

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

FORM 10-K

(Mark one)

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

For the fiscal year ended: September 30, 1997

OR

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

For the transition period from ____ to ____.

Commission file number: 0-17972

DIGI INTERNATIONAL INC.

(Exact name of registrant as specified in its charter)

Delaware

(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)

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

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

Common stock, \$.01 par value

(Title of each class)

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

Yes No

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

The aggregate market value of voting stock held by nonaffiliates of the Registrant, based on a closing price of \$20.125 per share as reported on the National Association of Securities Dealers Automated Quotation System-National Market System on December 12, 1997 was \$236,783,746.

Shares of common stock outstanding as of December 12, 1997: 13,485,942

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, 1997 and Proxy Statement for the Registrant's Annual Meeting of Stockholders scheduled for January 28, 1998, a definitive copy of which was filed on December 26, 1997. All such information set forth below under the heading "Reference" is incorporated herein by reference.

| <u>PART I</u> | <u>ITEM IN FORM 10-K</u> | <u>REFERENCE</u> |
|----------------|---|---|
| Item 1. | Business | Business, pages 4 through 8, this document; Note 1, Notes to Consolidated Financial Statements Annual Report to Stockholders |
| Item 2. | Properties | Properties, pages 8 and 9, this document |
| Item 3. | Legal Proceedings | Legal Proceedings, pages 9 and 10, this document |
| Item 4. | Submission of Matters to a Vote of Security Holders | Submission of Matters to a Vote of Security Holders, page 10, this document |
| <u>PART II</u> | | |
| Item 5. | Market for Registrant's Common Equity and Related Stockholder Matters | Stock Listing; Dividend Policy, page 35, Annual Report to Stockholders |
| Item 6. | Selected Financial Data | Financial Highlights, and Selected Financial Information, page 2, 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 16 through 20, Annual Report to Stockholders |
| Item 7A. | Quantitative and Qualitative Disclosures About Market Risk | Quantitative and Qualitative Disclosures About Market Risk, page 10, this document |

| | | |
|-----------------|--|--|
| Item 8. | Financial Statements and Supplementary Data | Annual Report to Stockholders, pages 21 through 33 |
| Item 9. | Changes in and Disagreements with Accountants on Accounting and Financial Disclosure | Changes and Disagreements with Accountants on Accounting and Financial Disclosure, page 10, this document |
| <u>PART III</u> | <u>ITEM IN FORM 10-K</u> | <u>REFERENCE</u> |
| Item 10. | Directors of the Registrant | Election of Directors, Proxy Statement |
| | Executive Officers of the Registrant | Executive Officers of the Registrant, pages 10 through 11, this document |
| | Compliance with Section 16(a) of the Exchange Act | Section 16(a) Beneficial Ownership Reporting Compliance, 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 Related Transactions | Certain Relationships and Related Transactions, Proxy Statement |
| <u>PART IV</u> | | |
| Item 14. | Exhibits, Financial Statement Schedules and Reports on Form 10-K | Exhibits, Financial Statement Schedules and Reports on Form 10-K, pages 12 through 15, this document |

Part I

Item 1. Business

Digi International Inc. (the "Company") was formed in 1985 as a Minnesota corporation and reorganized as a Delaware corporation in 1989. The Company is a leading ISO 9001-compliant provider of data communications hardware and software that delivers seamless connectivity solutions for multiuser environments, open systems, server-based remote access and LAN (Local Area Network) markets.

The two major product areas include: 1) communications interface cards for multiuser and remote access environments which constituted approximately 76% of net sales in fiscal 1997, and 2) "physical layer" and print server products that enhance the data communications capabilities of a LAN and which constituted 24% of net sales in fiscal 1997. Neither product area is date sensitive and will not require adaptation to comply with Year 2000 requirements.

Key differentiators of the Company's communications interface cards include: 1) its embedded high-performance operating system software (firmware), and 2) the device driver software component which is optimized to work with a variety of industry-standard operating systems and allows the operating system (OS) to communicate efficiently and reliably with peripheral devices.

