

**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: **March 31, 2020**

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, 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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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 Act). Yes  No

On May 1, 2020, there were 28,954,853 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 March 31,		Six months ended March 31,	
	2020	2019	2020	2019
	(in thousands, except per share data)			
<b>Revenue:</b>				
Product	\$ 65,641	\$ 58,473	\$ 119,888	\$ 113,453
Service	7,806	7,291	15,876	14,624
Total revenue	73,447	65,764	135,764	128,077
<b>Cost of sales:</b>				
Cost of product	29,687	31,225	58,178	59,894
Cost of service	3,873	3,485	6,434	6,606
Amortization	1,246	725	2,047	1,465
Total cost of sales	34,806	35,435	66,659	67,965
Gross profit	38,641	30,329	69,105	60,112
<b>Operating expenses:</b>				
Sales and marketing	14,556	11,534	26,617	23,191
Research and development	11,532	9,569	21,863	19,087
General and administrative	8,791	8,441	17,346	11,558
Restructuring charge (reversal)	38	—	38	(67)
Total operating expenses	34,917	29,544	65,864	53,769
Operating income	3,724	785	3,241	6,343
<b>Other (expense) income, net:</b>				
Interest income	50	144	281	352
Interest expense	(1,734)	(2)	(2,166)	(94)
Other income (expense), net	89	257	(147)	305
Total other (expense) income, net	(1,595)	399	(2,032)	563
Income before income taxes	2,129	1,184	1,209	6,906
Income tax expense (benefit)	125	(158)	(1,003)	882
Net income	\$ 2,004	\$ 1,342	\$ 2,212	\$ 6,024
<b>Net income per common share:</b>				
Basic	\$ 0.07	\$ 0.05	\$ 0.08	\$ 0.22
Diluted	\$ 0.07	\$ 0.05	\$ 0.07	\$ 0.21
<b>Weighted average common shares:</b>				
Basic	28,881	27,866	28,673	27,687
Diluted	29,486	28,438	29,585	28,289

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

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

	Three months ended March 31,		Six months ended March 31,	
	2020	2019	2020	2019
	(in thousands)			
Net income	\$ 2,004	\$ 1,342	\$ 2,212	\$ 6,024
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustment	(2,484)	(83)	176	(1,652)
Change in net unrealized gain on investments	—	9	—	14
Less income tax expense	—	(2)	—	(4)
Other comprehensive (loss) income, net of tax	(2,484)	(76)	176	(1,642)
Comprehensive (loss) income	\$ (480)	\$ 1,266	\$ 2,388	\$ 4,382

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

**DIGI INTERNATIONAL INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(UNAUDITED)**

	March 31, 2020	September 30, 2019
	(in thousands, except share data)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 58,086	\$ 92,792
Accounts receivable, net	78,491	56,417
Inventories	43,280	39,764
Other current assets	8,510	3,574
Total current assets	188,367	192,547
Property, equipment and improvements, net	12,817	13,857
Intangible assets, net	129,250	30,667
Goodwill	207,350	153,422
Deferred tax assets	426	7,330
Other non-current assets	16,542	875
Total assets	\$ 554,752	\$ 398,698
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 1,972	\$ —
Accounts payable	17,421	21,183
Accrued compensation	7,961	8,733
Unearned revenue	8,107	5,025
Contingent consideration on acquired businesses	10,379	5,407
Other current liabilities	7,366	4,110
Total current liabilities	53,206	44,458
Income taxes payable	1,798	1,192
Deferred tax liabilities	18,934	261
Long-term debt	104,973	—
Other non-current liabilities	17,478	3,809
Total liabilities	196,389	49,720
Contingencies (see Note 15)		
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; 35,364,405 and 34,608,003 shares issued	354	346
Additional paid-in capital	274,780	266,567
Retained earnings	164,131	161,919
Accumulated other comprehensive loss	(25,339)	(25,515)
Treasury stock, at cost, 6,409,552 and 6,367,428 shares	(55,563)	(54,339)
Total stockholders' equity	358,363	348,978
Total liabilities and stockholders' equity	\$ 554,752	\$ 398,698

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

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

	Six months ended March 31,	
	2020	2019
	(in thousands)	
<b>Operating activities:</b>		
Net income	\$ 2,212	\$ 6,024
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation of property, equipment and improvements	2,289	2,217
Amortization of intangible assets	6,564	4,609
Stock-based compensation	3,441	2,707
Deferred income tax provision	756	1,338
Gain on sale of property and equipment	—	(4,395)
Change in fair value of contingent consideration	(128)	810
Provision for bad debt and product returns	108	568
Provision for inventory obsolescence	516	900
Restructuring charge (reversal)	38	(67)
Other	50	(116)
Changes in operating assets and liabilities (net of acquisitions)	(28,529)	(8,393)
Net cash (used in) provided by operating activities	(12,683)	6,202
<b>Investing activities:</b>		
Proceeds from maturities and sales of marketable securities	—	2,252
Acquisition of businesses, net of cash acquired	(136,098)	—
Proceeds from sale of property and equipment	—	10,047
Purchase of property, equipment, improvements and certain other intangible assets	(434)	(7,346)
Net cash (used in) provided by investing activities	(136,532)	4,953
<b>Financing activities:</b>		
Proceeds from long-term debt	110,000	—
Payments on long-term debt	(625)	—
Payments for contingent consideration	—	(2,348)
Proceeds from stock option plan transactions	4,724	3,751
Proceeds from employee stock purchase plan transactions	516	549
Purchases of common stock	(1,684)	(1,044)
Net cash provided by financing activities	112,931	908
Effect of exchange rate changes on cash and cash equivalents	1,578	(484)
Net (decrease) increase in cash and cash equivalents	(34,706)	11,579
Cash and cash equivalents, beginning of period	92,792	58,014
Cash and cash equivalents, end of period	\$ 58,086	\$ 69,593
<b>Supplemental schedule of non-cash investing and financing activities:</b>		
Transfer of inventory to property, equipment and improvements	\$ (743)	\$ (654)
Contingent consideration recognized related to acquisition of business	\$ (5,100)	\$ —
Accrual for purchase of property, equipment, improvements and certain other intangible assets	\$ —	\$ (20)

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		Treasury Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Par Value	Shares	Value				
Balances, September 30, 2018	33,813	\$ 338	6,385	\$ (54,216)	\$ 255,936	\$ 151,961	\$ (23,526)	\$ 330,493
Net income						6,024		6,024
Other comprehensive loss							(1,642)	(1,642)
Employee stock purchase plan issuances			(63)	544	5			549
Repurchase of common stock			91	(1,044)				(1,044)
Issuance of stock under stock award plans	658	7			3,744			3,751
Stock-based compensation expense					2,707			2,707
Balances, March 31, 2019	<u>34,471</u>	<u>\$ 345</u>	<u>6,413</u>	<u>\$ (54,716)</u>	<u>\$ 262,392</u>	<u>\$ 157,985</u>	<u>\$ (25,168)</u>	<u>\$ 340,838</u>
Balances, September 30, 2019	34,608	\$ 346	6,367	\$ (54,339)	\$ 266,567	\$ 161,919	\$ (25,515)	\$ 348,978
Net income						2,212		2,212
Other comprehensive income							176	176
Employee stock purchase plan issuances			(53)	460	56			516
Repurchase of common stock			95	(1,684)				(1,684)
Issuance of stock under stock award plans	756	8			4,716			4,724
Stock-based compensation expense					3,441			3,441
Balances, March 31, 2020	<u>35,364</u>	<u>\$ 354</u>	<u>6,409</u>	<u>\$ (55,563)</u>	<u>\$ 274,780</u>	<u>\$ 164,131</u>	<u>\$ (25,339)</u>	<u>\$ 358,363</u>

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 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 our Annual Report on Form 10-K for the year ended September 30, 2019 (the "2019 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.

***Potential Impacts of COVID-19 on our Business***

The impact of the coronavirus disease 2019 ("COVID-19") pandemic continues to unfold. The extent of the pandemic's effect on our operational and financial performance will depend in large part on future developments, which cannot be reasonably estimated at this time. Future developments include the duration, scope and severity of the pandemic, the actions taken to contain or mitigate its impact both within and outside the jurisdictions where we operate, the impact on governmental programs and budgets, the development of treatments or vaccines, and the resumption of widespread economic activity. Due to the inherent uncertainty of the unprecedented and rapidly evolving situation, we are unable to predict with any confidence the likely impact of the COVID-19 pandemic on our future operations. For a more detailed discussion see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 2 of this Form 10-Q.

***Recently Issued Accounting Pronouncements***

***Adopted***

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*, which provides for comprehensive changes to lease accounting. The standard requires that a lessee recognize a lease obligation liability and a right-to-use asset for virtually all leases, subsequently amortized over the lease term.

We adopted this standard in the first quarter of fiscal 2020, following the modified retrospective application approach by applying the new standard to all applicable leases existing at the date of initial application and not restating comparative periods. We have completed our implementation efforts. These efforts included identification and analysis of our lease portfolio, analysis and evaluation of the new reporting and disclosure requirements of the new guidance, and an evaluation of our lease-related processes and internal controls. The adoption of this standard resulted in the recognition of a right-of-use asset included in other non-current assets of approximately \$14.1 million and a lease liability of approximately \$17.9 million included in other current liabilities and other non-current liabilities on our condensed consolidated balance sheet in the first quarter of fiscal 2020. In adopting the new standard, we elected the package of practical expedients permitted under the transition guidance, as well as the practical expedient not to separate non-lease components from lease components. We also elected the practical expedient to use hindsight in determining the lease term when considering options to extend or terminate a lease, options to purchase the underlying asset, and in assessing the impairment of right-of-use assets. The adoption of this standard did not have a significant impact on our condensed consolidated results of operations or condensed consolidated statements of cash flows. We have identified new and updated existing internal controls and processes to support measurement, recognition and disclosure under this new standard, but such changes were not deemed to be material to our overall system of internal control over financial reporting.

***Not Yet Adopted***

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement - Disclosure Framework (Topic 820)*. The updated guidance improves the disclosure requirements on fair value measurements. The updated guidance is effective for us in the first



## 1. BASIS OF PRESENTATION OF UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

quarter ending December 31, 2020. Early adoption is permitted for any removed or modified disclosures. We are evaluating when to adopt, and the impact of adopting, ASU 2018-13 on our consolidated financial statements.

In June 2016, FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*. The amendments in this update replace the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses. This update is intended to provide financial statement users with more decision-useful information about the expected credit losses. This ASU is effective for us in the first quarter ending December 31, 2020. Entities may early adopt beginning after December 15, 2018. We are evaluating the impact of adopting ASU 2016-13 on our consolidated financial statements.

## 2. ACQUISITIONS

### *Acquisition of Opengear, Inc.*

On December 13, 2019, we completed our acquisition of Opengear, Inc. ("Opengear"), a New Jersey-based provider of secure IT infrastructure products and software. Opengear results are included in our condensed consolidated financial statements within our IoT Products & Services segment.

The terms of the acquisition included an upfront cash payment as well as contingent consideration comprised of future earn-out payments. We funded the closing of the acquisition with cash of \$148.1 million comprised of cash on hand and proceeds from our credit facility (see Note 8 to the condensed consolidated financial statements). The future earn-out payments are based on revenue performance from Opengear for the periods ended December 31, 2019 and ending December 31, 2020. The cumulative amount of these earn-outs for the periods ended December 31, 2019 and ending December 31, 2020, will not exceed \$5.0 million and \$10.0 million, respectively. We expect to pay the first installment of \$0.9 million during the third quarter of fiscal 2020. The fair value of this contingent consideration was \$5.1 million at both the date of acquisition and at March 31, 2020 (see Note 5 to the condensed consolidated financial statements).

For tax purposes, this acquisition is treated as a stock acquisition. The goodwill therefore is not deductible. We believe this is a complementary acquisition for us as it significantly enhances our IoT Products and Services segment by providing secure, resilient access and automation to critical IT infrastructure.

The Opengear acquisition has been accounted for using the acquisition method of accounting. This requires, among other things, that assets acquired and liabilities assumed pursuant to the purchase agreement be recognized at fair value as of the acquisition date. The following table summarizes the preliminary values of Opengear assets acquired and liabilities assumed as of the acquisition date (in thousands):

Cash	\$	148,058
Contingent consideration		5,100
<b>Total</b>	<b>\$</b>	<b>153,158</b>
Fair value of net tangible assets acquired	\$	19,006
Identifiable intangible assets:		
Customer relationships		79,000
Purchased and core technology		18,100
Trademarks		8,000
Deferred tax liability on identifiable intangible assets		(25,634)
Goodwill		54,686
<b>Total</b>	<b>\$</b>	<b>153,158</b>

The condensed consolidated balance sheet as of March 31, 2020 reflects the preliminary allocation of the purchase price to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. Given the timing of the Opengear acquisition, the estimated fair value of the net assets acquired, liabilities assumed and contingent consideration are preliminary and remain subject to change. Included in the fair value of net tangible assets acquired was \$1.4 million of right-

## 2. ACQUISITIONS (CONTINUED)

of-use asset included in other non-current assets and \$1.7 million of lease liability included in other current liabilities and other non-current liabilities associated with Opengear's operating leases.

The preliminary weighted average useful life for all the identifiable intangibles listed above is estimated to be 13.4 years. For purposes of determining fair value, the existing customer relationships identified above are assumed to have a useful life of 14.5 years, purchased and core technology is assumed to have useful life of 9.0 years and trademarks are assumed a useful life of 12.0 years. Useful lives for identifiable intangible assets are estimated at the time of acquisition based on the periods of time from which we expect to derive benefits from the identifiable intangible assets. The identifiable intangible assets are amortized using the straight-line method. This reflects the pattern in which the assets are expected to be consumed.

Costs directly related to the acquisition of \$0.3 million incurred in the fourth quarter of fiscal 2019 and \$2.1 million incurred in fiscal 2020 have been charged directly to operations and are included in general and administrative expense in our condensed consolidated statements of operations. These acquisition costs include legal, accounting, valuation and investment banking fees.

The following consolidated pro forma information is presented as if the acquisition had occurred on October 1, 2018 (in thousands):

	Three months ended March 31,		Six months ended March 31,	
	2020	2019	2020	2019
Net sales	\$ 73,447	\$ 79,218	\$ 150,660	\$ 154,885
Net income	\$ 2,184	\$ 1,770	\$ 5,920	\$ 4,801
Net income per share - basic	\$ 0.08	\$ 0.06	\$ 0.21	\$ 0.17
Net income per share - diluted	\$ 0.07	\$ 0.06	\$ 0.20	\$ 0.17

Pro forma net income has been adjusted to include interest expense related to debt incurred as a result of the acquisition as well as amortization on the fair value of the intangibles acquired. It has also been adjusted to assume the acquisition-related costs of \$2.5 million were incurred as of the first quarter of fiscal 2019.

Given the efforts to rapidly integrate the workforce, customer offerings, technology, and reporting capabilities of Opengear with that of our other components in our IoT Products & Services business, along with the inherent complementary synergies gained from doing so, it is impractical for us to present Opengear specific results otherwise required by GAAP.

## 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 March 31,		Six months ended March 31,	
	2020	2019	2020	2019
<b>Numerator:</b>				
Net income	\$ 2,004	\$ 1,342	\$ 2,212	\$ 6,024
<b>Denominator:</b>				
Denominator for basic net income per common share — weighted average shares outstanding	28,881	27,866	28,673	27,687
Effect of dilutive securities:				
Stock options and restricted stock units	605	572	912	602
Denominator for diluted net income per common share — adjusted weighted average shares	29,486	28,438	29,585	28,289
Net income per common share, basic	\$ 0.07	\$ 0.05	\$ 0.08	\$ 0.22
Net income per common share, diluted	\$ 0.07	\$ 0.05	\$ 0.07	\$ 0.21

### 3. EARNINGS PER SHARE (CONTINUED)

For the three months ended March 31, 2020 and 2019, there were 713,980 and 633,752 potentially dilutive shares, respectively. For the six months ended March 31, 2020 and 2019, there were 592,780 and 683,752 potentially dilutive shares, respectively. These potentially dilutive shares were related to stock options to purchase common shares that were not included in the above computation of diluted earnings per common share since the options' exercise prices were greater than the average market price of our common shares.

### 4. SELECTED BALANCE SHEET DATA

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

	March 31, 2020	September 30, 2019
<b>Accounts receivable, net:</b>		
Accounts receivable	\$ 83,748	\$ 60,062
Less allowance for doubtful accounts	1,905	968
Less reserve for future returns and pricing adjustments	3,352	2,677
Accounts receivable, net	<u>\$ 78,491</u>	<u>\$ 56,417</u>
<b>Inventories:</b>		
Raw materials	\$ 13,210	\$ 12,308
Work in process	14	565
Finished goods	30,056	26,891
Inventories	<u>\$ 43,280</u>	<u>\$ 39,764</u>

### 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). The following tables provide information by level for financial assets and liabilities that are measured at fair value on a recurring basis (in thousands):

	Total Fair Value at March 31, 2020	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
<b>Liabilities:</b>				
Contingent consideration on acquired businesses	\$ 10,379	\$ —	\$ —	\$ 10,379
Total liabilities measured at fair value	<u>\$ 10,379</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 10,379</u>

	Total Fair Value at September 30, 2019	Fair Value Measurements Using Inputs Considered as		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
Money market	\$ 56,700	\$ 56,700	\$ —	\$ —
Total assets measured at fair value	<u>\$ 56,700</u>	<u>\$ 56,700</u>	<u>\$ —</u>	<u>\$ —</u>
<b>Liabilities:</b>				
Contingent consideration on acquired businesses	\$ 5,407	\$ —	\$ —	\$ 5,407
Total liabilities measured at fair value	<u>\$ 5,407</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 5,407</u>

In connection with our acquisition of Bluenica Corporation ("Bluenica") in October 2015, we agreed to make contingent earn-out payments over a period of up to 4 years, subject to achieving specified revenue thresholds for sales of Bluenica products. To date, we have paid a total of \$2.7 million for contingent consideration. The fair value of the remaining liability for the contingent consideration period was \$2.9 million at March 31, 2020.

## 5. FAIR VALUE MEASUREMENTS (CONTINUED)

In connection with our acquisition of Accelerated in January 2018, we agreed to make contingent earn-out payments if specified revenue thresholds for sales of Accelerated products were achieved. We made the first installment payment of \$3.5 million in the third quarter of fiscal 2019. The earn-out period for this acquisition ended on January 22, 2020. The fair value of the liability for the remaining contingent consideration was \$2.4 million at March 31, 2020.

In connection with our acquisition of Opengear, Inc., we agreed to make contingent payments, based upon certain revenue thresholds (see Note 2 to the condensed consolidated financial statements). The fair values of the liability for contingent consideration for the acquisition of Opengear was \$5.1 million at March 31, 2020. We expect to pay the first installment of \$0.9 million during the third quarter of fiscal 2020.

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 March 31,		Six months ended March 31,	
	2020	2019	2020	2019
Fair value at beginning of period	\$ 14,766	\$ 10,147	\$ 5,407	\$ 10,065
Contingent consideration recognized for acquired business	(4,000)	—	5,100	—
Contingent consideration payments	—	(2,187)	—	(2,348)
Change in fair value of contingent consideration	(387)	567	(128)	810
Fair value at end of period	\$ 10,379	\$ 8,527	\$ 10,379	\$ 8,527

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. We have estimated the fair value of the contingent consideration at March 31, 2020 based on the probability of achieving the specified revenue thresholds at 100% for Bluenica, 100% for Accelerated and a range 49% to 86% for Opengear. A significant change in our estimates of achieving any relevant target could materially change the fair value of the contingent consideration liability.

## 6. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Amortizable intangible assets were (in thousands):

	March 31, 2020			September 30, 2019		
	Gross carrying amount	Accum. amort.	Net	Gross carrying amount	Accum. amort.	Net
Purchased and core technology	\$ 75,662	\$ (52,802)	\$ 22,860	\$ 57,699	\$ (50,986)	\$ 6,713
License agreements	102	(88)	14	102	(74)	28
Patents and trademarks	22,662	(12,667)	9,995	14,577	(11,970)	2,607
Customer relationships	125,255	(29,084)	96,171	46,315	(25,266)	21,049
Non-compete agreements	600	(390)	210	600	(330)	270
Order backlog	1,800	(1,800)	—	1,800	(1,800)	—
Total	\$ 226,081	\$ (96,831)	\$ 129,250	\$ 121,093	\$ (90,426)	\$ 30,667

Amortization expense was \$4.1 million and \$2.1 million for the three months ended March 31, 2020 and 2019, respectively, and \$6.6 million and \$4.6 million for the six months ended March 31, 2020 and 2019, respectively. Amortization expense is recorded on our condensed consolidated statements of operations within cost of sales and in general and administrative expense.

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

Estimated amortization expense related to intangible assets for the remainder of fiscal 2020 and the five succeeding fiscal years is (in thousands):

2020 (six months)	\$	8,145
2021	\$	15,520
2022	\$	14,676
2023	\$	12,488
2024	\$	11,785
2025	\$	8,328

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

	Six months ended March 31,		
	IoT Products and Services	IoT Solutions	Total
Balance on September 30, 2019	\$ 103,519	\$ 49,903	\$ 153,422
Acquisitions	54,686	—	54,686
Foreign currency translation adjustment	(27)	(731)	(758)
Balance at March 31, 2020	<u>\$ 158,178</u>	<u>\$ 49,172</u>	<u>\$ 207,350</u>

Goodwill represents the excess of cost over the fair value of net identifiable assets acquired. Goodwill is tested for impairment on an annual basis as of June 30, or more frequently if events or circumstances occur which could indicate impairment. There were no triggering events identified for the six months ended March 31, 2020. However, depending on the future economic impact of the current public health crisis related to COVID-19, among other factors, could cause a goodwill impairment charge in the future. For our quantitative goodwill impairment tests, we determine the estimated fair value of each reporting unit and compare it to the carrying value of the reporting unit, including goodwill. If the carrying amount of a reporting unit is higher than its estimated fair value, then an impairment loss must be recognized for the excess. Both of our operating segments constitute separate reporting units and both units were tested individually for impairments.

The fair value of each reporting unit is determined using a weighted combination of an income and market approach. A discounted cash flow ("DCF") method is utilized for the income approach. In developing the discounted cash flow analysis, our assumptions about future revenues, expenses, capital expenditures, and changes in working capital are based on management's projections, and assume a terminal growth rate thereafter. A separate discount rate is determined for each reporting unit and these cash flows are then discounted to determine the fair value of the reporting unit. The market approach determines a value derived from the guideline company method. This market approach method estimates the price reasonably expected to be realized from the sale of the reporting unit based on comparable companies.

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, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy and our internal forecasts. 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, we may be required to record future impairment charges for goodwill.

