
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, 1996.

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 July 31, 1996, there were 13,308,297 shares of the registrant's \$.01 par
value Common Stock outstanding.

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements	Page
Consolidated Condensed Statements of Operations for the three month and nine month periods ended June 30, 1996 and 1995.	3
Consolidated Condensed Balance Sheets as of June 30, 1996 and September 30, 1995.	4
Consolidated Condensed Statements of Cash Flows for the nine month period ended June 30, 1996 and 1995.	5
Notes to Consolidated Condensed Financial Statements.	6-7
ITEM 2. Management's Discussion and Analysis of Results of Operations and Financial Condition	8-11
Forward -looking Statements	11-12

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings	13
ITEM 2. Changes in Securities	13
ITEM 3. Defaults Upon Senior Securities	13
ITEM 4. Submission of Matters to a Vote of Securities Holders	13
ITEM 5. Other Information	13
ITEM 6. Exhibits and Reports on Form 8-K.	13

PART I FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

DIGI INTERNATIONAL INC.
 CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS FOR THE
 THREE MONTHS AND NINE MONTHS ENDED JUNE 30, 1996 AND 1995
 (UNAUDITED)

	Three Months Ended 1996	June 30 1995	Nine Months Ended 1996	June 30 1995
Net sales	\$ 50,316,572	\$ 41,179,259	\$ 142,681,115	\$ 119,134,170
Cost of sales	24,725,433	19,048,547	67,294,820	56,089,539
Gross margin	25,591,133	22,130,712	75,386,295	63,044,631
Operating expenses:				
Sales & marketing	12,417,204	8,422,648	30,587,838	23,320,218
Research & development	5,315,486	3,838,933	13,888,514	10,289,890
General & administrative	5,073,797	2,983,629	13,193,241	9,266,713
Total operating expenses	22,806,487	15,245,210	57,669,593	42,876,821
Operating income	2,784,646	6,885,502	17,716,702	20,167,810
Other income (expense), net	(108,794)	610,450	450,631	1,428,656
Income before income taxes	2,675,852	7,495,952	18,167,333	21,596,466
Provision for income taxes	864,317	2,648,560	6,278,966	7,664,014
Net income	\$ 1,811,535	\$ 4,847,392	\$ 11,888,367	\$ 13,932,452
Income per common and common equivalent share	\$ 0.13	\$ 0.35	\$ 0.86	\$ 0.99
Weighted average common and common equivalent shares outstanding	13,841,154	14,035,180	13,828,104	14,035,939

The accompanying notes to unaudited consolidated condensed financial statements are an integral part of this financial statement.

DIGI INTERNATIONAL INC.
CONSOLIDATED CONDENSED BALANCE SHEETS

ASSETS	June 30, 1996 (unaudited)	September 30, 1995
Current assets:		
Cash and cash equivalents	\$ 3,631,868	\$ 5,103,731
Marketable securities		27,968,775
Accounts receivable, net	40,998,055	31,960,936
Inventories, net	38,602,462	27,019,085
Other	4,974,716	2,225,058
	-----	-----
Total current assets	88,207,101	94,277,585
Property, equipment and improvements, net	24,887,549	17,716,819
Intangible assets, net	11,380,416	11,633,305
Note receivable and other	9,179,765	2,415,755
	-----	-----
Total assets	\$ 133,654,830	\$ 126,043,464
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 17,266,008	\$ 12,106,515
Accrued expenses	4,296,628	8,110,402
	-----	-----
Total current liabilities	21,562,636	20,216,917
Commitments		
Stockholders' equity:		
Preferred stock, \$01 par value; 2,000,000 shares authorized; none outstanding		
Common stock, \$.01 par value; 6,000,000 shares authorized; 14,656,026 and 14,562,958 shares outstanding	146,560	145,630
Additional paid-in capital	42,786,478	41,306,320
Retained earnings	93,492,893	81,604,526
	-----	-----
136,425,931	123,056,476	
Less unearned stock compensation	(452,856)	(598,387)
Treasury stock, at cost 1,347,729 and 1,032,729 shares	(23,880,881)	(16,631,542)
	-----	-----
Total stockholders' equity	\$ 112,092,194	\$ 105,826,547
	-----	-----
Total liabilities and stockholders' equity	\$ 133,654,830	\$ 126,043,464
	-----	-----

The accompanying notes to unaudited consolidated condensed financial statements are an integral part of this financial statement.

