UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: June 30, 2023

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: 001-34033

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)
9350 Excelsior Blvd. Suite 700 **Hopkins Minnesota**	**55343**
(Address of principal executive offices)	(Zip Code)

(952) 912-3444
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value $.01 per share	DGII	The Nasdaq Stock Market LLC

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 ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer	☐	Accelerated filer	☑
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

On July 26, 2023, there were 35,969,438 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.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three months ended June 30,		Nine months ended June 30,	
	2023	2022	2023	2022
	(in thousands, except per share data)			
Revenue:				
Product	$ 81,714	$ 77,627	$ 247,288	$ 210,592
Service	30,522	25,890	85,398	71,895
Total revenue	112,236	103,517	332,686	282,487
Cost of sales:				
Cost of product	40,650	38,435	120,480	102,157
Cost of service	6,814	6,352	20,985	19,043
Amortization	953	1,304	3,009	3,996
Total cost of sales	48,417	46,091	144,474	125,196
Gross profit	63,819	57,426	188,212	157,291
Operating expenses:				
Sales and marketing	20,974	18,230	60,421	51,325
Research and development	14,945	13,968	44,194	41,199
General and administrative	15,424	15,254	46,983	43,430
Total operating expenses	51,343	47,452	151,598	135,954
Operating income	12,476	9,974	36,614	21,337
Other expense, net:				
Interest expense, net	(6,603)	(5,296)	(18,967)	(14,657)
Other income (expense), net	15	(96)	79	(59)
Total other expense, net	(6,588)	(5,392)	(18,888)	(14,716)
Income before income taxes	5,888	4,582	17,726	6,621
Income tax provision (benefit)	(839)	456	(679)	(1,539)
Net income	$ 6,727	$ 4,126	$ 18,405	$ 8,160
Net income per common share:				
Basic	$ 0.19	$ 0.12	$ 0.51	$ 0.23
Diluted	$ 0.18	$ 0.12	$ 0.50	$ 0.23
Weighted average common shares:				
Basic	35,889	35,131	35,761	34,900
Diluted	36,817	35,740	36,838	35,740

The accompanying notes are an integral part of the condensed consolidated financial statements.

DIGI INTERNATIONAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three months ended June 30,		Nine months ended June 30,	
	2023	2022	2023	2022
	(in thousands)			
Net income	$ 6,727	$ 4,126	$ 18,405	$ 8,160
Other comprehensive (loss) income:				
Foreign currency translation adjustment	(109)	(1,359)	1,358	(1,519)
Other comprehensive (loss) income	(109)	(1,359)	1,358	(1,519)
Comprehensive income	$ 6,618	$ 2,767	$ 19,763	$ 6,641

The accompanying notes are an integral part of the condensed consolidated financial statements.

DIGI INTERNATIONAL INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	June 30, 2023	September 30, 2022
	(in thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 29,580	$ 34,900
Accounts receivable, net	47,964	50,450
Inventories	83,605	73,223
Income taxes receivable	2,751	3,764
Other current assets	3,454	3,871
Total current assets	167,354	166,208
Property, equipment and improvements, net	29,590	27,594
Intangible assets, net	283,288	302,064
Goodwill	342,292	340,477
Operating lease right-of-use assets	13,643	15,299
Other non-current assets	3,893	2,253
Total assets	$ 840,060	$ 853,895
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 15,523	$ 15,523
Accounts payable	21,503	32,373
Accrued compensation	15,665	14,576
Unearned revenue	24,164	19,803
Current portion of operating lease liabilities	3,431	3,196
Other current liabilities	8,733	11,036
Total current liabilities	89,019	96,507
Income taxes payable	1,866	2,441
Deferred tax liabilities	3,171	9,666
Long-term debt	194,556	222,448
Operating lease liabilities	14,793	16,978
Other non-current liabilities	5,072	4,342
Total liabilities	308,477	352,382
Commitments and Contingencies (See Note 13)		
Stockholders' equity:		
Preferred stock, $.01 par value; 2,000,000 shares authorized; none issued and outstanding	—	—
Common stock, $.01 par value; 60,000,000 shares authorized; 42,408,154 and 41,950,732 shares issued	424	420
Additional paid-in capital	398,845	385,244
Retained earnings	218,480	200,075
Accumulated other comprehensive loss	(24,696)	(26,054)
Treasury stock, at cost, 6,451,904 and 6,412,812 shares	(61,470)	(58,172)
Total stockholders' equity	531,583	501,513
Total liabilities and stockholders' equity	$ 840,060	$ 853,895

The accompanying notes are an integral part of the condensed consolidated financial statements.

DIGI INTERNATIONAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine months ended June 30, 2023	Nine months ended June 30, 2022 (Restated) (1)
	(in thousands)	
Operating activities:		
Net income	$ 18,405	$ 8,160
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, equipment and improvements	4,997	4,993
Amortization	20,449	23,638
Stock-based compensation	9,852	6,402
Deferred income tax (benefit) provision	(6,495)	2,363
Other	(2,098)	1,045
Changes in operating assets and liabilities (net of acquisitions)	(17,306)	(15,385)
Net cash provided by operating activities	27,804	31,216
Investing activities:		
Acquisition of businesses, net of cash acquired	—	(347,553)
Purchase of property, equipment, improvements and certain other intangible assets	(3,842)	(4,218)
Net cash used in investing activities	(3,842)	(351,771)
Financing activities:		
Proceeds from long-term debt	—	350,000
Payments of debt issuance costs	—	(13,443)
Payments on long-term debt	(29,375)	(129,369)
Proceeds from stock option plan transactions	2,616	6,739
Proceeds from employee stock purchase plan transactions	1,689	1,100
Taxes paid for net share settlement of share-based payment options and awards	(3,850)	(6,476)
Net cash (used in) provided by financing activities	(28,920)	208,551
Effect of exchange rate changes on cash and cash equivalents	(362)	1,087
Net decrease in cash and cash equivalents	(5,320)	(110,917)
Cash and cash equivalents, beginning of period	34,900	152,432
Cash and cash equivalents, end of period	$ 29,580	$ 41,515
Supplemental disclosures of cash flow information:		
Interest paid	$ 20,519	$ 9,415
Income taxes paid, net	4,666	4,666
Supplemental schedule of non-cash investing and financing activities:		
Transfer of inventory to property, equipment and improvements	(3,175)	(1,742)
Accrual for purchase of property, equipment, improvements and certain other intangible assets	$ (157)	$ (69)

(1) As described in Note 2 to these condensed consolidated financial statements, we have restated the condensed consolidated statements of cash flows for the nine months ended June 30, 2022.

The accompanying notes are an integral part of the condensed consolidated financial statements.

DIGI INTERNATIONAL INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(UNAUDITED)

(in thousands)	Common Stock Shares	Common Stock Par Value	Treasury Stock Shares	Treasury Stock Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
Balances, March 31, 2022	41,525	$ 415	6,447	$ (58,310)	$ 376,579	$ 184,726	$ (22,906)	$ 480,504
Net income	—	—	—	—	—	4,126	—	4,126
Other comprehensive loss	—	—	—	—	—	—	(1,359)	(1,359)
Employee stock purchase plan issuances	—	—	(23)	213	217	—	—	430
Taxes paid for net share settlement of share-based payment awards	—	—	3	(68)	—	—	—	(68)
Issuance of stock under stock award plans	152	2	—	—	1,144	—	—	1,146
Stock-based compensation expense	—	—	—	—	2,143	—	—	2,143
Balances, June 30, 2022	41,677	$ 417	6,427	$ (58,165)	$ 380,083	$ 188,852	$ (24,265)	$ 486,922
Balance on September 30, 2021	40,653	$ 407	6,391	$ (56,535)	$ 370,699	$ 180,692	$ (22,746)	$ 472,517
Net income	—	—	—	—	—	8,160	—	8,160
Other comprehensive loss	—	—	—	—	—	—	(1,519)	(1,519)
Employee stock purchase plan issuances	—	—	(60)	547	554	—	—	1,101
Taxes paid for net share settlement of share-based payment awards	—	—	96	(2,177)	(4,299)	—	—	(6,476)
Issuance of stock under stock award plans	1,024	10	—	—	6,727	—	—	6,737
Stock-based compensation expense	—	—	—	—	6,402	—	—	6,402
Balances, June 30, 2022	41,677	$ 417	6,427	$ (58,165)	$ 380,083	$ 188,852	$ (24,265)	$ 486,922
Balances, March 31, 2023	42,325	$ 423	6,464	$ (61,446)	$ 394,036	$ 211,753	$ (24,587)	$ 520,179
Net income	—	—	—	—	—	6,727	—	6,727
Other comprehensive loss	—	—	—	—	—	—	(109)	(109)
Employee stock purchase plan issuances	—	—	(18)	173	347	—	—	520
Taxes paid for net share settlement of share-based payment options and awards	—	—	6	(197)	—	—	—	(197)
Issuance of stock under stock award plans	83	1	—	—	943	—	—	944
Stock-based compensation expense	—	—	—	—	3,519	—	—	3,519
Balances, June 30, 2023	42,408	$ 424	6,452	$ (61,470)	$ 398,845	$ 218,480	$ (24,696)	$ 531,583
Balances, September 30, 2022	41,950	$ 420	6,413	$ (58,172)	$ 385,244	$ 200,075	$ (26,054)	$ 501,513
Net income	—	—	—	—	—	18,405	—	18,405
Other comprehensive income	—	—	—	—	—	—	1,358	1,358
Employee stock purchase plan issuances	—	—	(58)	553	1,137	—	—	1,690
Taxes paid for net share settlement of share-based payment awards	—	—	97	(3,851)	—	—	—	(3,851)
Issuance of stock under stock award plans	458	4	—	—	2,612	—	—	2,616
Stock-based compensation expense	—	—	—	—	9,852	—	—	9,852
Balances, June 30, 2023	42,408	$ 424	6,452	$ (61,470)	$ 398,845	$ 218,480	$ (24,696)	$ 531,583

The accompanying notes are an integral part of the condensed consolidated financial statements.

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

1. BASIS OF PRESENTATION OF UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The unaudited condensed consolidated financial statements of Digi International Inc. ("we", "us", "our", "Digi" or "the Company") have been prepared in accordance with the rules and regulations of the United States Securities and Exchange Commission applicable to interim financial statements. While these financial statements reflect all normal recurring adjustments that are, in the opinion of management, necessary for fair presentation of the results of the interim period, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles ("GAAP") for complete financial statements. These financial statements should be read in conjunction with the financial statement disclosures in Part I, Item 1 of our Annual Report on Form 10-K for the year ended September 30, 2022 (the "2022 Financial Statements"). We use the same accounting policies in preparing quarterly and annual financial statements. The quarterly results of operations are not necessarily indicative of the results to be expected for the full year.

2. RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

Our condensed consolidated statement of cash flows for the nine months ended June 30, 2022 has been restated for errors made with regard to the cash flow classification of debt issuance costs and debt issuance cost amortization.

