SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

INTERFACE SYSTEMS INC

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[ ] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended September 30, 1996
or
[ ] Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

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Commission File Number 0-10902
INTERFACE SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Delaware	38-1857379
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5855 Interface Drive Ann Arbor, Michigan	48103
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (313) 769-5900

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

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $.10

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

YES X NO

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

The aggregate market value of the registrant's voting stock held by non-affiliates as of December 6, 1996, computed by reference to the closing price per share for such stock on the Nasdaq Stock Market National Market on such date, was approximately $21,294,083.04 (assuming, but not admitting for any purpose, that all executive officers and directors of the registrant may be deemed affiliates).

The number of shares outstanding of the registrant's common stock as of December 6, 1996 was 4,535,879.

PART I

ITEM 1. BUSINESS

Interface Systems, Inc. ("Interface Systems") was organized under

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the laws of the State of Delaware in 1969 as a result of the consolidation of Kencorp, Inc. with Interface, Inc. Interface Systems and its subsidiaries are referred to herein as the "Company". The Company's executive offices are located at 5855 Interface Drive, Ann Arbor, Michigan 48103 and its telephone number is (313) 769-5900.

The Company designs, manufactures and markets two families of products and services, all of which are used primarily to connect remote users in large enterprises to legacy applications on IBM mainframe and AS/400 computers. The Company's Presentation Products include printers and Oasis software for managing printing and viewing in client-server environments.

The Cleo Products Group of the Company ("Cleo") designs and manufactures specialty data communications systems. These systems are largely aimed at linking personal and mini computers to large IBM mainframe computers via IBM's 3270 and 3780 protocols. Cleo specializes in providing UNIX capability to IBM users. Cleo's 3780 products are used for file transfer in the EDI (Electronic Data Interchange) marketplace.

Through one of its wholly-owned subsidiaries, I.G.K. Industries, Inc. ("IGK"), the Company manufactures and markets printed circuit boards which are utilized in a variety of applications, including personal computers, computer peripherals, medical instrumentation and robotic modules, as well as printer controllers and communications cards assembled and marketed by the Company.

In 1992, the Company acquired its European distributor Sintec Peripherals, Ltd. ("Sintec"). Sintec, which has been renamed Interface Systems International, Ltd. ("ISIL"), distributes the Company's printer and communications products throughout Europe. Located outside of London, England in Slough, and in Birmingham, England, ISIL also distributes laser printers, personal computers and supplies from other manufacturers.

On February 26, 1993, the Company distributed all of the outstanding stock of its wholly-owned subsidiary, Nematron Corporation ("Nematron"), to Interface's shareholders.

On August 1, 1994, ISIL acquired the assets relating to the distribution business of Mekom, plc., a wholly-owned subsidiary of Copymore, plc. The purchased business distributes computer products and accessories to dealers throughout the United Kingdom. As of August 1, 1995, the Company terminated its use of the Mekom name and incorporated the functions of the Mekom business into ISIL.

This "Business" section contains forward looking statements that involve uncertainties. Actual results could alter materially from those in the forward looking statements due to a number of uncertainties, including but not limited to those discussed below and in Management's Discussion and Analysis of Financial Condition and Results of Operations - Uncertainty Relating to Forward - Looking Statements.

Products

Printers

The Company currently produces approximately 15 models of IBM-compatible mainframe and midrange system printers ranging in price from $1,000 to $16,000. These products generally feature design and performance advantages over their IBM equivalents including higher speed, unique large-character and bar code printing capabilities, and versatile paper feed and handling options. The Company competes in the medium and high performance desktop segments of the market for IBM printers where users require reliable printers principally for information processing, word

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processing, graphics and other business or manufacturing applications. The Company does not compete in the low-end personal computer segment of the market.

Dot Matrix Printers

The Company produces the 7224 series of printers, which is plug-compatible with the IBM 4224 printers, a series of dot matrix printers. The IBM 4224 is different from previous IBM dot matrix printer products in that it supports "Intelligent Printer Data Stream" ("IPDS") which is a page description and printer management language. This language is a subset of AFP "Advanced Function Presentation", IBM's stated long range architectural strategy for managing computer output. Since the introduction of the 7224 series of printers, management believes that the Company has been the first printer manufacturer to deliver a printer product compatible with each new IBM desktop IPDS printer series. The Company also manufactures its 7230 series of dot matrix printers which compete with the IBM 4230 printer. These products are similar to the 7224 series except that they have additional features to emulate the IBM 4230 printer. Late in 1996, higher speed dot matrix printers were being evaluated for two new models which may be released in fiscal 1997.

Laser Printers

The Company manufactures an 8 page per minute ("ppm") laser printer, Model 7028, which competes with the IBM 4028, a 10 ppm laser printer, and a model 7817, 17 ppm laser printer. The Company's 7028 and the 7817 laser printers include features which are unavailable in the IBM printers and are designed to help solve printing problems for banks, insurance companies, and other industries, which utilize distributed data processing, a method whereby documents are produced in one area but can be printed at remote locations. The Model 7817T, a 17 ppm RISC processor based laser printer, was introduced early in fiscal 1995. Also, late in 1995, the Company introduced the 9508, a unique desktop AFP printer with support for duplex, 11" X 17" and a number of other advantages. In 1996, the Company introduced the 9624, a 24 ppm printer. Late in 1996, the printer business unit began looking into the addition of new laser printer product models for possible release in fiscal 1997.

Other printer enhancements, such as MICR check printing, and AFP Resource Caching (ARC), were introduced into Interface printers late in fiscal 1993. ARC is the ability to save fonts and overlay forms in the printer, eliminating the need to download the forms from the host at each printing session. These features continue to be enhanced and are included in the Company's models that were introduced in fiscal 1995 and fiscal 1996.

Circuit Boards

The Company, through its wholly owned subsidiary I.G.K., manufactures printed circuit boards. The circuit boards are single sided, double sided and multi-layered, with up to 10 layers.

Software for managing printing and viewing

In fiscal 1993, the Company began development of a new product, "Oasis", a software product which distributes AFP and other host printing capabilities to client-server environments in remote branch offices. Oasis, enables users to print or view business critical documents on LAN-attached printers and work-stations on their desktop. "Oasis" was introduced in 1994 and further software development has continued throughout fiscal 1994, 1995 and 1996. Oasis is designed to improve business processes by distributing

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critical documents to branch offices where they are needed. The Company believes that Oasis can also decrease customer costs by reducing or eliminating the need for high speed page printers, mail rooms, and mailing costs. The Company is developing Oasis on popular branch office operating systems, including Windows NT, OS/2 for the IBM PC, and AIX for IBM's RS/6000 in fiscal 1996. In 1996, the Windows NT version of Oasis began generating modest revenue. Oasis, for the other platforms listed above and the AS/400, is expected to be released in early calendar 1997.

In addition to Oasis, in 1996, the Company remarketed other software applications and tools for managing AFP printing and viewing. In 1996, the Company began offering faxing and archiving products in conjunction with its Oasis product. The Company has also begun offering consulting and training services in conjunction with Oasis products.

Data Communications

The Company's Cleo Products Group designs and manufactures products used to connect personal computers, work-stations, and midrange computers to IBM-compatible mainframes. A typical Cleo product combines terminal emulation software and a communications board, which are installed in the PC, work-station, or midrange system.

Cleo also focuses on providing connections to mainframe-based SNA (Systems Network Architecture) networks for personal computers running UNIX operating systems. Cleo's LINKix, recently renamed Cleo 3270, family of UNIX-to-SNA connectivity solutions has expanded to include 3270 emulation, 3770 RJE emulation, HLLAPI (High-Level Language Application Program Interface), and APPC (Advanced Program-to-Program communications) capabilities.

Since 1994, IBM mainframe users have looked beyond traditional SNA to explore alternative enterprise networking solutions. In response, the Company extended its Cleo line of Unix-to-mainframe connectivity products to work in TCP/IP, X.25, and Token-Ring networks. The Company is also developing new Cleo packages to support the Company's Oasis products and the client/server approach to distributed computing. Cleo 3270 client/server product was completed in fiscal 1995.

Cleo also specializes in communications for EDI, the automated transfer of standard business documents, such as purchase orders, invoices, and shipping notices, over computer networks. Cleo's 3780Plus is the EDI industry's leading product for 3780/2780 RJE (Remote Job Entry) emulation in BSC (Binary Synchronous Communications) networks. 3780Plus has now been installed on over 85,000 computer systems worldwide. Changes continue to occur in the Company's EDI communications business and, accordingly, the Company has continued the development and enhancement of its 3780Plus products to ensure compatibility with virtually every major PC and work-station platform. For example, the Company developed a new Microsoft Windows-compatible version of its popular 3780Plus batch file transfer package and added 3780Plus support for Digital Equipment Corporation's new Alpha AXP work-stations. In fiscal 1995, the Company introduced a synchronous communications product line called A+, which in fiscal 1996, the Company expanded to many additional platforms.

Distribution Business

In 1994, the Company's wholly owned subsidiary ISIL in the UK acquired the Mekom distribution business, a division of Copymore Plc. The Mekom business, located in Birmingham and ISIL's distribution business in

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Slough now operate as the ISIL distribution business and supply dealers in the UK. The primary products distributed include Canon printers, Kyocera printers and Toshiba lap top personal computers. ISIL also provides supplies and consumables for the products it distributes. In fiscal 1996, ISIL was selected as one of two distribution businesses in the UK to distribute IBM's complete desktop printer line.

Marketing

The Company's customers include end-users, original equipment manufacturers, distributors and system integrators. The Company sells or leases its products domestically utilizing direct advertising, Company sales personnel, independent manufacturers' representatives and distributors. The Company has sales offices and personnel in Ann Arbor, Michigan; Boston, Massachusetts; Loves Park, Illinois; King of Prussia, Pennsylvania; and Irvine, California; and manufacturers' representatives in New York, North Carolina, Michigan, Kentucky, Illinois, Indiana, and Ohio.

The Company's product sales in Europe are made through the Company's wholly-owned subsidiary, ISIL, a master distributor in the United Kingdom which sells to OEM's and other distributors throughout Europe and handles export sales throughout the Eastern Hemisphere. Export sales to South America and Canada are made from the Company in the U.S. The Company has written agreements with most of its foreign distributors.

The following table sets forth certain information with respect to the Company's domestic and export sales during the fiscal years ended September 30, 1996, 1995, and 1994:

	Year Ended September 30,		
	1996	1995	1994
Domestic Revenues	$15,175	$17,109	$21,674
Foreign Revenues	59,408	53,134	17,338
Net Revenues	$74,583	$70,243	$39,012

See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Fiscal 1996 Compared to Fiscal 1995 and Fiscal 1995 Compared to Fiscal 1994."

The Company markets its line of 3270-compatible printers and Oasis printing and viewing solutions primarily to Fortune 1,000 companies. The AS/400 printers extend the Company's market to small and medium-sized companies. The Company's Cleo products are sold to companies which have IBM mainframes or which access IBM mainframes from micro or midrange computers. The Company has combined its communications sales and marketing with the printer sales and marketing, as customer prospects for the Company's products continue to overlap. The Company's customers include Alcatel Business Systems, Ltd., Chrysler Corp., Digital Equipment Corp., Electronic Data Systems Corp., International Business Machines Corporation, Lucent Technologies, Boeing Computer Services, Honda of America MFG, Inc., McDonnell Douglas Aerospace Information Services Co., Mercy Center Hospital, Northwest Airlines, Sears Roebuck and Co., Standard Electrik Lorenz Aktieng Ensellschaft, Sterling Commerce, Inc., Morristown Memorial Hospital, Tennessee Valley Authority and Union Pacific Railroad, Allstate, Inc., Charles Schwab, and Kroger Company.

The Company maintains a printer service department which provides direct service for customers in Southeastern Michigan, Columbus, Ohio and

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Southern California. Elsewhere, the Company provides service through third parties, Bell Atlantic Business System Services and Vanstar Corporation, each of which has offices throughout the United States. Service to export customers is performed by the personnel of each foreign distributor. The Company trains and supports the personnel of Bell Atlantic Business System Services, Vanstar Corporation and its foreign distributors at the Company's headquarters. Communication products are serviced by a technical support group located at corporate headquarters in Ann Arbor, Michigan.

Manufacturing and Supply

The Company's manufacturing operations consist primarily of the assembly of parts purchased from other sources, including printer mechanisms, logic boards, and power supplies. These parts are assembled into finished products which support the software developed at the Company. IGK manufactures printed circuit boards which are sold to the Company and to others. The Company has purchased and designed a variety of assembly and test equipment to reduce the cost and ensure the quality of the assembly process. A computerized system developed for the Company is used to manage purchasing, production, scheduling and inventory.

Some components used in the Company's products are currently purchased from single or limited sources of supply. The Company purchases most of its printer mechanisms from Bull Italia, and Canon. ISIL distribution purchases the majority of their products from Canon, Kyocera, Toshiba, and IBM. The Company believes that the loss of one or more suppliers would not have a material long-term impact on its operations.

The Company believes that backlog is not significant in its business because of the relatively short time span (approximately 24 hours to 30 days) between receipt of customer orders and product delivery. In addition, orders on hand may be subject to cancellation by the customer without substantial penalty.

Competition

The Company operates in a highly competitive environment with several well-established competitors, many of which have substantially greater resources than the Company. Several of these competitors are independent suppliers, offering one or more types of products in competition with the Company. The Company believes that its major competitor is IBM.

Previously, the Company competed primarily on price; today, the Company is differentiating itself through the unique features of its hardware and software products, as well as the products' reputation for reliability and ease of use, and the quality of the Company's support services. With respect to printers, the Company competes primarily on the basis of its ability to offer IBM plug-compatible printers that feature advantages in software and hardware design and performance over their IBM counterparts. Competition is becoming more difficult as IBM is no longer obligated to purchase their desk top printers from a single source (Lexmark). Significant reductions in IBM printer prices could adversely affect the Company's revenues and margins.

The Company's printers are designed to be compatible with the IBM mainframe, AS/400 and RS/6000 product lines. As IBM has periodically introduced new products or modified its lines of products, the Company has made appropriate modifications to its printers. If IBM discontinued or significantly redesigned its product lines, the Company's printer business could be adversely affected. With respect to Oasis printing and viewing software, the Company competes primarily with IBM products on the basis of features. Several other smaller companies have also entered the market,

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with products that are competitive with Oasis.

Competition for Cleo products consists of many large and smaller companies selling competing IBM 3270 products, and a limited number of small companies selling IBM 3780 products. Cleo has an excellent reputation in the IBM 3780 market, and in the UNIX to IBM mainframe connectivity market. Management believes that Cleo is viewed by the IBM connectivity communications industry as a company offering quality and high performance products, and engineering services capable of customizing user requirements.

The Company's business is subject to the computer industry trend toward distributed data processing and downsizing or "rightsizing". The Company believes that this trend, along with a greater interest in Open Systems and LANS (Local Area Networks) at the branch office, offer new opportunities as well as new competition, for the Company's printer, Oasis and Cleo products.

The Company is adapting to the changing marketplace by merging its printer and communications technology for some of its new product development, including the Company's new Oasis products. For some platforms, the Oasis products use the Company's Cleo product technology for connectivity from the LAN to the headquarters mainframe and printer product software technology to provide mainframe printing capability on the LAN. In fiscal 1996, the Company has noticed a slight resurgence of interest in the mainframe as the source of data from legacy systems. While the environment continues to be favorable for our Oasis products, there is competition from companies, including IBM, which have products capable of performing functions similar to Oasis.

Competition in Europe for core products sold by ISIL is similar to that in the United States. Competition for our distribution business in the UK consists of several distributors who are larger and carry broader product lines than the Company's distribution business, as well as many smaller competitors.

