

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

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

For the quarterly period ended: June 30, 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
(State or other jurisdiction of
incorporation or organization)

41-1532464
(I.R.S. Employer
Identification Number)

6400 Flying Cloud Drive
Eden Prairie, Minnesota
(Address of principal executive offices)

55344
(Zip Code)

612) 943-9020
(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 No

On July 31, 1995, there were 13,494,461 shares of the registrant's \$.01 par
value Common Stock outstanding.

This document contains 12 pages.

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DIGI INTERNATIONAL INC.
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30		NINE MONTHS ENDED JUNE 30	
	1995	1994	1995	1994
Net sales	\$41,179,259	\$35,185,366	\$119,134,170	\$92,821,753
Cost of sales	19,048,547	17,489,066	56,089,539	43,717,949
Gross margin	22,130,712	17,696,300	63,044,631	49,103,804
Operating expenses:				
Sales & marketing	8,422,648	5,849,545	23,320,218	16,436,600
Research & development	3,838,933	2,688,098	10,289,890	7,007,056
General & administrative	2,983,629	2,922,270	9,266,713	7,722,436
Total operating expenses	15,245,210	11,459,913	42,876,821	31,166,092
Operating income	6,885,502	6,236,387	20,167,810	17,937,712
Other income, principally interest	610,450	235,173	1,428,656	749,766
Income before income taxes	7,495,952	6,471,560	21,596,466	18,687,478
Provision for income taxes	2,648,560	2,255,453	7,664,014	6,312,684
Net income	\$4,847,392	\$4,216,107	\$13,932,452	\$12,374,794
Income per common and common equivalent share	\$0.35	\$0.29	\$0.99	\$0.85
Weighted average common and common equivalent shares outstanding	14,035,180	14,607,204	14,035,939	14,644,358

See accompanying notes to unaudited consolidated condensed financial statements.

DIGI INTERNATIONAL INC.
CONSOLIDATED CONDENSED BALANCE SHEETS
(UNAUDITED)

	JUNE 30 1995	SEPTEMBER 30 1994
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$11,351,672	\$13,849,017
Marketable securities	29,905,131	23,412,434
Accounts receivable, net	23,976,182	21,559,115
Inventories, net	25,826,968	23,359,489
Other	2,289,972	2,136,113
	-----	-----
Total current assets	93,349,925	84,316,168
Property, equipment and improvements, net	11,482,808	9,844,801
Intangible assets, net	8,125,876	7,682,910
Other	1,400,362	914,248
	-----	-----
Total assets	\$114,358,971	\$102,758,127
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$6,558,055	\$3,929,146
Income taxes payable	600,336	1,027,658
Accrued expenses	7,380,776	6,688,148
	-----	-----
Total current liabilities	14,539,167	11,644,952
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; 14,527,190 and 14,474,663 shares outstanding	145,272	144,747
Additional paid-in capital	40,351,141	39,788,556
Retained earnings	76,205,885	62,273,433
	-----	-----
Unearned stock compensation	116,702,298	102,206,736
Treasury stock, at cost, 1,032,729 and 755,229 shares	(250,952)	(392,332)
	-----	-----
Total stockholders' equity	99,819,804	91,113,175
	-----	-----
Total liabilities and stockholders' equity	\$114,358,971	\$102,758,127
	-----	-----

See accompanying notes to unaudited condensed financial statements.

DIGI INTERNATIONAL INC.
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
for the nine months ended June 30
(UNAUDITED)

	1995	1994
	-----	-----
Operating activities:		
Net Income	\$13,932,452	\$12,374,794
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	2,617,146	1,823,734
Provision for losses on accounts receivable	113,927	420,845
Provision for inventory obsolescence	192,000	425,217
Stock compensation	106,461	154,373
Changes in operating assets and liabilities	(2,936,231)	(17,634,878)
Total adjustments	93,303	(14,810,709)
Net cash provided by (used in) operating activities	14,025,755	(2,435,915)
Investing activities:		
Purchase of property, equipment and improvements and other	(4,698,119)	(2,984,485)
Net proceeds from maturity (purchases) of marketable securities	(6,492,697)	12,365,031
Business acquisition		(2,536,766)
Net cash (used in) provided by investing activities	(11,190,816)	6,843,780
Financing activities:		
Purchase of treasury stock	(5,930,313)	(4,387,500)
Stock option transactions	598,029	681,094
Net cash used in financing activities	(5,332,284)	(3,706,406)
Net (decrease) increase in cash and cash equivalents	(2,497,345)	701,459
Cash and cash equivalents, beginning of period	13,849,017	17,831,258
Cash and cash equivalents, end of period	\$11,351,672	\$18,532,717
	-----	-----

DIGI INTERNATIONAL INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
(unaudited)

1. BASIS OF PRESENTATION

The 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 financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in the Company's 1994 Annual Report and Form 10-K.

