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

FORM 10-Q/A

AMENDMENT NO. 1 TO FORM 10-Q

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

For the quarterly period ended: December 31, 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 February 2, 1999, there were 14,624,269 shares of the registrant's $.01 par value Common Stock outstanding.

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RESTATEMENT OF FINANCIAL STATEMENTS AND CHANGES TO CERTAIN INFORMATION

The Registrant previously announced that it would revise the accounting treatment of its July 1998 acquisitions of ITK International, Inc. and Central Data Corporation in response to comments received from the Securities and Exchange Commission. Accordingly, this Quarterly Report on Form 10-Q/A is being filed as Amendment No. 1 to the Registrant's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on February 16, 1999 for the purpose of restating financial information and related disclosures for the three month period ended December 31, 1998. See Note 1 to the Condensed Consolidated Financial Statements.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DIGI INTERNATIONAL INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED DECEMBER 31, 1998 AND 1997
(UNAUDITED)

	1998	1997
	(As Restated)	
Net sales	$ 51,395,021	$ 42,590,059
Cost of sales	24,904,313	21,221,314
Gross margin	26,490,708	21,368,745
Operating expenses:		
Sales and marketing	11,974,080	8,259,494
Research and development	6,476,216	3,810,900
General and administrative	6,414,486	3,610,125
Total operating expenses	24,864,782	15,680,519
Operating income	1,625,926	5,688,226
Other (expense) income, principally interest	(209,786)	268,885
Income before income taxes	1,416,140	5,957,111
Provision for income taxes	941,595	2,114,775
Net income	$ 474,545	$ 3,842,336
Net income per common share, basic	$ 0.03	$ 0.28
Net income per common share, assuming dilution	$ 0.03	$ 0.27
Weighted average common shares, basic	14,572,022	13,480,656
Weighted average common shares, assuming dilution	14,701,519	14,043,273

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

DIGI INTERNATIONAL INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31 1998 (As Restated) (Unaudited)	September 30 1998 (As Restated)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,041,170	$ 10,355,368
Accounts receivable, net	43,100,046	48,549,145
Inventories, net	29,508,100	27,365,924
Other	6,055,093	6,139,941
Total current assets	82,704,409	92,410,378
Property, equipment and improvements, net	33,098,851	33,990,923
Intangible assets, net	61,333,817	63,602,435
Other	2,595,137	2,978,883
Total assets	$ 179,732,214	$ 192,982,619
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Borrowings under line of credit agreements	$ 6,278,303	$ 10,707,000
Current portion of long-term debt	41,748	264,025
Accounts payable	12,234,996	15,255,175
Income taxes payable	4,959,399	3,797,588
Accrued expenses:		
Advertising	2,662,924	2,651,742
Compensation	3,948,904	6,776,292
Other	6,657,119	9,808,835
Restructuring accruals	3,566,658	5,254,000
Total current liabilities	40,350,051	54,514,657
Long-term debt	11,051,206	11,124,446
Net deferred income taxes	5,221,233	5,817,933
Other	308,339	275,000
Total liabilities	56,930,829	71,732,036
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; 15,837,625 and 15,790,975 shares issued	158,376	157,910
Additional paid-in capital	70,386,446	70,461,123
Retained earnings	75,517,351	75,042,806
Cumulative foreign currency translation adjustment	(334,723)	(815,809)
	145,727,450	144,846,030
Unearned stock compensation	(1,220,077)	(1,700,635)
Treasury stock, at cost, 1,236,384 and 1,247,094 shares	(21,705,988)	(21,894,812)
Total stockholders' equity	122,801,385	121,250,583
Total liabilities and stockholders' equity	$ 179,732,214	$ 192,982,619

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

DIGI INTERNATIONAL INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED DECEMBER 31, 1998 AND 1997
(UNAUDITED)

	1998 (As Restated)	1997
Operating activities:		
Net income	$ 474,545	$ 3,842,336
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	4,520,089	1,720,414
Provision for losses on accounts receivable	150,000	607,992
Provision for inventory obsolescence	1,175,399	1,397,098
Loss on sale of fixed assets	19,625	70,584
Stock compensation	338,470	113,382
Changes in operating assets and liabilities	(7,377,609)	(1,645,933)
Total adjustments	(1,174,026)	2,263,537
Net cash (used in) provided by operating activities	(699,481)	6,105,873
Investing activities:		
Purchase of property, equipment, intangibles, and improvements	(1,453,323)	(2,084,223)
Investment in AetherWorks Corporation	--	(1,000,000)
Net cash (used in) investing activities	(1,453,323)	(3,084,223)
Financing activities:		
Principal payments on borrowings	(4,521,071)	--
Stock benefit plan transactions, net	256,870	363,591
Net cash (used in) provided by financing activities	(4,264,201)	363,591
Effect of exchange rate changes on cash and and cash equivalents	102,807	--
Net (decrease) increase in cash and cash equivalents	(6,314,198)	3,385,241
Cash and cash equivalents, beginning of period	10,355,368	31,329,666
Cash and cash equivalents, end of period	$ 4,041,170	$ 34,714,907

