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

FORM 10-Q

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

For the quarterly period ended: December 31, 2000.

OR

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

For the transition period from ____ to ____.

Commission file number: 0-17972

DIGI INTERNATIONAL INC.
(Exact name of registrant as specified in its charter)

Delaware	41-1532464
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

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

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

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

Yes [X] No [ ]

On February 12, 2001, there were 15,208,551 shares of the registrant's $.01 par value Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DIGI INTERNATIONAL INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2000 AND 1999
(UNAUDITED)

	2000	1999
Net sales	$ 34,443,149	$ 40,140,205
Cost of sales	16,282,069	17,965,228
Gross margin	18,161,080	22,174,977
Operating expenses:		
Sales and marketing	7,252,374	8,722,850
Research and development	4,558,023	5,766,262
General and administrative	4,792,359	6,190,939
Restructuring	(182,038)	--
Total operating expenses	16,420,718	20,680,051
Operating income	1,740,362	1,494,926
Other income, net	988,627	461,825
Income before income taxes	2,728,989	1,956,751
Income tax provision	1,364,495	939,240
Net income	$ 1,364,494	$ 1,017,511
Net income per common share, basic	$ 0.09	$ 0.07
Net income per common share, assuming dilution	$ 0.09	$ 0.07
Weighted average common shares, basic	15,166,642	14,967,793
Weighted average common shares, assuming dilution	15,184,697	15,337,788

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

DIGI INTERNATIONAL INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
AS OF DECEMBER 31, 2000 AND SEPTEMBER 30, 2000

	December 31 2000 (unaudited)	September 30 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,405,357	$ 38,785,936
Marketable securities	49,156,236	20,150,132
Accounts receivable, net	20,746,645	18,175,226
Inventories, net	20,534,208	19,700,010
Other	4,016,155	3,655,511
Total current assets	101,858,601	100,466,815
Property, equipment and improvements, net	24,075,301	24,408,384
Intangible assets, net	23,231,474	16,397,744
Other	1,342,237	1,649,252
Total assets	$ 150,507,613	$ 142,922,195
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Borrowings under line of credit agreements	$ 2,377,000	$ 3,147,900
Current portion of long-term debt	378,418	330,305
Accounts payable	9,994,858	6,275,995
Income taxes payable	2,610,369	1,328,481
Accrued expenses:		
Advertising	1,159,128	1,143,565
Compensation	3,221,208	1,862,517
Other	6,768,906	6,760,841
Restructuring reserves	412,141	1,531,992
Total current liabilities	26,922,028	22,381,596
Long-term debt	7,283,809	7,081,396
Net deferred income taxes	1,485,000	--
Total liabilities	$ 35,690,837	$ 29,462,992
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value; 2,000,000 shares authorized; none outstanding		
Common stock, $.01 par value; 60,000,000 shares authorized; 16,360,148 and 16,322,949 shares issued	163,601	163,229
Additional paid-in capital	71,860,145	71,851,928
Retained earnings	62,774,355	61,409,861
Accumulated other comprehensive (loss) income	(300,692)	166,750
	134,497,409	133,591,768
Unearned stock compensation	(50,558)	(89,618)
Treasury stock, at cost, 1,172,076 and 1,196,463 shares	(19,630,075)	(20,042,947)
Total stockholders' equity	114,816,776	113,459,203
Total liabilities and stockholders' equity	$ 150,507,613	$ 142,922,195

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

DIGI INTERNATIONAL INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2000 AND 1999
(UNAUDITED)