### *Results of our Fiscal 2019 Annual Impairment Test*

As of June 30, 2019, we had a total of \$104.0 million of goodwill for the IoT Products & Services reporting unit and \$50.0 million of goodwill for the IoT Solutions reporting unit. At June 30, 2019, fair value exceeded the carrying value by more than 10% for both reporting units. Implied fair values for both reporting units were each calculated on a standalone basis using a weighted combination of the income approach and market approach. The implied fair values of each reporting unit were added together to get an indicated value of total equity to which a range of indicated value of total equity was derived. This range was compared to the total market capitalization of \$356.6 million as of June 30, 2019, which implied a range of control premiums of 13.3% to 20.3%. This range of control premiums fell below the control premiums observed in the last five years in the communications equipment industry. As a result, the market capitalization reconciliation analysis proved support for the reasonableness of the fair values estimated for each individual reporting unit.

## 7. SALE OF BUILDING

On October 2, 2018, we sold a 130,000 square feet building that served as our corporate headquarters in Minnetonka, Minnesota to Minnetonka Leased Housing Associates II, LLLP. The sale price was \$10.0 million in cash adjusted for certain selling costs and an escrow for the leaseback of the building for four months. As a result of this sale, we recorded a gain of \$4.4 million (\$3.4 million net of tax) in the first quarter of fiscal 2019, which was recorded in general and administrative expense.

## 8. DEBT

In connection with our acquisition of Opengear, we entered into a syndicated credit agreement with BMO Harris Bank N.A. ("BMO") on December 13, 2019. This agreement provided us with committed credit facilities (the "Credit Facility") totaling \$150 million. The Credit Facility includes: (i) a \$50 million term loan (the "Term Loan") and (ii) a \$100 million revolving loan (the "Revolving Loan").

Borrowings under the Credit Facility bear interest rates based on an underlying variable benchmark plus applicable margin based on our total leverage. Interest rates for both the Term Loan and Revolving Loan reset quarterly. Our weighted average interest rate for the six months ended March 31, 2020 was 3.4%.

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. We also incurred debt issuance costs under the Credit Facility of \$2.6 million in the first quarter of fiscal 2020. These issuance costs are being amortized using the straight-line method over the term of the loan. Both the commitment fee and the amortization costs of the debt issuance costs are reported in interest expense.

Amounts under the Term Loan will be repaid in quarterly installments on the last day of each fiscal quarter. Amortization is 5% in the first two years, 7.5% in the next two years and 10% in the final year. The remaining outstanding balance will mature on December 13, 2024. The Revolving Loan is due in a lump sum payment at maturity on December 13, 2024.

The fair values of the Term Loan and Revolving Loan approximated carrying value at March 31, 2020.

The following table is a summary of our long-term indebtedness at March 31, 2020 (in thousands):

Revolving loan	\$	60,000
Term loan		49,375
Total loans		<u>109,375</u>
Less unamortized issuance costs		(2,430)
Less current maturities of long-term debt		<u>(1,972)</u>
Total long-term debt, net of current portion	\$	<u><u>104,973</u></u>

The following table is a summary of future maturities of our aggregate long-term debt at March 31, 2020 (in thousands):

2020 (six months)	\$	1,250
2021		2,500
2022		3,438
2023		3,750
2024		4,687
2025		93,750
Total long-term debt	\$	<u><u>109,375</u></u>

### *Covenants and Security Interest*

The agreements governing the Credit Facility contain a number of covenants. Among other thing, these covenants require us to maintain a certain financial ratio (net leverage ratio and minimum fixed charge ratio). At March 31, 2020, we were in compliance with our debt covenants. Amounts borrowed under the Credit Facility are secured by substantially all of our assets.

## 9. SEGMENT INFORMATION

We have two reportable operating segments: IoT Products & Services and IoT Solutions. Summary operating results for each of our segments were (in thousands):

	Three months ended March 31,		Six months ended March 31,	
	2020	2019	2020	2019
<b>Revenue</b>				
IoT Products & Services	\$ 66,890	\$ 56,039	\$ 121,503	\$ 109,333
IoT Solutions	6,557	9,725	14,261	18,744
Total revenue	\$ 73,447	\$ 65,764	\$ 135,764	\$ 128,077
<b>Operating income</b>				
IoT Products & Services	\$ 7,320	\$ 3,450	\$ 9,708	\$ 10,852
IoT Solutions	(3,596)	(2,665)	(6,467)	(4,509)
Total operating income	\$ 3,724	\$ 785	\$ 3,241	\$ 6,343
<b>Depreciation and amortization</b>				
IoT Products & Services	\$ 3,338	\$ 1,378	\$ 5,044	\$ 3,320
IoT Solutions	1,898	1,775	3,809	3,506
Total depreciation and amortization	\$ 5,236	\$ 3,153	\$ 8,853	\$ 6,826

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

	Six months ended March 31,	
	2020	2019
<b>Expended for property, equipment and improvements</b>		
IoT Products & Services	\$ 407	\$ 7,289
IoT Solutions*	27	57
Total expended for property, plant and equipment	\$ 434	\$ 7,346

\* Excluded from this amount is \$743 and \$654 of transfers of inventory to property plant and equipment for subscriber assets for the six months ended March 31, 2020 and 2019, respectively.

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

	March 31, 2020	September 30, 2019
<b>Assets</b>		
IoT Products & Services	\$ 405,078	\$ 215,651
IoT Solutions	91,588	90,255
Unallocated*	58,086	92,792
Total assets	\$ 554,752	\$ 398,698

\*Unallocated consists of cash and cash equivalents and current marketable securities.

## 10. REVENUE

### Revenue Disaggregation

The following table summarizes our revenue by geographic location of our customers:

(\$ in thousands)	Three months ended March 31,		Six months ended March 31,	
	2020	2019	2020	2019
North America, primarily the United States	\$ 57,374	\$ 48,869	\$ 104,910	\$ 95,204
Europe, Middle East & Africa	9,885	10,764	18,401	20,868
Rest of world	6,188	6,131	12,453	12,005
Total revenue	\$ 73,447	\$ 65,764	\$ 135,764	\$ 128,077

## 10. REVENUE (CONTINUED)

The following table summarizes our revenue by the timing of revenue recognition:

(\$ in thousands)	Three months ended March 31,		Six months ended March 31,	
	2020	2019	2020	2019
Transferred at a point in time	\$ 66,765	\$ 60,725	\$ 123,065	\$ 118,188
Transferred over time	6,682	5,039	12,699	9,889
Total revenue	\$ 73,447	\$ 65,764	\$ 135,764	\$ 128,077

### Contract Balances

#### Contract Assets

Contract assets consist of subscriber assets. These subscriber assets relate to fees in certain contracts that we charge our customers so they can begin using equipment. In these cases, we retain the ownership of the equipment that the customer uses. The total net book value of subscriber assets of \$2.2 million and \$2.1 million as of March 31, 2020 and September 30, 2019, respectively, are included in property, equipment and improvements, net. Depreciation expense for these subscriber assets, which is included in cost of sales, was \$0.3 million and \$0.2 million for the three month periods ended March 31, 2020 and March 31, 2019, respectively and \$0.7 million and \$0.4 million for the six month periods ended March 31, 2020 and March 31, 2019, respectively. We depreciate the cost of this equipment over its useful life (typically three years).

#### Contract Liabilities

The timing of revenue recognition may differ from the timing of invoicing to customers. Customers are invoiced for subscription services in advance 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. These pertain to our IoT Solutions segment and our Digi Remote Manager<sup>®</sup> services in our IoT Products & Services segment.

Changes in unearned revenue were:

(\$ in thousands)	Six months ended March 31, 2020
Unearned revenue, beginning of period	\$ 5,025
Billings	19,553
Revenue recognized	(15,876)
Unearned revenue, end of period	\$ 8,702

### Remaining Transaction Price

Transaction price allocated to the remaining performance obligations represents contracted revenue that has not been recognized. This includes unearned revenue and unbilled amounts that will be recognized as revenue in future periods. As of March 31, 2020, approximately \$13.1 million of revenue is expected to be recognized from remaining performance obligations for subscription contracts. We expect to recognize revenue on approximately \$9.0 million of remaining performance obligations over the next twelve months. Revenue from the remaining performance obligations we expect to recognize over a range of two to seven years.

## 11. INCOME TAXES

Our income tax benefit was \$1.0 million for the six months ended March 31, 2020. Included in this benefit was a net tax benefit discretely related to the six months ended March 31, 2020 of \$1.1 million. This benefit primarily was the result of excess tax benefits recognized on stock compensation and an adjustment of our state deferred tax rate due to the Opendgear acquisition. For the six months ended March 31, 2020, our effective tax rate before items discretely related to the period was less than the U.S. statutory rate. This was primarily due to certain research and development tax credits generated in the U.S.

Income tax expense was \$0.9 million for the six months ended March 31, 2019. Included in this expense was a net tax benefit discretely related to the six months ended March 31, 2019 of \$0.3 million. This expense primarily was the result of expiring statute of limitations of uncertain tax benefits as well as excess tax benefits recognized on stock compensation. For the six



## 11. INCOME TAXES (CONTINUED)

months ended March 31, 2019, our effective tax rate before items discretely related to the period was less than the U.S. statutory rate. This was primarily due to certain income tax credits generated in the U.S.

Our effective tax rate will vary based on a variety of factors. These 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, 2019	\$ 1,713
Increases related to:	
Prior year income tax positions	712
Decreases related to:	
Settlements	(7)
Expiration of statute of limitations	(39)
Unrecognized tax benefits as of March 31, 2020	<u>\$ 2,379</u>

The total amount of unrecognized tax benefits that, if recognized, would affect our effective tax rate is \$2.2 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.

## 12. 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 current liabilities:

Period	Balance at January 1	Warranties issued	Settlements made	Balance at March 31
Three months ended March 31, 2020	\$ 999	\$ 328	\$ (467)	\$ 860
Three months ended March 31, 2019	\$ 1,140	\$ 144	\$ (175)	\$ 1,109

Period	Balance at October 1	Warranties issued	Settlements made	Balance at March 31
Six months ended March 31, 2020	\$ 1,012	\$ 402	\$ (554)	\$ 860
Six months ended March 31, 2019	\$ 1,172	\$ 216	\$ (279)	\$ 1,109

## 13. LEASES

Our leases primarily consist of operating leases for office space. All of our leases are operating leases. For any lease with an initial term in excess of twelve 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 initial term of twelve 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. Our lease terms generally do not include options to extend or terminate the lease unless it is reasonably certain that the option will be exercised.

### 13. LEASES (CONTINUED)

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	March 31, 2020
<b>Assets</b>		
Operating leases	Other non-current assets	\$ 15,036
Total lease assets		\$ 15,036
<b>Liabilities</b>		
Operating leases	Other current liabilities	\$ 2,578
Operating leases	Other non-current liabilities	16,882
Total lease liabilities		\$ 19,460

Components of our lease cost were as follows (in thousands):

	Statement of Operations Location	Three months ended March 31, 2020	Six months ended March 31, 2020
Operating lease cost	Cost of goods sold and SG&A	\$ 831	\$ 1,683
Variable lease cost	Cost of goods sold and SG&A	214	237
Total lease cost		\$ 1,045	\$ 1,920

The following table presents supplemental information related to operating leases (in thousands):

	Six months ended March 31, 2020
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 1,175
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 593
	March 31, 2020
Weighted average remaining lease term - operating leases	5.5 years
Weighted average discount rate - operating leases	4.80%

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 March 31, 2020 (in thousands):

Fiscal year	Amount
Remainder of 2020	\$ 1,713
2021	3,105
2022	2,704
2023	2,381
2024	2,143
2025	2,142
Thereafter	9,219
Total future undiscounted lease payments	23,407
Less imputed interest	(3,947)
Total reported lease liability	\$ 19,460

### 13. LEASES (CONTINUED)

As follows, aggregate annual future minimum rental commitments under operating leases with noncancelable terms of more than one year at September 30, 2019 were reported under previous lease accounting standards (in thousands):

Fiscal year	Amount
2020	\$ 2,596
2021	2,575
2022	2,314
2023	2,056
2024	2,095
Thereafter	11,361
<b>Total minimum payments required</b>	<b>\$ 22,997</b>

### 14. RESTRUCTURING

In January 2020, we re-aligned our product management group within IoT Products and Services segment. We recorded an immaterial amount for employee termination charges. This was fully paid during the second quarter of fiscal 2020.

### 15. CONTINGENCIES

#### *Contingencies*

In November 2018, DimOnOff Inc., a company headquartered in Quebec City, Quebec, Canada ("DimOnOff"), which sells control systems in the building automation and street lighting markets sued us and a former distributor from whom DimOnOff purchased certain of our products. The suit was brought in the Superior Court of the Province of Quebec in the District of Quebec (Canada) and alleges certain Digi products it purchased and incorporated into street lighting systems in a Canadian city were defective causing some of the street lights to malfunction. It alleges damages of just over CAD 1.0 million. We intend to defend ourselves against DimOnOff's claims. At this time we cannot assess the likelihood or amount of any potential loss.

In addition to the matter discussed above, in the normal course of business, we are subject to various claims and litigation. 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.

### 16. STOCK-BASED COMPENSATION

Stock-based awards were granted under the 2020 Omnibus Incentive Plan (the "2020 Plan") beginning January 29, 2020. Prior to that date such awards made in fiscal 2020 were granted under the 2019 Omnibus Incentive Plan (the "2019 Plan"). Upon stockholder approval of the 2020 Plan, we ceased granting awards under the 2019 Plan. Shares subject to awards under the 2019 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 2020 Plan. The authority to grant options under the 2020 Plan and to set other terms and conditions rests with the Compensation Committee of the Board of Directors.

The 2020 Plan authorizes the issuance of up to 1,500,000 common shares in connection with awards of stock options, stock appreciation rights, restricted stock, restricted stock units, performance-based full value awards or other stock-based awards. Eligible participants include our employees, our affiliates, non-employee directors of our Company and any consultant or advisor who is a natural person and provides services to us or our affiliates. Options that have been granted under the 2020 Plan typically vest over a four-year period and will expire if unexercised after seven years from the date of grant. Restricted stock unit awards ("RSUs") that have been granted to directors typically vest in one year. RSUs that have been granted to executives and employees typically vest in January over a four-year period. The 2020 Plan is scheduled to expire on January 28, 2030. Options under the 2020 Plan can be granted as either incentive stock options or non-statutory stock options. The exercise price of options and the grant date price of RSUs is determined by our Compensation Committee but will not be less than the fair market value of our common stock based on the closing price as of the date of grant. Upon exercise of options or settlement of vested restricted stock units, we issue new shares of stock. As of March 31, 2020, there were approximately 1,307,117 shares available for future grants under the 2020 Plan.

## 16. STOCK-BASED COMPENSATION (CONTINUED)

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 with withholding obligations otherwise occur by the employee paying cash to us for the withholding. During the six months ended March 31, 2020 and 2019, our employees forfeited 95,209 shares and 91,040 shares, respectively, in order to satisfy respective withholding tax obligations of \$1.7 million and \$1.0 million.

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 to 3,425,000 that may be purchased under the plan. Employee contributions to the ESPP were \$0.5 million for both the six month periods ended March 31, 2020 and 2019. Pursuant to the ESPP, 53,085 and 63,694 common shares were issued to employees during the six months ended March 31, 2020 and 2019, respectively. Shares are issued under the ESPP from treasury stock. As of March 31, 2020, 776,455 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 March 31,		Six months ended March 31,	
	2020	2019	2020	2019
Cost of sales	\$ 78	\$ 25	\$ 142	\$ 80
Sales and marketing	629	466	1,060	819
Research and development	331	269	625	469
General and administrative	803	533	1,614	1,339
Stock-based compensation before income taxes	1,841	1,293	3,441	2,707
Income tax benefit	(381)	(263)	(713)	(557)
Stock-based compensation after income taxes	\$ 1,460	\$ 1,030	\$ 2,728	\$ 2,150

### Stock Options

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

	Options Outstanding	Weighted Average Exercised Price	Weighted Average Contractual Term (in years)	Aggregate Intrinsic Value (1)
Balance at September 30, 2019	3,348	\$10.85		
Granted	704	17.12		
Exercised	(462)	10.23		
Forfeited / Canceled	(61)	11.48		
Balance at March 31, 2020	3,529	\$12.17	4.3	\$ 689
Exercisable at March 31, 2020	2,053	\$10.65	3.2	\$ 689

(1) The aggregate intrinsic value represents the total pre-tax intrinsic value, based on our closing stock price of \$9.54 as of March 31, 2020, which would have been received by the option holders had all option holders exercised their options as of that date. 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 six months ended March 31, 2020 was \$3.3 million and during the six months ended March 31, 2019 was \$1.6 million.

## 16. STOCK-BASED COMPENSATION (CONTINUED)

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:

	Six months ended March 31,	
	2020	2019
Weighted average per option grant date fair value	\$6.34	\$4.36
Assumptions used for option grants:		
Risk free interest rate	1.47% - 1.73%	2.56% - 2.93%
Expected term	6.00 years	6.00 years
Expected volatility	36%	33% - 34%
Weighted average volatility	36%	33%
Expected dividend yield	0	0

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 March 31, 2020, the total unrecognized compensation cost related to non-vested stock options was \$7.3 million and the related weighted average period over which it is expected to be recognized is approximately 3.1 years.

### *Non-vested Restricted Stock Units*

The following table presents a summary of our non-vested restricted stock units as of March 31, 2020 and changes during the six months then ended (in thousands, except per common share amounts):

	Number of Awards	Weighted Average Grant Date Fair Value
Nonvested at September 30, 2019	888	\$ 11.65
Granted	351	\$ 16.49
Vested	(295)	\$ 11.66
Canceled	(58)	\$ 11.48
Nonvested at March 31, 2020	<u>886</u>	<u>\$ 13.57</u>

As of March 31, 2020, the total unrecognized compensation cost related to non-vested restricted stock units was \$10.6 million. The related weighted average period over which this cost is expected to be recognized is approximately 1.8 years.

## 17. SUBSEQUENTS EVENTS

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus ("COVID-19") a global pandemic. This pandemic has significantly impacted the economic conditions globally creating significant uncertainties in the economy.

### *Cost Reduction Actions*

Like most U.S. based businesses, COVID-19 began to have significant impact on our business in the second quarter of fiscal 2020. In response to these developments, we announced a number of cost reduction actions in April 2020:

- We have suspended most new hires, dramatically decreased our travel and discretionary spending, reduced our capital budget and requested price concessions from our largest vendors;
- We have eliminated 21 positions and reconfigured our workforce. We expect the payments associated with this restructuring to be complete by the fourth quarter of fiscal 2020;

## 17. SUBSEQUENT EVENTS (CONTINUED)

- We have indefinitely suspended our 401(K) matching program in the U.S. and its equivalent in Canada; and
- Our Board of Directors and the executive team have reduced their cash compensation and base salaries by 10% for the next 6 months in exchange for equity.

### *Paycheck Protection Program Loan*

On April 14, 2020, we were granted a loan under the Paycheck Protection Program ("PPP") established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"). Based on additional rules for the PPP established after the grant acceptance, we subsequently made the determination to pay back the full amount of the loan, plus interest. This payment was made on May 4, 2020.

## 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, 2019, 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*

The words such as "assume," "believe," "anticipate," "intend," "estimate," "target," "may," "will," "expect," "plan," "potential," "project," "should," or "continue" or the negative thereof or other expressions, which are predictions of or indicate future events and trends and which do not relate to historical matters, identify forward-looking statements. Among other items, these statements relate to expectations of the business environment in which the company 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 present outbreak of the COVID-19 pandemic and efforts to mitigate the same, economies and the ability of companies to operate globally, 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 defend or settle satisfactorily any litigation, uncertainty in global economic conditions and economic conditions within particular regions of the world which could negatively affect product demand and the financial solvency of customers and suppliers, 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 or other similar business initiatives that may impact our ability to retain important employees, the ability to achieve the anticipated benefits and synergies associated with acquisitions or divestitures (including, but not limited to, our recently announced acquisition of Opengear), 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, our Annual Report on Form 10-K for the year ended September 30, 2019, this filing on Form 10-Q and other filings, could cause the company's future 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.

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

### *Presentation of Non-GAAP Financial Measures*

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.

We understand that there are material limitations on the use of non-GAAP measures. Non-GAAP measures are not substitutes for GAAP measures, such as net income, for the purpose of analyzing financial performance. The disclosure of these measures does not reflect all charges and gains that were actually recognized by the company. 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 and that 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 from acquisitions 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 gains from the disposition of our former corporate headquarters is useful to investors to evaluate the company's core operating results and financial performance because it excludes items that are significant non-cash or non-recurring items reflected in the condensed 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.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of our condensed consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues 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 are 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 policies and 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, 2019.

### OVERVIEW

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

Our IoT Products & Services segment offers products and services that help original equipment manufacturers ("OEMs"), enterprise and government customers create and deploy, secure IoT connectivity solutions. From embedded and wireless modules to console servers, enterprise and industrial routers, we provide customers with a wide variety of communication sub-assemblies and finished products to meet their IoT communication requirements. In addition, the IoT Products & Services

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

segment provides our customers with a device management platform and other professional services to enable customers to capture and manage data from devices they connect to networks.

Our IoT Solutions segment offers wireless temperature and other condition-based monitoring services as well as task management services. These solutions are focused on the following vertical markets: food service, retail, healthcare (primarily pharmacies), transportation/logistics and education. These solutions are marketed as SmartSense by Digi™. We have formed, expanded and enhanced the IoT Solutions segment through four acquisitions.

For further detail on segment performance, see the Revenue by Segment and Cost of Goods Sold and Gross Profit by Segment sections of this Item 2.

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.

For fiscal 2020, we established the following key operating objectives:

- continued growth of our SmartSense by Digi® business that is the base of our IoT solutions segment;
- delivering growth within our IoT Products & Services segment driven by new product introductions;
- seeking further strategic growth through potential acquisitions, such as our recent purchase of Opengear in the first quarter of fiscal 2020; and
- optimizing our reduced fixed cost footprint with third-party manufacturing.

At this time, as discussed above, the ongoing COVID-19 pandemic may impact our ability to meet these objectives.

Beginning in the second fiscal quarter, Digi implemented a plan to streamline the company's operations to more closely align expenses to our projected revenue as well as position the company for continued operating performance and profitable growth.

We utilize many financial, operational, and other metrics to evaluate our financial condition and financial performance. Below we highlight the metrics for the second quarter of fiscal 2020 that we feel are most important in these evaluations:

- Consolidated revenue increased \$7.7 million, or 11.7% in the second quarter of fiscal 2020 compared to the second quarter of fiscal 2019. Product revenue decreased by \$7.2 million, or 12.3%, in the second quarter of fiscal 2020 compared to the same period a year ago. Services revenue increased by \$0.5 million, or 7.1%, in the second quarter of fiscal 2020 compared to the same period a year ago.
- Gross margin increased as a percentage of revenue to 52.6% in the second quarter of fiscal 2020 as compared to 46.1% in the second quarter of fiscal 2019.
- Net income for the second fiscal quarter of 2020 was \$2.0 million, or \$0.07 per diluted share. Net income for the second fiscal quarter of 2019 was \$1.3 million, or \$0.05 per diluted share. Adjusted net income and adjusted net income per share was \$8.3 million, or \$0.28 per diluted share. In the second fiscal quarter of fiscal 2019, adjusted net income and adjusted net income per share was \$4.8 million, or \$0.17 per diluted share.
- Adjusted EBITDA for the second fiscal quarter of 2020 was \$11.2 million, or 15.2% of total revenue. In the second fiscal quarter of fiscal 2019, Adjusted EBITDA was \$6.5 million, or 10.0% of total revenue.