DIGI INTERNATIONAL INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED JUNE 30, 1996 AND 1995
(UNAUDITED)

	1996	1995
	-----	-----
Operating activities:		
Net Income	\$ 11,888,367	\$ 13,932,452
Adjustments to reconcile net income to cash (used in) provided by operating activities:		
Depreciation and amortization	3,618,134	2,617,146
Provision for losses on accounts receivable	323,838	113,927
Provision for inventory obsolescence	1,263,200	192,000
Stock compensation	158,031	106,461
Changes in operating assets and liabilities	(24,603,552)	(2,936,231)
	-----	-----
Net cash (used in) provided by operating activities	(7,351,982)	14,025,755
	-----	-----
Investing activities:		
Purchase of property, equipment and improvements	(11,484,259)	(4,698,119)
Sale (purchase) of marketable securities, net	27,968,775	(6,492,697)
Purchase of convertible note receivable	(4,808,848)	
	-----	-----
Net cash (used in) provided by investing activities	11,675,668	(11,190,816)
	-----	-----
Financing activities:		
Purchase of treasury stock	(7,249,339)	(5,930,313)
Stock option transactions, net	1,453,790	598,029
	-----	-----
Net cash (used in) financing activities	(5,795,549)	(5,332,284)
	-----	-----
Net decrease in cash and cash equivalents	(1,471,863)	(2,497,345)
Cash and cash equivalents, beginning of period	5,103,731	13,849,017
	-----	-----
Cash and cash equivalents, end of period	\$ 3,631,868	\$ 11,351,672
	-----	-----

The accompanying notes to unaudited consolidated condensed financial statements are an integral part of this financial statement.

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

1. BASIS OF PRESENTATION

The interim consolidated condensed 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. 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 consolidated condensed financial statements should be read in conjunction with the financial statements and related notes thereto included in the Company's 1995 Annual Report and Form 10-K.

The consolidated condensed financial statements presented herein, as of June 30, 1996 and for the three month and nine month periods then ended, reflect, in the opinion of management, all adjustments (which consist only of normal, recurring adjustments) necessary for a fair presentation of financial position and the results of operations and cash flows for the periods presented. The results of operations for any interim period are not necessarily indicative of results for the full year.

2. INVENTORIES

Inventories are stated at the lower of cost or market, with cost determined on the first-in, first-out method. Inventories at June 30, 1996 and September 30, 1995 consist of the following:

	JUNE 30	SEPTEMBER 30
	-----	-----
Raw materials	\$21,445,410	\$12,476,953
Work in process	11,246,767	7,645,002
Finished goods	5,910,285	6,897,130
	-----	-----
	\$38,602,462	\$27,019,085
	-----	-----
	-----	-----

NOTES TO CONSOLIDATED CONDENSED
FINANCIAL STATEMENTS (CONTINUED)

3. INCOME PER SHARE

Income per common share is computed by dividing net income by the weighted average number of common shares and common equivalent shares outstanding during the period. Common stock equivalents result from dilutive stock options.

4. COMMON STOCK

During the nine month period ended June 30, 1996, 93,068 shares of the Company's common stock were issued upon the exercise of outstanding stock options for 97,959 shares. The difference between the shares issued and options exercised results from the stock option plan's provision allowing the employees to elect to pay their withholding obligations through share reduction. Withholding taxes paid by the Company, as a result of the share reduction option, amounted to \$122,930.

On March 27, 1995, the Company's Board of Directors authorized a one million share repurchase program, which will be funded by available cash balances over an unspecified period of time. During the nine month period ended June 30, 1996, \$7,249,339 was used for treasury stock purchases. On January 31, 1996, the Company's Board of Directors authorized a separate 500,000 share repurchase program for the purpose of purchasing Common Stock for the Company's Employee Stock Purchase Plan.

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

RESULTS OF OPERATIONS

NET SALES

Sales for the three month and nine month period ended June 30, 1996 increased by \$9,137,313 and \$23,546,945 or 22.2% and 19.7%, respectively, over the corresponding periods ended June 30, 1995. Sales in all product markets increased over prior year periods, as set forth in the following table:

PRODUCT MARKET	QUARTERLY INCREASE	NINE MONTH PERIOD INCREASE	PERCENT OF NINE MONTH REVENUE
Multi-user	14.2%	14.4%	65.5%
Remote Access	50.3%	44.2%	16.3%
LAN Connect	30.8%	21.9%	18.2%

The Company believes that the revenues from sales of its Remote Access and LAN Connect products will continue to grow as a result of the Company's efforts to increase market awareness for products introduced earlier in fiscal year 1996, the introduction of new products, and growth in the market for Remote Access and LAN Connect products generally. The Company believes that sales of its Multi-user products may grow at a reduced rate or even decline as the market for such products continues to mature.

For the three month period ended June 30, 1996, sales to original equipment manufacturer ("OEM") customers across all product markets increased to \$11,186,288, representing 15.1% increase over sales for the three month period ended June 30, 1995, but decreased to 22.2% from 23.6% as a percent of total sales for the respective quarters, due to increased sales to distributors. For the nine month period ended June 30, 1996, OEM sales decreased by 1.6% from sales for the corresponding period in 1995, and decreased to 19.2% from 23.4%, respectively, as a percent to total sales for the period. The decrease in OEM business for the nine month period was due primarily to industry-wide allocation of components during the Company's first fiscal quarter. The Company expects the increase in OEM sales experienced in its most recent quarter to continue, based on firm orders and increased component availability.

