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

FORM 8-K/A

AMENDMENT NO. 1

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

Date of Report (Date of earliest event reported) July 29, 1998

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

DELAWARE	0-17972	41-1532464
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

11001 BREN ROAD EAST MINNETONKA, MINNESOTA	55343
(Address of principal executive offices)	(Zip Code)

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

Item 7. FINANCIAL STATEMENTS AND EXHIBITS.

On July 29, 1998, ITK International, Inc., a Delaware corporation ("ITK"), merged (the "Merger") with and into Iroquois Acquisition Inc., a Delaware corporation and wholly owned subsidiary of the Registrant ("Merger Sub"). Merger Sub, as the surviving corporation in the Merger, will remain a wholly owned subsidiary of the Registrant and has adopted the name "ITK International, Inc." in connection with the Merger. This Current Report on Form 8-K/A includes certain financial information required by Item 7 that was not contained in the previously filed Current Report on Form 8-K dated July 29, 1998 (File No. 0-17972) relating to the Merger.

The following information is attached hereto as an exhibit:

(a) FINANCIAL STATEMENTS OF ITK.

The following information is attached hereto as Exhibit 99.2:

Report of PricewaterhouseCoopers LLP, Independent Accountants

Consolidated Balance Sheet as of June 30, 1998 and 1997

Consolidated Statement of Operations for the Years Ended June 30, 1998, 1997 and 1996

Consolidated Statement of Changes in Stockholders' Deficit for the Years Ended June 30, 1998, 1997 and 1996

Consolidated Statement of Cash Flows for the Years Ended June 30, 1998, 1997 and 1996

Notes to Consolidated Financial Statements

(b) PRO FORMA FINANCIAL INFORMATION OF REGISTRANT AND ITK.

The following information is attached hereto as Exhibit 99.3:

Unaudited Pro Forma Condensed Financial Statements

Unaudited Pro Forma Condensed Balance Sheet as of June 30, 1998

Notes to Unaudited Pro Forma Condensed Balance Sheet

Unaudited Pro Forma Condensed Statement of Operations for the Year Ended September 30, 1997

Unaudited Pro Forma Condensed Statement of Operations for the Nine Months Ended June 30, 1998

Unaudited Pro Forma Condensed Statement of Operations for the Nine Months Ended June 30, 1997

Notes to Unaudited Pro Forma Condensed Statement of Operations

(c) EXHIBITS.

2 Agreement and Plan of Merger dated as of July 1, 1998 among the Registrant, Merger Sub and ITK.(1)

The Registrant hereby agrees to furnish supplementally a copy of any omitted schedule or exhibit to the Commission upon request.

23 Consent of PricewaterhouseCoopers LLP.

99.1 Press Release of the Registrant dated July 29, 1998.(1)

99.2 Financial Statements of ITK.

99.3 Pro Forma Financial Information of Registrant and ITK.

Item 9. SALES OF EQUITY SECURITIES PURSUANT TO REGULATION S.

On July 29, 1998, as part of the consideration for the Merger, the Registrant issued a total of 576,357 shares of its Common Stock, par value $.01 per share (the "Common Stock"), to stockholders of ITK. Of these shares of Common Stock, 408,817 shares were issued pursuant to the exemption from registration provided by Regulation S promulgated under the Securities Act of 1933, as amended ("Regulation S"). The shares of Common Stock issued pursuant to Regulation S were issued only to persons who certified to the Registrant that they were not a "U.S. person" as defined in Rule 901(k) of Regulation S. All shares of Common Stock issued in the Merger were subsequently registered by the Registrant on a Registration Statement on Form S-3 (Reg. No. 333-61425) which was filed on August 13, 1998 and declared effective on August 21, 1998.

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(1) Incorporated by reference to the like numbered Exhibit to the Registrant's Current Report on Form 8-K dated July 29, 1998 and filed with the Commission on August 12, 1998 (File No. 0-17972).

SIGNATURES

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: October 27, 1998

By /s/ Jerry A. Dusa

Jerry A. Dusa
President and Chief Executive Officer

EXHIBIT INDEX

No.	Exhibit	Page
2	Agreement and Plan of Merger dated as of July 1, 1998 among the Registrant, Merger Sub and ITK.	Incorporated by Reference
23	Consent of PricewaterhouseCoopers LLP.	Filed Electronically
99.1	Press release dated July 29, 1998.	Incorporated by Reference
99.2	Financial Statements of ITK.	Filed Electronically
99.3	Pro Forma Financial Information of Registrant and ITK.	Filed Electronically

EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statements of Digi International Inc. on Form S-3 (File No. 333-61425) and Form S-8 (File No. 33-32956, File No. 33-38898, File No. 333-99, File No. 333-23857, File No. 333-1821 and File No. 333-57869) of our report dated October 26, 1998, on our audits of the consolidated financial statements of ITK International Inc. as of June 30, 1998 and 1997, and for the years ended June 30, 1998, 1997 and 1996, which reports are included in this Form 8-K/A.

/s/ PRICEWATERHOUSECOOPERS LLP

Minneapolis, Minnesota
October 27, 1998

EXHIBIT 99.2

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and
Stockholders of ITK International, Inc.

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of changes in stockholders' deficit and of cash flows present fairly, in all material respects, the financial position of ITK International, Inc. and its subsidiaries (the "Company") at June 30, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

As described in Note 13, the Company was acquired on July 29, 1998.