Immaterial Correction of Prior Period Financial Statements

Subsequent to the issuance of the Company's financial statements for the quarter ended June 30, 2022, the Company made certain corrections in the condensed consolidated statements of cash flows related to the debt issuance costs associated with our second and third amended and restated credit agreement entered into in November and December 2021, respectively. We corrected $13.4 million of debt issuance cost previously recorded within changes in operating assets and liabilities (net of acquisitions) within the operating activities and correctly presented the cash outflows as payments of debt issuance costs within financing activities. We also corrected $3.2 million of amortization of debt issuance costs previously included in payments on long-term debt within financing activities and changes in operating assets and liabilities (net of acquisitions) within operating activities to amortization within operating activities. There was no impact to the condensed consolidated balance sheets, condensed consolidated statements of operations or condensed consolidated statements of comprehensive income as a result of these corrections. The Company determined that this restatement was not material to the condensed consolidated financial statements.

3. EARNINGS PER SHARE

The following table is a reconciliation of the numerators and denominators in the net income per common share calculations (in thousands, except per common share data):

	Three months ended June 30,		Nine months ended June 30,	
	2023	2022	2023	2022
Numerator:				
Net income	$ 6,727	$ 4,126	$ 18,405	$ 8,160
Denominator:				
Denominator for basic net income per common share — weighted average shares outstanding	35,889	35,131	35,761	34,900
Effect of dilutive securities:				
Stock options and restricted stock units	928	609	1,077	840
Denominator for diluted net income per common share — adjusted weighted average shares	36,817	35,740	36,838	35,740
Net income per common share, basic	$ 0.19	$ 0.12	$ 0.51	$ 0.23
Net income per common share, diluted	$ 0.18	$ 0.12	$ 0.50	$ 0.23

Digi excludes certain stock options and restricted stock unit awards that would have an anti-dilutive effect on our diluted net income per share calculation. For the three months ended June 30, 2023 and 2022, 599,957 and 939,101 shares outstanding were excluded, respectively. For the nine months ended June 30, 2023 and 2022, 477,521 and 778,573 shares outstanding were excluded, respectively.

4. SELECTED BALANCE SHEET DATA

The following table shows selected balance sheet data (in thousands):

	June 30, 2023	September 30, 2022
Accounts receivable, net:		
Accounts receivable	$ 54,362	$ 58,967
Less allowance for credit losses	2,173	3,285
Less reserve for future credit returns and pricing adjustments	4,225	5,232
Accounts receivable, net	$ 47,964	$ 50,450
Inventories:		
Raw materials	$ 34,015	$ 39,189
Work in process	100	592
Finished goods	49,490	33,442
Inventories	$ 83,605	$ 73,223

5. FAIR VALUE MEASUREMENTS

Financial assets and liabilities are classified in the following fair value hierarchy based on the lowest level input that is significant to the fair value measurement: Level 1 (unadjusted quoted prices in active markets for identical assets or liabilities); Level 2 (observable market inputs, other than quoted prices included in Level 1); and Level 3 (unobservable inputs that cannot be corroborated by observable market data).

There were no assets or liabilities that are measured at fair value on a recurring basis as of June 30, 2023 or September 30, 2022.

5. FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents a reconciliation of the contingent consideration liability measured at fair value on a recurring basis using significant unobservable inputs (Level 3) (in thousands):

	Three months ended June 30,		Nine months ended June 30,	
	2023	2022	2023	2022
Fair value at beginning of period	$ —	$ 6,200	$ —	$ 6,200
Change in fair value of contingent consideration	—	—	—	—
Fair value at end of period	$ —	$ 6,200	$ —	$ 6,200

In connection with our acquisition of Haxiot, Inc. ("Haxiot") in March 2021, we agreed to make contingent earn-out payments, based upon certain revenue thresholds. The fair value of the remaining liability for contingent consideration for the acquisition of Haxiot was $0.0 million at June 30, 2023 and September 30, 2022.

In connection with our acquisition of Ctek, Inc. ("Ctek") in July 2021, we agreed to make contingent earn-out payments, based upon certain revenue thresholds. The fair value of the remaining liability for contingent consideration for the acquisition of Ctek was $0.0 million at June 30, 2023 and September 30, 2022.

The change in fair value of contingent consideration reflects our estimates of the probabilities of achieving the relevant targets and is discounted based on our estimated discount rate. The fair value of the contingent consideration at June 30, 2023 is based on the probability of achieving the specified revenue thresholds for Ctek. As of June 30, 2023, contingent consideration associated with Ctek remains subject to future performance through December 31, 2023.

6. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Amortizable intangible assets were (in thousands):

	June 30, 2023			September 30, 2022		
	Gross carrying amount	Accum. amort.	Net	Gross carrying amount	Accum. amort.	Net
Purchased and core technology	$ 85,080	$ (58,927)	$ 26,153	$ 85,016	$ (55,854)	$ 29,162
License agreements	112	(112)	—	112	(112)	—
Patents and trademarks	39,903	(19,344)	20,559	39,711	(17,666)	22,045
Customer relationships	309,241	(72,665)	236,576	309,212	(58,355)	250,857
Non-compete agreements	600	(600)	—	600	(600)	—
Order backlog	1,000	(1,000)	—	1,000	(1,000)	—
Total	$ 435,936	$ (152,648)	$ 283,288	$ 435,651	$ (133,587)	$ 302,064

Amortization expense was $6.3 million and $7.0 million for the three months ended June 30, 2023 and 2022, respectively. Amortization expense was $19.0 million and $20.4 million for the nine months ended June 30, 2023 and 2022, respectively. Amortization expense is recorded on our condensed consolidated statements of operations within cost of sales and in general and administrative expense.

Estimated amortization expense related to intangible assets for the remainder of fiscal 2023 and the five succeeding fiscal years is (in thousands):

2023 (three months)	$ 7,142
2024	25,238
2025	21,782
2026	20,593
2027	20,593
2028	20,411

6. GOODWILL AND OTHER INTANGIBLE ASSETS, NET (CONTINUED)

The changes in the carrying amount of goodwill by reportable segments are (in thousands):

	Nine months ended June 30, 2023		
	IoT Products & Services	IoT Solutions	Total
Balance on September 30, 2022	$ 172,931	$ 167,546	$ 340,477
Foreign currency translation adjustment	1,815	—	1,815
Balance on June 30, 2023	$ 174,746	$ 167,546	$ 342,292

Goodwill represents the excess of cost over the fair value of net identifiable assets acquired. Goodwill is quantitatively tested for impairment on an annual basis as of June 30, or more frequently if events or circumstances occur which could indicate impairment. We continue to have two reportable segments, IoT Products & Services and IoT Solutions (see Note 8). Our IoT Products & Services segment is structured to include four reporting units, each with a reporting manager: Cellular Routers, Console Servers, OEM Solutions and Infrastructure Management. Following our acquisition of Ventus in November 2021, we have two reporting units within IoT Solutions: SmartSense and Ventus. Each of these segments was tested individually for impairment during our annual impairment test completed in the third fiscal quarter of fiscal 2023.

Assumptions and estimates to determine fair values under the income and market approaches are complex and often subjective. They can be affected by a variety of factors. These include external factors such as industry and economic trends. They also include internal factors such as changes in our business strategy and our internal forecasts. Changes in circumstances or a potential event could affect the estimated fair values negatively. If our future operating results do not meet current forecasts or if we experience a sustained decline in our market capitalization that is determined to be indicative of a reduction in fair value of one or more of our reporting units within either of our segments, we may be required to record future impairment charges for goodwill.

Results of our Fiscal 2023 Annual Impairment Test

As of June 30, 2023, we had a total of $32.7 million of goodwill for the Enterprise Routers reporting unit, $57.1 million of goodwill for the Console Servers reporting unit, $64.6 million of goodwill for the OEM Solutions reporting unit, $20.4 million of goodwill for the Infrastructure Management reporting unit, $48.9 million of goodwill for the SmartSense reporting unit and $118.6 million of goodwill for the Ventus reporting unit. At June 30, 2023, the fair value of goodwill exceeded the carrying value for all six reporting units and no impairment was recorded.

7. INDEBTEDNESS

On November 1, 2021, we entered into a second amended and restated credit agreement with BMO Harris Bank N.A. ("BMO"). This agreement provides us with a senior secured credit facility (the "Credit Facility") consisting of a $350 million term loan B secured loan (the “Term Loan Facility”) and a $35 million revolving credit facility (the “Revolving Loan Facility”) with an uncommitted option to increase incremental loans under the Credit Facility, subject to an incremental cap. The Revolving Loan Facility includes a $10 million letter of credit subfacility and $10 million swingline subfacility. Digi may use proceeds of the Revolving Loan Facility in the future for general corporate purposes. This loan replaced our syndicated senior secured credit agreement with BMO that was entered into on March 15, 2021 and replaced the remaining balance of our revolver with this new term loan. This prior agreement provided us with a committed credit facility ("Prior Credit Facility") consisting of a $200 million revolving loan.

On December 22, 2021, Digi entered into a third amended and restated credit agreement with BMO. Digi refinanced the Term Loan Facility and Revolving Loan Facility under its existing credit agreement entered into on November 1, 2021, but did not receive any additional proceeds from nor modify the amounts of any facilities or subfacilities contained within that credit agreement.

7. INDEBTEDNESS (CONTINUED)

Following the December amendment, borrowings under the Term Loan Facility bear interest at a rate per annum equal to LIBOR with a floor of 0.50% for an interest period of one, three or six months as selected by Digi, reset at the end of the selected interest period (or a replacement benchmark rate if LIBOR is no longer available) plus 5.00% or a base rate plus 4.00%. The base rate is determined by reference to the highest of BMO's prime rate, the Federal Funds Effective Rate plus 0.50%, or the one-month LIBOR for U.S. dollars plus 1.00%. The applicable margin for loans under the Revolving Credit Facility is in a range of 4.00% to 3.75% for LIBOR loans and 3.00% to 2.75% for base rate loans, depending on Digi's consolidated leverage ratio. In addition to paying interest on the outstanding balance under the Credit Facility, we are required to pay a commitment fee on the non-utilized commitments thereunder, which is also reported in interest expense. Digi elected an interest period of one month for the months of December 2021 through April 2022 and a period of six months effective May 1, 2022. Following the expiration of the election on October 31, 2022, Digi elected an interest period of one month, effective on November 1, 2022 and has elected the same periods each subsequent month. Following the discontinuation of LIBOR on June 30, 2023, borrowings under the Term Loan Facility will be subject to the Secured Overnight Financing Rate (SOFR). Our weighted average interest rate for our Term Loan Facility as of June 30, 2023 was 10.16%. Our weighted average Revolving Loan Facility commitment fee was 0.20% as of June 30, 2023.

The debt issuance costs and remaining balance under the Prior Credit Facility totaled $2.3 million at November 1, 2021. Of this amount $1.9 million was written off and included in interest expense upon the entry into the new amendment and $0.4 million is being amortized over the term of the amended loan and reported in interest expense. Digi incurred an additional $11.7 million and $1.7 million in debt issuance costs relating to the November 1, 2021 and December 22, 2021 amendments, respectively. These amounts are being amortized over the term of the amended loan and reported in interest expense.

The Term Loan is payable in quarterly installments, with the balance remaining due on November 2, 2028. The Revolving Loan is due in a lump sum payment at maturity on November 2, 2028, if any amounts are drawn. The fair value of the Term Loan and Revolving Loan approximated carrying value at June 30, 2023.