International sales of the Company's products for the three month period ended June 30, 1996 increased by 10.6% over the three month period ended June 30, 1995. International sales for the nine month period ended June 30, 1996 increased by 19.6% over the corresponding period in 1995. International sales for the three month period ended June 30, 1996 accounted for approximately 18.1% of total sales, down from 20.7% in the previous quarter. Total international sales decreased 11.3% quarter to quarter, due primarily to softness in the European market.

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

RESULTS OF OPERATIONS (CONTINUED)

GROSS MARGIN

Gross margin as a percent of net sales decreased to 50.9% for the three month period ended June 30, 1996 from 53.7% for the three month period ended June 30, 1995. For the nine month period, gross margin as a percent of net sales was 52.8% for the period ended June 30, 1996 compared to 52.9% for the period ended June 30, 1995. The decrease in gross margin percentage for the three month period was due to increasing reserves for potential obsolete inventory and to increased sales in the LanConnect product market, which are typically lower margin products.

OPERATING EXPENSES

Operating expenses for the three month period ended June 30, 1996 increased 49.6% over operating expenses for the corresponding period ended June 30, 1995, and increased as a percent of sales to 45.3% for the three month period ended June 30, 1996 from 37.0% for the three month period ended June 30, 1995. Operating expenses for the nine month period ended June 30, 1996, increased by 34.5% over the corresponding period ended June 30, 1995, and increased as a percent of sales to 40.4% for the nine months ended June 30, 1996, from 36.0% for the corresponding period in 1995. The period increases primarily were due to the impact of expenditures planned for the previous quarter that were delayed to the third quarter and to the third quarter planned increases in research and development for new products and additional marketing costs in connection with new product introductions. Also impacting the quarter were the continuing programs for the establishment of the Company in the Remote Access and LAN Connect markets, the consolidation, under the "Digi" brand, of products formerly sold under the identities of subsidiaries of the Company, and to the expansion of and upgrades to the Company's infrastructure. A significant portion of the expenditures in connection with each of the foregoing was due to increases in personnel required to support such efforts.

The increased level of operating expenses were to be compensated for by the planned sales for the quarter which would have reduced operating expenses as a percent of sales. The shortfall in planned sales was not identified until late in the period, due to the fact that a majority of the Company's sales typically occur in the last month of the quarter. As a result of the operating expense level as compared to sales, management has made certain adjustments to planned expenditures going forward. The Company now expects total operating expenses to decrease in absolute dollars in the fourth quarter of fiscal 1996 and the first quarter of fiscal 1997, as these efforts continue, and to further decrease as a percent of sales as efforts continue to generate increased sales.

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

RESULTS OF OPERATIONS (CONTINUED)

OTHER INCOME, (EXPENSE)

Other income (expense), for the three month period ended June 30, 1996 changed by \$719,744. This change is primarily due to loss on the disposal of fixed assets and lower interest income resulting from a decrease in invested funds. For the nine month period ended June 30, 1996, interest and other income (expense) decreased to \$450,631 from \$1,428,656 for the corresponding period in 1995. The period decreases are primarily the result of a decrease in funds invested.

INCOME TAXES

The Company's effective income tax rate for the three month and nine month periods ended June 30, 1996 was 32.3% and 34.6%, respectively, compared to 35.3% and 35.5%, respectively, in the corresponding periods in 1995. The period decreases are due primarily to increase in the foreign sales corporation benefits.

LIQUIDITY AND CAPITAL RESOURCES

The Company traditionally has financed its operations principally with funds generated from operations and proceeds from public stock offerings. From the time of its last public offering in 1991, the Company has financed its operations almost exclusively through funds generated from operations. The Company customarily holds excess funds generated from operations in the form of cash and cash equivalents and marketable securities.

In the nine months ended June 30, 1996, the Company sold in excess of \$27,968,775 in marketable securities to finance growth in the Company's accounts receivable and inventories, as well as the acquisition of new product technology. The increase in accounts receivable was due primarily to increased sales volume, particularly late in the quarter ended June 30, 1996. The Company increased inventories in anticipation of additional sales.

