significant experience in his field. In addition, we added critical horsepower to our sales and product management teams.

I was elected Chairman of the Board after John Schinas' retirement, and want to acknowledge his tremendous contribution to Digi over the years.

Early in the year we determined that we needed to build a dedicated sales team at our Sunnyvale operation to rebuild the revenue stream in that part of our business. The MiLAN team acted aggressively to fill out the roster, which resulted in three quarters of sequential growth to finish the year.

Research and development was restructured to improve performance in meeting development commitments and in creating innovative products. An influx of new engineers in the wireless communications and Microsoft Windows drivers areas has added to our skill set and revitalized existing talent. A platform development focus will help us reduce time-to-market on new products.

In our fourth fiscal quarter, after careful analysis, we undertook an aggressive restructuring designed to move our European operations to profitability. Our discontinuation of the NetBlazer Voice over Internet Protocol (VoIP) product line, for which we took a charge in our second fiscal quarter, allowed us to reallocate research and development resources to focus on our new strategy. The restructured European organization is now a sales and marketing hub, with a focus on asynchronous, terminal server, and Universal Serial Bus (USB) products, and MiLAN media conversion and fiber connectivity product lines sold through the existing two-tier distribution network. The restructuring includes the transition of all product development, technical support and manufacturing functions to Digi's corporate headquarters.

[Chart]
Valuation Measures

1999	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Book Value Per Share	$8.35	$8.26	$8.46	$8.57
Tangible Book Value Per Share	$4.18	$4.34	$4.91	$5.35
Net Cash Per Share	$0.27	$0.77	$1.75	$2.34

2000	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Book Value Per Share	$8.37	$7.66	$7.75	$7.45
Tangible Book Value Per Share	$5.43	$6.03	$6.24	$6.38
Net Cash Per Share	$2.54	$3.21	$3.40	$3.87

During the past eight quarters, tangible book value increased 53%.

Refocus

In April, after analyzing market forecasts, competitive intelligence, inputs from customers and technology trends, we created a strategic business and product plan to position Digi for market and technology leadership. Our most important objective was to identify Digi's opportunities to lead in markets with the potential for significant growth. The market for asynchronous serial cards had begun to erode, while demand was increasing for terminal server and USB connectivity products. In addition, new wireless networking technologies presented long-range opportunity to expand our markets. We established a new product roadmap and an action plan to better position the company to address these growth opportunities.

[Chart]
Quarterly LAN Revenue
Dollars (in millions)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
1999	$5.70	$3.60	$5.20	$5.30
2000	$2.50	$3.00	$3.20	$4.60

During the fourth quarter of 2000, LAN revenue grew 41% to 4.5 million, compared to the third fiscal quarter.

Inside/Out Edgeport
As part of the action plan, we acquired Inside Out Networks, a leading developer of USB connectivity devices. These products, which are a key element of our strategy, fill a void in our product roadmap. The Austin, Texas, company has developed solid relationships with customers such as Agilent, Gateway, Harris, Hewlett-Packard, IBM, Lucent Technologies, Microsoft, Motorola, NCR, Siemens, Sun Microsystems and many others. The acquisition was concluded in early October, and complements Digi's strategic intent to provide the most comprehensive suite of local connectivity solutions to the market.

Naming Doug Glader General Manager of Digi's MiLAN division was another of the actions in support of the new plan. Under Doug's leadership, MiLAN has refocused on fiber connectivity, a fast growing technology sector, and has begun to show results in landing large accounts.

Execute
Throughout the year, we have migrated from an internally focused culture to an externally focused, results oriented organization. The results can be seen across all of Digi, in our rejuvenated MiLAN division, on our redesigned website, in our new advertisements and, especially, in revenues for the second half of the year, which met or exceeded analyst expectations.

With new management focus in sales, channel inventory and distributor return levels fell to historic lows as we began to manage the business more effectively. New regional managers have improved customer touch and created an organization dedicated to servicing Digi's VAR channel.

[Chart]
Inventory and Accounts Receivable

1999	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Inventory	$29.50	$28.50	$22.00	$22.40
Accounts Receivable	$43.10	$32.80	$35.30	$34.00

2000	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Inventory	$22.30	$24.90	$22.50	$19.70
Accounts Receivable	$30.20	$20.90	$21.60	$18.20

Channel inventory and distributor return
levels fell to historic lows

Going forward, we are committed to sequential revenue growth, and expect to reap the benefits of revitalized sales, marketing and development teams in creating and selling new products in high-growth markets.

Digi's existing products, channels, brand name recognition and technical expertise have differentiated us from competitors for more than a dozen years. With new technology and a new management team focused on execution, we are confident that Digi will lead new markets with far greater potential for growth.

[Chart]
Cash and Marketable Securities
Dollars (in millions)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
1999	$ 4.00	$11.00	$26.00	$35.00
2000	$39.00	$48.00	$52.00	$59.00

With continued focus on asset management and expense control, Digi is strongly positioned to lead new high-growth markets.

