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: June 30, 1998.

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)

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

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

Yes X No ___

On July 28, 1998, there were 13,934,715 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 AND NINE MONTHS ENDED JUNE 30, 1998 AND 1997
(UNAUDITED)

	Three months ended June 30		Nine months ended June 30	
	1998	1997	1998	1997
Net sales	$46,449,286	$40,843,298	$134,098,319	$123,472,736
Cost of sales	21,890,041	20,724,950	65,104,699	64,419,895
Gross margin	24,559,245	20,118,348	68,993,620	59,052,841
Operating expenses:				
Sales and marketing	9,036,250	9,112,452	26,303,159	29,310,308
Research and development	4,127,946	3,938,589	11,886,956	14,284,202
General and administrative	2,969,649	4,523,797	10,025,425	13,964,227
Restructuring	-	-	-	10,471,482
Total operating expenses	16,133,845	17,574,838	48,215,540	68,030,219
Operating income (loss)	8,425,400	2,543,510	20,778,080	(8,977,378)
Other income, net	659,916	117,221	1,477,270	343,456
AetherWorks Corporation net gain (loss)	1,350,000	(1,525,006)	1,350,000	(4,634,476)
Income (loss) before income taxes	10,435,316	1,135,725	23,605,350	(13,268,398)
Provision (benefit) for income taxes	4,024,409	1,068,455	8,686,768	(1,357,450)
Net income (loss)	$ 6,410,907	$ 67,270	$ 14,918,582	$(11,910,948)
Net income (loss) per common share, basic	$ 0.47	$ 0.01	$ 1.10	$ (0.89)
Net income (loss) per common share, assuming dilution	$ 0.45	$ 0.01	$ 1.05	$ (0.89)
Weighted average common shares, basic	13,617,518	13,403,895	13,535,512	13,379,899
Weighted average common shares, assuming dilution	14,385,012	13,483,826	14,216,915	13,379,899

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

DIGI INTERNATIONAL INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET

ASSETS	June 30 1998	September 30 1997
	(unaudited)	
Current assets:		
Cash and cash equivalents	$ 44,945,413	$ 31,329,666
Accounts receivable, net	34,699,087	25,658,522
Inventories, net	16,403,543	23,683,312
Other	3,902,622	4,147,942
Total current assets	99,950,665	84,819,442
Property, equipment and improvements, net	22,571,781	23,617,696
Intangible assets, net	7,339,058	6,876,597
Other	8,055,239	2,997,601
Total assets	$137,916,743	$118,311,336
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 8,104,944	$ 10,118,921
Income taxes payable	6,873,073	1,771,986
Accrued expenses:		
Advertising	2,694,361	2,847,672
Compensation	3,143,810	2,388,468
Accrued AetherWorks Corporation obligations		3,350,000
Other	2,684,252	2,363,258
Total current liabilities	23,500,440	22,840,305
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; 14,951,203 and 14,727,256 shares issued	149,512	147,273
Additional paid-in capital	47,062,761	44,403,102
Retained earnings	90,032,484	75,113,902
	137,244,757	119,664,277
Unearned stock compensation	(974,911)	(1,787,658)
Treasury stock, at cost, 1,238,442 and 1,338,894 common shares	(21,853,543)	(22,405,588)
Total stockholders' equity	114,416,303	95,471,031
Total liabilities and stockholders' equity	$137,916,743	$118,311,336

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 NINE MONTHS ENDED JUNE 30, 1998 AND 1997
(UNAUDITED)