Product Development

Since its inception, the Company has maintained a product development program and continues to supplement existing research and development capabilities through active recruiting of technical personnel and development of proprietary technology. In addition to merging the Company's sales and marketing for its communications and printer products,the Company is combining product development personnel. This combination supports development of the Company's new Oasis product(s) which utilize both connectivity and printing software. The Company currently has a staff of approximately 35 persons who work closely with marketing and field personnel to determine emerging user needs in data processing, and who continually review and evaluate technological changes affecting the Company's primary market.

The Company places emphasis on research and product development and the employment of highly skilled and motivated individuals in these areas. Management believes that a strong product development staff is an important factor contributing to the Company's ability to compete successfully in the markets in which its products are sold. During the fiscal years ended September 30, 1996, 1995 and 1994, the Company expended approximately $865,000, $712,000, and $619,000 respectively, for research, development and engineering. All of such costs were sponsored by the Company. These figures do not include software development costs which are capitalized under Financial Accounting Standards No. 86, equalling $2,333,675, $1,998,022, and $1,991,416 for the years ended September 30, 1996, 1995 and 1994, respectively. See Note 1 of Notes to Consolidated Financial

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Statements. See also "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Fiscal 1996 Compared to Fiscal 1995."

Employees

The Company currently employs approximately 220 employees. None of the Company's employees are represented by collective bargaining unit, and the Company believes its employee relations to be good.

ITEM 2. PROPERTIES

The Company's principal office and manufacturing facilities occupy approximately 66,000 square feet in two buildings located in Ann Arbor, Michigan. The facilities were designed and built to the Company's specifications and the Company believes that they are adequate for its present and for its future operations.

The Company also rents office space in London, England; Birmingham, England; Massachusetts, California, Pennsylvania, Illinois, and France, with an annual rental expense expected of $422,000 for fiscal 1997. See Note 9 of Notes to Consolidated Financial Statements.

ITEM 3. LEGAL PROCEEDINGS

Not applicable.

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

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common stock is traded in The Nasdaq Stock Market National Market under the symbol "INTF". The following table sets forth, for the periods indicated, the range of high and low sales prices for the Common Stock as reported on the Nasdaq National Market:

	High	Low
Fiscal 1995		
First Quarter	$10.00	$ 4.50
Second Quarter	9.25	6.75
Third Quarter	8.00	5.375
Fourth Quarter	6.25	4.875
Fiscal 1996		
First Quarter	$12.75	$ 4.75
Second Quarter	19.5	10.75
Third Quarter	18.5	7.75
Fourth Quarter	9.0	5.625

The last reported sale price for the Company's Common Stock on December 6, 1996, as reported on the Nasdaq National Market, was $5.38. On December 6, 1996, there were approximately 812 holders of record of the

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Company's Common Stock.

The Company had warrants, which were extended in May 1995, and expired on December 29, 1995. See Note 10 of Notes to Consolidated Financial Statements for information relating to the conversion of the Warrants.

The Company initiated the payment of cash dividends during fiscal 1994. Dividends of $0.04 per share, when declared are paid quarterly to holders of common stock. A quarterly dividend of $0.04 per share was paid through November 1995. At a Board of Directors meeting on January 12, 1996 the Directors suspended indefinitely the payment of a dividend. In the future, the payment of dividends again will depend on the Company's business, prospects and other factors considered by the Company's Board of Directors.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data were derived from the Company's Consolidated Financial Statements which were audited by BDO Seidman, LLP. The information set forth below should be read in conjunction with the Company's Consolidated Financial Statements and the Notes thereto set forth elsewhere in this report.

	Year Ended September 30,				
	1996	1995	1994	1993	1992
	(In thousands, except per share data)				

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Income Statement Data (1)(2):					
Net	$74,583	70,243	39,012	33,782	42,533
Cost of Revenues	63,798	57,516	24,500	20,534	26,440
Gross Profit.............	10,786	12,727	14,512	13,248	16,093
Product Development Costs, Selling, General and Administrative Expenses.................	13,578	11,960	10,094	10,026	13,133
Operating Income(loss)....	(2,792)	767	4,418	3,222	2,960
Dividend and Interest Income...................	200	186	131	39	174
Interest Expense..........	(340)	(264)	(172)	(210)	(318)
Net Losses and Costs of Spin-off of Subsidiary(2)	---	---	---	(163)	(400)
Miscellaneous.............	---	17	13	(6)	(66)
Income(loss)Before Taxes on Income (tax benefit) and Accounting Change....	(2,932)	706	4,390	2,882	2,350
Taxes on Income (tax benefit)(3)..............	(969)	540	1,428	1,177	868
Income (loss) before Accounting Change...................	(1,963)	166	2,962	1,705	1,482
Accounting Change(4)	---	---	(127)	---	---
Net Income (loss).........	(1,963)	166	2,835	1,705	1,482
Earnings(loss) per Share(4)(5)..............	($.44)	$ .04	$ .68	$ .41	$ .35
Dividends per Share.......	---	$ .16	$ .16	---	---
Weighted Average Shares Outstanding (5)..........	4,440	4,239	4,170	4,141	4,263

As of September 30,

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	1996	1995	1994	1993	1992
			(In thousands)		
Balance Sheet Data (1)(2):					
Working Capital.......	$10,533	$11,622	$12,420	$11,328	$ 9,754
Total Assets..........	38,879	33,952	31,899	25,362	29,809
Long-Term Debt........	235	287	334	487	663
Stockholders' Equity..	21,253	21,214	21,421	9,139	24,344

(1) Reflects the operating results of ISIL since February 1, 1992 and the operating results of the distribution business acquired from Mekom, plc. since August 1, 1994.

(2) The 1992 financial statements include the accounts of Nematron, a former wholly-owned subsidiary of the Company which was spun-off in February 1993. At September 30, 1992, the measurement date of this transaction, the net assets of Nematron were separately classified in the balance sheet as "Net Assets of Subsidiary Held for Disposal" and a provision of $400,000 was recorded for the estimated 1993 losses of and costs of the spin-off. The 1993 results of operations of Nematron are not reflected in the financial statements; however, the net loss of Nematron for the five months ended February 28, 1993 and the 1993 costs of the spin-off in excess of the amount provided for at September 30, 1992 are recorded as an Other Expense.

(3) See Note 7 of Notes to Consolidated Financial Statements.

(4) The accounting change reflects the Company's adoption of SFAS 109, "Accounting for Income Taxes" in the first quarter of 1994. This accounting change reduced net income by $127,000, or $0.03 per share. See Note 1 of Notes to Consolidated Financial Statements.

(5) See Note 1 of Notes to Consolidated Financial Statements.

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

Results of Operations

The following table is included as an aid to understanding the Company's operating results and should be read in conjunction with the selected financial data and Consolidated Financial Statements (including the Notes thereto) appearing elsewhere in this report.

Percentage Relationship to Net Revenues
Year Ended September 30,

	1996	1995	1994
Net Revenues....................	100.0%	100.0%	100.0%
Cost of Revenues................	85.5	81.9	62.8
Gross Profit....................	14.5	18.1	37.2
Product Development, Costs, Selling, General and Administrative Expenses.........	18.2	17.0	25.9
Operating Income(loss)..........	(3.7)	1.1	11.3
Other Income....................	0.3	0.3	0.4
Interest Expense................	(0.5)	(0.4)	(0.4)
Income(loss) Before Taxes on Income(tax benefits) and Accounting Change	(3.9)	1.0	11.3
Accounting Change	---	---	(0.3)
Taxes on Income(tax benefit).....	(1.3)	0.8	3.7
Net Income(loss)................	(2.6)%	0.2%	7.3%

Overview

The Company has established itself in Advanced Function Presentation(AFP) by offering a broad line of printers (printer products) and software for network servers that support printing and viewing of the output from IBM mainframe and mini (AS/400) computers. The Company is active in XPLOR, the national trade association for companies which offer electronic document management solutions for large corporations. XPLOR's membership consists of many Fortune 500 companies and others.

The Company's Cleo 3270 products (now called Cleo Enterprise Network products) which made their first significant contribution to revenues in fiscal 1992 gained in importance in fiscal 1993 and 1994. Installation of these products pursuant to several major contracts with large retail companies began in fiscal 1993 and was completed in fiscal 1994. In fiscal 1995, the Cleo Enterprise Network Group completed its Cleo 3270 client server product and in 1996, has further enhanced this product. In 1995 the Cleo 3780 group (now known as Electronic Commerce Products) introduced A+, a synchronous file transfer product. The 3780Plus product enhancements, introduced over the last two years, continued to be well received by the electronic data interchange (EDI) market. In 1996, the A+ product was modified to operate on an expanded number of platforms.

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In fiscal 1993, the Company began the process of combining printer AFP engineering and 3270 LINKix engineering to design new products which the Company anticipates will be responsive to the changing industry. "Oasis" is the first product resulting from this combination and was announced in November 1993 at the annual XPLOR conference. The development of Oasis began the integration of the Company's major product lines which heretofore had been separate. In fiscal 1994 and 1995, the Company has continued the development and improvement of its Oasis product technology. The Company began aggressively marketing the expanded and improved Oasis product in fiscal 1996.

In fiscal 1995, the Company moved the Cleo Enterprise Network group into a 12,000 square foot addition to its corporate headquarters. This physical combination of sales, marketing and engineering is part of the Company's continuing efforts to expand areas of synergy between printing connectivity and communication products.

In fiscal 1996 IGK continued to supply printed circuit boards to the Company and outside customers throughout the midwest and the southeast.

Fiscal 1996 compared to Fiscal 1995

Net revenues for the fiscal year ended September 30, 1996 increased 6.2% over the previous fiscal year. The increase was due to higher revenues from the ISIL distribution business in Slough and Birmingham, England. See Note 13 of Notes to Consolidated Financial Statements. Core product sales which consist of Printer products, Oasis products, Cleo Enterprise Network products and Cleo Electronic Commerce products were down approximately 16% over the prior year. The reduced sales of core products were in the Printer products and the Cleo Enterprise Network products areas. Revenues from printer products decreased as a result of increased competition and greater sales emphasis on Oasis products. Cleo Enterprise Network products revenues were down primarily due to a continuing lack of large Cleo 3270 communication product sales. While there is no assurance that the core product revenues will increase in fiscal 1997, the Company is taking steps to address the declining sales. Specifically Product Management Teams have been established for each core product line (Printers, Oasis, Enterprise Network and Electronic Commerce). These teams have bottom line responsibility for their products and are charged with addressing areas such as inventory, product costs, sales margins, overhead costs, marketing and sales programs. As a result of the Product Teams each product line is receiving focused attention, and the Company believes that such focus will show positive results.

Cost of revenues for fiscal 1996 was 85.5% of net revenues versus 81.9% in fiscal 1995. The increase is primarily due to the increased distribution business which carries much lower margins than the core product business. Margins in the distribution business were very low due to the nature of the business which has gross margins of 6% to 8%, as well as competitive pressures which can drive margins even lower on very large sales. Cost of revenues in the distribution business increased slightly in fiscal 1996 versus fiscal 1995. While there can be no assurance that the cost of revenues in the distribution business will decline in the future, the Company is implementing programs to improve the distribution business margins and is introducing a new product line that carries higher than average margins. Cost of revenues in the core product business went up approximately 5% primarily due to higher printer cost of sales which include approximately $180,000 in charges from a printer vendor for cancellation of printers and accessory orders and approximately $100,000 of higher royalty payments on licensed software. In addition, cost of revenues was up due to an increase of approximately $225,000 in the amortization of capitalized

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development costs. Cost of revenues as a percentage of revenues also went up due to fixed manufacturing expenses. While there can be no assurance that cost of revenue will come down in fiscal 1997, management, through the new business unit organizations and increased management attention, is focused on reversing this trend.

Product development, selling and general and administrative expenses (operating expenses) were 18.2% of net revenues for fiscal 1996 versus 17% for fiscal 1995. The increase represents increases in every category of operating expenses, product development, sales and marketing, and general and administrative. Product development expenses were up in the Enterprise Network product area and in the Oasis product area. The Enterprise Network product development expenses were up due to a reduction in the amount of capitalized Research and Development. Sales and marketing expenses were up primarily due to the expansion of the Company's export market through the establishment of new distribution channels in the Middle East and Pacific Rim areas. General and Administrative expenses were up due to a number of specific factors. In June of 1996, the President and CEO resigned his position and was replaced by an Executive Committee of the Board of Directors until a replacement CEO could be found. As a result of the CEO,

resignation, approximately $550,000 of expenses were incurred, including consulting expenses, in preparation for the executive search, the search itself, compensation for the Executive Committee members, including the interim CEO, and compensation to the former CEO as part of a termination agreement.

The first quarter and possibly the second quarter of fiscal 1997 will continue to have some expenses associated with interim management and the hiring of a new CEO. In addition, General and Administrative expenses were up approximately $440,000 for legal expense from the settlement of three unrelated law suits and their associated legal costs, and additional legal expenses due to the services required by the changes in the Company's management.

Operating loss was 3.7% of revenues in fiscal 1997 versus income of 1.1% in fiscal 1995. The decrease was due to the higher cost of revenues and increased operating expenses as described in the paragraphs above.

Taxes on Income (tax benefit) on income(loss) was (1.3%) of net revenues in fiscal 1996 versus 0.8% in fiscal 1995. The effective tax rate in fiscal 1996 was (33%) versus 76% in fiscal 1995. The tax benefit in 1996 was due primarily to the loss incurred during the year. The high effective rate for fiscal 1995 was primarily due to the non-deductible losses of our foreign subsidiary ISIL and non-deductible amortization of goodwill. See Note 7 of Notes to Consolidated Financial Statements.

As a result of the above factors, a net loss of 2.6% of net revenues was incurred in fiscal 1996 down from net income of 0.2% of net revenues in fiscal 1995.

Fiscal 1995 compared to Fiscal 1994

Net revenues for the fiscal year ended September 30, 1995 increased 80.1% over the previous fiscal year. The increase was due to higher revenues from the ISIL distribution business in Slough and Birmingham, England (Mekom). In fiscal 1995 we operated the Mekom business for 12 months versus 2 months in fiscal 1994. See Note 13 of Notes to Consolidated Financial Statements. Core product sales (printers and communications) were down approximately 20% from fiscal 1994. The majority of the reduction in core product revenue was attributable to the lack of large corporate communications sales of Cleo 3270 product in fiscal 1995. In fiscal 1994, the Company had significant deliveries on four large corporate contracts for

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its Cleo 3270 products.

Cost of revenues for fiscal 1995 was 81.9% of net revenues versus 62.8% in fiscal 1994. The increase is primarily due to the increased distribution business which has very high cost of sales. Margins in the distribution business were very low due to the nature of the business which has gross margins of 6% to 8%, as well as competitive pressures which can drive margins even lower on very large sales. In the core product area the Company's cost of revenues were up approximately 4.5% due to the product mix of reduced high margin Cleo 3270 software sales, the write down of slow moving printer inventory and amortization of software development cost increases in fiscal 1995 versus 1994.

Product development, selling and general and administrative expenses ("operating expenses") were 17% of net revenues for fiscal 1995 versus 25.9% for fiscal 1994. The large reduction in operating expenses as a percent of revenues was due primarily to the large increase in revenues from UK the Company's distribution business which has much lower operating expenses as a percent of revenue than the Company's core businesses. Fiscal 1995 included twelve months of revenues from the Mekom acquisition versus only two months in fiscal 1994. In an absolute sense, Product Development expenses were up 11.2% in 1995 compared to 1994, while capitalized software development costs remained flat. The increase was due to higher expenditures for Oasis and Cleo new product development. Selling and general and administrative expenses were up 19.6% in an absolute sense and were required to support growth in the distribution business. In addition, a $669,000 bad debt charge was incurred in the UK distribution business, due to a single customer filing receivership. The Company has modified its procedures to reduce the probability of similar bad debt occurrences in the future.

