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

FORM 10-Q

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

For the quarterly period ended: June 30, 1999.

OR

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

For the transition period from ____ to ____.

Commission file number: 0-17972

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

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

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

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

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

Yes X No ___

On August 6, 1999, there were 14,910,085 shares of the registrant's $.01 par value Common Stock outstanding.

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DIGI INTERNATIONAL INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE THREE MONTHS AND NINE MONTHS ENDED JUNE 30, 1999 AND 1998
(UNAUDITED)

	Three months ended June 30		Nine months ended June 30	
	1999	1998	1999	1998
Net sales	$ 51,144,524	$46,449,286	$ 145,171,035	$134,098,319
Cost of sales	23,997,831	21,890,041	73,055,760	65,104,699
Gross margin	27,146,693	24,559,245	72,115,275	68,993,620
Operating expenses:				
Sales and marketing	9,323,592	9,036,250	32,270,668	26,303,159
Research and development	6,003,762	4,127,946	18,367,708	11,886,956
General and administrative	5,941,674	2,969,649	19,126,262	10,025,425
Restructuring	(685,397)	--	767,512	--
Total operating expenses	20,583,631	16,133,845	70,532,150	48,215,540
Operating income	6,563,062	8,425,400	1,583,125	20,778,080
Other income (expense), net	64,251	659,916	(181,050)	1,477,270
AetherWorks Corporation net gain	--	1,350,000	--	1,350,000
Income before income taxes	6,627,313	10,435,316	1,402,075	23,605,350
Provision for income taxes	4,374,028	4,024,409	925,370	8,686,768
Net income	$ 2,253,285	$ 6,410,907	$ 476,705	$ 14,918,582
Net income per common share, basic	$ 0.15	$ 0.47	$ 0.03	$ 1.10
Net income per common share, assuming dilution	$ 0.15	$ 0.45	$ 0.03	$ 1.05
Weighted average common shares, basic	14,714,942	13,617,518	14,625,908	13,535,512
Weighted average common shares, assuming dilution	14,772,315	14,385,012	14,767,841	14,216,915

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

DIGI INTERNATIONAL INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET

	June 30 1999 (unaudited)	September 30 1998 (as restated)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 25,770,254	$ 10,355,368
Accounts receivable, net	35,330,537	48,549,145
Inventories, net	21,968,124	27,365,924
Other	5,128,023	6,139,941
Total current assets	88,196,938	92,410,378
Property, equipment and improvements, net	30,376,062	33,990,923
Intangible assets, net	52,489,501	63,602,435
Other	2,384,553	2,978,883
Total assets	$ 173,447,054	$ 192,982,619
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Borrowings under line of credit agreements	$ 5,213,322	$ 10,707,000
Current portion of long-term debt	202,910	264,025
Accounts payable	8,634,942	15,255,175
Income taxes payable	5,077,369	3,797,588
Accrued expenses:		
Advertising	2,514,273	2,651,742
Compensation	5,324,280	6,776,292
Other	6,984,064	9,808,835
Restructuring	1,462,344	5,254,000
Total current liabilities	35,413,504	54,514,657
Long-term debt	9,070,890	11,124,446
Net deferred income taxes	4,027,833	5,817,933
Other	--	275,000
Total liabilities	48,512,227	71,732,036
Commitments and contingency		
Stockholders' equity:		
Preferred stock, $.01 par value; 2,000,000 shares authorized; none outstanding		
Common stock, $.01 par value; 60,000,000 shares authorized; 16,170,583 and 15,790,975 shares issued	161,706	157,910
Additional paid-in capital	71,563,903	70,461,123
Retained earnings	75,519,511	75,042,806
Cumulative foreign currency translation adjustment	(140,818)	(815,809)
	147,104,302	144,846,030
Unearned stock compensation	(400,305)	(1,700,635)
Treasury stock, at cost, 1,297,818 and 1,247,094 common shares	(21,769,170)	(21,894,812)
Total stockholders' equity	124,934,827	121,250,583
Total liabilities and stockholders' equity	$ 173,447,054	$ 192,982,619