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

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

Investing activities for the nine month period ended June 30, 1996, consisted primarily of redemption of maturing investments offset by purchases of property, equipment and improvements and an increase in notes receivable. The increase in notes receivable arose from the sale of the Company's former corporate headquarters facility and from the Company's purchase of secured convertible notes from AetherWorks Corporation, a development stage company engaged in the development of wireless and dial-up remote access technology. The Company is obligated to purchase additional secured convertible notes aggregating \$9 million from time to time at the request of AetherWorks, based on certain conditions. Secured convertible notes held by the Company are presently convertible into 51% of AetherWorks' common stock, and the purchase of \$9 million additional principal amount of secured convertible notes would increase the Company's ownership position upon conversion to 62.7%, based on AetherWorks' present capitalization.

During the nine month period ended June 30, 1996, the Company made open market purchases of the Company's common stock aggregating \$7,249,339, pursuant to a one million share repurchase program authorized by the Company's board of directors on March 27, 1995. On January 31, 1996, the Company's Board of Directors authorized a separate 500,000 share repurchase program for the purpose of purchasing Common Stock to be utilized for the Company's Employee Stock Purchase Plan, which purchase will be funded through employee withholding.

At June 30, 1996, the Company had working capital of \$66,644,465 million and no debt. The Company has negotiated a \$5,000,000 unsecured line of credit with its bank. The Company's management believes that current financial resources, cash generated by operations and the Company's potential capacity for debt and/or equity financing will be sufficient to fund current and anticipated business operations.

The Financial Accounting Standards Board (FASB) has issued Statement No. 123, "Accounting for Stock-Based Compensation." The Company plans to adopt this Statement in fiscal year 1997. Although it has not made a definite determination of its impact, the Company does not expect the adoption of Statement No. 123 to have a materially adverse effect on its financial position or results of operations.

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:

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

FORWARD-LOOKING STATEMENTS (CONTINUED)

- - CONTINUED GROWTH IN SALES OF THE COMPANY'S REMOTE ACCESS AND LAN CONNECT PRODUCTS -- General market conditions and competitive conditions within these markets, development and acceptance of new products offered by the Company, and the introduction of products by competitors in these markets.
- - THAT SALES OF THE COMPANY'S MULTI-USER PRODUCTS MAY GROW AT A REDUCED RATE OR EVEN DECLINE -- Potential market penetration in emerging third world countries and the development of new applications for these products in existing markets.
- - CONTINUED INCREASE IN OEM SALES -- OEM orders are subject to cancellation at the option of the customer, and are subject to greater quarterly fluctuations than sales through the Company's other channels, as well as competitive conditions in markets served by the Company's OEM customers. OEM sales could also be adversely impacted by component shortages.
- - THE EXPECTATION THAT TOTAL OPERATING EXPENSES WILL DECREASE IN ABSOLUTE DOLLARS IN THE FOURTH QUARTER OF FISCAL 1996 AND THE FIRST QUARTER OF FISCAL 1997 -- This expectation may be adversely impacted by presently unanticipated expenses or opportunities.
- - THE EXPECTATION THAT OPERATING EXPENSES WILL FURTHER DECREASE AS A PERCENT OF SALES--Meeting this expectation depends upon the Company's ability to control costs and achieving a higher level of sales, which may not occur for a variety of reasons, including those stated above with regard to the Company's Remote Access and LAN Connect products.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

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

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

EXHIBIT NUMBER DESCRIPTION

3(a)	RESTATED CERTIFICATE OF INCORPORATION OF THE REGISTRANT*
3(b)	AMENDED AND RESTATED BY-LAWS OF THE REGISTRANT**
27	FINANCIAL DATA SCHEDULE

* INCORPORATED BY REFERENCE TO THE CORRESPONDING EXHIBIT NUMBER OF THE COMPANY'S FORM 10-K FOR THE YEAR ENDED SEPTEMBER 30, 1992 (FILE NO. 0-17972).

** INCORPORATED BY REFERENCE TO THE CORRESPONDING EXHIBIT NUMBER OF THE COMPANY'S REGISTRATION STATEMENT ON FORM S-1 (FILE NO.33-42384).

(b) Reports on Form 8-K:

There were no reports filed on form 8-K during the quarter ended June 30, 1996.

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 12, 1996

By: /s/Gerald A. Wall

Gerald A. Wall
Chief Financial Officer
(duly authorized officer and
Principal Financial Officer)

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS AND CONSOLIDATED STATEMENTS OF OPERATIONS OF DIGI INTERNATIONAL FOR THE NINE MONTHS ENDED JUNE 30, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

0000854775

DIGI INTERNATIONAL INC.

	9-MOS	
	SEP-30-1996	
	OCT-01-1995	
	JUN-30-1996	
		3,631,868
		0
	40,998,055	0
		38,602,462
	88,207,101	24,887,549
		0
	133,654,830	
21,562,636		0
	0	0
		146,560
	111,945,634	
133,654,830		142,681,115
	142,681,115	67,294,820
		57,669,593
		0
		0
	0	
	18,167,333	
		6,278,966
11,888,367		0
		0
		0
	11,888,367	
		.86
		.86