Operating Income was 1.1% of net revenues in fiscal 1995 versus 11.3 % in fiscal 1994. This decrease was primarily due to the poor performance of ISIL which had an operating loss of $851,895 in fiscal 1995 versus an operating loss of $53,918 in fiscal 1994. The increased operating loss at ISIL was primarily due to the $669,000 bad debt loss previously mentioned. The Company's Operating Income was also negatively impacted by a significant reduction in revenue from the Company's Cleo 3270 products in fiscal 1995 versus fiscal 1995 versus fiscal 1994, due to the absence of large customers in 1995. (See paragraph one above)

Taxes on income were 0.8% of net revenues in fiscal 1995 versus 3.7% in fiscal 1994. The effective tax rate in fiscal 1995 was 76.44% versus 32.5% in fiscal 1994. The higher effective tax rate in fiscal 1995 was primarily due to the non-deductible losses of Company's foreign subsidiary ISIL and increased amortization of goodwill combined with lower pre-tax income. See Note 7 of Notes to Consolidated Financial Statements.

As a result of the above factors, net income in fiscal 1995 decreased to 0.2% of net revenues versus 7.3% of net revenues in fiscal 1994.

Liquidity and Capital Resources

Internally generated funds, supplemented by borrowing under the Company's bank line of credit, and the exercise of the Company's stock warrants in fiscal 1996 were the primary sources used to fund the Company's needs for working capital and capital expenditures. The Company believes that internally generated funds and existing lines of credit will be sufficient to meet its working capital needs and to fund anticipated capital expenditures for the upcoming fiscal year.

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As of September 30, 1996, the Company's working capital was $10,533,000. The Company's working capital as of September 30, 1995 and 1994 was $11,622,000 and $12,420,000, respectively.

At September 30, 1996, the Company had $1,694,725 in cash and short term investments. The Company has lines of credit agreements for working capital which currently permit it to borrow up to $9,583,000 on an unsecured basis. These lines expire at various dates through June 30, 1997 and are subject to annual renewal thereafter. As of September 30, 1996, $5,691,546 was outstanding under these lines of credit. See Note 5 of Notes to Consolidated Financial Statements.

Cash Flows

Net cash used in operating activities was $1,038,452 in fiscal 1996 compared to net cash provided by operating activities of $2,433,934 in fiscal 1995. The decrease was primarily due to the large reduction in net income. In addition, the change was caused by decreased cash flows from other operating activities, primarily increases in receivables, prepaid expenses and offset by accrued expenses. The trend in cash flows used in (provided from) operating activities has been declining since 1994. The largest single factor in the decline has been declining net income (loss). The second factor is the increase in inventory. While there can be no assurance, the Company believes that operating results in 1997 will show improvement from fiscal 1996. In addition, inventory for core operations should decrease and inventory for the distribution business should only increase in proportion to revenue increases or less.

Net cash used in investing activities in fiscal 1996 was $4,277,007 up from $3,754,258 in fiscal 1995. This change is primarily due to the net addition in notes receivable.

Net cash provided from financing activities in fiscal 1996 was $3,312,308 compared to $1,704,893 provided from financing activities in fiscal 1995. The increase in fiscal 1996 was primarily due to the exercise of warrants and to an increase in notes payable to support the expanding distribution business in the UK.

Uncertainties Relating to Forward-Looking Statements

"Item 7. Management's Discussion and Analysis of Results of Operations" and other parts of this Form 10-K contain "forward-looking statements" within the meaning of the Securities Exchange Act of 1934, as amended, based on current management expectations. Actual results could differ materially from those in the forward-looking statements due to a number of uncertainties, including, but not limited to, those discussed in this section. Factors that could cause future results to differ from these expectations include general economic conditions particularly related to demand for the Company's products and services, changes in Company strategy, product life cycles, competitive factors (including the introduction or enhancement of competitive products), pricing pressures, component price increases, delays in introduction of planned hardware and software products, software defects and latent technological deficiencies in new products, changes in operating expenses, inability to attract or retain sales and/or engineering talent, changes in customer requirements and evolving industry standards.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The financial statements and schedules filed herewith are set forth in the Index to Financial Statements and Supplementary Data (on Page F-1 of

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the separate financial section which follows page 25 of this report) and are incorporated herein by reference.

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

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Set forth below is certain information relating to the directors and executive officers of the Company. The Company's directors are elected annually at the Annual Meeting of the Company's Shareholders. The executive officers of the Company are elected annually by the Board of Directors and serve at the pleasure of the Board. David C. Seigle and Robert A. Seigle are first cousins. Except as otherwise noted, each person indicated below exercises sole voting and investment power with respect to the shares of the Company's Common Stock owned by him.

Except as discussed below, each of the following directors has been engaged or employed in the principal occupation reflected in the table for more than five years. Mr. Bixby served as President and Chief Executive Officer and President of the Company from 1967 to his resignation in 1996.

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Mr. Graber retired in 1994, prior to which time he was Chairman and Chief Executive Officer of Applied Dynamics International for at the least the five years preceding such retirement. In 1996, upon the resignation of Mr. Carl Bixby, Mr. Graber was appointed acting Chief Executive Officer of the Company. Mr. Horst was President of Nematron Corporation for at least five years until he retired in May 1994. Mr. David Seigle retired in November 1991 and, in 1996, became the President of Technology Edge, Inc. Prior to 1991, Mr. Seigle was Vice-President of File Net Corporation, a manufacturer of document image processors.

			December 6, 1996	
Name and Age	Principal Occupation	Director Since	Shares Benefi- cially Owned(1)	Percent of Class(1)
Carl L. Bixby, 57	Retired.	1969	220,500	4.9%
Garnel F. Graber, 65	Retired.	1971	63,154(2)	1.4%
Milton Handelman, 80	Independent Business Consultant.	1990	8,700	*
G. Paul Horst, 46	Retired.	1988	133,809	2.9%
George W. Perrett, 59	Secretary and Vice President of Corp. Opera- tions of the Company; Presi- dent of I.G.K. Industries, Inc., a subsidiary of the Company.	1985	66,690(3)	1.5%
David O. Schupp, 60	Vice President, Chief Financial Officer and Treasurer of the Company.	1969	61,102(4)	1.3%
David C. Seigle, 56	President of Technology Edge, Inc., a value- added reseller franchising company.	1969	33,406	*
Robert A. Seigle, 69	President of Concord Person- nel, Inc., a personnel recruiting company.	1969	86,010	1.9%
Lloyd A. Semple, 57	Attorney, Dykema Gossett,	1996	1,000	*

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PLLC, a Michigan
law firm.

(*) Less than one percent.

(1) Includes shares which the following directors have a right to acquire within 60 days pursuant to the exercise of stock options: Mr. Schupp--15,500 shares; Mr. David Seigle--7,700 shares; Mr. Robert Seigle--13,200 shares; Mr. Graber--13,200 shares; Mr. Perrett--37,500 shares; Mr. Horst--7,700 shares and Mr. Handelman--1,700 shares. For purposes of computing the individual percentages, the shares which can be acquired upon the exercise of options within 60 days were added to the shares owned beneficially or of record by such persons on December 6, 1996 and to the shares outstanding on that date.

(2) Mr. Graber has sole voting power over 552 shares of Common Stock beneficially owned by him, and shares investment power with his son, Glen F. Graber, with respect to such shares. Mr. Graber also serves on the board of directors of Nematron Corporation.

(3) Includes 16,969 shares held by the George W. Perrett, Jr. Trust, of which Mr. Perrett is a Trustee and a beneficiary. Does not include 750 shares owned by Mr. Perrett's children, as to which Mr. Perrett disclaims beneficial ownership.

(4) Includes 45,602 shares held by the David O. Schupp Revocable Trustee, of which Mr. Schupp is a Trustee and beneficiary.

Reporting of Beneficial Ownership by Directors, Executive Officers and Ten Percent Holders

Under the securities laws of the United States, the Company's directors, its executive officers, and any persons holding more than ten percent of the Company's Common Stock are required to report their ownership of the Company's Common Stock and any changes in that ownership to the Securities and Exchange Commission and the National Association of Securities Dealers, Inc. Specific due dates for these reports have been established and the Company is required to report in this annual report on Form 10-K any failure to file by these dates during the Company's last fiscal year. All of these filing requirements were satisfied by the Company's officers, directors and ten percent shareholders. In making these statements, the Company has relied on the written representations of its directors, officers and ten percent shareholders and copies of the reports that have been filed with the Commission.

ITEM II. EXECUTIVE COMPENSATION.

The following table sets forth the cash compensation paid by the Company as well as other compensation paid or accrued during the Company's last three fiscal years ended September 30, 1996 to the Acting Chief Executive Officer, the Company's former Chief Executive Officer, and each of the two most highly compensated executive officers of the Company for services rendered in all capacities to the Company:

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Summary Compensation Table

Name and Principal Occupation	Fiscal Year	Annual Compensation (1) Salary	Bonus	Long-Term Compensation Awards Securities Underlying Stock Options	All Other Compensation (2)
<S>	<C>	<C>	<C>	<C>	<C>
Garnel F. Graber (3) Acting Chief Executive Officer and Chairman of the Board	1996	$ 45,200	$ --	5,100	
Carl L. Bixby (4)	1996	237,259	--		18,314
Chief Executive	1995	185,380	7,248	--	20,043
Officer and President	1994	165,375	147,978	--	17,166
George W. Perrett, Jr.	1996	89,000	--		9,560
Secretary and Director	1995	85,000	3,624	--	15,164
	1994	85,000	38,150	--	7,389
David O. Schupp	1996	89,901	--	--	9,773
Vice President,	1995	86,008	7,248	--	16,321
Treasurer and Director	1994	82,688	74,326	--	10,901

</TABLE>

(1) Includes compensation deferred at the election of the executive in the category and year earned.

(2) "All Other Compensation" is comprised of (i) contributions made by the Company to the accounts of each of the named executive officers under the Company's 401(k) Plan with respect to each of the fiscal years ended September 30, 1996, 1995 and 1994, respectively, as follows: Mr. Bixby $8,613, $9,196 and $13,860; Mr. Perrett $4,080, $9,684 and $7,389; and Mr. Schupp $4,128, $10,676 and $9,421; (ii) the dollar value of any life insurance premiums paid by the Company in the fiscal years ended September 30, 1996, 1995 and 1994 respectively, with respect to term life insurance for the benefit of each of the named executives as follows: Mr. Bixby $3,071, $4,217 and $3,306; and Mr. Schupp $1,480, $1,480 and 1,480 and (iii) a car allowance paid by the Company in the fiscal years ended September 30, 1996 and 1995, respectively, as follows, for Mr. Bixby $6,630 and $6,630, Mr. Perrett $5,480 and $5,480 and Mr. Schupp $4,165 and $4,165.

(3) Mr. Graber was appointed acting Chief Executive Officer of the Company in June 1996.

(4) Mr. Bixby resigned as Chief Executive Officer of the Company in June 1996.

Aggregated Option Exercises in Last Fiscal Year
and Fiscal Year ("FY")-end Option/SAR Values

The following table provides information with respect to the named executive officers concerning the exercise of options during 1996 and unexercised options held as of the Company's most recent fiscal year end,

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September 30, 1996. All options were granted under the Company's 1992 Stock Option Plan or the now terminated 1982 Stock Option Plan.

Name	Share acquired on exercise (#)	Value realized ($) (1)	Number of securities underlying unexercised options at FY-End (#) exercisable/ unexercisable	Value of unexercised in-the-money options exercisable/ unexercisable($)(1)
Carl L. Bixby	6,000	$13,872	-0-	-0-
George W. Perrett	478	3,155	37,500/15,000	6,748/13,125
David O. Schupp	-0-	-0-	15,500/15,000	6,748/13,125

---

(1) The dollar values in these columns represent the total gain which would have been realized if such options had been exercised on September 30, 1996 (the Company's fiscal year end) and are calculated by determining the difference between the fair market value of the securities underlying the options on September 30, 1996 and the exercise price of the option. The dollar values in this table as well as all other tables contained in this proxy are calculated on a pre-tax basis.

Employment and Termination Arrangements

The Company has entered into a Release and Settlement Agreement with Mr. Carl Bixby dated as of June 20, 1996. The Agreement provides, among other things, that Mr. Bixby would resign as Chief Executive Officer and President of the Company in June 1996 and would provide consulting services to the Company for a period of 24 months beginning July 1, 1996 at a rate of $16,000 a month. Mr. Bixby has also agreed not to use or disclose the Company's confidential information and, until July 1, 1998, not to engage in any business which is in substantial and direct competition with the Company. Further, the Agreement provides for the release by Mr. Bixby of certain past and future claims against the Company.

Director Compensation

Non-employee directors receive an annual retainer of $4,000 and a fee of $1,000 per meeting for attendance at regular board meetings and $500 per meeting for attendance at committee meetings not held in conjunction with a meeting of the Board. Travel and lodging expenses incurred by directors residing outside of the metropolitan Detroit area in order to attend meetings of the board are typically paid by the Company.

As additional consideration for their services to the Company, on April 24, 1987, the non-employee directors were each granted options to purchase 5,000 shares of the Company's Common Stock at the fair market value of $7.75 per share. After adjustment for the Company's stock dividends and stock split, Messrs. Graber, David Seigle and Robert Seigle each currently hold options to acquire 5,500 shares at $7.04 per share. The options are exercisable for a ten-year period from the date of grant or until the grantee ceases to serve on the Board, whichever is earlier.

On March 26, 1993, pursuant to the Company's Non-Employee Directors

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Stock Option Plan, the non-employee directors were each granted options to purchase 5,100 shares of the Company's Common Stock at the fair market value of $5.25 per share. The options are exercisable for a ten-year period from the date of grant or until the grantee ceases to serve on the Board, whichever is earlier.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The following table sets forth information as of December 6, 1996, except as otherwise indicated, concerning all shareholders known by the Company to be the beneficial owners of more than 5% of its outstanding Common Stock, and all officers and directors as a group. Except as noted below, each shareholder exercises sole voting and investment power with respect to the shares beneficially owned.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
All officers and directors as a group (9 persons) (1)	674,371	14.3%

----

(1) Includes shares which certain directors and officers have a right to acquire within 60 days pursuant to the exercise of stock options. See Item 10 for information regarding stock options and the shared voting and investment powers of officers and directors. For purposes of computing the percentage of class, the shares which can be acquired within 60 days pursuant to the exercise of stock options were added to the shares owned beneficially or of record by such persons on December 6, 1996 and to the shares outstanding on that date.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

In October, 1995, the Board of Directors of the Company adopted the Interface Systems, Inc. Executive Loan Program (the "Executive Loan Program") which provides for the making of loans to the executive officers of the Company to enable such officers to purchase shares of the Company's Common Stock on the open market or in privately negotiated sales.

The Executive Loan Program was adopted to encourage key executives in acquiring and maintaining a significant equity interest in the Company's Common Stock thereby aligning their interests with the interests of the Company's stockholders. The following summarizes the principal features of the Executive Loan Program.

All senior executives of the Company are eligible to participate in the Executive Loan Program. The maximum amount of any loan or loans currently permitted to be outstanding to any one executive cannot exceed Six Hundred Thousand Dollars ($600,000).

Loans under the Executive Loan Program bear interest at a rate equal to the greater of the Applicable Federal Rate for the month in which the loan was issued or the interest rate paid by the Company on its corporate borrowings but shall not exceed the maximum rate permitted by law. Such interest is payable annually. Loans under the Executive Loan Program are required to be secured by collateral. Collateral can include among other things, a pledge of common stock of the Company owned by the executive or a security interest on the real or other personal property of the executive.

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The Company has the right to offset from the amounts owing by the Company to the executive any amount of the loan that remains unpaid.