Digi made early payments against the term loan of $16.3 million and $81.3 million in nine months ended June 30, 2023 and 2022, respectively.

The following table is a summary of our long-term indebtedness at June 30, 2023 and September 30, 2022 (in thousands):

	Balance on June 30, 2023	Balance on September 30, 2022
Term loan	$ 220,625	$ 250,000
Less unamortized issuance costs	(10,546)	(12,029)
Less current maturities of long-term debt	(15,523)	(15,523)
Total long-term debt, net of current portion	$ 194,556	$ 222,448

The following table is a summary of future maturities of our aggregate long-term debt at June 30, 2023 (in thousands):

Fiscal year	Amount
2023 (three months)	$ 4,375
2024	17,500
2025	17,500
2026	17,500
2027	17,500
2028	146,250
Total long-term debt	$ 220,625

Covenants and Security Interest

The agreements governing the Revolving Loan Facility contain a number of covenants. Among other provisions, these covenants require us to maintain a certain financial ratio (net leverage ratio and minimum fixed charge ratio). At June 30, 2023, we had no amounts drawn on the Revolving Loan Facility. Amounts borrowed under the Credit Facility are secured by substantially all of our assets.

8. SEGMENT INFORMATION

We have two reportable segments: IoT Products & Services and IoT Solutions. IoT Products & Services is structured to include four operating segments, each with a segment manager. These four operating segments are:

- Cellular Routers - box devices (fully enclosed) that provide connectivity typically in a place where the device can be plugged in exclusively using cellular communications;
- Console Servers - similar to cellular routers except they are exclusively for edge computing installations and data center applications (also exclusively using cellular communications);
- OEM Solutions - Original Equipment Manufacturers ("OEM") will be a chip, rather than a boxed device. This can come in the form of a stand-alone module or from a systems-on-module ("SOM"). While cellular connectivity is used, other communication protocols can be used such as Zigbee, Bluetooth or Radio-Frequency ("RF") based on application; and
- Infrastructure Management - includes battery operated, cellular enabled connect sensors as well as other types of console server applications that are more Digi Accelerated Linux ("DAL") based than Console Servers. This operating segment has some products that do not use cellular communications, but a large part of this segment does use cellular communications.

Following the acquisition of Ventus on November 1, 2021, IoT Solutions is now comprised of two operating segments:

- SmartSense - offers wireless temperature and other condition-based monitoring services for perishable goods such as food or medicine, as well as employee task management services.
- Ventus - provides Managed Network-as-a-Service ("MNaaS") solutions that simplify the complexity of enterprise wide area network ("WAN") connectivity via wireless and fixed line solutions.

The operating segments included in each reportable segment have similar qualitative and quantitative factors, which allow us to aggregate them under each reportable segment. The qualitative factors include similar nature of products and services, production process, type or class of customers and methods used to distribute the products. The quantitative factors include similar operating margins. Our CEO is our Chief Operating Decision Maker and reviews and makes business decisions using consolidated information including operating income and gross profit.

Summary operating results for each of our segments were (in thousands):

	Three months ended June 30,		Nine months ended June 30,	
	2023	2022	2023	2022
Revenue				
IoT Products & Services	$ 87,358	$ 79,758	$ 257,593	$ 216,872
IoT Solutions	24,878	23,759	75,093	65,615
Total revenue	$ 112,236	$ 103,517	$ 332,686	$ 282,487
Gross Profit				
IoT Products & Services	$ 47,229	$ 42,643	$ 140,367	$ 116,779
IoT Solutions	16,590	14,783	47,845	40,512
Total gross profit	$ 63,819	$ 57,426	$ 188,212	$ 157,291
Operating Income (Loss)				
IoT Products & Services	$ 12,096	$ 10,881	$ 37,744	$ 24,046
IoT Solutions	380	(907)	(1,130)	(2,709)
Total operating income	$ 12,476	$ 9,974	$ 36,614	$ 21,337
Depreciation and Amortization				
IoT Products & Services	$ 3,108	$ 3,471	$ 9,446	$ 10,633
IoT Solutions	4,896	5,276	14,516	14,760
Total depreciation and amortization	$ 8,004	$ 8,747	$ 23,962	$ 25,393

8. SEGMENT INFORMATION (CONTINUED)

Total expended for property, plant and equipment was (in thousands):

	Nine months ended June 30,	
	2023	2022
IoT Products & Services	$ 362	$ 1,722
IoT Solutions*	3,291	2,496
Total expended for property, plant and equipment	$ 3,653	$ 4,218

* Excluded from these amounts are $3,175 and $1,742 of transfers of inventory to property plant and equipment for subscriber assets for the nine months ended June 30, 2023 and 2022, respectively.

Total assets for each of our segments were (in thousands):

	June 30, 2023	September 30, 2022
IoT Products & Services	$ 387,371	$ 390,128
IoT Solutions	423,109	428,867
Unallocated*	29,580	34,900
Total assets	$ 840,060	$ 853,895

*Unallocated consists of cash and cash equivalents.

9. REVENUE

Revenue Disaggregation

The following table summarizes our revenue by geographic location of our customers (in thousands):

	Three months ended June 30,		Nine months ended June 30,	
	2023	2022	2023	2022
North America, primarily the United States	$ 82,953	$ 83,282	$ 244,227	$ 223,315
Europe, Middle East & Africa	16,352	12,265	52,643	37,139
Rest of world	12,931	7,970	35,816	22,033
Total revenue	$ 112,236	$ 103,517	$ 332,686	$ 282,487

The following table summarizes our revenue by the timing of revenue recognition (in thousands):

	Three months ended June 30,		Nine months ended June 30,	
	2023	2022	2023	2022
Transferred at a point in time	$ 86,393	$ 80,858	$ 258,967	$ 220,049
Transferred over time	25,843	22,659	73,719	62,438
Total revenue	$ 112,236	$ 103,517	$ 332,686	$ 282,487

Contract Balances

Contract Related Assets

Our contract related assets consist of subscriber assets. Subscriber assets are equipment that we provide to customers pursuant to subscription-based contracts. In these cases, we retain the ownership of the equipment a customer uses and charge the customer subscription fees to receive our end-to-end solutions. The total net book value of subscriber assets of $16.9 million and $16.5 million as of June 30, 2023 and September 30, 2022, respectively, are included in property, equipment and improvements, net. Depreciation expense for these subscriber assets, which is included in cost of sales, was $1.0 million and $0.4 million for the three months ended June 30, 2023 and 2022, respectively. Depreciation expense for these subscriber assets was $2.8 million and $2.3 million for the nine months ended June 30, 2023 and 2022, respectively. We depreciate the cost of this equipment over its useful life.

9. REVENUE (CONTINUED)

Contract Assets

Contract assets at Digi consist of products and services that have been fulfilled, but for which revenue has not yet been recognized. Our contract asset balances were immaterial as of June 30, 2023 and September 30, 2022.

Contract Liabilities

The timing of revenue recognition may differ from the timing of invoicing to customers. Customers are invoiced for subscription services on a monthly, quarterly or annual basis. Contract liabilities consist of unearned revenue related to annual or multi-year contracts for subscription services and related implementation fees, as well as product sales that have been invoiced, but not yet fulfilled.

Our contract liabilities were $26.5 million and $22.6 million at June 30, 2023 and 2022, respectively.

Of the $25.7 million and $24.8 million balances as of March 31, 2023 and 2022, Digi recognized $6.7 million and $5.4 million as revenue in the three months ended June 30, 2023 and 2022, respectively. Of the $21.6 million and $15.5 million balances as of September 30, 2022 and 2021, Digi recognized $18.9 million and $12.0 million as revenue in the nine months ended June 30, 2023 and 2022, respectively.

Remaining Performance Obligation

As of June 30, 2023, we had approximately $154.7 million of remaining performance obligations on contracts with an original duration of one year or more. We expect to recognize revenue on approximately $67.3 million of remaining performance obligations over the next 12 months. Revenue from the remaining performance obligations we expect to recognize over a range of two to five years.

10. INCOME TAXES

Our income tax benefit was $0.7 million for the nine months ended June 30, 2023. Included in this was a net tax benefit discretely related to the nine months ended June 30, 2023 of $2.9 million. This benefit primarily was the result of excess tax benefits recognized on stock compensation.

Our effective tax rate will vary based on a variety of factors. These factors include our overall profitability, the geographical mix of income before taxes and related statutory tax rate in each jurisdiction, and tax items discretely related to the period, such as settlements of audits. We may record other benefits or expenses in the future that are specific to a particular quarter such as expiration of statutes of limitation, the completion of tax audits, or legislation that is enacted in both U.S. and foreign jurisdictions.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is (in thousands):

Unrecognized tax benefits as of September 30, 2022	$	3,316
Decreases related to:		
Expiration of statute of limitations		(649)
Prior year income tax positions		100
Unrecognized tax benefits as of June 30, 2023	$	2,767

The total amount of unrecognized tax benefits at June 30, 2023 that, if recognized, would affect our effective tax rate was $2.7 million, after considering the impact of interest and deferred benefit items. We expect that the total amount of unrecognized tax benefits will decrease by approximately $0.3 million over the next 12 months.

11. PRODUCT WARRANTY OBLIGATION

The following tables summarize the activity associated with the product warranty accrual (in thousands) and is included on our condensed consolidated balance sheets within other current liabilities:

Period	Balance at March 31	Warranties issued	Settlements made	Balance at June 30
Three months ended June 30, 2023	$ 836	$ 135	$ (117)	$ 854
Three months ended June 30, 2022	$ 690	$ 100	$ (38)	$ 752

Period	Balance at September 30	Warranties issued	Settlements made	Balance at June 30
Nine months ended June 30, 2023	$ 886	$ 303	$ (335)	$ 854
Nine months ended June 30, 2022	$ 707	$ 295	$ (250)	$ 752

12. LEASES

All of our leases are operating leases and primarily consist of leases for office space. For any lease with an initial term in excess of 12 months, the related lease assets and lease liabilities are recognized on the condensed consolidated balance sheets as either operating or financing leases at the inception of an agreement where it is determined that a lease exists. We have lease agreements that contain both lease and non-lease components. We have elected to combine lease and non-lease components for all classes of assets. Leases with an expected term of 12 months or less are not recorded on the condensed consolidated balance sheets. Instead we recognize lease expense for these leases on a straight-line basis over the lease term.

Operating lease assets represent the right to use an underlying asset for the lease term and operating lease liabilities represent the obligation to make lease payments. These assets and liabilities are recognized based on the present value of future payments over the lease term at the commencement date. We generally use a collateralized incremental borrowing rate based on information available at the commencement date, including the lease term, in determining the present value of future payments. When determining our right-of-use assets, we generally do not include options to extend or terminate the lease unless it is reasonably certain that the option will be exercised.

Our leases typically require payment of real estate taxes and common area maintenance and insurance. These components comprise the majority of our variable lease cost and are excluded from the present value of our lease obligations. Fixed payments may contain predetermined fixed rent escalations. We recognize the related rent expense on a straight-line basis from the commencement date to the end of the lease term.

