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: March 31, 2001.

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 May 9, 2001, there were 15,241,617 shares of the registrant's $.01 par value Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DIGI INTERNATIONAL INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
FOR THREE MONTHS AND SIX MONTHS ENDED MARCH 31, 2001 AND 2000
(UNAUDITED)

	Three months ended March 31		Six months ended March 31	
	2001	2000	2001	2000
Net sales	$ 33,037,854	$ 25,799,765	$ 67,481,003	$ 65,939,970
Cost of sales	15,839,973	13,526,558	32,122,042	31,491,787
Gross margin	17,197,881	12,273,207	35,358,961	34,448,183
Operating expenses:				
Sales and marketing	8,018,534	8,591,604	15,270,909	17,314,455
Research and development	5,049,909	5,313,061	9,607,932	11,079,322
General and administrative	3,620,756	4,864,484	8,413,114	11,055,425
Impairment loss	--	18,068,249	--	18,068,249
Restructuring	(47,731)	(138,467)	(229,769)	(138,467)
Total operating expenses	16,641,468	36,698,931	33,062,186	57,378,984
Operating income (loss)	556,413	(24,425,724)	2,296,775	(22,930,801)
Other income	491,706	8,688,720	1,480,333	9,150,545
Income (loss) before income taxes	1,048,119	(15,737,004)	3,777,108	(13,780,256)
Income tax provision (benefit)	492,831	(2,455,067)	1,857,326	(1,515,827)
Net income (loss)	$ 555,288	$(13,281,937)	$ 1,919,782	$(12,264,429)
Net income (loss) per common share, basic	$ 0.04	$ (0.88)	$ 0.13	$ (0.82)
Net income (loss) per common share, assuming dilution	$ 0.04	$ (0.88)	$ 0.13	$ (0.82)
Weighted average common shares, basic	15,207,896	15,062,575	15,187,269	15,015,184
Weighted average common shares, assuming dilution	15,215,892	15,062,575	15,199,649	15,015,184

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

DIGI INTERNATIONAL INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
AS OF MARCH 31, 2001 AND SEPTEMBER 30, 2000

	March 31 2001 (unaudited)	September 30 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 20,219,461	$ 38,785,936
Marketable securities	34,105,255	20,150,132
Accounts receivable, net	22,044,745	18,175,226
Inventories, net	20,602,282	19,700,010
Other	3,925,247	3,655,511
Total current assets	100,896,990	100,466,815
Property, equipment and improvements, net	23,256,665	24,408,384
Intangible assets, net	21,910,824	16,397,744
Other	1,473,915	1,649,252
Total assets	$ 147,538,394	$ 142,922,195
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Borrowings under line of credit agreements	$ 2,709,000	$ 3,147,900
Current portion of long-term debt	203,388	330,305
Accounts payable	7,792,528	6,275,995
Income taxes payable	1,017,551	1,328,481
Accrued expenses:		
Advertising	1,222,128	1,143,565
Compensation	3,723,381	1,862,517
Other	6,873,815	6,760,841
Restructuring reserves	60,620	1,531,992
Total current liabilities	23,602,411	22,381,596
Long-term debt	6,914,943	7,081,396
Net deferred income taxes	1,395,666	--
Total liabilities	31,913,020	29,462,992
Commitments and contingency		
Stockholders' equity:		
Preferred stock, $.01 par value: 2,000,000 shares authorized; none outstanding		
Common stock, $.01 par value: 60,000,000 shares authorized; 16,361,379 and 16,322,949 issued	163,613	163,229
Additional paid-in capital	71,626,319	71,851,928
Retained earnings	63,329,643	61,409,861
Accumulated other comprehensive (loss) income	(186,055)	166,750
	134,933,520	133,591,768
Unearned stock compensation	(19,668)	(89,618)
Treasury stock, at cost, 1,151,899 and 1,196,463 shares	(19,288,478)	(20,042,947)
Total stockholders' equity	115,625,374	113,459,203
Total liabilities and stockholders' equity	$ 147,538,394	$ 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 SIX MONTHS ENDED MARCH 31, 2001 AND 2000
(UNAUDITED)