### *Key trends regarding our existing business*

The following trends affected our financial performance in fiscal 2019 and 2018. Without taking into account the potential impacts of the ongoing COVID-19 pandemic, which are discussed below, we would expect these trends to continue to impact our results in the future:

- We believe the market for IoT products and related services is in the midst of a long-term expansion. We believe our IoT Products & Services business is positioned for modest revenue and profitability growth and that our IoT Solutions business is positioned for more significant revenue growth given the large total addressable market for condition monitoring and asset tracking services that is in earlier stages of adoption.



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

- As recurring revenues from subscription and device cloud monitoring services continue to grow, we expect they will impact our gross margins positively as the revenue of incremental subscription additions is not offset at the same rate as expected increases in the costs associated with implementing such additions.
- We expect revenues from our network product offerings within our IoT Products & Services business will decrease over time many of which are in the mature phase of their product life cycles. Note, however, that Opengear's products are included in network product offerings and that we believe these products are not in the mature phase of their lifecycle.

***Potential Impacts of COVID-19 on Our Business and Operations***

The COVID-19 pandemic represents a fluid situation that presents a wide range of potential impacts of varying durations for different global geographies, including locations where we have offices, employees, customers, vendors and other suppliers and business partners.

Like most US-based businesses, the COVID-19 pandemic and efforts to mitigate the same began to have impacts on our business in March 2020. By that time, much of our second fiscal quarter was completed. Because we have a broad set of customers for our products across many industries, to date we have observed disparate impacts among categories of customers, products and services. We have observed recent increases in demand for certain product categories. Conversely, some industries such as entertainment, hospitality and retail that purchase our products and services have already reported a steep decline in demand for their own products or services and we have already observed decreases in their demand within our own business.

Given the fact our products and services serve companies across a broad range of industries, we expect our sales will experience more volatility as a result of the changing and less predictable fiscal health and operational needs of many customers as a result of the COVID-19 pandemic. We are aware that many companies, including many of our suppliers and customers, are reporting or predicting negative impacts from COVID-19 on future operating results. But given disparate demands for certain of our products and from customers in varying industries, it remains too early for us to know the exact impact COVID-19 will have on overall demand for our products and services. We also cannot be certain how demand may shift over time as the impacts of the COVID-19 pandemic may go through several phases of varying severity and duration.

***Present State of Our Operations***

During our second fiscal quarter ended March 31, 2020, we generated \$9.4 million of operating cash flow. As of that date, we had a cash balance of \$58 million. In light of broader macro-economic risks and already known impacts on certain industries that use our products and services, we have taken and are taking targeted steps to lower our operating expenses because of the COVID-19 pandemic. We continue to monitor the impacts of COVID-19 on our operations closely and this situation could change based on a significant number of factors that are not entirely within our control and are discussed in this and other sections of this report on Form 10-Q. We do not expect there to be material changes to our assets on our balance sheet or our ability to timely account for those assets. Further, in connection with the preparation of this quarterly report on Form 10-Q and the interim financial statements contained herein, we reviewed the potential impacts of the COVID-19 pandemic on goodwill and intangible assets and have determined there to be no material impact at this time. We have also reviewed the potential impacts on future risks to the business as it relates to collections, returns and other business related items. As a result, we increased our reserve for sales returns and additional carrier fees for certain international shipments.

***Potential Impacts on Our Supply Chain***

To date, restrictions and border closures have not materially restrained our ability to obtain inventory or manufacture or deliver products or services to customers. However, if such restrictions become more severe, they could negatively impact those activities in a way that would harm our business. Travel restrictions impacting people can restrain our ability to assist our customers with on-site installation activities or product troubleshooting, but at present we do not expect these impacts on personal travel to be material to our business operations or financial results. We have taken steps to restrain and monitor our operating expenses and therefore we do not expect any such impacts to materially change the relationship between costs and revenues.

***Proactive Efforts to Mitigate the Negative Impacts of COVID-19***

Like most companies, we have taken a range of actions with respect to how we operate to assure we comply with government restrictions and guidelines as well as best practices to protect the health and well-being of our employees and our ability to continue operating our business effectively. To date, we have been able to operate our business effectively using these measures and to maintain all internal controls as documented and posted. We also have not experienced challenges in

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

maintaining business continuity and do not expect to incur material expenditures to do so. However, the impacts of COVID-19 and efforts to mitigate the same have remained unpredictable and it remains possible that challenges may arise in the future.

The actions we have taken so far during the pandemic include, but are not limited to:

- Requiring all employees who can work from home to work from home;
- Increasing our IT networking capability to best assure employees can work effectively outside the office;
- For employees who must perform essential functions in one of our offices:
  - Having employees maintain a distance of at least six feet from other employees whenever possible;
  - Having employees work in dedicated shifts to lower the risk all employees who perform similar tasks might become infected by COVID-19;
  - Having employees stay segregated from other employees in the office with whom they require no interaction;
  - Requiring employees to wear masks while they are in the office whenever possible;
  - Allowing employees who utilize public transportation to get to and from the office to work on flexible timelines so they can ride public transportation during non-peak use hours;
- Increased cleaning of office spaces, surfaces and tools that may come into contact with employees; and
- Allowing 72 hours before we open non-essential packages and disinfecting any essential packages before they are opened.

**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 March 31,			% incr. (decr.)	Six months ended March 31,			% incr. (decr.)		
	2020		2019		2020		2019			
Revenue	\$ 73,447	100.0 %	\$ 65,764	100.0 %	11.7	\$ 135,764	100.0 %	\$ 128,077	100.0%	6.0
Cost of sales	34,806	47.4	35,435	53.9	(1.8)	66,659	49.1	67,965	53.1	(1.9)
Gross profit	38,641	52.6	30,329	46.1	27.4	69,105	50.9	60,112	46.9	15.0
Operating expenses	34,917	47.5	29,544	44.9	18.2	65,864	48.5	53,769	41.9	22.5
Operating income	3,724	5.1	785	1.2	374.4	3,241	2.4	6,343	5.0	(48.9)
Other (expense) income, net	(1,595)	(2.2)	399	0.6	(499.7)	(2,032)	(1.5)	563	0.4	(460.9)
Income before income taxes	2,129	2.9	1,184	1.8	79.8	1,209	0.9	6,906	5.4	(82.5)
Income tax expense (benefit)	125	0.1	(158)	(0.2)	(179.1)	(1,003)	(0.7)	882	0.7	(213.7)
Net income	\$ 2,004	2.7 %	\$ 1,342	2.0 %	49.3	\$ 2,212	1.6 %	\$ 6,024	4.7%	63.3

**REVENUE BY SEGMENT**

(\$ in thousands)	Three months ended March 31,			% incr. (decr.)	Six months ended March 31,			% incr. (decr.)		
	2020		2019		2020		2019			
<b>Revenue</b>										
IoT Products & Services	\$ 66,890	91.1	\$ 56,039	85.2	19.4	\$ 121,503	89.5%	\$ 109,333	85.4%	11.1
IoT Solutions	6,557	8.9	9,725	14.8	(32.6)	14,261	10.5	18,744	14.6	(23.9)
Total revenue	\$ 73,447	100.0	\$ 65,764	100.0	11.7	\$ 135,764	100.0%	\$ 128,077	100.0%	6.0

*IoT Products & Services*

IoT Products & Services revenue increased 19.4% and 11.1% for the three and six months ended March 31, 2020, respectively, as compared to the same periods in the prior fiscal year, primarily as a result of:

- incremental revenue from our acquisition of Opengear; and
- increased sales to a significant customer of our cellular products and support services revenue.

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

This increase partially was offset by:

- decreased sales of our enterprise and embedded products due to timing and delays in customer purchases
- large sales to certain customers in the prior year that did not reoccur in fiscal 2020 that decreased sales of our network products for both the three and six months ended March 31, 2020 compared to the prior year comparable periods and decreased RF products for the six months ended March 31, 2020 compared to the same period in the prior year; and
- decreased sales of our Digi Remote Manager<sup>®</sup> and wireless design services.

**IoT Solutions**

IoT Solutions revenue decreased 32.6% and 23.9% for the three and six months ended March 31, 2020, respectively, as compared to the same periods in the prior fiscal year, primarily as a result of:

- equipment upgrades from existing customers in fiscal 2019 that did not reoccur in fiscal 2020.

This decrease partially was offset by:

- increased recurring revenue from our subscription services.

**COST OF GOODS SOLD AND GROSS PROFIT BY SEGMENT**

(\$ in thousands)	Three months ended March 31,		Basis point Inc. (Decr.)	Six months ended March 31,		Basis point Inc. (Decr.)				
	2020	2019		2020	2019					
<b>Cost of Goods Sold</b>										
IoT Products & Services	\$ 31,430	47.0%	\$ 30,476	54.4%	(740)	\$ 59,392	48.9%	\$ 58,404	53.4%	(450)
IoT Solutions	3,376	51.5%	4,959	51.0%	50	7,267	51.0%	9,561	51.0%	—
Total cost of goods sold	<u>\$ 34,806</u>	47.4%	<u>\$ 35,435</u>	53.9%	(650)	<u>\$ 66,659</u>	49.1%	<u>\$ 67,965</u>	53.1%	(400)
<b>Gross Profit</b>										
IoT Products & Services	\$ 35,460	53.0%	\$ 25,563	45.6%	740	\$ 62,111	51.1%	\$ 50,929	46.6%	450
IoT Solutions	3,181	48.5%	4,766	49.0%	(50)	6,994	49.0%	9,183	49.0%	—
Total gross profit	<u>\$ 38,641</u>	52.6%	<u>\$ 30,329</u>	46.1%	650	<u>\$ 69,105</u>	50.9%	<u>\$ 60,112</u>	46.9%	400

**IoT Product & Services**

IoT Products & Services gross profit margin increased 740 and 450 basis points for the three and six months ended March 31, 2020, respectively, as compared to the same periods in the prior fiscal year. These increases were primarily a result of:

- incremental gross profit from our acquisition of Opengear; and
- increased sales from our support services, which has a higher gross margins.

This increase partially was offset by:

- unfavorable product mix as we experienced lower sales of RF products and certain network products, which typically have higher gross margins.

**IoT Solutions**

The IoT Solutions gross profit margin decreased 50 basis points for the three months ended March 31, 2020 as compared to the same period in the prior fiscal year primarily was the result of:

- revenue mix; significant equipment upgrades in second quarter of fiscal 2019, which typically has higher gross margins. In addition, in the second quarter of fiscal 2020 we experienced higher installation costs.

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

This decrease was partially offset by:

- increased recurring subscription revenue, which typically has higher gross margins.

The IoT Solutions gross profit margin remained flat for the six months ended March 31, 202, compared to the same period in the prior fiscal year.

**OPERATING EXPENSES**

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

(\$ in thousands)	Three months ended March 31,				\$ incr. (decr.)	% incr. (decr.)	Six months ended March 31,				\$ incr. (decr.)	% incr. (decr.)
	2020		2019				2020		2019			
<b>Operating Expenses</b>												
Sales and marketing	\$ 14,556	19.8	\$ 11,534	17.5	\$ 3,022	26.2	\$ 26,617	19.6%	\$ 23,191	18.1 %	\$ 3,426	14.8
Research and development	11,532	15.7	9,569	14.6	1,963	20.5	21,863	16.1%	19,087	14.9 %	2,776	14.5
General and administrative	8,791	12.0	8,441	12.8	350	4.1	17,346	12.8%	11,558	9.0 %	5,788	50.1
Restructuring charge (reversal)	38	—	—	—	38	NM	38	—%	(67)	(0.1)%	105	(156.7)
Total operating expenses	\$ 34,917	47.5	\$ 29,544	44.9	\$ 5,373	18.2	\$ 65,864	48.5%	\$ 53,769	41.9 %	\$ 12,095	22.5

*The \$5.4 million increase in operating expenses in the second quarter of fiscal 2020 from the second quarter of fiscal 2019 primarily was the result of:*

- incremental operating expenses from Opengear;

*This increase partially was offset by:*

- a decrease in acquisition earnout expenses of \$0.9 million;
- a \$0.7 million decrease in other professional and outside services mostly related to acquisition expenses; and
- a \$0.8 million decrease related to employee commission and other employee related costs.

*The \$12.1 million increase in operating expenses in the first half of fiscal 2020 from the first half of fiscal 2019 primarily was the result of:*

- incremental operation expenses from Opengear;
- a \$4.4 million gain on the sale of our corporate headquarters building recorded in the first quarter of fiscal 2019; and
- a \$1.0 increase in other professional and outside services mostly related to acquisition expenses.

*This increase partially was offset by:*

- a \$0.8 million decrease related to employee commission and other employee related costs;
- a decrease in acquisition earnout expenses of \$0.9 million;
- a reduction of \$0.6 million in depreciation and amortization expense mostly related to certain intangibles that have been fully amortized.

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

OTHER (EXPENSE) INCOME, NET

(\$ in thousands)	Three months ended March 31,				\$ incr. (decr.)	% incr. (decr.)	Six months ended March 31,				\$ incr. (decr.)	% incr. (decr.)
	2020		2019				2020		2019			
<b>Other (expense) income, net</b>												
Interest income	\$ 50	0.1	\$ 144	0.2	\$ (94)	(65.3)	\$ 281	0.2 %	\$ 352	0.3 %	\$ (71)	(20.2)
Interest expense	(1,734)	(2.4)	(2)	—	(1,732)	NM	(2,166)	(1.6)%	(94)	(0.1)%	(2,072)	NM
Other income (expense), net	89	0.1	257	0.4	(168)	(65.4)	(147)	(0.1)%	305	0.2 %	(452)	(148.2)
Total other (expense) income, net	<u>\$ (1,595)</u>	<u>(2.2)</u>	<u>\$ 399</u>	<u>0.6</u>	<u>\$ (1,994)</u>	<u>(499.7)</u>	<u>\$ (2,032)</u>	<u>(1.5)%</u>	<u>\$ 563</u>	<u>0.4 %</u>	<u>\$ (2,595)</u>	<u>(460.9)</u>

NM means not meaningful

The \$2.0 million decrease in other (expense) income, net in the second quarter of fiscal 2020 from the second quarter of fiscal 2019 primarily was the result of:

- an increase in interest expense of \$1.7 million related to the balance outstanding under the Credit Facility in connection with the acquisition of Opengear on December 13, 2019 (see Note 8 to the condensed consolidated financial statements).
- a decrease of \$0.1 million related to a reduction in foreign currency gains.

The \$2.6 million decrease in other (expense) income, net in the first half of fiscal 2020 from the second half of fiscal 2019 primarily was the result of:

- an increase in interest expense of \$2.1 million related to the balance outstanding under the Credit Facility in connection with the acquisition of Opengear on December 13, 2019 (see Note 8 to the condensed consolidated financial statements).
- a decrease of \$0.4 million related to a reduction in foreign currency gains, primarily related to fluctuations in the Euro.

INCOME TAXES

See Note 11 to the condensed consolidated financial statements for discussion of income taxes.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
(CONTINUED)**
**NON-GAAP FINANCIAL INFORMATION**

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 March 31,				Six months ended March 31,			
	2020		2019		2020		2019	
		% of total revenue		% of total revenue		% of total revenue		% of total revenue
Total revenue	\$ 73,447	100.0%	\$ 65,764	100.0%	\$ 135,764	100.0%	\$ 128,077	100.0%
Net income	\$ 2,004		\$ 1,342		\$ 2,212		\$ 6,024	
Interest expense (income), net	1,684		(142)		1,885		(258)	
Income tax expense (benefit)	125		(158)		(1,003)		882	
Depreciation and amortization	5,236		3,153		8,853		6,826	
Stock-based compensation	1,841		1,293		3,441		2,707	
Gain on sale of building	—		—		—		(4,396)	
Restructuring charge (reversal)	38		—		38		(67)	
Acquisition expense	249		1,060		2,155		991	
Adjusted EBITDA	\$ 11,177	15.2%	\$ 6,548	10.0%	\$ 17,581	12.9%	\$ 12,709	9.9%

**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 March 31,				Six months ended March 31,			
	2020		2019		2020		2019	
Net income and net income per diluted share	\$ 2,004	\$ 0.07	\$ 1,342	\$ 0.05	\$ 2,212	\$ 0.07	\$ 6,024	\$ 0.21
Amortization	4,116	0.14	2,069	0.07	6,564	0.22	4,609	0.16
Stock-based compensation	1,841	0.06	1,293	0.05	3,441	0.12	2,707	0.10
Other non-operating (income) expense	(89)	—	(257)	(0.01)	147	—	(305)	(0.01)
Acquisition expense	249	0.01	1,060	0.04	2,155	0.07	991	0.04
Acquisition earn-out adjustments	(388)	(0.01)	567	0.02	(129)	—	810	0.03
Restructuring charge (reversal)	38	—	—	—	38	—	(67)	—
Interest expense related to acquisition	1,709	0.06	—	—	2,125	0.07	—	—
Gain on sale of building	—	—	—	—	—	—	(4,396)	(0.16)
Tax effect from the above adjustments <sup>(1)</sup>	(1,121)	(0.04)	(1,110)	(0.04)	(2,731)	(0.09)	(1,020)	(0.04)
Discrete tax benefits <sup>(2)</sup>	(102)	—	(202)	(0.01)	(1,061)	(0.04)	(308)	(0.01)
Adjusted net income and adjusted net income per diluted share <sup>(3)</sup>	\$ 8,257	\$ 0.28	\$ 4,762	\$ 0.17	\$ 12,761	\$ 0.43	\$ 9,045	\$ 0.32
Diluted weighted average common shares		29,486		28,438		29,585		28,289

(1) The tax effect from the above adjustments assumes an annualized effective tax rate of 18% for both fiscal 2020 and 2019.

(2) For the three months ended March 31, 2020, discrete tax benefits primarily include excess tax benefits recognized on stock compensation. For the six months ended March 31, 2020, discrete tax benefits include excess tax benefits recognized on stock compensation and an adjustment of our state deferred tax rate due to the Opengear acquisition. For the three and six months ended March 31, 2019, discrete tax benefits are a result of expiring statute of limitations of uncertain tax benefits as well as excess tax benefits recognized on stock compensation.

(3) Adjusted net income per diluted share may not add due to the use of rounded numbers.

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

### LIQUIDITY AND CAPITAL RESOURCES

Historically we have financed our operations and capital expenditures principally with funds generated from operations. 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. In the first quarter of fiscal 2020, we incurred debt of \$110 million associated with our acquisition of Opengear. As of March 31, 2020, \$40 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 8 to our condensed consolidated financial statements.

We expect positive cash flows from operations. 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 twelve months and beyond. As follows, our condensed consolidated statement of cash flows for the six months ended March 31, 2020 and 2019 is summarized:

(\$ in thousands)	Six months ended March 31,	
	2020	2019
Operating activities	\$ (12,683)	\$ 6,202
Investing activities	(136,532)	4,953
Financing activities	112,931	908
Effect of exchange rate changes on cash and cash equivalents	1,578	(484)
Net (decrease) increase in cash and cash equivalents	\$ (34,706)	\$ 11,579

*Cash flows from operating activities decreased \$18.9 million primarily as a result of:*

- negative changes in operating assets and liabilities (net of acquisitions) of \$20.1 million, primarily due to increased accounts receivable and income taxes receivable, decrease in accounts payable, lower accrued expenses; and
- a decrease in net income of \$3.8 million, partially offset by non-cash adjustments of \$5.0 million. This primarily included a gain in the sale of our former corporate headquarters building in the prior fiscal year.

*Cash flows from investing activities decreased \$141.5 million primarily as a result of:*

- net cash used of \$136.1 million for the purchase of Opengear;
- proceeds of \$10.0 million for the sale of our corporate headquarters building and proceeds from maturities of our marketable securities both in the prior fiscal year;
- a partial offset to these decreases was related to purchases of property, equipment, and facilities improvements (mostly related to the build-out of our new corporate headquarters space) in the prior fiscal year.

*Cash flows from financing activities increased \$112.0 million primarily as a result of:*

- proceeds from assuming \$110.0 million of debt from the Revolving Loan and Term Loan (see Note 8 to the condensed consolidated financial statements); and
- increases in proceeds from stock award plans in addition to an increase in prior year acquisition earn-out payments;
- a partial offset to these decreases relates to the payments on long-term debt.

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

The following table summarizes our contractual obligations at March 31, 2020:

(\$ in thousands)	Payments due by fiscal period				
	Total	Less than 1 year	1-3 years	3-5 years	Thereafter
Operating leases	\$ 24,426	\$ 3,497	\$ 5,887	\$ 4,699	\$ 10,343
Contingent consideration	\$ 10,379	\$ 10,379	\$ —	\$ —	\$ —
Revolving loan	\$ 60,000	\$ —	\$ —	\$ 60,000	\$ —
Term loan	\$ 49,375	\$ 2,500	\$ 6,563	\$ 40,312	\$ —
Interest on long-term debt	\$ 23,257	\$ 5,227	\$ 9,455	\$ 8,575	\$ —
Total	\$ 167,437	\$ 21,603	\$ 21,905	\$ 113,586	\$ 10,343

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 \$2.4 million as of March 31, 2020. 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 may be exposed to interest rate risk should we decide to invest in marketable securities. When we hold marketable securities, we classify them as available-for-sale and are carried at fair value. Our investments may consist of money market funds, certificates of deposit, commercial paper, corporate bonds and government municipal bonds. Our investment policy specifies the types of eligible investments and minimum credit quality of our investments, as well as diversification and concentration limits which mitigate our risk. We do not use derivative financial instruments to hedge against interest rate risk because the majority of our investments mature in less than one year.

We are exposed to market risks related to fluctuations in interest rates on amounts borrowed under the Credit Facility. As of March 31, 2020, we had \$49.4 million outstanding under our Term Loan and \$60.0 million outstanding under our Revolving Loan, subject to variable interest rates that reset quarterly based on changes in market rates and our consolidated leverage. Based on the balance sheet position for both the Term Loan and Revolving Loan at March 31, 2020, the annualized effect of a 25 basis point change in interest rates would increase or decrease our interest expense by \$0.1 million. For additional information, see Note 8 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.

**FOREIGN CURRENCY RISK**

We are exposed to foreign currency transaction risk associated with certain sales transactions being denominated in Euros, British Pounds, Japanese Yen or Canadian Dollars. We are also 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.

For both the six months ended March 31, 2020 and 2019, we had approximately \$30.9 million and \$32.9 million, respectively, of revenue from foreign customers including export sales. Of these sales, \$1.5 million and \$1.7 million, respectively, were denominated in foreign currency, predominantly Euros and Canadian Dollar. In future periods, we expect that the majority of our sales will continue to be in U.S. Dollars. The table below compares the average monthly exchange rates of the Euro, British Pound, Japanese Yen and Canadian Dollar to the U.S. Dollar:

	Six months ended March 31,		% increase (decrease)
	2020	2019	
Euro	1.0979	1.1419	(3.9)%
British Pound	1.2191	1.2942	(5.8)%
Japanese Yen	0.0092	0.0090	2.2 %
Canadian Dollar	0.7244	0.7547	(4.0)%

A 10% change in the average exchange rate for the Euro, British Pound, Japanese Yen and Canadian Dollar to the U.S. Dollar during the first six months of fiscal 2020 would have resulted in a 0.1% increase or decrease in revenue and a 1.8% increase or decrease in stockholders' equity due to foreign currency translation. The above analysis does not take into consideration any pricing adjustments we might consider in response to changes in such exchange rates.