The financial statements presented herein as of June 30, 1995 and for the three months and nine months then ended reflect, in the opinion of management, all adjustments (which only consist of normal recurring adjustments) necessary for a fair presentation of financial position and the results of operations 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, 1995 and September 30, 1994 consisted of the following:

	JUNE 30 -----	SEPTEMBER 30 -----
Raw materials	\$13,635,588	\$13,647,651
Work in progress	5,263,174	5,231,662
Finished goods	6,928,206	4,480,176
	-----	-----
	\$25,826,968	\$23,359,489
	-----	-----

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.

NOTES TO CONSOLIDATED CONDENSED
FINANCIAL STATEMENTS (Cont.)

4. COMMON STOCK

During the nine months ended June 30, 1995, 52,527 shares of the Company's common stock were issued upon the exercise of outstanding stock options for 58,694 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 \$144,071.

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

RESULTS OF OPERATIONS

REVENUES

Sales for the quarter and nine months ended June 30, 1995, exceeded sales for the corresponding periods of 1994 by \$5,993,893 and \$26,312,417, respectively, which represent percentage increases of 17.0% and 28.3%, respectively. Sales in all product markets increased over prior year figures as follows:

PRODUCT MARKET	QUARTERLY INCREASE	NINE MONTH INCREASE	1995 PERCENT OF NINE MONTH REVENUE
Multi-user	10.3%	19.3%	65.5%
Remote Access	37.0%	69.6%	13.5%
Lan Connect	29.4%	57.6%	17.9%

Sales to original equipment manufactures (OEMs) increased from 22.8% of net sales in the quarter ended June 30, 1994 to 23.6% in 1995 and 20.2% for the nine months ended June 30, 1994 to 23.4% for the corresponding nine month period of 1995. Sales of the Company's products in international markets increased by 30.3% on a quarterly basis and 20.3% for the first nine months of 1995.

The Company believes that the revenue from its Remote Access and Lan Connect markets will continue to show rapid growth, while the Multi-user market growth will stabilize or perhaps decline slightly.

GROSS MARGINS

Gross margins increased from \$17,696,300 or 50.3% of net sales for the quarter ended June 30, 1994 to \$22,130,712 or 53.7% of net sales for the quarter ended June 30, 1995. For the nine months ended June 30, 1994 gross margins of \$49,103,804 or 52.9% of net sales, increased to \$63,044,631 or 52.9% of net sales for the same period of 1995. The increase in gross margin for the quarter is primarily related to the increase in higher margin sales to the distribution market.

OPERATING EXPENSES

Operating expenses increased from \$11,459,913 for the quarter ended June 30, 1994 to \$15,245,210 for the quarter ended June 30, 1995, an increase of 33.0%. Operating expenses were \$31,166,092 for the nine months ended June 30, 1994 and increased to \$42,876,821 for the nine months ended June 30, 1995, an increase of 37.6%. The quarterly and year-to-date increases can be attributed primarily to increased R&D and market development spending for new products and markets, principally in the Remote Access and Lan Connect markets, plus increased staffing levels.

NON OPERATING INCOME

Interest income increased from \$235,173 for the quarter ended June 30, 1994 to \$610,450 the quarter ended June 30, 1995. For the nine months ended June 30, 1994 interest income was \$749,766 compared to \$1,428,656 for the same period of 1995. These increases result from an increase in invested balances coupled with an increase in investment yield.

INCOME TAXES

The Company's effective income tax rate was 35.3% in the current quarter compared to 34.9% in the corresponding quarter of last year. The effective rate for the nine month period ended June 30, 1995 was 35.5% compared to 33.8% for the same period of 1994. These increases result from a decrease in the federal R&D credit and increased state taxes resulting from the MiLAN acquisition, which was completed in November 1993.

LIQUIDITY AND CAPITAL RESOURCES

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

Cash flows from operations for the nine months ended June 30, 1994 were negatively impacted by increased levels of inventories and accounts receivable primarily from growth in operations including MiLAN. Cash flows from operations for the nine months ended June 30, 1995 have returned to historical levels, which the Company expects to continue.

Investing activities for the period ended June 30, 1995, primarily include new investments of excess cash and reinvestment of maturing investments.

