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, 1999.

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 April 22, 1999, there were 14,604,312 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 SIX MONTHS ENDED MARCH 31, 1999 AND 1998
(UNAUDITED)

	Three months ended March 31		Six months ended March 31	
	1999	1998	1999	1998
Net sales	$ 42,631,488	$ 45,058,973	$ 94,026,510	$ 87,649,032
Cost of sales	24,153,615	21,993,344	49,057,929	43,214,657
Gross margin	18,477,873	23,065,629	44,968,581	44,434,375
Operating expenses:				
Sales and marketing	10,972,993	9,007,379	22,947,075	17,266,872
Research and development	5,887,729	3,948,109	12,363,946	7,759,010
General and administrative	5,527,153	3,445,691	10,679,442	7,055,815
Restructuring	1,452,909	-	1,452,909	-
Total operating expenses	23,840,784	16,401,179	47,443,372	32,081,697
Operating (loss) income	(5,362,911)	6,664,450	(2,474,791)	12,352,678
Other (expense) income, principally interest	(35,517)	548,470	(245,302)	817,355
(Loss) income before income taxes	(5,398,428)	7,212,920	(2,720,093)	13,170,033
(Benefit) provision for income taxes	(2,890,040)	2,547,584	(1,577,655)	4,662,359
Net (loss) income	$ (2,508,388)	$ 4,665,336	$ (1,142,438)	$ 8,507,674
Net (loss) income per common share, basic	$ (0.17)	$ 0.35	$ (0.08)	$ 0.63
Net (loss) income per common share, assuming dilution	$ (0.17)	$ 0.33	$ (0.08)	$ 0.60
Weighted average common shares, basic	14,590,771	13,508,084	14,581,396	13,494,509
Weighted average common shares, assuming dilution	14,590,771	14,265,107	14,581,396	14,149,319

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

DIGI INTERNATIONAL INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET

ASSETS	March 31 1999	September 30 1998
	(unaudited)	
Current assets:		
Cash and cash equivalents	$ 11,260,148	$ 10,355,368
Accounts receivable, net	32,803,190	48,549,145
Inventories, net	28,474,757	27,365,924
Other	5,563,774	6,139,941
Total current assets	78,101,869	92,410,378
Property, equipment and improvements, net	31,409,183	33,990,923
Intangible assets, net	31,240,847	31,354,483
Other	2,281,518	2,978,883
Total assets	$ 143,033,417	$ 160,734,667
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Borrowings under line of credit agreements	$ 4,909,407	$ 10,707,000
Current portion of long-term debt	38,415	264,025
Accounts payable	10,612,010	15,255,175
Income taxes payable	833,194	3,797,588
Accrued expenses:		
Advertising	2,282,076	2,651,742
Compensation	4,229,741	6,776,292
Other	7,579,986	9,808,835
Restructuring accruals	4,521,226	5,254,000
Total current liabilities	35,006,055	54,514,657
Long-term debt	9,596,916	11,124,446
Other	-	275,000
Total liabilities	44,602,971	65,914,103
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; 15,885,079 and 15,790,975 shares issued	158,851	157,910
Additional paid-in capital	69,882,481	68,695,448
Retained earnings	51,312,593	52,455,031
Cumulative other comprehensive loss	(262,314)	(815,809)
	121,091,611	120,492,580
Unearned stock compensation	(493,277)	(3,777,204)
Treasury stock, at cost, 1,321,368 and 1,247,094 shares	(22,167,888)	(21,894,812)
Total stockholders' equity	98,430,446	94,820,564
Total liabilities and stockholders' equity	$ 143,033,417	$ 160,734,667

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, 1999 AND 1998
(UNAUDITED)