	1998	1997
Operating activities:		
Net income	$14,918,582	$(11,910,948)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Restructuring	$ -	$ 9,601,259
Depreciation and amortization	4,877,165	5,256,247
AetherWorks Corporation net (gain) loss	(1,350,000)	4,634,476
Provision for losses on accounts receivable	707,992	1,062,936
Provision for inventory obsolescence	5,354,569	2,256,514
Loss on sale of fixed assets	183,057	172,304
Stock compensation	656,940	105,177
Changes in operating assets and liabilities	(3,695,117)	3,621,992
Total adjustments	1,734,605	26,710,905
Net cash provided by operating activities	21,653,187	14,799,957
Investing activities:		
Purchase of property, equipment and improvements, and intangibles	(4,407,189)	(4,480,397)
Investment in AetherWorks Corporation	(2,000,000)	(5,000,000)
Advance related to impending acquisition	(5,000,000)	-
Net cash used in investing activities	(11,407,189)	(9,480,397)
Financing activities:		
Stock benefit plan transactions, net	3,369,749	530,069
Net cash provided by financing activities	3,369,749	530,069
Net increase in cash and cash equivalents	13,615,747	5,849,629
Cash and cash equivalents, beginning of period	31,329,666	8,943,390
Cash and cash equivalents, end of period	$44,945,413	$ 14,793,019

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

1. BASIS OF PRESENTATION

The interim condensed consolidated financial statements included in this Form 10-Q have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been condensed or omitted, pursuant to such rules and regulations. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in the Company's 1997 Annual Report and Form 10-K.

The condensed consolidated financial statements presented herein as of June 30, 1998 and for the three month and nine month periods ended June 30, 1998 and 1997, reflect, in the opinion of management, all adjustments (which, other than the restructuring charge recorded in the nine month period ended June 30, 1997, and the reversal of certain lease obligation accruals recorded in the three month and nine month periods ended June 30, 1998, consist only of normal, recurring adjustments) necessary for a fair presentation of the consolidated financial position and the consolidated results of operations and cash flows for the periods presented. The consolidated results of operations for any interim period are not necessarily indicative of results for the full year.

2. INVESTMENT IN AETHERWORKS CORPORATION

In May 1998, the Company exchanged its previously purchased $13,796,525 of convertible notes from AetherWorks Corporation, a development stage company engaged in the development of wireless and dial-up remote access technology, for a non-interest bearing $8,000,000 non-convertible note. As a part of the exchange, the Company relinquished its rights to any future technology or claims on any of AetherWorks' intellectual properties. In exchange, the Company has been released from all of its guarantees of certain lease obligations of AetherWorks. As a result, the Company has reversed its $1,350,000 accrual, established in the fourth quarter of 1997, for the estimated probable obligation of such lease obligations and has included such amount in other income for the three month and nine month periods ended June 30, 1998.

Due to the significant uncertainty as to collectibility of the $8,000,000 note, which matures in 2001, the note has been recorded at no value.

The Company continues to lease to AetherWorks $1,325,000 of computer equipment under a three year direct financing lease, expiring in 2000.

2. INVESTMENT IN AETHERWORKS CORPORATION (CONTINUED)

For the three month and nine month periods ended June 30, 1997, the Company reported its investment in AetherWorks on the equity method and reported net losses of $1,525,006 and $4,634,476, respectively. Such losses represented 100% of AetherWorks' net losses for the periods. The percentage of AetherWorks' net losses included in the Company's financial statements was based upon the percentage of financial support provided by the Company (versus other investors) to AetherWorks during such periods. No such losses were recorded in the three month or nine month periods ended June 30, 1998, as the Company no longer has any obligation to provide funding for AetherWorks nor any potential equity interest in or management control over AetherWorks.

3. INVENTORIES

Inventories, net are stated at the lower of cost or market, with cost determined on the first-in, first-out method. Inventories at June 30, 1998 and September 30, 1997 consisted of the following:

	June 30, 1998	September 30, 1997
Raw materials	$8,745,221	$7,967,598
Work in process	2,645,175	8,704,357
Finished goods	5,013,147	7,011,357

4. NET INCOME (LOSS) PER SHARE

Net income (loss) per share for all periods presented has been calculated pursuant to the provisions of Statement of Financial Accounting Standards No. 128, which the Company adopted in the first quarter of fiscal 1998. Basic net income (loss) per share is calculated based on only 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 during each period. The Company's only common stock equivalents are those that result from dilutive common stock options. Such common stock equivalents were excluded in determining the weighted average common and common stock equivalents outstanding for the nine month period ended June 30, 1997, because their effect was antidilutive.

