

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q/A

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

For the quarterly period ended: December 31, 1995.

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 January 31, 1996, there were 13,228,442 shares of the registrant's \$.01 par value Common Stock outstanding.

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DIGI INTERNATIONAL INC.
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED DECEMBER 31
(UNAUDITED)

	1995	1994
	-----	-----
Net sales	\$43,866,263	\$37,878,928
Cost of sales	19,987,202	17,898,419
	-----	-----
Gross margin	23,879,061	19,980,509
	-----	-----
Operating expenses:		
Sales & marketing	8,820,102	6,735,572
Research & development	4,144,836	2,643,255
General & administrative	3,898,356	3,961,352
	-----	-----
Total operating expenses	16,863,294	13,340,179
	-----	-----
Operating income	7,015,767	6,640,330
	-----	-----
Other income, principally interest	393,360	339,510
AetherWorks Corporation net loss	(279,307)	
	-----	-----
Income before income taxes	7,129,820	6,979,840
Provision for income taxes	2,607,899	2,488,515
	-----	-----
Net income	\$4,521,921	\$4,491,325
	-----	-----
	-----	-----
Income per common and common equivalent share	\$0.33	\$0.32
	-----	-----
	-----	-----
Weighted average common and common equivalent shares outstanding	13,902,733	13,961,227
	-----	-----
	-----	-----

See accompanying notes to unaudited consolidated condensed financial statements

DIGI INTERNATIONAL INC.
CONSOLIDATED CONDENSED BALANCE SHEETS

ASSETS	December 31 1995	September 30 1995
	----- (Unaudited)	-----
Current assets:		
Cash and cash equivalents	\$ 1,049,727	\$5,103,731
Marketable securities	14,711,797	27,968,775
Accounts receivable, net	33,499,504	31,960,936
Inventories, net	29,579,975	27,019,085
Other	4,532,589	2,225,058
	-----	-----
Total current assets	83,373,592	94,277,585
Property, equipment and improvements, net	18,724,922	17,716,819
Intangible assets, net	11,518,420	11,633,305
Investment in AetherWorks Corporation	3,083,928	
Other	2,278,091	2,415,755
	-----	-----
Total assets	\$118,978,953	\$126,043,464
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 8,749,080	\$ 12,106,515
Income taxes payable	1,596,895	
Accrued expenses:		
Advertising	3,353,570	2,235,946
Compensation	1,095,714	4,932,987
Other	789,891	941,469
	-----	-----
Total current liabilities	15,585,150	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; 14,576,171 and 14,562,958 shares outstanding	145,762	145,630
Additional paid-in capital	41,522,421	41,306,320
Retained earnings	86,126,447	81,604,526
	-----	-----
Less unearned stock compensation	127,794,630	123,056,476
Treasury stock, at cost, 1,347,729 and 1,032,729 shares	(519,946)	(598,387)
	-----	-----
Total stockholders' equity	103,393,803	105,826,547
	-----	-----
Total liabilities and stockholders' equity	\$118,978,953	\$126,043,464
	-----	-----

See accompanying notes to unaudited consolidated condensed financial statements.

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

	1995	1994
	-----	-----
Operating Activities:		
Net income	\$4,521,921	\$4,491,325
	-----	-----
Adjustments to reconcile net income to cash (used in) provided by operating activities:		
Depreciation and amortization	1,251,733	842,297
AetherWorks Corporation net loss	279,307	
Provision for losses on accounts receivable	39,280	68,670
Provision for inventory obsolescence	179,012	45,000
Stock compensation	78,441	37,620
Changes in operating assets and liabilities	(11,119,384)	(1,008,785)
	-----	-----
Total adjustments	(9,291,611)	(15,198)
	-----	-----
Net cash (used in) provided by operating activities	(4,769,690)	4,476,127
Investing activities:		
Purchase of property, equipment and improvements	(2,144,951)	(717,559)
Sale/purchase of marketable securities, net	13,256,978	(715,835)
Investment in AetherWorks Corporation	(3,363,235)	
	-----	-----
Net cash provided by (used in) investing activities	7,748,792	(1,433,394)
	-----	-----
Financing activities:		
Purchase of treasury stock	(7,249,339)	
Stock option transactions, net	216,233	13,433
	-----	-----
Net cash (used in) provided by financing activities	(7,033,106)	13,433
	-----	-----
Net (decrease) increase in cash and cash equivalents	(4,054,004)	3,056,166
Cash and cash equivalents, beginning of period	5,103,731	13,849,017
	-----	-----
Cash and cash equivalents, end of period	\$1,049,727	\$16,905,183
	-----	-----

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/A 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 December 31, 1995 and for the three 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. INVESTMENT IN AETHERWORKS CORPORATION

Through December 31, 1995, the Company purchased \$3.4 million in a secured convertible note 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 up to an additional \$1.4 million secured convertible notes from time to time at the request of AetherWorks, based on certain events. The Company has reported its investment in AetherWorks on the equity method and has recorded a \$279,307 loss for the quarter ended December 31, 1995, which represents 100% of AetherWorks' net loss for the quarter ended December 31, 1995. The percentage of AetherWorks' net loss included in the Company's financial statements is based upon the percentage of financial support provided by the Company (versus other investors) to AetherWorks during the quarter.