The following table shows the supplemental balance sheet information related to our leases (in thousands):

	Balance Sheet Location	June 30, 2023	September 30, 2022
Assets			
Operating leases	Operating lease right-of-use assets	$ 13,643	$ 15,299
Total lease assets		$ 13,643	$ 15,299
Liabilities			
Operating leases	Current portion of operating lease liabilities	$ 3,431	$ 3,196
Operating leases	Operating lease liabilities	14,793	16,978
Total lease liabilities		$ 18,224	$ 20,174

12. LEASES (CONTINUED)

The following were the components of our lease cost which is recorded in both cost of goods sold and selling, general and administrative expense (in thousands):

	Three months ended June 30,		Nine months ended June 30,	
	2023	2022	2023	2022
Operating lease cost	$ 907	$ 954	$ 2,678	$ 2,836
Variable lease cost	361	287	1,013	828
Short-term lease cost	26	27	69	83
Total lease cost	$ 1,294	$ 1,268	$ 3,760	$ 3,747

In November 2021, Digi acquired $0.9 million in right of-use assets and assumed $0.9 million in lease liabilities from the acquisition of Ventus that are included in the balances at June 30, 2022. Digi acquired $0.1 million and $0.3 million in right-of-use assets in exchange for new operating lease liabilities in the three and nine months ended June 30, 2023, respectively.

At June 30, 2023, the weighted average remaining lease term of our operating leases was 6.7 years and the weighted average discount rate for these leases was 4.4%.

The table below reconciles the undiscounted cash flows for each of the first five years as well as all the remaining years to the operating lease liabilities recorded on the condensed consolidated balance sheet as of June 30, 2023 (in thousands):

Fiscal year	Amount
2023 (three months)	$ 1,131
2024	4,007
2025	3,537
2026	3,114
2027	2,042
2028	1,897
Thereafter	5,704
Total future undiscounted lease payments	21,432
Less imputed interest	(3,208)
Total reported lease liability	$ 18,224

13. COMMITMENTS AND CONTINGENCIES

We lease certain of our buildings and equipment under non-cancelable lease agreements. Please refer to Note 12 to our condensed consolidated financial statements for additional information.

In the normal course of business, we presently are, and expect in the future to be, subject to various claims and litigation with third parties such as non-practicing intellectual property entities as well as customers, vendors, competitors and/or former employees. There can be no assurance that any claims by third parties, if proven to have merit, will not materially adversely affect our business, liquidity or financial condition. In addition, the costs associated with defending ourselves in litigation may be significant regardless of whether the claim has merit.

14. STOCK-BASED COMPENSATION

Stock-based awards granted in the first fiscal quarter of 2023 were granted under the amended and restated 2021 Omnibus Incentive Plan (the "2021 Plan"). Such awards made in the first quarter of fiscal 2022 were granted under the 2021 Plan before it was amended and restated at our annual meeting in January, 2022. Shares subject to awards under the 2021 Plan or any prior plans that are forfeited, canceled, returned to us for failure to satisfy vesting requirements, settled in cash or otherwise terminated without payment also will be available for grant under the 2021 Plan. The authority to grant options under the 2021 Plan and set other terms and conditions rests with the Compensation Committee of the Board of Directors.

14. STOCK-BASED COMPENSATION (CONTINUED)

As of June 30, 2023, there were approximately 2,325,333 shares available for future grants under the 2021 Plan.

Cash received from the exercise of stock options was $2.6 million and $6.7 million for the nine months ended June 30, 2023 and 2022, respectively.

Our equity plans and corresponding forms of award agreements generally have provisions allowing employees to elect to satisfy tax withholding obligations through the delivery of shares. When employees make this election, we retain a portion of shares issuable under the award. Tax withholding obligations are otherwise fulfilled by the employee paying cash to us for the withholding. During the nine months ended June 30, 2023 and 2022, our employees forfeited 97,171 shares and 96,860 shares, respectively, in order to satisfy respective withholding tax obligations of $3.9 million and $2.2 million, respectively.

We sponsor an Employee Stock Purchase Plan as amended and restated as of December 10, 2019, October 29, 2013, December 4, 2009 and November 27, 2006 (the "ESPP"), covering all domestic employees with at least 90 days of continuous service and who are customarily employed at least 20 hours per week. The ESPP allows eligible participants the right to purchase common stock on a quarterly basis at the lower of 85% of the market price at the beginning or end of each three-month offering period. The most recent amendments to the ESPP, ratified by our stockholders on January 29, 2020, increased the total number of shares that may be purchased under the ESPP to 3,425,000. ESPP contributions by employees were $1.7 million and $1.1 million for the nine months ended June 30, 2023 and 2022, respectively. Pursuant to the ESPP, 58,081 and 60,481 common shares were issued to employees during the nine months ended June 30, 2023 and 2022, respectively. Shares are issued under the ESPP from treasury stock. As of June 30, 2023, 494,767 common shares were available for future issuances under the ESPP.

The following table shows stock-based compensation expense that is included in the consolidated results of operations (in thousands):

	Three months ended June 30,		Nine months ended June 30,	
	2023	2022	2023	2022
Cost of sales	$ 160	$ 125	$ 463	$ 342
Sales and marketing	1,089	660	3,012	1,828
Research and development	469	252	1,386	890
General and administrative	1,801	1,106	4,991	3,342
Stock-based compensation before income taxes	3,519	2,143	9,852	6,402
Income tax benefit	(760)	(460)	(2,096)	(1,360)
Stock-based compensation after income taxes	$ 2,759	$ 1,683	$ 7,756	$ 5,042

Stock Options

The following table summarizes our stock option activity (in thousands, except per common share amounts):

	Options Outstanding	Weighted Average Exercise Price	Weighted Average Contractual Term (in years)	Aggregate Intrinsic Value (1)
Balance on September 30, 2022	1,790	$17.29		
Granted	66	40.63		
Exercised	(182)	22.77		
Forfeited / Canceled	(34)	20.76		
Balance on June 30, 2023	1,640	$18.43	4.1	$ 34,471
Exercisable on June 30, 2023	1,046	$15.99	3.5	$ 24,481

(1) The aggregate intrinsic value represents the total pre-tax intrinsic value, based on our closing stock price of $39.39 as of June 30, 2023, which would have been received by the option holders had all option holders exercised their options as of that date.

14. STOCK-BASED COMPENSATION (CONTINUED)

The intrinsic value of an option is the amount by which the fair value of the underlying stock exceeds its exercise price. The total intrinsic value of all options exercised during the nine months ended June 30, 2023 and 2022 was $4.1 million and $15.6 million, respectively.

The following table shows the weighted average fair value, which was determined based upon the fair value of each option on the grant date utilizing the Black-Scholes option-pricing model and the related assumptions:

	Nine months ended June 30,	
	2023	2022
Weighted average per option grant date fair value	$19.88	$10.03
Assumptions used for option grants:		
Risk free interest rate	3.50% - 3.98%	1.25% - 3.00%
Expected term	6.00 years	6.00 years
Expected volatility	46%	45% - 46%
Weighted average volatility	46%	46%
Expected dividend yield	—	—

The fair value of each option award granted during the periods presented was estimated using the Black-Scholes option valuation model that uses the assumptions noted in the above table. Expected volatilities are based on the historical volatility of our stock. We use historical data to estimate option exercise and employee termination information within the valuation model. The expected term of options granted is derived from the vesting period and historical information and represents the period of time that options granted are expected to be outstanding. The risk-free rate used is the zero-coupon U.S. Treasury bond rate in effect at the time of the grant whose maturity equals the expected term of the option.

As of June 30, 2023, the total unrecognized compensation cost related to non-vested stock options was $5.7 million and the related weighted average period over which it is expected to be recognized is approximately 1.6 years.

Non-vested Stock Units

The following table presents a summary of our non-vested restricted stock units and performance stock units as of June 30, 2023 and changes during the nine months then ended (in thousands, except per common share amounts):

	RSUs		PSUs	
	Number of Awards	Weighted Average Grant Date Fair Value	Number of Awards	Weighted Average Grant Date Fair Value
Nonvested on September 30, 2022	742	$ 19.14	27	$ 22.69
Granted	457	40.07	113	40.66
Vested	(276)	17.42	(5)	22.93
Canceled	(34)	26.69	—	—
Nonvested on June 30, 2023	889	$ 30.14	135	$ 37.72

As of June 30, 2023, the total unrecognized compensation cost related to non-vested stock units was $25.8 million. The related weighted average period over which this cost is expected to be recognized is approximately 2.1 years.

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

Our management's discussion and analysis should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended September 30, 2022, as well as our subsequent reports on Form 10-Q and Form 8-K and any amendments to these reports.

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Form 10-Q contains certain statements that are "forward-looking statements" as that term is defined under the Private Securities Litigation Reform Act of 1995, and within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended.

Forward-Looking Statements

This discussion contains forward-looking statements that are based on management’s current expectations and assumptions. These statements often can be identified by the use of forward-looking terminology such as "assume," "believe," "anticipate," "intend," "estimate," "target," "may," "will," "expect," "plan," "potential," "project," "should," or "continue," or the negative thereof or other variations thereon or similar terminology. Among other items, these statements relate to expectations of the business environment in which Digi operates, projections of future performance, perceived marketplace opportunities and statements regarding our mission and vision. Such statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions. Among others, these include risks related to the ongoing supply chain and transportation challenges impacting businesses globally, risks related to ongoing inflationary pressures around the world and the monetary policies of governments globally as well as present concerns about a potential recession and the ability of companies like us to operate a global business in such conditions as well as negative effects on product demand and the financial solvency of customers and suppliers in such conditions, risks arising from the present war in Ukraine, the highly competitive market in which our company operates, rapid changes in technologies that may displace products sold by us, declining prices of networking products, our reliance on distributors and other third parties to sell our products, the potential for significant purchase orders to be canceled or changed, delays in product development efforts, uncertainty in user acceptance of our products, the ability to integrate our products and services with those of other parties in a commercially accepted manner, potential liabilities that can arise if any of our products have design or manufacturing defects, our ability to integrate and realize the expected benefits of acquisitions, our ability to defend or settle satisfactorily any litigation, the impact of natural disasters and other events beyond our control that could negatively impact our supply chain and customers, potential unintended consequences associated with restructuring, reorganizations or other similar business initiatives that may impact our ability to retain important employees or otherwise impact our operations in unintended and adverse ways, and changes in our level of revenue or profitability which can fluctuate for many reasons beyond our control.

These and other risks, uncertainties and assumptions identified from time to time in our filings with the United States Securities and Exchange Commission, including without limitation, those set forth in Item 1A, Risk Factors, of our Annual Report on Form 10-K for the year ended September 30, 2022, subsequent filings, as well as this filing on Form 10-Q and other filings, could cause our actual results to differ materially from those expressed in any forward-looking statements made by us or on our behalf. Many of such factors are beyond our ability to control or predict. These forward-looking statements speak only as of the date for which they are made. We disclaim any intent or obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

CRITICAL ACCOUNTING ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, the disclosure of contingent assets and liabilities and the values of purchased assets and assumed liabilities in acquisitions. We base our estimates on historical experience and various other assumptions that we believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

A description of our critical accounting estimates was provided in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of our Annual Report on Form 10-K for the fiscal year ended September 30, 2022.