5. 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 consolidated condensed financial statements and accompanying notes. The ultimate outcomes of the lawsuits cannot be determined at this time, and no potential assessment of the probable or possible effects of such litigation, if any, on the Company's financial position, liquidity or future operations can be made.

6. SHARE RIGHTS PLAN

The Company has adopted a share rights plan. Under the plan, the Company will distribute as a dividend one right for each share of the Company's common stock outstanding on June 30, 1998. Each right will entitle its holder to buy one one-hundredth of a share of a new series of junior participating preferred stock at an exercise price of $115, subject to adjustment. The rights will be exercisable only if certain ownership considerations are met. The Company will be entitled to redeem the rights prior to the rights becoming exercisable.

7. ACQUISITIONS

On July 1, 1998, the Company announced that it had signed definitive agreements to purchase privately held ITK International, Inc., for $25 million ($12.5 million in cash and $12.5 million of Digi common stock) and privately held Central Data Corporation for $18 million ($13.5 million in cash and $4.5 million of Digi common stock). The Central Data transaction closed on July 8, 1998 and the ITK transaction closed on July 29, 1998. Both transactions will be accounted for under the purchase accounting method whereby the purchase price for each transaction will be allocated to the assets and liabilities of ITK and Central Data, based upon their relative fair values. Management estimates that a majority of the purchase price for the ITK transaction and a substantial portion of the Central Data transaction will be allocated to acquired, in-process research and development. In addition, the Company also expects to record a restructuring charge ranging from $1 million to $2 million in the fourth quarter of 1998, related to the elimination of duplicate facilities created by the ITK combination.

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS

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

We have reviewed the accompanying condensed consolidated balance sheet of Digi International Inc. and subsidiaries as of June 30, 1998, and the related condensed consolidated statements of operations for the three month and nine month periods ended June 30, 1998 and 1997, and cash flows for the nine month periods ended June 30, 1998 and 1997. These condensed consolidated financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet as of September 30, 1997, and the related consolidated statements of operations and cash flows for the year then ended (not presented herein); and in our report dated December 15, 1997, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of September 30, 1997, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

Minneapolis, Minnesota
July 20, 1998

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 statement of operations expressed as percentages of sales:

	Three months ended June 30		% Increase (decrease)	Nine Months ended June 30		% Increase (Increase)
	1998	1997		1998	1997	
Net sales	100.0%	100.0%	14%	100.0%	100.0%	9%
Cost of sales	47.1	50.7	6	48.5	52.2	1
Gross margin	59.2	49.3	22	51.4	47.8	17
Operating expenses:						
Sales and marketing	19.5	22.3	(1)	19.7	23.7	(10)
Research and development	8.9	9.6	5	8.9	11.6	(17)
General and administrative	6.4	11.1	(34)	7.5	11.3	(28)
Restructuring	0.0	0.0	0	0.0	8.5	(100)
Total operating expenses	34.7	43.0	(8)	36.0	55.1	(29)
Operating income (loss)	18.1	6.2	231	15.5	(7.3)	331
Other income, net	1.4	0.3	463	1.1	0.3	330
AetherWorks Corporation gain (loss)	2.9	(3.7)	100	1.0	(3.8)	100
Income (loss) before income taxes	22.5	2.8	819	17.6	(10.7)	278
Provision (benefit) for income taxes	8.7	2.6	277	6.4	(1.1)	740
Net income (loss)	13.8%	0.2%	*%	11.1%	(9.6%)	225%

*Not meaningful

NET SALES

Net sales for the three month and nine month periods ended June 30,1998 were higher than net sales for the corresponding periods ended June 30, 1997 by approximately $5.6 million and $10.6 million or 13.7% and 8.6% respectively. The majority of the increase was due to the Company completing its effort to reduce inventory levels in the distribution channel through the first fiscal quarter of 1998, resulting in a net increase in sales into the distribution channel during the second quarter of fiscal 1998. In addition, net sales for the three and nine month periods ended June 30, 1998 contain minor amounts related to royalties and the sale of trademarks.