Directors and Officers
Directors

Joseph T. Dunsmore
Mr. Dunsmore has been a member of the Board of Directors and President and Chief Executive Officer of the Company since October 1999. In May 2000 he was elected Chairman of the Board. Mr. Dunsmore has more than 17 years experience in the data communications and telecommunications industries and has held executive management positions in a number of companies, including AT&T Paradyne, U.S. Robotics, 3Com and, most recently, Lucent Technologies, where he served as Vice President of Access Technologies in the Microelectronics Group.

Richard E. Eichhorn (2) (3)
Mr. Eichhorn has been a member of the Board of Directors since 1987. Since April 1992, Mr. Eichhorn has been a private investor.

Kenneth E. Millard (2) (3)
Mr. Millard has been a member of the Board of Directors since October 1999. He has been the President and COO of Telular Corporation, a telecommunications company, since April 1996. Mr. Millard has held various executive management positions in the telecommunications industry and worked as an attorney for AT&T and Wisconsin Bell. Mr. Millard continues to serve as a director of Telular and also serves as a director of two private corporations.

Robert S. Moe (1) (2)
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, a manufacturer of snowmobiles, all-terrain vehicles and personal watercraft.

Mykola Moroz (1)
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 since 1990. Mr. Stanley is the retired Chairman and CEO of Payless Cashways, Inc., a building materials retailer.

Michael Seedman
Mr. Seedman became a member of the Board of Directors in October 2000. Mr. Seedman founded Entrega Technologies, which he sold to Xircom in 1999. Prior to founding Entrega, he was Vice President of the Personal Communications Division at U.S. Robotics. Mr. Seedman was also founder and President of Practical Peripherals, which he grew to become a leading provider of data communications products, before selling the company to Hayes Microcomputer in 1989.

James Tucker
Mr. Tucker became a member of the Board of Directors in October 2000. Mr. Tucker is currently Vice President of Global Business Development for Open Port Technology. Prior to joining Open Port, Mr. Tucker served as Director of Strategic Sales Initiatives for 3Com Corporation and Director of Sales for the Network Systems Division at U.S. Robotics. Mr. Tucker's career began with 18 years at IBM in sales and general management positions.

Officers

Joseph T. Dunsmore
President, Chief Executive Officer and Chairman of the Board

Douglas J. Glader
Executive Vice President and General Manager of MiLAN Technology

Subramanian Krishnan
Senior Vice President, Chief Financial Officer and Treasurer

Bruce Berger
Vice President - Managing Director of European Operations

T. Burk Murray
Vice President of Marketing

Jon Nyland
Vice President of Manufacturing

Steve Popovich
Vice President and General Manager of Inside Out Networks

Gregory Wilkes
Vice President of Americas Sales

Joel Young
Vice President of Engineering

Corporate Secretary

James E. Nicholson
Partner, Faegre & Benson LLP

Corporate Governance

The majority of the Board's membership is comprised of non-employee directors.

The compensation, audit and corporate governance and nominating committees are comprised of all non-employee directors.

(1) Audit Committee
(2) Compensation Committee
(3) Corporate Governance and Nominating Committee

Stockholder and Investor Information

Stock Listing

The Company's Common Stock trades on the Nasdaq National Market tier of the Nasdaq Stock MarketSM under the symbol "DGII." On December 8, 2000, the number of holders of the Company's Common Stock was approximately 7,196, consisting of 257 record holders and approximately 6,939 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, 2000 and 1999, as reported on the Nasdaq Stock Market, were as follows:

Stock Prices

2000	first	second	third	fourth
High	$17.75	$15.13	$9.63	$9.06
Low	$10.06	$ 8.19	$4.63	$6.00

1999	first	second	third	fourth
High	$16.38	$11.75	$11.00	$13.50
Low	$ 8.56	$ 6.25	$ 6.25	$ 9.88

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
Wells Fargo Bank Minnesota, N.A.
Wells Fargo Shareowners Services
P.O. Box 64854
St. Paul, MN 55164-0854
651-450-4064
800-468-9716

Legal Counsel
Faegre & Benson LLP
2200 Wells Fargo Center
Minneapolis, MN 55402-3901

Independent Public Accountants
PricewaterhouseCoopers LLP
650 Third Avenue South
Minneapolis, MN 55402-4333

Annual Meeting

The Company's Annual Meeting of Stockholders will be held on Wednesday, January 24, 2001, at 3:30 p.m., at the Marquette Hotel, 710 Marquette Avenue, Minneapolis, Minnesota.