	2001	2000
Operating activities:		
Net income (loss)	$ 1,919,782	$(12,264,429)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Asset impairment	--	18,068,249
Restructuring	(229,769)	(138,467)
Depreciation and amortization	4,799,079	7,679,559
Provision for losses on accounts receivable	215,024	326,462
Provision for inventory obsolescence	365,000	1,292,899
(Gain) loss on sale of fixed assets	(1,315)	7,879
Stock compensation	57,278	94,164
Changes in operating assets and liabilities	(3,652,272)	(423,991)
Total adjustments	1,553,025	26,906,754
Net cash provided by operating activities	3,472,807	14,642,325
Investing activities:		
Purchase of marketable securities, net	(13,955,123)	(13,964,173)
Business acquisition, net of cash acquired	(7,236,422)	
Purchase of property, equipment, intangibles and improvements	(611,669)	(1,570,960)
Net cash used in investing activities	(21,803,214)	(15,535,133)
Financing activities:		
(Payments) borrowings under line of credit agreements	(462,200)	85,539
Principal payments on long-term debt	(330,691)	(140,040)
Stock benefit plan transactions, net	533,461	1,213,101
Net cash (used in) provided by financing activities	(259,430)	1,158,600
Effect of exchange rate changes on cash and cash equivalents	23,362	(596,614)
Net decrease in cash and cash equivalents	(18,566,475)	(330,822)
Cash and cash equivalents, beginning of period	38,785,936	20,963,607
Cash and cash equivalents, end of period	$ 20,219,461	$ 20,632,785

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 March 31, 2001, and for the three and six months ended March 31, 2001 and 2000, reflect, in the opinion of management, all adjustments (which, other than the second quarter 2000 impairment loss, 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. ACQUISITION

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 $7,550,844 has been allocated to the estimated fair value of assets acquired and liabilities assumed.

The Company may be required to 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	
	Three months ended March 31	Six months ended March 31
Net sales	$ 26,576,446	$ 67,758,108
Net loss	(13,467,875)	(12,510,471)
Net loss per share	$ (0.89)	$ (0.83)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. ACQUISITION (CONTINUED)

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 periods presented, nor are they necessarily indicative of results that will be obtained in the future.

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 were originally expected to be completed by the end of the second quarter of fiscal 2001. Final facility closure costs and cancellation fees are now expected to be paid during the third quarter of fiscal year 2001.

As of March 31, 2001, the Company had paid $1,001,314 of termination costs relating to the elimination of 67 positions in Dortmund, Germany, and $78,007 relating to the elimination of 2 positions in Bagshot, England. The Company paid $114,806 of costs related to the Bagshot office closure during the 6 months ended March 31, 2001. The Company paid $47,476 for cancellation fees related to automobile leases, maintenance contracts, and office equipment leases during the 6 months ended March 31, 2001. The remaining accruals for closure of the Bagshot office and cancellation fees of $19,421 and $41,199, respectively, relate to expected facility closure costs in Bagshot, UK and Dortmund, Germany.

Change in estimate adjustments related to the severance component of the restructuring accrual totaling $173,210 were recorded in the second quarter of fiscal year 2001 because the Company made a decision to retain six employees who had previously been notified that they would be severed. In addition, change in estimate adjustments totaling $12,009 and $44,550, respectively, were recorded relating to the estimated cancellation fees and the legal costs components of the accrual. These change in estimate adjustments were reflected as a reduction in the restructuring accrual and a corresponding increase to operating income. A summary of payments and adjustments for the six months ended March 31, 2001 is included in the table below.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. RESTRUCTURING (CONTINUED)