NOTES TO CONSOLIDATED CONDENSED
FINANCIAL STATEMENTS (CONT.)

3. INVENTORIES

Inventories are stated at the lower of cost or market, with cost determined on the first-in, first-out method. Inventories at December 31, 1995 and September 30, 1995 consisted of the following:

	December 31	September 30
Raw materials	\$16,779,571	\$12,476,953
Work in process	7,861,301	7,645,002
Finished goods	4,939,103	6,897,130
	-----	-----
	\$29,579,975	\$27,019,085
	-----	-----

4. 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.

5. COMMON STOCK

During the three months ended December 31, 1995, 13,213 shares of the Company's common stock were issued upon the exercise of outstanding stock options for 13,900 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 \$19,775.

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 quarter ended December 31, 1995, \$7,249,339 were 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.

6. RESTATEMENT

The consolidated condensed financial statements for the three months ended December 31, 1995 have been restated to reflect the accounting for the Company's investment in AetherWorks Corporation on the equity method. (See Note 2.)

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

RESULTS OF OPERATIONS

NET SALES

Sales for the quarter ended December 31, 1995 exceeded sales for the corresponding quarter ended December 31, 1994 by \$5,987,335, which represents a percentage increase of 15.8%. Sales in all product markets increased over prior year amounts as follows:

PRODUCT MARKET	QUARTERLY INCREASE	PERCENT OF REVENUE
-----	-----	-----
Multiuser	15.6%	66.2%
Remote Access	36.0%	16.6%
LAN Connect	1.9%	17.2%

Sales to original equipment manufacturers (OEM's) across product markets decreased from 24.2% of net sales in the quarter ended December 31, 1994 to 14.1% in 1995. The decrease in OEM business was due primarily to component allocation issues impacting the Company's OEM customers and the industry as a whole. The Company's management expects the OEM portion of the Company's business to increase in the second quarter based on current firm orders and increased availability of components. Sales of the Company's products in international markets increased by 31.4% for the quarter ended December 31, 1995 over the corresponding quarter ended December 31, 1994.

The Company believes that the revenues from its Remote Access and LAN Connect markets will continue to grow, while the Multiuser market growth may decline.

GROSS MARGIN

Gross margin increased from \$19,980,509 or 52.8% of net sales for the quarter ended December 31, 1994 to \$23,879,061 or 54.4% for the quarter ended December 31, 1995. The increase in gross margin for the quarter is primarily related to the decreased volume in OEM sales and to the smaller contribution made by sales of the Company's LAN Connect products to the Company's sales. Both OEM sales and sales of LAN Connect products have traditionally resulted in lower margins than have non-OEM sales of the Company's Multiuser and Remote Access products.

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

RESULTS OF OPERATIONS (CONT.)

OPERATING EXPENSES

Operating expenses increased from \$13,340,179 for the quarter ended December 31, 1994 to \$16,863,294 for the quarter ended December 31, 1995, an increase of 26.4%. As a percentage of sales, expenses were 38.4% for the quarter ended December 31, 1995 compared to 35.2% for the quarter ended December 31, 1994. The quarterly increase can be attributed primarily to increased research and development and marketing expenditures for new products and markets, principally in the Remote Access and LAN Connect markets, plus increased staffing levels resulting from the Company's increased product development and marketing efforts.

OTHER INCOME, PRINCIPALLY INTEREST

Interest income increased from \$339,510 for the quarter ended December 31, 1994 to \$393,360 the quarter ended December 31, 1995.

AETHERWORKS CORPORATION NET LOSS

In connection with the purchase of a secured convertible note from AetherWorks Corporation, a development stage company engaged in the development of wireless and dial-up remote access technology, the Company has the ability, under certain conditions, to convert its investment into a majority of AetherWorks' common stock. The Company has reported its investment in AetherWorks on the equity method and has recorded a \$279,307 loss which represents 100% of AetherWorks' net loss for the quarter ended December 31, 1995. The percentage of AetherWorks' net loss included in the Company's financial statements is based upon the percentage of financial support provided by the Company (versus other investors) to AetherWorks during the quarter.

INCOME TAXES

The Company's effective income tax rate was 36.6% in the current quarter compared to 35.7% in the corresponding quarter of last year. This increase was due to the non-deductibility of AetherWorks' losses, offset slightly by an increase in the foreign sales corporation benefit.