	2000	1999
Operating activities:		
Net income	$ 1,364,494	$ 1,017,511
Adjustments to reconcile net income to net cash provided by operating activities:		
Restructuring	(182,038)	--
Depreciation and amortization	2,675,447	3,842,867
Provision for losses on accounts receivable	285,137	192,910
Provision for inventory obsolescence	180,000	615,409
(Gain) loss on sale of fixed assets	(278,974)	8,084
Stock compensation	29,634	50,700
Changes in operating assets and liabilities	1,519,582	(1,391,592)
Total adjustments	4,228,788	3,318,378
Net cash provided by operating activities	5,593,282	4,335,889
Investing activities:		
Purchase of marketable securities, net	(29,006,104)	(12,062,992)
Business acquisition, net of cash acquired	(6,980,821)	--
Purchase of property, equipment, intangibles, and improvements	(210,466)	(671,130)
Net cash used in investing activities	(36,197,391)	(12,734,122)
Financing activities:		
(Payments) borrowings under line of credit agreements	(903,000)	26,780
Principal payments on long-term debt	(164,346)	--
Stock benefit plan transactions, net	423,199	969,661
Net cash (used in) provided by financing activities	(644,147)	996,441
Effect of exchange rate changes on cash and cash equivalents	(132,323)	314,164
Net decrease in cash and cash equivalents	(31,380,579)	(7,715,956)
Cash and cash equivalents, beginning of period	38,785,936	20,963,607
Cash and cash equivalents, end of period	$ 7,405,357	$ 13,247,651

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

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

1. BASIS OF PRESENTATION

The interim condensed consolidated financial statements included in this Form 10-Q have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures, normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States, have been condensed or omitted, pursuant to such rules and regulations. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in the Company's 2000 Annual Report on Form 10-K.

The condensed consolidated financial statements presented herein as of December 31, 2000, and for the three months ended December 31, 2000 and 1999, reflect, in the opinion of management, all adjustments (which consist only of normal, recurring adjustments) necessary for a fair presentation of the consolidated financial position and the consolidated results of operations and cash flows for the periods presented. The consolidated results of operations for any interim period are not necessarily indicative of results for the full year.

2. ACQUISITIONS

On October 2, 2000, the Company acquired Inside Out Networks (ION), a developer of data connections products based in Austin, Texas. The transaction was accounted for using the purchase method of accounting. Accordingly, the purchase price of $7,295,244 has been allocated to the estimated fair value of assets acquired and liabilities assumed.

The Company may pay up to $8,500,000 of additional cash consideration for the purchase, subject to ION achieving specific revenue and operating income targets during the three years following the acquisition.

The following unaudited pro forma condensed consolidated results of operations have been prepared as if the acquisition of ION had occurred as of the beginning of the fiscal year ended September 30, 2000:

	2000
Net sales	$ 41,181,662
Net income	$ 957,404
Net income per share	$ 0.06

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. RESTRUCTURING

In September 2000, the Company's Board of Directors approved a restructuring plan related to its European operations headquartered in Dortmund, Germany, which provided for the transition of all product development, technical support and manufacturing functions to the Company's corporate headquarters located in Minnetonka, Minnesota. The plan also included the closure of the Company's office in Bagshot, England. The resulting charge of $1,531,992 consisted of $1,252,531 for severance and termination costs related to the elimination of 73 positions in Dortmund, Germany and 2 positions in Bagshot, England; $134,227 related to the closure of the Bagshot office for lease cancellation; $100,684 of cancellation fees related to automobile leases, maintenance contracts, and office equipment leases, and $44,550 for severance-related legal expenses. Restructuring activities are expected to be completed by the end of the second quarter of fiscal 2001.

As of December 31, 2000, the Company had paid $782,279 of termination costs relating to the elimination of 46 positions in Dortmund, Germany, and $61,377 relating to the elimination of 2 positions in Bagshot, England. An additional $22,163 was paid for cancellation fees in Dortmund, Germany, and $71,994 of expenses related to the closure of the Bagshot office were paid in the first quarter of fiscal 2001. Adjustments to the restructuring accrual relating to severance costs, due to unanticipated employee retention, were $153,885 for Dortmund, Germany, and were reflected as a reduction in the restructuring accrual and a corresponding increase to operating income. Other changes in estimated restructuring expenses of $4,383 for cancellation fees and $23,770 for severance-related legal expenses were also shown as adjustments to the restructuring accrual, reducing the restructuring accrual and increasing operating income. A summary of payments and adjustments as of December 31, 2000 is included in the table below.