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

DIGI INTERNATIONAL INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE NINE MONTHS ENDED JUNE 30, 1999 AND 1998
(UNAUDITED)

	1999	1998
Operating activities:		
Net income	$ 476,705	$ 14,918,582
Adjustments to reconcile net income to net cash provided by operating activities:		
Restructuring	208,266	--
Depreciation and amortization	11,264,831	4,877,165
AetherWorks Corporation net gain	--	(1,350,000)
Provision for losses on accounts receivable	420,000	707,992
Provision for inventory obsolescence	3,495,399	5,354,569
Loss on sale of fixed assets	14,215	183,057
Stock compensation	529,738	656,940
Changes in operating assets and liabilities	6,183,006	(3,695,118)
Total adjustments	22,115,455	6,734,605
Net cash provided by operating activities	22,592,160	21,653,187
Investing activities:		
Purchase of property, equipment and improvements	(3,008,585)	(4,407,189)
Investment in AetherWorks Corporation	--	(2,000,000)
Advance related to impending acquisition	--	(5,000,000)
Net cash used in investing activities	(3,008,585)	(11,407,189)
Financing activities:		
Principal payments on borrowings	(5,346,233)	--
Stock benefit plan transactions, net	2,002,977	3,369,749
Net cash (used in) provided by financing activities	(3,343,256)	3,369,749
Effect of exchange rate changes on cash and cash equivalents	(825,433)	--
Net increase in cash and cash equivalents	15,414,886	13,615,747
Cash and cash equivalents, beginning of period	10,355,368	31,329,666
Cash and cash equivalents, end of period	$ 25,770,254	$ 44,945,413

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

DIGI INTERNATIONAL INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

The interim condensed consolidated financial statements included in this Form 10-Q have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures, normally included in financial statements prepared in accordance with generally accepted accounting principles, have been condensed or omitted, pursuant to such rules and regulations. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in the Company's 1998 Annual Report on Form 10-K/A.

The condensed consolidated financial statements presented herein as of June 30, 1999, and for the three months and nine months ended June 30, 1999, and 1998, reflect, in the opinion of management, all adjustments (which, other than adjustments to restructuring charges, consist only of normal, recurring adjustments) necessary for a fair presentation of the consolidated financial position and the consolidated results of operations and cash flows for the periods presented. The consolidated results of operations for any interim period are not necessarily indicative of results for the full year.

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, 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 International, Inc. ("ITK") and Central Data Corporation ("CDC").

The Company allocated amounts to In Process Research & Development ("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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. BASIS OF PRESENTATION (CONTINUED)

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 its 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. 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 presented. The effect of this restatement on previously reported condensed consolidated financial statements included herein is as follows:

	September 30, 1998	
Balance Sheet Data	As Previously Reported	As Restated
Intangible assets, net	$31,354,483	$63,602,435
Total assets	160,734,667	192,982,619
Net deferred income taxes	-	5,817,933
Total liabilities	65,914,103	71,732,036
Additional paid-in capital	68,695,448	70,461,123
Retained earnings	52,455,031	75,042,806
Unearned stock compensation	(3,777,204)	(1,700,635)
Total stockholders' equity	$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

2. RESTRUCTURING (CONTINUED)

during December 1998. As of June 30, 1999, the Company paid $266,854 of termination costs relating to the elimination of two positions. During the third quarter of 1999, the Company reduced the restructuring accrual by $572,191 due to management's decision during the quarter to retain four employees previously notified that they would be terminated, a final settlement negotiated by the Company which reduced the remaining contractual rent commitments for office space and equipment in Cologne, Germany which was previously vacated and abandoned by the Company, and a decision by current management to utilize certain equipment which prior management had planned to abandon. Adjustments to the restructuring accrual are reflected as a reduction in the restructuring accrual and a corresponding increase to operating income. Management of the Company expects that remaining restructuring activities will be completed by June 1999. A summary of payments and adjustments is included in the table below.