OVERVIEW

We are a leading global provider of business and mission-critical IoT connectivity products, services and solutions. Our business is comprised of two reporting segments: IoT Products & Services and IoT Solutions.

Our IoT Products & Services segment offers products and services that help OEMs, enterprise and government customers create and deploy secure IoT connectivity solutions. From embedded and wireless modules to console servers as well as enterprise and industrial routers, we provide a wide variety of communication sub-assemblies and finished products to meet our customers' IoT communication requirements. In addition, this segment provides our customers with a device management platform and other professional services to enable customers to capture and manage data from devices connected to networks.

Our IoT Solutions segment primarily consists of our Managed Network-as-a-Service ("MNaaS") business acquired last year via our acquisition of Ventus Wireless, LLC and affiliated entities ("Ventus") and our SmartSense by Digi® business. Ventus is a leader in the provision of MNaaS solutions that simplify the complexity of enterprise wide area network ("WAN") connectivity for customers. The Ventus portfolio includes cellular wireless and fixed line WAN solutions for an array of connectivity applications in banking, healthcare, retail, gaming, hospitality and other sectors. SmartSense offers wireless temperature and other condition-based monitoring services as well as employee task management services. These solutions are focused on the following vertical markets: food service, healthcare (primarily pharmacies and hospitals) and supply chain.

We compete for customers on the basis of existing and planned product features, service and software application capabilities, company reputation, brand recognition, technical support, alliance relationships, quality and reliability, product development capabilities, price and availability.

In fiscal 2023, our key operating objectives include:

- continuing to transition to complete solutions with software and service offerings included with our products, as this drives Annualized Recurring Revenue ("ARR"), which provides more predictable and higher margin revenues; and
- delivering a higher level of customer service across our businesses.

We utilize many financial, operational, and other metrics to evaluate our financial condition and financial performance. Below we highlight the metrics for the third quarter of fiscal 2023 that we feel are most important in these evaluations, with comparisons to the third quarter of fiscal 2022:

- Consolidated revenue was $112 million, an increase of 8%.
- Gross profit margin was 56.9%, an increase of 140 basis points. Gross profit margin excluding amortization was 57.7%, an increase of 100 basis points.
- Net income per diluted share was $0.18, compared to $0.12, an increase of 50%.
- Adjusted net income and adjusted net income per share was $18.5 million, or $0.50 per diluted share, compared to $15.9 million, or $0.45 per diluted share, an increase of 11%.
- Adjusted EBITDA was $24 million, an increase of 16%.
- ARR was $104 million at quarter end, an increase of 13%.

CONSOLIDATED RESULTS OF OPERATIONS

The following table sets forth selected information derived from our interim condensed consolidated statements of operations:

($ in thousands)	Three months ended June 30, 2023		Three months ended June 30, 2022		% incr. (decr.)	Nine months ended June 30, 2023		Nine months ended June 30, 2022		% incr. (decr.)
Revenue	$ 112,236	100.0 %	$ 103,517	100.0 %	8.4 %	$ 332,686	100.0 %	$ 282,487	100.0 %	17.8 %
Cost of sales	48,417	43.1	46,091	44.5	5.0	144,474	43.4	125,196	44.3	15.4
Gross profit	63,819	56.9	57,426	55.5	11.1	188,212	56.6	157,291	55.7	19.7
Operating expenses	51,343	45.7	47,452	45.8	8.2	151,598	45.6	135,954	48.1	11.5
Operating income	12,476	11.1	9,974	9.6	25.1	36,614	11.0	21,337	7.6	71.6
Other expense, net	(6,588)	(5.9)	(5,392)	(5.2)	22.2	(18,888)	(5.7)	(14,716)	(5.2)	28.4
Income before income taxes	5,888	5.2	4,582	4.4	28.5	17,726	5.3	6,621	2.3	167.7
Income tax (benefit) expense	(839)	(0.7)	456	0.4	NM	(679)	(0.2)	(1,539)	(0.5)	NM
Net income	$ 6,727	6.0 %	$ 4,126	4.0 %	63.0 %	$ 18,405	5.5 %	$ 8,160	2.9 %	125.6 %

NM means not meaningful

REVENUE BY SEGMENT

($ in thousands)	Three months ended June 30, 2023		Three months ended June 30, 2022		% incr. (decr.)	Nine months ended June 30, 2023		Nine months ended June 30, 2022		% incr. (decr.)
Revenue										
IoT Products & Services	$ 87,358	77.8 %	$ 79,758	77.0 %	9.5 %	$ 257,593	77.4 %	$ 216,872	76.8 %	18.8 %
IoT Solutions	24,878	22.2	23,759	23.0	4.7	75,093	22.6	65,615	23.2	14.4
Total revenue	$ 112,236	100.0 %	$ 103,517	100.0 %	8.4 %	$ 332,686	100.0 %	$ 282,487	100.0 %	17.8 %

IoT Products & Services

IoT Products & Services revenue increased 9.5% for the three months ended June 30, 2023, as compared to the same period in the prior fiscal year. This increase is attributable to growth in our OEM & IM product lines. IoT Products & Services revenue increased 18.8% for the nine months ended June 30, 2023, as compared to the same period in the prior fiscal year. This increase is attributable to growth in each of our product lines.

IoT Solutions

IoT Solutions revenue increased 4.7% for the three months ended June 30, 2023, as compared to the same period in the prior fiscal year. This increase is primarily attributable to growth in SmartSense. IoT Solutions revenue increased 14.4% for the nine months ended June 30, 2023, as compared to the same period in the prior fiscal year. This increase is attributable to growth in each of our SmartSense and Ventus offerings, as well as fiscal 2022 results excluding October 2021 Ventus revenues that preceded the acquisition.

ARR

ARR was $104 million as of June 30, 2023, compared to $92 million as of June 30, 2022. IoT Products & Services ARR was $22 million as of June 30, 2023, compared to $15 million as of June 30, 2022. IoT Solutions ARR was over $82 million as of June 30, 2023, compared to $77 million as of June 30, 2022.

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

COST OF GOODS SOLD AND GROSS PROFIT BY SEGMENT

Below are our segments' cost of goods sold and gross profit as a percentage of their respective total revenue:

($ in thousands)	Three months ended June 30, 2023		Three months ended June 30, 2022		Basis point inc. (decr.)	Nine months ended June 30, 2023		Nine months ended June 30, 2022		Basis point inc. (decr.)
Cost of Goods Sold										
IoT Products & Services	$ 40,129	45.9 %	$ 37,115	46.5 %	(60)	$ 117,226	45.5 %	$ 100,093	46.2 %	(70)
IoT Solutions	8,288	33.3 %	8,976	37.8 %	(450)	27,248	36.3 %	25,103	38.3 %	(200)
Total cost of goods sold	$ 48,417	43.1 %	$ 46,091	44.5 %	(140)	$ 144,474	43.4 %	$ 125,196	44.3 %	(90)

($ in thousands)	Three months ended June 30, 2023		Three months ended June 30, 2022		Basis point inc. (decr.)	Nine months ended June 30, 2023		Nine months ended June 30, 2022		Basis point inc. (decr.)
Gross Profit										
IoT Products & Services	$ 47,229	54.1 %	$ 42,643	53.5 %	60	$ 140,367	54.5 %	$ 116,779	53.8 %	70
IoT Solutions	16,590	66.7 %	14,783	62.2 %	450	47,845	63.7 %	40,512	61.7 %	200
Total gross profit	$ 63,819	56.9 %	$ 57,426	55.5 %	140	$ 188,212	56.6 %	$ 157,291	55.7 %	90

IoT Product & Services

IoT Products & Services gross profit margin increased 60 basis points for the three months ended June 30, 2023 as compared to the same period in the prior fiscal year. IoT Products & Services gross profit margin increased 70 basis points for the nine months ended June 30, 2023 as compared to the same period in the prior fiscal year. These increases were primarily a result of changes in product and customer mix.

IoT Solutions

The IoT Solutions gross profit margin increased 450 basis points for the three months ended June 30, 2023 as compared to the same period in the prior fiscal year. This increase primarily was a result of changes in product and customer mix.

The IoT Solutions gross profit margin increased 200 basis points for the nine months ended June 30, 2023 as compared to the same period in the prior fiscal year. This increase primarily was a result of changes in product and customer mix partially offset by increased expenses for inventory reserves.

OPERATING EXPENSES

Below are our operating expenses and operating expenses as a percentage of total revenue:

($ in thousands)	Three months ended June 30, 2023		Three months ended June 30, 2022		$ incr. (decr.)	% incr. (decr.)	Nine months ended June 30, 2023		Nine months ended June 30, 2022		$ incr. (decr.)	% incr. (decr.)
Operating Expenses												
Sales and marketing	$ 20,974	18.7 %	$ 18,230	17.6 %	$ 2,744	15.1	$ 60,421	18.2 %	$ 51,325	18.2 %	$ 9,096	17.7 %
Research and development	14,945	13.3	13,968	13.5	977	7.0	44,194	13.3	41,199	14.6	2,995	7.3
General and administrative	15,424	13.7	15,254	14.7	170	1.1	46,983	14.1	43,430	15.4	3,553	8.2
Total operating expenses	$ 51,343	45.7 %	$ 47,452	45.8 %	$ 3,891	8.2	$ 151,598	45.6 %	$ 135,954	48.1 %	$ 15,644	11.5 %

The $3.9 million increase in operating expenses in the third quarter of fiscal 2023 from the third quarter of fiscal 2022 was the result of incremental operating expenses, primarily from investments in Opengear and SmartSense, an increase in stock-based compensation and costs associated with ongoing litigation. The $15.6 million increase in operating expenses in the nine months ended June 30, 2023 from the nine months ended June 30, 2022 was the result of incremental operating expenses, primarily from the acquisition of Ventus, investments in Opengear and SmartSense and an increase in stock-based compensation.

OPERATING INCOME

($ in thousands)	Three months ended June 30, 2023	2022		incr. (decr.)	Nine months ended June 30, 2023	2022		incr. (decr.)
Operating Income (Loss)								
IoT Products & Services	$ 12,096	$ 10,881	$ 1,215	11.2	$ 37,744	$ 24,046	$ 13,698	57.0
IoT Solutions	380	(907)	$ 1,287	NM	(1,130)	(2,709)	$ 1,579	NM
Total gross profit	$ 12,476	$ 9,974	$ 2,502	25.1	$ 36,614	$ 21,337	$ 15,277	71.6

NM means not meaningful

Drivers for the changes in operating income for the periods presented are described above in the revenue, gross profit and operating expenses details.

OTHER EXPENSE, NET

Below are our other expenses, net and other expenses, net as a percentage of total revenue:

($ in thousands)	Three months ended June 30, 2023		2022		$ incr. (decr.)	% incr. (decr.)	Nine months ended June 30, 2023		2022		$ incr. (decr.)	% incr. (decr.)
Other expense, net												
Interest expense, net	(6,603)	(5.9)%	(5,296)	(5.1)%	(1,307)	24.7	(18,967)	(5.7)%	(14,657)	(5.2)%	(4,310)	29.4
Other expense, net	15	— %	(96)	(0.1)%	111	NM	79	— %	(59)	— %	138	NM
Total other expense, net	$ (6,588)	(5.9)%	$ (5,392)	(5.2)%	$ (1,196)	22.2	$ (18,888)	(5.7)%	$ (14,716)	(5.2)%	$ (4,172)	28.4

NM means not meaningful

Other expense, net, increased $1.2 million for the three months ended June 30, 2023, as compared to the same period in the prior fiscal year. Other expense, net, increased $4.2 million for the nine months ended June 30, 2023, as compared to the same period in the prior fiscal year. The increases were primarily a result of an increase in our interest expense due to an increase in our effective interest rate (see Note 7 to the condensed consolidated financial statements).

