

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended September 30, 1995 or

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

For the transition period from _____ to _____

Commission file number 0-17972

DIGI INTERNATIONAL INC.

(Exact name of registrant as specified in its charter)

Delaware

41-1532464

(State or other jurisdiction of
incorporation or organization)

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

6400 Flying Cloud Drive
Eden Prairie, Minnesota

55344

(Address of principal executive officers) (Zip Code)

Registrant's telephone number, including area code: (612) 943-9020

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

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

Common Stock, \$.01 par value

(Title of each class)

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

YES X NO

The aggregate market value of voting stock held by nonaffiliates of the
Registrant, based on a closing price of \$23.00 per share as reported on the
National Association of Securities dealers Automated Quotation System - National
Market System on December 13, 1994 was \$258,986,141.

Shares of common stock outstanding as of December 13, 1995: 13,228,442.

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, 1995 and Proxy Statement for the Registrant's Annual Meeting of Stockholders scheduled for January 31, 1996, a definitive copy of which was filed on December 27, 1995. All such information set forth below under the heading "Reference" is incorporated herein by reference.

| PART I ----- | ITEM IN FORM 10-K ----- | REFERENCE ----- |
|------------------|---|---|
| Item 1. | Business | Business, pages 4 through 7, this document |
| Item 2. | Properties | Properties, page 7 this document |
| Item 3. | Legal Proceedings | Legal Proceedings, page 8 this document |
| Item 4. | Submission of Matters to a to Vote of Security Holders | Submission of Matters a Vote of Security Holders, page 8, this document |
| | | |
| PART II ----- | | |
| Item 5. | Market for Registrant's Common Equity and Related Stockholder Matters | Stock Listing; Dividend Policy, page 32, Annual Report to Stockholders |
| Item 6. | Selected Financial Data | Financial Highlights, and Selected Financial Information, pages 3 & 4, Annual Report to Stockholders |
| Item 7. | Management's Discussion And Analysis of Financial Condition and Results of Operations | Management's Discussion and Analysis of Financial Condition and Results of Operations, pages 20 and 21, Annual Report to Stockholders |
| Item 8. | Financial Statements and Supplementary Data | Annual Report to Stockholders, pages 22 through 31 |

| | | |
|-------------------|--|--|
| Item 9. | Changes in and Disagreements with Accountants on Accounting and Financial Disclosure | Changes in and Disagreements with Accountants on Accounting and Financial Disclosure, page 8, this document |
| PART III ----- | ITEM IN FORM 10-K ----- | REFERENCE ----- |
| Item 10. | Directors of the Registrant | Election of Directors, Proxy Statement |
| | Executive Officers of the Registrant | Executive Officers of the Registrant, pages 8 through 10, this document |
| | Compliance with Section 16(a) of the Exchange Act | Section 16(a) Reporting, Proxy Statement |
| Item 11. | Executive Compensation | Executive Compensation; Election of Directors, Summary Compensation Table; Option Grants in Last Fiscal Year; Aggregated Option Exercises in the Last Fiscal Year and Year-end Option Values, Employment Contracts; Severance, Termination of Employment and Change-in-Control Arrangements; Performance Evaluation, Proxy Statement |
| Item 12. | Security Ownership of Certain Beneficial Owners and Management | Security Ownership of Principal Stockholders and Management, Proxy Statement |
| Item 13. | Certain Relationships and | Certain Relationships and Related Transactions Related Transactions, Proxy Statement |
| PART IV ----- | | |
| Item 14. | Exhibits, Financial Statement Schedules and Reports on Form 8-K | Exhibits, Financial Statement Schedules and Reports on Form 8-K, pages 10 through 12, this document |

Year ended September 30, 1995

PART I

ITEM 1. BUSINESS

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

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

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

The Company's remote access products address the need to connect telecommuters and branch offices to corporate LANs, other branches, other individuals through server-centric and standalone product solutions. Only the Company has solutions for each portion of this large and fast growing market. The Company entered the standalone solution market with the acquisition of Lan Access Corporation in September 1995 in a cash transaction of approximately \$5.5 million.

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

The Company entered the LAN Connect market with its acquisition of MiLAN Technology Corporation in November 1993.

The Company's LAN connect group provides cost-effective and power-efficient Ethernet and Token Ring networking products through three groups:

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

The Company's products are sold through a network of more than 109 distributors in the United States, Canada and 56 countries worldwide.

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

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

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

The microcomputer industry is characterized by rapid technological advances and evolving industry standards. The market can be significantly affected by new product

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

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

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

During fiscal years 1993, 1994 and 1995, the Company's research and development expenditures were \$5,187,337, \$9,833,859, and \$14,676,683 respectively.

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

At September 30, 1995, the Company had 605 full-time employees.

During the year ended September 30, 1995, two customers comprised more than 10% of net sales; Ingram Micro at 12.5% and IBM at 11.7%. During 1994, one company (Ingram Micro) accounted for 11.8% of net sales. During 1993, two

customers comprised more than 10% of net sales; Ingram Micro at 10.3% and IBM at 10.8%.

As of November 30, 1995, the Company had backlog orders which management believed to be firm in the amount of \$11,314,685. All of these orders are expected to be filled in the current fiscal year. Backlog at November 30, 1994 was \$9,390,100.

During fiscal years 1993, 1994 and 1995, the Company's net sales to customers outside the United States, primarily in Europe, amounted to approximately \$20,000,000, \$28,000,000, and \$33,000,000, respectively.

ITEM 2. PROPERTIES

The Company's headquarters and research facilities are currently located in a 30,000 square foot office building in Eden Prairie, Minnesota which the Company acquired in December 1990 and has occupied since January 1991. The Company purchased a 133,000 square foot building in September 1995 which will become the corporate office and the primary research site in February 1996. The Company's primary manufacturing facilities are currently located in a 58,000 square foot building in Eden Prairie, Minnesota, which the Company purchased in May 1993 and has occupied since August 1993. Additional office and research facilities are located in a 17,000 square foot facility in Nashville, Tennessee, the lease for which expires in September 2000; a 22,000 square foot facility in Solon, Ohio, the lease for which expires in January 1996; a 46,000 square foot facility in Sunnyvale, California, the lease for which expires in April 2003, with additional temporary office space in a 10,000 square foot building, located in Sunnyvale, California the lease for which expires in December 1995 and; a 10,525 square foot building in Torrance, California the lease for which expires in January 1997. The Company's sales support office in Germany is located in a 3,400 square foot office in Cologne, Germany, the lease for which expires in November 1998. The Company's sales support office in Asia is located in a 1,600 square foot office in Singapore, the lease for which expires in October 1997. Management believes that the Company's facilities are suitable and adequate for current office, research and warehouse requirements, and that its manufacturing facilities provide sufficient productive capacity to meet the Company's currently anticipated needs.

ITEM 3. LEGAL PROCEEDINGS

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

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

There were no matters submitted to a vote of security holders during the quarter ended September 30, 1995.

PART II

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

None.

PART III

ITEM 10. EXECUTIVE OFFICERS OF THE REGISTRANT

| Name | Age | Position |
|--------------------|-----|--|
| ---- | --- | ----- |
| John P. Schinas | 58 | Chairman of the Board of Directors |
| Ervin F. Kamm, Jr. | 56 | President and Chief Executive Officer |
| Mykola Moroz | 58 | Former President and Chief Executive Officer |
| Gary L. Deaner | 55 | Vice President of the Company and General Manager of LAN Connect PMU |
| Gerald A. Wall | 49 | Vice President, Chief Financial Officer and Treasurer |
| Ray D. Wymer, Jr. | 39 | Vice President of the Company and General Manager of the Multi Connect PMU |
| Keith C. Rericha | 40 | Vice President of Support Services |

| | | |
|-------------------|----|--|
| Joseph A. Diodati | 53 | Vice President of Marketing and Strategic Planning |
| Douglas J. Glader | 52 | Vice President of Operations |
| Dana R. Nelson | 47 | Vice President of Sales |
| James R. Baker | 50 | Vice President of Technology and Standards |

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

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

Mr. Moroz, a founder of the Company, has been a member of the Board of Directors since July 1991 and a consultant to the Company on manufacturing operations since December 1994. He was President of the Company from July 1991 to November 1994 and Chief Executive Officer from January 1992 to November 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, including Senior Vice President, Vice President and Director of Manufacturing Operations. Mr. Moroz is also a director of Parts 1, Inc., a privately held corporation that is a supplier to the Company.

Mr. Deaner has been Vice President of the Company since October 1990. Since March 1991, to September 30, 1995, he has also served as President of the Company's Arnet and MiLAN subsidiaries. Currently, he is General Manager of the Remote Access PMU. From August 1985 to October 1990, Mr. Deaner was employed by the Company as Director of Marketing.

Mr. Wall has been Vice President, Chief Financial Officer and Treasurer of the Company since July 1991. He joined

the Company as Chief Financial Officer/Director of Finance and Administration in August 1989.

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

Mr. Rericha has been Vice President of the Company since April 1993 when Star Gate was acquired. From 1984 to September 30, 1995, he has served as Executive Vice President of Star Gate and currently is Vice President of Support Services.

Mr. Diodati, 52, was named Vice President of Marketing in March 1995. Since joining the company in April 1992, he has served as Director of Marketing and Strategic Planning and Divisional Vice President of Marketing and Strategic Planning. Prior to joining Digi International Inc., he served as Vice President of Marketing and Sales at Saratoga Group and served in a similar capacity at Viewport Technology.

Mr. Glader, 52, was named Vice President of Operations in February 1995. Before that, he was formerly Director of Manufacturing and Operations for MiLAN Technology Corporation. He began his career with Memorex Corporation and also worked for Measurex Corporation, Altus Corporation and Direct Incorporated. He founded and was vice president of operations for Greyhawk Systems, Inc., a manufacturer of electronic imaging hardware and software.

Mr. Nelson, 47, was named to the position of Vice President of Sales for Digi International effective June 1, 1995. From 1983 to 1995, Nelson was with Ascom Timeplex, most recently as Vice President of Worldwide Sales. Ascom Timeplex is a worldwide leader in LAN and WAN networking solutions.

Mr. Baker, 50, joined the Company in October 1995 as Vice President of Technology and Standards. From 1991 to 1995, Baker was Senior Vice President, Telecommunications, for Loral Corporation where he managed the synchronous transfer mode (ATM) switching products business. Before that, Baker held a variety of positions, including tenures at GTE and Harris Corporation.

PART IV

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

(a) Consolidated Financial Statements and Schedules

1. Incorporated by reference to pages 22 through 31 of the Company's 1995 Annual Report to Stockholders:

Consolidated Statements of Operations for the fiscal years ended 1995, 1994 and 1993

Consolidated Balance Sheets as of September 30, 1995 and 1994

Consolidated Statements of Cash Flows for the fiscal years ended 1995, 1994 and 1993

Consolidated Statements of Stockholders' Equity for the fiscal years ended 1995, 1994 and 1993

Notes to Consolidated Financial Statements

Report of Independent Accountants

2. Included in Part II:

Report of Independent Accountants on Financial Statement Schedules

Schedule II - Valuation and Qualifying Accounts

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

(b) Reports on Form 8-K

There were no reports filed on Form 8-K during the quarter ended September 30, 1995.

(c) Exhibits

| Exhibit Number | Description |
|----------------|--|
| 3(a) | Restated Certificate of Incorporation of the Registrant* |
| 3(b) | Amended and Restated By-Laws of the Registrant** |
| 10(a) | Stock Option Plan of the Registrant*** |
| 10(b) | Form of indemnification agreement with directors and officers of the Registrant* |

| | |
|-------|---|
| 10(f) | 401-(K) Savings and Profit Sharing Plan of Digi International Inc.**** |
| 10(g) | Amended and Restated Employment Agreement between the Company and Ervin F. Kamm, Jr. |
| 10(n) | Employment Agreement with Ray D.Wymer, as amended by Amendment No. 1 to Employment Agreement |
| 10(o) | Employment Agreement with Keith C.Rericha, as amended by Amendment No. 1 to Employment Agreement |
| 10(p) | Employment arrangement between the Registrant and Douglas Glader for fiscal 1995 |
| 10(q) | Employment arrangement between the Registrant and Dana R. Nelson for fiscal 1995 and 1996 |
| 11 | Detail computation of earnings per share |
| 13 | 1995 Annual Report to Stockholders (only those portions specifically incorporated by reference herein shall be deemed filed with the Securities and Exchange Commission). |
| 21 | Subsidiaries of the Registrant |
| 23 | Consent of Independent Accountants |
| 27 | Financial Data Schedule |

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

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

*** Incorporated by reference to Exhibit A to the Registrant's Proxy Statement for its Annual Meeting of Stockholders scheduled for January 31, 1996 (File No. 0-17972).

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

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 28, 1995

By:/s/ Ervin F. Kamm, Jr.

Date

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

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

December 28, 1995

By:/s/ Ervin F. Kamm, Jr.

Date

Ervin F. Kamm, Jr.
President and Chief
Executive Officer
(Principal Executive
Officer)

December 28, 1995

By:/s/ Gerald A. Wall

Date

Gerald A. Wall
Vice President, Chief
Financial Officer and
Treasurer (Principal
Financial and Accounting
Officer)

December 28, 1995

/s/ Willis K. Drake

Date

Willis K. Drake

December 28, 1995

/s/ Richard E. Eichhorn

Date

Richard E. Eichhorn

December 28, 1995

/s/ Ervin F. Kamm, Jr.

Date

Ervin F. Kamm, Jr.

December 28, 1995

/s/ Mykola Moroz

Date

Mykola Moroz

December 28, 1995

Richard E. Offerdahl

Date

December 28, 1995

John P. Schinas

Date

December 28, 1995

Date

December 28, 1995

Date

/s/ Dr. Jagdish Sheth

Dr. Jagdish Sheth

/s/ David Stanley

David Stanley

REPORT OF INDEPENDENT ACCOUNTANTS

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

Our report on the consolidated financial statements of Digi International Inc. has been incorporated by reference in this Form 10-K from page 31 of the 1995 Annual Report to Stockholders of Digi International Inc. In connection with our audits of such financial statements, we have also audited the related financial statement schedule listed in Item 14(a)2 on page 11 of this Form 10-K.

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

COOPERS & LYBRAND L.L.P.

Minneapolis, Minnesota
November 15, 1995

DIGI INTERNATIONAL INC.
SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS

| DESCRIPTION | BALANCE AT OF YEAR | CHARGED TO EXPENSE | CHARGED TO OTHER ACCOUNTS | DEDUCTIONS FROM ALLOWANCE | BALANCE AT END OF YEAR |
|---|-----------------------|-----------------------|---------------------------------|------------------------------|---------------------------|
| Deducted from Accounts Receivable: | | | | | |
| Year ended September 30, 1993 | | | | | |
| Allowance for doubtful accounts..... | 391,000 | 397,358 | | 429,358(1) | 359,000 |
| Year ended September 30, 1994 | | | | | |
| Allowance for doubtful accounts..... | 359,000 | 608,001 | 84,581(2) | 410,082(1) | 641,500 |
| Year ended September 30, 1995 | | | | | |
| Allowance for doubtful accounts..... | 641,500 | 243,895 | | 228,895(1) | 656,500 |
| Deducted from Inventory: | | | | | |
| Year ended September 30, 1993 | | | | | |
| Allowance for inventory obsolesence.... | 81,000 | 274,000 | | | 355,000 |
| Year ended September 30, 1994 | | | | | |
| Allowance for inventory obsolesence.... | \$ 355,000 | \$ 1,071,741 | \$ 72,441(2) | \$ 817,182(3) | \$ 682,000 |
| Year ended September 30, 1995 | | | | | |
| Allowance for inventory obsolesence.... | \$ 682,000 | \$ 716,300 | | \$ 586,300(3) | \$ 812,000 |

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

AMENDED AND RESTATED
EMPLOYMENT AGREEMENT
(Ervin F. Kamm, Jr.)