Description	Balance at September 30, 2000	Payments	Change in Estimate Adjustments	Balance at March 31, 2001
Severance and termination costs	$1,252,531	$(1,079,321)	$ (173,210)	$ -
Closure of Bagshot office	134,227	(114,806)	-	19,421
Cancellation fees	100,684	(47,476)	(12,009)	41,199
Severance-related legal expenses	44,550	-	(44,550)	-
TOTAL	$1,531,992	$(1,241,603)	$ (229,769)	$ 60,620

4. INVENTORIES

Inventories are stated at the lower of cost or market, with cost determined on the first-in, first-out method. Inventories at March 31, 2001 and September 30, 2000 consisted of the following:

	March 31, 2001	September 30, 2000
Raw materials	$12,990,076	$12,496,226
Work in process	1,138,948	1,092,654
Finished goods	6,473,258	6,111,130
	$20,602,282	$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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. COMPREHENSIVE INCOME (LOSS) (CONTINUED)

Comprehensive income (loss) for the three months and six months ended March 31, 2001 and 2000 was as follows:

	Three months ended March 31		Six months ended March 31	
	2001	2000	2001	2000
Net income (loss)	$ 555,288	$(13,281,937)	$ 1,919,782	$(12,264,429)
Foreign currency translation adjustments	114,637	(40,763)	(352,805)	(1,082,326)
Comprehensive Income (loss)	$ 669,925	$(13,322,700)	$ 1,566,977	$(13,346,755)

6. NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is calculated based on the weighted average of common shares outstanding during the period. Net income (loss) per share, assuming dilution, is computed by dividing net income (loss) 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.

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

	Three months ended March 31			Six months ended March 31		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
2001						
Basic income per share						
Net income	$ 555,288	15,207,896	$ 0.04	$ 1,919,782	15,187,269	$ 0.13
Effect of dilutive securities						
Common equivalent shares	-	7,996	-	-	12,380	-
Diluted income per share						
Net income	$ 555,288	15,215,892	$ 0.04	$ 1,919,782	15,199,649	$ 0.13
2000						
Basic loss per share						
Net loss	$ (13,281,937)	15,062,575	$ (0.88)	$(12,264,429)	15,015,184	$ (0.82)
Effect of dilutive securities						
Common equivalent shares	-	-	-	-	-	-
Diluted loss per share						
Net loss	$ (13,281,937)	15,062,575	$ (0.88)	$(12,264,429)	15,015,184	$ (0.82)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. NET INCOME (LOSS) PER SHARE (CONTINUED)

Options to purchase 2,720,657 and 2,582,871 shares for the three and six month periods ended March 31, 2001, and options to purchase 1,155,230 and 767,273 shares for the three and six month periods ended March 31, 2000, were not included in the computation of diluted earnings per share because the exercise prices of these options was greater than the average market price of common shares and their effect would have been antidilutive.

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 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 is reviewing the guidance outlined in SAB 101 and does not believe that the effect of adoption of SAB 101 will have a material impact on 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 March 31		% Increase (decrease)	Six months ended March 31		% Increase (decrease)
	2001	2000		2001	2000	
Net sales	100.0	100.0	28.1 %	100.0	100.0	2.3 %
Cost of sales	47.9	52.4	17.1	47.6	47.8	2.0
Gross margin	52.1	47.6	40.1	52.4	52.2	2.6
Operating expenses:						
Sales and marketing	24.2	33.3	(6.7)	22.6	26.2	(11.8)
Research and development	15.3	20.6	(5.0)	14.2	16.8	(13.3)
General and administrative	11.0	18.9	(25.6)	12.5	16.8	(23.9)
Impairment loss	-	70.0	(100.0)	-	27.4	(100.0)
Restructuring	(0.1)	(0.5)	(65.5)	(0.3)	(0.2)	65.9
Total operating expenses	50.4	142.3	(54.7)	49.0	87.0	(42.4)
Operating income (loss)	1.7	(94.7)	102.3	3.4	(34.8)	110.0
Other income, net	1.5	33.7	(94.3)	2.2	13.9	(83.8)
Income (loss) before income taxes	3.2	(61.0)	106.7	5.6	(20.9)	127.4
Provision (benefit) for income taxes	1.5	(9.5)	120.1	2.8	(2.3)	222.5
Net income (loss)	1.7	(51.5)	104.2 %	2.8	(18.6)	115.7 %