The Company's communications interface cards provide asynchronous (transmitting single characters at a time) and synchronous (transmitting characters in a group) data transmissions for analog modems, ISDN (Integrated Services Digital Network) X.25, Frame Relay or T1/E1 connections.

The Company's communications interface card products provide connections for two primary markets:

1. The core multiport access products provide PC-host-to-terminal serial I/O (input/output) connections. These products facilitate data transmission for point-of-sale applications, on-line transaction processing, factory automation, and data collection and dissemination, among others. The onboard firmware allows the products to quickly, accurately and reliably transmit data, thereby eliminating the information bottlenecks that can result when multiple users or devices share one processing unit. These solutions primarily use multiuser, multitasking operating systems such as UNIX (and its variations), along with standard PC servers and the communications interface card.
2. Open systems, server-based remote access products. These communications interface cards address the need for high-performance, dial-in/dial-out connections which are necessary for wide area networking, including accessing the Internet. The Company's remote access products provide the communications ports which are needed to connect telecommuters, mobile workers and branch offices to corporate LANs, or branch offices to other branches, or to make the connections to the Internet. These solutions primarily use open system

operating systems such as Novell NetWare or Microsoft Windows NT RAS (and subsequent upgrades) along with standard PC servers and the communications interface card.

The Company entered the LAN market with its acquisition of MiLAN Technology Corporation in November 1993. The MiLAN Technology Division provides cost-effective and power-efficient Ethernet, Fast Ethernet and Token Ring networking connectivity products that are installed on a LAN to increase its productivity.

The Company's LAN products are recognized for their price/performance, reliability, robust features, and superior technical support.

The Company's MiLAN networking products include these primary groups:

1. The 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, as well as the first comprehensive family of physical layer connectivity solutions for Fast Ethernet.
2. Print server products based on the 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.

The Company works closely with customers, PC and server vendors, operating system companies and other marketing partners to continuously optimize Digi's WAN and LAN products to interoperate in open systems, industry-standard environments. This assures customers the ability to choose the most flexible, cost-effective solution to meet their individual needs.

The Company markets its products to a broad range of customers, including major domestic and international distributors, system integrators, VARs (Value Added Resellers) and OEMs (Original Equipment Manufacturer).

The Company's products are sold through a network of more than 201 distributors in the United States, Canada and 70 countries worldwide and through OEM (Original Equipment Manufacturer) contracts.

In July 1991, the Company opened a sales support office in Germany to increase sales support to the European distribution network. In October 1993, the Company opened a sales support office in Singapore to increase sales support for its products to the Pacific Rim distribution network. In 1996, the Company opened similar offices in Hong Kong, Sydney and Tokyo and in 1997, the Company opened sales offices in Paris and London to better serve its non-U.S. markets.

To serve its worldwide 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 open system operating systems and industry-standard PC, server 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 computer industry is characterized by rapid technological advances and evolving industry standards. The market can be significantly affected by new product introductions and marketing activities of industry participants. The Company competes for customers on the basis of product performance in relation to compatibility, support, quality and reliability, product development capabilities, price and availability. 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 multiport access and open system, server-based remote access markets of the computer industry. With respect to the LAN 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 1995, 1996 and 1997, the Company's research and development expenditures were \$14.8, \$21.3 and \$18.0 million, 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.

