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, 2000.

OR

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

For the transition period from ____ to ____.

Commission file number: 0-17972

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

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

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

(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
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On August 9, 2000, there were 15,123,518 shares of the registrant's $.01 par value Common Stock outstanding.

INDEX

PART I. FINANCIAL INFORMATION

		Page
ITEM 1.	Financial Statements	
	Condensed Consolidated Statement of Operations for the three months and nine months ended June 30, 2000 and 1999	3
	Condensed Consolidated Balance Sheet as of June 30, 2000 and September 30, 1999	4
	Condensed Consolidated Statement of Cash Flows for the nine months ended June 30, 2000 and 1999	5
	Notes to Condensed Consolidated Financial Statements	6
	Review Report of Independent Accountants	11
ITEM 2.	Management's Discussion and Analysis of Results of Operations and Financial Condition	12
	Forward-looking Statements	18
ITEM 3.	Quantitative and Qualitative Disclosures About Market Risk	18

PART II. OTHER INFORMATION

ITEM 1.	Legal Proceedings	19
ITEM 2.	Changes in Securities	20
ITEM 3.	Defaults Upon Senior Securities	20
ITEM 4.	Submission of Matters to a Vote of Securities Holders	20
ITEM 5.	Other Information	20
ITEM 6.	Exhibits and Reports on Form 8-K	21

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, 2000 AND 1999
(UNAUDITED)

	Three months ended June 30		Nine months ended June 30	
	2000	1999	2000	1999
Net sales	$ 32,354,163	$ 51,144,524	$ 98,294,133	$ 145,171,035
Cost of sales	15,179,195	23,997,831	46,670,982	73,055,760
Gross margin	17,174,968	27,146,693	51,623,151	72,115,275
Operating expenses:				
Sales and marketing	7,929,764	9,323,592	23,853,182	32,270,668
Research and development	5,203,702	6,003,762	17,674,061	18,367,708
General and administrative	3,868,033	5,941,674	14,923,459	19,126,262
Impairment loss	-	-	18,068,249	-
Restructuring	(11,883)	(685,397)	(150,350)	767,512
Total operating expenses	16,989,616	20,583,631	74,368,601	70,532,150
Operating income (loss)	185,352	6,563,062	(22,745,450)	1,583,125
Other income (expense), net	760,560	64,251	9,911,105	(181,050)
Income (loss) before income taxes	945,912	6,627,313	(12,834,345)	1,402,075
Income tax (benefit) provision	(1,567,267)	4,374,028	(3,083,095)	925,370
Net income (loss)	$ 2,513,179	$ 2,253,285	$ (9,751,250)	$ 476,705
Net income (loss) per common share, basic	$ 0.17	$ 0.15	$ (0.65)	$ 0.03
Net income (loss) per common share, assuming dilution	$ 0.17	$ 0.15	$ (0.65)	$ 0.03
Weighted average common shares, basic	15,095,436	14,714,942	15,041,935	14,625,908
Weighted average common shares, assuming dilution	15,100,718	14,772,315	15,041,935	14,767,841

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 2000	September 30 1999
	(unaudited)	
Current assets:		
Cash and cash equivalents	$ 19,812,978	$ 20,963,607
Marketable securities	31,928,014	13,714,422
Accounts receivable, net	21,608,733	33,955,669
Inventories, net	22,479,507	22,446,667
Other	5,064,545	5,394,346
Total current assets	100,893,777	96,474,711
Property, equipment and improvements, net	27,872,900	30,242,877
Intangible assets, net	23,024,663	47,804,611
Other	3,718,371	1,807,829
Total assets	$ 155,509,711	$ 176,330,028
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Borrowings under line of credit agreements	$ 4,254,719	$ 4,759,095
Current portion of long-term debt	357,481	330,028
Accounts payable	8,912,214	10,779,998
Income taxes payable	4,519,079	5,274,181
Accrued expenses:		
Advertising	1,272,449	2,461,437
Compensation	4,198,612	6,078,230
Other	5,996,831	6,357,348
Restructuring	-	488,298
Total current liabilities	29,511,385	36,528,615
Long-term debt	8,033,083	9,205,918
Net deferred income taxes	-	3,431,133
Total liabilities	37,544,468	49,165,666
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; 16,319,214 and 16,192,997 shares issued	163,192	161,930
Additional paid-in capital	72,074,014	71,460,612
Retained earnings	68,483,290	78,234,541
Other cumulative comprehensive income	(2,224,522)	(1,027,533)
	138,495,975	148,829,550
Unearned stock compensation	(134,135)	(339,686)
Treasury stock, at cost, 1,217,352 and 1,271,612 common shares	(20,396,597)	(21,325,502)
Total stockholders' equity	117,965,243	127,164,362
Total liabilities and stockholders' equity	$ 155,509,711	$ 176,330,028