**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

On December 13, 2019, we completed our acquisition of Opengear. As permitted for recently acquired businesses, management has excluded the acquired Opengear business from its assessment of internal control over financial reporting. The excluded Opengear business represents total assets of 35% of our consolidated total assets as of March 31, 2020. The Opengear total assets include intangibles of 21%, which will be evaluated and tested under our corporate controls. We are required to include Opengear in our assessment beginning in the first quarter of fiscal 2021.

There were no changes in our internal control over financial reporting that occurred during the quarterly period ended March 31, 2020 that have materially affected, or are reasonably likely to affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The disclosure set forth under the heading "Contingencies" in Note 15 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 noted 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, 2019 and in Item 1A of Part II of our Quarterly Report on Form 10-Q for the quarter ended December 31, 2019.

***Our sales and operations globally face risks related to health epidemics or pandemics that could disrupt our operations and adversely impact our sales and operating results.***

Our business operations and financial results could be adversely affected by the effects of a widespread outbreak of contagious disease or other material adverse widespread public health development, such as the recent outbreak of the COVID-19 respiratory illness caused by a novel coronavirus first identified in Wuhan, Hubei Province, China. These effects could include the absence of one or more key employees or significant numbers of employees generally, disruptions or restrictions on our ability to maintain operations at one or more of our facilities, disruptions or restrictions to travel that is important to our operations, adverse impacts on our ability to distribute or deliver our products or services as well as temporary disruptions, restrictions or closures of the facilities of our suppliers or customers and their contract manufacturers. Any of the above absences, disruptions or restrictions could impact our sales and operating results negatively. If these absences, disruptions or restrictions are significant and material it is possible our business continuity could be jeopardized. Depending on the location of any such disruption or restriction, there may not be a solution that will be easy to implement in a timely manner or without significant expense. In addition, any significant outbreak of contagious diseases could materially and adversely affect the economies and financial markets of many countries or the entire world, resulting in an economic downturn that could affect demand for our products, likely impact our operating results and restrain our access to capital from lenders or other sources.

***If our stock price declines over a sustained period of time, our profits significantly decrease or our acquired businesses do not attain results that were anticipated at the time of acquisition, we may need to recognize an impairment of our goodwill.***

The price of our common stock could decline. If such a decline continued over a sustained period of time, we could have an impairment of our goodwill. Our market value is dependent upon certain factors, including continued future growth of our products, services and solutions. If such growth does not materialize or our forecasts are not met (including forecasts established at the time of acquisition), our profits could be significantly reduced, and our market value may decline, which could result in an impairment of our goodwill. As discussed in other risk factors, there could be circumstances beyond our control, such as impacts from the current COVID-19 pandemic that could exacerbate the conditions that would lead to such an impairment.

**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 second quarter of fiscal 2020:

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
January 1, 2020 - January 31, 2020	6,340	\$ 16.49	—	\$ —
February 1, 2020 - February 29, 2020	146	\$ 14.19	—	\$ —
March 1, 2020 - March 31, 2020	—	\$ —	—	\$ —
	<u>6,486</u>	\$ 16.44	—	\$ —

(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**

None.

**ITEM 6. EXHIBITS**

Exhibit No.	Description	Method of Filing
2 (a)	<a href="#">Agreement and Plan of Merger by and among Digi International Inc., Namath Merger Sub. Inc., Opengear, Inc. and Shareholder Representative Services LLC, as representative, dated as of November 7, 2019*</a> (1)	Incorporated by Reference
3 (a)	Restated Certificate of Incorporation of the Company, as amended (2)	Incorporated by Reference
3 (b)	<a href="#">Amended and Restated By-Laws of the Company (3)</a>	Incorporated by Reference
10 (a)	<a href="#">Digi International Inc. Employee Stock Purchase Plan as Amended and Restated as of December 10, 2019**</a>	Filed Electronically
10 (b)	<a href="#">Digi International Inc. 2020 Omnibus Incentive Plan**</a>	Filed Electronically
10 (b)(i)	<a href="#">Form of (Director) Restricted Stock Unit Award Agreement (for awards under Digi International Inc. 2020 Omnibus Incentive Plan)**</a>	Filed Electronically
10 (b)(ii)	<a href="#">Form of (Executive) Restricted Stock Unit Award Agreement (for awards under Digi International Inc. 2020 Omnibus Incentive Plan)**</a>	Filed Electronically
10 (b)(iii)	<a href="#">Form of (Employee) Restricted Stock Unit Award Agreement (for awards under Digi International Inc. 2020 Omnibus Incentive Plan)**</a>	Filed Electronically
10 (b)(iv)	<a href="#">Form of (Executive) Notice of Grant of Stock Options and Option Agreement (for grants under Digi International Inc. 2020 Omnibus Incentive Plan)**</a>	Filed Electronically
10 (b)(v)	<a href="#">Form of (Employee) Notice of Grant of Stock Options and Option Agreement (for grants under Digi International Inc. 2020 Omnibus Incentive Plan)**</a>	Filed Electronically
10 (c)	<a href="#">First Amendment to Credit Agreement dated as of April 14, 2020 by and among Digi International, Inc., the other loan parties signatory thereto, each Lender under the Credit Agreement party thereto and BMO Harris Bank, N.A., as administrative agent</a>	Filed Electronically
31 (a)	<a href="#">Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer</a>	Filed Electronically
31 (b)	<a href="#">Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer</a>	Filed Electronically
32	<a href="#">Section 1350 Certification</a>	Filed Electronically
101	The following materials from Digi International Inc.'s Quarterly Report on Form 10-Q for the fiscal period ended March 31, 2020, 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 March 31, 2020 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 2.1 to the Company's Current Report on Form 8-K filed on November 8, 2019.
- (2) Incorporated by reference to Exhibit 3(a) to the Company's Annual Report on Form 10-K for the year ended September 30, 1993.
- (3) Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on April 30, 2020.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

DIGI INTERNATIONAL INC.

Date: May 8, 2020

By: /s/ James J. Loch

James J. Loch

Senior Vice President, Chief Financial Officer and Treasurer  
(Principal Financial Officer and Authorized Officer)

**Digi International Inc.****Employee Stock Purchase Plan  
as amended and restated as of December 10, 2019**

(effective December 10, 2019; approved by stockholders January 29, 2020)

1. Purpose and Scope of Plan. The purpose of this Digi International Inc. Employee Stock Purchase Plan (the “Plan”) is to provide the employees of Digi International Inc. (the “Company”) with an opportunity to acquire a proprietary interest in the Company through the purchase of its common stock and, thus, to develop a stronger incentive to work for the continued success of the Company. The Plan is intended to be an “employee stock purchase plan” within the meaning of Section 423(b) of the Internal Revenue Code of 1986, as amended, and shall be interpreted and administered in a manner consistent with such intent.

2. Definitions.

2.1 The terms defined in this section are used (and capitalized) elsewhere in this Plan:

- (a) “Affiliate” means any corporation that is a “parent corporation” or “subsidiary corporation” of the Company, as defined in Sections 424(e) and 424(f) of the Code or any successor provision, and whose participation in the Plan has been approved by the Board of Directors.
- (b) “Board of Directors” means the Board of Directors of the Company.
- (c) “Code” means the Internal Revenue Code of 1986, as amended from time to time.
- (d) “Committee” means three or more Disinterested Persons designated by the Board of Directors to administer the Plan under Section 13.
- (e) “Common Stock” means the common stock, par value \$.01 per share (as such par value may be adjusted from time to time), of the Company.
- (f) “Company” means Digi International Inc.
- (g) “Compensation” means the gross cash compensation (including wage, salary, commission, bonus, and overtime earnings) paid by the Company or any Affiliate to a Participant in accordance with the terms of employment.
- (h) “Disinterested Persons” means a member of the Board of Directors who is considered a disinterested person within the meaning of Exchange Act Rule 16b-3 or any successor definition.
- (i) “Eligible Employee” means any employee of the Company or an Affiliate who has been employed for at least 90 days and whose customary employment is at least 20 hours per week; provided, however, that “Eligible Employee” shall not include any person who would be deemed for purposes of Section 423(b)(3) of the Code, to own stock possessing 5% or more of the total combined voting power or value of all classes of stock of the Company.
- (j) “Exchange Act” means the Securities Exchange Act of 1934, as amended from time to time.
- (k) “Fair Market Value” of a share of Common Stock as of any date means, if the Company’s Common Stock is listed on a national securities exchange or traded in the national market system, the mean between the high and low sale prices for such Common Stock on such exchange or market on said date, or, if no sale has been made on such exchange or market on said date, on the last preceding day on which any sale shall have been made. If such

determination of Fair Market Value is not consistent with the then current regulations of the Secretary of the Treasury applicable to plans intended to qualify as an "employee stock purchase plan" within the meaning of Section 423(b) of the Code, however, Fair Market Value shall be determined in accordance with such regulations. The determination of Fair Market Value shall be subject to adjustment as provided in Section 14.

- (l) "Participant" means an Eligible Employee who has elected to participate in the Plan in the manner set forth in Section 4.
- (m) "Plan" means this Digi International Inc. Employee Stock Purchase Plan, as amended from time to time.
- (n) "Purchase Period" means each quarter of the Company's fiscal year. The first Purchase Period was the quarter that started April 1, 1996 and ends June 30, 1996.
- (o) "Recordkeeping Account" means the account maintained in the books and records of the Company recording the amount withheld from each Participant through payroll deductions made under the Plan.
- (p) "Share" means a share of Common Stock.

3. Scope of the Plan. Shares of Common Stock may be sold by the Company to Eligible Employees commencing April 1, 1996, as hereinafter provided, but not more than 3,425,000 shares of Common Stock (subject to adjustment as provided in Section 14) shall be sold to Eligible Employees pursuant to this Plan. All sales of Common Stock pursuant to this Plan shall be subject to the same terms, conditions, rights and privileges. The shares of Common Stock delivered by the Company pursuant to this Plan may be acquired shares having the status of any combination of authorized but unissued shares, newly issued shares, or treasury shares.

4. Eligibility and Participation. To be eligible to participate in the Plan for a given Purchase Period, an employee must be an Eligible Employee on the first day of such Purchase Period. An Eligible Employee may elect to participate in the Plan by filing an enrollment form with the Company before the first day of such Purchase Period that authorizes regular payroll deductions from Compensation beginning with the first payday in such Purchase Period and continuing until the Eligible Employee withdraws from the Plan, modifies his or her authorization, or ceases to be an Eligible Employee, as hereinafter provided.

5. Amount of Common Stock Each Eligible Employee May Purchase.

5.1 Subject to the provisions of the Plan, each Eligible Employee shall be offered the right to purchase on the last day of the Purchase Period the number of shares of Common Stock (including fractional shares) that can be purchased at the price specified in Section 5.2 with the entire credit balance in the Participant's Recordkeeping Account; provided, however, that the maximum number of shares of Common Stock that may be purchased by a Participant during any Purchase Period shall not exceed the number determined by dividing (i) the excess, if any, of (A) \$25,000 over (B) the aggregate Fair Market Value (determined on the first day of the relevant Purchase Period) of shares of Common Stock previously acquired by the Participant in each Purchase Period occurring earlier in the same calendar year, by (ii) the Fair Market Value of a share of Common Stock on the first day of the current Purchase Period. Notwithstanding the foregoing, no Eligible Employee shall be granted an option to acquire shares of Common Stock under this Plan which permits the Eligible Employee's rights to purchase shares of Common Stock under this Plan and all employee stock purchase plans of the Company and the Affiliates to accrue at a rate which exceeds \$25,000 of Fair Market Value (determined at the time such option is granted) for each calendar year in which such option is outstanding at any time. If the purchases by all Participants would otherwise cause the aggregate number of shares of Common Stock to be sold under the Plan to exceed the number specified in Section 3, however, each Participant shall

be allocated at a ratable portion of the maximum number of shares of Common Stock which may be sold.

- 5.2 The purchase price of each share of Common Stock sold pursuant to this Plan will be the lesser of (a) or (b) below: (a) 85% of the Fair Market Value of such share on the first day of the Purchase Period. (b) 85% of the Fair Market Value of such share on the last day of the Purchase Period.

6. Method of Participation.

- 6.1 The Company shall give notice to each Eligible Employee of the opportunity to purchase shares of Common Stock pursuant to this Plan and the terms and conditions for such offering. Such notice is subject to revision by the Company at any time prior to the date of purchase of such shares. The Company contemplates that for tax purposes the first day of a Purchase Period will be the date of the offering of such shares.
- 6.2 Each Eligible Employee who desires to participate in the Plan for a Purchase Period shall signify his or her election to do so by signing an election form developed by the Committee. An Eligible Employee may elect to have any whole percent of Compensation withheld, but not exceeding ten percent (10%) per pay period. An election to participate in the Plan and to authorize payroll deductions as described herein must be made before the first day of the Purchase Period to which it relates and shall remain in effect unless and until such Participant withdraws from this Plan, modifies his or her authorization, or terminates his or her employment with the Company, as hereinafter provided.
- 6.3 Any Eligible Employee who does not make a timely election as provided in Section 6.2, shall be deemed to have elected not to participate in the Plan. Such election shall be irrevocable for such Purchase Period.

7. Recordkeeping Account.

- 7.1 The Company shall maintain a Recordkeeping Account for each Participant. Payroll deductions pursuant to Section 6 will be credited to such Recordkeeping Accounts on each payday.
- 7.2 No interest will be credited to a Participant's Recordkeeping Account.
- 7.3 The Recordkeeping Account is established solely for accounting purposes, and all amounts credited to the Recordkeeping Account will remain part of the general assets of the Company.
- 7.4 A Participant may not make any separate cash payment into the Recordkeeping Account.

8. Right To Adjust Participation or To Withdraw.

- 8.1 A Participant may, at any time during a Purchase Period, direct the Company to make no further deductions from his or her Compensation or to adjust the amount of such deductions. Upon either of such actions, future payroll deductions with respect to such Participant shall cease or be adjusted in accordance with the Participant's direction.
- 8.2 Any Participant who stops payroll deductions may not thereafter resume payroll deductions during such Purchase Period.
- 8.3 At any time before the end of a Purchase Period, any Participant may also withdraw from the Plan. In such event, all future payroll deductions shall cease and the entire credit balance in the Participant's Recordkeeping Account will be paid to the Participant, without interest, in cash within 15 days. A



Participant who withdraws from the Plan will not be eligible to reenter the Plan until the next succeeding Purchase Period.

8.4 Notification of a Participant's election to adjust or terminate deductions, or to withdraw from the Plan, shall be made by the filing of an appropriate notice to such effect with the Company.

9. Termination of Employment. If the employment of a Participant is terminated for any reason, including death, disability, or retirement, the entire balance in the Participant's Recordkeeping Account will be applied to the purchase of shares as provided in Section 10.1 as of the last day of the Purchase Period in which the Participant's employment terminated; except that if such Participant so requests prior to the last day of such Purchase Period, the Company shall refund in cash within 15 days all amounts credited to his or her Recordkeeping Account.

10. Purchase of Shares.

10.1 As of the last day of the Purchase Period, the entire credit balance in each Participant's Recordkeeping Account will be used to purchase shares (including fractional shares) of Common Stock (subject to the limitations of Section 5) unless the Participant has filed an appropriate form with the Company in advance of that date (which either elects to purchase a specified number of shares which is less than the number described above or elects to receive the entire credit balance in cash). Any amount in a Participant's Recordkeeping Account that is not used to purchase shares pursuant to this Section 10.1 will be refunded to the Participant.

10.2 Shares of Common Stock acquired by each Participant shall be held in a general account maintained for the benefit of all Participants.

10.3 Certificates for the number of whole shares of Common Stock, determined as aforesaid, purchased by each Participant shall be issued and delivered to him or her only upon request of the Participant or his or her representative directed to the Company. No Certificates for fractional shares will be issued. Instead, Participants will receive a cash distribution representing any fractional shares.

10.4 Dividends with respect to a Participant's shares held in the general account will, at the election of the Participant, either be paid to the Participant in cash or reinvested in additional shares of Common Stock. If a Participant fails to make such an election, all dividends with respect to the Participant's shares held in the general account will automatically be reinvested to purchase additional shares of Common Stock.

10.5 Each Participant will be entitled to vote all shares held for the benefit of such Participant in the general account.

11. Rights as a Stockholder. A Participant shall not be entitled to any of the rights or privileges of a stockholder of the Company with respect to such shares, including the right to receive any dividends which may be declared by the Company, until (i) he or she actually has paid the purchase price for such shares and (ii) either the shares have been credited to his or her account or certificates have been issued to him or her, both as provided in Section 10.

12. Rights Not Transferable. A Participant's rights under this Plan are exercisable only by the Participant during his or her lifetime, and may not be sold, pledged, assigned or transferred in any manner other than by will or the laws of descent and distribution. Any attempt to sell, pledge, assign or transfer the same shall be null and void and without effect. The amounts credited to a Recordkeeping Account may not be assigned, transferred, pledged or hypothecated in any way, and any attempted assignment, transfer, pledge, hypothecation or other disposition of such amounts will be null and void and without effect.

13. Administration of the Plan. This Plan shall be administered by the Committee, which is authorized to make such uniform rules as may be necessary to carry out its provisions. The Committee shall determine any questions

arising in the administration, interpretation and application of this Plan, and all such determinations shall be conclusive and binding on all parties.

14. Adjustment for Changes in Capitalization. In the event of any equity restructuring (within the meaning of authoritative guidance issued by the Financial Accounting Standards Board relating to stock-based compensation) that causes the per Share value of Shares to change, such as a stock dividend, stock split, spin off, rights offering, or recapitalization through a large, nonrecurring cash dividend, the Committee shall cause there to be made an equitable adjustment to the number, class and purchase price of Shares that may be purchased under the Plan. In the event of any other change in corporate capitalization, such as a merger, consolidation, any reorganization (whether or not such reorganization comes within the definition of such term in Section 368 of the Code), or any partial or complete liquidation of the Company, such equitable adjustments described in the foregoing sentence may be made as determined to be appropriate and equitable by the Committee to prevent dilution or enlargement of rights. In either case, any such adjustment shall be conclusive and binding for all purposes of the Plan.

15. Registration of Certificates. Stock certificates will be registered in the name of the Participant, or jointly in the name of the Participant and another person, as the Participant may direct on an appropriate form.

16. Amendment of Plan. The Board of Directors may at any time amend this Plan in any respect which shall not adversely affect the rights of Participants pursuant to shares previously acquired under the Plan, except that, without stockholder approval, no amendment shall be made (i) to increase the number of shares to be reserved under this Plan, (ii) to decrease the minimum purchase price, (iii) to withdraw the administration of this Plan from the Committee, or (iv) to change the definition of employees eligible to participate in the Plan.

17. Effective Date of Plan. This Plan shall consist of an offering commencing April 1, 1996, and ending June 30, 1996, and continuing on a quarterly basis thereafter. All rights of Participants in any offering hereunder shall terminate at the earlier of (i) the day that Participants become entitled to purchase a number of shares of Common Stock equal to or greater than the number of shares remaining available for purchase or (ii) at any time, at the discretion of the Board of Directors, after 30 days' notice has been given to all Participants. Upon termination of this Plan, shares of Common Stock shall be issued to Participants in accordance with Section 10, and cash, if any, remaining in the Participant's Recordkeeping Accounts shall be refunded to them, as if the Plan were terminated at the end of a Purchase Period.

18. Governmental Regulations and Listing. All rights granted or to be granted to Eligible Employees under this Plan are expressly subject to all applicable laws and regulations and to the approval of all governmental authorities required in connection with the authorization, issuance, sale or transfer of the shares of Common Stock reserved for this Plan, including, without limitation, there being a current registration statement of the Company under the Securities Act of 1933, as amended, covering the shares of Common Stock purchasable on the last day of the Purchase Period applicable to such shares, and if such a registration statement shall not then be effective, the term of such Purchase Period shall be extended until the first business day after the effective date of such a registration statement, or post-effective amendment thereto. If applicable, all such rights hereunder are also similarly subject to effectiveness of an appropriate listing application to a national securities exchange or a national market system, covering the shares of Common Stock under the Plan upon official notice of issuance.

19. Miscellaneous.

19.1 This Plan shall not be deemed to constitute a contract of employment between the Company and any Participant, nor shall it interfere with the right of the Company to terminate any Participant and treat him or her without regard to the effect which such treatment might have upon him or her under this Plan.

19.2 Wherever appropriate as used herein, the masculine gender may be read as the feminine gender, the feminine gender may be read as the masculine gender, the singular may be read as the plural and the plural may be read as the singular.

- 19.3 The Plan, and all agreements hereunder, shall be construed in accordance with and governed by the laws of the State of Minnesota.
- 19.4 Delivery of shares of Common Stock or of cash pursuant to this Plan shall be subject to any required withholding taxes. A person entitled to receive shares of Common Stock may, as a condition precedent to receiving such shares, be required to pay the Company a cash amount equal to the amount of any required withholdings.

**Digi International Inc.**  
**2020 Omnibus Incentive Plan**

1. *Purpose.* The purpose of the Digi International Inc. 2020 Omnibus Incentive Plan (the “Plan”) is to promote the interests of the Company and its stockholders by providing key personnel of the Company and its Affiliates and Non-Employee Directors with an opportunity to acquire a proprietary interest in the Company and thereby develop a stronger incentive to put forth maximum effort for the continued success and growth of the Company and its Affiliates. In addition, the opportunity to acquire a proprietary interest in the Company will aid in attracting and retaining key personnel and Non-Employee Directors of outstanding ability.

2. *Definitions.*

2.1 The capitalized terms used elsewhere in the Plan have the meanings set forth below.

- (a) “Affiliate” means any corporation that is a “parent corporation” or “subsidiary corporation” of the Company, as those terms are defined in Code Sections 424(e) and (f), or any successor provisions, and, for purposes other than the grant of Incentive Stock Options, any entity in which the Company or any such “subsidiary corporation” owns at least 20% of the combined voting power of the entity’s voting securities and which is designated by the Committee as covered by the Plan.
- (b) “Agreement” means a written or electronic contract (i) entered into between the Company and a Participant and (ii) containing the terms and conditions of an Award in such form and not inconsistent with the Plan as the Committee shall approve from time to time, together with all amendments thereto, which amendments may be unilaterally made by the Company (with the approval of the Committee) unless such amendments are deemed by the Committee to be materially adverse to the Participant and not required to comply with applicable law or stock exchange rules.
- (c) “Award” or “Awards” means a grant made under the Plan in the form of Restricted Stock, Options, Stock Appreciation Rights, Stock Units, an Other Stock-Based Award or a Cash Incentive Award.
- (d) “Board” means the Board of Directors of the Company.
- (e) “Cash Incentive Award” means an Award described in Section 8.2 of the Plan.
- (f) “Code” means the Internal Revenue Code of 1986, as amended and in effect from time to time or any successor statute.
- (g) “Committee” means two or more Non-Employee Directors designated by the Board to administer the Plan under Plan Section 3.1, each of whom shall be (i) an independent director within the meaning and rules of the Nasdaq Stock Market and (ii) a “non-employee director” within the meaning of Exchange Act Rule 16b-3. Unless otherwise specified by the Board, the Committee shall be the Compensation Committee of the Board.
- (h) “Company” means Digi International Inc., a Delaware corporation, or any successor to all or substantially all of its businesses by merger, consolidation, purchase of assets or otherwise.
- (i) “Effective Date” means the date specified in Plan Section 13.1.
- (j) “Employee” means an employee (including an officer or director who is also an employee) of the Company or an Affiliate.