Description	Balance at September 30, 2000	Payments	Change in Estimate Adjustments	Balance at December 31, 2000
Severance and termination costs	$1,252,531	$ (843,656)	$ (153,885)	$ 254,990
Closure of Bagshot Office	134,227	(71,994)	--	62,233
Cancellation fees	100,684	(22,163)	(4,383)	74,138
Severance-related Legal Expenses	44,550	--	(23,770)	20,780
TOTAL	$1,531,992	$ (937,813)	$ (182,038)	$ 412,141

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. INVENTORIES

Inventories, net are stated at the lower of cost or market, with cost determined on the first-in, first-out method. Inventories at December 31, 2000 and September 30, 2000 consisted of the following:

	December 31, 2000	September 30, 2000
Raw materials	$ 12,111,038	$ 12,496,226
Work in process	1,539,632	1,092,654
Finished goods	6,883,538	6,111,130
	$ 20,534,208	$ 19,700,010

5. COMPREHENSIVE INCOME (LOSS)

The components of total comprehensive income (loss) are shown below. Comprehensive income (loss) includes net income (loss) and foreign currency translation adjustments that are charged or credited to stockholders' equity.

Comprehensive income (loss) for the three months ended December 31, 2000 and 1999 was as follows:

	Three months ended December 31	
	2000	1999
Net income	$ 1,364,494	$ 1,017,511
Foreign currency translation adjustments	(467,442)	(1,041,563)
Comprehensive income (loss)	$ 897,052	$ (24,052)

6. NET INCOME PER SHARE

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. NET INCOME PER SHARE (CONTINUED)

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

	Income (Numerator)	Shares (Denominator)	Per Share Amount
For the quarter ended December 31, 2000			
BASIC INCOME PER SHARE			
Income available to common stockholders	$ 1,364,494	15,166,642	$ 0.09
EFFECTIVE OF DILUTIVE SECURITIES			
Common equivalent shares	--	18,055	--
DILUTED INCOME PER SHARE			
Income available to common stockholders	$ 1,364,494	15,184,697	$ 0.09

	Income (Numerator)	Shares (Denominator)	Per Share Amount
For the quarter ended December 31, 1999			
BASIC INCOME PER SHARE			
Income available to common stockholders	$ 1,017,511	14,967,793	$ 0.07
EFFECTIVE OF DILUTIVE SECURITIES			
Common equivalent shares	--	369,995	--
DILUTED INCOME PER SHARE			
Income available to common stockholders	$ 1,017,511	15,337,788	$ 0.07

Options to purchase 2,475,152 and 534,091 shares at December 31, 2000 and 1999, respectively, were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of common shares.

7. RECENT ACCOUNTING DEVELOPMENTS

In December 1999, the Staff of the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 (SAB 101)-Revenue Recognition in Financial Statements. This SAB summarizes certain of the SEC's views regarding revenue recognition. The provisions of SAB 101, as amended by SAB 101A and SAB 101B, must be adopted by the fourth quarter of the Company's fiscal year ending

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. RECENT ACCOUNTING DEVELOPMENTS (CONTINUED)

September 30, 2001. However, any effects of the SAB must be reflected retroactively to October 1, 2000 (the first day of fiscal year 2001). The Company has considered the effect of the guidance outlined in SAB 101 and does not believe that it will impact the Company's revenue recognition practices or consolidated financial statements.

8. LEGAL PROCEEDINGS

Discussion of legal matters is incorporated by reference from Part II, Item I of this Form 10-Q "Legal Proceedings" and should be considered an integral part of these Condensed Consolidated Financial Statements.

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

CONSOLIDATED RESULTS OF OPERATIONS

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

	Three months ended December 31		% Increase (decrease)
	2000	1999	
Net sales	100.0	100.0	(14.2)%
Cost of sales	47.3	44.8	(9.4)
Gross margin	52.7	55.2	(18.1)
Operating expenses:			
Sales and marketing	21.1	21.7	(16.9)
Research and development	13.2	14.4	(21.0)
General and administrative	13.9	15.4	(22.6)
Restructuring	(0.5)	--	--
Total operating expenses	47.7	51.5	(20.6)
Operating income	5.0	3.7	16.4
Other income, net	2.9	1.2	114.1
Income before income taxes	7.9	4.9	39.5
Income tax provision	4.0	2.4	45.3
Net income	3.9	2.5	34.1%