Net sales to the distribution markets, as a percentage of total net sales, increased to 75.8% and 70.7% for the three month and nine month periods ended June 30, 1998, as compared to 61.5% and 63.7% for the comparable periods of 1997. Sequentially, net sales to the distribution markets for the three month period ended June 30, 1998 increased 3.4%, compared to the three month period ended March 31, 1998.

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

CONSOLIDATED RESULTS OF OPERATIONS (CONTINUED)

NET SALES (CONTINUED)

Net sales to original equipment manufacturers (OEM's), as a percentage of total net sales, were 18.1% and 21.6% for the respective three and nine month periods ended June 30, 1998, as compared to 26.1% and 23.6% for the comparable periods in 1997, reflecting a continuing reduction of OEM sales. Such reduction was caused, in part, by the inability to ship all orders through June 30, 1998. The company expects the percentage of OEM sales to increase to levels near or at historical levels in terms of percentage of total net sales in the fourth quarter of fiscal 1998.

GROSS MARGIN

Gross margin for the three and nine month periods ended June 30, 1998 was 52.9% and 51.5%, respectively, as compared to 49.3% and 47.8% for the comparable periods in 1997. Such increases versus 1997 were due primarily to a decrease of historically lower margin OEM and certain physical layer product net sales as a percentage of total net sales for the three and nine months ended June 30, 1998. In particular, gross margins for the three month period ended June 30, 1998, were enhanced by a favorable product mix, resulting in higher sales of higher margin products, in spite of increased provisions for inventory obsolescence. The Company expects the gross margin percentage for the fourth quarter of fiscal 1998 to revert to the levels achieved in the second quarter of fiscal 1998.

OPERATING EXPENSES

Operating expenses for the three month period ended June 30, 1998 decreased 8.2% versus operating expenses for the corresponding period ended June 30, 1997 and decreased as a percentage of net sales to 34.7% for the three month period ended June 30, 1998 from 43.0% for the three month period ended June 30, 1997. Operating expenses for the nine month period ended June 30, 1998 decreased by 16.2% versus operating expenses (excluding restructuring charges) for the nine month period ended June 30, 1997. As a percentage of net sales, operating expenses declined to 36.0% for the nine month period ended June 30, 1998, from 46.6% (excluding restructuring charges) for the corresponding period in 1997.

Such declines were due to reductions in the workforce, decreased marketing costs and cost savings achieved through consolidation of research and development functions.

The Company expects that operating expenses for the fourth quarter of fiscal 1998 will be higher than the $16.1 million incurred in the three months ended June 30, 1998, due to costs related to new product roll-out, the previously announced acquisitions of ITK International, Inc. and Central Data Corporation and the increased marketing expenses for products of the acquired companies.

CONSOLIDATED RESULTS OF OPERATIONS (CONTINUED)

OTHER INCOME

The increase in other income for the three month and nine month periods ended June 30, 1998 was a result of additional interest income earned on increased cash and cash equivalent balances, and the $1,350,000 reversal of the previously accrued probable obligation related to lease guarantees of AetherWorks Corporation, which is no longer required (see Note 2 to the Company's Condensed Consolidated Financial Statements).

AETHERWORKS CORPORATION NET LOSS

In connection with the Company's previously purchased $13.8 million of convertible notes from AetherWorks Corporation, in May 1998, the Company exchanged such notes for a non-interest bearing $8.0 million non-convertible note and was released from all of its guarantees of certain lease obligations of AetherWorks. Due to the significant uncertainty as to collectibility, the $8.0 million note, which matures in 2001, has been recorded at no value (see Note 2 to the Company's Condensed Consolidated Financial Statements). In fiscal 1997, the Company recorded its investment in AetherWorks on the equity method and recorded net losses of $1,525,006 and $4,634,476 for the three month and nine month periods ended June 30, 1997, respectively. These net losses represent 100% of AetherWorks' net losses for such periods. The percentage of AetherWorks' net losses included in the Company's financial statements was based upon the percentage of financial support provided by the Company (versus other investors) during such periods. The Company wrote off its investment in AetherWorks as of September 30, 1997. As the Company no longer has any funding obligations nor any potential equity interest in or management control over AetherWorks, the Company has not reported any of AetherWorks' net losses in the three month or nine month periods ended June 30, 1998.