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, 2000 AND 1999
(UNAUDITED)

	2000	1999
Operating activities:		
Net (loss) income	$ (9,751,250)	$ 476,705
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Asset impairment	18,068,249	-
Restructuring	(150,350)	208,266
Depreciation and amortization	10,428,992	11,264,831
Provision for losses on accounts receivable	540,268	420,000
Provision for inventory obsolescence	1,327,537	3,495,399
Loss on sale of fixed assets	9,253	14,215
Stock compensation	131,425	529,738
Changes in operating assets and liabilities	(1,767,624)	6,183,006
Total adjustments	28,587,750	22,115,455
Net cash provided by operating activities	18,836,500	22,592,160
Investing activities:		
Purchase of short term investments, net	(18,213,592)	-
Purchase of property, equipment, intangibles, and improvements	(2,211,512)	(3,008,585)
Net cash used in investing activities	(20,425,104)	(3,008,585)
Financing activities:		
Principal payments on borrowings	(134,711)	(5,346,233)
Stock benefit plan transactions, net	1,376,904	2,002,977
Net cash provided by (used in) financing activities	1,242,193	(3,343,256)
Effect of exchange rate changes on cash and cash equivalents	(804,218)	(825,433)
Net (decrease) increase in cash and cash equivalents	(1,150,629)	15,414,886
Cash and cash equivalents, beginning of period	20,963,607	10,355,368
Cash and cash equivalents, end of period	$ 19,812,978	$ 25,770,254

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 1999 Annual Report on Form 10-K.

The condensed consolidated financial statements presented herein as of June 30, 2000, and for the three and nine months ended June 30, 2000 and 1999, 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. IMPAIRMENT LOSS

In March 2000, the Company recorded a charge of $18.1 million reflecting the write-down of the carrying value of all of the intangible assets associated with the NetBlazer technology and some of the goodwill acquired in the Company's July 1998 purchase of ITK. The write-down resulted from the Company's March 2000 decision to discontinue development of the NetBlazer technology when the key technical members of the NetBlazer technology team elected to leave the Company and the Company concluded that it would not be able to successfully develop a competitive product from the technology. Accordingly, the Company determined that future undiscounted cash flows from the acquired ITK assets would be substantially reduced and, therefore, the carrying value of the acquired ITK assets would be impaired.

The Company utilized a discounted cash flows valuation method as described in Statement of Financial Accounting Standards Board No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," to measure the adjustment to the carrying value of the acquired ITK long-lived assets.

The write-down of the carrying value of the long-lived assets consisted of the following:

Description	Impairment Loss
Current Technology	$10,491,837
Assembled Workforce	252,646
Goodwill	7,323,766
TOTAL	$18,068,249

3. RESTRUCTURING

In March 1999, the Company's Board of Directors approved a restructuring plan related to the reorganization of sales and marketing functions in Germany, England and the United States, by consolidating worldwide sales and marketing resources into strategic locations. The original related charge of $1,452,909 ($581,164 net of tax benefits) consisted of $151,038 of existing commitments for rent on facilities vacated by the Company in Hamburg, Nurnberg, and Frankfurt, Germany and $1,301,871 of termination payments associated with the elimination of 44 positions in Dortmund, Germany; Bagshot, England; Sunnyvale, California; and Minneapolis, Minnesota.

As of December 31, 1999, the Company had paid $906,299 of termination costs relating to the elimination of 33 positions. Restructuring activities were completed as of December 1999. During the second quarter of fiscal 2000, the final severance and termination expenses were paid, and the Company adjusted the remaining restructuring accrual to zero. In fiscal year 2000, severance and termination costs of $146,767 and rent commitment payments of $7,312 were charged to the restructuring accrual. Changes in estimate for severance and termination costs of $124,937 and rent commitments of $13,160 were recorded as a reduction of the restructuring accrual with a corresponding increase to operating income.