NET SALES

Net sales for the three months ended December 31, 2000, were lower than net sales for the corresponding three months ended December 31, 1999, by $5.7 million or 14.2%. Net sales of the Company's legacy asynchronous products generated revenues of $22.9 million for the three months ended December 31, 2000, versus $28.6 million for the three months ended December 31, 1999. Physical layer products sales increased in the three months ended December 31, 2000, resulting in increased revenues of $3.7 million versus the comparable quarter in 1999. Net sales of the Company's wide area network (WAN) products declined $3.7 million during the three months ended December 31, 2000, versus the comparable quarter last year. Digital remote access server (RAS) products comprised $2.0 million of the WAN decline during the three months ended December 31, 2000. Net sales of digital RAS products were $2.8 million for the three months ended December 31, 2000, compared to $4.8 million for the three months ended December 31, 1999.

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

CONSOLIDATED RESULTS OF OPERATIONS (CONTINUED)

NET SALES (CONTINUED)

The following table sets forth revenue by principal product group expressed as a percentage of net sales:

	Three months Ended December 31	
	2000	1999
Server Based	81.9%	93.7%
Physical Layer	18.1%	6.3%
Total	100.0%	100.0%

GROSS MARGIN

Gross margin for the three months ended December 31, 2000 was 52.7%, compared to 55.2% for the three months ended December 31, 1999. The decline in margin is a result of product mix which includes a decline in the relative volume of higher margin asynchronous and RAS products to lower-margin physical layer products.

OPERATING EXPENSES

Operating expenses, excluding restructuring charges, for the three months ended December 31, 2000, decreased $4.1 million, or 19.7%, as compared to operating expenses for the three months ended December 31, 1999. Operating expenses for European operations decreased by $2.9 million in the first quarter of fiscal 2001, which is primarily attributable to the restructuring which the Company executed in the fourth quarter of fiscal 2000. Operating expenses decreased by an additional $2.0 million, due to ongoing cost containment measures. The Company incurred incremental operating expenses of $0.8 million as a result of the Inside Out Networks acquisition in October, 2000.

Sales and marketing expenses for the three months ended December 31, 2000, were $7.3 million, or 21.1% of sales, compared to $8.7 million, or 21.7% of sales, for the three months ended December 31, 1999. A decrease in compensation and related employee expenses, as well as lower levels of marketing activity in the first quarter of fiscal 2001, accounted for $1.6 million of the decrease in expense as compared to the first quarter of fiscal 2000. This decrease is due to reductions in the European workforce as a result of the restructuring in the fourth quarter of fiscal 2000, as well as an increase in unfilled positions versus the prior year. Incremental sales and marketing expenses related to Inside Out Networks were $0.2 million.

Research and development expenses were $4.6 million, or 13.2% of sales, compared with $5.8 million, or 14.4% of sales, for the three months ended December 31, 2000 and 1999, respectively. The Company has focused its research and development activities on the asynchronous, terminal server and RAS product lines. The elimination of research and development activities at the European operations resulted in a $0.6 million decrease. An additional $0.8 million

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

CONSOLIDATED RESULTS OF OPERATIONS (CONTINUED)

OPERATING EXPENSES (CONTINUED)

decrease resulted from open engineering positions. Incremental research and development expenses related to Inside Out Networks were $0.2 million.

General and administrative expenses for the three months ended December 31, 2000 were $4.8 million, or 13.9% of sales, compared to $6.2 million, or 15.4% of sales, for the three months ended December 31, 1999. In addition, general and administrative expense savings of approximately $0.5 million resulted from cost containment measures. General and administrative expenses declined by $1.4 million, primarily due to decreased amortization expense as a result of the fourth quarter of fiscal 2000 write-off of the acquired ITK International, Inc. (ITK) intangible assets. General and administrative expenses related to Inside Out Networks were $0.5 million, which primarily consists of acquired intangible asset amortization.