	1999	1998
Operating activities:		
Net (loss) income	$ (1,142,438)	$ 8,507,674
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Restructuring	$ 1,172,672	$ -
Depreciation and amortization	6,381,563	3,380,308
Provision for losses on accounts receivable	285,000	707,992
Provision for inventory obsolescence	2,895,399	3,084,569
(Gain) loss on sale of fixed assets	(5,227)	122,421
Stock compensation	459,023	531,827
Changes in operating assets and liabilities	(172,915)	340,760
Total adjustments	11,015,515	8,167,877
Net cash provided by operating activities	9,873,077	16,675,551
Investing activities:		
Purchase of property, equipment and improvements, and intangibles	(3,052,230)	(3,469,771)
Proceeds from the sale of property, equipment and improvements	857,622	12,713
Investment in AetherWorks Corporation	-	(2,000,000)
Net cash used in investing activities	(2,194,608)	(5,457,058)
Financing activities:		
Principal payments on borrowings	(5,979,904)	-
Treasury stock purchase	(815,000)	-
Proceeds from exercise of stock options and employee stock purchases	712,728	563,718
Net cash (used in) provided by financing activities	(6,082,176)	563,718
Effect of exchange rate changes on cash and cash equivalents	(691,513)	-
Net increase in cash and cash equivalents	904,780	11,782,211
Cash and cash equivalents, beginning of period	10,355,368	31,329,666
Cash and cash equivalents, end of period	$ 11,260,148	$ 43,111,877

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 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 1998 Annual Report and Form 10-K.

The condensed consolidated financial statements presented herein as of March 31, 1999, and for the three months and six months ended March 31, 1999, and 1998, reflect, in the opinion of management, all adjustments (which, other than the second quarter 1999 restructuring charges, 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

In connection with a review of the Company's annual report on Form 10-K for the year ended September 30, 1998, the staff of the Securities and Exchange Commission (SEC) has made several inquiries about the Company's accounting for its acquisitions of ITK International, Inc. (ITK) and Central Data Corporation (CDC). The most significant of these inquiries relates to the appropriateness of the amounts of the acquired in-process research and development charges recorded by the Company in the fourth quarter of fiscal year 1998. Any decrease in the amount of such charges would result in an increase in the value of identifiable intangible assets and goodwill as well as an increase in future amortization expense. The amount of such adjustments, if any, are not known at this time, although they could be material to the Company's financial position and results of operations.

3. RESTRUCTURING

In July 1998, the Company's Board of Directors approved a restructuring plan related to the consolidation of its offices in Germany and the United Kingdom. The restructuring plan relates to the elimination of existing facilities rendered redundant by the acquisition of ITK. The charge of $1,020,000 ($647,000 net of tax benefits) recorded in the fourth quarter of fiscal 1998 consisted of $61,483 of existing commitments for rent, $100,110 of contractual payments for office equipment, $202,039 of write-offs of leasehold improvements and $656,368 of severance costs associated with the elimination of six positions. As of March 31, 1999, $198,389 of payments have been made relating to this restructuring charge and two employees have been terminated. The Company expects to complete these restructuring activities by June 30, 1999.

In connection with the Company's acquisition of ITK in July 1998, the Company implemented a plan of reorganization and accordingly, recognized a $3,484,000 restructuring liability which the Company included in the liabilities assumed in the acquisition. Components of this estimated liability included $1,844,000 of personnel costs and $1,640,000 related to facilities closures. As of March 31, 1999, $1,298,959 of payments have been made relating to personnel costs and $225,118 of payments have been made related to facilities closure costs. The Company expects to complete these restructuring activities by June 30, 1999.

In connection with the Company's acquisition of CDC in July 1998, the Company implemented a plan of reorganization and accordingly, recognized a $750,000 restructuring liability which the Company included in the total liabilities assumed in the acquisition. Components of this estimated liability included $675,000 of personnel costs and $75,000 related to a facility closure. As of March 31, 1999, $152,552 of payments have been made relating to personnel costs. The CDC facility was sold in January 1999 and cost associated with preparing the building for sale was netted against proceeds. The Company expects to complete these restructuring activities by June 30, 1999.

In March 1999, the Company's Board of Directors approved a restructuring plan related to the reorganization of sales and marketing functions in Germany, the United Kingdom and the United States, by consolidating worldwide sales and marketing resources into strategic locations. The related charge of $1,452,909 ($610,222 net of tax benefits) consists of $151,038 of existing commitments for rent on facilities vacated by the Company and $1,301,871 of severance and other costs associated with the elimination of 44 positions. During the quarter ended March 31, 1999, $300,343 of payments have been made related to severance of seven employees. The Company expects to complete these restructuring activities by December 31, 1999.

As a result of changes of management in fiscal 1999, the Company has not completed the execution of the aforementioned restructuring plans. New management of the Company is in the process of completing the execution of these restructuring plans.