This Amended and Restated Employment Agreement is made as of November 10, 1995 by and between DIGI INTERNATIONAL INC., a Delaware corporation (the "Company"), and Ervin F. Kamm, Jr. (the "Executive").

WHEREAS the Company and the Executive entered into an Employment Agreement as of October 26, 1994 (the "Original Agreement");

WHEREAS the Company and the Executive desire to amend the Original Agreement and restate the Original Agreement, as amended, in its entirety;

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

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

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

I. EMPLOYMENT

1.1 EMPLOYMENT AS SENIOR EXECUTIVE. The Company hereby agrees to employ Executive, commencing the date hereof and continuing until the date his employment terminates pursuant to Article III hereof, in a senior executive capacity, initially as President elect and, effective November 30, 1994, as President and Chief Executive Officer of the Company. Executive accepts such employment pursuant to the terms of this Agreement. Executive shall perform such duties and responsibilities as may be determined from time to time by the Board of Directors of the Company, which shall be consistent with his position as an officer of the Company.

1.2 EXCLUSIVE SERVICES. Commencing as soon as practicable from and after November 30, 1994, but in any event on or before January 1, 1995, Executive agrees to devote his full time, attention and energy to performing his duties and responsibilities to the Company under this Agreement during the term of this Agreement, and prior thereto, Executive shall be an employee of the Company, commencing October 26, 1994, devoting sufficient time to learn about the Company's technology, marketing approach and sales channels.

II. COMPENSATION, BENEFITS AND PERQUISITES

2.1 BASE SALARY. During the period this Agreement is in effect, the Company shall pay Executive a base salary at the annual rate set forth on Schedule I hereto. The base salary shall be payable semi-monthly. Beginning on or about October 1, 1995, the Board of Directors of the Company (the "Board", which term shall include a duly authorized committee of the Board of Directors) will review the base salary annually, and may in its sole discretion increase it to reflect performance, appropriate industry guideline data and other factors. However, the Board is not obligated to provide for any increases.

2.2 BONUSES. Executive shall be eligible to receive a bonus for each fiscal year during which this Agreement is in effect, as follows:

(a) The target bonus shall be equal to a percentage of base salary paid for each fiscal year during the period of this Agreement as set forth on Schedule I hereto. Executive shall be entitled to the target bonus amount if the objectives set by the Company's Board-approved Budget Plan for the fiscal year (or, in the case of the fiscal year ending September 30, 1995, the net sales and after-tax earnings targets set forth on Schedule I hereto) are met.

(b) If some or all of the objectives of the Budget Plan (or, in the case of the fiscal year ending September 30, 1995, the net sales and after-tax earnings targets set forth on Schedule I hereto) are not met for a fiscal year, then the Board will determine in its discretion what portion, if any, of the target bonus amount will be paid to Executive for that year. If the objectives are exceeded for a fiscal year, the Board may in its discretion award Executive a bonus that is larger than the target bonus.

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

(d) The Board will consult with Executive before determining the Budget Plan for each fiscal year, beginning with the fiscal year ending September 30, 1996. However, the Board will have authority to establish the Budget Plan for each year in its sole discretion. The net sales and after-tax earnings targets for the fiscal year ending September 30, 1995 are set forth on Schedule I hereto.

(e) The objectives set by the Company's Board-approved Budget Plan for any fiscal year, and the net sales and after-tax earnings targets for the fiscal year ending September 30, 1995 set forth on Schedule I hereto, shall not be adjusted for the acquisition, by any means, of any businesses or business units (and expenses related thereto) that may occur during a particular fiscal year. The objectives set by the Company's Board-approved Budget Plan for any fiscal year, and the net sales and after-tax earnings targets for the fiscal year ending September 30, 1995 set forth on Schedule I hereto, shall be equitably adjusted by the Board for the divestiture, by any means, of any businesses or business units (and expenses related thereto) that may occur during a particular fiscal year and to eliminate any reorganization, restructuring or other extraordinary charge that may be incurred during a particular fiscal year.

2.3 COMMISSIONS. Executive shall be eligible to receive a commission for each fiscal year during which this Agreement is in effect, as follows:

(a) Executive shall be paid a commission equal to 1% of the amount by which net sales for a fiscal year exceed the amount of net sales set forth in the Budget Plan (or, in the case of the fiscal year ending September 30, 1995, the net sales target set forth on Schedule I hereto); provided, however, that the after-tax profit margin of the Company must equal or exceed the after-tax profit margin set forth in the Budget Plan for such fiscal year (or, in the case of the fiscal year

ending September 30, 1995, the target after-tax profit margin set forth on Schedule I hereto). If the after-tax profit margin for such fiscal year is less than the after-tax profit margin set forth in the Budget Plan for such fiscal year (or set forth on Schedule I in the case of the fiscal year ending September 30, 1995), then the Board will determine in its discretion what commission, if any, will be paid to Executive for that year.

(b) The commission for each fiscal year shall be paid to Executive on September 30 of each year or as soon thereafter as the Company is able to determine whether the objectives for such commission have been met for that year.

(c) The target after-tax profit margin for the fiscal year ending September 30, 1995 is set forth on Schedule I hereto.

(d) The net sales and after-tax profit margin targets set by the Company's Board-approved Budget Plan for any fiscal year, and the net sales and after-tax profit margin targets for the fiscal year ending September 30, 1995 set forth on Schedule I hereto, shall not be adjusted for the acquisition, by any means, of any businesses or business units (and expenses related thereto) that may occur during a particular fiscal year. The net sales and after-tax profit margin targets set by the Company's Board-approved Budget Plan for any fiscal year, and the net sales and after-tax profit margin targets for the fiscal year ending September 30, 1995 set forth on Schedule I hereto, shall be equitably adjusted by the Board for the divestiture, by any means, of any businesses or business units (and expenses related thereto) that may occur during a particular fiscal year and to eliminate any reorganization, restructuring or other extraordinary charge that may be incurred during a particular fiscal year.

2.4 STOCK OPTIONS FOR THE PERIOD TO SEPTEMBER 30, 1997. As of the date of this Agreement, Executive shall be awarded a non-statutory stock option under the Digi International Inc. Stock Option Plan (or a newly adopted stock option plan providing for the issuance of non-statutory stock options), as set forth on Schedule I hereto. Executive shall also be awarded non-statutory stock options under the Digi International Inc. Stock Option Plan (or a newly adopted stock option plan) upon the terms and conditions set forth in Schedule I hereto as of November 30, 1994.

2.5 STOCK OPTIONS FROM AND AFTER SEPTEMBER 30, 1997. On or about September 30 of each year the Compensation Committee of the Board of The Company considers and awards stock options to key employees of The Company and its subsidiaries. These awards are made in the discretion of the Compensation Committee and are principally intended to recognize performance over the preceding fiscal year. Except as set forth in Section 2.4, Executive would be first eligible for a stock option grant on or about September 30, 1997; provided, however, that the Compensation Committee, in its sole discretion, may award a stock option or stock options to Executive at any time on or before such date.

2.6 FORM OF STOCK OPTION AGREEMENT. Stock option awards to Executive shall be pursuant to stock option agreements in substantially the form of Schedule II, with such additions thereto and deletions therefrom as Executive

and the Chairman of the Board or another duly authorized officer of the Company shall agree, such agreement to be conclusively evidenced by their execution and delivery thereof, and, in the case of the options to be awarded as of November 30, 1994, the stock option agreements shall contain the additional provisions set forth on Schedule I hereto.

2.7 ACKNOWLEDGMENT OF REQUIRED STOCKHOLDER APPROVAL, POTENTIAL CANCELLATION OF OPTIONS. Executive acknowledges that the Company has no present authority to issue stock options under the Digi International Inc. Stock Option Plan (or any newly-adopted stock option plan) and that any options issued, or to be issued, under this Agreement are contingent upon stockholder approval of an increase in the number of shares under the Digi International Inc. Stock Option Plan (or the approval of a newly-adopted stock option plan). In the event that such stockholder approval is not obtained, Executive agrees that stock options granted, or to be granted, under this Agreement shall be canceled, without any compensation to Executive.

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

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

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

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

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

2.13 RELOCATION. During the term of his employment hereunder, Executive shall not be obligated to relocate, without his consent, from the general vicinity of the Minneapolis/St. Paul metropolitan area.

III. TERMINATION OF EXECUTIVE'S EMPLOYMENT

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

3.2 CAUSE. For purposes of this Article III, "cause" shall mean only the following: (i) indictment or conviction of, or a plea of nolo contendere to, (A) any felony (other than any felony arising out of negligence) or any misdemeanor involving moral turpitude, or (B) any crime or offense involving dishonesty with respect to the Company; (ii) theft or embezzlement of Company property or commission of similar acts involving dishonesty or moral turpitude; (iii) repeated material negligence in the performance of Executive's duties; (iv) Executive's failure to devote substantially all of his working time and efforts during normal business hours to the Company's business; (v) knowing engagement in conduct which is materially injurious to the Company; (vi) knowing failure, for Executive's own benefit, to comply with the covenants contained in Sections 4.1 or 4.2 of this Agreement; (vii) knowingly providing materially misleading information concerning the Company to the Company's Board of Directors, any governmental body or regulatory agency or to any lender or other financing source or proposed financing source of the Company; (viii) failure of the Company to meet at least 70% of Budget for either net sales or after-tax earnings in any fiscal year; or (ix) any other failure by Executive to substantially perform his material duties under this Agreement (excluding nonperformance resulting from Executive's disability) which failure is not cured within thirty (30) days after written notice from the Chairman of the Board or the Chairman of the Compensation Committee of the Company specifying the act of nonperformance or within such longer period (but no longer than ninety (90) days in any event) as is reasonably required to cure such nonperformance. For purposes of Section 3.2(viii), the net sales and after-tax earnings targets set by the Company's Board-approved Budget Plan for any fiscal year shall not be adjusted for the acquisition, by any means, of any businesses or business units (and expenses related thereto) that may occur during a particular fiscal year, but shall be equitably adjusted by the Board for the divestiture, by any means, of any businesses or business units (and expenses related thereto) that may occur during a particular fiscal year and to eliminate any reorganization, restructuring or other extraordinary charge that may be incurred during a particular fiscal year.

3.3 DISABILITY. If Executive has become disabled from performing his duties under this Agreement and the disability has continued for a period of more than sixty (60) days, the Board may, in its discretion, determine that Executive will not return to work and terminate his employment under this Agreement. Upon any such termination for disability, Executive shall be

entitled to such disability, medical, life insurance, and other benefits as may be provided generally for disabled employees of the Company during the period he remains disabled.

IV. NON-COMPETITION, CONFIDENTIALITY AND TRADE SECRETS

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

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

(b) Intentionally solicit, endeavor to entice away from the Company, any parent company of the Company or any of their subsidiaries, or otherwise interfere with the relationship of the Company, any parent company of the Company or any of their subsidiaries with, any person who is employed by or otherwise engaged to perform services for the Company, any parent company of the Company or any of their subsidiaries (including, but not limited to, any independent sales representatives or organizations), or any persons or entity who is, or was within the then most recent 12-month period, a customer or client of the Company, any parent company of the Company or any of their subsidiaries, whether for Executive's own account or for the account of any other individual, partnership, firm, corporation or other business organization.

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

4.2 NON-DISCLOSURE OF INFORMATION. During the period of his employment hereunder, and at all times thereafter, Executive shall not, without the written consent of the Company disclose to any person, other than an employee of the Company, any parent company of the Company or any of their subsidiaries or a person to whom disclosure is reasonably necessary or appropriate in connection with the performance by Executive of his duties as an executive of the Company, except where such disclosure may be required by

law, any material confidential information obtained by him while in the employ of the Company, any parent company of the Company or any of their subsidiaries with respect to any products, technology, know-how or the like, services, customers, methods or future plans of the Company, any parent company of the Company or any of their subsidiaries, all of which Executive acknowledges are valuable, special and unique assets, the disclosure of which Executive acknowledges may be materially damaging.

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

V. MISCELLANEOUS

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

5.2 ENTIRE AGREEMENT. Before signing this Agreement the parties had numerous conversations, including preliminary discussions, formal negotiations and informal conversations, and generated correspondence and other writings, in which the parties discussed the employment which is the subject of this Agreement and their aspirations for its success. In such conversations and writings, individuals representing the parties may have expressed their judgments and beliefs concerning the intentions, capabilities and practices of the parties, and may have forecasted future events. The parties recognize that such conversations and writings often involve an effort by both sides to be positive and optimistic about the prospects for the employment. It is also recognized, however, that all business transactions contain an element of risk, and that it is normal business practice to limit the legal obligations of contracting parties to only those promises and representations which are essential to their transaction so as to provide certainty as to their respective future rights and remedies. Accordingly, this Agreement is intended to define the full extent of the legally enforceable undertakings of the parties hereto, and no related promise or representation, written or oral, which is not set forth explicitly in this Agreement is intended by either party to be legally binding. Both parties acknowledge that in deciding to enter into this transaction they have relied on no representations, written or oral, other than those explicitly set forth in this Agreement. Executive has relied entirely on his own judgment and that of his advisers in entering into this Agreement.

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

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

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

If to the Company, to:

Digi International Inc.
6400 Flying Cloud Drive
Eden Prairie, MN 55344

Attention: Chairman of the Board

With a copy to:

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

If to Executive, to:

Ervin F. Kamm, Jr.
763 North Ferndale Road
Wayzata, MN 55391

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

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

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

5.8 GOVERNING LAW. This Agreement shall be interpreted and enforced in accordance with the laws of the State of Minnesota, without giving effect to conflict of law principles.

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

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

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

DIGI INTERNATIONAL INC.

By /s/ John P. Schinas

Its Chairman of the Board

EXECUTIVE

/s/ Ervin F. Kamm, Jr.

Ervin F. Kamm, Jr.

Schedule I to
EMPLOYMENT AGREEMENT

ANNUAL BASE SALARY: \$215,000.

TARGET BONUS PERCENTAGE: 120% of Base Salary.

The bonus targets for the fiscal year ending September 30, 1995:

Net sales of an amount to be separately agreed upon by the Company and Executive.

After-tax earnings of an amount to be separately agreed upon by the Company and Executive.

The target after-tax profit margin for commissions for the fiscal year ending September 30, 1995 shall be an amount to be separately agreed upon by the Company and Executive.