OTHER INCOME

Other income was $1.0 million and $0.5 million for the three months ended December 31, 2000 and 1999, respectively. The Company realized interest income on short-term marketable securities and cash and cash equivalents of $0.9 million and $0.8 million, respectively, for the first quarter ended December 31, 2000 and 1999. Interest expense on lines of credit and long term debt was $0.2 million and $0.5 million for the periods ended December 31, 2000 and 1999, respectively. Other income of $0.3 million and $0.2 million was realized in the first quarter of fiscal 2001 and fiscal 2000, respectively.

INCOME TAXES

Income taxes have been provided for at an estimated annual effective rate of 50% for the three months ended December 31, 2000, versus 48% for the three months ended December 31, 1999. The effective rates exceed the U.S. statutory income tax rate primarily due to the annual amortization expense relating to the intangible assets acquired in the ITK, Central Data Corporation (CDC) and Inside Out Networks acquisitions which is not deductible for income tax reporting purposes.

FINANCIAL CONDITION

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its operations principally with funds generated from operations. The Company's working capital decreased from $78.1 million at September 30, 2000, to $74.9 million at December 31, 2000.

Net cash provided by operating activities for the three months ended December 31, 2000, was $5.6 million, compared to net cash provided by operations of $4.3 million for the three months ended December 31, 1999. The increase in net cash provided by operations during the first quarter of fiscal 2001 was primarily due to changes in operating assets and liabilities resulting from improved

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

FINANCIAL CONDITION (CONTINUED)

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

collections on accounts receivable balances, as well as increased balances related to accounts payable and accrued expense.

Net cash used in investing activities for the three months ended December 31, 2000 was $36.2 million versus $12.7 million during the comparable quarter a year ago. Net purchases of marketable securities were $29.0 million in the first quarter of fiscal 2001, compared to $12.0 million during the first quarter of fiscal 2000. In October 2000, the Company acquired Inside Out Networks, resulting in a net cash outflow of approximately $7.0 million. Purchases of equipment and capital improvements were $0.2 million and $0.7 million for the quarters ended December 31, 2000 and 1999, respectively.

Net cash used in financing activities for the three month period ended December 31, 2000, was $0.6 million, compared to $1.0 million of net cash provided by financing activities for the three month period ended December 31, 1999. Principal payments on line of credit and long-term debt obligations were $1.1 million during the first quarter of fiscal 2001, with no corresponding payments made during the first quarter of fiscal 2000. Cash received from the exercise of employee stock options and employee stock purchase plan transactions was $0.4 million and $1.0 million for the quarters ended December 31, 2000 and 1999, respectively.

The Company's management believes that current financial resources, cash generated from operations and the Company's potential capacity for additional debt and/or equity financing will be sufficient to fund current and future capital requirements.

FOREIGN CURRENCY

Effective January 1, 1999, eleven countries of the European Union converted to a common currency called the "Euro." All invoicing activity within the European Union is required to be transacted in Euros, effective January 1, 2002. This action will cause some of the Company's European transactions to be negotiated, invoiced and paid in Euros. Additional currency risk may exist when sales from the United States into the European Union are transacted in Euros rather than U.S. dollars. Such costs and risks are not quantifiable at this time.

The Company continues to hold long term debt denominated in Deutschemarks at its Dortmund, Germany (ITK) location, related to the facility in Dortmund. This debt balance is subject to fluctuations as a result of Deutschemark exchange rate changes.

For the three months ended December 31, 2000, the Company had approximately $10.3 million of net sales related to foreign customers, of which $8.6 million was denominated in U.S. dollars and $1.7 million was denominated in Deutschemarks.

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

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

FINANCIAL CONDITION (CONTINUED)

INFLATION

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

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

This Form 10-Q contains certain statements that are "forward-looking statements" as that term is defined under the Private Securities Litigation Reform Act of 1995, and within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words "believe," "expect," "anticipate," "intend," "estimate," "target," "may," "will," "plan," "project," "should," "continue," or the negative thereof or other expressions, which are predictions of or indicate future events and trends and which do not relate to historical matters, identify forward-looking statements. Such statements are based on information available to management as of the time of such statements and relate to, among other things, expectations of the business environment in which the Company operates, projections of future performance, perceived opportunities in the market and statements regarding the Company's mission and vision. Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

