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

FORM 10-Q

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

For the quarterly period ended: December 31, 1996.

OR

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

For the transition period from ____ to ____.

Commission file number: 0-17972

DIGI INTERNATIONAL INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

41-1532464
(I.R.S. Employer
Identification Number)

11001 Bren Road East
Minnetonka, Minnesota 55343
(Address of principal executive offices) (Zip Code)

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

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

Yes X No ____

On January 31, 1997, there were 13,376,019 shares of the registrant's \$.01 par value Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DIGI INTERNATIONAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE
"THREE MONTHS ENDED DECEMBER 31, 1996 AND 1995"
(UNAUDITED)

	<u>1996</u>	<u>1995</u>
Net sales	\$ 42,236,213	\$ 43,716,263
Cost of sales	<u>22,595,738</u>	<u>19,987,202</u>
Gross margin	<u>19,640,475</u>	<u>23,729,061</u>
Operating expenses:		
Sales and marketing	10,526,836	8,670,102
Research and development	5,439,456	4,144,836
General and administrative	<u>5,413,865</u>	<u>3,898,356</u>
Total operating expenses	<u>21,380,157</u>	<u>16,713,294</u>
Operating (loss) income	(1,739,682)	7,015,767
"Other income, net"	99,031	393,360
AetherWorks Corporation net loss	<u>(1,519,789)</u>	<u>(279,307)</u>
(Loss) income before income taxes	(3,160,440)	7,129,820
(Benefit) provision for income taxes	<u>(582,433)</u>	<u>2,607,899</u>
Net (loss) income	<u>\$ (2,578,007)</u>	<u>\$ 4,521,921</u>
Net (loss) income per common and common equivalent share	<u>\$ (0.19)</u>	<u>\$ 0.33</u>
Weighted average common and common equivalent shares outstanding	<u>13,354,080</u>	<u>13,902,733</u>

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

DIGI INTERNATIONAL INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 1996	September 30, 1996
ASSETS	<u>1996</u>	<u>1996</u>
Current assets:	(unaudited)	
Cash and cash equivalents	\$7,607,580	\$8,943,390
Accounts receivable, net"	41,207,824	42,874,898
Inventories	35,396,677	33,372,164
Income tax refund receivable	2,483,624	1,675,626
Other	3,013,454	2,825,828
Total current assets	<u>89,709,159</u>	<u>89,691,906</u>
Property, equipment and improvements, net"	25,114,285	24,230,101
Intangible assets, net"	11,403,120	10,854,845
Investment in AetherWorks Corporation	2,152,960	1,672,749
Other	2,281,357	3,489,228
Total assets	<u>\$130,660,881</u>	<u>\$129,938,829</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$14,966,534	\$12,549,738
Accrued expenses:		
Advertising	4,182,403	3,761,619
Compensation	1,492,813	1,622,549
Other	2,414,057	2,061,782
Total current liabilities	<u>23,055,807</u>	<u>19,995,688</u>
Commitments		
Preferred stock, \$.01 par value; 2,000,000 shares authorized; none outstanding		
Common stock, \$.01 par value; 60,000,000 shares authorized; 14,682,967 and 14,677,150 shares issued	146,829	146,772
Additional paid-in capital	42,932,896	42,866,758
Retained earnings	88,326,740	90,904,746
	<u>131,406,465</u>	<u>133,918,276</u>
Unearned stock compensation	(269,708)	(295,156)
Treasury stock, at cost, 1,326,651 and 1,338,894" shares	<u>(23,531,683)</u>	<u>(23,679,979)</u>
Total stockholders' equity	<u>107,605,074</u>	<u>109,943,141</u>
Total liabilities and stockholders' equity	<u>\$130,660,881</u>	<u>\$129,938,829</u>

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

DIGI INTERNATIONAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
"FOR THE THREE MONTHS ENDED DECEMBER 31, 1996 AND 1995"
(UNAUDITED)