In July 1998, the Company's Board of Directors approved a restructuring plan related to the consolidation of its offices in Germany and England. The restructuring plan relates to the closure of existing leased facilities rendered redundant by the acquisition of ITK. The original charge of $1,020,000 ($647,000 net of tax benefits), consisted of $61,483 of noncancellable rent commitments the Company expected to incur following closure of the Cologne, Germany facility; $100,110 of contractual payment obligations for office furniture and other equipment the Company expected to incur following the closure of the Cologne, Germany facility; $202,039 related to the write-off of leasehold improvements in connection with the closure of the Cologne, Germany facility; and $656,368 of termination payments associated with the elimination of six positions in Cologne, Germany and Bagshot, England.

The Company closed the Cologne facility in December 1998. As of December 31, 1999, the Company had paid $301,044 of termination costs relating to the elimination of two positions. Restructuring activities were completed as of June 1999. In the third quarter of fiscal 2000, the Company adjusted the remaining restructuring accrual to zero, as all obligations have been satisfied. In fiscal year 2000, rent commitment payments of $12,636 and payments of $27,646 for write-off of leasehold improvements were charged to the restructuring accrual. Changes in estimate for rent commitments of $2,573 and write-off of leasehold improvements of $9,680 were recorded as a reduction of the restructuring accrual with a corresponding increase to operating income.

In connection with the Company's acquisition of ITK, the Company formulated a plan of reorganization and, accordingly, recognized a $3,484,000 restructuring liability which the Company has included as a component of total liabilities assumed in the acquisition. Components of the original estimated liability included $1,844,000 of termination payments associated with 10 employees the Company expected to

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. RESTRUCTURING (CONTINUED)

eliminate at the Chelmsford, Massachusetts ITK location and 20 employees the Company expected to eliminate at the Dortmund, Germany location and $1,640,000 of noncancellable rent obligations for facilities the Company expected to incur following closure of facilities in Chelmsford, Massachusetts and Bristol and Newbury, England.

The Company vacated the Chelmsford, Bristol, and Newbury facilities in March 1999, October 1998 and May 1999, respectively. Restructuring activities were completed as of June 1999. During the second quarter of fiscal 2000, the final severance, termination and facility closure costs were paid. In fiscal year 2000, severance and termination costs of $5,217 and facility closure costs of $1,928 were charged against the restructuring accrual. Changes in estimate relating to severance and termination costs of $17,652 and facilities closures of $33,469 were recorded as a reduction in the restructuring accrual with corresponding offsets to goodwill.

In connection with the Company's acquisition of CDC, the Company formulated a plan of reorganization and, accordingly, recognized a $750,000 restructuring liability which the Company has included as a component of total liabilities assumed in the acquisition. Components of this estimated liability included $675,000 of termination payments, associated with 22 employees the Company expected to eliminate when it closed the Champaign, Illinois facility in January 1999 and $75,000 related to facility closure costs the Company expected to incur following closure and sale of the Champaign, Illinois facility. Restructuring activities were completed as of June 1999. During the second quarter of fiscal 2000, the Company paid the final severance costs of $7,128 associated with this restructuring and the accrual was adjusted to zero. Total payments against the restructuring accrual in fiscal year 2000 included severance and termination costs of $88,661. An additional expense of $3,340 was also recorded related to a change in estimate in the original restructuring accrual. Adjustments to the restructuring accrual were reflected as changes to the restructuring accrual with corresponding offsets to goodwill.