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/A 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 Form 10-K/A.

The condensed consolidated financial statements presented herein as of December 31, 1998, and for the three months ended December 31, 1998, and 1997, reflect, in the opinion of management, all adjustments (which consist only of normal, recurring adjustments) necessary for a fair presentation of the consolidated financial position and the consolidated results of operations and cash flows for the periods presented. The consolidated results of operations for any interim period are not necessarily indicative of results for the full year.

After discussion with the staff of the Securities and Exchange Commission (the SEC) the condensed consolidated financial statements as of September 30, 1998, December 31, 1998 and March 31, 1999, and for the year ended September 30, 1998 and the three month period ended December 31, 1998, and the three and six month periods ended March 31, 1999, have been restated to reflect a change in the measurement and allocations of the purchase prices related to the July 1998 acquisitions of ITK and CDC.

The Company allocated amounts to IPR&D and intangible assets in the fourth quarter of 1998 in a manner consistent with widely recognized appraisal practices at the date of the acquisitions of ITK and CDC. Subsequent to the acquisitions, the SEC staff expressed broad views that took issue with certain appraisal practices generally employed by many public companies in determining the fair value of IPR&D. As a result of these developments, the Company has modified its valuation of IPR&D using the alternative income valuation approach. In addition, in response to questions raised by the SEC about the Company's measurement of the fair value of common stock and common stock options issued in the ITK and CDC acquisitions, the Company has modified its valuation of this portion of the purchase prices.

As a result of valuing IPR&D using the alternative income valuation approach and adjusting the measurement of the purchase prices, the Company, in consultation with their independent accountants, has revised its measurement and allocations of the purchase prices, including the amounts allocated to IPR&D. The effect of these adjustments was to; reduce the aggregate amount originally allocated to IPR&D from $39.2 million to $16.1 million; increase the aggregate amount allocated to current technologies from $15.0 to $29.1 million; increase the amount of net deferred tax liabilities from $0 to $6.3 million; increase goodwill from $8.2 million to $27.4 million; increase additional paid in-capital from $68.7 million to $70.5 million;

1. BASIS OF PRESENTATION (CONTINUED)

and reduce unearned stock compensation from $3.8 million to $1.7 million. These adjustments will also result in additional, annual amortization expense, related to identifiable intangibles and goodwill of approximately $5.0 million (assuming there are no future adjustments to reflect impairments of such intangibles and goodwill).

The restatement does not affect previously reported net cash flows for the periods. The effect of this restatement on previously reported condensed consolidated financial statements as of and for the three months ended December 31, 1998 is as follows:

	Three Months Ended December 31, 1998 (Unaudited)	
	As Previously Reported	As Restated
Statements of Operations Data:		
General and administrative expenses	$5,152,292	$6,414,486
Total operating expenses	23,602,588	24,864,782
Operating income	2,888,120	1,625,926
Income before income taxes	2,678,334	1,416,140
Provision for income taxes	1,312,385	941,595
Net income	1,365,949	474,545
Net income per share, basic	$ 0.09	$ 0.03
Net income per share, assuming dilution	$ 0.09	$ 0.03

	December 31, 1998 (Unaudited)		September 30, 1998	
	As Previously Reported	As Restated	As Previously Reported	As Restated
Balance Sheet Data				
Intangible assets, net	$ 34,190,135	$ 61,333,817	$ 31,354,483	$ 63,602,435
Total assets	152,588,532	179,732,214	160,734,667	192,982,619
Income taxes payable	4,733,321	4,959,399	3,797,588	3,797,588
Total current liabilities	40,123,973	40,350,051	54,514,657	54,514,657
Deferred income taxes	--	5,221,233	--	5,817,933
Total liabilities	51,483,518	56,930,829	65,914,103	71,732,036
Additional paid-in capital	70,386,446	70,386,446	68,695,448	70,461,123
Retained earnings	53,820,980	75,517,351	52,455,031	75,042,806
Unearned stock compensation	(1,220,077)	(1,220,077)	(3,777,204)	(1,700,635)
Total stockholders' equity	$ 101,105,014	$ 122,801,385	$ 94,820,564	$ 121,250,583