Through September 30, 1997, the Company purchased \$11.8 million in secured convertible notes from AetherWorks Corporation, a development stage company engaged in the development of wireless and dial-up remote access technology. The Company is obligated to purchase up to an additional \$2.0 million secured convertible notes from time to time at the request of AetherWorks, based on certain conditions. Secured convertible notes held by the Company were convertible at September 30, 1997 into 60% of AetherWorks' common stock,

and the purchase of the \$2 million additional principal amount of secured notes would increase the Company's ownership portion upon conversion to 62.7%, based on AetherWorks' present capitalization. On October 14, 1997, the Company entered into a revised note agreement with AetherWorks, that clarifies and limits the Company's financial commitment for the purchase of convertible notes to a maximum of \$13.8 million. The revised note agreement, however, also provides for payments, at the discretion of AetherWorks, on the outstanding convertible notes of up to \$7.2 million, in exchange for a reduction in the Company's potential ownership interest, upon conversion, to 19%. The revised note agreement, among other things, rescinded previous technology transfer and manufacturing agreements. Also in connection with the financing arrangement, the Company has also guaranteed \$3.1 million of lease obligations. In addition, the Company has leased to AetherWorks \$1.3 million of computer equipment under a three year direct financing lease agreement. The Company has reported its investment in AetherWorks on the equity method and has recorded in 1997 a \$5.8 million loss which represents 100% of the AetherWorks' net loss for the year ended September 30, 1997. The percentage of AetherWorks' losses included in the Company's results of operations is based upon the percentage of financial support provided by the Company (versus other investors) to AetherWorks during fiscal 1997.

Because of the significant uncertainty of the future of AetherWorks Corporation, as demonstrated by its lack of generating positive cash flow, obtaining other sources of equity financing and its continued uncertainty in developing commercially marketable products, the Company decided, as of September 30, 1997, to write-off its remaining investment of \$2.4 million in AetherWorks, and to accrue and expense its remaining future obligation to purchase additional notes of \$2 million. In addition, it has accrued \$1.4 million for its probable obligations resulting from its guarantees of certain AetherWorks lease obligations.

During the year ended September 30, 1997, two customers comprised more than 10% of net sales: Ingram Micro at 15.1%, and Tech Data at 10.5%. For 1996, two customers accounted for more than 10% of net sales: Tech Data at 13.9% and Ingram Micro at 13.4%. During 1995, two companies comprised more than 10% of net sales: Ingram Micro accounted for 12.5% and IBM accounted for 11.7% of net sales.

As of September 30, 1997, the Company had backlog orders which management believed to be firm in the amount of \$14.7 million. All of these orders are expected to be filled in the current fiscal year. Backlog at September 30, 1996 was \$0.967 million.

During fiscal years 1995, 1996 and 1997, the Company's net sales to customers outside the United States, primarily in Europe, amounted to approximately \$33 million, \$39.9 million and \$39.6 million respectively, comprising approximately 20%, 20% and 23.9% of net sales for the applicable fiscal year.

On February 13, 1997, the Company's Board of Directors approved a restructuring plan which resulted in a restructuring charge of \$10,471,482 (\$8,283,681, net of tax benefits or \$0.62 per share). The corporate restructuring plan simplified operations, increased consolidation and reduced costs and expenses. It included the closing of the Cleveland manufacturing facility, the

reduction of selected product lines and the consolidation and closing of the Torrance, California and Nashville, Tennessee research and development facilities. These costs included (i) write downs of the carrying values of fixed assets related to the closed manufacturing and research and development facilities, (ii) write downs of the carrying values of good will and identifiable intangible assets (primarily licensing agreements related to the discontinued product lines) and related inventories and (iii) severance costs associated with the elimination of 105 positions.

Subsequent to the actions covered by the restructuring charge, the Company has made additional headcount reductions and has consolidated other research and development activities into Minneapolis.

During the fourth quarter, the Company consolidated research and development activities from facilities in Cleveland, Ohio; Redmond, Washington; and, Huntsville, Alabama to the Company's corporate headquarters in Minneapolis, Minnesota. Additional headcount reductions have been made in varying levels throughout the Company, reflecting the consolidation of duties and responsibilities at the corporate headquarters.

Actual headcount at September 30, 1997 was 481.