PricewaterhouseCoopers LLP

Boston, Massachusetts
October 26, 1998

ITK INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEET
JUNE 30, 1998 AND 1997 (IN THOUSANDS, EXCEPT SHARE DATA)

	1998	1997
ASSETS		
Current assets:		
Cash	$ 2,373	$ 429
Accounts receivable, net of allowance for doubtful accounts of $607 and $195 at June 30, 1998 and 1997, respectively	3,019	3,615
Inventories, net	5,267	7,271
Prepaid expenses and other currrent assets	678	556
Total current assets	11,337	11,871
Property and equipment, net	10,668	9,934
Intangible assets, net	4,405	535
Other assets	247	-
Total assets	$ 26,657	$ 22,340
LIABILITIES AND STOCKHOLDER'S DEFICIT		
Current liabilities:		
Demand notes payable	$ 14,168	$ 8,717
Accounts payable	4,756	4,278
Accrued expenses	5,573	910
Accrued compensation	1,847	888
Current portion of long-term debt	115	109
Total currrent liabilities	26,459	14,902
Long-term debt, less current portion	9,511	8,697
Total liabilities	35,970	23,599
Commitments and contingencies (Note 6)		
Stockholders' deficit:		
Common stock, $.001 par value, 33,000,000 shares authorized, 27,392,904 and 19,179,680 shares issued and outstanding at June 30, 1998 and 1997, respectively	27	19
Additional paid-in capital	36,948	18,503
Deferred compensation	(3,307)	-
Accumulated deficit	(42,891)	(19,576)
Cumulative translation adjustment	(90)	(205)
Total stockholders' deficit	(9,313)	(1,259)
Total liabilities and stockholders' deficit	$ 26,657	$ 22,340

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

ITK INTERNATIONAL, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEARS ENDED JUNE 30, 1998, 1997 AND 1996
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	1998	1997	1996
Revenues	$ 32,699	$ 22,188	$ 26,331
Cost of revenues	24,353	12,857	13,848
Gross profit	8,346	9,331	12,483
Operating expenses:			
Selling, general and administrative	24,034	14,224	10,402
Research and development	6,784	4,916	2,148
Total operating expenses	30,818	19,140	12,550
Loss from operations	(22,472)	(9,809)	(67)
Other income (expense):			
Interest income	152	115	14
Interest expense	(1,585)	(973)	(152)
Other income, net	607	519	231
Income (loss) before income taxes	$ (23,298)	$ (10,148)	26
Income taxes	17	169	963
Net loss	$ (23,315)	$ (10,317)	$ (937)
Net loss per common share:			
Basic and diluted	$ (0.98)	$ (0.58)	$ (0.07)
Weighted average number of common and common equivalent shares outstanding:			
Basic and diluted	23,746	17,830	14,325

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

ITK INTERNATIONAL, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED JUNE 30, 1998, 1997 AND 1996
(IN THOUSANDS, EXCEPT SHARE DATA)

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	DEFERRED COMPENSATION	CUMULATIVE TRANSLATION ADJUSTMENT	TOTAL STOCKHOLDERS' EQUITY (DEFICIT)
Balance, June 30, 1995	14,325,080	$ 14	$ 1,328	$ 590	$ -	$ 53	$ 1,985
Net loss				(937)			(937)
Foreign currency translation						(141)	(141)
Balance, June 30, 1996	14,325,080	14	1,328	(347)	-	(88)	907
Issuance of common stock	4,854,600	5	17,175				17,180
Dividends paid				(8,912)			(8,912)
Net loss				(10,317)			(10,317)
Foreign currency translation						(117)	(117)
Balance, June 30, 1997	19,179,680	19	18,503	(19,576)	-	(205)	(1,259)
Contributed capital			1,569				1,569
Issuance of common stock upon Merger with ITK AG	7,609,860	7	11,717				11,724
Exercise of common stock options	603,364	1	59				60
Compensation related to the grant of common stock options			5,100		(5,100)		-
Amortization of deferred compensation					1,793		1,793
Net loss				(23,315)			(23,315)
Foreign currency translation						115	115
Balance, June 30, 1998	27,392,904	$ 27	$ 36,948	$ (42,891)	$ (3,307)	$ (90)	$ (9,313)

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

ITK INTERNATIONAL, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 1998, 1997 AND 1996 (IN THOUSANDS)

	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$(23,315)	$(10,317)	$ (937)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	2,327	811	403
Provision for doubtful accounts	412	145	-
Amortization of deferred compensation	1,793		
Loss on sale of property and equipment	403	26	-
Changes in operating assets and liabilities, excluding effects of acquired business:			
Accounts receivable	4,191	1,768	(1,716)
Inventories	5,630	1,077	(3,297)
Prepaid expenses and other current assets	50	(203)	(264)
Other assets	104	111	377
Accounts payable	(1,444)	(1,191)	28
Accrued expenses and compensation	2,421	(365)	508
Net cash used by operating activities	(7,428)	(8,138)	(4,898)
Cash flows from investing activities:			
Purchases of property and equipment	(641)	(8,496)	(2,261)
Cash of acquired business	3,111	-	-
Proceeds from sale of property and equipment	73	167	7
Net cash used in investing activities	2,543	(8,329)	(2,254)
Cash flows from financing activities:			
Proceeds from issuance of common stock	60	17,180	-
Dividends paid	-	(8,912)	-
Proceeds from debt issuance	6,271	8,312	7,117
Net cash provided by financing activities	6,331	16,580	7,117
Net increase in cash and cash equivalents	1,446	113	(35)
Effect of exchange rate changes on cash and cash equivalents	498	80	(370)
Cash at beginning of year	429	236	641
Cash at end of period	$ 2,373	$ 429	$ 236
Cash paid during the period for:			
Interest	$ 972	$ 631	$ 259
Income taxes	670	690	143
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Common stock issued on Merger with ITK AG	$ 11,724	$ -	$ -
Capital contribution, land received from shareholder	1,569	-	-

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

1. DESCRIPTION OF BUSINESS

ITK International, Inc. and its subsidiaries (the "Company") design, manufacture, sell, market and support a broad range of high performance remote network access products. These products enable customers to build: (i) dial-up local area network ("LAN") inter-networks that provide remote offices, telecommuters and mobile computer user access to corporate networks; (ii) remote LAN access networks that provide access to the Internet; and (iii) mission critical wide area network access facilities that provide LAN or host access over the public switched telephone network. The Company markets its products worldwide through distributors, value added resellers and service providers. The Company also sells its modem products to certain original equipment manufacturers.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION
The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated.