The Program is administered by Garnel F. Graber or such other individual or entity selected by the Company's Board of Directors. The administrator shall have the power to make all determinations needed in connection with the Executive Loan Program, to adopt forms of loan documents, to exercise all rights and powers allocated to the Company and to do anything else which is helpful or necessary to the proper operation of the Executive Loan Program.

On December 1, 1995 and March 27, 1996, the Company made loans under the Executive Loan Program to Carl L. Bixby in the principal amount of $650,000 and $100,000, respectively. The loan on March 27, 1996 was made after repayment under the $650,000 loan reduced the outstanding principal amount to $500,000. Both loans bear interest at an annual rate of 5.79% and are secured by shares of Common Stock of the Company owned by Mr. Bixby. As of December 6, 1996, approximately $638,000 was outstanding under the loan.

On February 21, 1996, the Company made loans under the Executive Loan Program to George Perrett and David O. Schupp, in the principal amounts of $55,000 and $80,000, respectively. Each such loan bears interest at a rate of 5.50%. Mr. Perrett's and Mr. Schupp's loans are secured by shares of Common Stock of the Company owned by Mr. Perrett and shares of Common Stock of the Company, and other public company common stock, owned by Mr. Schupp, respectively. As of December 6, 1996, $55,000 and $50,000 in principal amount were outstanding under Mr. Perrett's and Mr. Schupp's loans, respectively.

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Interface Systems, Inc., and Subsidiaries
Consolidated Financial Statements
Years Ended September 30, 1996, 1995 and 1994

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Report of Independent Certified Public Accountants

To the Board of Directors
Interface Systems, Inc.
Ann Arbor, Michigan

We have audited the accompanying consolidated balance sheets of Interface Systems, Inc. and subsidiaries as of September 30, 1996 and 1995, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended September 30, 1996. 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

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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 financial position of Interface Systems, Inc. and subsidiaries at September 30, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1996 in conformity with generally accepted accounting principles.

/S/ BDO SEIDMAN, LLP
BDO SEIDMAN, LLP

Troy, Michigan
November 14, 1996

Interface Systems, Inc., and Subsidiaries
Consolidated Balance Sheets

	September 30, 1996	September 30, 1995
Assets:		
Current Assets		
Cash and equivalents	$ 1,694,725	$ 3,735,758
Accounts receivable, less		

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allowance for doubtful accounts of $165,000 and $248,000	11,007,983	10,068,828
Refundable income taxes	1,378,093	460,027
Inventories (Note 2)	10,478,322	7,360,204
Prepaid expenses and other current assets	1,232,423	655,229
Deferred income taxes (Note 7)	549,000	413,000
Total Current Assets	26,340,546	22,693,046
Property and Equipment (Note 6)		
Land	231,383	231,383
Buildings and improvements	2,680,088	2,603,851
Machinery and equipment	6,309,387	5,425,570
	9,220,858	8,260,804
Less accumulated depreciation	(4,404,043)	(3,642,880)
Net Property and Equipment	4,816,815	4,617,924
Other		
Goodwill, less accumulated amortization of $1,934,142 and $1,620,983 (Note 3)	2,881,481	3,204,694
Software development costs, less accumulated amortization of $3,928,353 and $2,927,340	3,570,545	3,032,987
Notes receivable (Note 4)	810,173	---
Miscellaneous	459,399	403,799
Total Other Assets	7,721,598	6,641,480
	$38,878,959	$33,952,450

See accompanying notes to consolidated financial statements.

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Interface Systems, Inc., and Subsidiaries
Consolidated Balance Sheets
(continued)

	September 30, 1996	1995
Liabilities and Stockholders' Equity:		
Current Liabilities		
Notes payable (Note 5)	$ 5,691,546	$ 4,367,318
Accounts payable	9,088,765	6,070,074
Accrued expenses	693,767	350,377
Deferred revenue	280,703	230,663
Current maturities of long-term debt (Note 6)	52,400	52,400
Total Current Liabilities	15,807,181	11,070,832
Long-Term Debt, less current maturities (Note 6)	234,794	286,546
Deferred Income Taxes (Note 7)	1,584,000	1,381,000
Total Liabilities	17,625,975	12,738,378
Commitments and Contingencies (Notes 9 and 15)		
Stockholders' Equity (Notes 10 and 11)		
Common stock, $.10 par value, shares authorized 20,000,000; outstanding 4,535,879 and 4,212,418	453,588	421,242
Additional paid-in capital	11,122,063	9,114,577
Cumulative foreign currency translation adjustment	(236,051)	(198,169)
Retained earnings	9,913,384	11,876,422
Total Stockholders' Equity	21,252,984	21,214,072
	$38,878,959	$33,952,450

See accompanying notes to consolidated financial statements.

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Interface Systems, Inc., and Subsidiaries
Consolidated Statements of Operations

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<S>	Year Ended September 30, 1996 <C>	1995 <C>	1994 <C>
Net Revenues	$ 74,583,111	$ 70,243,216	$ 39,012,086
Cost of Revenues	63,797,610	57,516,563	24,500,363
Gross Profit	10,785,501	12,726,653	14,511,723
Product Development Costs	1,956,404	1,453,605	1,307,523
Selling, General and Administrative Expenses	11,621,102	10,506,062	8,786,591
	13,577,506	11,959,667	10,094,114
Operating Income (Loss)	(2,792,005)	766,986	4,417,609
Other Income (Expense)			
Interest expense	(340,376)	(263,758)	(171,701)
Dividend and interest income	200,343	186,064	131,030
Miscellaneous	---	17,094	12,839
Net Other Expenses	(140,033)	(60,600)	(27,832)
Income (Loss) Before Tax Benefit (Taxes On Income) and Cumulative Effect of Change in Accounting Principle	(2,932,038)	706,386	4,389,777
Tax Benefit (Taxes On Income) (Note 7)	969,000	(540,000)	(1,428,000)
Income (Loss) Before Cumulative Effect of Change in Accounting Principle	(1,963,038)	166,386	2,961,777
Cumulative Effect of Change in Accounting Principle (Note 1)	---	---	(127,000)
Net Income (Loss)	$(1,963,038)	$166,386	$2,834,777
Earnings (Loss) Per Share Before Cumulative Effect of Change in Accounting Principle	$(.44)	$.04	$.71
Cumulative Effect of Change in Accounting Principle	--	--	(.03)
Net Earnings (Loss) Per Share	$(.44)	$.04	$.68

</TABLE>

See accompanying notes to consolidated financial statements.

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Interface Systems, Inc., and Subsidiaries
Consolidated Statements of Stockholders' Equity
Years Ended September 30, 1996, 1995 and 1995

<TABLE>
<CAPTION>

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Cumulative Foreign Currency Translation	Retained Earnings	Total Stockholders' Equity
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, October 1, 1993	4,132,891	$413,289	$8,762,905	$(246,710)	$10,209,264	$19,138,748
Net income	---	---	---	---	2,834,777	2,834,777
Sale of stock	20,477	2,048	64,780	---	---	66,828
Cash dividends - $.16 per share	---	---	---	---	(664,113)	(664,113)
Foreign currency translation	---	---	---	44,634	---	44,634
Balance, September 30, 1994	4,153,368	415,337	8,827,685	(202,076)	12,379,928	21,420,874
Net income	---	---	---	---	166,386	166,386
Sale of stock	59,050	5,905	286,892	---	---	292,797
Cash dividends - $.16 per share	---	---	---	---	(669,892)	(669,892)
Foreign currency translation	---	---	---	3,907	---	3,907
Balance, September 30, 1995	4,212,418	421,242	9,114,577	(198,169)	11,876,422	21,214,072
Net loss	---	---	---	---	(1,963,038)	(1,963,038)
Sale of stock	323,461	32,346	2,007,486	---	---	2,039,832
Foreign currency translation	---	---	---	(37,882)	---	(37,882)
Balance, September 30, 1996	4,535,879	$453,588	$11,122,063	$(236,051)	$ 9,913,384	$21,252,984

</TABLE>

See accompanying notes to consolidated financial statements.

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Interface Systems, Inc., and Subsidiaries
Consolidated Statements of Cash Flows

<TABLE>
<CAPTION>

	Year Ended September 30, 1996	1995	1994
<S>	<C>	<C>	<C>
Cash Flows From Operating Activities			
Net income (loss)	$(1,963,038)	$ 166,386	$2,834,777
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	3,265,865	2,972,277	2,524,367
Deferred income taxes	67,000	151,000	372,000
Loss on sale of fixed assets	38,468	24,727	---
Accounts receivable	(939,155)	(621,373)	(4,561,440)
Refundable income taxes	(918,066)	(460,027)	---
Inventories	(3,118,118)	375,025	1,406,909
Prepaid expenses and other current assets	(577,194)	(159,632)	140,532
Other assets	(306,335)	10,591	40,955
Accounts payable	3,018,691	389,276	3,844,025
Accrued expenses	343,390	(445,743)	191,844
Deferred revenue	50,040	31,427	(47,504)
Net Cash Provided By (Used In) Operating Activities	(1,038,452)	2,433,934	6,746,465
Cash Flows From Investing Activities			
Additions to notes receivable	(985,000)	---	---
Reduction of notes receivable	174,827	---	---
Proceeds from disposals of property and equipment	22,185	21,134	---
Additions to property and equipment	(1,155,344)	(1,777,370)	(797,863)
Additions to software development costs	(2,333,675)	(1,998,022)	(1,991,416)
Cash paid for purchase of Mekom Distribution	---	---	(2,017,200)

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Net Cash Used In Investing Activities	(4,277,007)	(3,754,258)	(4,806,479)
Cash Flows From Financing Activities			
Net increase in notes payable	1,324,228	2,224,258	207,146
Reduction of long-term debt	(51,752)	(142,270)	(88,963)
Sale of stock	2,039,832	292,797	66,828
Cash dividends paid	---	(669,892)	(664,113)
Net Cash Provided By (Used In) Financing Activities	3,312,308	1,704,893	(479,102)
Foreign Currency Translation	(37,882)	3,907	44,634
Net Increase (Decrease) In Cash and Equivalents	(2,041,033)	388,476	1,505,518
Cash and Equivalents, beginning of year	3,735,758	3,347,282	1,841,764
Cash and Equivalents, end of year	$1,694,725	$3,735,758	$3,347,282

</TABLE>

See accompanying notes to consolidated financial statements.

Interface Systems, Inc., and Subsidiaries
Notes to Consolidated Financial Statements

1. Summary of Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Interface Systems, Inc. (the "Company") and its wholly-owned subsidiaries, I.G.K. Industries, Inc. ("I.G.K."), Interface Systems International, Ltd. ("ISIL"), Interface Systems International, Inc. ("FSC"), and Scitronix Corporation. All significant intercompany transactions and balances have been eliminated in consolidation.

Nature of Operations

The Company and its subsidiaries develop, manufacture, and sell computer peripherals and data communications software primarily in the United States and Europe.

Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash, cash equivalents and accounts receivable. At times such cash and equivalents in banks are in excess of the respective financial institution's FDIC insurance limit. With respect to accounts receivable, the Company attempts to minimize credit risk by reviewing all customers' credit history before extending credit and by monitoring customers' credit exposure on a continuing basis. The Company establishes an allowance for possible losses on accounts receivable based

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upon factors surrounding the credit risk of specific customers, historical trends and other information.

Fair Values of Financial Instruments

The carrying amounts of cash and equivalents, accounts receivable, accounts payable, and accrued expenses approximate fair value because of the short maturity of these items.

The carrying amounts of the notes payable and long-term debt issued pursuant to the Company's bank credit agreements approximate fair value because the interest rates on these instruments change with market rates.

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect (1) the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements, and (2) revenues and expenses during the reporting period. Actual results could differ from those estimates.

At September 30, 1996, some portion of the Company's computer peripheral inventory exceeds current requirements based on recent sales activity. Although management has developed a plan to reduce this inventory to desired levels over the near term and believes no loss will be incurred upon disposition, no estimate can be made of the range of loss that is reasonably possible if this program is unsuccessful.

Inventories

Inventories are valued at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method.

Property, Equipment and Depreciation

Property and equipment are stated at cost. Depreciation is provided over the estimated useful lives of the assets, ranging from 3 to 33 years, using primarily the straight-line method for financial reporting purposes and accelerated methods for tax reporting purposes. Depreciation expense was $895,800, $811,778 and $752,908 for the years ended September 30, 1996, 1995 and 1994, respectively.

Goodwill

Goodwill represents the excess of the cost of companies acquired over the fair value of their net assets at dates of acquisition and is being amortized on the straight-line method over periods not exceeding 15 years. The Company reviews goodwill for impairment based upon undiscounted cash flows over the remaining life of the goodwill. If necessary, impairment will be measured based on the difference between undiscounted future cash flows and the net book value of the related goodwill.

Software Development Costs

In compliance with Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed," certain computer software development costs have been capitalized. Capitalization of computer software development costs begins upon the establishment of technological feasibility. The establishment of technological feasibility and the ongoing assessment of recoverability of capitalized computer software development costs require considerable judgment by management with respect to certain external factors, including,

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but not limited to, anticipated future gross revenues, estimated economic life and changes in software and hardware technology.

Amortization of capitalized computer software development costs is provided on a product-by-product basis using the straight-line method over the remaining estimated economic lives of the respective products, ranging from two to five years. Amortization amounted to $1,796,117, $1,572,096, and $1,221,715 for the years ended September 30, 1996, 1995 and 1994, respectively, and is included in cost of revenues.

Foreign Currency Translation

All assets and liabilities of foreign subsidiaries are translated at exchange rates in effect on the balance sheet date, and revenue and expenses are translated using a weighted average exchange rate during the period. Cumulative adjustments resulting from translation of financial statements are reflected as a separate component of stockholders' equity.

Revenue Recognition

Revenues from product sales are recognized upon shipment to the customer. Lease and service revenues are recognized ratably over the contractual period or as the services are performed. Revenues from licenses of software products are recognized when the product is shipped and the Company has no further obligation to the customer. Deferred revenue represents advance billings on service contracts.

Research and Development Costs

Research and development costs, excluding the costs capitalized as computer software development costs, are expensed in the period incurred. These costs, representing engineering salaries, fringe benefits, other direct expenses and a portion of the Company's overhead, are included in the accompanying consolidated financial statements as product development costs. Research and development expenses for the years ended September 30, 1996, 1995 and 1994 were approximately $865,000, $712,000 and $619,000, respectively.

Taxes on Income

Deferred income taxes are recorded to reflect the future tax consequences of temporary differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end.

Effective October 1, 1993, the Company changed its method of accounting for income taxes to the liability method required by Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." The cumulative effect of adopting Statement No. 109 as of October 1, 1993 was to decrease net income for the year ended September 30, 1994 by $127,000.

Earnings (Loss) Per Share

Earnings (loss) per share amounts have been calculated using the weighted average number of shares and common stock equivalents outstanding for the respective periods. The antidilutive effect of outstanding options and warrants of the Company is excluded from the earnings (loss) per share calculations presented in the consolidated statements of operations. Shares used in the computation were 4,440,262, 4,238,889 and 4,169,781 for fiscal years 1996, 1995 and 1994, respectively.

Consolidated Statements of Cash Flows

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For the purposes of this statement, the Company considers money market funds to be cash equivalents.

Recent Accounting Pronouncements

The Financial Accounting Standards Board (FASB) has issued Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets Being Disposed Of," which provides guidance on how and when impairment losses are recognized on long-lived assets. The Company will adopt this statement October 1, 1996 and does not expect it to have a material impact on the Company.

The FASB has issued SFAS No. 123, "Accounting for Stock-Based Compensation," which establishes a fair value based method of accounting for stock-based compensation plans. This statement provides a choice to either adopt the fair value based method of accounting or continue to apply APB Opinion No. 25, which would require only disclosure of the proforma net income and earnings per share, determined as if the fair value based method had been applied. The Company will adopt this statement October 1, 1996 and continue to apply APB Opinion No. 25.