INCOME TAXES

Income taxes have been accrued at an overall effective rate of 38.6% and 36.8% for the respective three and nine month periods ended June 30, 1998. The higher effective rate reflected in the third quarter reflects an increase in the expected tax rate for the nine month period ended June 30, 1998. Due to the net losses incurred in nine month period ended June 30, 1997, the Company had recorded an income tax benefit of $1,357,450. During the three month period ended June 30, 1997, the Company had taxable income and, accordingly, recorded an income tax provision of $1,068,455. The effective rate for the three month period ended June 30, 1997 was higher than normal due to the non-deductibility of the AetherWorks net losses.

FINANCIAL CONDITION

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its operations principally with funds generated from operations. Investing activities for the three month and nine month periods ended June 30, 1998 consisted

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

primarily of purchases of equipment and capital improvements, including a new enterprise wide computer system. The nine month period ended June 30, 1998 also included the final payments for AetherWorks Corporation convertible notes. Equipment, system and other purchases totaled $4,407,189 during the nine month period ended June 30, 1998. The final convertible note payments to AetherWorks amounted to $2 million for the nine month period ended June 30, 1998. The Company has no further financial obligations under its agreements with AetherWorks Corporation.

On July 1, 1998, the Company announced the acquisitions of Central Data Corporation and ITK International, Inc. The purchase price for the acquisitions totaled $43 million, and will include the issuance of $17 million of common stock and cash payments of $26 million (see Note 6 to the Company's Condensed Consolidated Financial Statements). In addition, approximately $5 million to $7 million of operating cash may be required to provide working capital to the acquired companies.

As a result of the acquisitions, the Company will record approximately $10 million in debt in the fourth quarter of 1998, as a result of outstanding debt of Central Data and ITK.

At June 30, 1998, the Company had working capital of approximately $76.4 million and no debt. The Company has negotiated a $10 million unsecured line of credit with its bank, but has not utilized such line. The Company's management believes that current financial resources, cash generated from operations and the Company's potential capacity for debt and/or equity financing will be sufficient to fund current and future business operations.

FOREIGN CURRENCY TRANSLATION

Substantially all of the Company's foreign transactions are negotiated, invoiced and paid in U.S. dollars. In future periods, sales made through the Company's newly acquired subsidiary, ITK, will be substantially all in deutsche marks.

Effective January 1, 1999, eleven states of the European Union will convert to a common currency, the "euro." This action will most likely cause the majority of the Company's European transactions to be negotiated, invoiced and paid in "euros." The conversion will most likely add currency exchange costs and risks, although such costs and risks are not quantifiable at this time.

INFLATION

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

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

NEW ACCOUNTING STANDARDS

As described in Note 4 to the Condensed Consolidated Financial Statements, the Company, in the first fiscal quarter of 1998, adopted Statement of Financial Accounting Standards No. 128, "Earnings Per Share."

In addition, during the first fiscal quarter of 1998, the Emerging Issues Task Force of the Financial Accounting Standards Board released Issue No. 97-13, "Accounting for Costs Incurred in Connection with a Consulting Contract or an Internal Project That Combines Business Process Reengineering and Information Technology Transformation" (EITF 97-13). The Task Force reached a consensus that the cost of business process reengineering activities, whether done internally or by third parties, is to be expenses as incurred. This consensus did not have a significant impact on the Company's quarterly results through June 30, 1998. The Company, however, incurred costs in connection with the completion of its enterprise-wide information systems implementation project that were required to be expensed pursuant to EITF 97-13. Such amounts were approximately $600,000.