If the Board-approved Budget Plan for the fiscal year ending September 30, 1995 has net sales, after-tax earnings and/or after-tax profit margin objectives that are lower than the foregoing agreed upon numbers, the lower number(s) shall be the targets for the fiscal year ending September 30, 1995.

STOCK OPTIONS

1. Stock option award concurrent with execution of this Agreement:

Number of Shares: 60,000.

Exercise Price: \$15.25 per share (i.e., the Fair Market Value (as defined in the Digi International Inc. Stock Option Plan) per share on the date of grant).

Vesting: 20% per year over a five-year period from the date of grant.

Expiration Date: October 26, 2004.

2. Stock option awards on November 30, 1994:

A. Number of Shares: 80,000

Exercise Price: \$17.50 (i.e., the Fair Market Value (as defined in the Digi International Inc. Stock Option Plan) per share on the date of grant).

Vesting: 20% per year over a five-year period from October 26, 1995.

Expiration Date: November 30, 2004.

Additional provision in stock option agreement: the form of stock option agreement set forth as Schedule II hereto shall be amended to reflect that the provisions of Section 6(c) and (d) of such agreement shall be effective on or after October 26, 1995.

B. Number of Shares: 90,000

Exercise Price: \$17.50 (i.e., the Fair Market Value (as defined in the Digi International Inc. Stock Option Plan) per share on the date of grant).

Vesting: 20% per year over a five-year period from October 26, 1996.

Expiration Date: November 30, 2004.

Additional provision in stock option agreement: the form of stock option agreement set forth as Schedule II hereto shall be amended to reflect that the provisions of Section 6(c) and (d) of such agreement shall be effective on or after October 26, 1996.

Common Stock of the Company, par value \$.01 per share (the "Common Shares"), according to the terms set forth herein;

NOW THEREFORE, the parties hereto hereby agree as follows:

1. GRANT OF OPTION. Subject to the terms of the Plan, the Company hereby grants to the Optionee the right and option (the "Option") to purchase the number of Common Shares specified at the beginning of this Agreement, on the terms and conditions hereinafter set forth. The Option is not intended by the Company to be an "incentive stock option" within the meaning of Section 422A of the Internal Revenue Code of 1986, as amended (the "Code").

2. PURCHASE PRICE. The purchase price of each of the Common Shares subject to the Option shall be the exercise price per share specified at the beginning of this Agreement, which price has been specified in accordance with the Plan.

3. OPTION PERIOD.

(a) Subject to the provisions of paragraphs 5(a), 5(b) and 6(b) hereof, the Option shall become exercisable as to the number of shares and on the dates specified in the exercise schedule at the beginning of this Agreement. The exercise schedule shall be cumulative; thus, to the extent the Option has not already been exercised and has not expired, terminated or been canceled, the Optionee may at any time, and from time to time, purchase all or any portion of the Common Shares then purchasable under the exercise schedule. Notwithstanding the foregoing or any other provision herein to the contrary, the Option shall become immediately exercisable:

(i) upon the occurrence of the death or disability within the meaning of Section 22(e)(3) of the Code, of the Optionee (as more particularly described in paragraphs 5(a)(ii) or 5(b) and 6(a) hereof);

(ii) in the event that the committee under the Plan (the "Committee") shall declare pursuant to paragraph 6(b) hereof that the Option shall be canceled at the time of, or immediately prior to the occurrence of an Event, as defined in paragraph 6(b) hereof; or

(iii) as provided in paragraph 6(c) or 6(d) hereof.

(b) The Option and all rights to purchase shares thereunder shall cease on the earliest of:

(i) the expiration date specified at the beginning of this Agreement (which date shall not be more than ten years after the date of this Agreement);

(ii) the expiration of the period after the termination of the Optionee's employment (as defined in paragraph 4 of the Plan) within which the Option is exercisable as specified in paragraph 5(a) or 5(b), whichever is applicable; or

(iii) the date, if any, fixed for cancellation pursuant to paragraph 6(b) hereof.

Notwithstanding any other provision in this Agreement, in no event may anyone exercise the Option, in whole or in part, after its original expiration date.

4. MANNER OF EXERCISING OPTION.

(a) Subject to the terms and conditions of this Agreement, the Option may be exercised by delivering written notice of exercise to the Company at its principal executive office, to the attention of its President. The notice shall state the election to exercise the Option and the number of Common Shares in respect of which it is being exercised, and shall be signed by the person exercising the Option. If the person exercising the Option is not the Optionee, he or she also shall send with the notice appropriate proof of his or her right to exercise the Option. Such notice shall be accompanied by either:

(i) payment (by check, bank draft or money order payable to the Company) of the full purchase price of the Common Shares being purchased; or

(ii) certificates for unencumbered Common Shares having an aggregate Fair Market Value (as defined in paragraph 5(c) of the Plan) on the date of exercise equal to the purchase price of the Common Shares to be purchased; or

(iii) a combination of cash and such unencumbered Common Shares.

The Optionee shall duly endorse all certificates delivered to the Company pursuant to the foregoing subparagraphs (a)(ii) or (a)(iii) in blank and shall represent and warrant in writing that he or she is the owner of the Common Shares so delivered free and clear of all liens, security interests and other restrictions or encumbrances.

(b) As soon as practicable after receipt of the purchase price provided for above, the Company shall deliver to the person exercising the Option, in the name of the Optionee or his or her estate or heirs, as the case may be, a certificate or certificates representing the Common Shares being purchased. The Company shall pay all original issue or transfer taxes, if any, with respect to the issue or transfer of the Common Shares to the person exercising the Option and all fees and expenses necessarily incurred by the Company in connection therewith. All Common Shares so issued shall be fully paid and nonassessable. Notwithstanding anything to the contrary in this Agreement, the Company shall not be required, upon the exercise of this Option or any part thereof, to issue or deliver any Common Shares prior to the completion of such registration or other

qualification of such Common Shares under any State law, rule or regulation as the Company shall determine to be necessary or desirable.

5. EXERCISABILITY OF OPTION AFTER TERMINATION OF EMPLOYMENT.

(a) During the lifetime of the Optionee, the Option may be exercised only while the Optionee is employed (as defined in paragraph 4 of the Plan) by the Company or a parent or subsidiary thereof, and only if the Optionee has been continuously so employed since the date of this Agreement, except that:

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

(ii) in the event the Optionee is disabled (within the meaning of Section 22(e)(3) of the Code) while employed, the Optionee or his or her legal representative may exercise the Option within one year after the termination of the Optionee's employment; and

(iii) if the Optionee's employment terminates after a declaration pursuant to paragraph 6(b) of this Agreement, the Optionee may exercise the Option at any time permitted by such declaration.

(b) In the event of the Optionee's death while employed by the Company or a parent or subsidiary thereof, or within three months after his or her termination of employment, the legal representative, heirs or legatees of the Optionee's estate or the person who acquired the right to exercise the Option by bequest or inheritance may exercise the Option within one year after the death of the Optionee.

(c) Neither the transfer of the Optionee between any combination of the Company, its parent and any subsidiary of the Company, nor a leave of absence granted to the Optionee and approved by the Committee, shall be deemed a termination of employment. The terms "parent" and "subsidiary" as used herein shall have the meaning ascribed to "parent corporation" and "subsidiary corporation," respectively, in Sections 425(e) and (f) (or successor provisions) of the Code.

6. ACCELERATION OF OPTION.

(a) **DISABILITY OR DEATH.** If paragraph 5(a)(ii) or 5(b) of this Agreement is applicable, the Option, whether or not previously exercisable, shall become immediately exercisable in full if the Optionee shall have been employed continuously by the Company or a parent or subsidiary thereof between the date the Option was granted and the date of such disability or, in the event of death, a date not more than three months prior to such death.

(b) **DISSOLUTION, LIQUIDATION, MERGER.** In the event of (i) a proposed merger or consolidation of the Company with or into any other corporation, regardless of whether the Company is the surviving corporation, unless appropriate provision shall have been made for the protection of the Option by the substitution, in lieu of the Option, of an option to purchase appropriate voting common stock (the "Survivor's Stock") of the corporation surviving any such merger or consolidation or, if appropriate, the parent corporation of the Company or such surviving corporation, or, alternatively, by the delivery of a number of shares of the Survivor's Stock which has a Fair Market Value (as defined in paragraph 5(c) of the Plan) as of the effective date of such merger or consolidation equal to the product of (A) the excess of (x) the Event Proceeds per Common Share (as hereinafter defined) covered by the Option as of such effective date, over (y) the Option exercise price per Common Share, times (B) the number of Common Shares covered by the Option, or (ii) the proposed dissolution or liquidation of the Company (such merger, consolidation, dissolution or liquidation being herein called an "Event"), the Committee shall declare, at least ten days prior to the actual effective date of an Event, and provide written notice to the Optionee of the declaration, that the Option, whether or not then exercisable, shall be canceled at the time of, or immediately prior to the occurrence of, the Event (unless it shall have been exercised prior to the occurrence of the Event) in exchange for payment to the Optionee, within ten days after the Event, of cash equal to the amount (if any), for each Common Share covered by the canceled Option, by which the Event Proceeds per Common Share (as hereinafter defined) exceeds the exercise price per Common Share covered by the Option. At the time of the declaration provided for in the immediately preceding sentence, the Option shall immediately become exercisable in full and the Optionee shall have the right, during the period preceding the time of cancellation of the Option, to exercise the Option as to all or any part of the Common Shares covered thereby. The Option, to the extent it shall not have been exercised prior to the Event, shall be canceled at the time of, or immediately prior to, the Event, as provided in the declaration, and this Plan shall terminate at the time of such cancellation, subject to the payment obligations of the Company provided in this paragraph 6(b). For purposes of this paragraph, "Event Proceeds per Common Share" shall mean the cash plus the fair market value, as determined in good faith by the Committee, of the non-cash consideration to be received per Common Share by the stockholders of the Company upon the occurrence of the Event.

(c) **TERMINATION WITHOUT CAUSE.** The Option, whether or not previously exercisable, shall become immediately exercisable in full immediately prior to any termination of Optionee's employment by the Company without cause under the terms of the Employment Agreement dated as of October 26, 1994 between Optionee and the Company.

(d) CHANGE IN CONTROL. The Option, whether or not previously exercisable, shall become immediately exercisable in full upon the occurrence of any "Change in Control". A "Change in Control" shall be deemed to have occurred upon the occurrence of either of the following events:

(i) any person, as defined in Sections 3(a)(9) and 13(d)(3) of the Securities Exchange Act of 1934 (the "Exchange Act"), becomes the "beneficial owner" (as defined in Rule 13d-3 promulgated pursuant to the Exchange Act), directly or indirectly, of securities of the Company having 30% or more of the voting power in the election of directors of the Company, excluding, however, Optionee (or a group of persons, including Optionee, acting in concert); or

(ii) the occurrence within any period, commencing immediately after an Annual Meeting of Stockholders and continuing to and including the Annual Meeting of Stockholders occurring on or about the third anniversary date of the commencement of such period, of a change in the Board of Directors of the Company with the result that the Incumbent Members (as defined below) do not constitute a majority of the Company's Board of Directors. The term "Incumbent Members" shall mean the members of the Board on the date of the commencement of such period, provided that any person becoming a director during such period whose election or nomination for election was approved by a majority of the directors who, on the date of such election or nomination for election, comprised the Incumbent Members shall be considered one of the Incumbent Members in respect of such period.

7. LIMITATION ON TRANSFER. During the lifetime of the Optionee, only the Optionee or his or her guardian or legal representative may exercise the Option. The Optionee shall not assign or transfer the Option otherwise than by will or the laws of descent and distribution, and the Option shall not be subject to pledge, hypothecation, execution, attachment or similar process. Any attempt to assign, transfer, pledge, hypothecate or otherwise dispose of the Option contrary to the provisions hereof, and the levy of any attachment or similar process upon the Option, shall be null and void.

8. STOCKHOLDER RIGHTS BEFORE EXERCISE. The Optionee shall have none of the rights of a stockholder of the Company with respect to any share subject to the Option until the share is actually issued to him or her upon exercise of the Option.

9. DISCRETIONARY ADJUSTMENT. The Committee may in its sole discretion make appropriate adjustments in the number of shares subject to the Option and in the purchase price per share to give effect to any adjustments made in the number of outstanding Common Shares of the Company through a merger, consolidation, recapitalization, reclassification, combination, stock

dividend, stock split or other relevant change, provided that fractional shares shall be rounded to the nearest whole share.

10. TAX WITHHOLDING. The parties hereto recognize that the Company or a parent or subsidiary thereof may be obligated to withhold federal and state income taxes and social security or other taxes upon the Optionee's exercise of the Option. The Optionee agrees that, at the time he or she exercises the Option, if the Company or a parent or subsidiary thereof is required to withhold such taxes, he or she will promptly pay in cash upon demand to the Company, or the parent or subsidiary having such obligation, such amounts as shall be necessary to satisfy such obligation; provided, however, that in lieu of all or any part of such a cash payment, the Committee may, but shall not be required to, (or, in the case of an Optionee who is an Outside Director (as defined in paragraph 4 of the Plan), the Committee shall) permit the Optionee to elect to cover all or any part of the required withholdings, and to cover any additional withholdings up to the amount needed to cover the Optionee's full FICA and federal, state and local income tax with respect to income arising from the exercise of the Option, through a reduction of the number of Common Shares delivered to the Optionee or through a subsequent return to the Company of shares delivered to the Optionee. If the Optionee is subject to the reporting requirements of Section 16 of the Securities Exchange Act of 1934, as amended, any such election, except as set forth in paragraph 10(c) below, is also subject to the following:

(a) TIME OF ELECTION. The Optionee may make the election only during certain specified time periods, as follows:

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

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

provided, however, an election by the Optionee pursuant to clause (i) or (ii) may not be made within six months of the date of grant of the Option unless the Optionee's death or disability occurs during said six-month period.

(b) COMMITTEE APPROVAL; REVOCATION. The Committee's approval of such an election, if given, may be granted in advance but is subject to revocation by the Committee at any time. In the case of an Optionee who is an Outside Director (as defined in paragraph 4 of the Plan), such election by the Optionee shall not be subject to approval nor revocation by the Committee in accordance with the Plan. Once an election is made, the Optionee may not revoke it.

(c) EXCEPTION. Notwithstanding the foregoing, the Optionee who tenders previously owned shares to the Company in payment of the purchase price of shares in connection

with an option exercise may also tender previously owned shares to the Company in satisfaction of any tax withholding obligations in connection with such option exercise without regard to the specified time periods set forth in paragraph 10(a) above.

11. INTERPRETATION OF THIS AGREEMENT. All decisions and interpretations made by the Committee with regard to any question arising hereunder or under the Plan shall be binding and conclusive upon the Company and the Optionee. In the event that there is any inconsistency between the provisions of this Agreement and the Plan, the provisions of the Plan shall govern.

12. DISCONTINUANCE OF EMPLOYMENT. This Agreement shall not give the Optionee a right to continued employment with the Company or any parent or subsidiary thereof, and the Company or any such parent or subsidiary thereof employing the Optionee may terminate his or her employment and otherwise deal with the Optionee without regard to the effect it may have upon him or her under this Agreement.