- (k) “Exchange Act” means the Securities Exchange Act of 1934, as amended and in effect from time to time or any successor statute.
- (l) “Exchange Act Rule 16b-3” means Rule 16b-3 promulgated by the Securities and Exchange Commission under the Exchange Act, as now in force and in effect from time to time or any successor regulation.
- (m) “Fair Market Value” as of any date means, unless otherwise expressly provided in the Plan, the fair market value of a Share determined as follows:
  - (i) If the Shares are then readily tradable on an established securities market (as determined under Code Section 409A), then Fair Market Value will be the closing sale price for a Share on the principal securities market on which it trades on such date, or if no sale of Shares occurred on that date, on the next preceding date on which a sale of Shares occurred, as reported in *The Wall Street Journal* or such other source as the Committee deems reliable; or
  - (ii) If clause (i) is inapplicable, then Fair Market Value will be determined by the Committee as the result of a reasonable application of a reasonable valuation method that satisfies the requirements of Code Section 409A.

In the case of an Incentive Stock Option, if this determination of Fair Market Value is not consistent with the then current regulations of the Secretary of the Treasury, Fair Market Value shall be determined in accordance with those regulations. The determination of Fair Market Value shall be subject to adjustment as provided in Plan Section 17.

- (n) “Full Value Award” means any Award other than an Option Award, Stock Appreciation Rights Award or Cash Incentive Award.
- (o) “Fundamental Change” means a dissolution or liquidation of the Company, a sale of all or substantially all of the assets of the Company, a merger or consolidation of the Company with or into any other corporation, regardless of whether the Company is the surviving corporation, or a statutory share exchange involving capital stock of the Company.
- (p) “Incentive Stock Option” means any Option designated as such and granted in accordance with the requirements of Code Section 422 or any successor provision.
- (q) “Insider” as of a particular date means any person who, as of that date, is a director of the Company or an officer of the Company as defined under Exchange Act Rule 16a-1(f) or its successor provision.
- (r) “Non-Employee Director” means a member of the Board who is not an Employee.
- (s) “Non-Statutory Stock Option” means an Option other than an Incentive Stock Option.
- (t) “Option” means a right to purchase Stock, including both Non-Statutory Stock Options and Incentive Stock Options.
- (u) “Other Stock-Based Award” means an Award described in Section 8.1 of the Plan.
- (v) “Participant” means a person to whom an Award is or has been made in accordance with the Plan.
- (w) “Performance Cycle” means the period of time as specified in an Agreement over which a performance-based Award is to be earned.

- (x) “Plan” means this Digi International Inc. 2020 Omnibus Incentive Plan, as may be amended and in effect from time to time.
- (y) “Prior Plans” means the Digi International Inc. 2000 Omnibus Stock Plan, as amended and restated as of December 4, 2009 (the “2000 Plan”), the Digi International Inc. 2013 Omnibus Incentive Plan (the “2013 Plan”), the Digi International Inc. 2014 Omnibus Incentive Plan (the “2014 Plan”), the Digi International Inc. 2016 Omnibus Incentive Plan (the “2016 Plan”), the Digi International Inc. 2017 Omnibus Incentive Plan (the “2017 Plan”), the Digi International Inc. 2018 Omnibus Incentive Plan (the “2018 Plan”), and the Digi International Inc. 2019 Omnibus Incentive Plan (the “2019 Plan”).
- (z) “Restricted Stock” means Stock granted under Plan Section 7 so long as such Stock remains subject to one or more restrictions.
- (aa) “Section 16” or “Section 16(b)” means Section 16 or Section 16(b), respectively, of the Exchange Act or any successor statute and the rules and regulations promulgated thereunder as in effect and as amended from time to time.
- (bb) “Share” means a share of Stock.
- (cc) “Stock” means the common stock, par value \$.01 per share, of the Company.
- (dd) “Stock Appreciation Right” means a right, the value of which is determined in relation to the appreciation in value of Shares pursuant to an Award granted under Plan Section 10.
- (ee) “Stock Unit” means an Award described in Section 11 of the Plan.
- (ff) “Subsidiary” means a “subsidiary corporation,” as that term is defined in Code Section 424(f) or any successor provision.
- (gg) “Substitute Award” means an Award granted under the circumstances described in Section 21 of the Plan.
- (hh) “Successor” with respect to a Participant means the legal representative of an incompetent Participant, and if the Participant is deceased the estate of the Participant or the person or persons who may, by bequest or inheritance, or pursuant to the terms of an Award, acquire the right to exercise an Option or Stock Appreciation Right or to receive cash and/or Shares issuable in satisfaction of an Award in the event of the Participant’s death.
- (ii) “Term” means the period during which an Option or Stock Appreciation Right may be exercised or the period during which the restrictions or terms and conditions placed on Restricted Stock or any other Award are in effect.
- (jj) “Transferee” means any “family member” of a Participant as the term is defined in General Instruction A(5) to Form S-8 under the Securities Act of 1933, as amended.

2.2 Gender and Number. Except when otherwise indicated by the context, reference to the masculine gender shall include, when used, the feminine gender and any term used in the singular shall also include the plural.

### 3. Administration and Indemnification.

#### 3.1 Administration.

- (a) The Committee shall administer the Plan. The Committee shall have exclusive power to (i) make Awards, (ii) determine when and to whom Awards will be granted, the form of each Award, the amount of each Award, and any other terms or conditions of each Award consistent with the Plan, and (iii) determine whether, to what extent and under what circumstances, Awards may be settled, paid or exercised in cash, Shares or other Awards, or other property or canceled, forfeited or suspended. Each Award shall be subject to an Agreement authorized by the Committee. A majority of the members of the Committee shall constitute a quorum for any meeting of the Committee, and acts of a majority of the members present at any meeting at which a quorum is present or the acts unanimously approved in writing by all members of the Committee shall be the acts of the Committee. Any such action of the Committee shall be valid and effective even if any member of the Committee at the time of the action is later determined not to have satisfied all of the criteria for membership in clauses (i), (ii) and (iii) of Section 2(f). Notwithstanding the foregoing, the Board shall have the sole and exclusive power to administer the Plan with respect to Awards granted to Non-Employee Directors.
- (b) Solely for purposes of determining and administering Awards to Participants who are not Insiders, the Committee may delegate all or any portion of its authority under the Plan to one or more persons who are not Non-Employee Directors.
- (c) To the extent within its discretion and subject to Plan Sections 16, 17, and 19, the Committee may amend the terms and conditions of any outstanding Award.
- (d) It is the intent that the Plan and all Awards granted pursuant to it shall be administered by the Committee so as to permit the Plan and Awards to comply with Exchange Act Rule 16b-3, except in such instances as the Committee, in its discretion, may so provide. If any provision of the Plan or of any Award would otherwise frustrate or conflict with the intent expressed in this Section 3.1(d), that provision to the extent possible shall be interpreted and deemed amended in the manner determined by the Committee so as to avoid the conflict. To the extent of any remaining irreconcilable conflict with this intent, the provision shall be deemed void as applicable to Insiders to the extent permitted by law and in the manner deemed advisable by the Committee.
- (e) The Committee's interpretation of the Plan and of any Award or Agreement made under the Plan and all related decisions or resolutions of the Board or Committee shall be final and binding on all parties with an interest therein. Consistent with its terms, the Committee shall have the power to establish, amend or waive regulations to administer the Plan. In carrying out any of its responsibilities, the Committee shall have discretionary authority to construe the terms of the Plan and any Award or Agreement made under the Plan.
- (f) The Committee may grant Awards to Employees and other eligible service providers who are foreign nationals, who are located outside of the United States or who are not compensated from a payroll maintained in the United States, or who are otherwise subject to (or could cause the Company to be subject to) legal or regulatory requirements of countries outside of the United States, on such terms and conditions different from those specified in the Plan as may, in the judgment of the Committee, be necessary or desirable to comply with applicable foreign laws and regulatory requirements and to promote achievement of the purposes of the Plan. In connection therewith, the Committee may establish such sub-plans and modify exercise procedures and other Plan rules and procedures to the extent such actions are deemed necessary or desirable, and may take any other action that it deems advisable to obtain local regulatory approvals or to comply with any necessary local governmental regulatory exemptions.

3.2 Indemnification. Each person who is or shall have been a member of the Committee, or of the Board, and any other person to whom the Committee delegates authority under the Plan, shall be indemnified and held harmless by the Company, to the extent permitted by law, against and from any loss, cost,

liability or expense that may be imposed upon or reasonably incurred by such person in connection with or resulting from any claim, action, suit or proceeding to which such person may be a party or in which such person may be involved by reason of any action taken or failure to act, made in good faith, under the Plan and against and from any and all amounts paid by such person in settlement thereof, with the Company's approval, or paid by such person in satisfaction of any judgment in any such action, suit or proceeding against such person, provided such person shall give the Company an opportunity, at the Company's expense, to handle and defend the same before such person undertakes to handle and defend it on such person's own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such person or persons may be entitled under the Company's Certificate of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

#### 4. Shares Available Under the Plan.

4.1 Number of Shares Available for Grants. Subject to adjustment as provided in Sections 4.1(a) and 17 herein, the number of Shares that may be the subject of Awards and issued to Participants under the Plan shall be 1,500,000, provided, that no more than 750,000 of the 1,500,000 Shares reserved for issuance under the Plan may be granted in the form of Full Value Awards. After the Effective Date, no additional awards may be granted under the Prior Plans. Each Share subject to an Award granted under the Plan shall be counted against the maximum Share limitation as one Share, except that Shares subject to Substitute Awards shall not be counted against this maximum Share limitation, nor shall they reduce the number of Shares authorized for grant to a Participant in any calendar year. The Shares to be delivered under the Plan will be made available from authorized but unissued Shares or issued Shares that are held in the Company's treasury.

- (a) Any Shares subject to an Award under this Plan, or to an award granted under one of the Prior Plans that is outstanding on the Effective Date (a "Prior Plan Award"), that expires, is forfeited, cancelled, returned to the Company for failure to satisfy vesting requirements, is settled for cash or otherwise terminates without payment being made thereunder shall, to the extent of such expiration, forfeiture, cancellation, return, cash settlement or termination, again be available for grant under the Plan. Each Share that again becomes available for grant pursuant to the preceding sentence shall increase the total number of Shares remaining available for Awards by one Share. The following Shares will, however, continue to be charged against the foregoing maximum Share limitation and will not again become available for grant: (i) Shares tendered by the Participant or withheld by the Company in payment of the purchase price of a stock option issued under this Plan or one of the Prior Plans, (ii) Shares tendered by the Participant or withheld by the Company to satisfy any tax withholding obligation with respect to an Award or a Prior Plan Award, (iii) Shares subject to a stock appreciation right award issued under this Plan or one of the Prior Plans that are not issued in connection with the settlement of the stock appreciation right upon its exercise, and (iv) Shares repurchased by the Company with proceeds received from the exercise of a stock option issued under this Plan or one of the Prior Plans.
- (b) Where two or more types of Awards (all of which are payable in Shares) are granted to a Participant in tandem with each other, such that the exercise of one type of Award with respect to a number of Shares cancels at least an equal number of Shares of the other, the number of Shares to be counted against the maximum Share limitation shall be the maximum number of Shares available under the larger of the two Awards.
- (c) If a company acquired by the Company or any Subsidiary or with which the Company or any Subsidiary combines has shares available under a pre-existing plan approved by stockholders and not adopted in contemplation of such acquisition or combination, the number of shares remaining available for grant pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or



formula used in such acquisition or combination to determine the consideration payable to the holders of common stock of the entities party to such acquisition or combination) may be used for Awards under the Plan and shall not reduce the number of Shares authorized for grant under the Plan. Awards using such available shares shall not be made after the date awards or grants could have been made under the terms of the pre-existing plan, absent the acquisition or combination, and shall only be made to individuals who were not Employees or Non-Employee Directors prior to such acquisition or combination.

- (d) Additional rules for determining the number of Shares granted under the Plan may be made by the Committee as it deems necessary or desirable.
- (e) No fractional Shares may be issued under the Plan; however, cash shall be paid in lieu of any fractional Share in settlement of an Award.

5. Eligibility. Participation in the Plan shall be limited to Employees, Non-Employee Directors and any consultant or advisor who is a natural person and who provides services to the Company or any Affiliate (other than in connection with (i) the offer or sale of securities in a capital-raising transaction or (ii) directly or indirectly promoting or maintaining a market in Company securities). The granting of Awards is solely at the discretion of the Committee, except that Incentive Stock Options may only be granted to Employees. References herein to “employed,” “employment” or similar terms (except “Employee”) shall include the providing of services to the Company or an Affiliate as a Non-Employee Director, consultant or advisor. Neither the transfer of employment of a Participant between any of the Company or its Affiliates, nor a leave of absence granted to such Participant and approved by the Committee, shall be deemed a termination of employment for purposes of the Plan.

## 6. General Terms of Awards.

- 6.1 Amount of Award. Each Agreement shall set forth the number of Shares of Restricted Stock, Stock or Stock Units subject to the Agreement, or the number of Shares to which the Option subject to the Agreement applies or with respect to which payment upon the exercise of the Stock Appreciation Right subject to the Agreement is to be determined, as the case may be, together with such other terms and conditions applicable to the Award as determined by the Committee acting in its sole discretion.
- 6.2 Vesting and Term. Awards that vest based solely on the satisfaction by the Participant of service-based vesting conditions shall be subject to a vesting period of not less than one year from the applicable grant date, and Awards whose grant or vesting is subject to the satisfaction of performance goals over a performance period shall be subject to a performance period of not less than one year. The foregoing minimum vesting and performance periods will not, however, apply in connection with: (i) a change in control, (ii) a termination of service due to death or disability, (iii) a Substitute Award that does not reduce the vesting period of the award being replaced, (iv) Awards made in payment of or exchange for other compensation already earned and payable, and (v) Awards involving an aggregate number of Shares not in excess of 5% of the Plan’s share reserve specified in Section 4.1. For purposes of Awards to Non-Employee Directors, a vesting period will be deemed to be one year if runs from the date of one annual meeting of the Company’s stockholders to the date of the next annual meeting of the Company’s stockholders. Each Agreement, other than those relating solely to Awards of Shares without restrictions, shall set forth the Term of the Award or the Performance Cycle for any performance-based Award, as the case may be. Acceleration of the expiration of the applicable Term is permitted, upon such terms and conditions as shall be set forth in the Agreement, which may, but need not, include, without limitation, acceleration in the event of the Participant’s death or retirement. Acceleration of the Performance Cycle of any performance-based Awards shall be subject to Plan Section 6.6. Each Award granted to a Participant shall have such Term as the Committee shall determine at the time of grant; provided, however, that any such Term shall not exceed seven (7) years.
- 6.3 Transferability. Except as provided in this Section, during the lifetime of a Participant to whom an Award is granted, only that Participant (or that Participant’s legal representative) may exercise an

Option or Stock Appreciation Right, or receive payment with respect to Stock Units or any other Award. No Award of Restricted Stock (before the expiration of the restrictions), Options, Stock Appreciation Rights or Stock Units or other Award may be sold, assigned, transferred, exchanged or otherwise encumbered other than to a Successor in the event of a Participant's death or pursuant to a qualified domestic relations order as defined in the Code or Title 1 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or the rules thereunder; any attempted transfer in violation of this Section 6.3 shall be of no effect. Notwithstanding the immediately preceding sentence, the Committee, in an Agreement or otherwise at its discretion, may provide that the Award (other than Incentive Stock Options) may be transferable to a Transferee if the Participant does not receive any consideration for the transfer. Any Award held by a Transferee shall continue to be subject to the same terms and conditions that were applicable to that Award immediately before the transfer thereof to the Transferee. For purposes of any provision of the Plan relating to notice to a Participant or to acceleration or termination of an Award upon the death, disability or termination of employment of a Participant, the references to "Participant" shall mean the original grantee of an Award and not any Transferee.

6.4 Termination of Employment. Except as otherwise determined by the Committee or provided by the Committee in an Agreement, in case of a Participant's termination of employment (which includes other service relationships as provided in Section 5), the following provisions shall apply:

(a) Options and Stock Appreciation Rights.

- (i) If a Participant's employment with the Company and its Affiliates terminates because of the Participant's death, then any Option or Stock Appreciation Right that has not expired or been terminated shall become exercisable in full if the Participant's employment has been continuous between the date the Option or Stock Appreciation Right was granted and the date of such Participant's death, and may be exercised by the Participant's Successor at any time, or from time to time, within one year after the date of the Participant's death.
- (ii) If a Participant's employment with the Company and its Affiliates terminates because the Participant is disabled (within the meaning of Section 22(e)(3) of the Code), then any Option or Stock Appreciation Right that has not expired or been terminated shall become exercisable in full if the Participant's employment has been continuous between the date the Option or Stock Appreciation Right was granted and the date of such disability, and the Participant or the Participant's Successor may exercise such Option or Stock Appreciation Right at any time, or from time to time, within one year after the date of the Participant's termination of employment.
- (iii) If a Participant's employment terminates for any reason other than cause (as defined in Section 20.1), death or disability, then any Option or Stock Appreciation Right that has not expired or been terminated shall remain exercisable for three months after termination of the Participant's employment, but, unless otherwise provided in the Agreement, only to the extent that such Option or Stock Appreciation Right was exercisable immediately prior to such Participant's termination of employment; provided, however, that if the Participant is a Non-Employee Director, the Option or Stock Appreciation Right shall remain exercisable until the expiration of the Term after such Non-Employee Director ceases to be a director of the Company but, unless otherwise provided in the Agreement, only to the extent that such Option or Stock Appreciation Right was exercisable immediately prior to such Non-Employee Director ceasing to be a director.
- (iv) Notwithstanding the foregoing Plan Sections 6.4(a)(i), (ii) and (iii), in no event shall an Option or a Stock Appreciation Right be exercisable after the expiration of the Term of such Award. Any Option or Stock Appreciation Right that is not exercised

within the periods set forth in Plan Sections 6.4 (i), (ii) and (iii), except as otherwise provided by the Committee in the Agreement, shall terminate as of the end of the periods described in such Sections.

- (b) Performance-Based Full Value Awards. If a Participant's employment with the Company and its Affiliates terminates during a Performance Cycle because of death or disability, or under other circumstances provided by the Committee in its discretion in the Agreement or otherwise, the Participant, unless the Committee shall otherwise provide in the Agreement, shall be entitled to a payment with respect to a performance-based Full Value Award at the end of the Performance Cycle based upon the extent to which achievement of performance goals was satisfied at the end of such period (as determined at the end of the Performance Cycle) and prorated for the portion of the Performance Cycle during which the Participant was employed by the Company or its Affiliates. Except as provided in this Section 6.4(b) or in the Agreement, if a Participant's employment or other service relationship with the Company and its Affiliates terminates during a Performance Cycle, then such Participant shall not be entitled to any payment with respect to that Performance Cycle.
- (c) Time Vested Restricted Stock and Stock Unit Awards. Unless otherwise provided in the Agreement, in case a Participant's employment with the Company and its Affiliates terminates because of death or disability, the Participant shall be entitled to have vest upon such termination of employment a number of Shares of Restricted Stock or a number of Stock Units under outstanding Awards subject only to service-based vesting that has been prorated for the portion of the Term of the Awards during which the Participant was employed by the Company and its Affiliates, and, with respect to such Shares or Stock Units, all restrictions shall lapse. Any Shares of Restricted Stock or Stock Units that do not vest and as to which restrictions do not lapse under the preceding sentence shall terminate at the date of the Participant's termination of employment and such Shares of Restricted Stock or Stock Units shall be forfeited to the Company.

6.5 Rights as Stockholder. Except as otherwise provided in Section 6.7 and Section 7.4, each Agreement shall provide that a Participant shall have no rights as a stockholder with respect to any securities covered by an Award unless and until the date the Participant becomes the holder of record of the Stock, if any, to which the Award relates.

6.6 Performance-Based Awards. Any Award may be granted as a performance-based Award if the Committee establishes one or more measures of Company, Subsidiary, business unit or individual performance which must be attained, and the Performance Cycle over which the specified performance is to be attained, as a condition to the vesting, exercisability, lapse of restrictions and/or settlement in cash or Shares of such Award. In connection with any such Award, the Committee shall determine the extent to which performance goals have been attained and other applicable terms and conditions have been satisfied, and the degree to which vesting, exercisability, lapse of restrictions and/or settlement in cash or Shares of such Award has been earned. With respect to a performance-based Award, the Committee shall also have the authority to provide, in the Agreement or otherwise, for the acceleration of a Performance Cycle and an adjustment or waiver of the achievement of performance goals upon the occurrence of certain events, which may, but need not include, without limitation, a Fundamental Change, a recapitalization, a change in the accounting practices of the Company, a change in a Participant's title or employment responsibilities, a Participant's death or retirement or, with respect to settlements in Shares with respect to an Award, a reclassification, stock dividend, stock split or stock combination as provided in Plan Section 17. An Agreement also may provide for a limitation on the value of an Award that a Participant may receive.

6.7 Dividends and Dividend Equivalents. Any dividends or distributions payable with respect to Shares that are subject to the unvested portion of a Restricted Stock Award will be subject to the same restrictions and risk of forfeiture as the Shares to which such dividends or distributions relate. In its

discretion, the Committee may provide in an Agreement for a Stock Unit Award or an Other Stock-Based Award that the Participant will be entitled to receive dividend equivalents on the units or other Share equivalents subject to the Award based on dividends actually declared on outstanding Shares. The terms of any dividend equivalents will be as set forth in the applicable Award Agreement, including the time and form of payment and whether such dividend equivalents will be credited with interest or deemed to be reinvested in additional units or Share equivalents. Any dividend equivalents payable with respect to the unvested portion of a Stock Unit Award or an Other Stock-Based Award will be subject to the same restrictions and risk of forfeiture as the units or other Share equivalents to which such dividend equivalents relate. The Committee may, in its discretion, provide in Award Agreements for restrictions on dividends and dividend equivalents in addition to those specified in this Section 6.7. Any Shares issued or issuable during the term of this Plan as a result of the reinvestment of dividends or the deemed reinvestment of dividend equivalents in connection with an Award or a Prior Plan Award shall be counted against, and replenish upon any subsequent forfeiture, the Plan's share reserve as provided in Section 4.