FINANCIAL CONDITION

LIQUIDITY AND CAPITAL RESOURCES

The Company has financed its operations principally with funds generated from operations and proceeds from public stock offerings.

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

LIQUIDITY AND CAPITAL RESOURCES (CONT.)

Cash flows from operations for the three months ended December 31, 1995 was negatively impacted by changes in operating assets and liabilities, primarily related to increases in accounts receivable and inventories and to reductions in accounts payable and accrued expenses, as well as the AetherWorks' net loss.

Investing activities for the period ended December 31, 1995, primarily include redemption of maturing investments offset by purchases of property, equipment and improvements and an increase in notes receivable. The Company's investment in AetherWorks Corporation arose from the Company's purchase of a secured convertible note from AetherWorks Corporation, which is a company engaged in the development of wireless and dial-up remote access technology. If AetherWorks attains certain development and financial performance milestones, the Company will be obligated to purchase an additional secured convertible note in the principal amount of approximately \$1.4 million in the second quarter. Secured convertible notes held by the Company are presently convertible into 51% of AetherWorks common stock. The Company has reported its investment in AetherWorks on the equity method and has recorded a \$279,307 loss which represents 100% of the AetherWorks' net loss for the three months ended December 31, 1995. The percentage of AetherWorks net loss included in the Company's financial statements is based upon the percentage of financial support provided by the Company (versus other investors) to AetherWorks during such period. The Company anticipates that AetherWorks' losses will continue for fiscal 1996 and into fiscal 1997.

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 quarter ended December 31, 1995, \$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.

At December 31, 1995, the Company had working capital of \$71.2 million, no debt and no established lines of credit. Management believes 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 business operations and any anticipated business expansion.

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.

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

At the annual meeting of stockholders held on January 31, 1996, the stockholders approved the following:

- (a) Proposal to elect three directors, each to a three year term. Mr. John P. Schinas was elected on a vote of 10,024,028 in favor, with 74,367 shares withholding authority to vote. Mr. Richard E. Offerdahl was elected on a vote of 9,960,828 in favor, with 137,967 shares withholding authority to vote. Dr. Jagdish N. Sheth was elected on a vote of 10,018,455 in favor, with 79,940 shares withholding authority to vote.
- (b) Proposal to amend provisions of the Digi International Inc. Stock Option Plan that provide for the granting of stock options to non-employee directors. The proposal passed on a vote of 7,511,152 in favor, 2,227,119 against, 113,440 abstentions, and 246,684 broker non-votes.
- (c) Proposal to approve the Digi International Inc. Employee Stock Purchase Plan, which provides eligible employees of the Company the opportunity to purchase Common Stock. The proposal passed on a vote of 9,405,966 in favor, 268,046 against, 121,032 abstentions, and 303,351 broker non-votes.
- (d) Proposal to ratify the appointment of Coopers & Lybrand L.L.P. as independent public accountants of the Company for fiscal year 1996. The proposal passed on a vote of 10,005,952 in favor, 43,945 against, 48,498 abstentions, and no broker non-votes.

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**

10(a) STOCK OPTION PLAN OF THE REGISTRANT****

10(c) AMENDED AND RESTATED EMPLOYMENT
AGREEMENT BETWEEN THE COMPANY AND JOHN
P. SCHINAS***

10(h) CONSULTING AGREEMENT BETWEEN THE
COMPANY AND MYKOLA MOROZ***

10(r) EMPLOYMENT ARRANGEMENT BETWEEN THE
COMPANY AND JAMES R. BAKER FOR FISCAL 1996

10(s) EMPLOYEE STOCK PURCHASE PLAN 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).

*** INCORPORATED BY REFERENCE TO THE CORRESPONDING EXHIBIT NUMBER OF THE COMPANY'S FORM 10-K FOR THE YEAR ENDED SEPTEMBER 30, 1994 (FILE NO.0-17972).

**** INCORPORATED BY REFERENCE TO EXHIBIT A TO THE REGISTRANT'S PROXY STATEMENT FOR ITS ANNUAL MEETING OF STOCKHOLDERS HELD ON JANUARY 31, 1996 (FILE NO.0-17972).

***** INCORPORATED BY REFERENCE TO EXHIBIT B TO THE REGISTRANT'S PROXY STATEMENT FOR ITS ANNUAL MEETING OF STOCKHOLDERS HELD ON JANUARY 31, 1996.

(b) Reports on Form 8-K:

There were no reports filed on form 8-K during the quarter ended December 31, 1995.

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: December 23, 1996

By: /s/Jonathon E. Killmer

Jonathon E. Killmer
Chief Financial Officer
(duly authorized officer and
Principal Financial Officer)

3-MOS
 SEP-30-1996
 OCT-01-1995
 DEC-31-1995
 1,049,727
 14,711,797
 33,499,504
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 29,579,975
 83,373,592
 18,724,922
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 118,978,953
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 145,762
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AETHERWORKS NET LOSS