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 March 31, 1999 and September 30, 1998 consisted of the following:

	March 31, 1999	September 30, 1998
Raw materials	$16,722,050	$13,707,999
Work in process	2,804,595	2,922,442
Finished goods	8,948,112	10,735,483
	$28,474,757	$27,365,924

5. COMPREHENSIVE (LOSS) INCOME

Effective October 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." The statement establishes standards for the reporting and display of comprehensive (loss) income and its components. Comprehensive (loss) income is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. For the Company, comprehensive (loss) income includes net (loss) income and foreign currency translation adjustments that are charged or credited to stockholders' equity.

Comprehensive (loss) income for the three months and six months ended March 31, 1999 and 1998 was as follows:

	Three months ended March 31		Six months ended March 31	
	1999	1998	1999	1998
Net (loss) income	$(2,508,388)	$4,665,336	$(1,142,438)	$8,507,674
Foreign currency translation adjustments	72,409	-	553,495	-
Comprehensive (loss) income	$(2,435,979)	$4,665,336	$(588,943)	$8,507,674

6. NET (LOSS) INCOME PER SHARE

Basic net (loss) income per share is calculated based on only 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 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 for the three and six months ended March 31, 1999, because their effect was anti-dilutive. The calculation of dilutive earnings per share excludes the 268,311 and 276,223 equivalent shares of the Company for the three months and six months ended March 31, 1999, attributable to the common stock options issued by the Company because their effect was anti-dilutive.

7. 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.

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 March 31, 1999, and the related condensed consolidated statements of operations and cash flows for the three month and six month periods ended March 31, 1999, and 1998. 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, 1998, and the related consolidated statements of operations and cash flows for the year then ended (not presented herein); and in our report dated December 11, 1998, 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, 1998, 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
April 16, 1999

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)
	1999	1998		1999	1998	
Net sales	100.0	100.0	(5.4)	100.0%	100.0%	7.3%
Cost of sales	56.7	48.8	9.8	52.2	49.3	13.5
Gross margin	43.3	51.2	(19.9)	47.8	50.7	1.2
Operating expenses:						
Sales and marketing	25.7	20.0	21.8	24.4	19.7	32.9
Research and development	13.8	8.8	49.1	13.1	8.9	59.3
General and administrative	13.0	7.6	60.4	11.4	8.1	51.4
Restructuring	3.4	0.0	-	1.5	0.0	-
Total operating expenses	55.9	36.4	45.4	50.5	36.6	47.9
Operating income	(12.6)	14.8	180.5	(2.6)	14.1	120.0
Other (expense) income, net	(0.1)	1.2	(106.5)	(0.3)	0.9	(130.0)
Income before income taxes	(12.7)	16.0	(174.8)	(2.9)	15.0	(120.7)
Provision for income taxes	(6.8)	5.7	(213.4)	(1.7)	5.3	(133.8)
Net income	(5.9)	10.4	(153.8)	(1.2)%	9.7%	(113.4)%

NET SALES

Net sales for the three months ended March 31, 1999, were lower than net sales for the corresponding three months ended March 31, 1998, by $2,427,485 or a 5.4 % decrease; net sales for the six months ended March 31, 1999 were higher than net sales for the corresponding six months ended March 31, 1998, by $6,377,478 or a 7.3% increase. The sales of the products added in connection with the acquisitions of ITK and CDC in July 1998 generated revenues of $9,677,760 and $23,329,269 for the three months and six months ended March 31, 1999. These revenue increases were mitigated by a decrease in demand for the Company's physical layer products resulting in a decrease in related revenues of $4,364,700 and $10,504,100 for the three and six months ended March 31, 1999 relative to comparable periods of 1998. During second quarter of fiscal 1999, the Company implemented a channel inventory management program that discontinued the practice of extending special incentives to its distributors to increase demand. The result of this change in practice was to reduce revenue and to reduce days of inventory in the distribution channel.

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

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 March 31		Six months Ended March 31	
	1999	1998	1999	1998
Server Based	64.8%	69.0%	62.8%	60.9%
Physical Layer	8.4%	11.2%	8.7%	15.6%
OEM	26.8%	19.8%	28.5%	23.5%
Total	100.0%	100.0%	100.0%	100.0%

GROSS MARGIN

Gross margin for the three months and six months ended March 31, 1999 was 43.3% and 47.8%, as compared to 51.2% and 50.7% for the three months and six months ended March 31, 1998. Gross margin for the three months and six months ended March 31, 1999, was impacted by the increased proportion of sales from lower gross margin OEM sales. Gross margin was also impacted by reduced margin from ITK operations which accounted for 15% of total sales for the quarter ended March 31, 1999 and 16% of total sales for the six-month period ended March 31, 1999. Included in ITK results was the impact of the discontinued sale of Telebit modem products purchased as part of the ITK acquisition in which remaining inventory was sold at a deep discount during the quarter. In addition, margins generated from physical layer LAN products have declined in fiscal 1999 due to market-driven reductions in selling prices.