Investor Relations

A copy of the Company's Form 10-K, filed with the Securities and Exchange Commission, is available free upon request. Contact:

Investor Relations
Administrator
Digi International Inc.
11001 Bren Road East
Minnetonka, MN 55343
or call 952-912-DIGI
e-mail request to:
ir@digi.com

Corporate Office

Digi International Inc.
11001 Bren Road East
Minnetonka, MN 55343
TEL: 952-912-3444
FAX: 952-912-4991

American Sales Office

Digi International Inc.
11001 Bren Road East
Minnetonka, MN 55343
TEL: 800-344-4273,
952-912-3444
FAX: 952-912-4952

MiLAN Technologies
1299 Orleans Drive
Sunnyvale, CA 94089
TEL: 800-466-4526
FAX: 408-744-2793

International Offices

Digi International GmbH
Joseph-von-Fraunhofer n
Str. 23
D-44227 Dortmund
Germany
TEL: +49-231-97-47-0
FAX: +49-231-97-47-111

Digi International Sarl
2, rue de L'Eglise
92200 Neuilly sur Seine
France
TEL: +33-1-55-61-98-98
FAX: +33-1-55-61-98-99

Digi International Denmark
Hejreskovvej 18C,
DK-3490 Kvistgaard, Denmark
TEL: +45-49-17-70
FAX: +45-49-17-70-91

Digi International Australia
Pty. Ltd.
Unit 10, 10 Gladstone Street
Castle Hill, NSW 2154
Australia
TEL: +61-2-9680-8944
FAX: +61-2-9680-9178

Digi International (HK) Limited
Suite 1101-02, 11/F
K Wah Centre
191 Java Road
North Point
Hong Kong
TEL: +852-2833-1008
FAX: +852-2572-9989

Digi International Asia Pte
Ltd.
13-06 Tower `A', 391A Orchard
Road,
Ngee Ann City, Singapore 238837
TEL: +65-732-1318
FAX: +65-732-1312

Inside Out Networks

248 Addie Roy Rd.
Bldg. B, Ste. 103
Austin, TX 78746
TEL: 512-306-0600
FAX: 512-306-0694

Digi International Inc.
11001 Bren Road East
Minnetonka, MN 55343 TEL: 952-912-3444
FAX: 952-912-4991 (central fax)
nasdaq national market: dgii
www address: www.digi.com
e-mail address: info@digi.com
investor relations e-mail: ir@digi.com

EXHIBIT 21

SUBSIDIARIES OF THE COMPANY

Digi International Asia Pte Ltd

Digi International GmbH

Digi International FSC

Digi International (HK) Ltd.

Digi International Australia PTY Ltd.

Digi International Limited

Digi International SARL

ITK International, Inc.

EXHIBIT 22

As of September 30, 2000, 1999, and 1998
(Dollars in thousands)

Description	Balance at beginning of period	Charged to costs and expenses	Charged to Other Accounts	Deductions	Balance at end of period
September 30, 2000					
Valuation account, product returns and doubtful accounts	$6,761	$15,805		$16,379 (1)	$6,187
September 30, 1999					
Valuation account, product returns and doubtful accounts	$7,651	$13,105		$13,995 (1)	$6,761
September 30, 1998					
Valuation account, product returns and doubtful accounts	$2,459	$30,378		$25,186 (1)	$7,651
September 30, 2000					
Valuation account, inventory obsolescence	$4,539	$1,633		$2,098 (2)	$4,074
September 30, 1999					
Valuation account, inventory obsolescence	3,107	6,218		4,786 (2)	$4,539
September 30, 1998					
Valuation account, inventory obsolescence	2,193	3,414		2,500 (2)	$3,107

(1) Uncollectible accounts charged against the allowance net of recoveries, and product returns charged against the allowance.

(2) Scrapped inventory charged against allowance.

EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-32956, 33-38898, 333-99, 333-23857, 333-1821 and 333-57869) of Digi International Inc. of our report dated December 8, 2000 relating to the consolidated financial statements and financial statement schedule, which appears in this Form 10-K.

PricewaterhouseCoopers LLP

Minneapolis, MN
December 21, 2000

EXHIBIT 24

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 Joseph T. Dunsmore and Subramanian Krishnan, 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 8th day of December, 2000.

/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 Joseph T. Dunsmore and Subramanian Krishnan, 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 7th day of December, 2000.

/s/ Kenneth Millard

Kenneth Millard

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 Joseph T. Dunsmore and Subramanian Krishnan, 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 8th day of December, 2000.

/s/ Robert S. Moe

Robert S. Moe

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 Joseph T. Dunsmore and Subramanian Krishnan, 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 11th day of December, 2000.

/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 Joseph T. Dunsmore and Subramanian Krishnan, 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 11th day of December, 2000.

/s/ Michael Seedman

Michael Seedman

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 Joseph T. Dunsmore and Subramanian Krishnan, 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 8th day of December, 2000.

/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 Joseph T. Dunsmore and Subramanian Krishnan, 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 8th day of December, 2000.

/s/ James Tucker

James Tucker

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SEP-30-2000
OCT-01-1999
SEP-30-2000
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(16,824,680)
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0
0
(16,824,680)
(1.12)
(1.12)