Description	Balance at September 30, 1998	Payments	Change in Estimate Adjustments	Balance Junes30, 1999
Severance and termination costs	$ 656,368	$(266,854)	$ (355,324)	$ 34,190
Rent committments	61,483	(25,005)	(16,374)	20,104
Contractual pyaments for office equipment	100,110	(49,972)	(50,138)	-
Write-offs of leasehold improvements	202,039	-	(150,355)	51,684
TOTAL	$ 1,020,000	$ (341,831)	$ (572,191)	$ 105,978

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 vacated the Chelmsford, Bristol, and Newbury facilities in March 1999, October 1998 and May 1999, respectively. During the third quarter of fiscal 1999, the Company reduced the restructuring accrual by $1,451,882 as management determined during the quarter that the number of positions to be terminated was 26 rather than 30 due to unanticipated employee turnover and other changes in management of the Company during fiscal 1999. In addition, during the third quarter of 1999, the Company and the lessor of the Newbury facility reached a final, negotiated settlement which significantly reduced the Company's remaining contractual rent obligation. Adjustments to the restructuring accrual are reflected as a reduction in the restructuring accrual and a corresponding decrease in goodwill. Management of the Company expects that these restructuring activities will be completed 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 Estimate Adjustments	Balance June 30, 1999
Severance and termination costs	$ 1,844,000	$ (1,423,168)	$ (378,792)	$ 42,040
Facility closures	1,640,000	(236,910)	(1,073,090)	330,000
TOTAL	$ 3,484,000	$ (1,660,078)	$ (1,451,882)	$ 372,040

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. During the third quarter of fiscal 1999, the Company reduced the restructuring accrual by $222,513 due to management's decision during the quarter to reduce the number of employees to be terminated from 22 to 20 due to unanticipated employee turnover and other changes in management. In addition, during the third quarter, management determined that it would not incur significant additional closure costs from the sale of the Champaign, Illinois facility. Adjustments to the restructuring accrual are reflected as a reduction in the restructuring accrual and a corresponding decrease in goodwill. Management of the Company expects that these restructuring activities will be completed by June 1999.
A summary of payments and adjustments is included in the table below.

Description	Balance at September 30, 1998	Payments	Change in Estimate Adjustments	Balance June 30, 1999
Severance and termination costs	$ 675,000	$ (321,226)	$ (147,513)	$ 206,261
Facility closure	75,000	-	(75,000)	-
TOTAL	$ 750,000	$ (321,226)	$ (222,513)	$ 206,261

In March 1999, the Company's Board of Directors approved a restructuring plan related to the reorganization of sales and marketing functions in Germany, England and the United States, by consolidating worldwide sales and marketing resources into strategic locations. The related charge of $1,452,909 ($493,989 net of tax benefits) consisted of $151,038 of existing commitments for rent on facilities vacated by the Company in Hamburg, Nurnberg, and Frankfurt Germany and $1,301,871 of termination payments associated with the elimination of 44 positions in Dortmund, Germany, Bagshot, England, Sunnyvale, California, and Minneapolis, Minnesota. As of June 30, 1999, the Company paid $553,639 of termination costs relating to the elimination of 32 positions. During the third quarter of fiscal 1999, management of the

3. RESTRUCTURING (CONTINUED)

Company determined that $33,100 of severance costs in Dortmund would not be payable due to a decision to retain two employees previously notified that they would be terminated. In addition, the Company reduced its estimated remaining rent commitment by $80,106 as it successfully sublet the vacated office space in Nurnberg, Germany. Adjustments to the restructuring accrual are reflected as a reduction in the restructuring accrual and a corresponding increase to operating income. Management of the Company expects that these restructuring activities will be completed by December 1999. A summary of payments and adjustments is included in the table below.