OPERATING EXPENSES

Operating expenses for the three months ended March 31, 1999, increased approximately $6.0 million (excluding second quarter restructuring charges of $1.5 million) or 36.5% as compared to operating expenses for the three months ended March 31, 1998. The operations of ITK, which was acquired in the fourth quarter of fiscal 1998, accounted for approximately $4.6 million or a 28.0% of the increase in operating expenses. CDC, which was acquired in the fourth quarter of fiscal 1998, accounted for approximately $930,000 of operating expense for first quarter and has been fully integrated into the Company's existing operations during second quarter of fiscal 1999. In addition, during the three months ended March 31, 1999, the Company recorded a one-time restructuring charge of $1.5 million due to reorganization of the sales and marketing functions in Germany, the United Kingdom and the United States.

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

CONSOLIDATED RESULTS OF OPERATIONS (CONTINUED)

OPERATING EXPENSES (CONTINUED)

Operating expenses for the six months ended March 31, 1999 increased by approximately $13.9 million (excluding second quarter restructuring charges) or 43.3% as compared to operating expenses for the six months ended March 31, 1998. The operations of ITK accounted for approximately $9.5 million. Research and Development and Sales and Marketing costs have increased for the six months ended March 31, 1999, due to development of new products and preparation for new product launch.

ACQUIRED IN-PROCESS RESEARCH AND DEVELOPMENT

In connection with the Company's acquisition of ITK in July 1998, the Company recorded a $26.0 million non-recurring, non-tax-deductible charge related to the portion of the purchase price that represented, based upon an independent appraisal, the fair value of acquired in-process research and development (IPR&D) upon consummation of the acquisition. The Company is continuing its efforts to develop the acquired IPR&D into commercially viable products.

In connection with the Company's acquisition of CDC in July 1998, the Company recorded a $13.2 million non-recurring, non-tax-deductible charge related to the portion of the purchase price that represented, based upon an independent appraisal, the fair value of acquired IPR&D upon consummation of the acquisition. Included in revenues for the first six months of fiscal 1999 is approximately $173,000 of revenues developed from the first release of certain products relating to the acquired IPR&D. In addition, the Company is continuing its efforts to develop other products related to the acquired IPR&D into commercially viable products.

See discussion at Note 2 in the Notes to the Condensed Consolidated Financial Statements of the Company.

OTHER (EXPENSE) INCOME

Other expense, principally interest expense for the three months and six months ended March 31, 1999, results from debt assumed in the acquisition of ITK, net of interest earned on cash and cash equivalents. Other income for the three months and six months ended March 31, 1998 resulted from interest earned on cash and cash equivalent balances.

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

CONSOLIDATED RESULTS OF OPERATIONS (CONTINUED)

INCOME TAXES

Income taxes have been provided for at an estimated annual effective rate of 58% for the six months ended March 31, 1999. This effective tax rate exceeds the U.S. statutory income tax rate and the effective tax rate of 35.4% in the six months ended March 31, 1998 primarily due to approximately $5.5 million of annual amortization expense related to the Company's acquisitions of ITK and CDC 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. Investing activities for the six months ended March 31, 1999, consisted primarily of purchases of equipment and capital improvements totaling approximately $3.1 million. Financing activities for the six months ended March 31, 1999, consisted primarily of payments on line of credit and debt obligations totaling approximately $6.0 million. At March 31, 1999, the Company had working capital of approximately $43.1 million. During the quarter, the Company reduced its unsecured line of credit from $15 million to $5 million. The Company is negotiating to extend the unsecured line of credit which expires May 31, 1999. The Company has no borrowings outstanding on this line of credit.

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.

During the quarter ended March 31, 1999, the Company used $815,000 of cash to purchase 105,000 shares of the Company's stock at an average price of $7.76 per share for use in the Company's benefit plans.

FOREIGN CURRENCY

Effective January 1, 1999, eleven countries of the European Union converted to a common currency called the "Euro." This action will cause some 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.