2. Inventories

Inventories are summarized as follows:

	September 30, 1996	September 30, 1995
Finished goods	$ 4,394,274	$ 2,648,988
Purchased parts and accessories	4,133,108	2,853,910
Work-in-process	1,153,172	1,005,203
Service parts and demo units	797,768	852,103
	$10,478,322	$ 7,360,204

3. Business Acquisition

In August 1994, ISIL acquired certain assets of Mekom Computer Products PLC ("Mekom"), a British company, for $2,017,200. The acquisition was accounted for as a purchase and, accordingly, the acquired assets have been recorded on ISIL's books at the estimated fair values at the date of acquisition. The excess of the total purchase price over the estimated fair value of assets acquired was $1,121,617 and is included as goodwill in the accompanying consolidated balance sheets. The consolidated statements of operations include the operating results of Mekom from August 1994.

4. Notes Receivable

Notes receivable at September 30, 1996 consist of the following:

Note receivable due from a former officer of the Company, bearing interest at 5.79%, collateralized by 158,000 shares of the Company's common stock, due December 1996	$ 600,000

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Notes receivable due from two officers of the Company, bearing interest at 5.50%, collateralized by common stock, due in February 1998	125,000
Note receivable due from a former officer of the Company, bearing interest at 5.79%, due in monthly installments through June 1998, unsecured	85,173
	$ 810,173

5. Lines-of-Credit and Notes Payable

The Company has a $3,500,000 working capital credit facility with a bank which is renewed annually. Borrowings under this agreement are unsecured and bear interest at the bank's prime rate. There were no borrowings outstanding with respect to this agreement at September 30, 1996 and 1995.

ISIL has a short-term credit facility with a bank, which is renewed annually, under which it may borrow up to $5,933,000. Borrowings under this facility are guaranteed by the Company, bear interest at LIBOR plus 2% (8.25% at September 30, 1996) and are due on demand. Borrowings outstanding at September 30, 1996 and 1995 were $5,691,546 and $4,367,318, respectively.

The ISIL credit facility contains a restrictive covenant requiring ISIL to maintain positive tangible net worth. ISIL was in compliance with this covenant at September 30, 1996 and 1995.

IGK has a short-term credit facility with a bank under which it may borrow up to $150,000. Borrowings are collateralized by accounts receivable, inventory, and machinery and equipment and bear interest at .5% over the bank's prime rate. There were no borrowings outstanding under this facility at September 30, 1996 and 1995.

6. Long-Term Debt

Long-term debt consists of the following:

	September 30, 1996	September 30, 1995
Installment loan payable - bank, payable in monthly installments of $3,696 including interest at .25% over the bank's prime rate (8.5% at September 30, 1996), due March 1997, unsecured	$ 259,039	$ 284,247
Installment loan payable - bank, payable in monthly installments of $2,212 plus interest at 7.65%, through October 1997, collateralized by equipment	28,155	54,699
	287,194	338,946
Less current maturities	52,400	52,400
	$ 234,794	$ 286,546

The aggregate amounts of long-term debt maturing in each of the next two fiscal years are as follows: 1997 - $52,400; and 1998 - $234,794.

7. Taxes on Income

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Tax benefit (taxes on income) in the consolidated statements of operations are made up of the following components:

	Year Ended September 30, 1996	1995	1994
Current - U.S. federal	$1,036,000	$(389,000)	$(1,056,000)
Deferred - U.S. federal	(67,000)	(151,000)	(372,000)
	---------	-------	---------
	$ 969,000	$(540,000)	$(1,428,000)
	=========	=======	=========

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the Company's deferred tax liabilities and assets are as follows:

	September 30, 1996	1995
Deferred Tax Liabilities		
Tax depreciation and amortization greater than book amounts	$ 1,584,000	$ 1,381,000
	=========	=========
Deferred Tax Assets		
Net operating loss carryforwards of ISIL	$ 544,000	$ 612,000
Receivable and inventory reserves	291,000	248,000
Accruals deductible when paid	206,000	107,000
Inventory costs under uniform capitalization rules	52,000	43,000
Other	---	15,000
	---------	---------
	1,093,000	1,025,000
Valuation Allowance for Deferred Tax Assets of ISIL	(544,000)	(612,000)
	---------	---------
Net Deferred Tax Assets	$ 549,000	$ 413,000
	=========	=========

The following reconciles the statutory federal income tax rate to the Company's effective tax rate:

	Year Ended September 30, 1996	1995	1994
Tax benefit (income tax) based on the federal statutory rate	34.00%	(34.00)%	(34.00)%
(Increase) decrease in taxes resulting from:			
Amortization of goodwill	(3.31)	(13.74)	(2.21)
Benefits of FSC non-taxable income	.63	7.29	.40
Non-taxable income (non-deductible losses) of foreign subsidiaries	.21	(41.00)	(.42)
Research and development credits	--	4.67	2.74
Other	1.52	.34	.96
	-----	-----	-----

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	33.05%	(76.44)%	(32.53)%

The domestic and foreign components of income (loss) before taxes on income were as follows:

	Year Ended September 30, 1996	1995	1994
Domestic	$(2,950,287)	$1,558,281	$4,443,695
Foreign	18,249	(851,895)	(53,918)
	$(2,932,038)	$ 706,386	$4,389,777

ISIL has net operating loss carryforwards totalling approximately $1,600,000 at September 30, 1996.

8. Retirement Plan

The Company has established a defined contribution retirement plan for all eligible employees. Participants may make basic contributions from 2% to 8% of their compensation pursuant to Section 401(k) of the Internal Revenue Code. The Company makes a basic contribution of 100% of the amount contributed by participants, up to 4% of participant compensation, and may make additional contributions as approved by the Board of Directors. The Company recognized approximately $298,000, $299,000 and $223,000 of expense related to this plan for the years ended September 30, 1996, 1995 and 1994, respectively.

In addition, ISIL maintains a defined contribution pension plan for all eligible employees. ISIL recognized approximately $140,000, $112,000 and $105,000 of expense related to this plan for the years ended September 30, 1996, 1995 and 1994, respectively.

9. Commitments and Contingencies

The Company has various operating leases which require future minimum rental payments in excess of one year as follows: 1997 - $422,000; 1998 - $398,000; 1999 - $398,000; 2000 - $398,000; and 2001 - $398,000. Rent expense for the years ended September 30, 1996, 1995 and 1994 was approximately $200,000, $375,000 and $243,000, respectively.

10. Stock Warrants

On August 3, 1983, the Company sold 300,000 units (consisting of two shares of common stock and one warrant) through a public offering at $15.00 per unit. Each warrant entitled the holder to purchase one share of common stock. During the year ended September 30, 1996, 264,450 of the warrants were exercised at a price of $6.50 per warrant, and the remaining warrants expired.

11. Stock Options

Incentive stock options are granted to executives and key employees for a ten-year period with the option price being at least the fair market value at date of grant. The incentive stock options can be exercised in three annual installments starting one year after the date of the grant.

The Company has also granted non-qualified stock options to five non-employee directors, which expire ten years and one day from date of grant. All non-qualified stock options are cancelled if the grantee ceases to be a director.

The Company has reserved approximately 1,056,000 shares of its common stock

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for issuance under the various stock option plans ("Plans"). Approximately 648,000 shares are available for grant under the Plans at September 30, 1996.

Changes in stock options outstanding, adjusted to reflect stock dividends and splits, are summarized as follows:

	Qualified		Non-Qualified	
	Shares	Option Price	Shares	Option Price
		$		$
Balance, October 1, 1993	468,232	3.31-7.50	46,500	5.25-7.04
Granted	---	---	---	---
Exercised	(20,477)	3.31-3.63	---	---
Expired or terminated	(30,123)	3.31-7.50	---	---
Balance, September 30, 1994	417,632	3.31-7.50	46,500	5.25-7.04
Granted	78,000	5.38-7.19	---	---
Exercised	(55,700)	3.31-7.50	---	---
Expired or terminated	(37,033)	3.63-7.50	---	---
Balance, September 30, 1995	402,899	3.31-7.50	46,500	5.25-7.04
Granted	76,200	9.25-11.00	25,500	11.00
Exercised	(47,511)	3.31-7.50	(11,500)	5.25-7.04
Expired or terminated	(83,422)	6.64-11.00	---	---
Balance, September 30, 1996	348,166	3.31-11.00	60,500	5.25-11.00

At September 30, 1996, 235,523 of the qualified and 35,000 of the non-qualified options are exercisable.

12. Supplemental Disclosures of Cash Flow Information

	1996	1995	1994
Cash Paid During The Year For			
Taxes on income	$ 332,136	$ 712,682	$ 970,694
Interest	340,376	263,758	171,701

13. Segment Information and Foreign Revenues

The Company and its subsidiaries are involved in one business segment; the

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development, manufacture and sale of computer peripherals and data communications software.

Financial information, summarized by geographic area, is as follows:

<TABLE>
<CAPTION>

	Year Ended September 30, 1996			
	United States	Europe	Eliminations	Consolidated
<S>	<C>	<C>	<C>	<C>
Total Revenue				
Unaffiliated customers	$15,175,362	$59,407,749	$ ---	$74,583,111
Inter-area transfers	1,806,220	---	(1,806,220)	---
Total	$16,981,582	$59,407,749	$(1,806,220)	$74,583,111
Net Income (Loss)	$(1,981,287)	$ 18,249	$ ---	$(1,963,038)
Total Assets	$24,217,086	$17,187,624	$(2,525,751)	$38,878,959

</TABLE>

<TABLE>
<CAPTION>

	Year Ended September 30, 1995			
	United States	Europe	Eliminations	Consolidated
<S>	<C>	<C>	<C>	<C>
Total Revenue				
Unaffiliated customers	$17,108,616	$53,134,600	$ ---	$70,243,216
Inter-area transfers	2,556,049	---	(2,556,049)	---
Total	$19,664,665	$53,134,600	$(2,556,049)	$70,243,216
Net Income (Loss)	$(1,018,281)	$ (851,895)	$ ---	$ 166,386
Total Assets	$23,462,758	$12,925,606	$(2,435,914)	$33,952,450

</TABLE>
<TABLE>
<CAPTION>

	Year Ended September 30, 1994			
	United States	Europe	Eliminations	Consolidated
<S>	<C>	<C>	<C>	<C>
Total Revenue				
Unaffiliated customers	$21,673,600	$17,338,486	$ ---	$39,012,086
Inter-area transfers	2,685,930	---	(2,685,930)	---
Total	$24,359,530	$17,338,486	$(2,685,930)	$39,012,086
Net Income (Loss)	$ 2,888,695	$ (53,918)	$ ---	$ 2,834,777
Total Assets	$22,962,685	$10,634,228	$(1,697,609)	$31,899,304

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==========	==========	=========	==========	

</TABLE>

United States inter-area transfers represent shipments of equipment and parts to foreign subsidiaries. These inter-area shipments are made at transfer prices which are discounted from prices charged to unaffiliated customers and have been eliminated from consolidated net revenues.

14. Selected Quarterly Financial Data (Unaudited)

The following is a summary of selected quarterly financial data for the years ended September 30, 1996 and 1995.

<TABLE>
<CAPTION>

1996	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
<S>	<C>	<C>	<C>	<C>	<C>
Net Revenues	$18,710,574	$21,906,167	$16,655,495	$17,310,875	$74,583,111
Gross Profit	3,308,153	3,511,844	2,107,490	1,858,014	10,785,501
Net Income (Loss)	200,024	363,994	(1,495,565)	(1,031,491)	(1,963,038)
Net Earnings (Loss) Per Share	.05	.08	(.33)	(.23)	(.44)

</TABLE>

<TABLE>
<CAPTION>

1996	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
<S>	<C>	<C>	<C>	<C>	<C>
Net Revenues	$15,914,761	$19,840,268	$18,612,947	$15,875,240	$70,243,216
Gross Profit	3,805,435	3,422,306	3,276,755	2,222,157	12,726,653
Net Income (Loss)	713,743	378,045	(365,130)	(560,272)	166,386
Net Earnings (Loss) Per Share	.17	.09	(.09)	(.13)	.04

</TABLE>

During the fourth quarter of fiscal 1995, the Company recorded certain year end accounting adjustments relating to inventories and royalty obligations under license agreements. Such adjustments decreased net income in the fourth quarter by approximately $298,000 or $.07 per share.

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Interface Systems, Inc., and Subsidiaries
Financial Statement Schedules

Report of Independent Certified Public Accountants

To the Board of Directors
Interface Systems, Inc.
Ann Arbor, Michigan

The audits referred to in our report dated November 14, 1996 relating to the consolidated financial statements of Interface Systems, Inc. and subsidiaries, which is contained in Item 8 of this Form 10-K included the audits of the financial statement schedules listed in the accompanying index.

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In our opinion, such financial statement schedules present fairly the information set forth therein.

/S/ BDO SEIDMAN, LLP
BDO SEIDMAN, LLP

Troy, Michigan
November 14, 1996

Interface Systems, Inc., and Subsidiaries
Schedule II - Valuation and Qualifying Accounts
Years Ended September 30, 1996, 1995, 1994

<TABLE>
<CAPTION>

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Description	Balance at Beginning of Year	Additions Charged to Cost and Expenses	Deductions	Balance at End of Year
Year Ended September 30, 1996				
Allowance for doubtful accounts (deducted from accounts receivable)	$ 248,000	117,000	(1)200,000	$165,000
Year Ended September 30, 1995				
Allowance for doubtful accounts (deducted from accounts receivable)	$ 133,000	251,000	(1)136,000	$248,000
Year Ended September 30, 1994				
Allowance for doubtful accounts (deducted from accounts receivable)	$ 117,000	31,000	(1) 15,000	$133,000

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(1) Accounts deemed to be uncollectible.

</TABLE>

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PART IV

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

(a) Financial Statements, Schedules and Exhibits

1-2. The financial statements and schedules filed herewith are set forth in the Index to Consolidated Financial Statements (on page F-1 of the separate financial section which follows page 25 of this report) and are incorporated herein by reference.

3. The exhibits filed herewith are set forth in the Index to Exhibits (on the first page of the separate exhibit section which follows the financial section of this report) and are incorporated herein by reference.

(b) The Company filed no current reports on Form 8-K during the last quarter of the Company's fiscal year ended September 30, 1996.

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SIGNATURES

Pursuant to the requirements of Section 13 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.

INTERFACE SYSTEMS, INC.

Dated: December 23, 1996 By: /s/ Garnel F. Graber

Garnel F. Graber, Acting 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.

Signature	Title	Date
/s/ Garnel F. Graber --------------------- Garnel F. Graber	Chief Executive Officer and Director (Principal Executive Officer)	December 27, 1996
/s/ David O. Schupp --------------------- David O. Schupp	Vice President, Treasurer and Director (Principal Financial and Accounting Officer)	December 27, 1996
/s/ Carl L. Bixby --------------------- Carl L. Bixby	Director	December 23, 1996
--------------------- David C. Seigle	Director	December , 1996
/s/ Robert C. Seigle --------------------- Robert A. Seigle	Director	December 22, 1996
/s/ George W. Perrett --------------------- George W. Perrett	Secretary and Director	December 27, 1996
---------------------	Director	December _, 1996

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G. Paul Horst

/s/ Milton Handelman ---------------------- Milton Handelman	Director	December 27, 1996
/s/ Lloyd A. Semple ---------------------- Lloyd A. Semple	Director	December 27, 1996

INDEX TO EXHIBITS

Exhibit Number	Description
3(a)	Certificate of Incorporation of the Company, as amended to date. (1)
3(b)	Bylaws of the Company, as amended to date. (1)
4	Other instruments, notes or extracts from agreements defining the rights of holders of long-term debt of the Registrant or its subsidiaries have not been filed because (i) in each case the total amount of long-term debt permitted thereunder does not exceed 10% of the Registrant's consolidated assets, and (ii) the Registrant hereby agrees that it will furnish such instruments, notes and extracts to the Securities and Exchange Commission upon its request.
10(c)	1982 Incentive Stock Option Plan, effective May 21, 1982, as amended, with Form of Stock Option Agreement with Stock Appreciation Rights. (2)
10(h)	Form of Non-Qualified Stock Option Agreement. (2)
10(1)	1992 Stock Option Plan, effective May 6, 1992. (3)
10(2)	Amendment No. 1 to the 1992 Stock Option Plan. (4)
10(3)	1993 Stock Option Plan for Non-Employee DiIrectors. (5)
10(4)	Amendment No. 1 to the Non-Employee Director Stock Option Plan. (6)
10(6)	Release and Settlement Amendment dated as of June 20, 1996 between the Company and Carl L. Bixby . (1)
21	Subsidiaries of the Registrant. (7)
23	Consent of BDO Seidman. (1)
27	Financial Data Schedule

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(1) Filed herewith.