Description	Balance at September 30, 1998	Payments	Change in Estimate Adjustments	Balance at June 30, 1999
Severance and termination costs	$ 1,301,871	$(553,639)	$ (33,100)	$715,132
Rent commitments	151,038	(8,000)	(80,106)	62,932
TOTAL	$ 1,452,909	$(561,639)	$ (113,206)	$778,064

3. INVENTORIES

Inventories, net are stated at the lower of cost or market, with cost determined on the first-in, first-out method. Inventories at June 30, 1999 and September 30, 1998 consisted of the following:

	June 30, 1999	September 30, 1998
Raw materials	$15,036,070	$13,707,999
Work in process	1,992,117	2,922,442
Finished goods	4,939,937	10,735,483
	$21,968,124	$27,365,924

4. 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.

4. COMPREHENSIVE INCOME (CONTINUED)

Comprehensive income for the three months and nine months ended June 30, 1999 and 1998 was as follows:

	Three months ended June 30		Nine months ended June 30	
	1999	1998	1999	1998
Net income	$2,253,285	$6,410,907	$476,705	$14,918,582
Foreign currency translation adjustments	121,496	--	674,991	--
Comprehensive income	$2,374,781	$6,410,907	$1,151,696	$14,918,582

5. NET INCOME PER SHARE

Basic net income per share is calculated by dividing net income by the weighted average of common shares outstanding during the period. Net income per share, assuming dilution, is calculated 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 1,683,099 and 1,331,169 equivalent shares of the Company for the three months and nine months ended June 30, 1999, attributable to the common stock options issued by the Company because their effect was anti-dilutive. Shares used in the computations for the nine months ended June 30, 1999 and 1998 are as follows:

	1999	1998
Weighted average shares used in basic computation	14,714,942	14,625,908
Common stock equivalents - stock options	57,373	141,933
Weighted average shares used in diluted computation	14,772,315	14,767,841

6. LEGAL PROCEEDINGS

Discussion of legal matters is incorporated by reference from Part II, Item I of this Form 10-Q "Legal Proceedings" and should be considered an integral part of these Condensed Consolidated Financial Statements.

REVIEW REPORT OF INDEPENDENT ACCOUNTANTS

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

We have reviewed the accompanying condensed consolidated balance sheet of Digi International Inc. and subsidiaries as of June 30, 1999, and the related condensed consolidated statements of operations for the three month and nine month periods ended June 30, 1999, and 1998, and cash flows for the nine month periods ended June 30, 1999, and 1998. These condensed consolidated financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet as of September 30, 1998, and the related consolidated statements of operations and cash flows for the year then ended (not presented herein); and in our report dated December 11, 1998, 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 have been restated.

/s/ PricewaterhouseCoopers LLP

Minneapolis, Minnesota
July 23, 1999

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

CONSOLIDATED RESULTS OF OPERATIONS

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

	THREE MONTHS ENDED JUNE 30		% INCREASE (DECREASE)	NINE MONTHS ENDED JUNE 30		% INCREASE (DECREASE)
	1999	1998		1999	1998	
Net sales	100.0	100.0	10.1%	100.0%	100.0%	8.2%
Cost of sales	46.9	47.1	9.6	50.3	48.5	12.2
Gross margin	53.1	52.9	10.5	49.7	51.5	4.5
Operating expenses:						
Sales and marketing	18.3	19.5	3.2	22.2	19.7	22.7
Research and development	11.7	8.9	45.4	12.7	8.9	54.5
General and administrative	11.6	6.4	100.0	13.2	7.5	90.8
Restructuring	(1.3)	--	--	0.5	--	--
Total operating expenses	40.3	34.7	27.6	48.6	36.0	46.3
Operating income	12.8	18.2	(22.1)	1.1	15.5	(92.4)
Other income, net	0.2	1.4	(90.3)	(0.1)	1.1	(112.3)
AetherWorks Corporation loss	-	2.9	(100.0)	-	1.0	-
Income before income taxes	13.0	22.5	(36.5)	1.0	17.6	(94.1)
Provision for income taxes	8.6	8.7	8.7	0.7	6.5	(89.4)
Net income	4.4	13.8	(64.9)%	0.3%	11.1%	(96.8)%