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

CONSOLIDATED RESULTS OF OPERATIONS (CONTINUED)

FOREIGN CURRENCY (CONTINUED)

For the six months ended March 31, 1999, the Company had foreign transactions that were negotiated and invoiced amounting to approximately $31.0 million, of which $19.5 million were in U.S. dollars and $11.5 million were Deutschemark-denominated sales through the newly acquired subsidiary ITK. In future periods, a significant portion of sales made through ITK 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, which management does not believe to be significant based on the scope of the Company's foreign operations as of March 31, 1999.

YEAR 2000 ISSUES

The Company began a comprehensive project in 1996 to prepare its products and its internal computer systems for the year 2000. Most of the Company's products are year 2000 compliant because there is very little or no date processing involved. Certain products, including end-of-life versions, do require customer action such as a patch or version upgrade to be compliant. These products are being identified, and the Company is in the process of notifying impacted customers.

The Company believes its implementation of a new enterprise-wide information management system, principally installed to improve operating efficiency, will address the Company's internal year 2000 compliance issues. Because of the acquisitions of ITK and CDC, the worldwide rollout of this system will not be completed until the late summer of calendar 1999. If necessary conversions are not completed on a timely basis, the effects of being unable to adequately process year 2000 dated transactions could have a material adverse effect on the Company's operations. Overall, management believes the year 2000 will not have a significant impact on operations. The Company plans to continue with remediation and testing efforts with both its products and internal systems to further mitigate any risks associated with the year 2000.

The costs associated with the year 2000 project are minimal and are not incremental to the Company, but include temporary reallocation of existing resources. Although the Company believes that the remaining cost of year 2000 modifications for both internal-use systems and the Company's products is not material, there can be no assurances that various factors relating to the year 2000 compliance issues, including litigation, will not have a material adverse effect on the Company's business, operating results, or financial position.

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)

CONSOLIDATED RESULTS OF OPERATIONS (CONTINUED)

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 below:

THE EXPECTATION THAT VARIOUS RESTRUCTURING ACTIVITIES IN CONNECTION WITH THE ACQUISITIONS OF ITK AND CDC WILL BE COMPLETED ACCORDING TO SCHEDULE - This expectation may be impacted by presently unanticipated delays or expenses.

THE EXPECTATION THAT RESTRUCTURING ACTIVITIES IN CONNECTION REORGANIZATION OF THE SALES AND MARKETING FUNCTIONS IN GERMANY, THE UNITED KINGDOM AND THE UNITED STATES WILL BE COMPLETED ACCORDING TO SCHEDULE - This expectation may be impacted by presently unanticipated delays or expenses.

THE EXPECTATION THAT THE COMPANY'S 1999 EFFECTIVE TAX RATE WILL BE 58 PERCENT - This expectation may be impacted by the changes in the Company's level of profitability or changes in the allocation of the purchase prices made in connection with the ITK and CDC acquisitions.

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.

THE BELIEF THAT IMPLEMENTATION OF A NEW ENTERPRISE-WIDE INFORMATION MANAGEMENT SYSTEM WILL ADDRESS THE COMPANY'S INTERNAL YEAR 2000 COMPLIANCE ISSUES AND THE BELIEF THAT THE YEAR 2000 WILL NOT HAVE A SIGNIFICANT IMPACT ON OPERATIONS - These beliefs may be impacted by presently unanticipated delays in assessment or remediation, unanticipated increases in costs or non-compliance by third parties.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company does not have material exposure to market risk from market risk sensitive instruments.

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 five putative securities class action lawsuits filed in the United States District Court for the District of Minnesota on behalf of an alleged class of purchasers for its common stock during the period January 25, 1996, through December 23, 1996. The five putative class actions were thereafter consolidated, and on May 12, 1997, a consolidated amended class action complaint (the "Consolidated Amended Complaint") was filed in the actions, which are captioned IN RE DIGI INTERNATIONAL INC. SECURITIES LITIGATION (Master File No. 97-5 DWF/RLE). The Consolidated Amended Complaint alleges that the Company and its previous officers Ervin F. Kamm, Jr., Gerald A. Wall and Gary L. Deaner violated the federal securities laws by, among other things, misrepresenting and/or omitting material information concerning the Company's operations and financial results. The Consolidated Amended Complaint seeks compensatory damages in an unspecified amount plus interest against all defendants, jointly and severally, and an award of attorneys' fees, experts' fees and costs.