On August 7, 1997, Telebit Incorporated ("TI") consummated a merger (the "Merger") with ITK Telekommunikation AG ("ITK AG"), a German corporation. The Company's common stock was recapitalized and ITK AG's stockholders received an aggregate of 19,179,680 previously unissued shares of common stock of the Company, representing 66.5% of the common stock outstanding upon consummation of the Merger. Due to the majority ownership received by ITK AG's stockholders, the Merger was accounted for as a "reverse acquisition" such that TI was designated as the acquired entity and ITK AG the acquirer. Accordingly, the consolidated balance sheet as of June 30, 1997 and the related consolidated statements of operations, of cash flows and of changes in stockholders' equity (deficit) for each of the two years in the period ended June 30, 1997 represent the historical results of ITK AG and its subsidiaries. The results of operations of TI are included in the consolidated financial statements from August 7, 1997. In addition, the Company changed its name concurrent with the Merger from "Telebit Incorporated" to "ITK International, Inc." See Note 3.

All shares of common stock, options and per share amounts included in the accompanying financial statements have been adjusted to give retroactive effect to the recapitalization for all years presented.

USE OF ESTIMATES
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

REVENUE RECOGNITION

Revenue relating to products sold is recognized upon transfer of legal title, which is generally upon shipment. The Company derives a significant percentage of its revenue from sales to distributors. Under the Company's standard distribution agreements, distributors are granted certain "stock balancing" and "price protection" rights. The Company provides reserves for such returns or price adjustments at the time the related revenue is recorded, based on historic rates of returns or price adjustments. The Company's stock balancing and price protection obligations have historically been within management's expectations.

CONCENTRATION OF CREDIT RISK

Financial instruments which potentially expose the Company to concentrations of credit risk consist principally of cash and trade accounts receivable. The Company places its cash with financial institutions which management believes are of high credit quality.

FINANCIAL INSTRUMENTS

The carrying amount of the Company's financial instruments, which include cash, accounts receivable, accounts payable, accrued expenses, notes payable and long-term debt, approximates their fair value at the balance sheet dates.

INVENTORIES

Inventories are stated at the lower of cost, determined on the first-in, first-out (FIFO) basis, or market.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Depreciation is based on the following estimated useful lives of the assets using the straight-line method:

Buildings	25 years
Office equipment	4-10 years

Expenditures for additions, renewals and betterments of property and equipment are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred. As assets are retired or sold, the related cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations.

INTANGIBLE ASSETS

Intangible assets, comprised primarily of acquired technology (Note 3), are recorded at their fair value determined at time of acquisition. Amortization is based on the estimated useful lives of the assets of 4 years, using the straight-line method.

The Company periodically analyzes intangible assets for potential impairment, assessing the appropriateness of lives and recoverability of unamortized balances through measurement of undiscounted operating cash flows on a basis consistent with generally accepted accounting principles.

INCOME TAXES

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the Company's consolidated financial statements. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using currently enacted tax rates for the year in which the differences are expected to reverse. The Company records a valuation allowance against net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

NET LOSS PER COMMON SHARE

For each of the years presented, basic and diluted earnings per share are the same due to the antidilutive effect of potential common shares outstanding. Antidilutive potential common shares excluded from the computation of diluted loss per share for the fiscal year 1998 include 4,617,848 common shares issuable upon the exercise of stock options.

FOREIGN CURRENCY

The accounts of foreign subsidiaries are translated using exchange rates in effect at period-end for assets and liabilities and at average exchange rates during the period for results of operations. The local currency for all foreign subsidiaries is the functional currency. The related transaction adjustments are reported as a separate component of stockholders' equity (deficit). Gains or losses resulting from foreign currency transactions are included in other income (expense) and were immaterial for all periods presented.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1997, the FASB issued SFAS 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. This standard will require that an enterprise display an amount representing total comprehensive income for the period. SFAS No. 130 will be effective for the Company's fiscal year ending June 30, 1999. Adoption of SFAS No. 130 is not expected to impact the Company's financial position or results of operations.

In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" which supersedes SFAS No. 14. This statement changes the way that public business enterprises report segment information, including financial and descriptive information about their operating segments, in annual financial statements and would require that those enterprises report selected segment information in interim financial reports to stockholders. Operating segments are defined as revenue-producing components of the enterprise which are generally used internally for evaluating segment performance. SFAS No. 131 will be effective for the Company beginning with the Company's fiscal year ending June 30, 1999. Adoption of SFAS No. 131 will not impact the Company's financial position or results of operations.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The statement requires that all derivative instruments be recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. The ineffective portion of all hedges will be recognized in current-period earnings. SFAS No. 133 will be effective for the Company beginning with the Company's fiscal year ending June 30, 2000. As the Company has no derivative instruments and is not involved in hedging activity, the Company does not expect the adoption of SFAS No. 133 to have an impact on the Company's financial position or results of operations.

3. MERGER OF TELEBIT INCORPORATED AND ITK AG

As described in Note 1, on August 7, 1997, Telebit Incorporated ("TI") consummated a merger (the "Merger") with ITK Telekommunikation AG ("ITK AG"), a German corporation.

The Merger was accounted for using the purchase method. The purchase price for financial accounting purposes was determined to be $11,724,000, based upon an independent appraisal of the 7,609,860 shares of common stock and the 2,051,000 options to purchase common stock of the Company received upon the Merger by former stockholders and option holders of TI.

The following summarizes the allocation of the purchase price to the estimated fair value of the assets acquired and liabilities assumed as of August 7, 1997 (in thousands):

Assets acquired:	
Cash	$ 3,111
Accounts receivable	3,183
Inventories	4,126
Prepaid expenses and other current assets	172
Property, plant and equipment	1,054
Other assets	259
Identifiable intangible assets	4,650
Cost in excess of net assets acquired	262
Liabilities assumed:	
Accounts payable	(1,922)
Accrued expenses	(3,171)
Total purchase price	$11,724

The identifiable intangible assets consist primarily of acquired technology valued at $3,900,000, as well as established customer base, workforce and trademark. The identifiable intangible assets were fair valued by an independent appraisal based on discounted cash flow analyses.

The following unaudited pro forma information is presented to illustrate the results of operations had the Merger occurred on July 1, 1996 (in thousands, except share data):

	Year ended June 30, 1998 (Unaudited)	Year ended June 30, 1997 (Unaudited)
Total revenues	$ 35,202	$ 41,449
Loss from operations	(22,769)	(19,635)
Net loss	(23,958)	(20,758)
Loss per share - basic and diluted	$ (0.88)	$ (0.82)

The above pro forma results of operations are not necessarily indicative of the results of operations which actually would have been realized had the Merger occurred as of July 1, 1996, nor of the future results of the combined companies.