NET SALES

Net sales for the three and six months ended March 31, 2001 were higher than net sales for the corresponding three and six months ended March 31, 2000, by $7.2 million or 28.1%, and $1.5 million or 2.3%, respectively. Net sales of the Company's legacy board products, including sales of acquired ION products, generated revenues of $21.9 million for the second quarter of fiscal 2001 versus $16.2 million for the comparable quarter last year, and $44.8 million for the first six months of fiscal 2001, compared to $44.4 million for the first six months of fiscal 2000. Physical layer local area network (LAN) products sales were $6.3 million and $12.5 million for the three and six months ended March 31, 2001, reflecting increased revenues of $3.2 million and $6.9 million, respectively. Net sales of the Company's wide area network (WAN) products declined $1.7 million and $5.8 million for the three and six-month periods ended March 31, 2001, versus the comparable periods a year ago.

Net sales in the year ago quarter were negatively impacted by the industry-wide slowdown in purchasing patterns as a result of concerns relating to the Year 2000 changeover.

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

NET SALES (CONTINUED)

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

	Three months ended March 31		Six months ended March 31	
	2001	2000	2001	2000
Server based	81.1 %	88.3 %	81.5 %	91.6 %
Physical layer	18.9	11.7	18.5	8.4
Total	100.0 %	100.0 %	100.0 %	100.0 %

GROSS MARGIN

Gross margin for the three and six months ended March 31, 2001 was 52.1% and 52.4%, as compared to 47.6% and 52.2% for the three and six months ended March 31, 2000. Gross margin in the year ago quarter was negatively impacted by the unabsorbed fixed costs associated with the lower than anticipated sales volumes attributed primarily to the industry-wide slowdown in purchasing patterns as a result of concerns relating to the Year 2000 changeover. For the six months ended March 31, 2001, the increase of physical layer product sales and the related margin improvement resulted in a minor increase in gross margin versus the comparable six month period a year ago.

OPERATING EXPENSES

Operating expenses, excluding restructuring and asset impairment charges, for the three months ended March 31, 2001 decreased $2.1 million, or 11.1%, as compared to operating expenses for the three months ended March 31, 2000. Operating expenses for European operations decreased by $3.1 million in the second quarter of fiscal 2001, which is primarily attributable to the restructuring which the Company executed in the fourth quarter of fiscal 2000. Operating expenses at the Company's Sunnyvale location increased by $1.0 million for the quarter ended March 31, 2001, as compared to operating expenses for the three months ended March 31, 2000, primarily due to additional sales and marketing personnel and related expenses to support the increase in revenue for the LAN products. Incremental operating expenses of $1.2 million related to the operations of ION, acquired in October 2000, were offset by cost containment measures at other locations resulting in expense reductions of $1.2 million relative to the comparable quarter last year.

Operating expenses, excluding restructuring and asset impairment charges, for the six months ended March 31, 2001, decreased $6.2 million, or 15.6%, as compared to operating expenses for the six months ended March 31, 2000. The fiscal 2000 European restructuring plan

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

OPERATING EXPENSES (CONTINUED)

accounted for approximately $6.0 million of the total decrease in operating expenses. Operating expenses increased by $1.5 million in Sunnyvale primarily to support the 123.2% increase in sales for the first six months of fiscal 2001 as compared to the first six months of fiscal 2000. In other locations additional savings of $1.7 million were realized, due to a decrease in expenses of $3.7 million as a result of cost containment measures across the Company, partially offset by incremental operating expenses of $2.0 million in the first six months of fiscal 2001 related to the operations of ION.