7. Restricted Stock Awards.

- 7.1 Nature of Award. An Award of Restricted Stock under the Plan shall consist of Shares subject to restrictions on transfer and conditions of forfeiture, which restrictions and conditions shall be included in the applicable Agreement. The Committee may provide for the lapse or waiver of any such restrictions or conditions and the vesting of the Shares based on such factors or criteria as the Committee, in its sole discretion, may determine.
- 7.2 Stock Certificates. Except as otherwise provided in the applicable Agreement, each Stock certificate issued with respect to an Award of Restricted Stock shall either be deposited with the Company or its designee, together with an assignment separate from the certificate, in blank, signed by the Participant, or bear such legends with respect to the restricted nature of the Restricted Stock evidenced thereby as shall be provided for in the applicable Agreement.
- 7.3 Vesting of Awards. The Agreement shall describe the terms and conditions by which the restrictions and conditions of forfeiture upon awarded Restricted Stock shall lapse and the Shares vest. Upon the lapse of the restrictions and conditions, Shares free of restrictive legends, if any, relating to such restrictions shall be issued to the Participant or a Successor or Transferee.
- 7.4 Rights as a Stockholder. Except as otherwise provided in the Plan or by the Committee, a Participant or a Transferee with a Restricted Stock Award shall have all the rights of a stockholder, including the right to vote the Shares of Restricted Stock.

8. Other Awards.

- 8.1 Other Stock-Based Awards. The Committee may from time to time grant Stock and other Awards that are valued by reference to and/or payable in whole or in part in Shares under the Plan. The Committee, in its sole discretion, shall determine the terms and conditions of such Awards, provided that such Awards shall not be inconsistent with the terms and purposes of the Plan. The Committee may, at its sole discretion, direct the Company to issue Shares subject to restrictive legends and/or stop transfer instructions that are consistent with the terms and conditions of the Award to which the Shares relate.
- 8.2 Cash Incentive Awards. A Cash Incentive Award shall be considered a performance-based Award for purposes of, and subject to, Section 6.6, the payment of which shall be contingent upon the degree to which one or more specified performance goals have been achieved over a specified Performance Cycle. Cash Incentive Awards may be granted to any Participant in such amounts and upon such terms and at such times as shall be determined by the Committee, and may be denominated in units that have a dollar value established by the Committee as of the applicable grant date. Following the completion of the applicable Performance Cycle and the vesting of a Cash Incentive Award, payment of the

settlement amount of the Award to the Participant shall be made at such time or times in the form of cash or other forms of Awards under the Plan (valued for these purposes at their grant date fair value) or a combination of cash and other forms of Awards as determined by the Committee and specified in the applicable Agreement. If a Cash Incentive Award is not by its terms exempt from the requirements of Code Section 409A, then the applicable Agreement shall contain terms and conditions intended to avoid adverse tax consequences specified in Code Section 409A.

## 9. Stock Options.

### 9.1 Terms of All Options.

- (a) An Option shall be granted pursuant to an Agreement as either an Incentive Stock Option or a Non-Statutory Stock Option. The purchase price of each Share subject to an Option shall be determined by the Committee and set forth in the Agreement, but shall not be less than the Fair Market Value of a Share as of the date the Option is granted, except in the case of Substitute Awards.
- (b) The purchase price of the Shares with respect to which an Option is exercised shall be payable in full at the time of exercise, provided that to the extent permitted by law, the Agreement may permit some or all Participants to simultaneously exercise Options and sell the Shares thereby acquired pursuant to a brokerage or similar relationship and use the proceeds from the sale as payment of the purchase price of the Shares. The purchase price may be payable in cash or in such other manner as the Committee may permit, including by delivery to the Company of Shares (by actual delivery or attestation) already owned by the Participant or by the Company withholding Shares otherwise issuable to the Participant upon the exercise of the Option (in either case, such Shares delivered or withheld having a Fair Market Value as of the date the Option is exercised equal to the purchase price of the Shares being purchased pursuant to the Option), or a combination thereof, as determined by the Committee, but no fractional Shares will be issued or accepted.
- (c) Each Option shall be exercisable in whole or in part on the terms provided in the Agreement. In no event shall any Option be exercisable at any time after the expiration of its Term. When an Option is no longer exercisable, it shall be deemed to have lapsed or terminated.
- (d) Each Option granted to a Participant shall expire at such time as the Committee shall determine at the time of grant; provided, however, that no Option shall be exercisable later than the seventh (7th) anniversary date of its grant.

### 9.2 Incentive Stock Options. In addition to the other terms and conditions applicable to all Options:

- (a) The maximum number of Shares that may be issued upon the exercise of Incentive Stock Options shall equal the maximum number of Shares that may be the subject of Awards and issued under the Plan as provided in the first sentence of Section 4.1.
- (b) The aggregate Fair Market Value (determined as of the date the Option is granted) of the Shares with respect to which Incentive Stock Options held by an individual first become exercisable in any calendar year (under the Plan and all other incentive stock option plans of the Company and its Affiliates) shall not exceed \$100,000 (or such other limit as may be required by the Code) if this limitation is necessary to qualify the Option as an Incentive Stock Option. To the extent an Option or Options granted to a Participant exceed this limit, the Option(s) shall be treated as Non-Statutory Stock Option(s).

- (c) The Agreement covering an Incentive Stock Option shall contain such other terms and provisions that the Committee determines necessary to qualify this Option as an Incentive Stock Option.
- (d) Notwithstanding any other provision of the Plan to the contrary, no Participant may receive an Incentive Stock Option under the Plan if, at the time the Award is granted, the Participant owns (after application of the rules contained in Code Section 424(d), or its successor provision), Shares possessing more than 10% of the total combined voting power of all classes of stock of the Company or its Subsidiaries, unless (i) the exercise price for all Shares subject to that Incentive Stock Option is at least 110% of the Fair Market Value of a Share on the date of grant and (ii) that Option is not exercisable after the date five years from the date that Incentive Stock Option is granted.

10. Stock Appreciation Rights. An Award of a Stock Appreciation Right shall entitle the Participant (or a Successor or Transferee), subject to terms and conditions determined by the Committee, to receive upon exercise of the Stock Appreciation Right all or a portion of the excess of (i) the Fair Market Value of a specified number of Shares as of the date of exercise of the Stock Appreciation Right over (ii) a specified price that shall not be less than 100% of the Fair Market Value of such Shares as of the date of grant of the Stock Appreciation Right. A Stock Appreciation Right may be granted in connection with part or all of, in addition to, or completely independent of an Option or any other Award under the Plan. If issued in connection with a previously or contemporaneously granted Option, the Committee may impose a condition that exercise of a Stock Appreciation Right cancels a pro rata portion of the Option with which it is connected and vice versa. Each Stock Appreciation Right may be exercisable in whole or in part on the terms provided in the Agreement. No Stock Appreciation Right shall be exercisable at any time after the expiration of its Term. When a Stock Appreciation Right is no longer exercisable, it shall be deemed to have lapsed or terminated. Upon exercise of a Stock Appreciation Right, payment to the Participant or a Successor or Transferee shall be made at such time or times as shall be provided in the Agreement in the form of cash, Shares or a combination of cash and Shares as determined by the Committee. The Agreement may provide for a limitation upon the amount or percentage of the total appreciation on which payment (whether in cash and/or Shares) may be made in the event of the exercise of a Stock Appreciation Right. The Term of a Stock Appreciation Right granted under the Plan shall be determined by the Committee, in its sole discretion; provided, however, that such Term shall not exceed seven (7) years.

11. Stock Units.

- 11.1 Vesting and Consideration. A Stock Unit shall consist of the right to receive, in cash and/or in Shares as determined by the Committee, the Fair Market Value of one or more Shares, with any Stock Unit Award subject to such vesting conditions, and the corresponding lapse of forfeiture conditions and other restrictions, based on such factors and occurring over such period of time as the Committee may determine in its discretion. The Committee may provide whether any consideration other than Services must be received by the Company or any Affiliate as a condition precedent to the settlement of a Stock Unit Award.
- 11.2 Payment of Award. Following the vesting of a Stock Unit Award, settlement of the Award and payment to the Participant shall be made at such time or times in the form of cash, Shares (which may themselves be considered Restricted Stock under the Plan subject to restrictions on transfer and forfeiture conditions) or a combination of cash and Shares as determined by the Committee. If the Stock Unit Award is not by its terms exempt from the requirements of Code Section 409A, then the applicable Agreement shall contain terms and conditions intended to avoid adverse tax consequences specified in Code Section 409A.

12. Performance-Based Compensation.

- 12.1 In the case of a performance-based Award, the lapsing of restrictions thereon and the distribution of cash, Shares or other property pursuant thereto, as applicable, shall be subject to the achievement over the applicable Performance Cycle of one or more performance goals based on one or more of the

performance measures specified in Section 12.2. The Committee will select the applicable performance measure(s) and specify the performance goal(s) based on those performance measures for any Performance Cycle, specify in terms of a formula or standard the method for calculating the amount payable to a Participant if the performance goal(s) are satisfied, and certify the degree to which applicable performance goals have been satisfied and any amount payable in connection with an Award subject to this Section 12. In specifying the performance goals applicable to any performance period, the Committee may provide that one or more adjustments shall be made to the performance measures on which the performance goals are based, which may include adjustments that would cause such measures to be considered “non-GAAP financial measures” within the meaning of Rule 101 under Regulation G promulgated by the Securities and Exchange Commission. The Committee may also adjust performance goals for a Performance Cycle in connection with an event described in Section 17 to prevent the dilution or enlargement of a Participant’s rights with respect to performance-based compensation. The Committee may adjust any amount determined to be otherwise payable in connection with such an Award. The Committee may also provide, in an Agreement or otherwise, that the achievement of specified performance goals in connection with an Award subject to this Section 12 may be waived upon the death or disability of the Participant or under any other circumstance.

12.2 Performance Measures. For purposes of any Full Value Award or Cash Incentive Award considered performance-based compensation subject to this Section 12, the performance measures to be utilized shall be one or a combination of two or more of the following: revenue or net sales; gross profit; operating profit; net income; earnings before one or more of interest, taxes, depreciation, amortization and other adjustments; profitability as measured by return ratios (including, but not limited to, return on assets, return on equity, return on investment and return on revenues or gross profit) or by the degree to which any of the foregoing earnings measures exceed a percentage of revenues or gross profit; cash flow; market share; margins (including one or more of gross, operating and net earnings margins); stock price; total stockholder return; asset quality; non-performing assets; operating assets; operating expenses; balance of cash, cash equivalents and marketable securities; improvement in or attainment of expense levels or cost savings; operating asset turnover; accounts receivable levels (including measured in terms of days sales outstanding); economic value added; improvement in or attainment of working capital levels; employee retention; customer satisfaction; implementation or completion of critical projects; growth in customer base; or any other financial, operational or strategic measure approved by the Committee. Any performance goal based on one or more of the foregoing performance measures may, in the Committee’s discretion, be expressed in absolute amounts, on a per share basis (basic or diluted), relative to one or more other performance measures, as a growth rate or change from preceding periods, or as a comparison to the performance of specified companies or a published or special index (including stock market indices) or other external measures, may relate to one or any combination of Company, Affiliate, business unit or individual performance, and may be expressed in terms of differing levels of achievement, such as threshold, target and maximum levels of achievement.

13. Effective Date and Duration of the Plan.

13.1 Effective Date. The Plan shall become effective on the date it is approved by the Company’s stockholders, which shall be considered the date of its adoption for purposes of Treasury Regulation §1.422-2(b)(2)(i). No Awards shall be made under the Plan prior to its Effective Date. If the Company’s stockholders fail to approve the Plan within 12 months of its approval by the Board, the Plan shall be of no further force or effect.

13.2 Duration of the Plan. The Plan shall remain in effect until all Stock subject to it shall be distributed, all Awards have expired or lapsed, the Plan is terminated pursuant to Plan Section 16, or the tenth anniversary of the Effective Date of the Plan, whichever occurs first (the “Termination Date”). Awards made before the Termination Date may be exercised, vested or otherwise effectuated beyond the Termination Date unless limited in the Agreement or otherwise. No Award of an Incentive Stock Option

shall be made more than 10 years after the Effective Date of the Plan (or such other limit as may be required by the Code) if this limitation is necessary to qualify the Option as an Incentive Stock Option. The date and time at which an Award is made or granted shall be the date and time the Committee approves the grant of the Award, or such later date and time as may be specified by the Committee at the time it approves the Award.

14. Plan Does Not Affect Employment Status.

14.1 No Entitlement to Award. Status as an eligible Employee or other service provider shall not be construed as a commitment that any Award will be made under the Plan to that eligible Employee or service provider or to eligible individuals generally.

14.2 No Right to Continued Employment. Nothing in the Plan or in any Agreement or related documents shall confer upon any Participant any right to continue in the employment of the Company or any Affiliate or constitute any contract of employment or affect any right that the Company or any Affiliate may have to change such person's compensation, other benefits, job responsibilities, or title, or to terminate the employment of such person with or without cause.

15. Tax Withholding. The Company shall have the right to withhold from any cash payment under the Plan or any other compensation owed to a Participant or other person (including a Successor or a Transferee) an amount sufficient to cover any required withholding taxes related to the grant, vesting, exercise or settlement of an Award or a Prior Plan Award. The Company shall have the right to require a Participant or other person receiving Shares under the Plan to pay the Company a cash amount sufficient to cover any required withholding taxes before actual receipt of those Shares. In lieu of all or any part of a cash payment from a person receiving Shares under the Plan, the Committee may permit the individual to cover all or any part of the required withholdings (but not to exceed the maximum individual statutory tax rate in each applicable jurisdiction) through a reduction of the number of Shares delivered or delivery or tender to the Company of Shares held by the Participant or other person, in each case valued in the same manner as used in computing the withholding taxes under the applicable laws.

16. Amendment, Modification and Termination.

16.1 Amendment, Modification and Termination of Plan. The Board may at any time and from time to time terminate, suspend or modify the Plan. No termination, suspension, or modification of the Plan may materially and adversely affect any right acquired by any Participant or Successor or Transferee under an Award granted before the date of termination, suspension, or modification, unless (i) otherwise agreed to by the Participant in the Agreement or otherwise, or (ii) such action is necessary to comply with applicable law or stock exchange rules. It will be conclusively presumed that any adjustment for changes in capitalization provided for in Plan Sections 6.6 or 17 does not adversely affect these rights.

16.2 Amendment of Agreement. Subject to Section 19, the Committee may unilaterally amend the terms of any Agreement previously granted, except that no such amendment may materially and adversely affect the rights of any Participant under the applicable Award without the Participant's consent, unless such amendment is necessary to comply with applicable law or stock exchange rules or any compensation recovery policy as provided in Section 20.3.

17. Adjustment for Changes in Capitalization. In the event of any equity restructuring (within the meaning of authoritative guidance issued by the Financial Accounting Standards Board relating to stock-based compensation) that causes the per Share value of Shares to change, such as a stock dividend, stock split, spin off, rights offering, or recapitalization through a large, nonrecurring cash dividend, the Committee shall cause there to be made an equitable adjustment to (i) the number and kind of Shares that may be issued under the Plan, and (ii) the number and kind of Shares or, subject to Plan Section 6.6, Stock Units, subject to and the exercise price (if applicable) of any then outstanding Awards of Options, Stock Appreciation Rights, Restricted Stock, Stock Units or any other Awards related to shares of Stock (to the extent such other Awards would not otherwise automatically adjust in the equity restructuring); provided, in each case, that with respect to Incentive Stock Options, no such adjustment shall be authorized to the extent that



such adjustment would cause such options to violate Section 422(b) of the Code or any successor provision; provided further, with respect to all Awards, no such adjustment shall be authorized to the extent that such adjustment would cause the Awards to be subject to adverse tax consequences under Section 409A of the Code. In the event of any other change in corporate capitalization, such as a merger, consolidation, any reorganization (whether or not such reorganization comes within the definition of such term in Section 368 of the Code), including a Fundamental Change (subject to Plan Section 18), or any partial or complete liquidation of the Company, such equitable adjustments described in the foregoing sentence may be made as determined to be appropriate and equitable by the Committee to prevent dilution or enlargement of rights. In either case, any such adjustment shall be conclusive and binding for all purposes of the Plan. Unless otherwise determined by the Committee, the number of Shares subject to an Award shall always be a whole number. In no event shall an outstanding Option or Stock Appreciation Right be amended for the sole purpose of reducing the exercise price or grant price thereof.

18. Fundamental Change. In the event of a proposed Fundamental Change, the Committee may, but shall not be obligated to:

- (a) if the Fundamental Change is a merger or consolidation or statutory share exchange, make appropriate provision for the protection of the outstanding Options and Stock Appreciation Rights by the substitution of options, stock appreciation rights and appropriate voting common stock of the corporation surviving any merger or consolidation or, if appropriate, the parent corporation of the Company or such surviving corporation; or
- (b) at least ten days before the occurrence of the Fundamental Change, declare, and provide written notice to each holder of an Option or Stock Appreciation Right of the declaration, that each outstanding Option and Stock Appreciation Right, whether or not then exercisable, shall be canceled at the time of, or immediately before the occurrence of the Fundamental Change in exchange for payment to each holder of an Option or Stock Appreciation Right, within ten days after the Fundamental Change, of cash equal to (i) for each Share covered by the canceled Option, the amount, if any, by which the Fair Market Value (as defined in this Section) per Share exceeds the exercise price per Share covered by such Option or (ii) for each Stock Appreciation Right, the price determined pursuant to Section 10, except that Fair Market Value of the Shares as of the date of exercise of the Stock Appreciation Right, as used in clause (i) of Plan Section 10, shall be deemed to mean Fair Market Value for each Share with respect to which the Stock Appreciation Right is calculated determined in the manner hereinafter referred to in this Section. At the time of the declaration provided for in the immediately preceding sentence, each Stock Appreciation Right and each Option shall immediately become exercisable in full and each person holding an Option or a Stock Appreciation Right shall have the right, during the period preceding the time of cancellation of the Option or Stock Appreciation Right, to exercise the Option as to all or any part of the Shares covered thereby or the Stock Appreciation Right in whole or in part, as the case may be. In the event of a declaration pursuant to Plan Section 18(b), each outstanding Option and Stock Appreciation Right granted pursuant to the Plan that shall not have been exercised before the Fundamental Change shall be canceled at the time of, or immediately before, the Fundamental Change, as provided in the declaration.

Notwithstanding the foregoing, no person holding an Option or a Stock Appreciation Right shall be entitled to the payment provided for in this Section 18(b) if such Option or Stock Appreciation Right shall have terminated, expired or been cancelled. For purposes of this Section 18 only, "Fair Market Value" per Share means the cash plus the fair market value, as determined in good faith by the Committee, of the non-cash consideration to be received per Share by the stockholders of the Company upon the occurrence of the Fundamental Change.

19. Prohibition on Repricing. Except pursuant to Section 17 of the Plan in connection with an equity restructuring, or pursuant to Section 18 of the Plan in connection with a Fundamental Change, in either case in order to prevent dilution or enlargement of the benefits or potential benefits intended to be provided under the Plan, no Option or Stock

Appreciation Right granted under the Plan may be amended to decrease the exercise price or grant price thereof, be cancelled in exchange for the grant of any new Option or Stock Appreciation Right with a lower exercise or grant price or any new Full Value Award, be repurchased by the Company or any Affiliate, or otherwise be subject to any action that would be treated under accounting rules or otherwise as a “repricing” of such Option or Stock Appreciation Right, unless such action is first approved by the Company’s stockholders.

20. Forfeitures and Compensation Recovery.

- 20.1 Forfeiture for Cause. Notwithstanding any other provision of the Plan or an Agreement, if a Participant’s employment is terminated for cause as defined in this Section 20.1, then as of the date of such termination, any of the Participant’s outstanding Awards that have not vested or been exercised by the Participant will be forfeited to the Company. For purposes of this Section 20.1, “cause” means the Participant: (i) committed a felony or a crime involving moral turpitude or committed any other act or omission involving fraud, embezzlement or any other act of dishonesty in the course of his employment by the Company or an Affiliate which conduct damaged the Company or an Affiliate; (ii) substantially and repeatedly failed to perform duties of the office held by the Participant as reasonably directed by the Company or an Affiliate; (iii) committed gross negligence or willful misconduct with respect to the Company or an Affiliate; (iv) committed a material breach of any employment agreement between the Participant and the Company or an Affiliate that is not cured within ten (10) days after receipt of written notice thereof from the Company or the Affiliate, as applicable; (v) failed, within ten (10) days after receipt by the Participant of written notice thereof from the Company or an Affiliate, to correct, cease or otherwise alter any failure to comply with instructions or other action or omission which the Board reasonably believes does or may materially or adversely affect the Company’s or an Affiliate’s business or operations; (vi) committed misconduct which is of such a serious or substantial nature that a reasonable likelihood exists that such misconduct will materially injure the reputation of the Company or an Affiliate; (vii) harassed or discriminated against the Company’s or an Affiliate’s employees, customers or vendors in violation of the Company’s policies with respect to such matters; (viii) misappropriated funds or assets of the Company or an Affiliate for personal use or willfully violated the Company policies or standards of business conduct as determined in good faith by the Board; (ix) failed, due to some action or inaction on the part of the Participant, to have immigration status that permits the Participant to maintain full-time employment with the Company or an Affiliate in the United States in compliance with all applicable immigration law; or (x) disclosed trade secrets of the Company or an Affiliate. The findings and decision of the Committee or the Board, if applicable, with respect to any such matter, including those regarding the acts of the Participant and the damage done to the Company, will be final for all purposes. No decision of the Committee, however, will affect the finality of the discharge of the individual by the Company or an Affiliate.
- 20.2 Forfeiture Events. The Committee may specify in an Agreement that the Participant’s rights, payments and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Such events may include, but shall not be limited to, termination of employment for cause, termination of employment for any other reason, violation of material policies of the Company and its Affiliates, breach of noncompetition, confidentiality, or other restrictive covenants that may apply to the Participant, or other conduct by the Participant that is detrimental to the business or reputation of the Company and its Affiliates.
- 20.3 Compensation Recovery Policy. Awards and any compensation associated therewith may be made subject to forfeiture, recovery by the Company or other action pursuant to any compensation recovery policy adopted by the Board or the Committee at any time, including in response to the requirements of Section 10D of the Exchange Act and any implementing rules and regulations thereunder, or as otherwise required by law. Any Agreement may be unilaterally amended by the Committee to comply with any such compensation recovery policy.

21. Corporate Mergers, Acquisitions, Etc. The Committee may also grant Substitute Awards under the Plan in substitution for, or in connection with the assumption of, existing options, stock appreciation rights, restricted stock or other awards granted, awarded or issued by another corporation and assumed or otherwise agreed to be provided for by the Company pursuant to or by reason of a transaction involving a corporate merger, consolidation, acquisition of property or stock, separation, reorganization or liquidation to which the Company or a Subsidiary is a party. The terms and conditions of the Substitute Awards may vary from the terms and conditions set forth in the Plan to the extent as the Board at the time of the grant may deem appropriate to conform, in whole or in part, to the provisions of the awards in substitution for which they are granted.