4. INVENTORIES

Inventories consist of the following (in thousands):

	June 30, 1998	June 30, 1997
Raw materials	$ 1,270	$ -
Work in process	601	1,130
Finished goods	3,396	6,141
	$ 5,267	$ 7,271

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following (in thousands):

	June 30, 1998	June 30, 1997
Land	$ 749	$ 749
Buildings	8,845	7,081
Office equipment	4,516	4,150
Construction in progress	-	157
	14,110	12,137
Less accumulated depreciation	(3,442)	(2,203)
	$ 10,668	$ 9,934

Depreciation expense relating to property and equipment was $1,394,000, $137,000 and

$276,000 for the fiscal years 1998, 1997 and 1996, respectively.

6. COMMITMENTS AND CONTINGENCIES

OPERATING LEASES

The Company leases facilities under various operating leases. Future minimum lease payments under noncancelable operating leases with initial or remaining terms of one or more years consisted of the following at June 30, 1998 (in thousands):

1999	$ 933
2000	404
2001	187
2002	122
2003	74
Thereafter	773
Total future minimum lease payments	$ 2,493

Rental expense during the fiscal years 1998, 1997 and 1996 was $805,000, $295,000 and $225,000, respectively.

7. DEMAND NOTES PAYABLE

On June 12, 1998, the Company entered into a $5,000,000 loan facility with Digi International Inc. (see Note 13). Under this loan facility, Digi International Inc. has advanced $5,000,000 to the Company as a demand note payable. The outstanding balance of this demand note payable bears interest at 8 percent. The Company has pledged as collateral for this demand note payable 98,400 common shares of ITK AG.

At June 30, 1998, short-term liabilities exist with banks in the amount of $9,168,000. These amounts are due daily. Interest is calculated quarterly and is also due daily.

The weighted average interest rate on demand notes payable was 4.6% and 4.9% at June 30, 1998 and 1997, respectively.

8. LONG-TERM DEBT

Long-term debt consists of the following (in thousands):

	1998	1997
5.2% fixed rate long-term collateralized note	$2,882	$1,782
6.0% Fixed rate long-term collateralized note	1,498	1,546
6.3% fixed rate long-term collateralized note	4,433	4,597
6.0% fixed rate long-term uncollateralized note	574	591
6.0% subsidized long-term note	239	290
Total long-term debt	9,626	8,806
Less: current maturities	(115)	(109)
	$9,511	$8,697

The 5.2% fixed rate long-term note is payable in semi annual installments beginning June 2001. Interest is payable on a quarterly basis. The 6.0% fixed rate long-term note is payable in full in September 2003. Interest is payable on a quarterly basis. The 6.3% fixed rate long term note is payable in semi annual installments beginning March 2000. Interest is payable on a semi-annual basis. These notes are collateralized by certain land, building and equipment.

The 6.0% fixed rate long term note is due in full on November 5, 2001. Borrowings under this note are uncollateralized.

The 6.0% subsidized long term note is payable in quarterly installments. Interest is payable on a quarterly basis. Borrowings under this note are uncollateralized.

Aggregate maturities of long-term debt over the next five fiscal years are as follows: $115,000 in 1999, $213,000 in 2000, $407,000 in 2001, $1,870,000 in 2002, $429,000 in 2003 and $6,592,000 thereafter.

9. STOCK PLANS

The Company maintains two stock plans. The 1996 Stock Option Plan (the "1996 Plan") provided for the issuance of up to 5,000,000 shares of common stock pursuant to the grant of incentive and non-qualified stock options. The Company does not intend to issue any additional options under the 1996 Plan, but options that are forfeited will become available for grant under the 1997 Stock Option Plan (the "1997 Plan").

Under the terms of the 1997 Plan, employees, directors and certain other individuals may be awarded incentive stock options, nonqualified stock options or restricted stock. The 1997 Plan provides for the issuance of a maximum of 3,000,000 shares of common stock, plus such additional number of shares that become available due to the forfeiture of options granted under the 1996 Plan. Non-qualified options may be granted to any employee, officer, director or consultant at an exercise price per share to be determined by the Board of Directors on the date of grant. Options granted under the 1997 Plan are exercisable over periods determined by the Board of Directors, not to exceed ten years from the date of grant.

In fiscal year 1997, the Company adopted SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123 requires that companies either recognize compensation expense for grants of stock, stock options and other equity instruments based on fair value or provide pro forma disclosure of net income and earnings per share in the notes to the financial statements as if such method had been applied. The Company adopted the pro forma disclosure provisions of SFAS No 123 in fiscal 1997 and has applied APB Opinion No. 25 and related interpretations in accounting for all of its stock option grants.

Stock option activity is summarized as follows:

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at June 30, 1997	--	$ --
Options of acquired company	2,707,167	0.10
Granted	4,595,000	0.10
Forfeited	(2,085,494)	0.10
Exercised	(598,825)	0.10
Outstanding at June 30, 1998	4,617,848	0.10
Options available for future grant	2,755,344	

Information related to the stock options outstanding at June 30, 1998 is as follows:

RANGE OF EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	EXERCISABLE NUMBER OF OPTIONS
$ .10	4,617,848	9.36 years	2,213,468

Had compensation cost for the Company's stock option grants been determined based on the fair value at the grant dates, as calculated in accordance with SFAS No. 123, the Company's net loss and net loss per common share (both basic and diluted) for the fiscal year ended June 30, 1998 would not have been materially different from the amount reported. Because options vest over several years and additional option grants are expected to be made in subsequent years, the pro forma impact above is not representative of the pro forma effects for future years.

The fair value of each option granted during the fiscal year ended June 30, 1998 was estimated on the date of grant using the minimum value method utilizing the following weighted-average assumptions: (1) expected risk-free interest rate of 5.4% to 5.7%; (2) expected option life of 7 years; (3) expected stock volatility of 0%; and (4) expected dividend yield of 0%. The weighted average fair value per option for options granted in fiscal year 1998 was $1.11.