2. RESTRUCTURING

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 charge of $1,020,000 ($647,000 net of tax benefits), consisted of $61,483 of noncancellable rent commitments the Company expects to incur following closure of the Cologne, Germany facility, $100,100 of contractual payment obligations for office furniture and other equipment the Company expects 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 of fiscal 1999. As of December 31, 1998, $165,111 of termination payments have been made relating to one employee in Bagshot, United Kingdom. Management of the Company expects that these restructuring activities will be completed by June 1999. A summary of payments and adjustments are included in the table below.

Description	Balance at September 30, 1998	Payments	Change in Estimates Adjustments	Balance at December 31, 1998
Severance and termination costs	$ 656,368	$ (165,111)		$ 491,257
Rent commitments	61,483			61,483
Contractual payments for office equipment	100,110			100,110
Write-offs of leasehold improvements	202,039			202,039
TOTAL	$ 1,020,000	$ (165,111)	$ -	$ 854,889

In connection with the Company's acquisition of ITK, the Company has formulated a plan of reorganization and accordingly, has recognized a $3,484,000 restructuring liability which the Company has included as a component of total liabilities assumed in the acquisition. Components of this estimated liability include $1,844,000 of termination payments associated with 10 employees the Company expects to eliminate at the Chelmsford, Massachusetts ITK location and 20 employees the Company expects to eliminate at the Dortmund, Germany location and $1,640,000 of noncancellable rent obligations for facilities the Company expects to incur following closure of facilities in Chelmsford, Massachusetts and Bristol and Newbury, England. The Company plans to vacate the Chelmsford, Bristol, and Newbury facilities in March 1999, October 1998 and May 1999, respectively. As of December 31, 1998, $1,298,959 of payments have been made relating to termination costs in Dortmund and $107,598 of payments have been made related to rent commitments for vacant facilities in Bristol, England. The Company expects to complete these restructuring activities by June 1999. A summary of payments and adjustments is included in the table below.

2. RESTRUCTURING (CONTINUED)

Description	Balance at September 30, 1998	Payments	Change in Estimates Adjustments	Balance at December 31, 1998
Severance and termination costs	$ 1,844,000	$ (1,298,959)		$ 545,041
Facility closures	1,640,000	(107,598)		1,532,402
TOTAL	$ 3,484,000	$ (1,406,557)	$ -	$ 2,077,443

In connection with the Company's acquisition of CDC, the Company has formulated a plan of reorganization and accordingly, the Company has 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 include $675,000 of termination payments, associated with 22 employees the Company expects to eliminate when it closes the Champaign, Illinois facility in January 1999 and $75,000 related to facility closure costs the Company expects to incur following closure and sale of the Champaign, Illinois facility. As of December 31, 1998, $115,674 of payments have been made relating to termination costs while the facility had not yet been closed or sold. The Company expects to complete these restructuring activities by June 1999. A summary of payments and adjustments are included in the table below.

Description	Balance at September 30, 1998	Payments	Change in Estimates Adjustments	Balance at December 31, 1998
Severance and termination costs	$ 675,000	$ (115,673)		$ 559,327
Facility closure	75,000			75,000
TOTAL	$ 750,000	$ (115,673)	$ -	$ 634,327

As a result of changes in 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)

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 December 31, 1998 and September 30, 1998 consisted of the following:

	December 31, 1998	September 30, 1998
Raw materials	$14,502,604	$13,707,999
Work in process	4,449,426	2,922,442
Finished goods	10,556,070	10,735,483
	$29,508,100	$27,365,924

5. COMPREHENSIVE 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 income and its components. Comprehensive 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 income includes net income and foreign currency translation adjustments that are charged or credited to stockholders' equity.

Comprehensive income for the three months ended December 30, 1998 and 1997 are as follows:

	Three months ended December 31	
	1998	1997
	(As Restated)	
Net income	$474,545	$3,842,336
Foreign currency translation adjustments	481,086	-
Comprehensive income	$955,631	$3,842,336

6. NET INCOME PER SHARE

Basic net 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. The calculation of dilutive earnings per share excludes the 1,123,201 and 168,073 equivalent shares of the Company for the three month periods ended December 31, 1998 and 1997, respectively, 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 December 31, 1998, and the related condensed consolidated statements of operations and cash flows for the three months ended December 31, 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, 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, except as to Notes 2 and 3, for which the date is July 23, 1999, we expressed an unqualified opinion on those consolidated financial statements. Such financial statements have been restated as described in the following paragraph. 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.