13. GENERAL. The Company shall at all times during the term of this Option reserve and keep available such number of Common Shares as will be sufficient to satisfy the requirements of this Option Agreement. This Agreement shall be binding in all respects on the Optionee's heirs, representatives, successors and assigns. This Agreement is entered into under the laws of the State of Minnesota and shall be construed and interpreted thereunder.

IN WITNESS WHEREOF, the Optionee and the Company have executed this Agreement as of the ____ day of _____, 199__.

Ervin F. Kamm, Jr.

DIGI INTERNATIONAL INC.

By _____
Its _____

EMPLOYMENT AGREEMENT

This Agreement is made as of April 13, 1993 by and between POLARIS ACQUISITION INC. (to be renamed STAR GATE TECHNOLOGIES, INC.), a Delaware corporation (the "Company"), and Ray D. Wymer (the "Executive").

W I T N E S S E T H :

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

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

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

I. EMPLOYMENT

1.1 EMPLOYMENT AS SENIOR EXECUTIVE. The Company hereby agrees to employ Executive in a senior executive capacity, initially in the same office that he occupied with Star Gate Technologies, Inc., an Ohio corporation, immediately prior to its merger into the Company, commencing the date hereof and continuing until the earlier of (i) September 30, 1996 or (ii) the date his employment terminates pursuant to Article III hereof. In addition, Executive shall serve as a Vice President of Digi International Inc., a Delaware corporation and the parent corporation of the Company ("Digi"), during the period this Agreement is in effect. Executive accepts such employment pursuant to the terms of this Agreement. Executive shall perform such duties and responsibilities as may be determined from time to time by the Board of Directors of the Company and Digi, which shall be consistent with his position as an officer of the Company.

1.2 EXCLUSIVE SERVICES. Executive agrees to devote his full time, attention and energy to performing his duties and responsibilities to the Company and Digi under this Agreement during the term of this Agreement.

II. COMPENSATION, BENEFITS AND PERQUISITES

2.1 BASE SALARY. During the period this Agreement is in effect, the Company shall pay Executive a base salary at the annual rate set forth on Schedule I hereto. The base salary shall be payable semi-monthly. Beginning October 1, 1993, the Board of Directors of Digi will review the base salary annually, and may in its sole discretion increase it to reflect performance, appropriate industry guideline data and other factors. However, the Board is not obligated to provide for any increases.

2.2 BONUSES. Executive shall be eligible to receive a bonus for each fiscal year during which this Agreement is in effect as follows:

(a) The target bonus shall be equal to a percentage of base salary paid for each fiscal year (or six month period, in the case of the fiscal year ending September 30, 1993) during the period of this Agreement as set forth on Schedule I hereto. Executive shall be entitled to that bonus amount if the objectives set by the Company's Budget Plan for the fiscal year (or such six month period) are met.

(b) If some or all of the objectives of the Budget Plan are not met for a fiscal year (or such six month period), the Board of Directors of Digi will determine in its discretion what portion, if any, of the target bonus amount will be paid to Executive for that year (or such six month period). If the objectives are exceeded for a fiscal year (or such six month period), the Board may in its discretion award Executive a bonus that is larger than the target bonus.

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

(d) The Board of Directors will consult with Executive before determining the Budget Plan for each fiscal year. However, the Board will have authority to establish the Budget Plan for each year in its sole discretion. The Budget Plan for the six months ending September 30, 1993 is set forth on Schedule I hereto.

2.3 COMMISSIONS. For each fiscal year (or six month period, in the case of the fiscal year ending September 30, 1993) during the term of this Agreement, Executive shall receive a commission equal to 1% of the amount by which net sales of the Company exceed the Budget for the fiscal year (or such six month period), provided that said commission shall be payable only if the Company's after-tax earnings for such year (or such six month period) equal or exceed the Budget for such fiscal year (or such six month period). If the after-tax earnings of the Company for the fiscal year (or such six month period) are less than the Budget for such fiscal year (or such six month period), the Board of Directors will determine in its sole discretion the amount of commission, if any, to be paid for such year (or such six month period). Any commission payable for a fiscal year (or such six month period) shall be paid on September 30 of that year, or as soon thereafter as the amount can be determined.

2.4 STOCK OPTIONS. On or about September 30 of each year the Compensation Committee of the Board of Directors of Digi considers and awards stock options under the Digi International Inc. Stock Option Plan to officers of Digi. These awards are made in the discretion of the Compensation Committee and are principally intended to recognize performance over the preceding fiscal year. Executive would be first eligible for a stock option grant on or about September 30, 1993.

2.5 VACATIONS. Executive shall be entitled to vacation in accordance with policies of Digi.

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

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

2.8 LEGAL LIMITS ON BENEFITS. The parties recognize that the Internal Revenue Code of 1986, as amended, and other laws and regulations place limits on the benefits the Company can provide for its employees. The benefits for Executive under this Agreement shall be reduced to the extent necessary to comply with any such laws and regulations currently in effect or enacted in the future, including any reductions that may be necessary to preserve the tax-favored status of a benefit, to preserve the Company's tax deduction for the costs of a benefit, or to avoid the imposition of excise taxes on the Company or Executive.

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

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

III. TERMINATION OF EXECUTIVE'S EMPLOYMENT

3.1 TERMINATION OF EMPLOYMENT. Executive's employment under this Agreement may be terminated by the Company at any time for any reason; provided, however, that if Executive's employment is terminated by the Company during the term of this Agreement for a reason other than for cause, he shall be entitled to continue to receive his base salary under Section 2.1 for the

remainder of the period through September 30, 1996. Executive's employment under this Agreement may be terminated by Executive at any time for any reason. The termination shall be effective as of the date specified by the party initiating the termination in a written notice delivered to the other party, which date shall not be earlier than the date such notice is delivered to the other party. This Agreement shall terminate in its entirety immediately upon the death of Executive. Except as expressly provided to the contrary in this section or applicable law, Executive's rights to pay and benefits shall cease on the date his employment under this Agreement terminates.

3.2 CAUSE. For purposes of this Article III, "cause" shall mean only the following: (i) indictment or conviction of a felony; (ii) theft or embezzlement of Company property or commission of similar acts involving moral turpitude; (iii) failure of the Company to meet at least 70% of Budget for either net sales or after-tax earnings in any fiscal year; or (iv) the willful failure by Executive to substantially perform his material duties under this Agreement (excluding nonperformance resulting from Executive's disability) which willful failure is not cured within thirty (30) days after written notice from the Chairman of the Board of Directors or the Chief Executive Officer of Digi specifying the act of willful nonperformance or within such longer period (but no longer than ninety (90) days in any event) as is reasonably required to cure such willful nonperformance.

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

IV. NON-COMPETITION, CONFIDENTIALITY AND TRADE SECRETS

4.1 AGREEMENT NOT TO COMPETE. Executive agrees that, on or before the date which is two years after the date Executive's employment under this Agreement terminates under Section 3.1, he will not, unless he receives the prior approval of the Board of Directors of Digi, directly or indirectly engage in any of the following actions:

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

the National Association of Securities Dealers Automated Quotation System or traded in the over-the-counter market.

(b) Intentionally solicit, endeavor to entice away from the Company, Digi, or any of their subsidiaries, or otherwise interfere with the relationship of the Company, Digi, or any of their subsidiaries with, any person who is employed by or otherwise engaged to perform services for the Company, Digi, or any of their subsidiaries (including, but not limited to, any independent sales representatives or organizations), or any persons or entity who is, or was within the then most recent 12-month period, a customer or client of the Company, Digi, or any of their subsidiaries, whether for Executive's own account or for the account of any other individual, partnership, firm, corporation or other business organization.

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

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

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

V. MISCELLANEOUS

5.1 AMENDMENT. This Agreement may be amended only in writing, signed by both parties and consented to by Digi.

5.2 ENTIRE AMENDMENT. This Agreement contains the entire understanding of the parties with regard to all matters contained herein. There are no other agreements, conditions or representations, oral or written, expressed or implied, with regard thereto. This Agreement supersedes all prior agreements relating to the employment of Executive by the Company.

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

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

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

If to the Company, to:

Star Gate Technologies, Inc.
c/o Digi International Inc.
6400 Flying Cloud Drive
Eden Prairie, MN 55344

Attention: Chief Financial Officer

with a copy to:

Digi International Inc.
6400 Flying Cloud Drive
Eden Prairie, MN 55344

Attention: Chairman of the Board

If to Executive, to:

Ray D. Wymer
Star Gate Technologies, Inc.
29300 Aurora Road
Solon, Ohio 44139

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

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

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

5.8 GOVERNING LAW. This Agreement shall be interpreted and enforced in accordance with the laws of the State of Minnesota, without giving effect to conflict of law principles.

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

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

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

POLARIS ACQUISITION INC.

By /s/ John P. Schinas

Its Chairman of the Board

EXECUTIVE

/s/ Ray D. Wymer

Ray D. Wymer

ACKNOWLEDGED AND AGREED TO:

DIGI INTERNATIONAL INC.

By /s/ John P. Schinas

Its Chairman of the Board

Schedule I to
EMPLOYMENT AGREEMENT

Annual Base Salary: \$110,000

Target Bonus: 100% of Base Salary

Company Budget Plan for the six months ending September 30, 1993 (including pre-merger results of operations from April 1, 1993):

Net sales of at least \$7,732,450

After-tax earnings of at least \$858,302

AMENDMENT NO. 1 TO EMPLOYMENT AGREEMENT

THIS AMENDMENT NO. 1 TO EMPLOYMENT AGREEMENT, made as of the 8th day of May, 1995, by and between STAR GATE TECHNOLOGIES, INC., a Delaware corporation (the "Company"), and Ray D. Wymer (the "Executive").

WITNESSETH:

Whereas, the parties have entered into an Employment Agreement dated as of April 13, 1993 (the "Employment Agreement"); and

Whereas the parties hereto wish to amend the Employment Agreement as set forth below:

NOW, THEREFORE, the parties hereto hereby agree as follows:

1. AMENDMENT TO EMPLOYMENT AGREEMENT.

(A) Section 2.2 of the Employment Agreement is hereby amended in its entirety to read as follows:

2.2 BONUS FOR FISCAL 1995. Executive shall be eligible to receive a bonus for fiscal 1995 as follows:

- (a) The target bonus shall be 100% of Executive's base salary for fiscal 1995. Executive shall be entitled to that bonus amount if the objectives set by the budget plan for Digi International Inc. (the "Budget Plan" or "Budget") for fiscal 1995 are met.
- (b) If some or all of the objectives of the Budget Plan are not met for fiscal 1995, the Board of Directors of Digi will determine in its discretion what portion, if any, of the target bonus amount will be paid to Executive for that year. If the objectives are exceeded for fiscal 1995, the Board may in its discretion award Executive a bonus that is larger than the target bonus.
- (c) The bonus for fiscal 1995 shall be paid to Executive on September 30, 1995 or as soon thereafter as the Company is able to determine whether the objectives have been met for that year.

(B) Section 2.3 of the Employment Agreement is hereby amended in its entirety to read as follows:

2.3 BONUSES BEGINNING IN FISCAL 1996. Beginning in fiscal 1996, if Digi International Inc. meets both net sales and after-tax earnings targets set by the Budget Plan by at least 80% for any fiscal year during which this Agreement is in effect, then Executive shall be eligible for the cash bonuses described below for such year. If the Digi International Inc. Budget Plan is less than 80% achieved for either net sales or after-tax earnings, neither bonus described below will be paid.

- (a) If the targets for Digi International Inc. are 100% achieved for both net sales and after-tax earnings, Executive shall be entitled

to a bonus equal to 50% of Executive's base salary. If the Digi International Inc. targets for both net sales and after-tax earnings are achieved by at least 80%, but for either measure by less than 100%, Executive will be entitled to a percentage of the foregoing bonus amount (i.e., 50% of Executive's base salary) equal to the smaller of the percentages of net sales or after-tax earnings that were achieved.

- (b) Provided that that Digi International Inc. targets are at least 80% achieved, Executive will also be entitled to an additional bonus (the "PMU Bonus") based upon targets for net sales and operating income for Digi International Inc.'s Multiuser Product Marketing Unit (the "Multiuser PMU").
- (c) If the Multiuser PMU targets for both net sales and operating income are 100% achieved, Executive will be entitled to a PMU Bonus equal to 50% of Executive's base salary. If the net sales and operating income targets for the Multiuser PMU are both achieved by at least 80%, but for either measure by less than 100%, Executive will be entitled to a prorated PMU Bonus as set forth below:
 - (i) Three-fourths of the amount of the PMU Bonus will be contingent upon operating income. As a result, if the Multiuser PMU target for operating income is achieved by at least 80%, Executive will be entitled to a percentage of the amount which is contingent upon operating income (i.e., three-fourths of 50% of Executive's base salary) equal to the percentage (not exceeding 100%) by which the Multiuser PMU operating income was achieved.
 - (ii) One quarter of the amount of PMU Bonus will be similarly contingent upon net sales. As a result, if the Multiuser PMU target for net sales is achieved by at least 80%, Executive will be entitled to a percentage of the amount which is contingent upon net sales (i.e., one quarter of 50% of Executive's base salary) equal to the percentage (not exceeding 100%) by which the Multiuser PMU target for net sales was achieved.
- (d) If some or all of the objectives of the Budget Plan are exceeded for a fiscal year, the Board of Directors of Digi may in its discretion award Executive a bonus that is larger than the target bonus.
- (e) The bonuses for each fiscal year shall be paid to Executive on September 30 of each year or as soon thereafter as the Company is able to determine whether the objectives have been met for that year.
- (f) The Board of Directors will consult with Executive before determining the Budget Plan and Multiuser PMU targets for each fiscal year. However, the Board will have authority to establish

the Budget Plan and Multiuser PMU targets for each year in its sole discretion.

(C) References to "Budget," "Budget Plan" and "Company Budget Plan" in the remaining provisions of the Employment Agreement shall be deemed to be references to the budget plan for Digi International Inc., and the reference to the "Company" in Section 3.2(iii) shall be deemed to be a reference to Digi International Inc.

2. EFFECTIVE DATE. This Amendment No. 1 shall be effective from and after October 1, 1994.

3. NO ADDITIONAL CHANGES. Except as expressly amended by this Amendment No. 1, the Employment Agreement shall continue in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Amendment No. 1 as of the date first above written.

STAR GATE TECHNOLOGIES, INC.

By /s/ Ray D. Wymer

Its President

EXECUTIVE

/s/ Ray D. Wymer

Ray D. Wymer

ACKNOWLEDGED AND AGREED TO:

DIGI INTERNATIONAL INC.

By /s/ Ervin F. Kamm

Its President/CEO

EMPLOYMENT AGREEMENT

This Agreement is made as of April 13, 1993 by and between POLARIS ACQUISITION INC. (to be renamed STAR GATE TECHNOLOGIES, INC.), a Delaware corporation (the "Company"), and Keith C. Rericha (the "Executive").