	<u>1996</u>	<u>1995</u>
Operating activities:		
Net (loss) income	\$ (2,578,007)	\$ 4,521,921
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,994,649	1,251,733
AetherWorks Corporation net loss	1,519,789	279,307
Provision for doubtful accounts receivable	174,000	39,280
Provision for inventory obsolescence	964,000	179,012
Changes in operating assets and liabilities	332,471	(11,119,384)
Other	72,146	78,441
Total adjustments	<u>5,057,055</u>	<u>(9,291,611)</u>
Net cash provided by (used in) operating activities	<u>2,479,048</u>	<u>(4,769,690)</u>
Investing activities:		
Purchase of property, equipment and improvements	(2,029,349)	(2,144,951)
Investment in AetherWorks Corporation	(2,000,000)	(3,363,235)
Sale of marketable securities, net	—	13,256,978
Net cash (used in) provided by investing activities	<u>(4,029,349)</u>	<u>7,748,792</u>
Financing activities:		
Stock benefit plan transactions, net	214,491	216,233
Purchase of treasury stock	—	(7,249,339)
Net cash provided by (used in) financing activities	<u>214,491</u>	<u>(7,033,106)</u>
Net decrease in cash and cash equivalents	(1,335,810)	(4,054,004)
Cash and cash equivalents, beginning of period	8,943,390	5,103,731
Cash and cash equivalents, end of period	<u>\$ 7,607,580</u>	<u>\$ 1,049,727</u>

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

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

1. BASIS OF PRESENTATION

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

The condensed consolidated financial statements presented herein as of December 31, 1996 and for the three month periods ended December 31, 1996 and 1995, reflect, in the opinion of management, all adjustments (which consist only of normal, recurring adjustments) necessary for a fair presentation of the consolidated financial position and the consolidated results of operations and cash flows for the periods presented. The consolidated results of operations for any interim period are not necessarily indicative of results for the full year.

2. INVESTMENT IN AETHERWORKS CORPORATION

Through December 31, 1996, under a financing arrangement, the Company purchased \$7,296,525 of convertible notes from AetherWorks Corporation, a development stage company engaged in the development of wireless and dial-up remote access technology. At December 31, 1996, the Company is obligated to purchase up to an additional \$6.5 million of convertible notes from time to time at the request of AetherWorks, based on certain conditions. The convertible notes held by the Company at December 31, 1996 are convertible into 55% of AetherWork's common stock, and the purchase of \$6.5 million additional principal amount of convertible notes would increase the Company's ownership interest upon conversion to 62.7%, based on AetherWorks' present capitalization. Subsequent to December 31, 1996, the Company purchased \$500,000 of AetherWorks convertible notes. In connection with the financing arrangement, the Company has also guaranteed \$2.5 million of lease obligations of AetherWorks.

The Company has reported its investment in AetherWorks on the equity method and has reported a \$1,519,789 loss for the three month period ended December 31, 1996 and a \$279,307 loss for the three month period ended December 31, 1995. Such losses represent 100% of the AetherWorks net losses for the three month periods. The percentage of AetherWorks' net loss included in the Company's financial statements is based upon the percentage of financial support provided by the Company (versus other investors) to AetherWorks during the period.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. INVESTMENT IN AETHERWORKS CORPORATION (CONTINUED)

Investment in AetherWorks Corporation consists of the following:

	<u>December 31</u>	<u>September 30</u>
Convertible notes receivable	\$7,296,525	\$5,296,525
Cumulative net loss	<u>(5,143,565)</u>	<u>(3,623,776)</u>
	<u>\$2,152,960</u>	<u>\$1,672,749</u>

3. INVENTORIES

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

	<u>December 31</u>	<u>September 30</u>
Raw materials	\$17,981,708	\$19,145,019
Work in process	11,057,146	10,469,315
Finished goods	6,357,823	3,757,830

4. (LOSS) INCOME PER SHARE

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

5. RECLASSIFICATION OF REBATE EXPENSES

Rebates approximating \$150,000 for the period ended December 31, 1995, which are now offset against net sales, were previously included in sales and marketing expenses. This reclassification had no impact on previously reported net income or stockholders' equity.

