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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: March 31, 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 April 30, 1996, there were 13,274,862 shares of the registrant's \$.01 par value Common Stock outstanding.

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## PART I FINANCIAL INFORMATION

## ITEM 1: FINANCIAL STATEMENTS

DIGI INTERNATIONAL INC.  
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS FOR THE  
THREE MONTHS AND SIX MONTHS ENDED MARCH 31, 1996 AND 1995  
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31		SIX MONTHS ENDED MARCH 31	
	1996	1995	1996	1995
Net sales	\$48,498,275	\$40,075,983	\$92,364,538	\$77,954,911
Cost of sales	22,582,177	18,906,695	42,569,381	37,040,992
Gross margin	25,916,098	21,169,288	49,795,157	40,913,919
Operating expenses:				
Sales & marketing	9,350,532	7,888,239	18,170,634	14,897,568
Research & development	4,428,193	3,398,490	8,573,029	6,450,956
General & administrative	4,206,294	3,220,926	8,104,648	6,288,597
Total operating expenses	17,985,019	14,507,653	34,848,311	27,637,121
Operating income	7,931,079	6,661,635	14,946,846	13,276,798
Other income, principally interest	151,275	461,897	544,635	826,574
Income before income taxes	8,082,354	7,123,532	15,491,481	14,103,372
Provision for income taxes	2,806,750	2,526,941	5,414,649	5,015,456
Net income	\$ 5,275,604	\$ 4,596,591	\$10,076,832	\$ 9,087,916
Income per common and common equivalent share	\$.39	\$.33	\$.73	\$.65
Weighted average common and common equivalent shares outstanding	13,693,597	14,117,274	13,787,075	14,036,061

See accompanying notes to unaudited consolidated condensed financial statements.

DIGI INTERNATIONAL INC.  
CONSOLIDATED CONDENSED BALANCE SHEETS

ASSETS	March 31 1996 ----- (Unaudited)	September 30 1995 -----
Current assets:		
Cash and cash equivalents	\$1,670,992	\$5,103,731
Marketable securities	235,994	27,968,775
Accounts receivable, net	46,237,820	31,960,936
Inventories, net	32,805,710	27,019,085
Other	5,713,511	2,225,058
	-----	-----
Total current assets	86,664,027	94,277,585
Property, equipment and improvements, net	24,498,811	17,716,819
Intangible assets, net	11,411,468	11,633,305
Note receivable and other	5,754,418	2,415,755
	-----	-----
Total assets	\$128,328,724	\$126,043,464
	-----	-----
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$13,009,270	\$12,106,515
Income taxes payable	823,997	--
Accrued expenses	4,787,008	8,110,402
	-----	-----
Total current liabilities	18,620,275	20,216,917
Commitments		
Stockholders' equity:		
Preferred stock, \$.01 par value; 2,000,000 shares authorized; none outstanding	--	--
Common stock, \$.01 par value; 60,000,000 shares authorized; 14,618,800 and 14,562,958 shares outstanding	146,188	145,630
Additional paid-in capital	42,240,857	41,306,320
Retained earnings	91,681,358	81,604,526
	-----	-----
Unearned stock compensation	134,068,403	123,056,476
Treasury stock, at cost 1,347,729 and 1,032,729 shares	(479,073)	(598,387)
	-----	-----
Total stockholders' equity	\$109,708,449	\$105,826,547
	-----	-----
Total liabilities and stockholders' equity	\$128,328,724	\$126,043,464
	-----	-----
	-----	-----

See accompanying notes to unaudited consolidated condensed financial statements.

DIGI INTERNATIONAL INC.  
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED MARCH 31 1996 AND 1995  
(UNAUDITED)

	Six Months Ended	
	1996	1995
Operating activities:		
Net Income	\$10,076,832	\$ 9,087,916
Adjustments to reconcile net income to cash (used in) provided by operating activities:		
Depreciation and amortization	2,830,774	1,751,958
Provision for losses on accounts receivable	124,709	108,321
Stock compensation	104,967	73,664
Changes in operating assets and liabilities	(25,236,418)	(1,352,783)
Total adjustments	(22,175,968)	581,160
Net cash (used in) provided by operating activities	(12,099,136)	9,669,076
Investing activities:		
Purchase of property, equipment and improvements	(9,390,929)	(2,089,444)
Sale (purchase) of marketable securities, net	27,732,781	(11,069,155)
Increase in note receivable	(3,375,558)	--
Net cash ( used in) provided by investing activities	14,966,294	(13,158,599)
Financing activities:		
Purchase of treasury stock	(7,249,339)	--
Stock option transactions, net	949,442	384,172
Net cash (used in) provided by financing activities	(6,299,897)	384,172
Net decrease in cash and cash equivalents	(3,432,739)	(3,105,351)
Cash and cash equivalents, beginning of period	5,103,731	13,849,017
Cash and cash equivalents, end of period	\$ 1,670,992	\$ 10,743,666

See accompanying notes to unaudited consolidated condensed financial statements.

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

1. BASIS OF PRESENTATION

The 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 March 31, 1996 and for the three and six months 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 March 31, 1996 and September 30, 1995 consisted of the following:

	MARCH 31	SEPTEMBER 30
Raw materials	\$17,100,896	\$12,476,953
Work in process	9,692,650	7,645,002
Finished goods	6,012,164	6,897,130
	-----	-----
	\$32,805,710	\$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 six month period ended March 31, 1996, 58,073 shares of the Company's common stock were issued upon the exercise of outstanding stock options for 61,825 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 \$92,780.