INCOME TAXES

See Note 10 to the condensed consolidated financial statements for discussion of income taxes.

KEY BUSINESS METRIC

ARR represents the annualized monthly value of all billable subscription contracts, measured at the end of any fiscal period. ARR should be viewed independently of revenue and deferred revenue and is not intended to replace or forecast either of these items. Digi management uses ARR to manage and assess the growth of our subscription revenue business. We believe ARR is an indicator of the scale of our subscription business.

NON-GAAP FINANCIAL INFORMATION

This report includes adjusted net income, adjusted net income per diluted share and adjusted earnings before interest, taxes and amortization ("Adjusted EBITDA"), each of which is a non-GAAP financial measure.

Non-GAAP measures are not substitutes for GAAP measures for the purpose of analyzing financial performance. The disclosure of these measures does not reflect all charges and gains that actually were recognized by Digi. These non-GAAP measures are not in accordance with, or, an alternative for measures prepared in accordance with GAAP and may be different from non-GAAP measures used by other companies or presented by us in prior reports. In addition, these non-GAAP measures are not based on any comprehensive set of accounting rules or principles. We believe that non-GAAP measures have limitations in that they do not reflect all of the amounts associated with our results of operations as determined in accordance with GAAP. We believe these measures should only be used to evaluate our results of operations in conjunction with the corresponding GAAP measures. Additionally, Adjusted EBITDA does not reflect our cash expenditures, the cash requirements for the replacement of depreciated and amortized assets, or changes in or cash requirements for our working capital needs.

We believe that providing historical and adjusted net income and adjusted net income per diluted share, respectively, exclusive of such items as reversals of tax reserves, discrete tax benefits, restructuring charges and reversals, intangible amortization, stock-based compensation, other non-operating income/expense, adjustments to estimates of contingent consideration, acquisition-related expenses and interest expense related to acquisition permits investors to compare results with prior periods that did not include these items. Management uses the aforementioned non-GAAP measures to monitor and evaluate ongoing operating results and trends and to gain an understanding of our comparative operating performance. In addition, certain of our stockholders have expressed an interest in seeing financial performance measures exclusive of the impact of these matters, which while important, are not central to the core operations of our business. Management believes that Adjusted EBITDA, defined as EBITDA adjusted for stock-based compensation expense, acquisition-related expenses, restructuring charges and reversals and changes in fair value of contingent consideration is useful to investors to evaluate our core operating results and financial performance because it excludes items that are significant non-cash or non-recurring expenses reflected in the consolidated statements of operations. We believe that the presentation of Adjusted EBITDA as a percentage of revenue is useful because it provides a reliable and consistent approach to measuring our performance from year to year and in assessing our performance against that of other companies. We believe this information helps compare operating results and corporate performance exclusive of the impact of our capital structure and the method by which assets were acquired.

Below are reconciliations from GAAP to non-GAAP information that we feel is important to our business:

Reconciliation of Net Income to Adjusted EBITDA
(In thousands)

	Three months ended June 30,				Nine months ended June 30,			
	2023		2022		2023		2022	
		% of total revenue		% of total revenue		% of total revenue		% of total revenue
Total revenue	$ 112,236	100.0 %	$ 103,517	100.0 %	$ 332,686	100.0 %	$ 282,487	100.0 %
Net income	$ 6,727		$ 4,126		$ 18,405		$ 8,160	
Interest expense, net	6,603		5,296		18,967		14,657	
Income tax expense (benefit)	(839)		456		(679)		(1,539)	
Depreciation and amortization	8,005		8,747		23,963		25,393	
Stock-based compensation	3,519		2,143		9,852		6,402	
Restructuring charge	95		105		141		214	
Acquisition expense	222		175		910		4,256	
Adjusted EBITDA	$ 24,332	21.7 %	$ 21,048	20.3 %	$ 71,559	21.5 %	$ 57,543	20.4 %

Reconciliation of Net Income and Net Income per Diluted Share to
Adjusted Net Income and Adjusted Net Income per Diluted Share
(In thousands, except per share amounts)

	Three months ended June 30,				Nine months ended June 30,			
	2023		2022		2023		2022	
Net income and net income per diluted share	$ 6,727	$ 0.18	$ 4,126	$ 0.12	$ 18,405	$ 0.50	$ 8,160	$ 0.23
Amortization	6,252	0.17	7,046	0.20	18,966	0.51	20,400	0.57
Stock-based compensation	3,519	0.10	2,143	0.06	9,852	0.27	6,402	0.18
Other non-operating income	(15)	—	96	—	(79)	—	59	—
Acquisition expense	222	0.01	175	—	910	0.02	4,256	0.12
Restructuring charge	95	—	105	—	141	—	214	0.01
Interest expense, net	6,603	0.18	5,296	0.15	18,967	0.51	14,657	0.40
Tax effect from the above adjustments (1)	(6,025)	(0.17)	(2,497)	(0.07)	(15,520)	(0.41)	(8,263)	(0.23)
Discrete tax expenses (benefits) (2)	1,125	0.03	(556)	(0.02)	2,874	0.08	(2,746)	(0.07)
Adjusted net income and adjusted net income per diluted share (3)	$ 18,503	$ 0.50	$ 15,934	$ 0.45	$ 54,516	$ 1.48	$ 43,139	$ 1.21
Diluted weighted average common shares		36,817		35,740		36,838		35,740

(1) The tax effect from the above adjustments assumes an estimated effective tax rate of 18.0% for fiscal 2023 and fiscal 2022 based on adjusted net income.
(2) For the three and nine months ended June 30, 2023 and 2022, discrete tax expenses (benefits) primarily are a result of changes in excess tax benefits recognized on stock compensation.
(3) Adjusted net income per diluted share may not add due to the use of rounded numbers.

LIQUIDITY AND CAPITAL RESOURCES

Historically we have financed our operations and capital expenditures principally with funds generated from operations. In fiscal 2022 we issued debt to fund our acquisition of Ventus. Our liquidity requirements arise from our working capital needs, and to a lesser extent, our need to fund capital expenditures to support our current operations and facilitate growth and expansion.

On December 2, 2021, we entered into a third amended and restated credit agreement. Digi refinanced the Term Loan Facility and Revolving Loan Facility under its existing credit agreement entered into on November 1, 2021, but did not receive any additional proceeds from nor modify the amounts of any facilities or subfacilities contained within that credit agreement. The credit agreement consists of a $350 million term loan B secured loan and a $35 million revolving credit facility. The $35 million revolving credit facility, which presently has no outstanding balance, includes a $10 million letter of credit subfacility and $10 million swingline subfacility. During the first quarter of fiscal 2022, we repaid all outstanding balances under the credit facility entered into on March 21, 2021. As of June 30, 2023, $35.0 million remained available under the Revolving Loan, which included $10 million available for a letter of credit subfacility and $10 million available under a swingline subfacility, the outstanding amounts of which decrease the available commitment. For additional information regarding the terms of our Credit Facility, including the Revolving Loan and its subfacilities, see Note 7 to our condensed consolidated financial statements.

We expect positive cash flows from operations for the foreseeable future. We believe that our current cash and cash equivalents balances, cash generated from operations and our ability to borrow under our credit facility will be sufficient to fund our business operations and capital expenditures for the next 12 months and beyond.

Our condensed consolidated statements of cash flows for the nine months ended June 30, 2023 and 2022 is summarized as follows:

	Nine months ended June 30,	
	2023	2022
($ in thousands)		Restated (1)
Operating activities	$ 27,804	$ 31,216
Investing activities	(3,842)	(351,771)
Financing activities	(28,920)	208,551
Effect of exchange rate changes on cash and cash equivalents	(362)	1,087
Net increase (decrease) in cash and cash equivalents	$ (5,320)	$ (110,917)

(1) We have restated the condensed consolidated statement of cash flows for the six months ended March 31, 2022. For additional information, see Note 2 to our condensed consolidated financial statements.

Cash flows from operating activities decreased $3.4 million primarily as a result of:

- an increase in operating assets and liabilities (net of acquisitions) in the nine months ended June 30, 2023 of $17.3 million compared to an increase of $15.4 million in the nine months ended June 30, 2022, and

- decreases in the provisions for deferred income tax, provisions for bad debt and amortization expense.

These changes were partially offset by:

- increases in net income and stock-based compensation expense.

Cash flows used in investing activities decreased $347.9 million primarily as a result of:

- no amounts used for the acquisition of businesses in the nine months ended June 30, 2023 compared to $347.6 million used for acquisitions in the nine months ended June 30, 2022, primarily related to our November 2021 acquisition of Ventus, and

- a $0.3 million decrease in purchases of property, equipment, improvements and certain other intangible assets.

Cash flows from financing activities decreased $237.5 million primarily as a result of:

- no proceeds from debt in the nine months ended June 30, 2023 compared to $350.0 million in proceeds from the Term Loan issued in the nine months ended June 30, 2022, and

- a $3.5 million decrease in proceeds from stock issuances.

These changes were partially offset by:

- debt payments of $29.4 million in the nine months ended June 30, 2023 compared to $129.4 million the nine months ended June 30, 2022 (see Note 7 to the condensed consolidated financial statements),

- a decrease of $13.4 million in debt issuance cost payments, and

- a $2.6 million decrease in taxes paid for net share settlements.

CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual obligations at June 30, 2023:

	Payments due by fiscal period				
($ in thousands)	Total	Less than 1 year	1-3 years	3-5 years	Thereafter
Operating leases	$ 21,432	$ 4,136	$ 9,183	$ 5,658	$ 2,455
Term Loan	220,625	17,500	35,000	35,000	133,125
Interest on long-term debt	95,144	22,108	37,991	30,615	4,430
Total	$ 337,201	$ 43,744	$ 82,174	$ 71,273	$ 140,010

The operating lease agreements included above primarily relate to office space. The table above does not include possible payments for uncertain tax positions. Our reserve for uncertain tax positions, including accrued interest and penalties, was $2.8 million as of June 30, 2023. Due to the nature of the underlying liabilities and the extended time often needed to resolve income tax uncertainties, we cannot make reliable estimates of the amount or timing of future cash payments that may be required to settle these liabilities. The above table also does not include those obligations for royalties under license agreements as these royalties are calculated based on future sales of licensed products and we cannot make reliable estimates of the amount of cash payments.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

For information on new accounting pronouncements, see Note 1 to our condensed consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to ongoing market risk related to changes in interest rates and foreign currency exchange rates.