RECENT ACCOUNTING DEVELOPMENTS

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) 101 "Revenue Recognition in Financial Statements." The SAB summarizes certain of the SEC's views regarding revenue recognition. The provisions of SAB 101, as amended by SAB 101A and SAB 101B, must be adopted by the fourth quarter of the Company's fiscal year ending September 30, 2001. However, any effects of the SAB must be reflected retroactively to October 1, 2000 (the first day of fiscal year 2001). The Company has considered the effect of the guidance outlined in SAB 101, and does not believe that it will impact the Company's revenue recognition practices or consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

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

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

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

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

PART II. OTHER INFORMATION (CONTINUED)

ITEM 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

PART II. OTHER INFORMATION (CONTINUED)

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

Exhibit Number	Description
3(a)	Restated Certificate of Incorporation of the Registrant, as Amended (1)
3(b)	Amended and Restated By-Laws of the Registrant (2)
4(a)	Form of Rights Agreement, dated as of June 10, 1998 between Digi International Inc. and Wells Fargo Bank Minnesota, National Association (formerly known as Norwest Bank Minnesota, National Association), as Rights Agent (3)
4(b)	Amendment dated January 26, 1999, to Rights Agreement, dated as of June 10, 1998 between Digi International Inc. and Wells Fargo Bank Minnesota, National Association (formerly known as Norwest Bank Minnesota, National Association), as Rights Agent (4)
10(e)(i)	Amendment between the Company and Subramanian Krishnan dated February 5, 2001*
10(i)	2000 Omnibus Stock Plan of the Company (5)

(b) Reports on Form 8-K:

Form 8-K, dated October 13, 2000, regarding the Company's acquisition of Inside Out Networks on October 2, 2000.

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

PART II. OTHER INFORMATION (CONTINUED)

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K (CONTINUED)

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

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

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

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

(5) Incorporated by reference to Exhibit B to the Company's Proxy Statement for its Annual Meeting of Stockholders held on January 24, 2001 (File no. 0-17972).

PART II. OTHER INFORMATION (CONTINUED)

EXHIBIT INDEX

Exhibit Number	Document Description	Form of Filing
3(a)	Restated Certificate of Incorporation of the Registrant, as Amended (incorporated by reference to the corresponding exhibit number to the Company's Form 10-K for the year ended September 30, 1993 (File No. 0-17972))	Incorporated by Reference
3(b)	Amended and Restated By-Laws of the Registrant (incorporated by reference to the corresponding exhibit number to the Company's Registration Statement on Form S-1 (File No. 33-42384))	Incorporated by Reference
4(a)	Form of Rights Agreement, dated as of June 10, 1998 between Digi International, Inc. and Wells Fargo Bank Minnesota, National Association (formerly known as Norwest Bank Minnesota, National Association), as Rights Agent (incorporated by reference to Exhibit 1 to the Company's Registration Statement on Form 8-A dated June 24, 1998 (File No. 0-17972))	Incorporated by Reference
4(b)	Amendment dated January 26, 1999, to Rights Agreement, dated as of June 10, 1998 between Digi International Inc. and Wells Fargo Bank Minnesota, National Association (formerly known as Norwest Bank Minnesota, National Association), as Rights Agent (incorporated by reference to Exhibit 1 to Amendment No. 1 to the Company's Registration Statement on Form 8-A dated February 5, 1999 (File No. 0-17972))	Incorporated by Reference
10(e)(i)	Amendment between the Company and Subramanian Krishnan dated February 5, 2001	Electronic Transmission
10(i)	2000 Omnibus Stock Plan of the Company	Incorporated by Reference

SIGNATURE

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

DIGI INTERNATIONAL INC.

Date: February 14, 2001

By: /s/ Subramanian Krishnan

Subramanian Krishnan
Senior Vice President,
Chief Financial Officer
and Treasurer (duly authorized
officer and Principal Financial Officer)

EXHIBIT 10(e)(i)

February 5, 2001

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

Dear Kris:

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

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

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

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

Very truly yours,
DIGI INTERNATIONAL INC.

/s/ Joseph T. Dunsmore

By Joseph T. Dunsmore
President and Chief Executive Officer

ACCEPTED:

/s/ Subramanian Krishnan

Subramanian Krishnan