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 June 30, 2000 and September 30, 1999 consisted of the following:

	June 30, 2000	September 30, 1999
Raw materials	$13,625,833	$12,948,286
Work in process	1,592,456	2,162,626
Finished goods	7,261,218	7,335,755
	$22,479,507	$22,446,667

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. COMPREHENSIVE INCOME (LOSS)

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

Comprehensive income (loss) for the three months and nine months ended June 30, 2000 and 1999 was as follows:

	Three months ended June 30		Nine months ended June 30	
	2000	1999	2000	1999
Net income (loss)	$2,513,179	$2,253,285	$ (9,751,250)	$ 476,705
Foreign currency translation adjustments	(114,662)	121,496	(1,196,988)	674,991
Comprehensive income (loss)	$2,398,517	$2,374,781	$(10,948,238)	$1,151,696

6. NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is calculated by dividing net income (loss) by the weighted average of common shares outstanding during the period. Net income (loss) per share, assuming dilution, is calculated 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. The calculation of dilutive earnings per share excludes 2,428,577 and 1,457,878 equivalent shares of the Company for the three months and nine months ended June 30, 2000, and 1,683,099 and 1,331,169 equivalent shares of the Company for the three and nine months ended June 30, 1999, because their effect would be antidilutive.

7. RECENT ACCOUNTING DEVELOPMENTS

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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.

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, 2000, and the related condensed consolidated statements of operations for each of the three month and nine month periods ended June 30, 2000 and 1999 and the condensed consolidated statement of cash flows for the nine month periods ended June 30, 2000 and 1999. These financial statements are the responsibility of the Company's management.

We conducted our review 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 auditing standards generally accepted in the United States, 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 review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States.

We previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet as of September 30, 1999, 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, 1999, 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, 1999, 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 14, 2000

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 June 30		% Increase (decrease)	Nine months ended June 30		% Increase (decrease)
	2000	1999		2000	1999	
Net sales	100.0	100.0	(36.7)%	100.0	100.0	(32.3)%
Cost of sales	46.9	46.9	(36.7)	47.5	50.3	(36.1)
Gross margin	53.1	53.1	(36.7)	52.5	49.7	(28.4)
Operating expenses:						
Sales and marketing	24.5	18.2	(14.9)	24.3	22.2	(26.1)
Research and development	16.0	11.7	(13.3)	18.0	12.7	(3.8)
General and administrative	12.0	11.6	(34.9)	15.2	13.2	(22.0)
Impairment loss	-	-	-	18.4	-	-
Restructuring	-	(1.3)	(98.3)	(0.2)	0.5	(119.6)
Total operating expenses	52.5	40.2	(17.5)	75.7	48.6	5.4
Operating income (loss)	0.6	12.9	(97.2)	(23.2)	1.1	(1536.7)
Other income (expense), net	2.3	0.1	1083.7	10.1	(0.1)	5574.2
Income (loss) before income taxes	2.9	13.0	(85.7)	(13.1)	1.0	(1015.4)
Income tax (benefit) provision	(4.8)	8.6	(135.8)	(3.2)	0.6	(433.2)
Net income	7.7	4.4	11.5%	(9.9)	0.4	(2145.6)%

NET SALES

Net sales for the three months ended June 30, 2000, were lower than net sales for the corresponding three months ended June 30, 1999, by $18.8 million or 36.7%; net sales for the nine months ended June 30, 2000 were also lower than net sales for the corresponding nine months ended June 30, 1999, by $46.9 million or 32.3%. Net sales of the products added in connection with the July 1998 acquisitions of ITK and CDC generated revenues of $5.9 million and $19.2 million for the three months and nine months ended June 30, 2000, versus $9.3 million and $32.6 million in the comparable periods of 1999. The Company also experienced a decline in sales of its legacy asynchronous products in the three and nine month periods ended June 30, 2000, resulting in reduced revenues of $13.8 million and $33.6 million, respectively, versus the comparable periods of 1999. A decrease in demand for the Company's physical layer products resulted in reduced revenues of $2.0 million and $5.7 million for the three and nine months ended June 30, 2000, versus the comparable periods in 1999. Net sales of the Company's new digital RAS products were $2.9 million and $10.3 million during the three and nine month periods ended June 30, 2000, as compared to $2.5 million and $4.5 million in the comparable periods of 1999.

Although the Company's net sales during both the three and nine month periods ended June 30, 2000, are lower than the comparable periods a year ago, management believes that the demand downturn associated with the post year 2000 period is not continuing and stabilization of market demand has occurred. During the three months ended June 30, 2000, sales of products in all three markets in which the Company participates, including heritage board, fiber connectivity, and wide area network, increased over the second quarter of fiscal 2000. Management also

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

CONSOLIDATED RESULTS OF OPERATIONS (CONTINUED)

NET SALES (CONTINUED)

believes that improved sales and marketing execution in the third quarter of fiscal 2000 contributed to the stabilization of demand for the Company's products.