W I T N E S S E T H :

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

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

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

I. EMPLOYMENT

1.1 EMPLOYMENT AS SENIOR EXECUTIVE. The Company hereby agrees to employ Executive in a senior executive capacity, initially in the same office that he occupied with Star Gate Technologies, Inc., an Ohio corporation, immediately prior to its merger into the Company, commencing the date hereof and continuing until the earlier of (i) September 30, 1996 or (ii) the date his employment terminates pursuant to Article III hereof. In addition, Executive shall serve as a Vice president of Digi International Inc., a Delaware corporation and the parent corporation of the Company ("Digi"), during the period this Agreement is in effect. Executive accepts such employment pursuant to the terms of this Agreement. Executive shall perform such duties and responsibilities as may be determined from time to time by the Board of Directors of the Company and Digi, which shall be consistent with his position as an officer of the Company.

1.2 EXCLUSIVE SERVICES. Executive agrees to devote his full time, attention and energy to performing his duties and responsibilities to the Company and Digi under this Agreement during the term of this Agreement.

II. COMPENSATION, BENEFITS AND PERQUISITES

2.1 BASE SALARY. During the period this Agreement is in effect, the Company shall pay Executive a base salary at the annual rate set forth on Schedule I hereto. The base salary shall be payable semi-monthly. Beginning October 1, 1993, the Board of Directors of Digi will review the base salary annually, and may in its sole discretion increase it to reflect performance, appropriate industry guideline data and other factors. However, the Board is not obligated to provide for any increases.

2.2 BONUSES. Executive shall be eligible to receive a bonus for each fiscal year during which this Agreement is in effect as follows:

(a) The target bonus shall be equal to a percentage of base salary paid for each fiscal year (or six month period, in the case of the fiscal year ending September 30, 1993) during the period of this Agreement as set forth on Schedule I hereto. Executive shall be entitled to that bonus amount if the objectives set by the Company's Budget Plan for the fiscal year (or such six month period) are met.

(b) If some or all of the objectives of the Budget Plan are not met for a fiscal year (or such six month period), the Board of Directors of Digi will determine in its discretion what portion, if any, of the target bonus amount will be paid to Executive for that year (or such six month period). If the objectives are exceeded for a fiscal year (or such six month period), the Board may in its discretion award Executive a bonus that is larger than the target bonus.

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

(d) The Board of Directors will consult with Executive before determining the Budget Plan for each fiscal year. However, the Board will have authority to establish the Budget Plan for each year in its sole discretion. The Budget Plan for the six months ending September 30, 1993 is set forth on Schedule I hereto.

2.3 COMMISSIONS. For each fiscal year (or six month period, in the case of the fiscal year ending September 30, 1993) during the term of this Agreement, Executive shall receive a commission equal to 1% of the amount by which net sales of the Company exceed the Budget for the fiscal year (or such six month period), provided that said commission shall be payable only if the Company's after-tax earnings for such year (or such six month period) equal or exceed the Budget for such fiscal year (or such six month period). If the after-tax earnings of the Company for the fiscal year (or such six month period) are less than the Budget for such fiscal year (or such six month period), the Board of Directors will determine in its sole discretion the amount of commission, if any, to be paid for such year (or such six month period). Any commission payable for a fiscal year (or such six month period) shall be paid on September 30 of that year, or as soon thereafter as the amount can be determined.

2.4 STOCK OPTIONS. On or about September 30 of each year the Compensation Committee of the Board of Directors of Digi considers and awards stock options under the Digi International Inc. Stock Option Plan to officers of Digi. These awards are made in the discretion of the Compensation Committee and are principally intended to recognize performance over the preceding fiscal year. Executive would be first eligible for a stock option grant on or about September 30, 1993.

2.5 VACATIONS. Executive shall be entitled to vacation in accordance with policies of Digi.

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

2.7 EMPLOYMENT TAXES AND WITHHOLDING. Executive recognizes that the compensation, benefits and other amounts provided by the Company under this Agreement may be subject to federal, state or local income taxes. It is expressly understood and agreed that all such taxes shall be the

responsibility of the Executive. To the extent that federal, state or local law requires withholding of taxes on compensation, benefits or other amounts provided under this Agreement, the Company shall withhold the necessary amounts from the amounts payable to Executive under this Agreement.

2.8 LEGAL LIMITS ON BENEFITS. The parties recognize that the Internal Revenue Code of 1986, as amended, and other laws and regulations place limits on the benefits the Company can provide for its employees. The benefits for Executive under this Agreement shall be reduced to the extent necessary to comply with any such laws and regulations currently in effect or enacted in the future, including any reductions that may be necessary to preserve the tax-favored status of a benefit, to preserve the Company's tax deduction for the costs of a benefit, or to avoid the imposition of excise taxes on the Company or Executive.

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

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

III. TERMINATION OF EXECUTIVE'S EMPLOYMENT

3.1 TERMINATION OF EMPLOYMENT. Executive's employment under this Agreement may be terminated by the Company at any time for any reason; provided, however, that if Executive's employment is terminated by the Company during the term of this Agreement for a reason other than for cause, he shall be entitled to continue to receive his base salary under Section 2.1 for the remainder of the period through September 30, 1996. Executive's employment under this Agreement may be terminated by Executive at any time for any reason. The termination shall be effective as of the date specified by the party initiating the termination in a written notice delivered to the other party, which date shall not be earlier than the date such notice is delivered to the other party. This Agreement shall terminate in its entirety immediately upon the death of Executive. Except as expressly provided to the contrary in this section or applicable law, Executive's rights to pay and benefits shall cease on the date his employment under this Agreement terminates.

3.2 CAUSE. For purposes of this Article III, "cause" shall mean only the following: (i) indictment or conviction of a felony; (ii) theft or embezzlement of Company property or commission of similar acts involving moral turpitude; (iii) failure of the Company to meet at least 70% of Budget for either net sales or after-tax earnings in any fiscal year; or (iv) the willful failure by Executive to substantially perform his material duties under this Agreement (excluding nonperformance resulting from Executive's disability) which willful failure is not cured within thirty (30) days after written notice from the Chairman of the Board of Directors or the Chief Executive Officer of Digi specifying the act of willful nonperformance or within such

longer period (but no longer than ninety (90) days in any event) as is reasonably required to cure such willful nonperformance.

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

IV. NON-COMPETITION, CONFIDENTIALITY AND TRADE SECRETS

4.1 AGREEMENT NOT TO COMPETE. Executive agrees that, on or before the date which is two years after the date Executive's employment under this Agreement terminates under Section 3.1, he will not, unless he receives the prior approval of the Board of Directors of Digi, directly or indirectly engage in any of the following actions:

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

(b) Intentionally solicit, endeavor to entice away from the Company, Digi, or any of their subsidiaries, or otherwise interfere with the relationship of the Company, Digi, or any of their subsidiaries with, any person who is employed by or otherwise engaged to perform services for the Company, Digi, or any of their subsidiaries (including, but not limited to, any independent sales representatives or organizations), or any persons or entity who is, or was within the then most recent 12-month period, a customer or client of the Company, Digi, or any of their subsidiaries, whether for Executive's own account or for the account of any other individual, partnership, firm, corporation or other business organization.

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

4.2 NON-DISCLOSURE OF INFORMATION. During the period of his employment hereunder, and at all times thereafter, Executive shall not,

without the written consent of Digi, disclose to any person, other than an employee of the Company, Digi, or any of their subsidiaries or a person to whom disclosure is reasonably necessary or appropriate in connection with the performance by Executive of his duties as an executive of the Company, except where such disclosure may be required by law, any material confidential information obtained by him while in the employ of the Company with respect to any of the Company's or Digi's products, technology, know-how or the like, services, customers, methods or future plans, all of which Executive acknowledges are valuable, special and unique assets the disclosure of which Executive acknowledges may be materially damaging to the Company.

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

V. MISCELLANEOUS

5.1 AMENDMENT. This Agreement may be amended only in writing, signed by both parties' and consented to by Digi.

5.2 ENTIRE AMENDMENT. This Agreement contains the entire understanding of the parties with regard to all matters contained herein. There are no other agreements, conditions or representations, oral or written, expressed or implied, with regard thereto. This Agreement supersedes all prior agreements relating to the employment of Executive by the Company.

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

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

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

If to the Company, to:

Star Gate Technologies, Inc.
c/o Digi International Inc.
6400 Flying Cloud Drive
Eden prairie, MN 55344

Attention: Chief Financial Officer

with a copy to:

Digi International Inc.
6400 Flying Cloud Drive
Eden Prairie, MN 55344

Attention: Chairman of the Board

If to Executive, to:

Keith C. Rericha
Star Gate Technologies, Inc.
29300 Aurora Road
Solon, Ohio 44139

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

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

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

5.8 GOVERNING LAW. This Agreement shall be interpreted and enforced in accordance with the laws of the State of Minnesota, without giving effect to conflict of law principles.

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

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

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

POLARIS ACQUISITION INC.

By /s/ John P. Schinas

Its Chairman of the Board

EXECUTIVE

By /s/ Keith C. Rericha

Keith C. Rericha

ACKNOWLEDGED AND AGREED TO:

DIGI INTERNATIONAL INC.

By /s/ John P. Schinas

Its Chairman of the Board

Schedule I to

EMPLOYMENT AGREEMENT

Annual Base Salary: \$110,000

Target Bonus: 100% of Base Salary

Company Budget Plan for the six months ending September 30, 1993 (including pre-merger results of operations from April 1, 1993):

Net sales of at least \$7,732,450

After-tax earnings of at least \$858,302

AMENDMENT NO. 1 TO EMPLOYMENT AGREEMENT

THIS AMENDMENT NO. 1 TO EMPLOYMENT AGREEMENT, made as of the 1st day of July, 1995, by and between STAR GATE TECHNOLOGIES, INC., a Delaware corporation (the "Company"), and Keith C. Rericha (the "Executive").

WITNESSETH:

Whereas, the parties have entered into an Employment Agreement dated as of April 13, 1993 (the "Employment Agreement"); and

Whereas the parties hereto wish to amend the Employment Agreement as set forth below:

NOW, THEREFORE, the parties hereto hereby agree as follows:

1. AMENDMENT TO EMPLOYMENT AGREEMENT.

(A) Section 2.2 of the Employment Agreement is hereby amended in its entirety to read as follows:

2.2 BONUS FOR FISCAL 1995. Executive shall be eligible to receive a bonus for fiscal 1995 as follows:

(a) The target bonus shall be 100% of Executive's base salary for fiscal 1995. Executive shall be entitled to that bonus amount if the objectives set by the budget plan for Digi International Inc. (the "Budget Plan" or "Budget") for fiscal 1995 are met.

(b) If some or all of the objectives of the Budget Plan are not met for fiscal 1995, the Board of Directors of Digi will determine in its discretion what portion, if any, of the target bonus amount will be paid to Executive for that year. If the objectives are exceeded for fiscal 1995, the Board may in its discretion award Executive a bonus that is larger than the target bonus.

(c) The bonus for fiscal 1995 shall be paid to Executive on September 30, 1995 or as soon thereafter as the Company is able to determine whether the objectives have been met for that year.

(B) Section 2.3 of the Employment Agreement is hereby amended in its entirety to read as follows:

2.3 BONUSES BEGINNING IN FISCAL 1996. Beginning in fiscal 1996, if Digi International Inc. meets both net sales and after-tax earnings targets set by the Budget Plan by at least 80% for any fiscal year during which this Agreement is in effect, then Executive shall be eligible for the cash bonus described below for such year. If the Digi International Inc. Budget Plan is less than 80% achieved for either net sales or after-tax earnings, the bonus described below will not be paid.

(a) If the targets for Digi International Inc. are 100% achieved for both net sales and after-tax earnings, Executive shall be entitled to a bonus equal to 100% of Executive's base salary. If the Digi

International Inc. targets for both net sales and after-tax earnings are achieved by at least 80%, but for either measure by less than 100%, Executive will be entitled to a bonus equal to a percentage of Executive's base salary equal to the smaller of the percentages of net sales or after-tax earnings that were achieved.

(b) If some or all of the objectives of the Budget Plan are exceeded for a fiscal year, the Board of Directors of Digi may in its discretion award Executive a bonus that is larger than the target bonus.

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

(d) The Board of Directors will consult with Executive before determining the Budget Plan for each fiscal year. However, the Board will have authority to establish the Budget Plan for each year in its sole discretion.

(C) References to "Budget," "Budget Plan" and "Company Budget Plan" in the remaining provisions of the Employment Agreement shall be deemed to be references to the budget plan for Digi International Inc., and the reference to the "Company" in Section 3.2(iii) shall be deemed to be a reference to Digi International Inc.

2. EFFECTIVE DATE. This Amendment No. 1 shall be effective from and after October 1, 1994.

3. NO ADDITIONAL CHANGES. Except as expressly amended by this Amendment No. 1, the Employment Agreement shall continue in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Amendment No. 1 as of the date first above written.

STAR GATE TECHNOLOGIES, INC.

By /s/ Ray D. Wymer

Ray D. Wymer, President

EXECUTIVE

/s/ Keith C. Rericha

Keith C. Rericha

ACKNOWLEDGED AND AGREED TO:

DIGI INTERNATIONAL INC.

By /s/ Ervin F. Kamm, Jr.

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

February 6, 1995

PERSONAL AND CONFIDENTIAL

Mr. Douglas Glader
MiLAN Technology Corporation
894 Ross Drive, #101
Sunnyvale, CA 94080

Dear Doug:

This letter is written to confirm the terms of the promotion that we have discussed.

You would have the title of Vice President of Operations Worldwide. As such, you would become an executive officer of Digi International Inc., with a direct line of responsibility to me as Chief Executive Officer.

Your base pay would be an annual salary of \$120,000. You would also be eligible for a cash bonus of up to 100% of your base salary, contingent upon Digi International Inc. meeting budgeted net sales and after-tax earnings targets. Beginning with fiscal 1996 your bonus would be dependent upon those factors as well as measured improvements in the Company's operations.

In recognition of your increased responsibilities, you have been awarded a stock option for an additional 20,000 shares of Digi Common Stock, with an exercise price of \$22 per share.

If you were to be terminated without "cause" within one year of your relocation to the Twin Cities, you would be entitled to receive a severance payment of \$120,000. If you were terminated without cause after one year following your relocation, you would be entitled to receive severance of \$60,000. The definition of cause is attached as an appendix for your reference.

Digi will reimburse you for all reasonable documented expenses relating to your relocation. Digi will also cover all reasonable documented expenses relating to trips that you and your wife take from California to the Twin Cities area for house hunting and other

Mr. Douglas Glader
MiLAN Technology Corporation
February 6, 1995
Page 2

purposes related to your relocation. Digi will also cover the cost of temporary housing in both California and the Twin Cities as needed and as I approve.

Relocation expenses to be borne by Digi would generally not include any costs, fees, losses or expenses associated with the sale or purchase of a residence, except that the Company will pay a mortgage subsidy of 2% for a two-year period on a mortgage for your residence in the Twin Cities area, with a mortgage loan amount up to \$400,000.

It is my hope that you can complete your relocation by July 1, 1995.

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

Very truly yours,

/s/ Ervin F. Kamm, Jr.

EFK:djt

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

ACCEPTED:

/s/ Douglas Glader

Douglas Glader

APPENDIX

Definition of Cause - Douglas Glader
February 6, 1995

For purposes of Ervin F. Kamm's letter of February 6, 1995, "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.