REPORT OF INDEPENDENT ACCOUNTANTS

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

We have reviewed the accompanying condensed consolidated balance sheet of Digi International Inc. and Subsidiaries as of December 31, 1996, and the related condensed consolidated statements of operations and cash flows for the three month periods ended December 31, 1996 and 1995. These condensed consolidated financial statements are the responsibility of the Company's management.

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

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

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

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

Minneapolis, Minnesota
February 6, 1997

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

CONSOLIDATED RESULTS OF OPERATIONS

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

	Quarter ended		Percentage Increase (decrease)
	December 31		
	1996	1995	
Net sales	100.0%	100.0%	(3.3%)
Cost of sales	<u>53.5</u>	<u>45.7</u>	<u>13.1</u>
Gross margin	<u>46.5</u>	<u>54.3</u>	<u>(17.2)</u>
Operating expenses:			
Sales and marketing	24.9	19.8	21.4
Research and development	12.9	9.5	31.2
General and administrative	<u>12.8</u>	<u>8.9</u>	<u>38.9</u>
Total operating expenses	<u>50.6</u>	<u>38.2</u>	<u>27.9</u>
Operating (loss) income	(4.1)	16.1	(124.8)
Other income, net	0.2	0.9	(74.8)
AetherWorks Corporation net loss	<u>(3.6)</u>	<u>(0.6)</u>	<u>444.1</u>
(Loss) income before income taxes	(7.5)	16.4	(144.3)
(Benefit) provision for income taxes	<u>(1.4)</u>	<u>6.0</u>	<u>(122.3)</u>
Net (loss) income	<u>(6.1%)</u>	<u>10.3%</u>	<u>(157.0%)</u>

NET SALES

Sales for the three month period ended December 31, 1996 were lower than sales for the corresponding three month period ended December 31, 1995 by \$1,480,050 or 3.3%, the majority of the decline being represented by a \$1.15 million increase in rebates in the 1996 period. Such increase was due to providing incentives to the distribution market. Rebates, which had been historically included as a part of sales and marketing expenses, have been offset against net sales for the three months ended December 31, 1996. Rebates in the statement for the three months ended December 31, 1995, amounting to \$150,000, have been reclassified to conform to the current presentation.

Net sales by product markets for the three month period ended December 31, 1996 and 1995 expressed in percentages were as follows:

	Quarter ended		Percentage Increase (decrease)
	December 31		
	1996	1995	
Net sales:			
Multiuser	56.2%	65.0%	(16.4%)
Remote Access	21.4%	17.8%	15.9%
LAN Connect	22.4%	17.2%	26.1%

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

CONSOLIDATED RESULTS OF OPERATIONS (CONTINUED)

Sales to original equipment manufacturers (OEM's) across product markets increased from 14.2% of net sales in the quarter ended December 31, 1995 to 19.9% in 1996. However, on a quarter to quarter basis, such sales declined from 22.7% of net sales for the quarter ended September 30, 1996. The decline was due primarily to year-end inventory management by the Company's OEM customers. The Company expects the OEM portion of the Company's business to slightly increase in the second quarter.

Sales to the distribution markets decreased both on a quarter to quarter basis, as well as in comparison to the corresponding 1996 quarter. Sales to the distribution markets decreased from 70.3% of net sales in the quarter ended December 31, 1995 to 68.9% for the quarter ended December 31, 1996. Sales to the distribution markets increased, however, from 63.7% of net sales for the quarter ended September 30, 1996. Actual sales dollars to the distribution markets declined from \$33.2 million for the quarter ended September 30, 1996 to \$29.1 million for the quarter ended December 31, 1996. The decline was due primarily to softness in demand and adjustments in inventory levels by the distributors, which not only impacted the Company, but the industry as a whole. Such declines were reflected in the percentage declines of multiuser sales. Other product market percentage increases were also adversely impacted by the year-end adjustments in inventory levels.

The Company believes that the softness in sales to the distribution markets will continue into the next quarter, and may have some effect in the third quarter, as well.