(2) These exhibits were filed under Item 16 of the Registrant's Form S-1 Registration Statement filed on July 15, 1983 pursuant to the Securities Act of 1933, as amended, File No. 2-84204 and are incorporated herein by reference. The exhibit numbers used herein are identical to the exhibit numbers as originally filed with the form S-1 Registration Statement.

(3) This exhibit was filed as Exhibit 19 to the Registrant's Form 10-Q for the Quarter ended March 31, 1992.

(4) This exhibit was filed as Exhibit 10.1 to the Registrant's Form 10-Q for the Quarter ended March 31, 1996.

(5) This exhibit was filed as Exhibit 19 to the Registrant's Form 10-Q for the Quarter ended March 31, 1994 and is incorporated herein by reference.

(6) This exhibit was filed as Exhibit 10.2 to the Registrant's Form 10-Q for the Quarter ended March 31, 1996.

(7) This exhibit was filed as Exhibit 21 to the Registrant's Form 10-K for the year ended September 30, 1994 and is incorporated herein by reference.

The Registrant will furnish to any stockholder a copy of any of the exhibits listed above upon written request and upon payment of a specified reasonable fee, which fee shall be equal to the Registrant's reasonable expenses in furnishing the exhibit to the stockholder. Requests for exhibits and information regarding the applicable fee shall be directed to: David Schupp, at the address of the principal executive offices set forth on the cover of this Report on Form 10-K.

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Certificate of Incorporation
of
Interface Systems, Inc.

FIRST: The name of the Corporation is INTERFACE SYSTEMS, INC.

SECOND: The principal office or place of business of the Corporation in the State of Delaware is to be located at No. 100 West Tenth Street, in the City of Wilmington, County of New Castle. The name and post office address of its resident agent in the State of Delaware is The Corporation Trust Company, No. 100 West Tenth Street, Wilmington, Delaware.

THIRD: The nature of the business and the purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware. The Corporation shall possess and may exercise all powers and privileges granted by the General Corporation Law of the State of Delaware or by any other law or by this Certificate of Incorporation, together with any powers incident thereto, so far as such powers and privileges are necessary or convenient to the conduct, promotion or attainment of the business or purposes set forth in this Certificate of Incorporation.

FOURTH: The total number of shares of stock which may be issued is 3,000,000 shares of Common Stock, par value $0.10 per share.

Common Stock

Holders of Common Stock shall be entitled to receive such dividends as may be declared by the Board of Directors of the Corporation from time to time and in the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, to receive pro rata all the remaining assets of the Corporation available for distribution.

Holders of Common Stock shall have equal voting and other rights share for share, and each holder of Common Stock is entitled to one vote per share.

General

The Corporation shall be entitled to treat the person in whose name any share, right or option is registered as the owner thereof, for all purposes, and shall not be bound to recognize any equitable or other claim to or interest in such share, right or option on the part of any other person, whether or not the Corporation shall have notice thereof, save as may be expressly provided by the laws of the State of Delaware.

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A director shall be fully protected in relying in good faith upon the books of account of the Corporation or statements prepared by any of its officers or by independent public accountants as to the value and amount of the assets, liabilities and/or net profits of the Corporation, or any other facts pertinent to the existence and amount of surplus or other funds from which dividends might properly be declared and paid, or with which the Corporation's stock might properly be purchased or redeemed.

Without action by the stockholders, shares of stock may be issued by the Corporation from time to time for such consideration, not less than the par value thereof in case of shares having a par value, as may be fixed from time to time by the Board of Directors thereof, and any and all such shares so issued, the full consideration for which has been paid or delivered, shall be deemed fully paid stock and liable to any further call or assessment thereon, and the holder of such shares shall not be liable for any further call or assessment thereon or for any further payment thereon.

FIFTH: All corporate powers shall be exercised by the Board of Directors, except as otherwise provided by statute or by Certificate of Incorporation.

Election of directors need not be by ballot.

Any director may be removed, whether cause shall be assigned for such removal or not, and his place filled at any meeting of the stockholders by the vote of a majority of the outstanding stock of the Corporation entitled to vote. Vacancies in the Board of Directors (except vacancies arising from the removal of directors) andy newly created directorships may be filled by a majority of the directors then in office, though less than a quorum.

IN FURTHERANCE AND NOT IN LIMITATION OF THE POWERS CONFERRED BY STATUTE, THE BOARD OF DIRECTORS IS EXPRESSLY AUTHORIZED:

(a) To fix, determine and vary from time to time the amount to be maintained as surplus and the amount or amounts to be set apart as working capital.

(b) To set apart out of any of the funds of the Corporation available for dividends a reserve or reserves for any proper purposes and/or to abolish any such reserve in the manner in which it was created.

(c) To make, amend, alter, change, add to or repeal bylaws for the Corporation without any action on the part of the stockholders. The bylaws made by the directors may be amended, altered, changed, added to or repealed by the stockholders.

(d) To authorize and cause to be executed mortgages and liens, without limit as to amount, upon the real and personal

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property of the Corporation, including after-acquired property.

(e) From time to time to determine whether and to what extent, at what time and place, and under what conditions and regulations the accounts and books of the Corporation or any of them shall be open to the inspection of any stockholders; and not stockholder shall have any right to inspect any account or book or document of the Corporation except as conferred by statute or bylaws or as authorized by a resolution of the stockholders or Board of Directors.

(f) To authorize the payment of compensation to the directors for services to the Corporation, including fees for attendance at meetings of the Board of Directors, of the Executive Committee, and of other committees, and to determine the amount of such compensation and fees.

SIXTH: Any contract, transaction or act of the Corporation or of the Board of Directors which shall be ratified by the affirmative vote of the holders of a majority of the stock of the Corporation represented at any meeting at which a quorum is present and which is called for that purpose, shall be as valid and binding as though ratified by every stockholder of the Corporation; provided, however, that any failure of the stockholders to approve or ratify such contract, transaction or act, when and if submitted, shall not be deemed in any way to invalidate the same or to deprive the Corporation, its directors or officers of their right to proceed with such contract, transaction or action.

SEVENTH: Any property of the Corporation not essential to the conduct of its corporate business may be sold, leased, exchanged or otherwise disposed of by authority of its Board of Directors, and the Corporation may sell, lease or exchange all of its property and assets, including its goodwill and its corporate franchises, upon such terms and conditions and for such consideration, which may be in whole or in part shares of stock in, and/or other securities of, any other corporation or corporations, as its Board of Directors shall deem expedient and for the best interests of the Corporation, when and as authorized by the affirmative vote of the holders of a majority of the stock issued and outstanding having voting power given at a stockholders' meeting duly called upon at least 20 days notice containing notice of the proposed sale, lease or exchange, or when authorized by the written consent of the holders of a majority of the voting stock issued and outstanding.

EIGHTH: Upon the written consent or vote of the holders of a majority in aggregate number of shares of stock of the Corporation then outstanding and entitled to vote, every statute of the State of Delaware (a) increasing, diminishing, or in any way affecting the rights, powers, or privileges of stockholders of corporations organized under the general laws of said State, or (b) giving effect to the action taken by any part, less than all, of the stockholders of any such corporation, shall be binding upon

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the Corporation and every stockholder thereof, to the same extent as if such statute had been in force at the date of the making, filing and recording of this Certificate of Incorporation of the Corporation.

NINTH: Whenever a compromise or arrangement is proposed between this Corporation and its creditors or any class of them and/or between this Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may on the application in a summary way of this Corporation or of any creditor or stockholder thereof, or on the application of any receiver or receivers appointed for this Corporation under the provisions of Section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for this Corporation under the provisions of Section 279 of Title 8 of the Delaware Code order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, s the case may be, agree to any compromise or arrangement and to any reorganization of this Corporation as consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this Corporation, as the case may be, and also on this Corporation.

TENTH: The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation in the manner now or hereafter prescribed by law, and all rights and powers conferred herein on stockholders, directors and officers are subject to this reserved power.

Certificate of Amendment
of
Certificate of Incorporation

Interface Systems, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware,

DOES HEREBY CERTIFY:

FIRST: That at a meeting of the Board of Directors of Interface Systems, Inc. resolutions were duly adopted setting forth a proposed amendment of the Certificate of Incorporation of said corporation, declaring said amendment to be advisable and calling a meeting of the shareholders of said corporation for consideration thereof. The resolution setting forth the proposed amendment is as follows:

RESOLVED, that the Certificate of Incorporation of this corporation

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be amended by changing the first paragraph of Article Fourth thereof, so that, as amended, the first paragraph of said Article shall be and read as follows:

"FOURTH: The total number of shares of stock which the Corporation shall have authority to issue is Eight Million (8,000,000) shares of Common Stock, par value, $.10 per share."

SECOND: That thereafter, at the 1984 Annual Meeting of the Shareholders of said corporation duly called and held upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware, the necessary number of shares as required by statute were voted in favor of the amendment.

THIRD: That said amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

FOURTH: That the capital of said corporation shall not be reduced under or by reason of said amendment.

IN WITNESS WHEREOF, said Interface Systems, Inc. has caused this certificate to be signed by Carl L. Bixby, its President, and Thomas E. Armstrong, its Secretary, this 31st day of May, 1984.

BY: /S/ Carl L. Bixby

Carl L. Bixby, President

ATTEST: /S/ Thomas E. Armstrong

Thomas E. Armstrong, Secretary

Certificate of Amendment
of
Certificate of Incorporation

INTERFACE SYSTEMS, INC., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware,

DOES HEREBY CERTIFY:

FIRST: That at a meeting of the Board of Directors of Interface Systems, Inc. resolution were duly adopted setting forth amendments of the Certificate of Incorporation of said corporation, declaring said amendments to be advisable and calling a meeting of the shareholders of said corporation for consideration thereof. The resolutions setting forth the

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proposed amendments are as follows:

RESOLVED, That the Certificate of Incorporation of this corporation by amended by changing Article FIFTH thereof, so that, as amended, the Article shall be and read in its entirety as follows:

"FIFTH: All corporation powers shall be exercised by the Board of Directors, except as otherwise provided by statute or by Certificate of Incorporation.

Election of directors need not be by ballot.

IN FURTHERANCE AND NOT IN LIMITATION OF THE POWERS CONFERRED BY STATUTE, THE BOARD OF DIRECTORS IS EXPRESSLY AUTHORIZED:

(a) To fix, determine and vary from time to time the amount to be maintained as surplus and the amount or amounts to be set apart as working capital.

(b) To set apart out of any of the funds of the Corporation available for dividends a reserve or reserves for any proper purpose and/or to abolish any such reserve in the manner in which it was created.

(c) To make, amend, alter, change, add to or repeal bylaws for the Corporation without any action on the part of the stockholders. The bylaws may be amended, altered, changed, added to or repealed by the stockholders only as provided in the bylaws.

(d) To authorized and cause to be executed mortgages and liens, without limit as to amount, upon the real and personal property of the Corporation, including after-acquired property.

(e) From time to time to determine whether and to what extent, at what time and place, and under what conditions and regulations the accounts and books of the Corporation or any of them shall be open to the inspection of any stockholders; and no stockholder shall have any right to inspect any account or book or document of the Corporation except as conferred by statute or bylaws or as authorized by a resolution of the stockholders or Board of Directors.

(f) To authorize the payment of compensation to the directors for services to the Corporation, including fees for attendance at meetings of the Board of Directors, of the Executive Committee, and of other committees, and to determine the amount of such compensation and fees."

FURTHER RESOLVED, That the Certificate of Incorporation of this corporation be amended by adding Article ELEVENTH so that said

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Article shall be and read in its entirety as follows:

"ELEVENTH: Notwithstanding any other provision of this Certificate of Incorporation, any amendment of this Certificate of Incorporation, including, without limitation, the amendment of this Article ELEVENTH, the effect of which would be to alter, amend, supplement or repeal the Bylaws of the Corporation shall not be made except by the same affirmative vote of the shareholders as is required to make, alter, amend, supplement or repeal the Bylaws pursuant to Section 22 of the Bylaws."

SECOND: That thereafter, at the 1985 Annual Meeting of the Shareholders of said corporation duly called and held upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware, the necessary number of shares as required by statute were voted in favor of the amendments.

THIRD: That said amendments were duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

FOURTH: That the capital of said corporation shall not be reduced under or by reason of said amendment.

IN WITNESS WHEREOF, the Interface Systems, Inc. has caused this certificate to be signed by Carl L. Bixby, its President, and George W. Perrett, its Secretary, this 25th day of April, 1985.

By: /S/ Carl L. Bixby

Carl L. Bixby, President

ATTEST: /S/ George W. Perrett

George W. Perrett

Certificate of Amendment
of
Certificate of Incorporation

INTERFACE SYSTEMS, INC., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware,

DOES HEREBY CERTIFY:

FIRST: That at a meeting of the Board of Directors of Interface Systems, Inc. a resolution was duly adopted setting forth an amendment of the Certificate of Incorporation of said corporation, declaring said amendment

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to be advisable and calling a meeting of the stockholders of said corporation for consideration thereof. The resolution setting forth the proposed amendment is as follows:

RESOLVED, That the Certificate of Incorporation of this corporation be amended by adding Article TWELFTH so that said Article shall be and read in its entirety as follows:

"TWELFTH: A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the General Corporation Law of the State of Delaware, as the same exists or hereafter may be amended, or (iv) for any transaction from which the director derived an improper personal benefit. If the General Corporation Law of the State of Delaware hereafter is amended to authorize the further elimination or limitation of the liability of directors, then the liability of a director of the Corporation, in addition to the limitation on personal liability provided herein, shall be limited to the fullest extent permitted by the amended Delaware General Corporation Law of the State of Delaware. Any repeal or modification of this Article TWELFTH by the stockholders of the Corporation shall be prospective only, and shall not adversely affect any limitation on the personal liability of a director of the Corporation existing at the time of such repeal or modification."

SECOND: That thereafter, at the 1987 Annual Meeting of the Stockholders of said corporation duly called and held upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware, the necessary number of shares as required by statute were voted in favor of the amendment.

THIRD: That said amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

FOURTH: That the capital of said corporation shall not be reduced under or by reason of said amendment.

IN WITNESS WHEREOF, said Interface Systems, Inc. has caused this certificate to be signed by David O. Schupp, its Vice President, and George W. Perrett, its Secretary, this 12th day of May, 1987.

BY: /S/ David O. Schupp
\-------------------------------
David O. Schupp, Vice President

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ATTEST: /S/ George W. Perrett

George W. Perrett, Secretary

Certificate of Amendment
of
Certificate of Incorporation
of
Interface Systems, Inc.