In accordance with APB No. 25, deferred compensation recorded under the 1997 Plan during the year ended June 30, 1998 was $5,100,000 which is being amortized to expense over the vesting periods of the related options. The related compensation expense recorded for the year ended June 30, 1998 was $1,793,000.

As discussed in Note 13, on July 29, 1998, Digi International Inc. acquired the Company. In connection with the acquisition, each option holder of the Company received an option to purchase common stock of Digi International Inc.

10. INCOME TAXES

The income tax provision consisted entirely of current foreign tax expense of $17,000, $169,000 and $963,000 in fiscal years 1998, 1997 and 1996, respectively. Since the Merger, the Company has incurred losses for tax purposes and, accordingly, has not provided for any current or deferred federal and state income taxes.

Domestic and foreign income (loss) before income taxes for the fiscal years 1998, 1997 and 1996 is as follows (in thousands):

	1998	1997	1996
Domestic	$(11,933)	$ -	$ -
Foreign	(11,365)	(10,148)	26
	$ 23,298	$(10,148)	26

The following is a reconciliation between the provision for income taxes based upon U.S. statutory income tax rates and the Company's effective income tax expense (in thousands):

	1998	1997	1996
Income taxes (benefit) at federal statutory rates	$ (8,154)	$ (3,552)	$ 9
Foreign tax rate differential	(4,419)	(1,404)	(337)
Amortization of intangible assets	669	-	-
State taxes (net)	(709)	-	-
Research and development credits	(142)	-	-
Valuation allowance adjustments	12,650	5,125	710
Nondeductible expenses	122	-	217
Other	-	-	364
	$ 17	$ 169	$ 963

The components of the net deferred tax asset are as follows (in thousands):

	1998	1997
Net operating loss carryforwards	$ 18,991	$ 7,169
Research and development credits	143	-
Depreciation	652	7
Accrued expenses	168	7
Accounts receivable	38	202
Other	229	186
Total gross deferred tax assets	20,221	7,571
Valuation allowance	(20,221)	(7,571)
Total net deferred tax asset	$ -	$ -

Under SFAS No. 109, the benefit associated with future deductible temporary differences is recognized if it is more likely than not that a benefit will be realized. Based on historical evidence of net losses, the Company has recorded a valuation allowance that offsets the full amount of its net deferred tax assets.

As of June 30, 1998, the Company had U.S. and state net operating loss ("NOL") carryforwards of approximately $13,601,000 and $11,481,000, respectively, available to offset future taxable income, which expire at various dates through 2011.

A subsequent change in the Company's ownership as defined in Section 382 of the Internal Revenue Code may significantly limit the future utilization of the federal NOL carryforwards incurred prior to an ownership change. In fiscal year 1997 and in July 1998, substantial changes in the ownership of the Company occurred.

At June 30, 1998, the Company's foreign subsidiaries had NOL carryforwards of approximately $24,586,000.

11. GEOGRAPHIC DATA

The Company's operations are conducted in one business segment in the United States and Europe. Geographic information about the Company for fiscal years 1998, 1997 and 1996 is as follows:

	1998	1997	1996
Revenues			
United States	$ 12,100	$ 32	$ 934
Europe	20,599	22,156	25,397
	$ 32,699	$ 22,188	$ 26,331
Loss from operations:			
United States	$(10,854)	$ (775)	$ (455)
Europe	$(11,618)	(9,034)	388
	$(22,472)	$ (9,809)	$ (67)
Identifiable assets:			
United States	$ 6,393	$ 734	$ 757
Europe	20,264	21,606	17,103
	$ 26,657	$ 22,340	$ 17,860

12. EMPLOYEE BENEFIT PLANS

The Company sponsors a qualified 401(k) Plan which covers all eligible employees of the Company. The Company made no matching contributions to the plan during fiscal years 1998, 1997 and 1996.

13. SUBSEQUENT EVENT

On July 29, 1998, Digi International Inc. ("Digi") acquired 100% of the outstanding common stock of the Company for $13.3 million in cash, 576,357 shares of common stock of Digi and 125,174 options to purchase Digi common stock issued to all existing option holders of the Company. Accordingly, the Company became a wholly owned subsidiary of Digi. The acquisition of the Company will be accounted for by Digi using the purchase method. Certain restructuring activities are expected as a result of the acquisition by Digi.

EXHIBIT 99.3

UNAUDITED PRO FORMA CONDENSED FINANCIAL STATEMENTS

The following unaudited pro forma condensed financial statements give effect to the acquisition of ITK International, Inc. ("ITK") by Digi International, Inc. (the "Company") using the purchase method of accounting. These unaudited pro forma condensed financial statements are presented for illustrative purposes only and are not necessarily indicative of the combined financial position or results of operations for future periods or the results that actually would have been realized had the Company and ITK been a combined company during the specified periods. The pro forma condensed financial statements, including the notes thereto, are qualified in their entirety and should be read in conjunction with the historical consolidated financial statements of the Company and ITK.

The unaudited pro forma condensed financial statements are based on the respective historical consolidated financial statements and the notes thereto of the Company and ITK. The purchase price was allocated to the estimated fair value of assets acquired and liabilities assumed. The preliminary purchase price allocation is based on the Company's estimates of fair value. The Company is awaiting additional information related to the fair value of certain assets acquired and liabilities assumed. However, management does not expect the finalization of the allocation of its purchase price to the assets acquired and liabilities assumed of ITK will have a material effect on the purchase price allocation.

