

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: March 31, 1995.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (D) OF THE
/X/ 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 (I.R.S. Employer
incorporation or organization) Identification Number)

6400 Flying Cloud Drive
Eden Prairie, Minnesota 55344
(Address of principal executive offices) (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 X No

On April 30, 1995, there were 13,756,367 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 March 31		Six Months Ended March 31	
	1995	1994	1995	1994
Net sales	\$40,075,983	\$31,647,748	\$77,954,911	\$57,636,385
Cost of sales	18,906,695	14,975,801	37,040,992	26,228,883
Gross margin	21,169,288	16,671,947	40,913,919	31,407,502
Operating expenses:				
Sales & marketing	7,888,237	5,511,685	14,897,568	10,587,055
Research & development	3,398,490	2,550,050	6,450,956	4,318,957
General & administrative	3,220,926	2,700,569	6,288,597	4,836,619
	14,507,653	10,762,304	27,637,121	19,742,631
Operating income	6,661,635	5,909,643	13,276,798	11,664,871
Other income, principally interest	461,897	264,592	826,574	551,043
Income before income taxes	7,123,532	6,174,235	14,103,372	12,215,914
Provision for income taxes	2,526,941	2,051,390	5,015,456	4,057,228
Net income	\$ 4,596,591	\$ 4,122,845	\$ 9,087,916	\$ 8,158,686
Income per common and common equivalent share	\$.33	\$.28	\$.65	\$.56
Weighted average common and common equivalent shares outstanding	14,117,274	14,732,602	14,036,061	14,697,102

See accompanying notes to unaudited consolidated condensed financial statements.

DIGI INTERNATIONAL INC.
Consolidated Condensed Balance Sheets
(UNAUDITED)

	March 31, 1995 ----	September 30, 1994 ----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 10,743,666	\$ 13,849,017
Marketable securities	34,481,589	23,412,434
Accounts receivable, net	23,201,352	21,559,115
Inventories, net	24,383,413	23,359,489
Other	2,388,025	2,136,113
	-----	-----
Total current assets	95,198,045	84,316,168
Property, equipment and improvements, net	10,775,744	9,844,801
Intangible assets, net	7,089,453	7,682,910
Other	803,511	914,248
	-----	-----
Total assets	\$113,866,753	\$102,758,127
	-----	-----
	-----	-----
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 5,979,437	\$ 3,929,146
Income taxes payable	657,282	1,027,658
Accrued liabilities	6,571,107	6,688,148
	-----	-----
Total current liabilities	13,207,826	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; 14,507,240 and 14,474,663 shares issued	145,072	144,747
Additional paid-in-capital	40,137,484	39,788,556
Retained earnings	71,361,349	62,273,433
	-----	-----
	111,643,905	102,206,736
Unearned stock compensation	(283,749)	(392,332)
	-----	-----
Treasury stock at cost, 755,229 shares	(10,701,229)	(10,701,229)
	-----	-----
Total stockholders' equity	100,658,927	91,113,175
	-----	-----
Total liabilities and stockholders' equity	\$113,866,753	\$102,758,127
	-----	-----
	-----	-----

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
(UNAUDITED)

	1995	1994
	-----	-----
Operating activities:		
Net income	\$ 9,087,916	\$ 8,158,686
Adjustments to reconcile net income to cash provided by (used in) operating activities:		
Depreciation and amortization	1,751,958	1,530,488
Provision for losses on accounts receivable	108,321	308,971
Stock compensation	73,664	88,249
Changes in operating assets and liabilities	(1,352,783)	(11,600,783)
	-----	-----
Total adjustments	581,160	(9,673,075)
	-----	-----
Net cash provided by (used in) operating activities	9,669,076	(1,514,389)
	-----	-----
Investing activities:		
Purchase of property, equipment and improvements	(2,089,444)	(1,857,986)
Sale/(purchase) of marketable securities, net	(11,069,155)	9,483,286
Business acquisition, net of cash acquired	-	(2,536,766)
	-----	-----
Net cash (used in) provided by investing activities	(13,158,599)	5,088,534
	-----	-----
Financing activities:		
Purchase of treasury stock		(466,250)
Stock option transactions, net	384,172	787,309
	-----	-----
Net cash used in financing activities	384,172	321,059
	-----	-----
Net (decrease) increase in cash and cash equivalents	(3,105,351)	3,895,204
Cash and cash equivalents, beginning of period	13,849,017	17,831,258
	-----	-----
Cash and cash equivalents, end of period	\$10,743,666	\$21,726,462
	-----	-----

See accompanying notes to unaudited consolidated condensed financial statements.

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 March 31, 1995 and for the three months and six 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 March 31, 1995 and September 30, 1994 consisted of the following:

	March 31 -----	September 30 -----
Raw materials	\$16,222,721	\$13,647,651
Work in progress	3,870,385	5,231,662
Finished goods	4,290,307	4,480,176
	-----	-----
	\$24,383,413	\$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 six months ended March 31, 1995, 32,577 shares of the Company's common stock were issued upon the exercise of outstanding stock options for 37,538 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 \$108,900.