As more fully described in Note 1 to the accompanying condensed consolidated financial statements and Note 2 of the Company's consolidated financial statements as of and for the year ended September 30, 1998, the Company and the staff of the Securities and Exchange Commission have had discussions regarding the accounting treatment related to the July 1998 acquisitions of ITK International, Inc. and Central Data Corporation. As a result of these discussions, the Company has changed the method used to allocate the purchase price to in-process technologies. In connection with this modification, the Company has adjusted the measurement and allocations of the purchase prices recorded for the aforementioned acquisitions. Accordingly, the consolidated financial statements as of and for the year ended September 30, 1998 and as of and for the three months ended December 31, 1998, have been restated.

/s/ PricewaterhouseCoopers LLP

Minneapolis, Minnesota
January 22, 1999, except for the information in Note 1 as to which the date is July 23, 1999

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

OVERVIEW

The Company previously announced it would revise the accounting treatment of its July 1998 acquisitions of ITK and CDC in response to comments received from the Securities and Exchange Commission. The following discussion includes all changes that have been made related to the restatement. See Note 1 to the Condensed Consolidated Financial Statements.

CONSOLIDATED RESULTS OF OPERATIONS

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

	Three months ended December 31		% Increase (decrease)
	1998 (As Restated)	1997	
Net sales	100.0%	100.0%	20.7%
Cost of sales	48.5	49.8	17.4
Gross margin	51.5	50.2	24.0
Operating expenses:			
Sales and marketing	23.3	19.4	45.0
Research and development	12.6	8.9	69.9
General and administrative	12.5	8.5	77.7
Total operating expenses	48.4	36.8	58.6
Operating income	3.1	13.4	(49.2)
Other (expense) income, net	(0.4)	0.6	(178.0)
Income before income taxes	2.7	14.0	(76.2)
Provision for income taxes	1.8	5.0	(55.5)
Net income	0.9	9.0%	(87.6)%

NET SALES

Net sales for the three month period ended December 31, 1998, were higher than net sales for the corresponding three month period ended December 31,1997 by $8,804,962 or 20.7 %. The acquisitions of ITK and CDC contributed $13,651,509 in increased revenue for the three month period ended December 31, 1998. Offsetting this revenue growth were reduced sales in physical layer products versus the comparable period in 1997 due to decreased product demand. In addition, also offsetting this revenue growth were reduced sales to the distribution markets. The decline in distribution sales is primarily due to increased sales to distributors during the third and fourth quarter of fiscal 1998, as the Company gave incentives to distributors to increase their purchases.

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

CONSOLIDATED RESULTS OF OPERATIONS (CONTINUED)

GROSS MARGIN

Gross margin for the three month period ended December 31, 1998 increased to 51.5%, as compared to 50.2% for the three month period ended December 31, 1997. Such increase was principally due to increased sales of higher margin server-based products to the distribution channel. In particular, gross margins for the three month period ended December 31, 1998, were enhanced by a favorable product mix, resulting in higher sales of higher margin products. Offsetting the increase in margins were ITK and CDC products sold during the three month period ended December 31, 1998, which had margins of 47.2%.

OPERATING EXPENSES

Operating expenses for the three month period ended December 31, 1998, increased approximately $9.2 million or 58.6 % as compared to operating expenses for the three month period ended December 31, 1997. The operations of ITK and CDC, which were acquired in the fourth quarter of the 1998 fiscal year, accounted for approximately $7.1 million or a 45% increase in operating expenses. In addition, the Company increased its sales and marketing efforts related to new product introductions. The Company also increased its research and development efforts for new products. General and administrative expenses also increased due to the approximately $2.5 million increase in amortization expense resulting from identifiable intangible assets and goodwill acquired in the ITK and CDC transactions.

The Company anticipated annual cost savings of approximately $3.7 million relating to restructuring plans implemented by the Company (see Footnote 2 of the condensed consolidated financial statements). These cost savings will principally reduce future selling, general and administrative expenses and were expected to begin during first quarter of fiscal 1999. As a result of changes in management during fiscal 1999, the execution of restructuring plans was delayed. The Company expects to begin to realize the full effect of the aforementioned cost savings by December of 1999.

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 was 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.