June 1, 1995

PERSONAL AND CONFIDENTIAL

Dana R. Nelson
29 Partridge Run
Montvale, NJ 07645

Dear Dana:

This letter is written to confirm your acceptance of Digi International's offer to hire you as Vice President of Sales, commencing June 1, 1995. As such, you would become an executive officer of Digi International Inc., with a direct line of responsibility to me as Chief Executive Officer.

Your base pay is an annual salary of \$150,000. You will also be eligible for cash bonuses, as described below, in an amount up to 100% of your base salary, contingent upon Digi International Inc. meeting budgeted net sales and after-tax earnings targets.

You will receive a stock option for 30,000 shares of Digi Common Stock, vesting over five years, having an exercise price equal to \$20 1/2 (I.E., the closing sale price on May 31, 1995.)

For fiscal 1995 you will be paid an additional \$50,000, payable in \$25,000 installments on June 1 and July 15, 1995, which amount will be a guaranteed bonus payment and will be credited against the amount of bonus that would otherwise be payable for fiscal 1995. Your bonus for fiscal 1995 will be calculated as if you had been employed from April 1, 1995; that is, you would be entitled to a maximum bonus of \$75,000.

If the Digi International Inc. targets are 100% achieved for both net sales and after-tax earnings for fiscal 1995, you will be entitled to a bonus of \$75,000. If the Digi International Inc. targets are less than 80% achieved for either net sales or after-tax tax earnings for fiscal 1995, you will not be paid a bonus for fiscal 1995 (other than the \$50,000 guaranteed bonus payment). If the Digi International Inc. targets for both net sales and after-tax earnings are achieved by at least 80%, but for either measure by less than 100%, you will

be entitled to a percentage of \$75,000 equal to the smaller of the percentages of net sales or after-tax earnings that were achieved.

Beginning in fiscal 1996 the bonus formula emphasizes achievement of budgeted net sales targets, in recognition of your responsibilities as Vice President of Sales. One half of the bonus will be measured by Digi International Inc. goals, and one half by achievement of the budget objective for net sales.

For fiscal 1996 you will be paid an additional \$50,000, payable in \$25,000 installments on October 15, 1995 and January 15, 1996, which amount will be a guaranteed bonus payment and will be credited against the amount of bonus that would otherwise be payable for fiscal 1996.

If the Digi International Inc. targets are 100% achieved for both net sales and after-tax earnings for fiscal 1996, you will be entitled to a bonus equal to 50% of your base salary. If the Digi International Inc. targets are less than 80% achieved for either net sales or after-tax earnings, you will not be paid a bonus (other than the \$50,000 guaranteed bonus payment for fiscal 1996). If the Digi International Inc. targets for both net sales and after-tax earnings are achieved by at least 80%, but for either measure by less than 100%, you will be entitled to a percentage of the foregoing bonus amount (I.E., 50% of your base salary) equal to the smaller of the percentages of net sales or after-tax earnings that were achieved.

Provided that the Digi International Inc. targets are at least 80% achieved, you will also be entitled to an additional bonus (the "Sales Bonus") based upon the Digi International Inc. target for net sales.

If the Digi International Inc. target for net sales is 100% achieved, you will be entitled to a Sales Bonus equal to 50% of your base salary. If the net sales target is achieved by at least 80%, you will be entitled to a Sales Bonus equal to the percentage of net sales that was achieved.

If you were to be terminated without "cause" within one year of your relocation to the Twin Cities, you would be entitled to receive a severance payment of \$150,000. If you were terminated without cause after one year following your relocation, you would be entitled to receive severance of \$75,000 and, in the event that you remained unemployed six months after termination, you would be entitled to receive an additional \$12,500 for each month that you continue to be unemployed, up to a maximum of six months. The definition of cause is attached as an appendix for your reference. In the event of termination you would not be entitled to any bonus or any unpaid guaranteed bonus.

Digi International will reimburse you for all reasonable documented expenses relating to your relocation. Digi International will also cover all reasonable documented expenses relating to trips that you and your wife take from New Jersey to the Twin Cities area for house hunting and other purposes related to your relocation. Digi will also cover the cost of temporary housing in both New Jersey and the Twin Cities as needed and as I approve.

Relocation expenses to be borne by Digi would generally not include any costs, fees, losses or expenses associated with the sale or purchase of a residence, except that Digi will pay a customary brokerage commission on the sale of your present primary residence and closing costs associated with the purchase of your new residence. Digi will also consider a bridge loan and mortgage subsidy consistent with company policy.

In addition, you are entitled to vacation in accordance with Digi policies and to the benefits and perquisites which Digi generally provides to its other employees under applicable Digi plans and policies, and to future benefits and perquisites made generally available to Digi employees. Your participation in such benefit plans shall be on the same basis as applies to other Digi employees, and you would be obligated to pay any contributions which are generally required of employees to receive any such benefits.

I am delighted that you have decided to join Digi and look forward to working with you.

Very truly yours,

/s/ Ervin F. Kamm, Jr.

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

ACCEPTED:

/s/ Dana R. Nelson

Dana R. Nelson

EFK:djt

cc: Richard E. Eichhorn (w/encl.)
Gerald A. Wall (w/encl.)
James E. Nicholson (w/encl.)

APPENDIX

Definition of Cause - Dana R. Nelson
June 1, 1995

For purposes of Ervin F. Kamm's letter of June 1, 1995, "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.

DIGI INTERNATIONAL INC.
EXHIBIT 11 -- DETAIL COMPUTATION OF EARNINGS PER SHARE

| | YEARS ENDED SEPTEMBER 30 | | |
|---|--------------------------|---------------|---------------|
| | 1993 | 1994 | 1995 |
| PER SHARE DATA | | | |
| Income before cumulative effect of a change in accounting for income taxes..... | \$ 14,782,664 | \$ 16,701,092 | \$ 19,331,093 |
| Cumulative effect of the change in accounting for income taxes... | 122,100 | | |
| Net income..... | \$ 14,904,764 | \$ 16,701,092 | \$ 19,331,093 |
| Net income per common and common equivalent share, | | | |
| Income before cumulative effect of a change in accounting for income taxes..... | \$ 1.02 | \$ 1.15 | \$ 1.38 |
| Cumulative effect of the change in accounting for income taxes... | .01 | | |
| Primary..... | \$ 1.03 | \$ 1.15 | \$ 1.38 |
| Net income per common and common equivalent share, | | | |
| Income before cumulative effect of a change in accounting for income taxes..... | \$ 1.02 | \$ 1.15 | \$ 1.38 |
| Cumulative effect of the change in accounting for income taxes... | .01 | | |
| Fully diluted..... | \$ 1.03 | \$ 1.15 | \$ 1.38 |
| WEIGHTED AVERAGE NUMBER OF COMMON AND COMMON EQUIVALENT SHARES | | | |
| Primary: | | | |
| Weighted average of common shares outstanding..... | 14,091,503 | 14,262,206 | 13,656,150 |
| Dilutive stock options, using treasury stock method..... | 472,176 | 248,363 | 400,959 |
| | 14,563,679 | 14,510,569 | 14,057,109 |
| Fully diluted: | | | |
| Weighted average of common shares outstanding..... | 14,091,503 | 14,262,206 | 13,656,150 |
| Dilutive stock options, using treasury stock method..... | 478,047 | 245,690 | 611,033 |
| | 14,569,550 | 14,507,896 | 14,267,183 |

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

DIGI INTERNATIONAL INC.
 SELECTED FINANCIAL INFORMATION
 FOR THE YEARS ENDED SEPTEMBER 30

| | 1995 | 1994 | 1993 | 1992 | 1991 |
|---------------------------|------------|------------|-----------|-----------|-----------|
| | ----- | ----- | ----- | ----- | ----- |
| Net sales..... | \$ 164,978 | \$ 130,945 | \$ 93,385 | \$ 70,867 | \$ 50,866 |
| % change..... | 26% | 40% | 32% | 39% | 59% |
| Net income..... | 19,331 | 16,701 | 14,905 | 12,555 | 8,145 |
| % change..... | 16 | 12 | 19 | 54 | 64 |
| Net income/share..... | 1.38 | 1.15 | 1.03 | 0.87 | 0.64 |
| % change..... | 20 | 12 | 18 | 36 | 64 |
| Total assets..... | 126,043 | 102,758 | 88,859 | 69,788 | 56,403 |
| % change..... | 23 | 16 | 27 | 24 | 128 |
| Stockholders' equity..... | 105,827 | 91,113 | 80,467 | 64,076 | 51,284 |
| % change..... | 16 | 13 | 26 | 25 | 148 |

DIGI INTERNATIONAL INC.
FINANCIAL HIGHLIGHTS
FOR THE YEARS ENDED SEPTEMBER 30

| | 1995 | 1994 | 1993 | 1992 | 1991 |
|---------------------------------|------------|------------|-----------|-----------|-----------|
| Net sales..... | \$ 164,978 | \$ 130,945 | \$ 93,385 | \$ 70,867 | \$ 50,866 |
| Income before taxes..... | 29,366 | 25,351 | 22,510 | 18,256 | 12,276 |
| Net income..... | 19,331 | 16,701 | 14,905 | 12,555 | 8,145 |
| Net income/share..... | 1.38 | 1.15 | 1.03 | 0.87 | 0.64 |
| Average shares outstanding..... | 14,048 | 14,511 | 14,564 | 14,443 | 12,752 |
| Working capital..... | 74,061 | 72,671 | 69,648 | 56,147 | 43,121 |
| Total assets..... | 126,043 | 102,758 | 88,859 | 69,788 | 56,403 |
| Stockholders' equity..... | 105,827 | 91,113 | 80,467 | 64,076 | 51,284 |
| Book value per share..... | 7.82 | 6.64 | 5.68 | 4.58 | 5.44 |
| Return on sales..... | 11.7% | 12.8% | 16.0% | 17.7% | 16.0% |
| Number of employees..... | 605 | 430 | 333 | 266 | 223 |

(In thousands except per share amounts, percentages and number of employees)
Operations and balance sheet data for 1991 and 1992 have been restated for the
Star Gate acquisition described in Footnote 2.

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

RESULTS OF OPERATIONS

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

| | YEAR ENDED SEPTEMBER 30 | | | PERCENTAGE INCREASE/(DECREASE) | |
|--|-------------------------|--------|--------|--------------------------------|-------------------|
| | 1995 | 1994 | 1993 | 1995 over 1994 | 1994 over 1993 |
| Net sales | 100.0% | 100.0% | 100.0% | 26.0% | 40.2% |
| Cost of sales | 47.8 | 48.2 | 43.8 | 25.1 | 54.1 |
| Gross margin | 52.2 | 51.8 | 56.2 | 26.8 | 29.4 |
| Operating expenses: | | | | | |
| Sales & marketing | 19.1 | 17.2 | 18.9 | 39.9 | 27.8 |
| Research & development | 8.9 | 7.5 | 5.6 | 49.2 | 89.6 |
| General & administrative | 7.6 | 8.6 | 9.4 | 11.3 | 27.1 |
| | 35.6 | 33.3 | 33.9 | 34.6 | 37.7 |
| Operating income | 16.6 | 18.5 | 22.3 | 12.8 | 16.7 |
| Other income, principally interest | 1.2 | .9 | 1.8 | 84.4 | (37.0) |
| Income before income taxes and cumulative effect of a change in accounting for income taxes | 17.8 | 19.4 | 24.1 | 15.8 | 12.6 |
| Provision for income taxes | 6.1 | 6.6 | 8.3 | 16.0 | 11.9 |
| Income before cumulative effect of a change in accounting for income taxes | 11.7 | 12.8 | 15.8 | 15.7 | 13.0 |
| Cumulative effect of the change in accounting for income taxes | | | 0.2 | | |
| Net income | 11.7% | 12.8% | 16.0% | 15.7% | 12.1% |

NET SALES

The increase in net sales from 1994 to 1995 of \$34.0 million and from 1993 to 1994 of \$37.6 million spanned all product markets as follows:

| PRODUCT MARKET | ANNUAL SALES INCREASE | | PERCENT OF ANNUAL SALES | | |
|----------------|-----------------------|------|-------------------------|-------|-------|
| | 1994 | 1995 | 1993 | 1994 | 1995 |
| Multiuser | 13% | 17% | 86.3% | 69.5% | 64.6% |
| Remote Access | 103% | 63% | 7.4% | 10.7% | 13.8% |
| LAN Connect | * | 54% | * | 15.1% | 18.4% |
| Other | | | 6.3% | 4.7% | 3.2% |

* During 1994 the Company acquired MiLAN Technology Corporation, which contributed \$20 million in LAN Connect sales, representing 53.3% of the increase in total sales for fiscal 1994.

The sales increase is primarily due to volume not price increases.

Sales to original equipment manufacturers (OEMs) decreased from 22.6% of net sales in 1993 to 20.6% in 1994 and increased to 22.8% in 1995. Sales to the distribution markets increased from 52.2% of net sales to 57.9% and 61.1% for 1993, 1994 and 1995 respectively. The Company sees these markets continuing to grow.

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

GROSS MARGINS

Gross margins increased from 51.8% of net sales in 1994 to 52.2% in 1995 due primarily to purchasing efficiencies and product redesign. While gross margin dollars increased from 1993 to 1994, the decline in gross margin percentage is attributable to the acquisition of MiLAN, whose normal gross margin percentage is lower than the Company's historical levels, and increased component costs. Management expects gross margins to stabilize near their current levels.

OPERATING EXPENSES

The year-to-year increases in operating expenses are due primarily to increased R&D and market development spending for new products and markets, principally for the remote access and LAN Connect markets, plus increased staffing levels. The Company expects to continue to commit increased funding for developing new products in these rapidly growing markets.

OTHER INCOME

The decrease in other income from 1993 to 1994 resulted from a reduction of available funds due to the acquisition of MiLAN Technology Corporation and purchase of treasury stock, partially offset by an increase in interest rates. The increase in other income from 1994 to 1995 resulted from an increase of available funds and an increase in interest rates.

INCOME TAXES

The Company's effective income tax rate decreased from 34.3% in 1993 to 34.1% in 1994 and reflects the elimination of the prior year IRS adjustment partially offset by increased state taxes, due primarily to the effect of the acquisition of MiLAN Technology Corporation, and the increase in the statutory tax rate. The increase in the effective rate from 1994 to the 1995 rate of 34.2% resulted primarily from a decrease in the federal R&D credit.

INFLATION

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

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its operations principally with funds generated from operations and proceeds remaining from earlier public stock offerings. Cash flow from operations for the year ended September 30, 1995 has returned to historical levels. Cash flow from operations for the year ended September 30, 1994, was negatively impacted by increased levels of inventories and accounts receivable, mainly resulting from the MiLAN acquisition.

Investing activities for the year ended September 30, 1995, include new investments of excess cash, reinvestment of maturing investments, purchase for \$4.5 million of a new office and research facility plus the acquisition of LAN Access Corporation.

The Company expects to expend, in 1996, from existing funds and/or funds generated from 1996 operations, up to \$10 million for capital equipment.

On March 27, 1995, the Company's board of directors authorized a one million share repurchase program. At September 30, 1995, 277,500 shares have been acquired under this program as treasury stock. Additional purchases under this authorization will be funded by available cash balances over an unspecified period of time.