INTEREST RATE RISK

We are exposed to market risks related to fluctuations in interest rates on amounts borrowed under the Credit Facility. As of June 30, 2023, we had $220.6 million outstanding under our Term Loan. Borrowings under the Term Loan Facility bear interest at a rate per annum equal to LIBOR with a floor of 0.50% for an interest period of one, three or six months as selected by Digi, reset at the end of the selected interest period (or a replacement benchmark rate if LIBOR is no longer available) plus 5.00% or a base rate plus 4.00%. The base rate is determined by reference to the highest of BMO’s prime rate, the Federal Funds Effective Rate plus 0.50%, or the one-month LIBOR for U.S. dollars plus 1.00%. The applicable margin for loans under the Revolving Credit Facility is in a range of 4.00% to 3.75% for LIBOR loans and 3.00% to 2.75% for base rate loans, depending on Digi’s consolidated leverage ratio. Digi bases the interest period election on an assessment of the interest rate environment conducted on a monthly basis. Digi presently expects to continue to elect a one month interest period, unless conditions change. Based on the balance sheet position for the Revolving Loan at June 30, 2023, the annualized effect of a 25 basis point change in interest rates would increase or decrease our interest expense by $0.6 million. Following the discontinuation of LIBOR on June 30, 2023, borrowings under the Term Loan Facility will be subject to the Secured Overnight Financing Rate (SOFR). For additional information, see Note 7 to our condensed consolidated financial statements. For our Credit Facility, interest rate changes generally do not affect the fair value of the debt instruments, but do impact future earnings and cash flows, assuming other factors are held constant. If interest rates remain elevated, we will continue to see interest expenses that are higher than historical amounts.

FOREIGN CURRENCY RISK

We are not exposed to foreign currency transaction risk associated with sales transactions as the majority of our sales are denominated in U.S. Dollars. We are exposed to foreign currency translation risk as the financial position and operating results of our foreign subsidiaries are translated into U.S. Dollars for consolidation. We manage our net asset or net liability position for non-functional currency accounts, primarily the U.S. Dollar accounts in our foreign locations to reduce our foreign currency risk. We have not implemented a formal hedging strategy.

A 10% change in the average exchange rate for the Euro, British Pound, Australian Dollar and Canadian Dollar to the U.S. Dollar during the first nine months of fiscal 2023 would have resulted in a 1.0% increase or decrease in stockholders' equity due to foreign currency translation.

CREDIT RISK

We have exposure to credit risk related to our accounts receivable portfolio. Exposure to credit risk is controlled through regular monitoring of customer financial status, credit limits and collaboration with sales management and customer contacts to facilitate payment.

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")). Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act was recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and is accumulated and communicated to our management, including the principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in our internal control over financial reporting that occurred during the nine months ended June 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The disclosure set forth in Note 13 to the condensed consolidated financial statements in Part I, Item 1 of this Form 10-Q is incorporated herein by reference.

ITEM 1A. RISK FACTORS

Except as set forth below, there have been no material changes in our risk factors from those previously disclosed in Item 1A of Part I of our Annual Report on Form 10-K for the year ended September 30, 2022.

Certain parts of our business are subject to customer concentrations.

Several of our acquired businesses historically have depended on relationships with one or a small number of customers or have a significant number of customers that are from particular industries. Any disruption in their business with those customers, whether as a result of changes in demand for the customer's services, adverse changes in the customer's industry generally or other challenges in securing or renewing contracts, could have an adverse impact on our business, results of operations, financial condition and prospects.

For example, we acquired Accelerated in fiscal 2018. Although Accelerated has many customers, its business historically has been highly dependent on its relationship with a single telecommunications carrier customer.

We acquired Opengear in fiscal 2019. Although Opengear has many customers, its business historically has been significantly concentrated on its relationships with a few large customers.

We acquired Ventus in fiscal 2022. Although Ventus has many customers, its business historically has been significantly concentrated on its relationships with fewer than twenty customers and it also serves a significant number of customers in the financial and gaming terminal industries. Likewise, our SmartSense business services a significant number of customers in the pharmaceutical, medical facility and retail food industries. Both Ventus and SmartSense produce significant ARR. Any disruption or difficulties in any of the industries these businesses serve could have an adverse impact on our business, results of operations (including, but not limited to, ARR), financial condition and prospects.

In addition, some larger customers may demand discounts and rebates. As a result, our future revenue opportunities with these customers may be limited, and we may face pricing pressures, which in turn could adversely impact our gross margin and our profitability. The loss of, reduction in, or pricing discounts associated with orders from key customers may significantly reduce our revenue and harm our business. Furthermore, delays in payment and/or extended payment terms from larger customers could have a disproportionate and material negative impact on our cash flows and working capital to support our business operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table presents the information with respect to purchases made by or on behalf of Digi International Inc. or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934), of our common stock during the third quarter of fiscal 2023:

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Program
April 1, 2023 - April 30, 2023	—	$ —	—	$ —
May 1, 2023 - May 31, 2023	6,163	$ 31.64	—	$ —
June 1, 2023 - June 30, 2023	23	$ 30.32	—	$ —
	6,186	$ 31.64	—	$ —

(1) All shares reported were forfeited by employees in connection with the satisfaction of tax withholding obligations related to the vesting of restricted stock units.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

During the three months ended June 30, 2023, no director or officer of the Company adopted, modified or terminated a “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement,” as each term is defined in Item 408(a) of Regulation S-K.

ITEM 6. EXHIBITS

Exhibit No.	Description	Method of Filing
3 (a)	Restated Certificate of Incorporation of the Company, as amended (1)	Incorporated by Reference
3 (b)	Amended and Restated By-Laws of the Company (2)	Incorporated by Reference
10 (a)	Digi International Inc. 2021 Omnibus Incentive Plan, as amended and restated (3)	Incorporated by Reference
10 (b)	Form of (Executive) Performance Stock Unit Award Agreement (for grants under Digi International Inc. 2021 Omnibus Incentive Plan)	Filed Electronically
31 (a)	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer	Filed Electronically
31 (b)	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer	Filed Electronically
32	Section 1350 Certification	Filed Electronically
101	The following materials from Digi International Inc.'s Quarterly Report on Form 10-Q for the fiscal period ended June 30, 2023, as filed with the Security and Exchange Commission, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Condensed Consolidated Statements of Operations; (ii) Condensed Consolidated Statements of Comprehensive Income; (iii) Condensed Consolidated Balance Sheets; (iv) Condensed Consolidated Statements of Cash Flows; (v) Condensed Consolidated Statements of Stockholders' Equity; and (vi) the Notes to the Condensed Consolidated Financial Statements.	Filed Electronically
104	The cover page from Digi International Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2023 is formatted in iXBRL (included in Exhibit 101).	

* Schedules have been omitted pursuant to Item 601(a)(5) of Regulation S-K. Digi agrees to furnish to the Commission a copy of any omitted schedule upon request.
** Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-Q.

(1) Incorporated by reference to Exhibit 3(a) to the Company's Annual Report on Form 10-K for the year ended September 30, 1993.
(2) Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on April 30, 2020.
(3) Incorporated by reference to Exhibit 99(a) to the Company's Registration Statement on Form S-8 filed on June 9, 2023.

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 4, 2023	By:	/s/ James J. Loch
			James J. Loch Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer and Authorized Officer)

Exhibit No. 10(b)

Digi International Inc.
2021 Omnibus Incentive Plan
Performance Stock Unit Award Agreement

Digi International, Inc. (the "*Company*"), pursuant to its 2021 Omnibus Incentive Plan (the "*Plan*"), hereby grants an Award of Performance Stock Units to you, the Participant named below. The terms and conditions of this Award are set forth in this Performance Stock Unit Award Agreement (the "*Agreement*"), consisting of this cover page and the Terms and Conditions on the following pages, and in the Plan document, which has been provided to you. To the extent any capitalized term used in this Agreement is not defined, it shall have the meaning assigned to it in the Plan as it currently exists or as it is amended in the future.

Name of Participant:	
Number of Performance Stock Units:	
Grant Date:	___
Vesting Schedule:	The number of Achieved Units determined in accordance with Exhibit A will vest (subject to your continued employment) on each Scheduled Vesting Date. Vested Units will be settled in accordance with the terms of the Agreement
Scheduled Vesting Dates:	After the end of each Measurement Period (and no later than two and one-half months thereafter) the Committee shall certify the performance results for that Measurement Period (each a "Scheduled Vesting Date")
Measurement Periods:	Each full fiscal year during the Performance Period
Performance Period:	October 1, 2022 to September 30, 2024

By signing below or otherwise evidencing your acceptance of this Agreement in a manner approved by the Company, you agree to all of the terms and conditions contained in this Agreement and in the Plan document. You acknowledge that you have reviewed these documents and that they set forth the entire agreement between you and the Company regarding the grant to you of the number of Performance Stock Units specified in the table above.

PARTICIPANT:

____

DIGI INTERNATIONAL INC.

By: _____________

Title: ____________

Digi International Inc.
2021 Omnibus Incentive Plan
(Executive) Performance Stock Unit Award Agreement
Terms and Conditions

1. **Grant of Performance Stock Units**. The Company hereby grants to you, subject to the terms and conditions in this Agreement and the Plan, an Award of the number of Performance Stock Units ("Units") specified on the cover page of this Agreement, each representing the right to receive one Share of the Company's Stock. The number of Units that will actually be achieved and become eligible to vest pursuant to this Award can be less than the total number of Units, and will be determined based on the extent to which the Company has satisfied the performance goals set forth in Exhibit A to this Agreement. The Units represent an unfunded and unsecured obligation of the Company.

2. **Restrictions on Units**. Neither this Award nor the Units subject to this Award may be sold, assigned, transferred, exchanged or encumbered other than by will or the laws of descent and distribution. Any attempted transfer in violation of this Section 2 shall be of no force and effect and shall result in the forfeiture of all Units. The Units and your right to receive shares in settlement of the Units under this Agreement shall be subject to forfeiture as provided in Section 4 until satisfaction of the vesting conditions set forth in Section 3.

3. **Achieved Units and Vesting of Units**.

(a) Achieved Units. The number of units you will be deemed to have earned ("Achieved Units") and that are eligible for vesting as of each Scheduled Vesting Date will be determined by the extent to which the Company has satisfied the performance goals as set forth in Exhibit A to this Agreement. Any Units subject to this Agreement that are not achieved by the final Scheduled Vesting Date will be forfeited.

(b) Scheduled Vesting. If you remain employed (which includes other service relationships described in Section 5 of the Plan) by the Company or any of its Affiliates continuously from the Grant Date specified on the cover page of this Agreement to a Scheduled Vesting Date, then the Achieved Units will vest on such Scheduled Vesting Date.

(c) Effect of Change in Control. The following provisions shall apply if a Change in Control (as defined in Section 3(d)) occurs while Units remain outstanding pursuant to this Award.

(1) If the surviving or successor entity (which may include the Company), or such entity's parent corporation, continues, assumes or replaces this Award (with such adjustments as may be required or permitted by Section 17 of the Plan), this Award or its replacement shall remain outstanding and be governed by its terms, including Section 3(c)(3) below; provided, however, that this Award shall be deemed achieved as to the Units for any Measurement Period for which the Committee has not yet certified the performance results, without regard to satisfaction of the performance goals set forth on Exhibit A, and such Units shall be the "Achieved Units" and such Achieved Units shall vest on the last day of the Measurement Period. For these purposes, this Award shall be considered assumed or replaced if, in connection with the Change in Control, either (i) the contractual obligations represented by the Award are expressly assumed by the surviving or successor entity (or its parent corporation) with appropriate adjustments to the number and type of securities subject to the Award that preserves the intrinsic value of the Award existing at the time of the Change in Control, or (ii) you have received a comparable equity-based award that preserves the intrinsic value of this Award existing at the time of the Change in Control and contains terms and conditions that are substantially similar to those of this Award.