FORWARD LOOKING STATEMENTS

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

THE EXPECTATION THAT THE COMPANY ESTIMATES THAT A MAJORITY OF THE PURCHASE PRICE FOR THE ITK TRANSACTION AND A SUBSTANTIAL PORTION OF THE CENTRAL DATA TRANSACTION WILL BE ALLOCATED TO ACQUIRED, IN-PROCESS RESEARCH AND DEVELOPMENT - This expectation may be impacted by the final report of the third-party appraiser engaged to appraise the fair value of the assets and liabilities acquired.

THE EXPECTATION THAT THE COMPANY WILL RECORD RESTRUCTURING CHARGES RANGING FROM $1 MILLION TO $2 MILLION IN THE FOURTH QUARTER OF 1998 - This expectation could be impacted by the Company's ultimate integration and operating plans for ITK.

THE EXPECTATION THAT THE ORIGINAL EQUIPMENT MANUFACTURER (OEM) PORTION OF THE COMPANY'S BUSINESS WILL RETURN TO LEVELS NEAR OR AT HISTORICAL LEVELS IN TERMS OF PERCENTAGE OF TOTAL NET SALES IN THE FOURTH FISCAL QUARTER - This expectation may be impacted by unanticipated revenue opportunities or changes in ordering levels that may reduce expected levels of net sales to OEMs.

THE EXPECTATION THAT GROSS MARGIN PERCENTAGES FOR THE FOURTH QUARTER OF FISCAL 1998 WILL BE LOWER THAN THOSE ACHIEVED IN THE THIRD QUARTER OF FISCAL 1998 - This expectation may be impacted by presently unanticipated favorable product sales mix compared to normal selling patterns or may be unfavorably impacted by unanticipated costs due to unforeseen price increases or shortages of components.

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

FORWARD LOOKING STATEMENTS (CONTINUED)

THE EXPECTATION THAT OPERATING EXPENSES IN THE FOURTH QUARTER OF FISCAL 1998 WILL BE HIGHER THAN THOSE INCURRED IN THE THIRD FISCAL QUARTER OF 1998 - This expectation may be impacted by presently unanticipated revenue opportunities or by unanticipated expenses or presently unforeseen cost savings.

THE BELIEF THAT THE COMPANY'S CURRENT FINANCIAL RESOURCES, CASH GENERATED FROM OPERATIONS AND THE COMPANY'S POTENTIAL CAPACITY FOR DEBT AND/OR EQUITY FINANCING WILL BE SUFFICIENT TO FUND CURRENT AND ANTICIPATED BUSINESS OPERATIONS - Changes in anticipated operating results, credit availability and equity market conditions may further enhance or inhibit the Company's ability to maintain or raise appropriate levels of cash.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On January 3, 1997, the Company and certain of its previous officers were named as defendants in a putative securities class action lawsuit in the United States District Court for the District of Minnesota on behalf of an alleged class of purchasers of its common stock during the period January 25, 1996, through December 23, 1996. Between January 17, 1997 and March 7, 1997, four similar putative securities class actions also were commenced. By Memorandum and Order dated April 2, 1997, the District Court consolidated all five of the putative securities class actions for all purposes including trial, appointed 21 persons to serve as lead plaintiffs in the consolidated class actions, and allowed the lead plaintiffs to file and serve a consolidated class action complaint.

On May 12, 1997, a consolidated amended class action complaint (the "Consolidated Amended Complaint") was filed in the combined actions, which are captioned IN RE DIGI INTERNATIONAL INC. SECURITIES LITIGATION, Master File No. 97-5 (JRT/RLE) (U.S. District Court for the District of Minnesota). The Consolidated Amended Complaint alleges that the Company and its previous officers Ervin F. Kamm, Jr., Gerald A. Wall and Gary L. Deaner violated the federal securities laws by, among other things, misrepresenting and/or omitting material information concerning the Company's operations and financial results. The Consolidated Amended Complaint seeks compensatory damages in an unspecified amount plus interest against all defendants, jointly and severally, and an award of attorneys' fees, experts' fees and costs.