Item 2. Properties

The Company's headquarters and research facilities are located in a 130,000 square foot office building in Minnetonka, Minnesota which the Company acquired in August 1995 and has occupied since March 1996. The Company's primary manufacturing facility is 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 include a 46,170 square foot facility in Sunnyvale, California, the lease for which expires in April 2002. Facilities which were closed as part of the Company's restructuring, announced on February 13, 1997, included a 32,000 square foot facility in Twinsburg, Ohio, and a 10,525 square foot building in Torrance, California. Facilities which were closed, subsequent to the restructuring, and the space subleased included an 8,028 square foot research facility in Huntsville, Alabama, the sublease for which expires in February 1999; a 4,886 square foot research facility in Redmond, Washington the sublease for which expires in December 1998; and, a 17,146 square foot facility in Nashville, Tennessee, the sublease for which expires in August 2000.

The Company's sales support office in Germany is located in a 4,535 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 1,560 square foot office in Singapore, the lease for which expires in May 2000. The Company's sales support office in Australia is located in a 1,000 square foot office in Sydney, the lease for which expires in March 1998. The Company's sales support office in Hong Kong is located in a 1,400 square foot office in Causeway Bay, the lease for which expires in May 1998. The Company's sales support office in London is located in a 2,000 square foot office, the lease for which expires in June 2002. The Company's sales

support office in Paris is located in a 625 square foot office, the lease for which expires with a 30 day notice. Management believes that the Company's facilities are suitable and adequate for current office, research and warehouse requirements, and that its manufacturing facilities provide sufficient production capacity to meet the Company's currently anticipated needs.

Item 3. Legal Proceedings

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. Between January 17, 1997 and March 7, 1997, four similar putative securities class actions also were commenced. By Memorandum and Order dated April 2, 1997, the District Court consolidated all five of the putative securities class actions for all purposes including trial, appointed 21 persons to serve as lead plaintiffs in the consolidated class actions, and allowed the lead plaintiffs to file and serve a consolidated class action complaint.

On May 12, 1997, a consolidated amended class action complaint (the "Consolidated Amended Complaint") was filed in the combined actions, which are captioned In re Digi International Inc. Securities Litigation, Master File No. 97-5 (JRT/RLE) (U.S. District Court for the District of Minnesota). The Consolidated Amended Complaint alleges that the Company and its previous officers Ervin F. Kamm, Jr., Gerald A. Wall and Gary L. Deaner violated the federal securities laws by, among other things, misrepresenting and/or omitting material information concerning the Company's operations and financial results. The Consolidated Amended 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 July 3, 1997, defendants served a motion to dismiss the Consolidated Amended Complaint on the ground, among others, that it fails to plead claims in accordance with applicable law. The motion to dismiss was argued before the District Court on October 31, 1997. A ruling has not yet been received.

On February 25, 1997, the Company and certain of its previous officers also were named as defendants in a securities lawsuit filed in the United States District Court for the District of Minnesota by the Louisiana State Employees Retirement System and entitled Louisiana State Employees Retirement System in behalf of itself and in behalf of all other parties similarly situated and circumstanced who desire to personally join in this action and to contribute to the costs and expenses thereof, Plaintiffs, vs. Digi International Inc., Gary L. Deaner, Ervin F. Kamm, Jr., Gerald A. Wall, and "John Doe and "Richard Roe", the names "John Doe" and "Richard Roe" being fictitious, the parties intended being those parties, presently unknown to the plaintiff, who participated in the wrongful acts set forth herein, Defendants, Civil File No. 97-440, Master File No. 97-5 (JRT/RLE) (U.S. District Court for the District of Minnesota). On June 3, 1997, the Louisiana State Employees Retirement System filed an Amended Complaint (the "Louisiana Amended Complaint").

The Louisiana Amended Complaint alleges that the Company and its previous officers Ervin F. Kamm, Jr., Gerald A. Wall and Gary L. Deaner violated federal securities laws and state common law by, among other things, misrepresenting and/or omitting material information concerning the Company's operations and financial results.

The Louisiana Amended Complaint seeks compensatory damages in the amount of \$718,404.70 plus interest against all defendants, jointly and severally, and an award of attorneys' fees, disbursements and costs. This action has been consolidated with the consolidated class actions for pretrial purposes.