Sales and marketing expenses for the three and six months ended March 31, 2001, were $8.0 million and $15.3 million, versus $8.6 million and $17.3 million in the comparable periods a year ago. The fiscal 2000 European restructuring resulted in expense reductions of $0.9 million and $1.8 million for the three and six-month periods ended March 31, 2001, respectively. Incremental sales and marketing expenses related to the operations of ION for the three and six-month periods ended March 31, 2001, were $0.3 and $0.5 million, respectively, while sales and marketing expenses at other locations remained the same for the three months ended March 31, 2001, versus the comparable quarter in the prior year, but decreased by $0.7 million for the six months ended March 31, 2001, as a result of expense control measures taken in fiscal 2001.

Research and development expenses were $5.0 million for the three months ended March 31, 2001, a decrease of $0.3 million or 5.0% from the comparable period in the prior year. For the six months ended March 31, 2001, research and development expenses were $9.6 million, a decrease of $1.5 million or 13.3% from the six-month period ended March 31, 2000. The fiscal 2000 European restructuring resulted in expense reductions of $0.4 million and $1.0 million for the three and six months ended March 31, 2001, respectively. Incremental research and development expenses related to the operations of ION for the three and six-month periods ended March 31, 2001, were $0.3 and $0.5 million, respectively, while compensation and other employee related expenses at other locations were lower by $0.2 million and $1.0 million for the three and six-month periods ended March 31, 2001, as a result of a reduction in engineering staffing.

General and administrative expenses for the three months and six months ended March 31, 2001, were $3.6 million and $8.4 million, versus $4.9 million and $11.1 million in the comparable periods a year ago. General and administrative expenses declined by $1.8 million and $3.2 million related to the fiscal 2000 European restructuring for the three and six-month periods ended March 31, 2001, respectively. Incremental general and administrative expenses related to the operations of ION for the three and six-month periods ended March 31, 2001, were $0.6 million and $1.0 million, respectively, of which $0.4 million and $0.7 million, respectively, resulted from amortization of acquired intangible assets. General and administrative expense reductions at other locations of $0.1 million and $0.5 million for the three and six-month periods ended March 31, 2001, were realized due to expense control measures taken in fiscal 2001.

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

OTHER INCOME (EXPENSE)

Other income for the three and six months ended March 31, 2001 was $0.5 million and $1.5 million. The Company realized interest income on short-term marketable securities and cash and cash equivalents of $0.8 million and $1.8 million, respectively, for the three and six months ended March 31, 2001. Interest expense on lines of credit and long term debt was $0.2 million and $0.4 million, respectively, for the three and six-month periods ended March 31, 2001.

Other income for the three months and six months ended March 31, 2000 was $8.7 million and $9.2 million. During the second fiscal quarter of 2000, the Company received an $8.0 million payment from Nx Networks, the company which acquired AetherWorks Corporation. This represented payment in full of a non-convertible note receivable from AetherWorks (assumed by Nx Networks), previously recorded by the Company as having no carrying value, due to significant uncertainty as to its collectability. Other income also includes interest earned on cash and cash equivalents, partially offset by interest expense on line of credit borrowings and long-term debt.

INCOME TAXES

Income taxes have been provided for at an estimated annual effective rate of 49% for the six months ended March 31, 2001. This effective tax rate exceeds the U.S. statutory income tax rate primarily due to the annual amortization expense relating to the intangible assets acquired in the Central Data Corporation (CDC) and Inside Out Networks acquisitions which is not deductible for income tax reporting purposes. For the six months ended March 31, 2000, income taxes were provided for at an effective rate of 11% which was less than the U.S. statutory income tax rate primarily due to the accounting treatment of deferred tax liabilities related to the ITK intangible asset impairment loss.

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

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 $77.3 million at March 31, 2001.