DIGI INTERNATIONAL INC.
UNAUDITED PRO FORMA CONDENSED BALANCE SHEET

JUNE 30, 1998
(DOLLARS IN THOUSANDS)

ASSETS	DIGI INTERNATIONAL INC.	ITK INTERNATIONAL INC.	PRO FORMA ADJUSTMENTS	PRO FORMA
Current assets:				
Cash and cash equivalents	$ 44,945	$ 2,373	$(14,434)(a)	$ 32,884
Accounts receivable, net	34,699	3,019		37,718
Inventories, net	16,404	5,267		21,671
Other	3,903	678		4,581
Total current assets	99,951	11,337	(14,434)	96,854
Property, equipment and improvements, net	22,572	10,668		33,240
Intangible assets, net	7,339	4,405	10,694(d)	22,438
Other	8,055	247	(5,000)(c)	3,302
Total assets	$137,917	$26,657	$ (8,740)	$155,834
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Demand notes payable		14,168	(5,000)(c)	9,168
Accounts payable	8,105	4,756		12,861
Income taxes payable	6,873			6,873
Accrued expenses	5,379	5,573		10,952
Compensation	3,144	1,847		4,991
Current portion of long-term debt		115		115
Total current liabilities	23,501	26,459	(5,000)	44,960
Long-term liabilities, net of current portion		9,511		9,511
Total liabilities	23,501	35,970	(5,000)	54,471
Stockholders' equity:				
Common stock and capital in excess of par value (Digi: 14,951,203 shares; ITK: 27,392,904 shares; and 15,527,560 shares on a pro forma combined basis)	47,213	36,975	(13,910)(a) (36,975)(b)	61,123
Retained earnings (accumulated deficit)	90,032	(42,891)	(42,891)(b) (26,000)(d)	64,032
Foreign currency translation adjustment		(90)	90(b)	
	137,245	(6,006)	(6,084)	125,155
Unearned stock compensation	(975)	(3,307)	(963)(a) 3,307(b)	(1,938)
Treasury stock, at cost	(21,854)			(21,854)
Total stockholders' equity	114,416	(9,313)	(3,740)	101,363
Total liabilities and stockholders' equity	$137,917	$26,657	$ (8,740)	$155,834

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE UNAUDITED PRO FORMA CONDENSED BALANCE SHEET.

DIGI INTERNATIONAL INC.
NOTES TO UNAUDITED PRO FORMA CONDENSED BALANCE SHEET
(DOLLARS IN THOUSANDS)

1. FINANCIAL STATEMENTS:

Digi International Inc. (the "Company") has a September 30 fiscal year end. The unaudited historical balance sheet information of the Company as of June 30, 1998 was derived from the unaudited consolidated condensed financial statements of the Company which are included in the Company's report on Form 10-Q for the quarter ended June 30, 1998. Prior to its acquisition by the Company, ITK International Inc. ("ITK") had a June 30 fiscal year-end. The unaudited historical consolidated balance sheet information of ITK as of June 30, 1998 was derived from the consolidated financial statements of ITK included elsewhere in this Form 8-K/A. The pro forma condensed balance sheet assumes the business combination took place on June 30, 1998.

2. UNAUDITED PRO FORMA CONDENSED BALANCE SHEET ADJUSTMENTS:

The purchase price was allocated to the estimated fair value of assets acquired and liabilities assumed. The pro forma adjustments presented are as of June 30, 1998. The Company is awaiting additional information related to the fair value of certain assets acquired and liabilities assumed. However, management does not expect the finalization of the allocation of its purchase price to the assets acquired and liabilities assumed of ITK will have a material effect on the purchase price allocation.

(a) Adjustment reflects the components of the purchase consideration and related transaction costs, which included $14,434 in cash, the Company's common stock with a market value of $11,671 and $1,276 of replacement stock options issued by the Company to ITK option holders. The cash and the Company's common stock were issued in exchange for outstanding shares of ITK's common stock and the Company's stock options were issued in exchange for the outstanding ITK common stock options. The value of the Company's common stock issued is based on a per share value of approximately $20.25, which was the market value of the Company's common stock on the date the Company and ITK agreed to the terms of the purchase. The value of the Company's common stock options is based on the excess of the market value of the Company's common stock over the option exercise prices on the date that these options were granted to ITK employees. The purchase price will increase by $963 if the unvested portion of stock options granted to the ITK employees vest. Such amount has been recorded as unearned stock compensation in the stockholders' equity section of the unaudited pro forma condensed balance sheet as of June 30, 1998.

(b) Adjustment reflects the elimination of ITK's historical stockholders' equity.

(c) Adjustment reflects the elimination of note payable to the Company from ITK resulting from funds advanced to ITK during June 1998.

(DOLLARS IN THOUSANDS)

2. UNAUDITED PRO FORMA CONDENSED BALANCE SHEET ADJUSTMENTS, CONTINUED:

(d) Adjustment reflects portion of purchase price allocated to identifiable intangible assets, including purchased in-process research and development. Valuation of the intangible assets acquired was conducted by an independent third-party appraisal company and consists of purchased in-process research and development, proven technology and an assembled workforce. The purchase price exceeded the estimated fair value of tangible assets acquired and liabilities assumed by approximately $41,099. This excess purchase price was allocated to purchased in-process research and development, identifiable intangible assets and goodwill, including certain existing identifiable intangible assets and goodwill of ITK as of June 30, 1998.

The table below is a summary of the preliminary amounts allocated to purchased in-process research and development, identifiable intangible assets and goodwill.

Cash and fair value of the Company's common stock and common stock options issued	$26,276
Direct acquisition costs	1,105
ITK liabilities assumed	35,970
Total purchase price	63,351
Estimated fair value of tangible assets acquired (approximates recorded book value)	22,252
Purchase price in excess of estimated fair value of tangible assets acquired	$41,099
Estimated fair value of in-process research and development, identifiable intangible assets and goodwill:	
In-process research and development	26,000
Identifiable intangible assets	12,700
Goodwill	2,399
	$41,099

Management estimates that $26,000 of the purchase price represents the fair value of purchased in-process research and development that has not yet reached technological feasibility and has no alternative future use. This amount was expensed as a non-recurring, non-tax-deductible charge upon consummation of the acquisition. This amount has been reflected as a reduction in stockholders' equity and has not been included in the pro forma condensed statements of operations due to its non-recurring nature.

2. UNAUDITED PRO FORMA CONDENSED BALANCE SHEET ADJUSTMENTS, CONTINUED:

The Company is using the acquired in-process research and development to create new products in the area of Internet Protocol Telephony, which will become part of the Company's product line over the next several years. The Company anticipates that the initial Internet Protocol Telephony products will be released in 2000 and 2001. The Company expects that the acquired in-process research and development will reach technological feasibility, but there can be no assurance that the commercial viability of these products will be achieved.