GROSS MARGIN

Gross margin as a percentage of net sales decreased to 46.5% for the quarter ended December 31, 1996 from 54.3% for the quarter ended December 31, 1995. The decrease in the gross margin for the quarter is primarily related to increased rebates and a higher percentage of sales in the LAN Connect market, which have traditionally resulted in lower margins. In addition, reserves for potential inventory obsolescence were increased by \$964,000 during the three months ended December 31, 1996, due to increased concerns regarding the impact of softness in sales and continued increases in inventory levels.

OPERATING EXPENSES

Operating expenses for the quarter ended December 31, 1996, increased 27.9% over operating expenses for the corresponding quarter ended December 31, 1995, and increased as a percentage of sales to 50.6% for the quarter ended December 31, 1996 from 38.2% for the quarter ended December 31, 1995. The increase was primarily due to the opening of two new research and development facilities in Huntsville, Ala. and Redmond, Wash., as well as additional marketing costs in connection with new product introductions. In addition, general and administrative expenses increased due to severance expenses and expansion and upgrades to the Company's infrastructure.

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

CONSOLIDATED RESULTS OF OPERATIONS (CONTINUED)

Total operating expenses declined from \$23.5 million in the quarter ended September 30, 1996 to \$21.4 million in the quarter ended December 31, 1996. Such decline was due to decreased marketing costs and a reduction of funding levels for new product development. The Company expects to continue to reduce its sales and marketing, research and development and general and administrative costs during fiscal 1997.

OTHER INCOME

Other income for the quarter ended December 31, 1996 decreased by \$294,329, as compared to the quarter ended December 31, 1995, due to lower interest income resulting from a decrease in invested funds.

AETHERWORKS CORPORATION NET LOSS

In connection with the purchase of convertible notes from AetherWorks Corporation, a development stage company engaged in the development of wireless and dial-up remote access technology, the Company has the ability, under certain conditions, to convert its investment into a majority of AetherWorks' common stock. The Company has reported its investment in AetherWorks on the equity method and has recorded a \$1,519,789 and a \$279,307 loss for the quarters ended December 31, 1996 and 1995, respectively. Such losses represent 100% of AetherWorks' net losses for such periods. The percentage of AetherWorks' net losses included in the Company's financial statements is based upon the percentage of financial support provided by the Company (versus other investors) to AetherWorks during such periods. The Company anticipates that AetherWorks' losses for the remainder of 1997 will be at levels similar to or higher than those incurred during the quarter ended December 31, 1996.

INCOME TAXES

Due to the loss incurred in the quarter ended December 31, 1996, the Company has recorded an income tax benefit of \$582,433. Such benefit is not higher due to the non-deductibility of the AetherWorks' losses.

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

CONSOLIDATED RESULTS OF OPERATIONS (CONTINUED)

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. Investing activities for the quarter ended December 31, 1996 consisted of purchases of equipment and capital improvements and the additional purchase of \$2,000,000 in convertible notes from AetherWorks Corporation. As of December 31, 1996, the Company is obligated to purchase up to an additional \$6.5 million in convertible notes from time to time at the request of AetherWorks, based on certain conditions. See also Note 2 of the Notes to the Condensed Consolidated Financial Statements.

At December 31, 1996, the Company had working capital of \$66.6 million and no debt. The Company has negotiated a \$5 million unsecured line of credit with its bank, but has not utilized such line. The Company's management believes that current financial resources, cash generated from operations and the Company's potential capacity for debt and /or equity financing will be sufficient to fund current and anticipated business operations.

FOREIGN CURRENCY TRANSLATION

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

INFLATION

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

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

FORWARD-LOOKING STATEMENTS

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

The Company's management expects the OEM portion of the Company's business to increase in the second quarter. OEM orders are subject to cancellation at the option of the customer, and are historically subject to greater quarterly fluctuations than sales through the Company's other channels, as well as competitive conditions in markets served by the Company's OEM customers. OEM sales could also be adversely impacted by component shortages.

The softness in sales to the distribution markets will continue into the next quarter, and may have some effect in the third quarter, as well. General market conditions and competitive conditions within these markets may impact sales levels either unfavorably or favorably.