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.

The Company expects to expend, from current funds, up to \$5.5 million for plant acquisition during the next six to nine months. This plant will consolidate three different Minnesota locations into one facility, providing for improved operating efficiencies and control. In addition, the Company recently announced its intention to acquire Lan Access Corporation. The purchase will be funded from current cash and/or investment balances.

At June 30, 1995, the Company had working capital of \$78.8 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.

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**
10(l)	Employment arrangement between the Company and Gary L. Deaner for fiscal 1995.
10(m)	Employment arrangement between the Company and Gerald A. Wall for fiscal 1995.
10(n)(1)	Employment arrangement with Ray D. Wymer.
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:

None

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 14, 1995

By: /s/ Gerald A. Wall

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

May 16, 1995

PERSONAL AND CONFIDENTIAL

Gary L. Deaner
MiLAN Technology Corporation
894 Ross Drive, #101
Sunnyvale, CA 94089

Dear Gary:

This letter is written to confirm the terms of your compensation for fiscal 1995.

Your base pay is an annual salary of \$150,000.

You are also eligible for a cash bonus equal to 100% of your base salary, contingent upon Digi International Inc. meeting budgeted net sales and after-tax earnings targets for fiscal 1995. If either of these targets is not met, the Compensation Committee of the Board of Directors will determine in its discretion the amount of bonus, if any, that you would be paid for fiscal 1995.

As you are aware, you were also awarded a stock option for 30,000 shares of Digi Common Stock, with an exercise price of \$17.50 per share, as a further element of your fiscal 1995 compensation.

Very truly yours,

Ervin F. Kamm, Jr.
President & Chief Executive Officer

EFK/llh

cc: W. K. Drake
G. A. Wall
J. E. Nicholson

May 18, 1995

PERSONAL AND CONFIDENTIAL

Mr. Gerald A. Wall
Digi International Inc.
6400 Flying Cloud Drive
Eden Prairie, MN 55344

Dear Jerry:

This letter is written to confirm the terms of your compensation for fiscal 1995.

Your base pay is an annual salary of \$130,000, retroactive to October 1, 1994.

You are also eligible for a cash bonus equal to 100% of your base salary, contingent upon Digi International Inc. meeting budgeted net sales and after-tax earnings targets for fiscal 1995. If either of these targets is not met, the Compensation Committee of the Board of Directors will determine in its discretion the amount of bonus, if any, that you would be paid for fiscal 1995.

As you are aware, you were also awarded a stock option for 10,000 shares of Digi Common Stock, with an exercise price of \$17.50 per share, as a further element of your fiscal 1995 compensation.

Very truly yours,

Ervin F. Kamm, Jr.
President & Chief Executive Officer

EFK/llh

cc: W. K. Drake
J. E. Nicholson

AMENDMENT NO. 1 TO EMPLOYMENT AGREEMENT

THIS AGREEMENT NO. 1 TO EMPLOYMENT AGREEMENT, made as of the 8th day of May, 1995, by and between STAR GATE TECHNOLOGIES, INC., a Delaware corporation (the "Company"), and Ray D. Wymer (the "Executive").

WITNESSETH:

Whereas, the parties have entered into an Employment Agreement dated as of April 13, 1993 (the "Employment Agreement"); and

Whereas the parties hereto wish to amend the Employment Agreement as set forth below:

NOW, THEREFORE, the parties hereto hereby agree as follows:

1. AMENDMENT TO EMPLOYMENT AGREEMENT.

(A) Section 2.2 of the Employment Agreement is hereby amended in its entirety to read as follows:

2.2 BONUS FOR FISCAL 1995. Executive shall be eligible to receive a bonus for fiscal 1995 as follows:

- (a) The target bonus shall be 100% of Executive's base salary for fiscal 1995. Executive shall be entitled to that bonus amount if the objectives set by the budget plan for Digi International Inc. (the "Budget Plan" or "Budget") for fiscal 1995 are met.
- (b) If some or all of the objectives of the Budget Plan are not met for fiscal 1995, the Board of Directors of Digi will determine in its discretion what portion, if any, of the target bonus amount will be paid to Executive for that year. If the objectives are exceeded for fiscal 1995, the Board may in its discretion award Executive a bonus that is larger than the target bonus.
- (c) The bonus for fiscal 1995 shall be paid to Executive on September 30, 1995 or as soon thereafter as the Company is able to determine whether the objectives have been met for that year.