The nature of the efforts required to develop the acquired in-process research and development into commercially viable products principally relate to the completion of all planning, designing, prototyping, verification and testing activities that are necessary to establish that the product can be produced to meet its design specifications, including functions, features and technical performance requirements. The estimated costs to be incurred to develop the purchased in-process technology into commercially viable products are approximately $24,800 in the aggregate through the year 2007, consisting of $300 in 1998; $2,000 in 1999; $4,800 in 2000; $4,800 in 2001; $4,300 in 2002; $3,200 in 2003; $2,500 in 2004; $1,400 in 2005; $900 in 2006 and $600 in 2007.

The value assigned to purchased in-process research and development was determined through independent appraisers, who projected cash flows related to future products expected to be derived once technological feasibility is achieved, including costs to complete the development of the technology and the future revenues and costs which are expected to result from commercialization of the products. These cash flows were discounted back to their present values. The resulting net cash flows from such projects are based on estimates made by the Company's management of revenues, cost of sales, research and development costs, selling, general and administrative costs, and income taxes resulting from such projects. These estimates are based on the following assumptions:

> The estimated revenues are based upon projected average annual revenue growth rates from future products expected to be derived once technological feasibility is achieved of between 18% and 65% during the period from 2000 through 2005. Estimated total revenues expected from products to be developed using purchased in-process research and development peak in the year 2005 and decline rapidly in 2006 and 2007 as other new products are expected to enter the market. These projections are based on estimates made by the Company's management of market size and growth (which are supported by independent market data), expected trends in technology and the nature and expected timing of new product introductions by ITK and its competitors. These estimates also include growth related to the Company utilizing certain ITK technologies under development in conjunction with the Company's products, the Company marketing and distributing the resulting products through the Company's resellers, and the Company enhancing the market's response to ITK's products by providing incremental financial support and stability.

2. UNAUDITED PRO FORMA CONDENSED BALANCE SHEET ADJUSTMENTS, CONTINUED:

The estimated cost of sales as a percentage of revenues is expected to be lower than ITK's cost of sales would have been on a stand-alone basis primarily due to the Company's expected ability to achieve more favorable pricing from key component vendors and production efficiencies due to economies of scale achieved through combined operations.

The estimated selling, general and administrative costs are expected to more closely approximate the Company's cost structure (approximately 34% of revenues in 1997), which is lower than ITK's cost structure (approximately 81% of revenues in fiscal 1997). Cost savings are expected to result primarily from: (a) the changes related to certain restructuring actions including the shut-down of certain existing ITK facilities and a reduction in certain administrative ITK employees; (b) the distribution of ITK's products through the Company's resellers (i.e., sales of higher volume products with lower direct selling costs); and (c) efficiencies due to economies of scale through combined operations (i.e., consolidated marketing and advertising programs). These cost savings are expected to be realized primarily in 2000 and thereafter.

Discounting the net cash flows back to their present values is based on the weighted average cost of capital (WACC). The WACC calculation produces the average required rate of return of an investment in an operating enterprise, based on various required rates of return from investments in various areas of that enterprise. The WACC assumed for the Company, as a corporate business enterprise, is 14%. The discount rate used in discounting the net cash flows from purchased in-process technology was 30%. This discount rate is higher than the WACC due to the inherent uncertainties in the estimates described above including the uncertainty surrounding the successful development of the purchased in-process research and development, the useful life of such completed research and development, the profitability levels of such completed research and development and the uncertainty of technological advances that are unknown at this time.

If these products are not successfully developed, the sales and profitability of the combined company may be adversely affected in future periods. Additionally, the value of other intangible assets acquired may become impaired. The Company expects to begin to benefit from the purchased in-process research and development in 2000.

The identifiable intangible assets of $12,700 included in the purchase price allocation set forth above are comprised of proven technology with an appraised fair value of

$11,300, and an assembled workforce with an appraised fair value of $1,400, which have estimated useful lives of five years and six years, respectively.

DIGI INTERNATIONAL INC.
UNAUDITED PRO FORMA CONDENSED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 1997
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	DIGI INTERNATIONAL INC.	ITK INTERNATIONAL INC.	PRO FORMA ADJUSTMENTS	PRO FORMA
Net sales	$ 165,598	$ 21,028		$ 186,626
Cost of sales	85,483	13,156		98,639
Gross margin	80,115	7,872		87,987
Operating expenses:				
Sales and marketing	36,671	10,148		46,819
Research and development	17,978	5,191		23,169
General and administrative	19,325	6,843	$ 2,836(a)	29,004
Restructuring	10,471			10,471
Total operating expenses	84,445	22,182	2,836	109,463
Operating loss	(4,330)	(14,310)	(2,836)	(21,476)
Other income (expense), net	154	(249)	(722)(b)	(817)
Aetherworks Corporation net loss	(5,764)			(5,764)
Aetherworks Corporation write off	(5,759)			(5,759)
Loss before income taxes	(15,699)	(14,559)	(3,558)	(33,816)
Income tax provision (benefit)	92		(253)(b)	(161)
Net loss	$ (15,791)	$ (14,559)	$ (3,305)	$ (33,655)
Net loss per common and common equivalent share, basic and diluted	$(1.18)	$(0.54)	-	$(0.82)
Weighted average common shares, basic and diluted	13,393,408	26,865,000	576,357(d)	40,834,765

The accompanying notes are an integral part of the unaudited pro forma condensed statement of operations.

DIGI INTERNATIONAL INC.
UNAUDITED PRO FORMA CONDENSED STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED JUNE 30, 1998
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	DIGI INTERNATIONAL INC.	ITK INTERNATIONAL INC.	PRO FORMA ADJUSTMENTS	PRO FORMA
Net sales	$ 134,098	$ 25,105		$ 159,203
Cost of sales	65,105	19,456		84,561
Gross margin	68,993	5,649		74,642
Operating expenses:				
Sales and marketing	26,303	12,166		38,469
Research and development	11,887	4,860		16,747
General and administrative	10,025	6,693	$ 2,127(a)	18,845
Total operating expenses	48,215	23,719	2,127	74,061
Operating income (loss)	20,778	(18,070)	(2,127)	581
Other income (expense), net	1,477	(929)	(541)(b)	7
Aetherworks Corporation net loss	1,350			1,350
Income (loss) before income taxes	23,605	(18,999)	(2,668)	1,938
Income tax provision (benefit)	8,686	8	(189)(b) (7,792)(c)	713
Net income (loss)	$ 14,919	$ (19,007)	$ 5,313	$ 1,225
Net income (loss) per common share, basic	$1.10	$(0.69)	-	$0.03
Net income (loss) per common share, assuming dilution	$1.05	$(0.69)	-	$0.03
Weighted average common shares, basic	13,535,512	27,392,000	576,357(d)	41,503,869
Weighted average common shares, assuming dilution	14,216,915	27,392,000	648,261(d)	42,257,176

The accompanying notes are an integral part of the unaudited pro forma condensed statement of operations.