The expectation to continue to reduce sales and marketing, research and development and general and administrative costs during fiscal 1997. This expectation may be impacted by presently unanticipated opportunities or by unanticipated expenses.

The expectation that the AetherWorks Corporation losses for the remainder of fiscal 1997 will be similar to or greater than those incurred in the quarter ended December 31, 1996. This expectation may be impacted by presently unanticipated revenue opportunities or by unanticipated expenses.

The belief that the Company's current financial resources, cash generated from operations and the Company's potential capacity for debt and/or equity financing will be sufficient to fund current and anticipated business operations. Changes in anticipated operating results, credit availability and equity market conditions may further enhance or inhibit the Company's ability to maintain or raise appropriate levels of cash.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On January 3, 1997, the Company and certain of its previous officers were named as defendants in a putative securities class action lawsuit in the United States District Court for the District of Minnesota on behalf of an alleged class of purchasers of its common stock during the period January 25, 1996, through December 23, 1996, inclusive, which is captioned Dennis D'Hondt, individually and on behalf of all persons similarly situated, Plaintiff, vs. Digi International Inc., Ervin F. Kamm, Jr., Gerald A. Wall, and Gary L. Deaner, Defendants. The complaint in the action alleges the Company and certain of its previous officers violated federal securities laws by, among other things, misrepresenting and/or omitting material information concerning the Company's operations and financial results. The complaint seeks compensatory damages in an unspecified amount plus interest against all defendants, jointly and severally, and an award of attorneys' fees, experts' fees and costs.

On January 17, 1997 and February 6, 1997, two additional putative securities class action lawsuits were filed in the United States District Court for the District of Minnesota captioned Ruth Linehan, individually and on behalf of all persons similarly situated, Plaintiff and Russell Siegel and Anne Butler, as Executrix of the Estate of Michael Butler, on behalf of themselves and all other similarly situated, Plaintiffs, vs. Digi International Inc., Ervin F. Kamm, Jr., Gerald A. Wall, and Gary L. Deaner, Defendants which make the same allegations against the same defendants as those asserted in the lawsuit described in the previous paragraph.

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

ITEM 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

At the annual meeting of stockholders held on January 30, 1997, the stockholders approved the following:

- (a) Proposal to elect three directors, Willis K. Drake and David Stanley for three year terms and Robert S. Moe for a term of two years. Mr. Drake was elected on a vote of 10,901,684 in favor, with 330,754 shares withholding authority to vote. Mr. Stanley was elected on a vote of 10,927,087 in favor, with 305,351 withholding authority to vote. Mr. Moe was elected on a vote of 11,024,190 in favor, with 208,248 withholding authority to vote.

PART II. OTHER INFORMATION (CONTINUED)

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS
(CONTINUED)

- (b) Proposal to amend the Digi International Inc. Stock Option Plan to reserve additional shares for future awards and extend the Plan's expiration date. The proposal passed on a vote of 9,425,554 in favor, 1,756,383 against, 50,501 abstentions and no broker non-votes.
- (c) Proposal to ratify the appointment of Coopers & Lybrand L.L.P. as independent public accountants of the Company for fiscal year 1997. The proposal passed on a vote of 10,967,099 in favor, 238,102 against, 27,237 abstentions and no broker non-votes.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

No reports on Form 8-K have been filed during the quarter ended December 31, 1996. The Exhibits filed as part of this report are listed below.

Exhibit No.	Description
3(a)	Amended and Restated Certificate of Incorporation of the Registrant*
3(b)	Amended and Restated By-Laws of the Registrant**
10(l)	Separation Agreement between the Company and Ervin F. Kamm, Jr., dated January 3, 1997
10(p)(i)	Amendment to Employment Arrangement Between the Company and Douglas Glader
11	Detail Computation of Earnings Per Share
15	Letter Re: Unaudited Interim Financial Information
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)

SIGNATURE

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

DIGI INTERNATIONAL INC.

Date: February 7, 1997

By: /s/ Jonathon E. Killmer

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