Interface Systems, Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware,

DOES HEREBY CERTIFY:

FIRST: That at a meeting of the Board of Directors of Interface Systems, Inc., resolutions were duly adopted setting forth a proposed amendment of the Certificate of Incorporation of said corporation, declaring said amendment to be advisable and calling a meeting of the shareholders of said corporation for consideration thereof. The resolution setting forth the proposed amendment is as follows:

> RESOLVED, THAT The Certificate of Incorporation shall be amended by changing the first paragraph of Article FOURTH thereof, so that, as amended, the first paragraph shall read as follows:
>
> "FOURTH: The total number of shares of stock, which the Corporation shall have authority to issue is Twenty Million (20,000,000) shares of Common Stock, par value $.10 per share".

SECOND. That thereafter, at the 1996 Annual Meeting of the Stockholders of said corporation duly called and held upon notice in accordance with Section 222 of the General Corporation Law of Delaware, the necessary number of shares as required by statute were voted in favor of the amendment.

THIRD. That said amendment was duly adopted in accordance with Section 242 of the General Corporation Law of the Sate of Delaware.

FOURTH. That the capital of said corporation shall not be reduced by reason of said amendment.

IN WITNESS WHEREOF, Interface Systems, Inc. has caused this certificate to be signed by Carl L. Bixby, its President, and George W.

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Perrett, its Secretary, on the   day of May, 1996.

INTERFACE SYSTEMS, INC.

By: /S/ Carl L. Bixby

Carl L. Bixby
President

Attest: /S/ George W. Perrett

George W. Perrett
Secretary

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As of June 14, 1996

Exhibit 3(b)

AMENDED BYLAWS

OF

INTERFACE SYSTEMS, INC.

SECTION 1. OFFICES. In addition to its principal office in the State of Delaware, the Corporation may also have offices at such other places within or without the State of Delaware as the Board of Directors shall from time to time determine.

SECTION 2. PLACE OF MEETINGS. Meetings of the stockholders and meetings of the Board of Directors may be held at any place or places within or without the State of Delaware.

SECTION 3. ANNUAL STOCKHOLDERS MEETING. The annual meeting of the stockholders of the Corporation for the election of directors and for the transaction of such other business as may properly come before the meeting shall be held on such date and at such time and place as may be specified in the notice of annual meeting to be sent to the stockholders. The Board of Directors acting by resolution may postpone and reschedule any previously scheduled annual meeting of stockholders. Any annual meeting of stockholders may be adjourned by the Chairman of the meeting or pursuant to a resolution of the Board of Directors.

SECTION 4. SPECIAL STOCKHOLDERS MEETING. Special meetings of the stockholders may be called by the Chairman of the Board, or by the President, or pursuant to resolution of the Board of Directors. Business transacted at a special meeting of stockholders shall be confined to the purpose or purposes of the meeting as stated in the notice of the meeting. The Board of Directors acting by resolution may postpone and reschedule any previously scheduled special meeting of stockholders. Any special meeting of stockholders may be adjourned by the Chairman of the meeting or pursuant to resolution of the Board of Directors.

SECTION 5. NOTICE OF STOCKHOLDERS MEETINGS. Notice of the time and place of every meeting of stockholders and of the business to be acted on at such meeting shall be mailed by the Secretary or the officer performing his duties, not less than ten days (or not less than twenty days when such is required by Delaware law) nor more than fifty days before the meeting to

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each stockholder of record entitled to vote thereat and entitled to such notice at his last known post office address; provided, however, that if a stockholder be present at a meeting or waive notice thereof in writing before or after the meeting, notice of the meeting to such stockholder shall be unnecessary. When a meeting of stockholders is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken; provided, however, that if the adjournment is for more than thirty (30) days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote thereat.

SECTION 6. QUORUM OF STOCKHOLDERS. The holders of a majority of the stock of the Corporation having voting power present in person or by proxy shall constitute a quorum, except as otherwise provided by law or by the Certificate of Incorporation or Bylaws of the Corporation, but less than a quorum shall have power to adjourn any meeting from time to time. The holders of a majority of the stock present and entitled to vote at a duly qualified meeting of stockholders shall have power to act.

SECTION 7. PROXIES. At every meeting of stockholders each stockholder entitled to vote thereat shall be entitled to one vote for each share of stock held by him, and may vote and otherwise act in person or by proxy, but no proxy shall be voted upon more than three (3) years after its date unless such proxy provides for a longer period.

SECTION 8. LIST OF STOCKHOLDERS. At least ten (10) days before each stockholders' meeting, a complete list, arranged in alphabetical order, of the stockholders entitled to vote at the meeting, showing the name and address of each stockholder and the number of shares registered in the name of each stockholder, shall be prepared and filed in the place where the meeting is to be held, or such other place within the city where the meeting is to be held as shall be specified in the notice of the meeting, and shall, during the usual hours of business for said ten (10) days, be open to the examination of any stockholders for any purpose germane to the meeting at the place where it is filed. The list of stockholders shall also be produced and kept at the time and place of the meeting, during the whole time thereof, and may be inspected by any stockholder who is present.

SECTION 9. STOCK CERTIFICATES. Certificates of stock shall be of such form as the Board of Directors may elect and shall be signed by the President or a Vice-President and the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary, but where any such certificate is signed by a transfer agent or an assistant transfer agent or transfer clerk acting on behalf of the Corporation and by a registrar, the signatures of any such officers of the Corporation may be facsimiles, engraved or printed.

SECTION 10. STOCK TRANSFERS AND RECORDS. The stock of the Corporation shall be transferable or assignable only on the books of the Corporation by the holders in person, or by attorney, on the surrender of

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the certificates therefor. The Board of Directors may appoint one or more transfer agents and registrars of the stock. Any stockholder, in person or by his attorney or other duly authorized agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hours of business, to inspect for any proper purpose the stock ledger of the Corporation, a list of its stockholders and its other books and records, and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to the stockholder's interest as such. In every instance where an attorney or other agent shall be the person who seeks the right to inspection, the demand of the stockholder under oath shall be accompanied by a power of attorney or such other writing which authorizes the attorney or other agent to so act on behalf of the stockholder. Such demand under oath shall be directed to the Corporation at its registered office in the State of Delaware or at its principal place of business within or without the State of Delaware.

SECTION 11. RECORD DATES. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors shall have the power to fix in advance a record date, which shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting, nor more than sixty (60) days prior to any other such action. In every case in which a record date is fixed, such stockholders and only such stockholders as shall be stockholders of record on the date so fixed shall be entitled to notice of and to vote at such meeting, or to express consent to such corporate action in writing without a meeting, or to receive payment of such dividend or other distribution, or to receive such allotment, or to exercise such rights, as the case may be, notwithstanding any transfer of any stock on the books of the Corporation. If no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of or to vote at the meeting of stockholders shall be at the close of business on the date next preceding the date on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held, and the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for any adjourned meeting.

SECTION 11.1. NOMINATION AND STOCKHOLDER BUSINESS PROPOSAL:

(A) Annual Meetings of Stockholders. (1) Nominations of persons for election to the Board of Directors of the Corporation and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (a) pursuant to the Corporation's notice of

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meeting, (b) by or at the direction of the Board of Directors or (c) by any stockholder of the Corporation who was a stockholder of record at the time of giving of notice provided for in this Bylaw, who is entitled to vote at the meeting and who complied with the notice procedures set forth in this Bylaw.

(2) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (c) of paragraph (A) (1) of this Bylaw, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not less than 60 days nor more than 90 days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than 30 days or delayed by more than 60 days from such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the 90th day prior to such annual meeting and not later than the close of business on the later of the 60th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made. Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposes to nominate for election or reelection as a director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act") (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; (c) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner and (ii) the class and number of shares of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner.

(3) Notwithstanding anything in the second sentence of paragraph (A) (2) of this Bylaw to the contrary, in the event that the number of directors to be elected to the Board of Directors of the Corporation is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased Board of Directors made by the Corporation at least 70 days prior to the first anniversary of the preceding year's annual meeting, a stockholder's notice required by this Bylaw shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the 10th day following the day on which such public announcement is first made by the

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Corporation.

(B) Special Meetings of Stockholders. Only such business shall be conducted at a special meeting of stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting. Nominations of persons for election to the Board of Directors may be made at a special meeting of stockholders at which directors are to be elected pursuant to the Corporation's notice of meeting (a) by or at the direction of the Board of Directors or (b) by any stockholder of the Corporation who is a stockholder of record at the time of giving of notice provided hereunder, who shall be entitled to vote at the meeting and who complies with the notice procedures set forth in this Bylaw. Nominations by stockholders of persons for election to the Board of Directors may be made at such a special meeting of stockholders if the stockholder's notice required by paragraph (A) (2) of this Bylaw shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the 90th day prior to such special meeting and not later than the close of business on the later of the 60th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting.

(C) General. (1) Only such persons who are nominated in accordance with the procedures set forth in this Bylaw shall be eligible to serve as directors and only such business shall be conducted at a meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Bylaw. The Chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made in accordance with the procedures set forth in this Bylaw and, if any proposed nomination or business is not in compliance with this Bylaw, to declare that such defective proposal shall be disregarded.

(2) For purposes of this Bylaw, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Sections 13, 14 or 15(d) of the Exchange Act.

(3) Notwithstanding the foregoing provisions of this Bylaw, a stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Bylaw. Nothing in this Bylaw shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

SECTION 11.2. VOTING PROCEDURES AND INSPECTORS OF ELECTIONS. The Board of Directors shall appoint, prior to any annual, special or other meeting of stockholders, one or more inspectors of elections. The inspectors will be responsible for ascertaining the number of shares

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outstanding and the voting power of each, determining the shares represented at the annual, special or other meeting of stockholders and the validity of proxies and ballots, counting all votes and ballots, determining and retaining for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors, and certifying their determination of the number of shares represented at the annual, special, or other meeting of stockholders, and their count of all votes and ballots. The inspectors may appoint or retain other persons or entities to assist in the performance of the duties of the inspectors. In determining the validity and counting of proxies and ballots, the inspectors shall be limited to an examination of the proxies, any envelopes submitted with those proxies, any information provided in accordance with the General Corporation Law of the State of Delaware, ballots and the regular books and records of the Corporation.

The date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at a meeting shall be announced at the meeting. No ballot, proxies or votes, nor any revocations thereof or changes thereto, shall be accepted by the inspectors after the closing of the polls unless the Court of Chancery of the State of Delaware upon application by a stockholder shall determine otherwise.

SECTION 12. BOARD OF DIRECTORS. The affairs of the Corporation shall be managed by or under the direction of the Board of Directors. The number of directors constituting the entire Board shall not be less than three nor more than twelve, the exact number of directors to be fixed from time to time only by vote of a majority of the entire Board. Directors need not be stockholders of the Corporation or residents of the State of Delaware.

Directors shall be elected at each annual meeting of the stockholders, each to hold office until the next annual meeting of stockholders and until the director's successor is elected and qualified, or until the director's resignation or removal.

During the intervals between annual meetings of stockholders, any vacancy occurring in the Board of Directors caused by resignation, removal, death or other incapacity, and any newly created directorships resulting from an increase in the number of directorships shall be filled by a majority vote of the directors then in office, whether or not a quorum. If the Board of Directors accepts the resignation of any director or officer to take effect at a future time, it shall have the power to elect a successor to take office when the resignation becomes effective. Each director chosen to fill a vacancy or chosen to fill a newly created directorship shall hold office until the next election of directors by the stockholders and until his successor is elected and qualified, or until his earlier death, resignation or removal. The Board of Directors shall have the power to authorize the payment of compensation to the directors for services to the Corporation including fees for attendance at meetings of the Board of Directors, and to determine the amount of such compensation and fees.

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Any director may be removed from office as a director at any time, but only for cause, by the affirmative vote of stockholders of record holding a majority of the outstanding shares of stock of the corporation entitled to vote in elections of directors given at a meeting of the stockholders called for that purpose.

SECTION 13. BOARD OF DIRECTORS MEETINGS. Meetings of the Board of Directors shall be held at the times fixed by resolution of the Board or upon call of the Chairman of the Board, the President or any two directors and may be held outside of the State of Delaware. The Secretary or officer performing his duties shall give reasonable notice (which need not in any event exceed two (2) days) of all meetings of directors, provided that a meeting may be held without notice immediately after the annual stockholder's meeting, and notice need not be given of regular meetings held at times fixed by resolution of the Board. Meetings may be held at any time without notice if all the directors are present or if those not present waive notice either before or after the meeting. Notice by mail or telegraph to the usual business or residence address of the directors not less than the time above specified before the meeting shall be sufficient. A majority of the total number of directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which a quorum is present shall be the act of the Board of Directors. Less than such a quorum shall have power to adjourn the meeting from time to time without notice.

SECTION 14. OFFICERS. The Board of Directors, as soon as may be practicable after the election of directors in each year, shall appoint one of their number Chairman of the Board and shall appoint one of their number President of the Corporation, and shall also appoint one or more Vice-Presidents, a Secretary and a Treasurer, and shall from time to time appoint such other officers as they may deem proper. If so appointed by the Board of Directors, the same person may hold more than two offices, other than the offices of President and Secretary.

SECTION 15. COMMITTEES. The Board of Directors may, by resolution passed by a majority of the whole Board, appoint two or more of their number to act as an executive committee to exercise the authority of the Board of Directors at such times as it is not actively in session. The Board of Directors may appoint such other committees from time to time to have such authority as shall be specified by the Board of Directors in the resolutions taking such appointments. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting thereof.

SECTION 16. OFFICERS' TERMS OF OFFICE. The term of office of all officers shall be until the first meeting of the Board of Directors after the next annual meeting of stockholders subsequent to their appointment and until their respective successors are chosen and qualified, or until they shall die or resign, but any officer may be removed from office at any time by the Board of Directors with or without cause if they

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deem such action to be in the best interests of the Corporation. Vacancies in any office may be filled by the Board at any meeting.

SECTION 17. OFFICERS' POWERS AND DUTIES. The President shall be the chief executive officer of the Corporation with full powers to manage its affairs, subject to the powers of the Board of Directors. The officers of the Corporation shall otherwise have such powers and duties as usually pertain to their offices, except as modified by the Board of Directors, and shall also have such additional powers and duties as may from time to time be conferred upon them by the Board of Directors.

SECTION 18. ACTION WITHOUT A MEETING. Whenever the vote of the Board of Directors or of any committee thereof at a meeting is required or permitted to be taken, the meeting and vote may, subject to the provisions of law, be dispensed with, if all of the directors or committee members who should have been entitled to vote upon the action if such meeting were held, shall severally and/or collectively consent in writing to such corporate action being taken.

SECTION 19. BANKING. The Board of Directors are authorized to select such depositories as they shall deem proper for the funds of the Corporation. All checks and drafts against such deposited funds shall be signed and countersigned by persons to be specified by the Board of Directors.

SECTION 20. SEAL. The corporate seal of the Corporation shall be in such form as the Board of Directors shall prescribe.

SECTION 21. FISCAL YEAR. The fiscal year of the Corporation shall be such year as may be fixed from time to time by the Board of Directors.

SECTION 22. AMENDMENT. A majority of the members of the Board of Directors then in office may from time to time make, alter, amend, supplement or repeal any or all provisions of these Bylaws. In addition, the shareholders may from time to time adopt, alter, amend, supplement or repeal any or all provisions of these Bylaws, including the provisions of this Section 22; provided such action is approved at a meeting of shareholders called for such purpose, by the affirmative vote of the holders of not less than 80% of the outstanding shares of the capital stock of the Corporation entitled to vote generally in the elections of directors. Nothing contained herein shall detract from the authority of the Board of Directors to make, alter, amend, supplement or repeal any or all provisions of the Bylaws as provided herein.

SECTION 23. INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES OR AGENTS.