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 six month period ended March 31, 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 six month period ended March 31, 1996 increased by \$8,422,292 and \$14,409,627, or 21.0% and 18.5%, respectively, over the corresponding periods ended March 31, 1995. Sales in all product markets increased over prior year periods, as set forth in the following table:

PRODUCT MARKET	QUARTERLY INCREASE	SIX MONTH PERIOD INCREASE	PERCENT OF SIX MONTH REVENUE
Multi-user	13.5%	14.5%	66.6%
Remote Access	46.0%	40.9%	16.0%
LAN Connect	34.7%	17.0%	17.4%

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 the fiscal year, 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 March 31, 1996, sales to original equipment manufacturer ("OEM") customers across all product markets increased to \$10,047,500, representing a 11.7% increase over sales for the three month period ended March 31, 1995, but decreased to 20.7% from 22.4% as a percent of total sales for the respective quarters, due to increased sales to distributors. For the six month period ended March 31, 1996, OEM sales decreased by 10.6% from sales for the corresponding period in 1995, and decreased to 17.6% from 23.3%, respectively, as a percent to total sales for the period. The decrease in OEM business for the six 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 March 31, 1996 increased by 17.6% over the three month period ended March 31, 1995. International sales for the six month period ended March 31, 1996 increased by 24.2% over the corresponding period in 1995. International sales for the three month period ended March 31, 1996 accounted for approximately 20.7% of total sales.



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

GROSS MARGIN

Gross margin as a percent of net sales increased to 53.4% for the three month period ended March 31, 1996 from 52.8% for the three month period ended March 31, 1995. For the six month period, gross margins as a percent of net sales increased to 53.9% for the period ended March 31, 1996 from 52.5% for the period ended March 31, 1995. The increase in gross margin for the three month period and six month period was primarily due to reduction in the cost of sales for the Company's Multi-user products and to a slight decrease, as a percent of total sales, in sales to OEM customers. Sales to OEM customers have traditionally resulted in lower gross margins than have non-OEM sales.

OPERATING EXPENSES

Operating expenses for the three month period ended March 31, 1996 increased 24.0% over operating expenses for the corresponding period ended March 31, 1995, and increased as a percent of sales to 37.1% for the three month period ended March 31, 1996 from 36.2% for the three month period ended March 31, 1995. Operating expenses for the six month period ended March 31, 1996, increased by 26.1% over the corresponding period ended March 31, 1995, and increased as a percent of sales 37.7% for the six months ended March 31, 1996, from 35.5% for the corresponding period in 1995. The period increases primarily were due to increased research and development for new products, to marketing in connection with new product introductions, 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 Company expects total operating expenses to continue to increase as these efforts continue, but to decrease as a percent of revenue as past efforts continue to generate increased sales.

OTHER INCOME, PRINCIPALLY INTEREST

Other income, principally interest for the three month period ended March 31, 1996 decreased to \$151,275 from \$461,897 for the three month period ended March 31, 1995. For the six month period ended March 31, 1996, interest and other income decreased to \$544,635 from \$826,574 for the corresponding period in 1995. The period decreases are the result of a decrease in funds invested.

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

INCOME TAXES

The Company's effective income tax rate for the three month and six month periods ended March 31, 1996 was 34.7% and 35.0%, respectively, compared to 35.5% and 35.6%, respectively, in the corresponding periods in 1995. The period decreases are due primarily to an increase in the foreign sales corporation benefit due to increased foreign sales.

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 six months ended March 31, 1996, the Company sold in excess of \$27.5 million 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 March 31, 1996, and to favorable credit terms extended to distributors to facilitate acceptance of the Company's new products. The Company increased inventories in anticipation additional sales. The Company expects its cash and cash equivalent and marketable securities balances, as well as its accounts receivable, to return to historic levels as current promotional credit terms mature. The Company further expects to manage its current inventory level to return closer to historic levels.

Investing activities for the six month period ended March 31, 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 Company's purchase of a secured convertible note from a company engaged in the development of remote access technology. If the company developing such technology attains certain development and financial performance milestones, the Company will be obligated to purchase one additional secured convertible note in the principal amount of approximately \$1.4 million in the third quarter. The Company is currently negotiating with such company to provide additional financing for the development of additional new technologies.

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

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

During the six month period ended March 31, 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. Due to current market conditions and the Company's current cash position, the Company expects the level of repurchases to decrease significantly. 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 March 31, 1996, the Company had working capital of \$68.0 million and no debt. The Company has no established line of credit. The Company is currently negotiating an unsecured line of credit with its bank, which it expects to have in place in the third quarter. However, the Company's management does not anticipate having to draw on the line of credit in the near future. 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 of results of operations.

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 March 31, 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: May 10, 1996      By: /s/Gerald A. Wall  
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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 SIX MONTHS ENDING MARCH 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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DIGI INTERNATIONAL INC.

6-MOS	SEP-30-1996	
	OCT-01-1995	
	MAR-31-1996	
		1,670,992
		235,994
		46,237,820
		0
		32,805,710
		86,664,027
		24,498,811
		0
		128,328,724
18,620,275		0
		0
		0
		146,188
		109,562,261
128,328,724		
		92,364,538
		92,364,538
		42,569,381
		34,848,311
		0
		0
		0
		15,491,481
		5,414,649
10,076,832		
		0
		0
		0
		10,076,832
		.73
		.73