Net cash provided by operating activities was $3.5 million for the six months ended March 31, 2001, compared to net cash provided by operations of $14.6 million for the six months ended March 31, 2000. In March 2000, the Company received a one-time $8.0 million payment on a note receivable from AetherWorks which had previously been recorded as uncollectable. In addition, there was an additional $3.2 million outflow of cash resulting from changes in operating assets and liabilities in the first six months of fiscal 2001 compared to the first six months of fiscal 2000. The net cash outflow of $3.6 million relating to the change in operating assets and liabilities in the first six months of fiscal 2001 relates primarily to a $3.0 million increase in accounts receivable. The net cash outflow of $0.4 million relating to the change in operating assets and liabilities in the first six months of fiscal 2000 is due to a decline of $11.6 million in accounts receivable as a result of the sales downturn following the year 2000 changeover, offset by an accrued liabilities decrease of $8.4 million. Inventories also increased by $3.9 million due to the unanticipated lower sales volumes during the first six months of fiscal 2000.

Net cash used in investing activities for the six months ended March 31, 2001, consisted of net purchases of marketable securities of $14.0 million and $0.6 million of purchases of equipment and other capital improvements. In October 2000, the Company acquired Inside Out Networks, resulting in a $7.2 million use of cash.

For the six months ended March 31, 2000, the Company had net purchases of marketable securities of $14.0 million and used $1.6 million for the purchase of equipment and capital improvements.

Net cash used for financing activities for the six months ended March 31, 2001 consisted of $0.5 million received from employee stock purchase plan transactions. The Company also made payments of $0.8 million related to line of credit and debt obligations. For the six months ended March 31, 2000, $1.2 million was received as a result of employee stock benefit plan transactions, and $0.1 million was paid on line of credit and debt obligations.

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.

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

FINANCIAL CONDITION (CONTINUED)

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 US 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 and six months ended March 31, 2001, the Company had approximately $9.7 million and $20.0 million of net sales related to foreign customers, respectively. For the three month period ended March 31, 2001, $9.1 million was denominated in U.S. dollars and $0.6 million was denominated in Deutschemarks. For the six month period ended March 31, 2000, $17.6 million was denominated in U.S. dollars and $2.4 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.

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

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

FINANCIAL CONDITION (CONTINUED)

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

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 is reviewing the guidance outlined in SAB 101 and does not believe the effect of adoption of SAB 101 will have a material impact on the Company's revenue recognition practices or consolidated financial statements.

Effective October 1, 2000, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FASB 133). The adoption of FASB 133 did not have an impact on the Company's consolidated financial position or results of operations as the Company does not have any derivative instruments nor does the Company participate in any hedging activities.

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 judgement 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 has been scheduled for June 11, 2001.

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

At the Annual Meeting of Stockholders held on January 24, 2001, the stockholders voted on the following:

(a) Proposal to elect one director, Mykola Moroz, for a one-year term and one director, Michael Seedman, for a three-year term. Mr. Moroz was elected on a vote of 12,771,735 in favor, with 1,527,544 shares withholding authority to vote. Mr. Seedman was elected on a vote of 11,439,004 in favor, with 2,860,275 shares withholding authority to vote. There were no broker non-votes.

(b) Proposal to approve the Digi International Inc. 2000 Omnibus Stock Plan (the Plan) and to reserve 750,000 shares of Common Stock for awards under the Plan. This proposal passed on a vote of 9,439,413 in favor, 4,772,123 against and 87,743 abstentions and no broker non-votes.

(c) Proposal to ratify the appointment of PricewaterhouseCoopers LLP as independent public accountants of the Company for fiscal year 2001. The proposal passed on a vote of 12,787,380 in favor, 1,451,519 against and 60,380 abstentions and no broker non-votes.

ITEM 5. OTHER INFORMATION

None

PART II. OTHER INFORMATION (CONTINUED)

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

Exhibit No.	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 Share 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)

(b) Reports on Form 8-K:

There were no reports on Form 8-K for the quarterly period ended March 31, 2001.

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(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)

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: May 15, 2001

By: /s/ S. Krishnan

S. Krishnan
Chief Financial Officer
(duly authorized officer and
Principal Financial Officer)

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 Share Rights Agreement, dated 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