(2) If and to the extent that this Award is not continued, assumed or replaced in connection with a Change in Control, then the number of Units set forth on the first page of this Performance Stock Unit Award Agreement shall vest (to the extent not already vested) at or immediately prior to the effective time of the Change in Control. The Committee may alternatively

provide that this Award shall be canceled at or immediately prior to the effective time of the Change in Control in exchange for a payment to you in an amount equal to the fair market value (as determined in good faith by the Committee) of the consideration that would otherwise be received in the Change in Control transaction by a Company stockholder for the number of Shares for which outstanding Units could then be settled (or, if no consideration would be received by the Company's stockholders in the Change of Control transaction, the fair market value (as determined in good faith by the Committee) of such number of Shares immediately prior to the Change in Control). Payment of any such amount may be made in such form, on such terms and subject to such conditions as the Committee determines in its discretion, which may or may not be the same as the form, terms and conditions applicable to payments to the Company's stockholders in connection with the Change in Control, and may, in the Committee's discretion, include subjecting such payments to escrow or holdback terms comparable to those imposed upon the Company's stockholders under the Change in Control, or calculating and paying the present value of payments that would otherwise be subject to escrow or holdback terms.

(3) If and to the extent that this Award is continued, assumed or replaced under the circumstances described in Section 3(c)(1), the Award and if within 12 months after the Change in Control you experience an Employment Termination Event (as defined in Section 3(e)), then this Award and the number of Units set forth on the first page of this Performance Stock Unit Award Agreement shall immediately vest (to the extent not already vested).

(d) <u>Change in Control</u>. "*Change in Control*" means one of the following:

(i) any individual, entity or Group (a "*Person*") becomes a "beneficial owner" (as defined in Rule 13d-3 or any successor rule under the Exchange Act), directly or indirectly, of 30% or more of the combined voting power of the Company's voting securities, except that the following shall not constitute a Change in Control: (A) any acquisition or beneficial ownership by the Company or a Subsidiary; (B) any acquisition or beneficial ownership by any employee benefit plan (or related trust) sponsored or maintained by the Company or one or more Subsidiary; (C) any formation of a Group consisting solely of beneficial owners of the Company's voting securities as of the effective date of the Plan, or any repurchase or other acquisition by the Company of its voting securities that causes any Person to become the beneficial owner of 30% or more of the Company's voting securities, in either case so long as such Person does not acquire beneficial ownership of additional Company voting securities after the Person initially became the beneficial owner of 30% or more of the Company's voting securities by one of the means described in this clause (C); or (D) any acquisition of beneficial ownership by any entity with respect to which, immediately following such acquisition, more than 50% of the combined voting power of such entity's then outstanding voting securities is beneficially owned, directly or indirectly, by all or substantially all of the Persons who beneficially owned the Company's voting securities immediately prior to such acquisition in substantially the same proportions as their ownership of the Company's voting securities immediately prior to such acquisition;

(ii) individuals (A) who are, as of the effective date of the Plan, directors of the Company, or (B) who are elected as directors of the Company subsequent to the Grant Date and whose initial election, or nomination for initial election by the Company's stockholders, was approved by at least a majority of the then Continuing Directors (collectively, "*Continuing Directors*") cease for any reason, within a period of twelve months, to constitute a majority of the members of the Board; or

(iii) the consummation of a Fundamental Change unless, immediately following such Fundamental Change, all or substantially all of the Persons who were the beneficial owners of the Company's voting securities immediately prior to such Fundamental Change beneficially own, directly or indirectly, more than 50% of the combined voting power of the then outstanding voting securities of the surviving or acquiring entity (or its Parent) resulting from such Fundamental Change in substantially the same proportions as their ownership, immediately prior to such Fundamental Change, of the Company's voting securities.

Notwithstanding the foregoing, to the extent that this Award constitutes a deferral of compensation subject to Code Section 409A, then no Change in Control shall be deemed to have occurred upon an event described in this Section 3(d) unless the event would also constitute a change in ownership or effective control of, or a change in the ownership of a substantial portion of the assets of, the Company under Code Section 409A.

(e) Employment Termination Event. An "*Employment Termination Event*" will be deemed to have occurred upon either: (i) the involuntary termination of your employment for reasons other than Cause (as defined in Section 3(f)), or (ii) the voluntary termination of your employment for Good Reason (as defined in Section 3(g)).

(f) Cause. "*Cause*" means only the following: (i) your indictment or conviction of, or a plea of nolo contendere to, (A) any felony (other than any felony arising out of negligence), or any misdemeanor involving moral turpitude with respect to the Company, or (B) your commission any crime or offense involving dishonesty with respect to the Company; (ii) theft or embezzlement by you of Company property or commission of similar acts involving dishonesty or moral turpitude; (iii) repeated material negligence in the performance of your duties after you have received written notice of the same; (iv) your failure to devote substantially all of your working time and efforts during normal business hours to the Company's business; (v) your knowing engagement in conduct that is materially injurious to the Company; or (vi) your knowingly providing materially misleading information concerning the Company to the Company's Board of Directors, any governmental body or regulatory agency or to any lender or other financing source or proposed financing source of the Company.

(g) Good Reason. "*Good Reason*" means the existence of one or more of the following conditions without your consent, so long as you provided written notice to the Company of the existence of the condition not later than 90 days after the initial existence of the condition, the condition has not been remedied within 30 after receipt of such notice, and you terminate your employment with the Company within 140 days of the initial existence of the condition: (i) the failure of the Company to pay any material amount due to you under a prevailing Employment Agreement; (ii) a meaningful diminution, without Cause, as defined above, in your responsibilities or job functions unless approved by you; (iii) a material reduction in your total compensation potential as defined by annual base salary and cash compensation targets; or (iv) your relocation to an office location greater than 50 miles from your office location at the time of a Change in Control.

4. **Effect of Termination of Employment**. Except as otherwise provided in accordance with Section 3(c)(3) or this Section 4, if you cease to be employed by the Company or any of its Affiliates prior to any of the Scheduled Vesting Date(s) specified on the cover page of this Agreement, you will forfeit all unvested Units. In the event of your termination of employment due to your death or disability (within the meaning of Section 22(e)(3) of the Code), (i) you or your designated beneficiary will receive any Achieved Units for a Measurement Period that concluded prior to your death or disability, and (ii) the Units will remain outstanding until the next Scheduled Vesting Date, and a pro-rated portion of the Achieved Units for a Measurement Period that concludes after your death or disability shall continue to be eligible to vest and you, or your designated beneficiary or estate in the event of your death, will receive such pro-rated payout of the Achieved Units you would otherwise have received if your employment had continued until the Scheduled Vesting Date. The pro-rated portion shall be determined by multiplying the total number of Achieved Units for all Measurement Periods within the Performance Period that conclude after your death or disability as determined in accordance with Exhibit A by a fraction, the numerator of which is the number of days you were employed during the applicable Measurement Period, and the denominator of which is the total number of days in the applicable Measurement Period.

5. **Settlement of Units**. After any Units vest pursuant to Section 3, the Company shall, as soon as practicable (but no later than two and one-half months after the date on which such Units vest), cause to be issued and delivered to you, or to your designated beneficiary or estate in the event of your death, one

Share in payment and settlement of each vested Achieved Unit. Delivery of the Shares shall be effected by an appropriate entry in the stock register maintained by the Company's transfer agent with a notice of issuance provided to you, or by the electronic delivery of the Shares to a brokerage account you designate, and shall be subject to the tax withholding provisions of Section 6 and compliance with all applicable legal requirements, including compliance with the requirements of applicable federal and state securities laws, and shall be in complete satisfaction and settlement of such vested Units.

6. **Tax Consequences and Withholding**. As a condition precedent to the delivery of Shares in settlement of the Achieved Units, you are required to make arrangements acceptable to the Company for payment of any federal, state, local or foreign withholding taxes that may be due as a result of the settlement of vested Achieved Units. The Company will retain a portion of the Shares that would otherwise be delivered to you in settlement of vested Achieved Units, which retained Shares shall have a Fair Market Value equal to the amount required to be withheld, unless you provide notice to the Company prior to the vesting date of the Achieved Units that you desire to pay cash or direct the Company (or any Affiliate) to withhold from payroll or other amounts payable to you any sums required to satisfy such withholding tax obligations, and otherwise agree to satisfy such obligations in accordance with the provisions of Section 15 of the Plan. Delivery of Shares upon the vesting of Achieved Units is subject to the satisfaction of applicable withholding tax obligations.

7. **No Stockholder Rights**. The Units subject to this Award do not entitle you to any rights of a holder of the Company's Stock. You will not have any of the rights of a stockholder of the Company in connection with the grant of Units subject to this Agreement unless and until Shares are issued to you in settlement of the Units as provided in Section 5.

8. **Plan Document**. This Agreement and the Award are subject to all the provisions of the Plan, and to all interpretations, rules and regulations that may, from time to time, be adopted and promulgated by the Committee pursuant to the Plan. If there is any conflict between the provisions of this Agreement and the Plan, the provisions of the Plan will govern.

9. **Choice of Law**. This Agreement will be interpreted and enforced under the laws of the state of Minnesota (without to its conflicts or choice of law principles).

10. **Effect**. This Agreement will be binding in all respects on your heirs, representatives, successors and assigns, and on the successors and assigns of the Company.

11. **Discontinuance of Employment**. This Agreement does not give you a right to continued employment with the Company or any of its Affiliates, and the Company or any such Affiliate may terminate your employment at any time and otherwise deal with you without regard to the effect it may have upon you under this Agreement.

12. **Section 409A of the Code**. The award of Units as provided in this Agreement and any issuance of Shares pursuant to this Agreement are intended to be exempt from Section 409A of the Code under the short-term deferral specified in Treas. Reg. § 1.409A-l(b)(4).

By signing the cover page of this Agreement or otherwise accepting this Award in a manner approved by the Company, you agree to all the terms and conditions contained in this Agreement and in the Plan document.

Exhibit No. 31(a)

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Ronald E. Konezny, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Digi International Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and

5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s Board of Directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

August 4, 2023

/s/ Ronald E. Konezny
Ronald E. Konezny
President and Chief Executive Officer

Exhibit No. 31(b)

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, James J. Loch, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Digi International Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and

5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s Board of Directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

August 4, 2023

/s/ James J. Loch

James J. Loch
Senior Vice President, Chief Financial Officer and Treasurer

Exhibit No. 32

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Digi International Inc. (the Registrant) on Form 10-Q for the fiscal quarter ended June 30, 2023 as filed with the Securities and Exchange Commission on the date hereof, each of the undersigned certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Quarterly Report on Form 10-Q complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

August 4, 2023

/s/ Ronald E. Konezny

Ronald E. Konezny
President and Chief Executive Officer

/s/ James J. Loch

James J. Loch
Senior Vice President, Chief Financial Officer and Treasurer