NET SALES

Net sales for the three months ended June 30, 1999, were higher than net sales for the corresponding three months ended June 30, 1998, by $4,695,238 or 10.1%. Net sales for the nine months ended June 30, 1999 were higher than net sales for the corresponding nine months ended June 30, 1998, by $11,072,716 or 8.3%. Sales of the products added in connection with the acquisitions of ITK and CDC in July 1998 generated revenues of $9,050,900 and $32,827,800 for the three months and nine months ended June 30, 1999, respectively. These revenue increases were mitigated by a decrease in demand for the Company's legacy asynchronous products resulting in reduced revenues of $1,791,800 and $10,710,000 for the three and nine months ended June 30, 1999 relative to comparable periods of 1998, and a decrease in demand for the Company's physical layer products resulting in a decrease in related revenues of $5,046,900 and $15,551,100 for the three and nine months ended June 30, 1999 relative to comparable periods of 1998. Net sales of the Company's new digital RAS products were approximately $2,483,000 and $4,506,000 for the three and nine months ended June 30, 1999, respectively.

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

CONSOLIDATED RESULTS OF OPERATIONS (CONTINUED)

NET SALES (CONTINUED)

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

	Three months Ended June 30		Nine months Ended June 30	
	1999	1998	1999	1998
Server Based	72.0%	65.3%	67.1%	62.4%
Physical Layer	8.6%	16.6%	7.6%	16.0%
OEM	19.4%	18.1%	25.3%	21.6%
Total	100.0%	100.0%	100.0%	100.0%

GROSS MARGIN

Gross margin for the three months and nine months ended June 30, 1999 was 53.1% and 49.7%, as compared to 52.9% and 51.5% for the three months and nine months ended June 30, 1998. For the three months ended June 30, 1999, gross margin was positively impacted by the increased proportion of sales from higher gross margin server-based communication products. Gross margin for the three and nine months ended June 30, 1999, continues to be negatively impacted by sales of lower gross margin products related to ITK operations which accounted for 10% of total sales for the quarter ended June 30, 1999 and 14% of total sales for nine six-month period ended June 30, 1999. In addition, margins generated from physical layer LAN products have declined in fiscal 1999 due to market-driven reductions in selling prices.

OPERATING EXPENSES

Operating expenses for the three months ended June 30, 1999, increased approximately $4.4 million or 27.6% as compared to operating expenses for the three months ended June 30, 1998. The operations of ITK, which was acquired in the fourth quarter of fiscal 1998, accounted for $4.8 million or 94.1% of the increase in operating expenses. General and administrative expense also increased in the three months ended June 30, 1999, due to the approximately $2.5 million ($1.6 million included in ITK expenses of $4.8 million) increase in amortization expense resulting from identifiable intangible assets and goodwill acquired in the ITK and CDC transactions. Excluding ITK, research and development increased by $0.9 million due to development of new products released during the quarter ended June 30, 1999. Marketing expenses decreased by $2.0 million due to timing of major advertising campaigns.

Research and development expense was $6,003,762, or 12% of net sales, compared with $4,127,946, or 9% of net sales, for the three months ended June 30, 1999 and 1998. The dollar increase is primarily due to new product development efforts in digital remote access technology and the addition of research and development costs related to ongoing development of in-process technologies acquired from ITK and CDC in July 1998.

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

CONSOLIDATED RESULTS OF OPERATIONS (CONTINUED)

OPERATING EXPENSES (CONTINUED)

Selling, general and administrative expense was $15,265,266, or 30% of net sales compared to $12,005,899, or 26% of net sales, for the three months ended June 30, 1999 and 1998. The expense increase relates primarily to increased operating expenses and increased amortization of intangible assets acquired in the acquisition of ITK and CDC.

Included in operating income for the three and nine months ended June 30, 1999 are reversals of $572,191 of restructuring accruals originally established in the fourth quarter of 1998 and $113,206 of restructuring accruals originally established in the second quarter of 1999. (See Note 2 to the condensed consolidated financial statements).