22. Unfunded Plan. The Plan shall be unfunded and the Company shall not be required to segregate any assets that may at any time be represented by Awards under the Plan. Neither the Company, its Affiliates, the Committee, nor the Board of Directors shall be deemed to be a trustee of any amounts to be paid under the Plan nor shall anything contained in the Plan or any action taken pursuant to its provisions create or be construed to create a fiduciary relationship between the Company and/or its Affiliates, and a Participant or Successor or Transferee. To the extent any person acquires a right to receive an Award under the Plan, this right shall be no greater than the right of an unsecured general creditor of the Company.

23. Limits of Liability.

23.1 Contractual Liability Only. Any liability of the Company to any Participant with respect to an Award shall be based solely upon contractual obligations created by the Plan and the Award Agreement.

23.2 Liability Limit. Except as may be required by law, neither the Company nor any member of the Board of Directors or of the Committee, nor any other person participating in any determination of any question under the Plan, or in the interpretation, administration or application of the Plan, shall have any liability to any party for any action taken, or not taken, in good faith under the Plan.

24. Compliance with Applicable Legal Requirements. No certificate for Shares distributable pursuant to the Plan shall be issued and delivered unless the issuance of the certificate complies with all applicable legal requirements including, without limitation, compliance with the provisions of applicable state securities laws, the Securities Act of 1933, as amended and in effect from time to time or any successor statute, the Exchange Act and the requirements of the exchanges on which the Company's Shares may, at the time, be listed.

25. Deferrals and Settlements. The Committee may require or permit Participants to elect to defer the issuance of Shares or the settlement of Awards in cash under such rules and procedures as it may establish under the Plan. It may also provide that deferred settlements include the payment or crediting of interest on the deferral amounts.

26. Other Benefit and Compensation Programs. Payments and other benefits received by a Participant under an Award made pursuant to the Plan shall not be deemed a part of a Participant's regular, recurring compensation for purposes of the termination, indemnity or severance pay laws of any country and shall not be included in, nor have any effect on, the determination of benefits under any other employee benefit plan, contract or similar arrangement provided by the Company or an Affiliate unless expressly so provided by such other plan, contract or arrangement, or unless the Committee expressly determines that an Award or portion of an Award should be included to accurately reflect competitive compensation practices or to recognize that an Award has been made in lieu of a portion of competitive cash compensation.

27. Beneficiary Upon Participant's Death. To the extent that the transfer of a Participant's Award at his or her death is permitted under an Agreement, a Participant's Award shall be transferable at death to the estate or to the person who acquires the right to succeed to the Award by bequest or inheritance.

28. Requirements of Law.

28.1 Governing Law. To the extent that federal laws do not otherwise control, the Plan and all determinations made and actions taken pursuant to the Plan shall be governed by the laws of the State of Minnesota without regard to its conflicts-of-law principles and shall be construed accordingly.

28.2 Severability. If any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

29. Code Section 409A. It is intended that (i) all Awards of Options, Stock Appreciation Rights and Restricted Stock under the Plan will not provide for the deferral of compensation within the meaning of Code Section 409A and thereby be exempt from Code Section 409A, and (ii) all other Awards under the Plan will either not provide for the deferral of compensation within the meaning of Code Section 409A, or will comply with the requirements of Code Section 409A, and the Committee shall endeavor to structure Awards and administer and interpret the Plan in accordance with this intent. The Plan and any Agreement may be unilaterally amended by the Company in any manner deemed necessary or advisable by the Committee or Board in order to maintain such exemption from or compliance with Code Section 409A, and any such amendment shall conclusively be presumed to be necessary to comply with applicable law. Notwithstanding anything to the contrary in the Plan or any Agreement, with respect to any Award that constitutes a deferral of compensation subject to Code Section 409A:

- (a) If any amount is payable under such Award upon a termination of employment, a termination of employment will be deemed to have occurred only at such time as the Participant has experienced a “separation from service” as such term is defined for purposes of Code Section 409A; and
- (b) If any amount shall be payable with respect to any such Award as a result of a Participant’s “separation from service” at such time as the Participant is a “specified employee” within the meaning of Code Section 409A, then no payment shall be made, except as permitted under Code Section 409A, prior to the first business day after the earlier of (i) the date that is six months after the Participant’s separation from Service or (ii) the Participant’s death. Unless the Committee has adopted a specified employee identification policy as contemplated by Code Section 409A, specified employees will be identified in accordance with the default provisions specified under Code Section 409A.

None of the Company, the Committee or any other person involved with the administration of this Plan shall in any way be responsible for ensuring the exemption of any Award from, or compliance by any Award with, the requirements of Code Section 409A. By accepting an Award under this Plan, each Participant acknowledges that the Company has no duty or obligation to design or administer the Plan or Awards granted thereunder in a manner that minimizes a Participant’s tax liabilities, including the avoidance of any additional tax liabilities under Code Section 409A.

**Digi International Inc.**  
**2020 Omnibus Incentive Plan**  
**(Director) Restricted Stock Unit Award Agreement**

Digi International, Inc. (the “Company”), pursuant to its 2020 Omnibus Incentive Plan (the “Plan”), hereby grants an Award of restricted Stock Units to you, the Participant named below. The terms and conditions of this Award are set forth in this Restricted 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 Restricted Stock Units:	Grant Date: _____, 20__
Vesting Schedule:	
<u>Vesting Date(s)</u>	<u>Number of Stock Units that Vest</u>

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 Restricted Stock Units specified in the table above.

PARTICIPANT:

By:

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**Digi International Inc.**  
**2020 Omnibus Incentive Plan**  
**(Director) Restricted Stock Unit Award Agreement**  
**Terms and Conditions**

1. **Grant of Restricted 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 restricted 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 Units granted to you will be credited to an account in your name maintained by the Company. This account shall be unfunded and maintained for book-keeping purposes only, with the Units simply representing 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 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. **Vesting of Units.**

(a) Scheduled Vesting. If you remain a member of the Board continuously from the Grant Date specified on the cover page of this Agreement, then the Units will vest in the numbers and on the dates specified in the Vesting Schedule on the cover page of this Agreement.

(b) Accelerated Vesting. Vesting of the Units may be accelerated during the term of the Award at the discretion of the Committee in accordance with Section 16.2 of the Plan and under the following circumstances:

(i) Upon a Change in Control, this Award shall become fully vested and exercisable upon the occurrence of the Change in Control.

(ii) In the event the stockholders of the Company approve the complete dissolution or liquidation of the Company, this Award shall vest and become fully exercisable, and will terminate immediately prior to the consummation of any such proposed action.

(c) Change in Control. “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 this 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 a 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 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.
- (iv) 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(c) 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.

4. **Effect of Separation from Service as Director.** Except as otherwise provided in accordance with Section 3(b), if you cease to be a member of the Board prior to the Vesting Date(s) specified on the cover page of this Agreement, you will forfeit all unvested Units.

5. **Settlement of Units.** After any Units vest pursuant to Section 3, the Company shall, as soon as practicable (but no later than 75 days 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 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 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. **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.

7. **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.

8. **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).

9. **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.

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



11. **Section 409A of the Code.** The award of Units as provided in this Agreement and any issuance of Shares or payment 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-1(b)(4).

*By signing the cover page of this Agreement, you agree to all the terms and conditions described above and in the Plan document.*

**Digi International Inc.**  
**2020 Omnibus Incentive Plan**  
**(Executive) Restricted Stock Unit Award Agreement**

Digi International, Inc. (the “Company”), pursuant to its 2020 Omnibus Incentive Plan (the “Plan”), hereby grants an Award of restricted Stock Units to you, the Participant named below. The terms and conditions of this Award are set forth in this Restricted 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 Restricted Stock Units:	Grant Date: _____, 20__
Vesting Schedule:	
<u>Vesting Date(s)</u>	<u>Number of Stock Units that Vest</u>

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 Restricted Stock Units specified in the table above.

PARTICIPANT:

By:

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**Digi International Inc.**  
**2020 Omnibus Incentive Plan**  
**(Executive) Restricted Stock Unit Award Agreement**  
**Terms and Conditions**

1. **Grant of Restricted 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 restricted 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 Units granted to you will be credited to an account in your name maintained by the Company. This account shall be unfunded and maintained for book-keeping purposes only, with the Units simply representing 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 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. **Vesting of Units.**

(a) 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, then the Units will vest in the numbers and on the dates specified in the Vesting Schedule on the cover page of this Agreement.

(b) Effect of Change in Control. The following provisions shall apply if a Change in Control (as defined in Section 3(c)) 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(b)(3) below. 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 all outstanding Units shall fully vest 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(b)(1), and if within 12 months after the Change in Control you experience an Employment Termination Event (as defined in Section 3(d)), then this Award and any outstanding Units shall immediately vest in full.
- (c) Change in Control. "*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 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.
- (iv) 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(c) 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.
- (d) 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(e)), or (ii) the voluntary termination of your employment for Good Reason (as defined in Section 3(f)).
- (e) 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.

- (f) **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 and the condition has not been remedied within 30 after receipt of such notice: (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(b)(3), if you cease to be employed by the Company or any of its Affiliates prior to the Vesting Date(s) specified on the cover page of this Agreement, you will forfeit all unvested Units.

5. **Settlement of Units.** After any Units vest pursuant to Section 3, the Company shall, as soon as practicable (but no later than 75 days 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 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 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 Units. The Company will retain a portion of the Shares that would otherwise be delivered to you in settlement of vested 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 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 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 Affiliate, 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-1(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.***

**Digi International Inc.**  
**2020 Omnibus Incentive Plan**  
**Restricted Stock Unit Award Agreement**

Digi International, Inc. (the “Company”), pursuant to its 2020 Omnibus Incentive Plan (the “Plan”), hereby grants an Award of restricted Stock Units to you, the Participant named below. The terms and conditions of this Award are set forth in this Restricted 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 Restricted Stock Units:	Grant Date: _____, 20__
Vesting Schedule:	
<u>Vesting Date(s)</u>	<u>Number of Stock Units that Vest</u>

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 Restricted Stock Units specified in the table above.

PARTICIPANT:

By:

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**Digi International Inc.**  
**2020 Omnibus Incentive Plan**  
**Restricted Stock Unit Award Agreement**  
**Terms and Conditions**

1. **Grant of Restricted 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 restricted 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 Units granted to you will be credited to an account in your name maintained by the Company. This account shall be unfunded and maintained for book-keeping purposes only, with the Units simply representing 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 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. **Vesting of Units.**

(a) 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, then the Units will vest in the numbers and on the dates specified in the Vesting Schedule on the cover page of this Agreement.

(b) Effect of Change in Control. The following provisions shall apply if a Change in Control (as defined in Section 3(c)) 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. 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 all outstanding Units shall fully vest 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.

(c) Change in Control. "*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 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.
- (iv) 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(c) 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.

4. **Effect of Termination of Employment.** If you cease to be employed by the Company or any of its Affiliates prior to the Vesting Date(s) specified on the cover page of this Agreement, you will forfeit all unvested Units.

5. **Settlement of Units.** After any Units vest pursuant to Section 3, the Company shall, as soon as practicable (but no later than 75 days 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 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 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 Units. The Company will retain a portion of the Shares that would otherwise be delivered to you in settlement of vested 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 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 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 Affiliate, 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-1(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.***

**Notice of Grant of Stock Options and Option Agreement  
(Executive)**

**Digi International Inc.**  
**ID:** 41-1532464  
 9350 Excelsior Blvd., Suite 700  
 Hopkins, MN 55343

[Optionee]  
 [Address]  
 [City, State, County, Zip Code]

**Option Number:**  
**Plan: 2020 Omnibus Incentive Plan**  
**ID:**

Effective [date], Digi International Inc. (the “*Company*”), pursuant to its 2020 Omnibus Incentive Plan (the “*Plan*”), hereby grants to you, the Participant named below, an Award of a Non-Statutory Stock Option to buy [number of shares] shares of common stock of the Company at an exercise price of \$[ ] per share. The terms and conditions of this Award are set forth in this Stock Option 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.

The total option price of the shares granted is \$[aggregate exercise price]

Shares in each period will become fully vested on the date shown.

Shares	Vest Type	Full Vest	Expiration
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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 your right to purchase shares of the Company’s common stock pursuant to this Option.

_____	_____
Digi International Inc.	Date
_____	_____

[Optionee]	Date
_____	_____

**DIGI INTERNATIONAL INC.**  
**2020 OMNIBUS INCENTIVE PLAN**  
**Stock Option Award Agreement - Terms and Conditions**

These are the terms and conditions applicable to the STOCK OPTION AWARD AGREEMENT between Digi International Inc., a Delaware corporation (the “Company”), and the participant (the “Participant”) listed on the cover page hereof (the “Cover Page”) effective as of the date of award. The Cover Page together with these terms and conditions of this Stock Option Award Agreement constitute the “Stock Option Award Agreement.”

WHEREAS, the Company desires to carry out the purposes of its Digi International Inc. 2020 Omnibus Incentive Plan as amended from time to time (the “Plan”), by affording the Participant an opportunity to purchase Stock of the Company, par value \$.01 per share (the “Shares”), according to the terms set forth herein and on the Cover Page;

NOW THEREFORE, the Company hereby awards this Option to the Participant under the terms and conditions as follows:

1. **Award of Option.** Subject to the terms of the Plan, the Company hereby awards to the Participant the right and option (the “Option”) to purchase the number of Shares specified on the Cover Page, on the terms and conditions hereinafter set forth. The Option is not intended by the Company to be an “incentive stock option” within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the “Code”).

2. **Purchase Price.** The purchase price of each of the Shares subject to the Option shall be the exercise price per share specified on the Cover Page, which price has been specified in accordance with the Plan and shall not be less than the Fair Market Value (as defined in paragraph 2.1(m) of the Plan) of a Share as of the date of grant.

3. **Option Period.**

(a) Subject to the provisions of paragraphs 5(a), 6(a), 6(b) and 6(c) hereof, the Option shall become exercisable as to the number of Shares and on the dates specified in the exercise schedule on the Cover Page. The exercise schedule shall be cumulative; thus, to the extent the Option has not already been exercised and has not expired, terminated or been canceled, the Participant may at any time, and from time to time, purchase all or any portion of the Shares then purchasable under the exercise schedule.

(b) The Option and all rights to purchase Shares thereunder shall cease on the earliest of:

(i) the expiration date specified on the Cover Page (which date shall not be more than seven years after the date of grant);

(ii) the expiration of the period after the termination of the Participant’s employment (as defined in paragraph 6.4 of the Plan)

within which the Option is exercisable as specified in paragraph 5(a); or

(iii) the date, if any, fixed for cancellation pursuant to paragraph 6(b) hereof.

Notwithstanding any other provision in this Agreement, in no event may anyone exercise the Option, in whole or in part, after its original expiration date.

**4. Manner of Exercising Option.** Subject to the terms and conditions of this Agreement, the Option may be exercised online with E\*Trade at [www.etrade.com/stockplans](http://www.etrade.com/stockplans) or by such other means as the Committee shall approve. In accordance with present practice, when your Option is awarded, a letter or email will be sent to you from E\*Trade with instructions on how to activate your account with E\*Trade so that you can view and exercise your Option online. If you are a director or officer of the Company, then you must contact E\*Trade Executive Support at 1-800-775-2793 in order to exercise your Option.

**5. Exercisability of Option After Termination of Employment.**

(a) During the lifetime of the Participant, the Option may be exercised only while the Participant is employed (as defined in paragraph 5 of the Plan) by the Company or a parent or subsidiary thereof, and only if the Participant has been continuously so employed since the date of this Agreement, except that:

(i) if the Participant is not a Non-Employee Director (as defined in paragraph 2.1(r) of the Plan), the Option shall continue to be exercisable for three months after termination of the Participant's employment for any reason other than death, disability or cause, but only to the extent that the Option was exercisable immediately prior to the Participant's termination of employment;

(ii) if the Participant is not a Non-Employee Director, in the event the Participant's employment terminates because the Participant is disabled (within the meaning of Section 22(e)(3) of the Code), the Participant or his or her legal representative may exercise the Option (to the extent specified in paragraph 6(a) of this Agreement) within one year after the termination of the Participant's employment because of such disability;

(iii) if the Participant is not a Non-Employee Director and if the Participant dies while employed, or within three months after his or her termination of employment, the heirs or legatees of the Participant's estate or the person who acquired the right to exercise the Option by bequest or inheritance may exercise the Option (to the extent specified in paragraph 6(a)) of this Agreement within one year after the death of the Participant;

(iv) if the Participant is a Non-Employee Director, the Option shall continue to be exercisable after the Participant's employment ends for the remaining term of the Option, but shall be exercisable only to the extent that the Option was exercisable immediately prior to the end of Participant's employment, except that if the Participant's employment ends because of death or disability, or the Participant dies within three months of his or her employment ending, the Option, whether or not previously exercisable, shall become exercisable to the extent specified in paragraph 6(a) of this Agreement and shall continue to be exercisable after the Participant's employment ends for the remaining term of the Option;

(v) if the Participant's employment terminates due to cause (as defined in paragraph 20.1 of the Plan), the Option and all rights of the Participant hereunder shall terminate immediately; and

(vi) if the Participant's employment terminates after a declaration pursuant to paragraph 6(b) of this Agreement, the Participant may exercise the Option at any time permitted by such declaration.

If, during the term of the Option, the Participant's status changes to or from that of a Non-Employee Director, the provisions of this paragraph 5(a) shall be applied to the Participant based on the Participant's status as of the date the Option was awarded.

(b) Neither the transfer of the Participant between any combination of the Company and any Affiliate, nor a leave of absence awarded to the Participant and approved by the Committee, shall be deemed a termination of employment.

#### **6. Acceleration of Option.**

(a) Disability or Death. If paragraph 5(a)(ii), 5(a)(iii) or the exception clause of paragraph 5(a)(iv) of this Agreement is applicable, the Option, whether or not previously exercisable, shall become immediately exercisable in full if the Participant shall have been employed continuously by the Company or an Affiliate between the date the Option was granted and the date of such disability or, in the event of death, the date of such Participant's death.

(b) Dissolution, Liquidation, Merger. In the event of (i) a proposed merger or consolidation of the Company with or into any other corporation, regardless of whether the Company is the surviving corporation, unless appropriate provision shall have been made for the protection of the Option by the substitution, in lieu of the Option, of an option to purchase appropriate voting stock (the "Survivor's Stock") of the corporation surviving any such merger or consolidation or, if appropriate, the parent corporation of the Company or such surviving corporation, or, alternatively, by the delivery of a number of shares of the Survivor's Stock that has a Fair Market Value as of the effective date of such merger or consolidation equal to the product of (A) the excess of (x) the Event Proceeds per Share (as hereinafter defined) covered by the Option as of such effective date, over (y) the Option exercise price per Share, times (B) the number of Shares covered by the Option, or (ii) the proposed dissolution or liquidation of the Company (such merger, consolidation, dissolution or liquidation being herein called an "Event"), the Committee shall declare, at least ten days prior to the actual effective date of an Event, and provide written notice to the Participant of the declaration, that the Option, whether or not then exercisable, shall be canceled at the time of, or immediately prior to the occurrence of, the Event (unless it shall have been exercised prior to the occurrence of the Event) in exchange for payment to the Participant, within ten days after the Event, of cash equal to the amount (if any), for each Share covered by the canceled Option, by which the Event Proceeds per Share (as hereinafter defined) exceeds the exercise price per Share covered by the Option. At the time of the declaration provided for in the immediately preceding sentence, the Option shall immediately become exercisable in full and the Participant shall have the right, during the period preceding the time of cancellation of the Option, to exercise the Option as to all or any part of the Shares covered thereby. The Option, to the extent it shall not have been exercised prior to the Event, shall be canceled at the time of, or immediately prior to, the Event, as provided in the declaration, and this Plan shall terminate at the time of such cancellation, subject to the payment obligations of the Company provided in this paragraph 6(b). For purposes of this paragraph, "Event Proceeds per Share" shall mean the cash plus the fair market value, as determined in good faith by the Committee, of



the non-cash consideration to be received per Share by the stockholders of the Company upon the occurrence of the Event.

(c) Change in Control and Employment Termination Event. The Option, whether or not previously exercisable, shall become immediately exercisable in full upon the occurrence of any “Change in Control” that occurs contemporaneously with, or is followed within 12 months of the Change in Control by, an “Employment Termination Event”.

A “*Change in Control*” will be deemed to have occurred upon the occurrence of either of the following events:

- (i) any person, as defined in Sections 3(a)(9) and 13(d)(3) of the Securities Exchange Act of 1934 (the “Exchange Act”), becomes the “beneficial owner” (as defined in Rule 13d-3 promulgated pursuant to the Exchange Act), directly or indirectly, of securities of the Company having 25% or more of the voting power in the election of directors of the Company, excluding, however, Participant (or a group of persons, including Participant, acting in concert); or
- (ii) the occurrence within any period, commencing immediately after an Annual Meeting of Stockholders and continuing to and including the Annual Meeting of Stockholders occurring on or about the third anniversary date of the commencement of such period, of a change in the Board of Directors of the Company with the result that the Incumbent Members (as defined below) do not constitute a majority of the Company’s Board of Directors. The term “Incumbent Members” shall mean the members of the Board on the date of the commencement of such period, provided that any person becoming a director during such period whose election or nomination for election was approved by a majority of the directors who, on the date of such election or nomination for election, comprised the Incumbent Members shall be considered one of the Incumbent Members in respect of such period.

An “*Employment Termination Event*” will be deemed to have occurred upon either: a termination by the Company without Cause or a termination for Good Reason.

For purposes of this subparagraph (c), “*Cause*” means only the following:

- (i) 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) any crime or offense involving dishonesty with respect to the Company;
- (ii) theft or embezzlement of Company property or commission of similar acts involving dishonesty or moral turpitude;
- (iii) repeated material negligence in the performance of Participant’s duties after the Participant has received written notice of the same;
- (iv) Participant’s failure to devote substantially all of his working time and efforts during normal business hours to the Company’s business;

- (v) knowing engagement in conduct that is materially injurious to the Company; or
- (vi) 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.

For purposes of this subparagraph (c), "*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 and the condition has not been remedied within 30 after receipt of such notice:

- (i) the failure of the Company to pay any material amount due to Participant under a prevailing Employment Agreement;
- (ii) a meaningful diminution, without Cause, as defined above, in the responsibilities or job functions of the Participant unless approved by the Participant;
- (iii) a material reduction in total compensation potential as defined by annual base salary and cash compensation targets; or
- (iv) the relocation of Participant to an office location greater than 50 miles from his/her office location at the time of a Change in Control.

**7. Limitation on Transfer.** During the lifetime of the Participant, only the Participant or his or her guardian or legal representative may exercise the Option. The Participant shall not assign or transfer the Option otherwise than by will or the laws of descent and distribution, and the Option shall not be subject to pledge, hypothecation, execution, attachment or similar process. Any attempt to assign, transfer, pledge, hypothecate or otherwise dispose of the Option contrary to the provisions hereof, and the levy of any attachment or similar process upon the Option, shall be null and void.

**8. Stockholder Rights Before Exercise.** The Participant shall have none of the rights of a stockholder of the Company with respect to any share subject to the Option until the share is actually issued to him or her upon exercise of the Option.

**9. Adjustment For Changes in Capitalization.** The Option is subject to adjustment for changes in capitalization as provided in paragraph 17 of the Plan.