After discussion with the staff of the Securities and Exchange Commission (the SEC) the condensed consolidated financial statements as of September 30, 1998 and December 31, 1998 and for the three month period ended December 31, 1998 have been restated to reflect a change in the measurement and allocations of the purchase prices related to the July 1998 acquisitions of ITK and CDC.

The Company allocated amounts to IPR&D and intangible assets in the fourth quarter of 1998 in a manner consistent with widely recognized appraisal practices at the date of the acquisitions of ITK and CDC. Subsequent to the acquisitions, the SEC staff expressed broad views that took issue with certain appraisal practices generally employed by many public companies in determining the fair value of IPR&D. As a result of these developments, the Company has modified its valuation of IPR&D using the alternative income valuation approach.

As a result of valuing IPR&D using the alternative income valuation approach and adjusting the measurement of the purchase prices, the Company, in consultation with their independent accountants, has revised its measurement and allocations of the purchase prices, including the amounts allocated to IPR&D. The effect of these adjustments was to; reduce the aggregate amount originally allocated to IPR&D from $39.2 million to $16.1 million; increase the aggregate amount allocated to current technologies from $15.0 to $29.1 million; increase the amount of net deferred tax liabilities from $0 to $6.3 million; increase goodwill from $8.2 million to $27.4 million; increase additional paid in-capital from $68.7 million to $70.5 million; and reduce unearned stock compensation from $3.8 million to $1.7 million.

The value assigned 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).

The Company is continuing development of the acquired in-process VoIP technology and, as of June 30, 1999 believes that its development efforts are on schedule to meet the product release schedule referred to in the Company's Annual Report on Form 10-K/A without any significant changes in its research and development costs. However, these expectations are subject to change, given the uncertainties of the development process and changes in market expectations.

The Company is continuing development of the acquired in-process USB research and development and has developed and released USB products, with initial product revenues generated during November 1998. Completion of the in-process USB research and development was achieved without any significant changes in the estimated research and development costs.

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

CONSOLIDATED RESULTS OF OPERATIONS (CONTINUED)

OTHER INCOME

Other expense, principally interest for the three month period ended December 31, 1998, results from debt assumed in the acquisition of ITK. Other income for the three month period ended December 31, 1997 resulted from interest earned on cash and cash equivalent balances.

INCOME TAXES

Income taxes have been provided for at an estimated annual effective rate of 66.5% for the three month period ended December 31, 1998. This effective tax rate exceeds the U.S. statutory income tax rate and the effective tax rate of 35.5% in the three month period ended December 31, 1997 primarily due to the additional $10.0 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 three months ended December 31, 1998, consisted primarily of purchases of equipment and capital improvements totaling approximately $1.5 million. Financing activities for the three months ended December 31, 1998, consisted primarily of payments on line of credit and debt obligations totaling approximately $4.5 million. At December 31, 1998, the Company had working capital of approximately $42.4 million. The Company is currently negotiating to extend a $15 million unsecured line of credit, which expires February 28, 1999. The Company 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

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.

For the three month period ended December 31, 1998, the Company had foreign transactions that were negotiated, invoiced and paid amounting to approximately $15.6 million, of which $8.9 million were in U.S. dollars and $6.7 million were Deutschemark-dominated sales through the

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

CONSOLIDATED RESULTS OF OPERATIONS (CONTINUED)

FOREIGN CURRENCY TRANSLATION (CONTINUED)

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 December 31, 1998.

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 year 2000 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 are 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.

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 AND WILL RESULT IN EXPECTED BENEFITS - This expectation may be impacted by presently unanticipated delays or expenses.

THE EXPECTATION THAT THE COMPANY'S 1999 EFFECTIVE TAX RATE WILL BE 66.5 PERCENT - This expectation may be impacted by the changes in the Company's level of profitability.

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.

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. Discovery in the actions is proceeding.

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.

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
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 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)

***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)

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 16, 1999

By: /s/ S. Krishnan

S. Krishnan
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

Commissioners:

We are aware that our report dated January 22, 1999, except for the information in Note 1 as to which the date is July 23, 1999, on our reviews of interim condensed consolidated financial information of Digi International Inc. and subsidiaries (the Company) for the three month period ended December 31, 1998 and 1997, and included in the Company's Form 10-Q/A for the quarter ended December 31, 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).

PRICEWATERHOUSECOOPERS LLP

Minneapolis, Minnesota
August 16, 1999

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SEP-30-1999
OCT-01-1998
DEC-31-1998
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