PART II. OTHER INFORMATION (CONTINUED)

ITEM 1. LEGAL PROCEEDINGS (CONTINUED)

On February 25, 1997, the Company and certain of its previous officers also were named as defendants in a securities lawsuit filed in the United States District Court for the District of Minnesota by the Louisiana State Employees Retirement System and entitled LOUISIANA STATE EMPLOYEES RETIREMENT SYSTEM IN BEHALF OF ITSELF AND IN BEHALF OF ALL OTHER PARTIES SIMILARLY SITUATED AND CIRCUMSTANCED WHO DESIRE TO PERSONALLY JOIN IN THIS ACTION AND TO CONTRIBUTE TO THE COSTS AND EXPENSES THEREOF, PLAINTIFFS, VS. DIGI INTERNATIONAL INC., GARY L. DEANER, ERVIN F. KAMM, JR., GERALD A. WALL, AND "JOHN DOE AND "RICHARD ROE", THE NAMES "JOHN DOE" AND "RICHARD ROE" BEING FICTITIOUS, THE PARTIES INTENDED BEING THOSE PARTIES, PRESENTLY UNKNOWN TO THE PLAINTIFF, WHO PARTICIPATED IN THE WRONGFUL ACTS SET FORTH HEREIN, DEFENDANTS, Civil File No. 97-440, Master File No. 97-5 (JRT/RLE) (U.S. District Court for the District of Minnesota). On June 3, 1997, the Louisiana State Employees Retirement System filed an Amended Complaint (the "Louisiana Amended Complaint"). The Louisiana Amended Complaint alleges that the Company and its previous officers Ervin F. Kamm, Jr., Gerald A. Wall and Gary L. Deaner violated federal securities laws and state common law by, among other things, misrepresenting and/or omitting material information concerning the Company's operations and financial results. The Louisiana Amended Complaint seeks compensatory damages in the amount of $718,404.70 plus interest against all defendants, jointly and severally, and an award of attorneys' fees, disbursements and costs. This action has been consolidated with the consolidated class actions for pretrial purposes.

In a decision issued on May 22, 1998, the District Court granted in part and denied in part the motions of the Company and its three former officers to dismiss the Consolidated Amended Complaint and the Louisiana Amended Complaint. The Court dismissed without leave to replead all claims asserted in both cases, 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. These claims remain pending against the Company and its former officers Ervin F. Kamm, Jr. and Gerald A. Wall. Discovery in the actions has recently commenced.

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 No.	Description
3(a)	Restated Certificate of Incorporation of the Registrant, As Amended*
3(b)	Amended and Restated By-Laws of the Registrant**
15	Letter Re: Unaudited Interim Financial Information
27	Financial Data Schedule

(b) Reports on Form 8-K:

Current Report on Form 8-K dated June 24, 1998 reporting the adoption of a Share Rights Plan.

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*Incorporated by reference to the corresponding exhibit number of the Company's Form 10-K for the year ended September 30, 1992 (File No. 0-17972)

**Incorporated by reference to the corresponding exhibit number of the Company's Registration Statement on Form S-1 (File No. 33-42384)

SIGNATURE

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

DIGI INTERNATIONAL INC.

Date: August 10, 1998

By: /s/ Jonathon E. Killmer

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

EXHIBIT 15

UNAUDITED INTERIM FINANCIAL INFORMATION LETTER

EXHIBIT 15

Securities and Exchange Commission
450 Fifth Street N.W.
Washington, D.C. 20549

We are aware that our report dated July 20, 1998 on our reviews of interim condensed consolidated financial information of Digi International Inc. and Subsidiaries (the Company) for the three month and nine month periods ended June 30, 1998 and 1997, and included in the Company's Form 10-Q for the quarter ended June 30, 1998, is incorporated by reference in the Company's registration statements on Form S-8 (Registration Nos. 33-32956, 33-38898, 333-99, 333-1821, 333-23857 and 333-57869). Pursuant to Rule 436(c), under the Securities Act of 1933, this report should not be considered a part of the registration statements prepared or certified by us within the meaning of Sections 7 and 11 of that Act.

PRICEWATERHOUSECOOPERS L.L.P.

Minneapolis, Minnesota
August 5, 1998

9-MOS
SEP-30-1998
OCT-01-1997
JUN-30-1998
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1.05