At September 30, 1995, the Company had working capital of \$74.1 million, no debt and no established lines of credit. Management believes that funds generated from operations and the Company's potential capacity for debt and/or equity financing will be sufficient to fund current business operations and any anticipated business expansion.

FOREIGN CURRENCY TRANSLATION

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

NEW ACCOUNTING STANDARDS

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

DIGI INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

FISCAL YEAR ENDED SEPTEMBER 30

| | 1995 | 1994 | 1993 |
|---|----------------|----------------|---------------|
| Net sales..... | \$ 164,978,018 | \$ 130,945,343 | \$ 93,385,218 |
| Cost of sales..... | 78,933,221 | 63,100,733 | 40,941,788 |
| Gross margin..... | 86,044,797 | 67,844,610 | 52,443,430 |
| Operating expenses: | | | |
| Sales & marketing..... | 31,497,005 | 22,518,353 | 17,623,832 |
| Research & development..... | 14,676,683 | 9,833,859 | 5,187,337 |
| General & administrative..... | 12,472,581 | 11,208,071 | 8,815,733 |
| Total operating expenses..... | 58,646,269 | 43,560,283 | 31,626,902 |
| Operating income..... | 27,398,528 | 24,284,327 | 20,816,528 |
| Other income, principally interest..... | 1,967,565 | 1,066,765 | 1,693,739 |
| Income before income taxes and cumulative effect of a change in accounting for income taxes..... | 29,366,093 | 25,351,092 | 22,510,267 |
| Provision for income taxes..... | 10,035,000 | 8,650,000 | 7,727,603 |
| Income before cumulative effect of a change in accounting for income taxes..... | 19,331,093 | 16,701,092 | 14,782,664 |
| Cumulative effect of the change in accounting for income taxes..... | | | 122,100 |
| Net income..... | \$ 19,331,093 | \$ 16,701,092 | \$ 14,904,764 |
| Income per common and common equivalent share: | | | |
| Before cumulative effect of a change in accounting for income taxes..... | \$ 1.38 | \$ 1.15 | \$ 1.02 |
| Cumulative effect of the change in accounting for income taxes..... | | | 0.01 |
| Net income..... | \$ 1.38 | \$ 1.15 | \$ 1.03 |
| Weighted average common and common equivalent shares outstanding..... | 14,057,109 | 14,510,569 | 14,563,679 |

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

DIGI INTERNATIONAL INC.
CONSOLIDATED BALANCE SHEETS

| | SEPTEMBER 30 1995 | SEPTEMBER 30 1994 |
|---|----------------------|----------------------|
| | ----- | ----- |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents..... | \$ 5,103,731 | \$ 13,849,017 |
| Marketable securities, at cost..... | 27,968,775 | 23,412,434 |
| Accounts receivable, net..... | 31,960,936 | 21,559,115 |
| Inventories..... | 27,019,085 | 23,359,489 |
| Income tax refund receivable..... | 130,165 | |
| Other..... | 2,094,893 | 2,136,113 |
| | ----- | ----- |
| Total current assets..... | 94,277,585 | 84,316,168 |
| | ----- | ----- |
| Property, equipment and improvements, net..... | 17,716,819 | 9,844,801 |
| Intangible assets, net..... | 11,633,305 | 7,682,910 |
| Other..... | 2,415,755 | 914,248 |
| | ----- | ----- |
| Total assets..... | \$ 126,043,464 | \$ 102,758,127 |
| | ----- | ----- |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable..... | \$ 12,106,515 | \$ 3,929,146 |
| Income taxes payable..... | | 1,027,658 |
| Accrued expenses: | | |
| Advertising..... | 2,235,946 | 1,172,571 |
| Compensation..... | 4,932,987 | 4,914,997 |
| Other..... | 941,469 | 600,580 |
| | ----- | ----- |
| Total current liabilities..... | 20,216,917 | 11,644,952 |
| Commitments | | |
| Stockholders' equity: | | |
| Preferred stock, \$.01 par value; 2,000,000 shares authorized; none outstanding..... | | 144,747 |
| Common stock, \$.01 par value; 60,000,000 shares authorized; 14,562,958 and 14,474,663 shares outstanding..... | 145,630 | |
| Additional paid-in capital..... | 41,306,320 | 39,788,556 |
| Retained earnings..... | 81,604,526 | 62,273,433 |
| | ----- | ----- |
| Unearned stock compensation..... | 123,056,476 | 102,206,736 |
| | (598,387) | (392,332) |
| Treasury stock, at cost, 1,032,729 and 755,229 shares..... | (16,631,542) | (10,701,229) |
| | ----- | ----- |
| Total stockholders' equity..... | 105,826,547 | 91,113,175 |
| | ----- | ----- |
| Total liabilities and stockholders' equity..... | \$ 126,043,464 | \$ 102,758,127 |
| | ----- | ----- |

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

DIGI INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30

| | 1995 | 1994 | 1993 |
|---|---------------|---------------|---------------|
| Operating activities: | | | |
| Net Income..... | \$ 19,331,093 | \$ 16,701,092 | \$ 14,904,764 |
| Adjustments to reconcile net income to cash provided by operating activities: | | | |
| Depreciation of property and equipment..... | 2,289,554 | 1,491,964 | 618,680 |
| Amortization of intangibles..... | 1,132,006 | 1,139,076 | 1,236,998 |
| Provision for losses on accounts receivable..... | 243,895 | 608,001 | 397,358 |
| Provision for inventory obsolescence..... | 716,300 | 1,071,741 | 274,000 |
| Deferred income taxes..... | (84,750) | (80,000) | (275,000) |
| Cumulative effect of accounting change..... | | | (122,100) |
| Stock compensation..... | 166,667 | 153,076 | 160,134 |
| Changes in assets and liabilities: | | | |
| Accounts receivable..... | (10,457,106) | (7,452,502) | 940 |
| Inventories..... | (4,043,377) | (9,785,911) | (5,150,506) |
| Income tax refund receivable..... | (130,165) | | |
| Other assets..... | (1,266,098) | (345,891) | (744,741) |
| Accounts payable..... | 7,420,550 | (833,303) | 461,601 |
| Income taxes payable..... | (1,027,658) | 279,746 | (36,474) |
| Accrued expenses..... | 1,365,901 | (363,231) | 2,254,449 |
| Net cash provided by operating activities..... | 15,656,812 | 2,583,858 | 13,980,103 |
| Investing activities: | | | |
| Purchase of property and equipment..... | (9,573,995) | (3,944,632) | (4,158,006) |
| Proceeds from held-to-maturity marketable securities..... | 25,004,985 | 41,480,965 | 41,876,862 |
| Purchases of held-to-maturity marketable securities..... | (21,751,326) | (31,194,880) | (41,298,190) |
| Purchases of available-for-sale marketable securities..... | (7,810,000) | | |
| Business acquisitions, net of cash acquired..... | (5,487,374) | (2,536,766) | |
| Net cash provided by (used in) investing activities..... | (19,617,710) | 3,804,687 | (3,579,334) |
| Financing activities: | | | |
| Purchase of treasury stock..... | (5,930,313) | (11,152,498) | |
| Stock option transactions..... | 1,145,925 | 781,712 | 1,326,367 |
| Net cash provided by (used in) financing activities..... | (4,784,388) | (10,370,786) | 1,326,367 |
| Net increase (decrease) in cash and cash equivalents.... | (8,745,286) | (3,982,241) | 11,727,136 |
| Cash and cash equivalents, beginning of year..... | 13,849,017 | 17,831,258 | 6,104,122 |
| Cash and cash equivalents, end of year..... | \$ 5,103,731 | \$ 13,849,017 | \$ 17,831,258 |
| Supplemental cash flow disclosure: | | | |
| Income taxes paid..... | \$ 10,815,846 | \$ 7,878,279 | \$ 4,973,965 |

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

DIGI INTERNATIONAL INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

| | COMMON STOCK | | TREASURY STOCK | | ADDITIONAL PAID-IN CAPITAL |
|--|--------------|-----------|----------------|--------------|----------------------------------|
| | SHARES | PAR VALUE | SHARES | VALUE | |
| Balances, September 30, 1992..... | 13,978,606 | 139,786 | | | 33,860,990 |
| Treasury stock, at cost..... | | | 229 | \$ (4,981) | |
| Stock compensation..... | | | | | |
| Issuance of stock upon exercise of stock options, net of withholding..... | 199,730 | 1,997 | | | (285,849) |
| Tax benefit realized upon exercise of stock options..... | | | | | 1,615,200 |
| Net income..... | | | | | |
| Balances, September 30, 1993..... | 14,178,336 | 141,783 | 229 | (4,981) | 35,190,341 |
| Treasury stock, at cost..... | | | 780,000 | (11,152,498) | |
| Issuance of stock options at below market prices..... | | | | | 182,554 |
| Stock compensation..... | | | | | |
| Issuance of stock for MiLAN purchase..... | 186,100 | 1,861 | (25,000) | 456,250 | 3,705,823 |
| Issuance of stock upon exercise of stock options, net of withholding..... | 110,227 | 1,103 | | | 207,635 |
| Tax benefit realized upon exercise of stock options..... | | | | | 571,975 |
| Forfeiture of stock options..... | | | | | (69,772) |
| Net income..... | | | | | |
| Balances, September 30, 1994..... | 14,474,663 | 144,747 | 755,229 | (10,701,229) | 39,788,556 |
| Treasury stock, at cost..... | | | 277,500 | (5,930,313) | |
| Issuance of stock options at below market prices..... | | | | | 448,750 |
| Stock compensation..... | | | | | |
| Issuance of stock upon exercise of stock options, net of withholding..... | 88,295 | 883 | | | 683,315 |
| Tax benefit realized upon exercise of stock options..... | | | | | 461,727 |
| Forfeiture of stock options..... | | | | | (76,028) |
| Net income..... | | | | | |
| Balances, September 30, 1995..... | 14,562,958 | 145,630 | 1,032,729 | (16,631,542) | 41,306,320 |

| | RETAINED EARNINGS | UNEARNED STOCK COMPENSATION | TOTAL STOCKHOLDERS' EQUITY |
|--|----------------------|-----------------------------------|----------------------------------|
| | | | |
| Balances, September 30, 1992..... | 30,667,577 | (592,760) | 64,075,593 |
| Treasury stock, at cost..... | | | (4,981) |
| Stock compensation..... | | 160,134 | 160,134 |
| Issuance of stock upon exercise of stock options, net of withholding..... | | | (283,852) |
| Tax benefit realized upon exercise of stock options..... | | | 1,615,200 |
| Net income..... | 14,904,764 | | 14,904,764 |
| Balances, September 30, 1993..... | 45,572,341 | (432,626) | 80,466,858 |
| Treasury stock, at cost..... | | | (11,152,498) |
| Issuance of stock options at below market prices..... | | (182,554) | |
| Stock compensation..... | | 153,076 | 153,076 |
| Issuance of stock for MiLAN purchase..... | | | 4,138,934 |
| Issuance of stock upon exercise of stock options, net of withholding..... | | | 208,738 |
| Tax benefit realized upon exercise of stock options..... | | | 571,975 |
| Forfeiture of stock options..... | | 69,772 | |
| Net income..... | 16,701,092 | | 16,701,092 |
| Balances, September 30, 1994..... | 62,273,433 | (392,332) | 91,113,175 |
| Treasury stock, at cost..... | | | (5,930,313) |
| Issuance of stock options at below market prices..... | | (448,750) | |
| Stock compensation..... | | 166,667 | 166,667 |
| Issuance of stock upon exercise of stock options, net of withholding..... | | | 684,198 |
| Tax benefit realized upon exercise of stock options..... | | | 461,727 |
| Forfeiture of stock options..... | | 76,028 | |
| Net income..... | 19,331,093 | | 19,331,093 |
| Balances, September 30, 1995..... | 81,604,526 | (598,387) | 105,826,547 |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS DESCRIPTION

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

PRINCIPLES OF CONSOLIDATION

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

CASH EQUIVALENTS AND MARKETABLE SECURITIES

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

REVENUE RECOGNITION

Sales are recognized at the date of shipment. Estimated warranty costs and customer returns are recorded at the time of sale. Accounts receivable are net of allowances for returns and doubtful accounts of \$656,500 at September 30, 1995 and \$641,500 at September 30, 1994.

INVENTORIES

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

PROPERTY, EQUIPMENT AND IMPROVEMENTS

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

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

INTANGIBLE ASSETS

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

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

RESEARCH AND DEVELOPMENT

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

INCOME TAXES

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

taxable income. Income tax expense is the tax payable for the period and the change during the period in deferred tax assets and liabilities.

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

INCOME PER COMMON SHARE

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

USE OF ESTIMATES

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

2. ACQUISITIONS

On April 13, 1993 the Company issued 431,956 shares of common stock, \$.01 par value, in exchange for all of the outstanding capital stock of Star Gate Technologies, Inc. ("Star Gate"). Star Gate is a producer of data communications hardware and software products that permit microcomputers to function as multiuser systems. The acquisition has been accounted for using the pooling of interests method, and accordingly, the accompanying financial information has been restated to include the results of Star Gate for all periods presented. Costs related to the acquisition of approximately \$466,000 were expensed in the third quarter of fiscal year 1993.

On November 15, 1993, the Company acquired MiLAN Technology Corporation, a provider of networking products, for stock and cash valued at approximately \$6.8 million. The acquisition has been accounted for as a purchase. Results of operations since the effective date of the transaction are included in the Consolidated Statements of Operations.

On September 29, 1995, the Company acquired LAN Access Corporation, a provider of remote access products, for cash of approximately \$5.5 million. The acquisition has been accounted for as a purchase. Results of operations since the effective date of the transaction are insignificant.

Pro forma data (unaudited) as though the MiLAN and LAN Access acquisitions had been effective at the beginning of 1993 is as follows:

DIGI INTERNATIONAL ACQUISITIONS PRO FORMA TABLE SUPPORT SEPTEMBER 30, 1995

| FOR THE YEARS ENDED SEPTEMBER 30 | 1995 | 1994 | 1993 |
|----------------------------------|-----------|------------|------------|
| Net sales | \$166,784 | \$ 132,829 | \$ 106,320 |
| Net income | 18,284 | 16,060 | 15,301 |
| Net income per share | 1.30 | 1.11 | 1.05 |

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

3. MARKETABLE SECURITIES

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

Held-to-maturity marketable securities, which consist of state and political subdivision debt securities, will be held to their maturity of less than one year. At September 30, 1995, the amortized cost and estimated fair value were \$20,158,775 and \$20,232,038, respectively. Unrealized holding gains and losses were not significant. At September 30, 1994, the amortized cost and estimated fair value were \$23,412,434 and \$23,374,698, respectively. Unrealized holding gains and losses were not significant.