DIGI INTERNATIONAL INC.
UNAUDITED PRO FORMA CONDENSED STATEMENT OF OPERATIONS
FOR THE NINE MONTHS ENDED JUNE 30, 1997
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	DIGI INTERNATIONAL INC.	ITK INTERNATIONAL INC.	PRO FORMA ADJUSTMENTS	PRO FORMA
Net sales	$ 123,473	$ 13,040		$ 136,513
Cost of sales	64,420	8,111		72,531
Gross margin	59,053	4,929		63,982
Operating expenses:				
Sales and marketing	29,310	11,910		41,220
Research and development	14,284	3,916		18,200
General and administrative	13,964		$ 2,127(a)	16,091
Restructuring	10,472			10,472
Total operating expenses	68,030	15,826	2,127	85,983
Operating loss	(8,977)	(10,897)	(2,127)	(22,001)
Other income (expense), net	343	150	(541)(b)	(48)
Aetherworks Corporation net loss	(4,634)			(4,634)
Loss before income taxes	(13,268)	(10,747)	(2,668)	(26,683)
Income tax benefit	(1,357)		(189)(b)	(1,546)
Net loss	$ (11,911)	$(10,747)	$ (2,479)	$ (25,137)
Net loss per common and common equivalent share, basic and diluted	$(0.89)	$(0.40)	-	$(0.62)
Weighted average common shares, basic and diluted	13,379,899	26,790,000	576,357(d)	40,746,256

The accompanying notes are an integral part of the unaudited pro forma condensed statement of operations.

1. FINANCIAL STATEMENTS:

Digi International Inc. (the Company) has a September 30 fiscal year-end. The unaudited historical statement of operations information of the Company for the year ended September 30, 1997 was derived from the consolidated financial statements of the Company, which are included in the Company's annual report on Form 10-K for the year ended September 30, 1997. The historical statement of operations information of the Company for the nine-month periods ended June 30, 1998 and 1997 was derived from the condensed financial statements of the Company which are included in the Company's reports on Form 10-Q for the quarters ended June 30, 1997 and 1998.

Prior to the acquisition by the Company, ITK International Inc. (ITK) had a June 30 fiscal year-end. Accordingly, the ITK statement of operations information for the twelve-month period ended September 30, 1997 and the nine-month periods ended June 30, 1998 and 1997 has been derived by combining ITK's unaudited consolidated results of operations for the applicable calendar quarters.

The pro forma condensed statements of operations assume the business combination took place as of the beginning of the periods presented. The pro forma condensed statement of operations for the twelve-month period ended September 30, 1997 combines the Company's consolidated statement of operations and ITK's consolidated statement of operations for the twelve-month period then ended. The pro forma condensed statements of operations for the nine-month periods ended June 30, 1998 and 1997 combine the Company's unaudited consolidated statement of operations and ITK's unaudited consolidated statement of operations for the nine-month periods ended June 30, 1998 and 1997, respectively. On a combined basis there were no material transactions between the Company and ITK during the periods presented.

The pro forma combined provision for income taxes may not necessarily be indicative of amounts that would have resulted had the Company and ITK filed consolidated income tax returns during the periods presented.

2. UNAUDITED PRO FORMA CONDENSED STATEMENT OF OPERATIONS ADJUSTMENTS:

The purchase price was allocated based upon the estimated fair value of assets acquired and liabilities assumed. The preliminary purchase price allocation is based on the Company's estimates of fair value. The Company is awaiting additional information related to the fair value of certain assets acquired and liabilities assumed. However, management does not expect the finalization of the allocation of its purchase price to the assets acquired and liabilities assumed of ITK will have a material effect on the purchase price allocation.

2. UNAUDITED PRO FORMA CONDENSED STATEMENT OF OPERATIONS ADJUSTMENTS, CONTINUED:

(a) Adjustment reflects amortization of acquired identifiable intangible assets and goodwill. Identifiable intangible assets of $12,700 are comprised of proven technology with an appraised value of $11,300, and an assembled workforce with an appraised value of $1,400 which have estimated useful lives of five years and six years, respectively. The estimated annual non-tax-deductible amortization charge related to the proven technology and workforce is approximately $2,493. The estimated annual non-tax-deductible amortization charge related to amortization of the $2,399 allocated to goodwill, which has an estimated useful life of seven years, is approximately $343.

(b) Adjustment reflects the decrease in interest income and related tax effect resulting from the use of cash and cash equivalents to complete the acquisition. The assumed rate of return on the cash balance was 5%.

(c) Adjustment reflects the portion of Digi's income tax provision which would not have been recognized due to ITK's U.S. net operating losses for the nine-moth period ended June 30, 1998.

(d) Adjustment reflects net increase (decrease) in weighted average common shares and common equivalent shares outstanding for common stock and common stock options issued in connection with the acquisition, as well as equivalent shares of the Company that have an antidilutive effect on pro forma diluted earnings per common share.

Pro forma basic earnings per common share for the periods presented were calculated assuming that the 576,357 shares of the Company's common stock issued in connection with the acquisition were issued at the beginning of the periods presented.

The calculation of pro forma diluted earnings per common share excludes the 71,904 equivalent shares of the Company attributable to the common stock options issued by the Company in connection with the acquisition, to replace existing ITK common stock options. Such equivalent shares were excluded in determining the weighted average equivalent shares outstanding for the year ended September 30, 1997 and the nine-month period ended June 30, 1997, because their effect was antidilutive.