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

	Three months Ended June 30		Nine months Ended June 30	
	2000	1999	2000	1999
Server Based	92.2%	91.8%	91.9%	90.6%
Physical Layer	7.8%	8.2%	8.1%	9.4%
Total	100.0%	100.0%	100.0%	100.0%

GROSS MARGIN

Gross margin for the three and nine months ended June 30, 2000 was 53.1% and 52.5%, as compared to 53.1% and 49.7% for the three and nine months ended June 30, 1999. For the nine months ended June 30, 2000, gross margin was positively impacted by the increased proportion of sales from higher margin server-based communication products and a lower proportion of lower margin physical layer LAN products.

OPERATING EXPENSES

Operating expenses for the three months ended June 30, 2000 decreased $4.3 million, or 20.1%, as compared to operating expenses for the three months ended June 30, 1999 (excluding the third quarter 1999 restructuring adjustment of $0.7 million). These savings can be attributed to reductions in workforce, decreased marketing costs and other cost savings achieved through the closing of certain German sales offices and other restructuring activities which occurred in 1999. Amortization expenses also were lower for the quarter by $1.1 million as a result of the impairment and resulting write-off of intangible assets in the second fiscal quarter of 2000 related to the NetBlazer technology (see Note 2 to the Condensed Consolidated Financial Statements). Variable operating costs, such as commissions, cooperative advertising, and other marketing expenses were also lower primarily due to the reduced revenues for the quarter.

Operating expenses for the nine months ended June 30, 2000 decreased $13.3 million (excluding the impairment charge of $18.1 million in the second quarter and the adjustment of the restructuring accrual of $0.2 million), or 19.1%, as compared to operating expenses for the nine months ended June 30, 1999 (excluding the restructuring charge of $0.8 million). Savings realized as a result of the restructuring plan enacted in 1999 accounted for approximately $2.2 million of the total decrease in operating expenses. Additional savings at the Dortmund, Germany location were $4.7 million, a result of the reorganization in connection with the Company's acquisition of ITK. Savings in the U.S. were

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

CONSOLIDATED RESULTS OF OPERATIONS (CONTINUED)

OPERATING EXPENSES (CONTINUED)

$6.4 million, primarily attributable to lower revenues and restructuring activities that took place during fiscal 1999 as described in Note 3 to the Condensed Consolidated Financial Statements.

Sales and marketing expenses for the three months and nine months ended June 30, 2000, were $7.9 million and $23.9 million, versus $9.3 million and $32.3 million in the comparable periods a year ago. The decrease is due to various restructuring activities that took place during fiscal 1999. In addition, variable expenses, such as commissions and cooperative advertising, have been lower in fiscal 2000 compared to fiscal 1999 primarily as a result of decreased sales levels. New sales and marketing staff are developing new product roadmaps and related marketing programs which are expected to increase sales and marketing expenses in future quarters.

Research and development expenses were $5.2 million, or 16.1% of net sales, compared to $6.0 million, or 11.7% of net sales, for the three months ended June 30, 2000 and 1999, respectively. For the nine months ended June 30, 2000, research and development expenses were $17.7 million, or 18.0% of net sales, compared to $18.4 million, or 12.7% of net sales, for the nine months ended June 30, 1999. The Company continues to increase expenditures domestically on new product development for digital RAS and product line extensions in the LAN market, but expenses have decreased at the German location due to the discontinuance of the NetBlazer technology development.

General and administrative expenses for the three months and nine months ended June 30, 2000, were $3.9 million and $14.9 million, versus $5.9 million and $19.1 million in the comparable periods a year ago. Expenses declined in fiscal 2000 as a result of the integration of the CDC and Chelmsford administrative functions into the Company's corporate headquarters. Amortization expense has also decreased for the third quarter of fiscal 2000 by $1.1 million as a result of the impairment charge taken in the second quarter of fiscal 2000 related to the write-down of the carrying value of the intangible assets associated with the NetBlazer technology (see Note 2 to the Condensed Consolidated Financial Statements).