On 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, which is captioned LOUISIANA STATE EMPLOYEES RETIREMENT SYSTEM V. DIGI INTERNATIONAL INC., GARY L. DEANER, ERVIN F. KAMM, JR., GERALD A. WALL AND "JOHN DOE" AND "RICHARD ROE", DEFENDANTS (Civil File No. 97-440, Master File No. 97-5 DWF/RLE). 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.

In a decision issued on May 22, 1998, the United States District Court for the District of Minnesota granted in part and denied in part defendants' motions 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. 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 $184,276.40. The claims in the two actions remain pending against the Company and its former officers Ervin F. Kamm, Jr. and Gerald A. Wall.

Plaintiffs in the consolidated putative class actions have moved for class certification; the Company and its former officers have not yet responded to the motion but intend to oppose it. No date has been set for a hearing on the class certification motion. Discovery in the actions is proceeding.

PART II. OTHER INFORMATION (CONTINUED)

LEGAL PROCEEDINGS (CONTINUED)

Because the lawsuits are in preliminary stages, the ultimate outcomes 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.

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 27, 1999, the stockholders voted on the following:

(a) Proposal to elect two directors, Robert S. Moe and John P. Schinas, for three-year terms. Mr. Moe was elected on a vote of 11,052,266 in favor, with 574,792 shares withholding authority to vote. Mr. Schinas was elected on a vote of 11,056,396 in favor, with 570,662 shares withholding authority to vote.

(b) Proposal to amend the Digi International Inc. Stock Option Plan (the Plan) to reserve 700,000 additional shares of Common Stock for future awards and to extend the expiration date of the Plan from December 1, 2006 to November 24, 2008. This proposal was defeated on a vote of 3,476,400 in favor, 4,863,561 against, 145,302 abstentions and 3,141,795 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*
3(b)	Amended and Restated By-Laws of the Registrant**
4(a)	Form of Rights Agreement, dated as of June 10, 1998 between Digi International Inc. and Norwest Bank Minnesota, National Association, as Rights Agent***
4(b)	Amendment dated January 26, 1998, to Share Rights Agreement, dated as of June 10, 1998 between Digi International Inc. and Norwest Bank Minnesota, National Association, as Rights Agent****
10(h)(i)	Amendment to Employment Agreement between the Company and Douglas J. Glader dated February 1, 1999*****
10(k)	Severance Agreement between the Company and Subramanian Krishnan dated March 26, 1999
15	Letter Re: Unaudited Interim Financial Information
27	Financial Data Schedule

(b) Reports on Form 8-K:

None.

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

***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 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 to the corresponding exhibit number to the Company's Form 10-Q for the quarter ended December 31, 1998 (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 17, 1999 By: /s/ S. Krishnan

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

EXHIBIT 10(K)

SEVERANCE AGREEMENT BETWEEN
THE COMPANY AND SUBRAMANIAN KRISHNAN
DATED MARCH 26, 1999

March 26, 1999

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

Dear Kris:

This letter confirms the terms of your agreement with the Company regarding severance compensation.

If you are terminated by the Company without "cause" on or before September 30, 1999, you would be entitled to severance equal to one year's base salary and a bonus (if earned) to the extent that such bonus is not guaranteed), based on your cash bonus target that would be pro-rated for the portion of the fiscal year through the termination date. The definition of "cause" for purposes of this letter agreement shall be the definition contained in the terms and conditions of your Nonstatutory Stock Option Agreement with the Company dated February 24, 1999.

The letter agreement constitutes the entire agreement between you and the Company regarding the subject matter contained herein 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
DIGINTERNATIONAL INC.

/s/ John P. Schinas

By John P. Schinas
Chairman of the Board

ACCEPTED:

/s/ SUBRAMANIAN KRISHNAN

Subramanian Krishnan

EXHIBIT 15

UNAUDITED INTERIM FINANCIAL INFORMATION LETTER

EXHIBIT 15

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

Commissioners:

We are aware that our report dated April 16, 1999 on our reviews of interim condensed consolidated financial information of Digi International Inc. and subsidiaries (the Company) for the three month and six month periods ended March 31, 1999 and 1998, and included in the Company's Form 10-Q for the quarter ended March 31, 1999, 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).

PRICEWATERHOUSECOOPERS LLP

Minneapolis, Minnesota
May 14, 1999

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OCT-01-1998
MAR-31-1999
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