On July 17, 1997, defendants served a motion to dismiss the Louisiana Amended Complaint on the ground, among others, that it fails to plead claims in accordance with applicable law. The motion to dismiss was argued before the District Court on October 31, 1997. A ruling has not yet been received.

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, 1996.

Part II

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

Not applicable.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Part III

Item 10. Executive Officers of the Registrant

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

| <u>Name</u> | <u>Age</u> | <u>Position</u> |
|---------------------|------------|---|
| John P. Schinas | 60 | Chairman of the Board of Directors |
| Jerry A. Dusa | 50 | Director, President and Chief Executive Officer |
| Jonathon E. Killmer | 56 | Senior Vice President, Chief |

| | | |
|-------------------|----|--|
| | | Financial Officer and Treasurer |
| Douglas J. Glader | 54 | Senior Vice President, Manufacturing Operations |
| Dino G. Kasdagly | 43 | Senior Vice President, Development |

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. Dusa has been a member of the Board of Directors and President and Chief Executive Officer of the Company since March 12, 1997, after serving the Company as interim acting Chief Executive Officer from January 3, 1997 to March 12, 1997. Prior to January 3, 1997, Mr. Dusa had been the owner and principal of Phase One Partners, Inc., an investment and consulting business, since 1995 and had acted as a consultant to the Company in this capacity since August 1996. From 1994 to 1995, Mr. Dusa was Vice President of Fujitsu Microelectronics, Inc., a manufacturer of integrated circuit products. From 1993 to 1994, Mr. Dusa was President of Eagle Technology, a manufacturer of network connectivity products. From 1992 to 1993, Mr. Dusa was President of Kalpana, Inc., a manufacturer of network connectivity products. Prior to 1992, Mr. Dusa held executive management positions with a number of high technology companies including IBM Corporation, 3Com Corporation and Tandem Computers. Mr. Dusa is a director of Data Systems Network Corp., a data communications company.

Mr. Killmer joined the Company in October 1996, as Vice President, Chief Financial Officer and Treasurer. He was named Senior Vice President in July 1997. Prior to joining the Company, Mr. Killmer had been a partner in the professional services firm of Coopers & Lybrand L.L.P., most recently as the Managing Partner of the Minneapolis/St. Paul office from 1990 until his joining the Company.

Mr. Glader was named Vice President of Operations in February 1995 and Senior Vice President, Manufacturing Operations, on April 23, 1997. Before that, he was formerly Director of Manufacturing and Operations for MiLAN Technology Corporation, which the Company acquired in November 1993. He began his career with Memorex Corporation and also worked for Measurex Corporation, Altus Corporation and Direct Incorporated. He founded and was vice president of operations for Greyhawk Systems, Inc., a manufacturer of electronic imaging hardware and software.

Mr. Kasdagly joined the Company in October 1997, as Senior Vice President, Development. Prior to joining the Company, Mr. Kasdagly had been an executive with IBM Corporation

since November 1980, most recently as Director, Division Quality and Business Reengineering for IBM's AS/400 Division.

Part IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 10-K

(a) Consolidated Financial Statements and Schedules of the Company and Financial Statements of AetherWorks Corporation

1. Incorporated by reference to pages 21 through 32 of the Company's 1997 Annual Report to Stockholders:

Consolidated Statement of Operations for the fiscal years ended September 30, 1997, 1996 and 1995

Consolidated Balance Sheets as of September 30, 1997 and 1996

Consolidated Statement of Cash Flows for the fiscal years ended September 30, 1997, 1996 and 1995

Consolidated Statement of Stockholders' Equity for the fiscal years ended September 30, 1997, 1996 and 1995

Notes to Consolidated Financial Statements

Report of Independent Accountants

2. AetherWorks Corporation Financial Statements

Balance Sheets as of September 30, 1997 and 1996

Statement of Operations for the years ended September 30, 1997 and 1996 and period from February 24, 1993 (inception) to September 30, 1997