**10. Tax Withholding.** The parties hereto recognize that the Company or a parent or subsidiary thereof may be obligated to withhold federal and state income taxes and social security or other taxes upon the Participant's exercise of the Option. The Participant agrees that, at the time he or she exercises the Option, if the Company or a parent or subsidiary thereof is required to withhold such taxes, he or she will promptly pay in cash upon demand to the Company,

or the parent or subsidiary having such obligation, such amounts as shall be necessary to satisfy such obligation; provided, however, that in lieu of all or any part of such a cash payment, the Committee may, but shall not be required to (or, in the case of an Participant who is a Non-Employee Director (as defined in the Plan), the Committee shall) permit the Participant to elect to cover all or any part of the required withholdings (up to the Participant's minimum required tax withholding rate) through a reduction of the number of Shares delivered to the Participant or through a subsequent return to the Company of shares delivered to the Participant.

**11. Interpretation.** All decisions and interpretations made by the Committee with regard to any question arising hereunder or under the Plan shall be binding and conclusive upon the Company and the Participant. In the event that there is any inconsistency between the provisions of this Agreement and the Plan, the provisions of the Plan shall govern.

**12. Discontinuance of Employment.** This Agreement shall not give the Participant a right to continued employment with the Company or any parent or subsidiary thereof, and the Company or any such parent or subsidiary thereof employing the Participant may terminate his or her employment and otherwise deal with the Participant without regard to the effect it may have upon him or her under this Agreement.

**13. General.** The Company shall at all times during the term of this Option reserve and keep available such number of Shares as will be sufficient to satisfy the requirements of this Agreement. This Agreement shall be binding in all respects on the Participant's heirs, representatives, successors and assigns. Agreement is entered into under the laws of the State of Minnesota and shall be construed and interpreted thereunder.

**Notice of Grant of Stock Options and Option Agreement  
(Employee)**

**Digi International Inc.**  
**ID:** 41-1532464  
 9350 Excelsior Blvd., Suite 700  
 Hopkins, MN 55343

[Optionee]  
 [Address]  
 [City, State, County, Zip Code]

**Option Number:**  
**Plan: 2020 Omnibus Incentive Plan**  
**ID:**

Effective [date], Digi International Inc. (the “Company”), pursuant to its 2020 Omnibus Incentive Plan (the “Plan”), hereby grants to you, the Participant named below, an Award of a Non-Statutory Stock Option to buy [number of shares] shares of common stock of the Company at an exercise price of \$[ ] per share. The terms and conditions of this Award are set forth in this Stock Option 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.

The total option price of the shares granted is \$[aggregate exercise price]

Shares in each period will become fully vested on the date shown.

Shares	Vest Type	Full Vest	Expiration
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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 your right to purchase shares of the Company’s common stock pursuant to this Option.

_____	_____
Digi International Inc.	Date
_____	_____

[Optionee]	Date
_____	_____

**DIGI INTERNATIONAL INC.**  
**2020 OMNIBUS INCENTIVE PLAN**  
**Stock Option Award Agreement - Terms and Conditions**

These are the terms and conditions applicable to the STOCK OPTION AWARD AGREEMENT between Digi International Inc., a Delaware corporation (the “Company”), and the participant (the “Participant”) listed on the cover page hereof (the “Cover Page”) effective as of the date of award. The Cover Page together with these terms and conditions of this Stock Option Award Agreement constitute the “Stock Option Award Agreement.”

WHEREAS, the Company desires to carry out the purposes of its Digi International Inc. 2020 Omnibus Incentive Plan as amended from time to time (the “Plan”), by affording the Participant an opportunity to purchase Stock of the Company, par value \$.01 per share (the “Shares”), according to the terms set forth herein and on the Cover Page;

NOW THEREFORE, the Company hereby awards this Option to the Participant under the terms and conditions as follows:

1. **Award of Option.** Subject to the terms of the Plan, the Company hereby awards to the Participant the right and option (the “Option”) to purchase the number of Shares specified on the Cover Page, on the terms and conditions hereinafter set forth. The Option is not intended by the Company to be an “incentive stock option” within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the “Code”).

2. **Purchase Price.** The purchase price of each of the Shares subject to the Option shall be the exercise price per share specified on the Cover Page, which price has been specified in accordance with the Plan and shall not be less than the Fair Market Value (as defined in paragraph 2.1(m) of the Plan) of a Share as of the date of grant.

3. **Option Period.**

(a) Subject to the provisions of paragraphs 5(a), 6(a) and 6(b) hereof, the Option shall become exercisable as to the number of Shares and on the dates specified in the exercise schedule on the Cover Page. The exercise schedule shall be cumulative; thus, to the extent the Option has not already been exercised and has not expired, terminated or been canceled, the Participant may at any time, and from time to time, purchase all or any portion of the Shares then purchasable under the exercise schedule.

(b) The Option and all rights to purchase Shares thereunder shall cease on the earliest of:

(i) the expiration date specified on the Cover Page (which date shall not be more than seven years after the date of grant);

(ii) the expiration of the period after the termination of the Participant’s employment (as defined in paragraph 6.4 of the Plan) within which the Option is exercisable as specified in paragraph 5(a); or

(iii) the date, if any, fixed for cancellation pursuant to paragraph 6(b) hereof.

Notwithstanding any other provision in this Agreement, in no event may anyone exercise the Option, in whole or in part, after its original expiration date.

**4. Manner of Exercising Option.** Subject to the terms and conditions of this Agreement, the Option may be exercised online with E\*Trade at [www.etrade.com/stockplans](http://www.etrade.com/stockplans) or by such other means as the Committee shall approve. In accordance with present practice, when your Option is awarded, a letter or email will be sent to you from E\*Trade with instructions on how to activate your account with E\*Trade so that you can view and exercise your Option online. If you are a director or officer of the Company, then you must contact E\*Trade Executive Support at 1-800-775-2793 in order to exercise your Option.

**5. Exercisability of Option After Termination of Employment.**

(a) During the lifetime of the Participant, the Option may be exercised only while the Participant is employed (as defined in paragraph 5 of the Plan) by the Company or a parent or subsidiary thereof, and only if the Participant has been continuously so employed since the date of this Agreement, except that:

(i) if the Participant is not a Non-Employee Director (as defined in paragraph 2.1(r) of the Plan), the Option shall continue to be exercisable for three months after termination of the Participant's employment for any reason other than death, disability or cause, but only to the extent that the Option was exercisable immediately prior to the Participant's termination of employment;

(ii) if the Participant is not a Non-Employee Director, in the event the Participant's employment terminates because the Participant is disabled (within the meaning of Section 22(e)(3) of the Code), the Participant or his or her legal representative may exercise the Option (to the extent specified in paragraph 6(a) of this Agreement) within one year after the termination of the Participant's employment because of such disability;

(iii) if the Participant is not a Non-Employee Director and if the Participant dies while employed, or within three months after his or her termination of employment, the heirs or legatees of the Participant's estate or the person who acquired the right to exercise the Option by bequest or inheritance may exercise the Option (to the extent specified in paragraph 6(a)) of this Agreement within one year after the death of the Participant;

(iv) if the Participant is a Non-Employee Director, the Option shall continue to be exercisable after the Participant's employment ends for the remaining term of the Option, but shall be exercisable only to the extent that the Option was exercisable immediately prior to the end of Participant's employment, except that if the Participant's employment ends because of death or disability, or the Participant dies within three months of his or her employment ending, the Option, whether or not previously exercisable, shall become exercisable to the extent specified in paragraph 6(a) of this Agreement and shall continue to be exercisable after the Participant's employment ends for the remaining term of the Option;

(v) if the Participant's employment terminates due to cause (as defined in paragraph 20.1 of the Plan), the Option and all rights of the Participant hereunder shall terminate immediately; and

(vi) if the Participant's employment terminates after a declaration pursuant to paragraph 6(b) of this Agreement, the Participant may exercise the Option at any time permitted by such declaration.

If, during the term of the Option, the Participant's status changes to or from that of a Non-Employee Director, the provisions of this paragraph 5(a) shall be applied to the Participant based on the Participant's status as of the date the Option was awarded.

(b) Neither the transfer of the Participant between any combination of the Company and any Affiliate, nor a leave of absence awarded to the Participant and approved by the Committee, shall be deemed a termination of employment.

#### **6. Acceleration of Option.**

(a) Disability or Death. If paragraph 5(a)(ii), 5(a)(iii) or the exception clause of paragraph 5(a)(iv) of this Agreement is applicable, the Option, whether or not previously exercisable, shall become immediately exercisable in full if the Participant shall have been employed continuously by the Company or an Affiliate between the date the Option was granted and the date of such disability or, in the event of death, the date of such Participant's death.

(b) Dissolution, Liquidation, Merger. In the event of (i) a proposed merger or consolidation of the Company with or into any other corporation, regardless of whether the Company is the surviving corporation, unless appropriate provision shall have been made for the protection of the Option by the substitution, in lieu of the Option, of an option to purchase appropriate voting stock (the "Survivor's Stock") of the corporation surviving any such merger or consolidation or, if appropriate, the parent corporation of the Company or such surviving corporation, or, alternatively, by the delivery of a number of shares of the Survivor's Stock that has a Fair Market Value as of the effective date of such merger or consolidation equal to the product of (A) the excess of (x) the Event Proceeds per Share (as hereinafter defined) covered by the Option as of such effective date, over (y) the Option exercise price per Share, times (B) the number of Shares covered by the Option, or (ii) the proposed dissolution or liquidation of the Company (such merger, consolidation, dissolution or liquidation being herein called an "Event"), the Committee shall declare, at least ten days prior to the actual effective date of an Event, and provide written notice to the Participant of the declaration, that the Option, whether or not then exercisable, shall be canceled at the time of, or immediately prior to the occurrence of, the Event (unless it shall have been exercised prior to the occurrence of the Event) in exchange for payment to the Participant, within ten days after the Event, of cash equal to the amount (if any), for each Share covered by the canceled Option, by which the Event Proceeds per Share (as hereinafter defined) exceeds the exercise price per Share covered by the Option. At the time of the declaration provided for in the immediately preceding sentence, the Option shall immediately become exercisable in full and the Participant shall have the right, during the period preceding the time of cancellation of the Option, to exercise the Option as to all or any part of the Shares covered thereby. The Option, to the extent it shall not have been exercised prior to the Event, shall be canceled at the time of, or immediately prior to, the Event, as provided in the declaration, and this Plan shall terminate at the time of such cancellation, subject to the payment obligations of the Company provided in this paragraph 6(b). For purposes of this paragraph, "Event Proceeds per Share" shall mean the cash plus the fair market value, as determined in good faith by the Committee, of

the non-cash consideration to be received per Share by the stockholders of the Company upon the occurrence of the Event.

**7. Limitation on Transfer.** During the lifetime of the Participant, only the Participant or his or her guardian or legal representative may exercise the Option. The Participant shall not assign or transfer the Option otherwise than by will or the laws of descent and distribution, and the Option shall not be subject to pledge, hypothecation, execution, attachment or similar process. Any attempt to assign, transfer, pledge, hypothecate or otherwise dispose of the Option contrary to the provisions hereof, and the levy of any attachment or similar process upon the Option, shall be null and void.

**8. Stockholder Rights Before Exercise.** The Participant shall have none of the rights of a stockholder of the Company with respect to any share subject to the Option until the share is actually issued to him or her upon exercise of the Option.

**9. Adjustment For Changes in Capitalization.** The Option is subject to adjustment for changes in capitalization as provided in paragraph 17 of the Plan.

**10. Tax Withholding.** The parties hereto recognize that the Company or a parent or subsidiary thereof may be obligated to withhold federal and state income taxes and social security or other taxes upon the Participant's exercise of the Option. The Participant agrees that, at the time he or she exercises the Option, if the Company or a parent or subsidiary thereof is required to withhold such taxes, he or she will promptly pay in cash upon demand to the Company, or the parent or subsidiary having such obligation, such amounts as shall be necessary to satisfy such obligation; provided, however, that in lieu of all or any part of such a cash payment, the Committee may, but shall not be required to (or, in the case of an Participant who is a Non-Employee Director (as defined in the Plan), the Committee shall) permit the Participant to elect to cover all or any part of the required withholdings (up to the Participant's minimum required tax withholding rate) through a reduction of the number of Shares delivered to the Participant or through a subsequent return to the Company of shares delivered to the Participant.

**11. Interpretation.** All decisions and interpretations made by the Committee with regard to any question arising hereunder or under the Plan shall be binding and conclusive upon the Company and the Participant. In the event that there is any inconsistency between the provisions of this Agreement and the Plan, the provisions of the Plan shall govern.

**12. Discontinuance of Employment.** This Agreement shall not give the Participant a right to continued employment with the Company or any parent or subsidiary thereof, and the Company or any such parent or subsidiary thereof employing the Participant may terminate his or her employment and otherwise deal with the Participant without regard to the effect it may have upon him or her under this Agreement.

**13. General.** The Company shall at all times during the term of this Option reserve and keep available such number of Shares as will be sufficient to satisfy the requirements of this Agreement. This Agreement shall be binding in all respects on the Participant's heirs, representatives, successors and assigns. Agreement is entered into under the laws of the State of Minnesota and shall be construed and interpreted thereunder.





## First Amendment to Credit Agreement

This First Amendment to Credit Agreement (this "*Amendment*") is made as of April 14, 2020, by and among Digi International Inc., a Delaware corporation ( "*Borrower*"), the other loan parties signatories hereto (collectively with the Borrower, the "*Loan Parties*"), each Lender under the Credit Agreement (as defined herein) party hereto and BMO Harris Bank N.A., as Administrative Agent ("*Administrative Agent*").

### Preliminary Statements

A. The Lenders have made certain loans (the "*Loans*") and other credit extensions to Borrower pursuant to that certain Credit Agreement dated as of December 13, 2019 (as may be amended, restated, supplemented or otherwise modified from time to time, the "*Credit Agreement*").

B. The parties hereby desire to amend certain provisions of the Credit Agreement and certain other agreements related to the Loans and related credit extensions as contemplated by the Credit Agreement (collectively, the "*Loan Documents*"). Any and all capitalized terms in this Amendment that are not otherwise defined herein shall have the meanings ascribed to such terms in the Credit Agreement as amended by this Amendment.

### Agreements

In consideration of the mutual covenants and provisions of this Amendment, the parties agree as follows:

#### Section 1. Amendments.

Subject to the satisfaction of the conditions precedent set forth in Section 2 below, the Credit Agreement shall be and hereby is amended as follows.

1.1 SBA PPP Loan Provisions. The following new Section 10.25 is hereby added to the Credit Agreement in its proper order and shall provide as follows:

“Section 10.25. SBA PPP Loan Provisions.”

(a) Defined Terms. The following terms shall have the meanings set forth below:

"CARES Act" means the Coronavirus Aid, Relief, and Economic Security Act, or the CARES Act and applicable rules and regulations, as amended from time to time.

"CARES Payroll Costs" means "payroll costs" as defined in 15 U.S.C. 636(a)(36)(A)(viii) (as added to the Small Business Act by Section 1102 of the CARES Act).

"CARES Forgivable Uses" means uses of proceeds of an SBA PPP Loan that are eligible for forgiveness under Section 1106 of the CARES Act.

"First Amendment Effective Date" means April 14, 2020.

"Small Business Act" means the Small Business Act (15 U.S. Code Chapter 14A - Aid to Small Business).

"SBA" means the U.S. Small Business Administration.

"SBA PPP Loan" means a loan incurred by the Borrower under 15 U.S.C. 636(a)(36) (as added to the Small Business Act by Section 1102 of the CARES Act).

"SBA PPP Loan Date" means the date on which the Borrower receives the proceeds of the SBA PPP Loan.

(b) Affirmative Covenants.

(i) The Loan Parties shall (A) use all of the proceeds of the SBA PPP Loan exclusively for CARES Forgivable Uses in the manner required under the CARES Act to obtain forgiveness of the largest possible amount of the SBA PPP Loan, which as of the First Amendment Effective Date requires that the Loan Parties use not less than 75% of the SBA PPP Loan proceeds for CARES Payroll Costs and (B) use commercially reasonable efforts to conduct their business in a manner that maximizes the amount of the SBA PPP Loan that is forgiven.

(ii) Notwithstanding anything contained in this Agreement, the Loan Parties shall maintain the proceeds of the SBA PPP Loan in an account that does not sweep funds and apply them to the Obligations.

(iii) The Loan Parties shall (A) maintain all records required to be submitted in connection with the forgiveness of the SBA PPP Loan, (B) apply for forgiveness of the SBA PPP Loan in accordance with regulations implementing Section 1106 of the CARES Act within 30 days after the last day of the eight week period immediately following the SBA PPP Loan Date and (C) provide the Administrative Agent with a copy of its application for forgiveness and all supporting documentation required by the SBA or the SBA PPP Loan lender in connection with the forgiveness of the SBA PPP Loan.

(c) Event of Default. Failure to comply with this Section shall constitute an Event of Default under this Agreement."

1.2 SBA PPP Loan. Notwithstanding anything contained in the Credit Agreement, including any restrictions on the ability of the Loan Parties to incur Indebtedness, the Loan Parties may incur Indebtedness in the form of the SBA PPP Loan and such Indebtedness shall be deemed permitted under Section 7.2 of the Credit Agreement.

1.3 Mandatory Prepayment. Notwithstanding anything contained in the Credit Agreement, the incurrence by the Loan Parties of a SBA PPP Loan shall not trigger a mandatory prepayment or constitute a prepayment event under the Credit Agreement.

1.4 Treatment of SBA PPP Loan in Loan Covenants. Notwithstanding anything contained in the Credit Agreement, the SBA PPP Loan (other than interest thereon, to the extent not eligible for forgiveness) shall be disregarded for purposes of calculating financial covenants in the Credit Agreement, except that if any portion of the SBA PPP Loan is not forgiven, for purposes of calculating financial covenants in the Credit Agreement, the unforgiven portion (a) will not be disregarded and (b) will be deemed to have been incurred as of the SBA PPP Loan Date.

1.5 SBA PPP Loan is an Unsecured Obligation. Notwithstanding anything contained in the Loan Documents, the SBA PPP Loan is, and shall remain, unsecured and shall not be considered Secured Obligations for purposes of the Guarantee and Collateral Agreement.

Section 2. Conditions Precedent.

The effectiveness of this Amendment is subject to the satisfaction of all of the following conditions precedent:

2.1. Borrower, the other Loan Parties, the Required Lenders and the Administrative Agent shall have executed and delivered this Amendment.

2.2 Borrower and the other Loan Parties shall have delivered to the Administrative Agent such other certificates, instruments, documents, agreements and opinions of counsel as may be required by Administrative Agent or its counsel, each of which shall be in form and substance satisfactory to the Administrative Agent and its counsel.

Section 3. Miscellaneous.

3.1. Full Force and Effect; Reaffirmation. Except as supplemented, modified and amended by this Amendment, the terms and conditions of the Credit Agreement and other Loan Documents shall remain unmodified and shall continue in full force and effect. Borrower and each other Loan Party hereby reaffirm all of their obligations under the Credit Agreement and other Loan Documents, as supplemented, modified and amended hereby.

3.2. Counterparts. This Amendment may be executed in any number of counterparts, and by the different parties on different counterpart signature pages, and all such counterparts taken together shall be deemed to constitute one and the same instrument. Delivery of an executed counterpart of a signature page of this Amendment by fax or other electronic transmission (which shall include “PDF” or “TIFF” format) shall be as effective as delivery of a manually executed counterpart of this Amendment.

3.3. Reservation of Rights; No Waiver. The Administrative Agent and Lenders have not waived, are not by this Amendment waiving, and have no intention of waiving, any defaults which may occur after the date hereof, and the Administrative Agent and Lenders have not agreed to forbear with respect to any of its rights or remedies concerning any Events of Default, which may have occurred or are continuing as of the date hereof or which may occur after the date hereof. Except as expressly set forth in this Amendment, the Administrative Agent and Lenders reserve all of their respective rights and remedies under the Loan Documents, at law or in equity, and at such times as the Administrative Agent and Lenders from time to time may elect.

3.4. Due Authorization, Execution and Delivery; Enforceability. The execution, delivery, and performance by Borrower and the other Loan Parties in connection with this Amendment has been duly authorized by all requisite action by or on behalf of Borrower and such other Loan Parties, and this Amendment has been duly executed and delivered on behalf of Borrower and such other Loan Parties. This Amendment is enforceable against each such Person in accordance with its respective terms, except as enforceability may be limited by applicable debtor relief laws and general principles of equity.

3.5. Costs and Expenses. As an inducement to the Administrative Agent and Required Lenders entering into this Amendment and as otherwise required under the Loan Documents, Borrower hereby agrees to pay, upon execution and delivery of this Amendment, all cost and expenses of the Administrative Agent incurred in connection with this Amendment and the matters contemplated herein, including all reasonable attorney’s fees.

[THE REMAINDER OF THIS PAGE IS INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties have caused this Amendment to be executed and delivered by its duly authorized officers as of the day and year first above written.

**Borrower:**

DIGI INTERNATIONAL INC.,

By: /s/James Loch  
Printed Name: James Loch  
Title: CFO

**Other Loan Parties:**

ACCELERATED CONCEPTS, INC.

By: /s/ James Loch  
Printed Name: James Loch  
Title: CFO

ITK INTERNATIONAL, INC.

By: /s/ James Loch  
Printed Name: James Loch  
Title: CFO

SMART TEMPS, L.L.C.

By: /s/ Ron Konezny  
Printed Name: Ron Konezny  
Title: CEO

FRESHTEMP, LLC

By: /s/ Ron Konezny  
Printed Name: Ron Konezny  
Title: CEO

DIGI SMARTSENSE, LLC

By: /s/ James Loch  
Printed Name: James Loch  
Title: CFO

OPENGEAR, INC.

By: /s/ James Loch  
Printed Name: James Loch  
Title: James Loch

**Administrative Agent:**

BMO Harris Bank N.A., as Administrative Agent

By: /s/ Philip Sanfilippo

Printed Name: Philip Sanfilippo

Title: Director

**Required Lenders:**

BMO Harris Bank N.A., as a Lender, Swingline Lender, and Issuing Lender

By: /s/ Philip Sanfilippo

Printed Name: Philip Sanfilippo

Title: Director

SILICON VALLEY BANK, as a Lender

By: /s/ John Ryan

Printed Name: John Ryan

Title: Vice President

CAPITAL ONE, NATIONAL ASSOCIATION, as a Lender

By: /s/ Nirmal Bivek

Printed Name: Nirmal Bivek

Title: Duly Authorized Signatory



U.S. Bank National Association, as a Lender

By: /s/ John Gauger

Printed Name: John Gauger

Title: Vice President

Truist Bank, as a Lender

By: /s/ Paige Scheper

Printed Name: Paige Scheper

Title: Vice President

Citizens Bank NA, as a Lender

By: /s/ Patricia R. Gierosky

Printed Name: Patricia R. Gierosky

Title: Vice President

**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.

May 8, 2020

/s/ Ronald E. Konezny

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Ronald E. Konezny

President and Chief Executive Officer

**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.

May 8, 2020

/s/ James J. Loch

James J. Loch

Senior Vice President, Chief Financial Officer and Treasurer

**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 March 31, 2020 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.

May 8, 2020

/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