Available-for-sale marketable securities, which consist of state and political subdivision debt securities, will be sold within the next year. At September 30, 1995, the estimated fair value approximated amortized cost of \$7,810,000. Unrealized and realized gains and losses were not significant.

| 4. SELECTED BALANCE SHEET DATA | 1995 | 1994 |
|---------------------------------------|---------------|---------------|
| <hr/> | | |
| Inventories: | | |
| Raw materials | \$ 13,288,953 | \$ 14,329,651 |
| Work in process | 7,645,002 | 5,231,662 |
| Finished goods | 6,897,130 | 4,480,176 |
| <hr/> | | |
| Less reserve for obsolescence | 812,000 | 682,000 |
| <hr/> | | |
| | \$ 27,019,085 | \$ 23,359,489 |
| <hr/> | | |
| Property, equipment and improvements: | | |
| Land | 303,174 | \$ 303,174 |
| Building | 9,009,840 | 3,980,379 |
| Improvements | 274,811 | 195,599 |
| Equipment | 11,922,087 | 7,583,920 |
| Purchased software | 1,778,712 | 1,411,299 |
| Furniture & fixtures | 1,855,639 | 1,348,163 |
| <hr/> | | |
| | 25,144,263 | 14,822,534 |
| <hr/> | | |
| Less accumulated depreciation | 7,427,444 | 4,977,733 |
| <hr/> | | |
| | \$ 17,716,819 | \$ 9,844,801 |
| <hr/> | | |
| Intangible assets: | | |
| Purchased technology | \$ 1,621,858 | \$ 1,576,858 |
| License agreements | 1,472,000 | 1,472,000 |
| Covenants not to compete | 1,670,000 | 1,670,000 |
| Goodwill | 11,418,393 | 6,360,531 |
| Other | 44,193 | 49,755 |
| <hr/> | | |
| | 16,226,444 | 11,129,144 |
| <hr/> | | |
| Less accumulated amortization | 4,593,139 | 3,446,234 |
| <hr/> | | |
| | \$ 11,633,305 | \$ 7,682,910 |
| <hr/> | | |

5. STOCK OPTIONS

The Company has a stock option plan (the "Plan") that provides for the issuance of nonstatutory stock options and incentive stock options (ISOs) to key employees and nonemployee board members holding less than 5% of the outstanding shares of the Company's common stock. Currently, under the plan, qualifying board members will receive a stock option for 7,500 shares of the Company's common stock annually.

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

During the years ended September 30, 1995, 1994, and 1993, 88,295, 110,227 and 199,730 shares of the Company's Common Stock, respectively, were issued upon the exercise of options for 95,367, 122,200 and 239,600 shares, respectively. The difference between shares issued and options exercised results from the Plan's provision allowing employees to elect to pay their withholding obligation through share reduction. Withholding taxes paid by the Company as a result of the share withholding provision amounted to \$413,000 in 1995, \$223,000 in 1994 and \$806,000 in 1993.

During the years ended September 30, 1995 and 1994, the Board of Directors authorized the issuance of nonstatutory stock options totaling 50,000 and 17,338 shares respectively, at prices below the market value of the stock. For the year ended September 30, 1993, there were no nonstatutory stock options issued. The difference between the option price and market value at the date of grant has been recorded as additional paid-in capital. The compensation related to these shares is amortized over the five-year period in which the employees perform services and amounted to \$166,667 in 1995, \$153,076 in 1994 and \$160,134 in 1993.

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

| | AVAILABLE FOR GRANT | OPTIONS OUTSTANDING | PRICE PER SHARE |
|--------------------------------------|---------------------|---------------------|-----------------|
| Balances, September 30, 1992 | 358,150 | 904,150 | \$.33 - 20.50 |
| Granted | (74,750) | 74,750 | 20.75 - 24.25 |
| Exercised | | (239,600) | .33 - 12.00 |
| | ----- | ----- | |
| Balances, September 30, 1993 | 283,400 | 739,300 | .50 - 24.25 |
| Granted | (293,338) | 293,338 | 11.50 - 23.75 |
| Exercised | | (122,200) | 11.50 - 24.25 |
| Cancelled | 17,100 | (17,100) | 11.83 - 23.75 |
| | ----- | ----- | |
| Balances, September 30, 1994 | 7,162 | 893,338 | .50 - 24.25 |
| Additional shares approved for grant | 2,000,000 | | |
| Granted | (808,375) | 808,375 | 15.25 - 29.25 |
| Exercised | | (95,367) | .50 - 21.25 |
| Cancelled | 119,251 | (119,251) | 3.33 - 23.13 |
| | ----- | ----- | |
| Balances, September 30, 1995 | 1,318,038 | 1,487,095 | .50 - 29.25 |

Of options outstanding at September 30, 1995, options for 375,974 shares were exercisable, at prices ranging from \$.50 to \$24.50 per share.

6. COMMITMENTS

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

| FISCAL YEAR | 1996 | 1997 | 1998 | 1999 | 2000 | Thereafter |
|-------------|-----------|-----------|-----------|-----------|-----------|------------|
| AMOUNT | \$622,833 | \$522,775 | \$521,334 | \$543,682 | \$556,736 | \$378,140 |

Total rental expense for all operating leases for the years ended September 30, 1995, 1994, and 1993 was \$946,000, \$627,000 and \$458,000, respectively.

7. INCOME TAXES

On October 1, 1992, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." The cumulative effect of this change in accounting for income taxes increased net income by \$122,100 (\$.01 per share) and was recorded separately in the consolidated statement of operations for the year ended September 30, 1993. The effect of the change on 1993 net income, excluding the cumulative effect upon adoption, was not material.

The components of the provision for income taxes for the years ended September 30, 1995, 1994, and 1993 are as follows:

| | 1995 | 1994 | 1993 |
|--------------------|---------------|--------------|--------------|
| Currently payable: | | | |
| Federal | \$ 9,505,650 | \$ 8,364,428 | \$ 7,632,603 |
| State | 614,100 | 365,572 | 370,000 |
| Deferred | (84,750) | (80,000) | (275,000) |
| | \$ 10,035,000 | \$ 8,650,000 | \$ 7,727,603 |

The components of the net deferred tax asset at September 30, 1995 and 1994 are as follows:

| | 1995 | 1994 |
|------------------------|------------|------------|
| Valuation reserves | \$ 393,100 | \$ 313,300 |
| Inventory valuation | 300,400 | 221,200 |
| Vacation costs | 178,700 | 124,700 |
| Depreciation | (71,097) | 57,153 |
| Net deferred tax asset | \$ 801,103 | \$ 716,353 |

The current portion of the deferred tax asset is reported with other current assets on the consolidated balance sheet while the long-term portion is reported with other liabilities in 1995 and other non-current assets in 1994.

The reconciliation of the statutory federal income tax rate with the effective income tax rate for the years ended September 30, 1995, 1994, and 1993 is as follows:

| | 1995 | 1994 | 1993 |
|---|-------|-------|-------|
| Statutory income tax rate | 35.0% | 35.0% | 34.8% |
| Increase (reduction) resulting from: | | | |
| Prior years IRS examination | | | 2.1 |
| Utilization of research and development tax credits | (1.7) | (1.9) | (1.0) |
| State taxes, net of federal benefits | 2.5 | 2.4 | 1.0 |
| FSC benefit | (1.0) | (.8) | (1.1) |
| Other | (.6) | (.6) | (1.5) |
| | 34.2% | 34.1% | 34.3% |

8. FOREIGN SALES AND MAJOR CUSTOMERS

Foreign sales, primarily in Europe, comprised approximately 20%, 21% and 22% of net sales for the years ended September 30, 1995, 1994, and 1993, respectively. During 1995, one customer (customer A) accounted for 12.5% of net sales while another (customer B) accounted for 11.7%. One customer (customer A) comprised 11.8% of net sales in 1994. During 1993, one customer (customer B) accounted for 10.8% of net sales while another (customer A) accounted for 10.3%.

9. EMPLOYEE BENEFIT PLAN

The Company has a savings and profit sharing plan pursuant to Section 401(k) of the Internal Revenue Code ("the Code"), whereby eligible employees may contribute up to 15% of their earnings, not to exceed amounts allowed under the Code. In addition, the Company may make contributions at the discretion of the Board of Directors. During 1995, 1994, and 1993 the Company provided for matching contributions totaling \$125,000, \$100,000 and \$75,000, respectively.

REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of Digi International Inc. and subsidiaries as of September 30, 1995 and 1994, and the related consolidated statements of operations, cash flows and stockholders' equity for each of the three years in the period ended September 30, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Digi International Inc. and subsidiaries as of September 30, 1995 and 1994, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 30, 1995, in conformity with generally accepted accounting principles.

/s/ Coopers & Lybrand L.L.P.
 Minneapolis, Minnesota
 November 15, 1995

QUARTERLY FINANCIAL DATA (UNAUDITED):

QUARTER ENDED

(in thousands except per share amounts)

| | Dec. 31 | Mar. 31 | June 30 | Sept. 30 |
|----------------------|----------|----------|----------|----------|
| 1995 | | | | |
| Net sales | \$37,879 | \$40,076 | \$41,179 | \$45,844 |
| Gross margin | 19,745 | 21,169 | 22,131 | 23,000 |
| Net income | 4,491 | 4,597 | 4,847 | 5,396 |
| Net income per share | .32 | .33 | .35 | .38 |
| 1994 | | | | |
| Net sales | 25,989 | 31,647 | 35,185 | 38,124 |
| Gross margin | 14,736 | 16,672 | 17,696 | 18,741 |
| Net income | 4,036 | 4,123 | 4,216 | 4,326 |
| Net income per share | .28 | .28 | .29 | .31 |
| 1993 | | | | |
| Net sales | 22,632 | 22,743 | 23,559 | 24,451 |
| Gross margin | 12,731 | 12,715 | 13,301 | 13,696 |
| Net income | 4,026 | 3,811 | 3,768 | 3,301 |
| Net income per share | .28 | .26 | .26 | .23 |

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.

STOCKHOLDER AND INVESTOR INFORMATION

STOCK LISTING

The Company's common stock has been publicly traded since its initial public offering on October 5, 1989. The Company's common stock trades on The Nasdaq Stock Market under the symbol "DGII." At December 13, 1995, the number of holders of the Company's Common Stock was approximately 7,719 consisting of 369 record holders and approximately 7,350 stockholders whose stock is held by a bank, broker or other nominee.

High and low closing sale prices for each quarter during the years ended September 30, 1995 and 1994, as reported on The Nasdaq Stock Market were as follows:

| 1995 | First | Second | Third | Fourth |
|------|----------|----------|----------|----------|
| HIGH | \$ 19.25 | \$ 24.25 | \$ 26.00 | \$ 30.25 |
| LOW | 13.25 | 18.00 | 18.25 | 22.00 |
| 1994 | First | Second | Third | Fourth |
| HIGH | \$ 24.25 | \$ 21.88 | \$ 18.00 | \$ 16.00 |
| LOW | 18.25 | 17.00 | 12.56 | 11.50 |

DIVIDEND POLICY

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

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

STOCKHOLDER INFORMATION

TRANSFER AGENT AND REGISTRAR

Norwest Bank Minnesota, N.A.
161 North Concord Exchange
P.O. Box 738
St. Paul, MN 55075-0738
(612) 450-4064
(800) 468-9716

LEGAL COUNSEL

Faegre & Benson P.L.L.P.
2200 Norwest Center
Minneapolis, MN 55402-3901

INDEPENDENT PUBLIC ACCOUNTANTS

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

ANNUAL MEETING The Company's Annual Meeting of Stockholders will be held on Wednesday, January 31, 1996, at 3:30 pm, at Marriott City Center, 30 South 7th Street, Minneapolis, Minn.

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

MAUREEN MCGARRIGLE
DIRECTOR, INVESTOR RELATIONS
DIGI INTERNATIONAL INC.
6400 FLYING CLOUD DRIVE
EDEN PRAIRIE, MN 55344
(612) 943-5347
EMAIL: MAUREENM@DGII.COM

DIRECTORS AND OFFICERS

DIRECTORS

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

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

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

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

MYKOLA MOROZ Mr. Moroz was a founder of the Company and CEO from January 1992 to September 1994 and a member of the Board of Directors since July 1991. 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.

[PHOTO]

FIRST ROW: DAVID STANLEY, ERVIN F. KAMM, JR., WILLIS K. DRAKE; SECOND ROW: RICHARD E. EICHHORN, JOHN P. SCHINAS, MYKOLA MOROZ; NOT PICTURED: RICHARD E. OFFERDAHL AND DR. JAGDISH SHETH.

RICHARD E. OFFERDAHL (1) (2) Mr. Offerdahl has been a member of the Board of Directors since 1987 and a private investor and venture capitalist since 1986.

DR. JAGDISH SHETH, PH. D. (3) Dr. Sheth joined the board in August, 1995. He is the Charles H. Kellstadt Professor of Marketing at Goizueta Business School, Emory University, Atlanta.

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

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

CORPORATE OFFICERS

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

KEITH C. RERICHA
Vice President

JAMES R. BAKER
Vice President

GERALD A. WALL
Vice President, Chief Financial
Officer and Treasurer

GARY L. DEANER
Vice President

RAY D. WYMER
Vice President

JOSEPH A. DIODATI
Vice President

JAMES E. NICHOLSON
Partner, Faegre & Benson P.L.L.P.
Secretary

DOUGLAS J. GLADER
Vice President

DANA R. NELSON
Vice President

CORPORATE GOVERNANCE

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

EXHIBIT 21

Subsidiaries of Registrant

Digi International Asia Pte., Ltd.
Digi International GmbH
DigiBoard Incorporated FSC
Digi International Israel Inc.

EXHIBIT 23 - CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Form S-8 registration statements (File No. 33-32956 and File No. 33-38898) of Digi International Inc. for its Stock Option Plan and Form S-3 registration statements (File No. 33-61180 and File No. 33-82262) of Digi International Inc. for the common shares issued as part of the Star Gate merger and for the common shares issued as part of the MiLAN Technologies acquisition of our reports dated November 15, 1995, on our audits of the consolidated financial statements and financial statement schedule of Digi International Inc. as of September 30, 1995 and 1994, and for the years ended September 30, 1995, 1994 and 1993, which reports are included in or incorporated by reference in this Annual Report on Form 10-K.

COOPERS & LYBRAND L.L.P.

Minneapolis, Minnesota
December 27, 1995

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS AND CONSOLIDATED STATEMENTS OF OPERATIONS OF DIGI INTERNATIONAL INC. FOR THE YEAR ENDED SEPTEMBER 30, 1995 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

| | |
|-------------|-------------|
| 12-MOS | |
| | SEP-30-1995 |
| | OCT-01-1994 |
| | SEP-30-1995 |
| | 5,103,731 |
| | 27,968,775 |
| | 31,960,936 |
| | 0 |
| | 27,019,085 |
| | 94,277,585 |
| | 25,144,263 |
| | 7,427,444 |
| | 126,043,464 |
| 20,216,917 | |
| | 0 |
| | 145,630 |
| 0 | |
| | 0 |
| | 105,680,917 |
| 126,043,464 | |
| | 164,978,018 |
| | 164,978,018 |
| | 78,933,221 |
| | 78,933,221 |
| | 58,646,269 |
| | 0 |
| | 0 |
| | 29,366,093 |
| | 10,035,000 |
| 19,331,093 | |
| | 0 |
| | 0 |
| | 0 |
| | 19,331,093 |
| | 1.38 |
| | 1.38 |