Operating expenses for the nine months ended June 30, 1999 increased by approximately $22.3 million, excluding second quarter restructuring charges, or 46.3% as compared to operating expenses for the nine months ended June 30, 1998. The operations of ITK accounted for approximately $16.5 million of this increase. General and administrative expenses increased due to the approximately $7.5 million increase in amortization expense resulting from identifiable intangible assets and goodwill acquired in the ITK and CDC transactions ($4.8 million included in ITK expenses of $16.5 million). Excluding ITK, selling, marketing and research and development costs increased $3.1 million due to development of new products and preparation for new product launches.

The Company anticipated annual cost savings of approximately $5.2 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 were delayed. As described in Note 2 to the condensed consolidated financial statements, the Company made certain changes to these restructuring plans during third quarter of fiscal 1999. These changes to the restructuring plans have reduced the aforementioned expected annual cost savings to approximately $4.2 million. 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 were accounted for using the purchase method of accounting. The purchase prices were allocated to the net assets acquired based on their estimated fair market values at the date of acquisitions.

After discussion with the staff of the Securities and Exchange Commission (the SEC) the condensed consolidated financial statements as of September 30, 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 its 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, 1999,7 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.

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 (CONTINUED)

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. Included in revenues for the nine month period ended June 30, 1999 is approximately $225,000 of revenues from the first release of certain USB products. Actual revenues for the first nine months of fiscal 1999 are below original projections due to delays in the release and marketing of certain USB products. Development of the USB in-process research and development continues without significant changes in the estimated research and development costs or projected revenues.

OTHER INCOME (EXPENSE)

Other income for the three months ended June 30, 1999, resulted from interest earned on cash and cash equivalent balances. Other expense, principally interest expense for the nine months ended June 30, 1999, results from debt assumed in the acquisition of ITK, net of interest earned on cash and cash equivalents.

INCOME TAXES

Income taxes have been provided for at an estimated annual effective rate of 66% for the nine months ended June 30, 1999. This effective tax rate exceeds the U.S. statutory income tax rate and the effective tax rate of 36.8% in the nine months ended June 30, 1998 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. The Company's working capital increased from $37.9 million at September 30, 1998, to $52.8 million at June 30, 1999. The increase was principally due to improved accounts receivable collections, paying down borrowings under line of credit agreements, accounts payable and accrued expenses.

Net cash provided by operating activities was $22,592,160 for the nine months ended June 30, 1999, compared to $21,653,187 for the nine months ended June 30, 1998. The increase was primarily due to a decrease in accounts receivable balances, offset by reduced operating income.

Net cash used in investing activities for the nine months ended June 30, 1999, consisted primarily of purchases of equipment and capital improvements totaling $3.0 million for engineering and office equipment and the expansion of the Company's enterprise software ystem into locations outside the Minneapolis headquarters.

CONSOLIDATED RESULTS OF OPERATIONS (CONTINUED)

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

Net cash used for financing activities for the nine months ended June 30, 1999, consisted primarily of payments on line of credit and debt obligations totaling approximately $5.3 million which was primarily offset by cash received from the exercise of $2.0 million of employee stock options.

The Company is negotiating to extend the unsecured line of credit which expired May 31, 1999. The Company has no borrowings outstanding on this line of credit.

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

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

FOREIGN CURRENCY

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

For the nine months ended June 30, 1999, the Company had foreign transactions that were negotiated and invoiced amounting to approximately $37.7 million, of which $17.8 million were in U.S. dollars and $19.9 million were Deutschemark-denominated sales through the newly-acquired subsidiary ITK. In future periods, a significant portion of sales made through ITK will be made in Deutschemarks until full integration of the "Euro" is achieved. The Company has not implemented a hedging strategy to reduce the risk of foreign currency translation exposures, which management does not believe to be significant based on the scope of the Company's foreign operations as of June 30, 1999.