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

RESULTS OF OPERATIONS

REVENUES

Sales for the quarter and six months ended March 31, 1995, exceeded sales for the corresponding periods of 1994 by \$8,428,235 and \$20,318,526, respectively, which represent percentage increases of 26.6% and 35.3%, respectively. Sales in all product markets increased over prior year figures as follows:

Product Market	Quarterly Increase	Six Month Increase	1995 Percent of Six Month Revenue
-----	-----	-----	-----
Multi-user	18.8%	24.0%	73.2%
Remote Access	112.8%	100.6%	9.2%
Lan Connect	37.6%	79.1%	17.6%

Sales to original equipment manufactures (OEMs) increased from 20.7% of net sales in the quarter ended March 31, 1994 to 22.4% in 1995 and 20.5% for the six months ended March 31, 1994 to 23.3% for the corresponding six month period of 1995. Sales of the Company's products in international markets increased by 14.8% on a quarterly basis and 15.8% for the first six 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 \$16,671,947 or 52.7% of net sales for the quarter ended March 31, 1994 to \$21,169,288 or 52.8% of net sales for the quarter ended March 31, 1995. For the six months ended March 31, 1994 gross margins of \$31,407,502 or 54.5% of net sales, increased to \$40,913,919 or 52.5% of net sales for the same period of 1995. The increase in gross margin dollars for the quarter and six month periods is primarily related to the increase in overall sales levels, while the decrease in margin percentage for the first six months of 1995 reflects the impact of lower gross margin lan connect products and increased OEM business.

OPERATING EXPENSES

Operating expenses increased from \$10,762,304 for the quarter ended March 31, 1994 to \$14,507,653 for the quarter ended March 31, 1995, an increase of 34.8%. Operating expenses were \$19,742,631 for the six months ended March 31, 1994 and increased to \$27,637,121 for the six months ended March 31, 1995, an increase of 40%. 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 \$264,592 for the quarter ended March 31, 1994 to \$461,897 for the quarter ended March 31, 1995. For the six months ended March 31, 1994 interest income was \$551,043 compared to \$821,830 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 35.5% in the current quarter compared to 33.2% in the corresponding quarter of last year. The effective rate for six month period ended March 31, 1995 was 35.6% compared to 33.2% 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 six months ended March 31, 1994 were negatively impacted by increased levels of inventories and accounts receivable, mainly resulting from the MiLAN acquisition. Cash flows from operations for the six months ended March 31, 1995 have returned to historical levels, which the Company expects to continue.

Investing activities for the period ended March 31, 1995, primarily include new investments of excess cash and reinvestment of maturing investments.

On March 27, 1995, the Company's board of director's 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 will consolidate four 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 for approximately \$4.25 million in cash, subject to due diligence reviews and execution of definitive agreements. The purchase will be funded from current cash and/or investment balances.

At March 31, 1995, the Company had working capital of \$82.0 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(a)	STOCK OPTION PLAN OF THE REGISTRANT****
10(b)	FORM OF INDEMNIFICATION AGREEMENT WITH DIRECTORS AND OFFICERS OF THE REGISTRANT**
10(c)	AMENDED AND RESTATED EMPLOYMENT AGREEMENT BETWEEN THE REGISTRANT AND JOHN P. SCHINAS*****
10(f)	401-(K) SAVINGS AND PROFIT SHARING PLAN OF DIGI INTERNATIONAL INC.*****
10(g)	EMPLOYMENT ARRANGEMENT BETWEEN THE COMPANY AND ERVIN F. KAMM, JR.*****

- 10(h) CONSULTING ARRANGEMENT BETWEEN THE COMPANY AND MYKOLA MOROZ*****
- 10(n) EMPLOYMENT ARRANGEMENT WITH RAY D. WYMER*****
- 10(o) EMPLOYMENT ARRANGEMENT WITH KEITH C. RERICHA*****
- 10(p) STAR GATE TECHNOLOGIES, INC. 401(K) PLAN, AS AMENDED*****

* 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. 33-30725).

*** 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 EXHIBIT A TO THE REGISTRANT'S PROXY STATEMENT FOR ITS ANNUAL MEETING OF STOCKHOLDERS HELD ON JANUARY 31, 1995 (FILE NO. 0-17972).

***** INCORPORATED BY REFERENCE TO THE CORRESPONDING EXHIBIT NUMBER OF THE COMPANY'S FORM 10-K FOR THE YEAR ENDED SEPTEMBER 30, 1991 (FILE NO. 0-17972).

***** INCORPORATED BY REFERENCE TO THE CORRESPONDING EXHIBIT NUMBER OF THE COMPANY'S FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1993 (FILE NO. 0-17972).

***** 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).

(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: May 12, 1995

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 SIX MONTHS ENDING MARCH 31, 1995 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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DIGI INTERNATIONAL INC.

	6-MOS	
	SEP-30-1995	
	OCT-01-1994	
	MAR-31-1995	
		10,743,666
		34,481,589
		23,865,858
		664,506
		24,383,413
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13,207,826		
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		145,072
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113,866,753		
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	77,954,911	
		37,040,992
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	14,103,372	
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	9,087,916	
		0.65
		0.65