(B) Section 2.3 of the Employment Agreement is hereby amended in its entirety to read as follows:

2.3 BONUSES BEGINNING IN FISCAL 1996. Beginning in fiscal 1996, if Digi International Inc. meets both net sales and after-tax earnings targets set by the Budget Plan by at least 80% for any fiscal year during which this Agreement is in effect, then Executive shall be eligible for the cash bonuses described below for such year. If the Digi International Inc. Budget Plan is less than 80% achieved for either net sales or after-tax earnings, neither bonus described below will be paid.

- (a) If the targets for Digi International Inc. are 100% achieved for both net sales and after-tax earnings, Executive shall be entitled

to a bonus equal to 50% of Executive's base salary. If the Digi International Inc. targets for both net sales and after-tax earnings are achieved by at least 80%, but for either measure by less than 100%, Executive will be entitled to a percentage of the foregoing bonus amount (i.e., 50% of Executive's base salary) equal to the smaller of the percentages of net sales or after-tax earnings that were achieved.

- (b) Provided that the Digi International Inc. targets are at least 80% achieved, Executive will also be entitled to an additional bonus (the "PMU Bonus") based upon targets for net sales and operating income for Digi International Inc.'s Multiuser Product Marketing Unit (the "Multiuser PMU").
- (c) If the Multiuser PMU targets for both net sales and operating income are 100% achieved, Executive will be entitled to a PMU Bonus equal to 50% of Executive's base salary. If the net sales and operating income targets for the Multiuser PMU are both achieved by at least 80%, but for either measure by less than 100%, Executive will be entitled to a prorated PMU Bonus as set forth below:
 - (i) Three-fourths of the amount of the PMU Bonus will be contingent upon operating income. As a result, if the Multiuser PMU target for operating income is achieved by at least 80%, Executive will be entitled to a percentage of the amount which is contingent upon operating income (i.e., three-fourths of 50% of Executive's base salary) equal to the percentage (not exceeding 100%) by which the Multiuser PMU operating income was achieved.
 - (ii) One quarter of the amount of PMU Bonus will be similarly contingent upon net sales. As a result, if the Multiuser PMU target for net sales is achieved by at least 80%, Executive will be entitled to a percentage of the amount which is contingent upon net sales (i.e., one quarter of 50% of Executive's base salary) equal to the percentage (not exceeding 100%) by which the Multiuser PMU target for net sales was achieved.
- (d) If some or all of the objectives of the Budget Plan are exceeded for a fiscal year, the Board of Directors of Digi may in its discretion award Executive a bonus that is larger than the target bonus.
- (e) The bonuses for each fiscal year shall be paid to Executive on September 30 of each year or as soon thereafter as the Company is able to determine whether the objectives have been met for that year.
- (f) The Board of Directors will consult with Executive before determining the Budget Plan and Multiuser PMU targets for each fiscal year. However, the Board will have authority to establish

the Budget Plan and Multiuser PMU targets for each year in its sole discretion.

(C) References to "Budget," "Budget Plan" and "Company Budget Plan" in the remaining provisions of the Employment Agreement shall be deemed to be references to the budget plan for Digi International Inc., and the references to the "Company" in Section 3.2(iii) shall be deemed to be a reference to Digi International Inc.

2. EFFECTIVE DATE. This Amendment No. 1 shall be effective from and after October 1, 1994.

3. NO ADDITIONAL CHANGES. Except as expressly amended by this Amendment No. 1, the Employment Agreement shall continue in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Amendment No. 1 as of the date first above written.

STAR GATE TECHNOLOGIES, INC.

By Ray D. Wymer

Its President

EXECUTIVE

/S/ Ray D. Wymer

Ray D. Wymer

ACKNOWLEDGED AND AGREED TO:

DIGI INTERNATIONAL INC.

By /S/ Ervin F. Kamm

Its President/CEO

This schedule contains summary financial information extracted from The Consolidated Balance sheets and Consolidated Statements of Digi International Inc. for the nine months ending June 30, 1995, and is qualified in its entirety by reference to such financial statements.

9-MOS		
	SEP-30-1995	
	OCT-01-1994	
	JUN-30-1995	
		11,351,672
		29,905,131
		24,615,183
		639,001
		25,826,968
	93,349,925	
		11,482,808
		0
	114,358,971	
14,539,167		
		0
		145,272
	0	
		0
		99,674,532
114,358,971		
		119,134,170
	119,134,170	
		56,089,539
		42,876,821
		0
		0
		0
		21,596,466
		7,664,014
13,932,452		
		0
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		13,932,452
		0.99
		0.99