IMPAIRMENT LOSS

As indicated in Note 2 to the Condensed Consolidated Financial Statements, the Company recorded a charge of $18.1 million reflecting the write-down of the carrying value of all of the intangible assets associated with the NetBlazer technology and some of the goodwill acquired in the Company's July 1998 purchase of ITK. The write-down resulted from the Company's March 2000 decision to discontinue development of the NetBlazer technology when the key technical members of the NetBlazer technology team elected to leave the Company and the Company concluded that it would not be able to successfully develop a competitive product from the technology. Accordingly, the Company determined that future undiscounted cash flows from the acquired ITK assets would be substantially reduced and, therefore, the carrying value of the acquired ITK assets would be impaired. The Company utilized a discounted cash flows method as prescribed by Statement of Financial Accounting Standards Board No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," to measure the adjustment to the carrying value of the acquired ITK long-lived assets.

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

CONSOLIDATED RESULTS OF OPERATIONS (CONTINUED)

ACQUIRED IN-PROCESS RESEARCH AND DEVELOPMENT

During July, 1998 the Company acquired ITK and CDC. These transactions were accounted for using the purchase method of accounting. The purchase prices were allocated to the net assets acquired based on their estimated fair market values at the date of acquisitions.

The portion of the purchase price allocated to purchased in-process technology was related to research projects for which technological feasibility had not been established, Internet Protocol (VoIP) technology ($11.3 million) and Universal Serial Bus (USB) technology ($4.8 million).

See the IMPAIRMENT LOSS section of MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION for discussion related to the discontinuation of the NetBlazer product line, which utilized the acquired VoIP technology.

The Company has developed the acquired in-process USB research and development and has developed and released USB products, with initial product revenues generated during November 1998. Since acquisition, total revenues through June 30, 2000 from the first release of certain USB products are approximately $648,000 of which $164,000 was generated during the quarter ended June 30, 2000. Timing of actual USB revenues are behind original expectations due to delays in the release and marketing of certain USB products. The Company is currently evaluating its product roadmaps and expects that USB product revenues will increase in the 2001 and 2002 fiscal years. However, these expectations are subject to change, given changes in market demands.

OTHER INCOME (EXPENSE)

Other income for the three months and nine months ended June 30, 2000, was $0.8 million and $9.9 million. During the second fiscal quarter of 2000, the Company received an $8.0 million payment from Nx Networks, the company that acquired AetherWorks Corporation. This represents payment in full of a non-convertible note receivable from AetherWorks, 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 and short term marketable securities, offset by interest expense on lines of credit borrowings and long term debt.

Other income (expense) for the three months and nine months ended June 30, 1999, was $0.1 million and $(0.2) million, resulting from interest on the debt assumed in the acquisition of ITK, net of interest income earned.

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

CONSOLIDATED RESULTS OF OPERATIONS (CONTINUED)

INCOME TAXES

As of March 31, 2000, income taxes were provided for at an estimated annual effective rate of 11%. As of June 30, 2000, income taxes have been provided for at an estimated annual effective rate of 24%. The increase in the estimated annual effective rate during the third quarter of fiscal 2000 is primarily due to changes in the estimated pre-tax income (loss) for the Company's fiscal year ending September 30, 2000. The increase in the estimated annual effective tax rate has resulted in a tax benefit for the three month period ended June 30, 2000. The estimated annual effective rate for fiscal 2000 of 24% is lower than the statutory income tax rate primarily due to the reversal of certain deferred tax liabilities associated with ITK intangible assets that were written off in the second quarter of fiscal 2000 (see Note 2 to the Condensed Consolidated Financial Statements).

The estimated annual effective tax rate of 66% used in 1999 was primarily due to the 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. The Company's working capital increased from $59.9 million at September 30, 1999, to $71.4 million at June 30, 2000.

Net cash provided by operating activities for the nine months ended June 30, 2000, was $18.8 million, compared to net cash provided by operations of $22.6 million for the nine months ended June 30, 1999. The impairment loss incurred in the second fiscal quarter ended March 31, 2000, discussed in Note 2 of the Condensed Consolidated Financial Statements, is a non-cash charge that reduced operating and net income, but did not affect the Company's cash flow. Additional cash provided by operating activities of $11.8 million related to a reduction in accounts receivable is offset by a reduction in liabilities and accrued expenses. Both the reduced accounts receivable and the reduced liabilities relate to the decreased revenues during the first nine months of fiscal year 2000 versus the comparable period in 1999.