(a) Right to Indemnification. Each person who was or is made a party or is threatened to be made a party to or is involved in any

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action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director or officer of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity as director or officer or in any other capacity while serving as a director or officer, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the Delaware General Corporation Law, as the same exists or may hereafter be amended, (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment) against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts to be paid in settlement) reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director or officer and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that except as provided in paragraph (b) hereof with respect to proceedings seeking to enforce rights to indemnification, the Corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the Board of Directors of the Corporation. The right to indemnification conferred in this Section shall be a contract right and shall include the right to be paid by the Corporation the expenses incurred in defending any such proceeding in advance of its final disposition; provided, however, that if the Delaware General Corporation Law requires, the payment of such expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of a proceeding, shall be made only upon delivery to the Corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified under this Section or otherwise.

(b) Right of Director or Officer Claimant to Bring Suit. If a claim under paragraph (a) of this Section is not paid in full by the Corporation within sixty (60) days after a written claim has been received by the Corporation, except in a case of a claim for expenses incurred in defending a proceeding in advance of its final disposition, in which case the applicable period shall be twenty (20) days, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any is required,

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has been tendered to the Corporation) that the claimant has not met the standards of conduct which make it permissible under the Delaware General Corporation Law for the Corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation. A determination that the claimant has not met the applicable standard of conduct, when made: (l) by the Board of Directors by a majority vote of a quorum consisting of directors who are not parties to such action, suit, or proceeding; or (2) if such a quorum is not obtainable, or, even if obtainable a quorum of disinterested directors so directs, by independent legal counsel in a written opinion; or (3) by the stockholders, shall serve as evidence in support of a contention by the Corporation that the claimant has not met that standard of conduct.

(c) Non-Exclusivity of Rights. The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Section shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, Bylaw, agreement, vote of stockholders or disinterested directors or otherwise.

(d) Indemnification of Employees and Agents of the Corporation. The Corporation may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification, and to be paid by the Corporation the expenses incurred in defending any proceeding in advance of its final disposition, to any employee or agent of the Corporation to the fullest extent of the provisions of this Section with respect to the indemnification and advancement of expenses of directors and officers of the Corporation.

(e) Insurance. The Corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the Delaware General Corporation Law.

SECTION 24. LOST OR DESTROYED STOCK CERTIFICATES. Upon the presentation to the Corporation of a proper affidavit attesting to the loss, destruction or mutilation of any certificate or certificates for shares of stock of the Corporation, the Board of Directors shall direct the issuance of a new certificate or certificates to replace the certificate or certificates so alleged to be lost, destroyed or mutilated. The Board of Directors may require, as a condition precedent to the issuance of any such new certificates, any or all of the following: (a) presentation of additional evidence or proof of the loss, destruction or mutilation claimed; (b) advertisement of the loss in such manner as the Board of Directors may direct or approve; (c) a bond or agreement of indemnity in such form and amount and with such sureties, or without sureties, as the Board of Directors may direct or approve; (d) the approval or order of a court or judge.

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SECTION 25. The Corporation shall not be governed by the provisions of Section 203 of the General Corporation Law of the State of Delaware. Notwithstanding anything to the contrary contained in these Bylaws, this Section 25 shall not hereafter be amended by the Board of Directors.

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Exhibit 10(6)

RELEASE AND SETTLEMENT AGREEMENT

THIS AGREEMENT is made this 20th day of June, 1996, between Carl Bixby ("Bixby") and Interface Systems, Inc., a Delaware corporation ("Interface").

RECITALS

A.Bixby is presently employed by Interface but desires to resign effective June 20, 1996 with respect to his position as President, Chief Executive Officer and effective September 10, 1996 as an employee; and

B. Bixby desires to resign full-time employment for personal reasons; and

C.Bixby and Interface recognize that continued association and finalization of all matters relating to Bixby's employment would be of assistance to Bixby and Interface; and

D.Interface is not obligated to pay Bixby any additional compensation or benefits other than that which he has earned through June 30, 1996 with the understanding that Bixby will be on an unpaid leave of absence until September 10, 1996.

In consideration of the foregoing and of the promises and the mutual covenants contained herein, it is hereby agreed between Bixby and Interface as follows:

AGREEMENT

1. Bixby voluntarily agrees to resign as President, Chief Executive Officer and all other positions, except as a member of the Board of Directors of Interface, which he holds with Interface or its subsidiaries including, but not limited to, his position as a trustee of Interface's 401(k) Plan effective June 20, 1996.

2. Bixby voluntarily agrees to resign as an employee of Interface effective September 10, 1996 . Bixby understands and agrees that he will be on an unpaid leave of absence from July 1, 1996 until September 10, 1996. Bixby further agrees that unless he exercises his right to rescind the Agreement pursuant to paragraph 25, he will not and cannot rescind the resignations set forth in paragraphs 1 and 2 hereof. Bixby waives his right to all benefits and rights as an employee except for those under any Interface Stock Option Plan.

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3. Interface agrees to retain Bixby as an independent contractor for a 24-month period beginning July 1, 1996, to consult with Interface upon Interface's request regarding the business of Interface. For making himself available at such time as specified by Interface and rendering services as specified by Interface, Bixby shall be paid $16,000 per month payable at such times as his base compensation was payable when he was still an employee.

4. Any rights Bixby has under any stock option plan of Interface are not affected by this Agreement.

5. Bixby presently owes Interface $600,000 pursuant to two (2) promissory notes and a pledge agreement. These notes remain in full force and effect.

6. Bixby additionally owes Interface approximately $100,000 for, among other things, advances outstanding. Bixby agrees to sign a promissory note for such amount The amount of the note shall be repaid in 18 equal monthly installments, which amount shall be deducted from the payments set forth in Paragraph 3 above.

7. Bixby recognizes that the amounts to be paid to him pursuant to this Agreement are in excess of any earned wages or benefits due and owing Bixby through his separation date.

8. In exchange for the good and valuable consideration set forth in this Agreement, Bixby, on behalf of himself, his heirs, executor and assigns, releases, waives and discharges any and all manner of action, causes of action, claims, rights, charges, suits, damages, debts, demands, obligations, attorneys' fees, or any and all other liabilities or claims of whatsoever nature, whether individually or derivatively, whether in law or in equity, known or unknown, including, but not limited to, any claim and/or claim of damages or other relief for tort, breach of contract, personal injury, negligence, loss of consortium, age discrimination under The Age Discrimination In Employment Act of 1967 (as amended), employment discrimination prohibited by other federal, state or local laws including sex, race, national origin, marital status, age, handicap, height, weight, or religious discrimination, and any other claims for unlawful employment practices which Bixby has claimed or may claim or could claim in any local, state or federal forum, against Interface, its directors, officers, employees, attorneys, agents, successors and assigns and affiliates and subsidiaries, and their officers, directors, employees, attorneys, agents, successors and assigns, and all others ("Interface Representatives").

9. Bixby may submit a letter of resignation which will be placed in his file.

10. Bixby and Interface intend that this Agreement will irrevocably bar any action or claim whatsoever by Bixby against Interface and Interface Representatives for any resultant injuries or damages, whether known or unknown, sustained or to be sustained, as a result of any acts,

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omissions and conduct of Interface and Interface Representatives having occurred up to the present date including, but not limited to, Bixby's employment with Interface and the termination of that employment.

11. Bixby understands that he does not waive rights or claims that may arise after the date this Agreement is executed, but Bixby understands and agrees that this Agreement and the release language in paragraph 8 apply to his decision to resign as an employee and his waiver of any right to rescind that resignation except as set forth in paragraph 25 of the Agreement.

12. Bixby further agrees that he has read this Agreement carefully and understands all of its terms.

13. Bixby understands and agrees that he was advised to consult with an attorney prior to executing this Agreement and that he has entered into this Agreement with the advice of his attorney.

14. Bixby understands and agrees that he has been given 21 days (or more) within which to consider this Agreement.

15. Bixby and Interface acknowledge that this Agreement reflects their desire to terminate all aspects of their employment relationship in an orderly and amicable fashion. The parties in no way acknowledge any fault or liability to the other party or any other person or entity and this Agreement shall not in any way be construed as an admission by either party or any other person or entity of any fault or liability to the other party or any other person or entity.

16. Bixby agrees that he will not receive, is not entitled to receive and will not claim any salary, bonus, benefits, severance pay, other compensation, expenses or other payment of any kind other than that which is specifically set forth in this Agreement.

17. Bixby represents and agrees that he has kept and will keep the fact, amount and terms of his employment relationship and of this Agreement completely confidential, and that he will not hereafter disclose, except as required by law, any information concerning the fact, amount or terms of this Agreement to any person other than his immediate family, his attorney and his tax advisor (collectively, "Bixby's Confidants"), provided each is informed of and agrees to be bound by this confidentiality provision.

By way of illustration and without limitation, neither Bixby nor any of Bixby's Confidants shall disclose the fact, amount, or terms of this Agreement to anyone, including, but not limited to, any representative of any print, radio or television media; to any past, present or prospective employee of, Interface or others released in this Agreement, or to Interface's shareholders or to the public at large.

Nothing in this paragraph shall prohibit any party or his/its

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counsel from disclosing the fact, amount or terms of this Agreement to a court, arbitrator, administrative agency or other tribunal of appropriate jurisdiction for the purpose of effectuating the provisions of this Agreement.

18. Bixby understands and agrees that he will not in any fashion, form or manner, either directly or indirectly, solicit or use for his own purposes or for the purposes of any third party, "confidential business information" in any form concerning Interface. As used in this Agreement, "confidential business information" means any information concerning the business and operations of Interface, its agreements or relations with agents, contractors, customers or employees, the status of work in progress, its products, processes, costs, pricing, customers, employees, trade secrets, plans, commercial intentions, business practices, or financial condition; provided, however, that "confidential business information" shall not include information which (a) has been publicly disclosed by Interface or included in any publicly available filing, report or analysis or which is generally available to the public through lawful means; (b) was known to Bixby by lawful means prior to his employment by Interface; or (c) was created, produced, compiled, or developed by Bixby or any other person independently and without the use of or reference to any "confidential business information" of Interface.

Nothing in this Agreement shall preclude Bixby from describing, without in any way disclosing "confidential business information," in any general terms to prospective employers and business associates, and to no one else, specifically and solely for the purpose of securing other employment or a business association, the general nature of the work he performed at Interface and the results he obtained as contained and revealed in any public information about Interface.

Nothing in this Agreement shall preclude Bixby from making such disclosures of "confidential business information" as may be required by law, government regulation or court order, or as may be requested by governmental officials or investigators concerning matters within their official authority. In the event that disclosures of "confidential business information" are made by Bixby under such circumstances, he shall take all reasonably available steps to ensure that such information does not become known to Interface's competitors, such as through conditioning disclosure upon entry of an appropriate protective order or a confidentiality agreement.

In view of the nature of Bixby's employment and the "confidential business information" which Bixby has received during the course of his employment, Bixby agrees that Interface would be irreparably harmed by any violation or threatened violation of this paragraph, and that, therefore, Interface shall be entitled to an injunction prohibiting Bixby from any violation or threatened violation of this paragraph. The undertakings set forth in this paragraph shall survive the termination of other arrangements contained in this Agreement.

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19. Until July 1, 1998, Bixby shall not: (A) directly or indirectly, either as an equity owner (except for the ownership of not more than 1% of any class of equity securities traded actively over-the-counter or through a national securities exchange), director, officer, employee, sales person, consultant, advisor, agent, lender, or in any other capacity, in any location in which Interface conducts its business, engage or be interested in any business which is in substantial and direct competition with the business of Interface or any of its subsidiaries; (B) take any action with the intent of causing the termination of the business relationship between Interface or any of its subsidiaries and any customer or supplier of the Company; or (C) solicit for employment any person employed in Interface's business or the business of its subsidiaries.

Bixby agrees that the Interface would be irreparably harmed by any violation or threatened violation of this paragraph, and that, therefore, Interface shall be entitled to an injunction prohibiting Bixby from any violation or threatened violation of this paragraph. The undertakings set forth in this paragraph shall survive the termination of other arrangements contained in this Agreement.

20. Bixby agrees that he will not, and will use his best efforts to see that his wife, attorney and accountant do not, make or publish any negative, critical, disparaging, slanderous or libelous statements about Interface or its subsidiary, affiliates, officers, directors, agents, representatives or attorneys. Interface agrees that it will not, and Interface will use its best efforts to see that its subsidiary, affiliates, officers, directors, agents, representatives and attorneys of Interface do not, make or publish any negative, critical, disparaging, slanderous or libelous statements about Bixby.

21. Bixby represents and agrees that he will promptly turn over to Interface all files, memoranda, records, all other documents, badges, keys, credit cards and any other physical property of Interface, which Bixby has in his possession, custody or control. Bixby agrees that he will promptly vacate his office and remove from such office any personal property which he may have in such office, and agrees that any property which he does not remove shall become the personal property of Interface.

22.Bixby agrees that he will neither engage in nor support, nor be a party to any shareholder action, derivative or otherwise, against Interface or any of its officers, directors, employees, agents or attorneys until the complete satisfaction of his obligations under the two promissory notes referenced in paragraph 5 hereof.

23. Bixby agrees to comply with the volume limitations of Rule No. 144 promulgated under the Securities Act of 1933 during the 24-month period commencing July 1, 1996.

24. Bixby hereby assigns and relinquishes any and all claims he may have to any inventions, ideas, methods or concepts, whether or not patentable, trademarkable or copyrightable for anything which he

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developed, invented or worked on during his employment at Interface.

25. Bixby understands and agrees that he may revoke this Agreement for a period of seven (7) calendar days following the execution of this Agreement. The Agreement is not effective until this revocation period has expired. Bixby understands that any revocation, to be effective, must be in writing and either (a) postmarked within seven (7) days of execution of this Agreement and addressed to Garnel F. Graber, Interface Systems, Inc., 5855 Interface Drive, Ann Arbor, MI, or (b) hand delivered within seven (7) days of execution of this Agreement to Garnel F. Graber. Bixby understands that if revocation is made by mail, mailing by certified mail, return receipt requested, is recommended to show proof of mailing.

26. In agreeing to sign this Release and Settlement Agreement, Bixby is doing so completely voluntarily and based on the advice of his attorney and agrees that he has not relied on any oral statements or explanations made by Interface or its representatives.

27. This Agreement is in full accord and satisfaction and compromise of the claims of Bixby and Interface and is not to be construed as an admission of liability on the part of Interface.

28. This Agreement contains the entire Agreement between Bixby and Interface. Any modification of this Agreement must be made in writing and signed by Bixby and Garnel F. Graber on behalf of Interface Systems, Inc.

	/S/ Carl Bixby
------------------------------	-------------------------------
Witness	Carl Bixby

Date: June 21, 1996

INTERFACE SYSTEMS, INC.

	/S/ David Schupp
------------------------------	By: ------------------------------
Witness	David Schupp
	Its: Treasurer

Date:

NOTICE OF INTENTION TO SIGN BEFORE
EXPIRATION OF TWENTY-ONE (21) DAY REVIEW PERIOD

1. I understand that I have been offered twenty-one (21) days to consider whether to sign and accept this Release and Settlement Agreement. Nevertheless, it is my desire and intention to sign and accept

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it at this time and I do so freely and voluntarily.

2. I understand that I have an opportunity to revoke the Release and Settlement Agreement pursuant to its terms and that the time period for revoking begins to run from the date of signature.

/S/ Carl Bixby

Dated: June 21, 1996 ----------------------------

Carl Bixby

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Exhibit 23 (a)

Consent of Independent Certified Public Accountants

Interface Systems, Inc.
5855 Interface Drive
Ann Arbor, Michigan 48103

We hereby consent to the incorporation by reference in the Prospectus constituting a part of the previously filed Registration Statement (Form S-8) of our reports dated November 14, 1996 relating to the consolidated financial statements and schedules of Interface Systems, Inc. and subsidiaries appearing in the Company's Annual Report on Form 10-K for the year ended September 30, 1996.

/S/ BDO SEIDMAN, LLP
BDO SEIDMAN, LLP

Troy, Michigan
December 24, 1996

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