YEAR 2000 ISSUES

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

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

CONSOLIDATED RESULTS OF OPERATIONS (CONTINUED)

YEAR 2000 ISSUES (CONTINUED)

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 end of fiscal 1999. If necessary conversions are not completed on a timely basis, the effects of being unable to adequately process year 2000 dated transactions could have a material adverse effect on the Company's operations. Overall, management believes the year 2000 will not have a significant impact on operations. The Company plans to continue with remediation and testing efforts with both its products and internal systems to further mitigate any risks associated with the year 2000.

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

INFLATION

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

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

CONSOLIDATED RESULTS OF OPERATIONS (CONTINUED)

FORWARD LOOKING STATEMENTS

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

THE EXPECTATION THAT VARIOUS RESTRUCTURING ACTIVITIES IN CONNECTION WITH THE ACQUISITIONS OF ITK AND CDC AND THAT THE REORGANIZATION OF THE SALES AND MARKETING FUNCTIONS IN GERMANY, ENGLAND AND THE UNITED STATES WILL BE COMPLETED ACCORDING TO SCHEDULE AND WILL RESULT IN ANNUAL COST SAVINGS OF APPROXIMATELY $4.2 MILLION - This expectation may be impacted by presently unanticipated delays or expenses.

THE EXPECTATION THAT THE COMPANY'S 1999 EFFECTIVE TAX RATE WILL BE 66 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.

THE BELIEF THAT THE PRODUCTS DEVELOPED UTILIZING ACQUIRED IN-PROCESS TECHNOLOGIES RELATED TO THE CDC ACQUISITION WILL BE SUCCESSFULLY RELEASED AND RESULTING REVENUE WILL MEET ORIGINAL PROJECTIONS - Delays in product releases and unanticipated changes in market demand may impact these expectations.

THE BELIEF THAT THE CONTINUING DEVELOPMENT OF THE IN-PROCESS RESEARCH AND DEVELOPMENT ACQUIRED FROM ITK WILL RESULT IN VIABLE PRODUCTS AND THAT SUCH DEVELOPMENT WILL BE COMPLETED ON SCHEDULE. Delays in product development and unanticipated changes in market demand may impact these expectations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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. Plaintiffs seek compensatory damages of approximately $37.5 million 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.

PART II. OTHER INFORMATION (CONTINUED)

LEGAL PROCEEDINGS (CONTINUED)

Plaintiffs in the consolidated putative class actions have moved for class certification; the Company and its former officers have not yet responded to the motion but intend to oppose it. No date has been set for a hearing on the class certification motion. On August 11, 1999, defendants filed a motion to dismiss the Louisiana Amended Complaint on the ground that the Louisiana Retirement System has failed to prosecute the action and comply with the court orders and applicable discover rules. 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.

ITEM 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

PART II. OTHER INFORMATION (CONTINUED)

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

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

(b) Reports on Form 8-K:

None.

- ------------

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

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

***Incorporated by reference to Exhibit 1 to the Company's Registration Statement on Form 8-A dated June 24, 1998 (File No. 0-17972)

****Incorporated by reference to Exhibit 1 to Amendment No. 1 to the Company's Registration Statement on Form 8-A dated February 5, 1999 (File No. 0-17972)

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 July 23, 1999 on our reviews of interim condensed consolidated financial information of Digi International Inc. and subsidiaries (the Company) for the three month and nine month periods ended June 30, 1999 and 1998, and included in the Company's Form 10-Q for the quarter ended June 30, 1999, is incorporated by reference in the Company's registration statements on Form S-8 (Registration Nos. 33-32956, 33-38898, 333-99, 333-1821, 333-23857 and 333-57869).

PRICEWATERHOUSECOOPERS LLP

Minneapolis, Minnesota
August 16, 1999

9-MOS
SEP-30-1999
OCT-01-1998
JUN-30-1999
25770254
0
35330537
0
21968124
88196938
30376062
0
173447054
35413504
0
0
0
161706
124773121
173447054
0
145171035
73055761
70532150
(181050)
0
0
1402075
925370
0
0
0
0
476705
.03
.03