Net cash used in investing activities for the nine months ended June 30, 2000, included net purchases of marketable securities of $18.2 million. An additional $2.2 million was used for purchase of equipment and other capital expenditures. For the nine months ended June 30, 1999, $3.0 million was used for purchases of equipment and other capital expenditures.

Net cash provided by financing activities for the nine month period ended June 30, 2000, was $1.2 million, mostly resulting from employee stock benefit plan transactions. For the nine months ended June 30, 1999, $5.3 million in payments were made on line of credit and debt obligations. The Company also received $2.0 million as a result of employee stock benefit plan transactions during the nine months ended June 30, 1999.

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

CONSOLIDATED RESULTS OF OPERATIONS (CONTINUED)

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

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

FOREIGN CURRENCY

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

For the three months and nine months ended June 30, 2000, the Company had approximately $10.7 million and $37.1 million of net sales to customers outside of the United States. For the three month period ended June 30, 2000, $9.7 million of these sales were denominated in U.S. dollars and $1.0 million were denominated in Deutschemarks. For the nine month period ended June 30, 2000, $32.9 million of these sales were denominated in U.S. dollars and $4.2 million were 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.

YEAR 2000 ISSUES

The Company experienced no adverse systems effects of the Year 2000 issue. While market stabilization has occurred in the third quarter of fiscal 2000, the Company experienced some adverse operational effects from the Year 2000 issue as a result of the industry wide slowdown in sales in the first and second quarters of fiscal 2000. While the Company has not been able to quantify the effects of the Year 2000 sales impact versus other market factors, management believes that there will be no further material adverse effects on sales from the Year 2000 issue.

The Company has tested its enterprise-wide information management system and other internal computer systems for any adverse effects that may be experienced during the change over to the year 2001. The Company considers the possibility of adverse effects on the business due to year 2001 issues with its internal enterprise-wide information management system and other internal computer systems to be remote.

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)

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

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

RECENT ACCOUNTING DEVELOPMENTS

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

In a decision issued on May 22, 1998, the Court dismissed without leave to replead all claims asserted in both cases, 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 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. The claims in the two actions remain pending against the Company and its former officers Ervin F. Kamm, Jr. and Gerald A. Wall. Discovery in all of the actions has been completed.

The 21 lead plaintiffs have moved for class certification with respect to the claims asserted in the Consolidated Amended Complaint. The Company and its former officers have opposed the motion and have also filed a motion to remove the lead plaintiffs for failure to conduct themselves properly as lead plaintiffs. Both the class certification motion and the motion to remove the lead plaintiffs were heard by the Court on June 8, 2000, and taken under advisement.

The Company and its former officers served motions for summary judgment in all actions on November 19, 1999. A hearing on the motions was held before the Court on April 28, 2000, at which time the motions were taken under advisement by the Court.

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

PART II. OTHER INFORMATION (CONTINUED)

ITEM 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

PART II. OTHER INFORMATION (CONTINUED)

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, 1998, 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 (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
15	Letter Re: Unaudited Interim Financial Information...	Electronic Transmission
27	Financial Data Schedule......................................	Electronic Transmission

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 Wells Fargo Bank Minnesota, National Association (formerly known as 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 Wells Fargo Bank Minnesota, National Association (formerly known as Norwest Bank Minnesota, National Association), as Rights Agent
15	Letter Re: Unaudited Interim Financial Information
27	Financial Data Schedule

(b) Reports on Form 8-K:

No reports on Form 8-K were filed during the quarterly period ended June 30, 2000.

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 11, 2000

By:

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

EXHIBIT 15

UNAUDITED INTERIM FINANCIAL INFORMATION LETTER

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

Commissioners:

We are aware that our report dated July 14, 2000 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, 2000 and 1999, and included in the Company's Form 10-Q for the quarter ended June 30, 2000, 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
August 11, 2000

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US DOLLARS

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JUN-30-2000
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