Statement of Shareholders' Equity (Deficit) for the years ended September 30, 1997 and 1996 and period from February 24, 1993 (inception) to September 30, 1997

Statement of Cash Flows for the years ended September 30, 1997 and 1996 and period from February 24, 1993 (inception) to September 30, 1997

Notes to Financial Statements

Report of Independent Accountants

3. Included in Part II:

Report of Independent Accountants on Financial Statement Schedule

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

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

(c) Exhibits

Exhibit

Number Description

3(a) Restated Certificate of Incorporation of the Registrant (4)

3(b) Amended and Restated By-Laws of the Registrant (2)

10(a) Stock Option Plan of the Registrant

10(b) Form of indemnification agreement with directors and officers of the Registrant (1)

10(c) Amended and Restated Employment Agreement between the Company and John P.Schinas (5)

10(d) Restated and Amended Note Purchase Agreement between the Company and AetherWorks Corporation, dated October 14, 1997

10(e) Employment Arrangement between the Registrant and Mike Kelley, dated February 7, 1996 (8)

10(f) 401(k) Savings and Profit Sharing Plan of Digi International Inc. (3)

10(h) Consulting Agreement between the Company and Mykola Moroz (5)

10(i) Employment Arrangement between the Registrant and Jonathon E. Killmer, dated September 16, 1996 (8)

- 10(j) Employment Arrangement between the Registrant and David Rzasa, dated September 30, 1996 (8)
- 10(k) Separation Agreement between the Company and Gerald A. Wall, dated December 4, 1996 (8)
- 10(l) Separation Agreement between the Company and Ervin F. Kamm, Jr. dated January 3, 1997 (9)
- 10(m) Employment Agreement between the Company and Jerry A. Dusa, dated March 12, 1997 (10)
- 10(n) Employment Agreement with Ray D. Wymer, as amended by Amendment No. 1 to Employment Agreement (7)
- 10(p) Employment Arrangement between the Registrant and Douglas Glader (7)
- 10(p) (i) Amendment to Employment Agreement between the Company and Douglas Glader (9)
- 10 (q) Employment Agreement between the Registrant and Dana R. Nelson for fiscal 1995 and 1996 (7)
- 10(r) Employment Agreement between the Company and Dino G. Kasdagly, dated October 1, 1997
- 10(s) Employee Stock Purchase Plan of the Registrant (6)
- 13 1997 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
- 23.1 Consent of Independent Accountants
- 23.2 Consent of Independent Accountants
- 24 Powers of Attorney
- 27 Financial Data Schedule

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

- (2) Incorporated by reference to the corresponding exhibit number of the Company's Registration Statement on Form S-1 (File no. 33-42384).
- (3) Incorporated by reference to the corresponding exhibit number of the Company's Form 10-K for the year ended September 30, 1991 (File no. 0-17972).
- (4) Incorporated by reference to the corresponding exhibit number of the Company's Form 10-K for the year ended September 30, 1993 (File no. 0-17972).
- (5) Incorporated by reference to the corresponding exhibit number of the Company's Form 10-K for the year ended September 30, 1994 (File no. 0-17972).
- (6) Incorporated by reference to Exhibit B to the Registrant's Proxy Statement for its Annual Meeting of Stockholders held on January 31, 1996.
- (7) Incorporated by reference to the corresponding exhibit number of the Company's Form 10-K for the year ended September 30, 1995 (File no. 0-17972).
- (8) Incorporated by reference to the corresponding exhibit number of the Company's Form 10-K/A for the year ended September 30, 1996 (File no. 0-17972).
- (9) Incorporated by reference to the corresponding exhibit number of the Company's Form 10-Q for the quarter ended December 31, 1996 (File no. 0-17972).
- (10) Incorporated by reference to the corresponding exhibit number of the Company's Form 10-Q for the quarter ended March 31, 1997 (File no. 0-17972).

