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, 2013

OR

o **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: 1-34033

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)
11001 Bren Road East **Minnetonka, Minnesota**	**55343**
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files.) Yes ☑ No o

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

Large accelerated filer o	Accelerated filer ☑	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

On April 30, 2013, there were 25,849,057 shares of the registrant's $.01 par value Common Stock outstanding.

INDEX

	Page
PART I. FINANCIAL INFORMATION	
ITEM 1. Condensed Consolidated Financial Statements (unaudited):	
Condensed Consolidated Statements of Operations for the three months and six months ended March 31, 2013 and 2012	3
Condensed Consolidated Statements of Comprehensive (Loss) Income for the three months and six months ended March 31, 2013 and 2012	4
Condensed Consolidated Balance Sheets as of March 31, 2013 and September 30, 2012	5
Condensed Consolidated Statements of Cash Flows for the six months ended March 31, 2013 and 2012	6
Notes to Condensed Consolidated Financial Statements	7
ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	17
Forward-looking Statements	17
ITEM 3. Quantitative and Qualitative Disclosures About Market Risk	24
ITEM 4. Controls and Procedures	25
PART II. OTHER INFORMATION	
ITEM 1. Legal Proceedings	25
ITEM 1A. Risk Factors	25
ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds	26
ITEM 3. Defaults Upon Senior Securities	26
ITEM 4. Mine Safety Disclosures	26
ITEM 5. Other Information	26
ITEM 6. Exhibits	27

EX-10.A.i
EX-10.A.ii
EX-31.A
EX-31.B
EX-32
EX-101 INSTANCE DOCUMENT
EX-101 SCHEMA DOCUMENT
EX-101 CALCULATION LINKBASE DOCUMENT
EX-101 DEFINITION LINKBASE DOCUMENT
EX-101 LABELS LINKBASE DOCUMENT
EX-101 PRESENTATION LINKBASE DOCUMENT

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,	
	2013	2012	2013	2012
	(in thousands, except per common share data)			
Net sales	$ 48,197	$ 49,016	$ 95,188	$ 95,678
Cost of sales	23,236	23,233	45,748	45,465
Gross profit	24,961	25,783	49,440	50,213
Operating expenses:				
Sales and marketing	10,414	10,340	20,688	20,439
Research and development	7,775	7,753	15,192	15,985
General and administrative	6,390	4,201	11,506	9,248
Restructuring	(37)	60	(37)	296
Total operating expenses	24,542	22,354	47,349	45,968
Operating income	419	3,429	2,091	4,245
Other income (expense), net:				
Interest income	50	74	102	146
Interest expense	(37)	(15)	(37)	(15)
Other income, net	438	8	562	155
Total other income, net	451	67	627	286
Income before income taxes	870	3,496	2,718	4,531
Income tax (benefit) provision	(130)	1,374	488	1,685
Net income	$ 1,000	$ 2,122	$ 2,230	$ 2,846
Net income per common share:				
Basic	$ 0.04	$ 0.08	$ 0.09	$ 0.11
Diluted	$ 0.04	$ 0.08	$ 0.08	$ 0.11
Weighted average common shares:				
Basic	26,138	25,709	26,163	25,674
Diluted	26,476	26,205	26,474	26,172

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,	
	2013	2012	2013	2012
	(in thousands)			
Net income	$ 1,000	$ 2,122	$ 2,230	$ 2,846
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustment	(3,090)	(139)	(3,379)	(1,922)
Change in net unrealized (loss) gain on investments	(61)	64	(59)	87
Less income tax benefit (provision)	24	(25)	23	(34)
Reclassification of realized loss on investments included in net income (1)	—	—	—	12
Less income tax benefit (2)	—	—	—	(5)
Other comprehensive loss, net of tax	(3,127)	(100)	(3,415)	(1,862)
Comprehensive (loss) income	$ (2,127)	$ 2,022	$ (1,185)	$ 984

(1) Recorded in Other income, net in our Condensed Consolidated Statement of Operations.
(2) Recorded in Income tax (benefit) provision in our Condensed Consolidated Statements of Operations.

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

Table of Contents

DIGI INTERNATIONAL INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	March 31, 2013	September 30, 2012
	(in thousands, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 42,357	$ 60,246
Marketable securities	37,401	58,372
Accounts receivable, net	23,857	24,634
Inventories	25,799	24,435
Deferred tax assets	3,472	3,389
Other	5,925	2,493
Total current assets	138,811	173,569
Marketable securities, long-term	22,105	2,016
Property, equipment and improvements, net	15,107	15,157
Identifiable intangible assets, net	11,938	10,629
Goodwill	102,473	86,209
Deferred tax assets	4,636	5,010
Other	526	494
Total assets	$ 295,596	$ 293,084
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$ 7,387	$ 6,040
Income taxes payable	—	1,269
Accrued compensation	5,789	5,744
Accrued warranty	925	1,021
Accrued legal settlement	1,525	—
Other	3,562	4,118
Total current liabilities	19,188	18,192
Income taxes payable	3,363	3,294
Deferred tax liabilities	489	630
Other noncurrent liabilities	100	111
Total liabilities	23,140	22,227
Contingencies (see Note 10)		
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; 30,070,229 and 29,268,788 shares issued	301	293
Additional paid-in capital	208,795	199,495
Retained earnings	112,513	110,283
Accumulated other comprehensive loss	(17,140)	(13,725)
Treasury stock, at cost, 4,033,176 and 3,356,453 shares	(32,013)	(25,489)
Total stockholders’ equity	272,456	270,857
Total liabilities and stockholders’ equity	$ 295,596	$ 293,084

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,	
	2013	2012
	(in thousands)	
Operating activities:		
Net income	$ 2,230	$ 2,846
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, equipment and improvements	1,705	1,606
Amortization of identifiable intangible assets	2,204	2,437
Stock-based compensation	1,914	1,886
Excess tax benefits from stock-based compensation	(53)	(67)
Deferred income tax benefit	(1,079)	(1,173)
Bad debt/product return provision	285	338
Inventory obsolescence	554	776
Restructuring	—	296
Other	(307)	(117)
Changes in operating assets and liabilities (net of acquisition)	(4,103)	(2,720)
Net cash provided by operating activities	3,350	6,108
Investing activities:		
Purchase of marketable securities	(37,337)	(41,640)
Proceeds from maturities of marketable securities	38,161	30,566
Proceeds from sale of investment	—	135
Acquisition of business, net of cash acquired	(12,919)	—
Purchase of property, equipment, improvements and certain other intangible assets	(2,080)	(2,650)
Net cash used in investing activities	(14,175)	(13,589)
Financing activities:		
Excess tax benefits from stock-based compensation	53	67
Proceeds from stock option plan transactions	590	521
Proceeds from employee stock purchase plan transactions	248	568
Purchase of treasury stock	(6,765)	—
Net cash (used in) provided by financing activities	(5,874)	1,156
Effect of exchange rate changes on cash and cash equivalents	(1,190)	(621)
Net decrease in cash and cash equivalents	(17,889)	(6,946)
Cash and cash equivalents, beginning of period	60,246	54,684
Cash and cash equivalents, end of period	$ 42,357	$ 47,738
Supplemental schedule of non-cash investing activities:		
Issuance of common stock for business acquisition	$ (6,804)	$ —
Securities purchased, not settled	$ —	$ (3,600)

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 interim unaudited condensed consolidated financial statements included in this Form 10-Q have been prepared by Digi International Inc. (the "Company," "Digi," "we," "our," or "us") pursuant to the rules and regulations of the United States Securities and Exchange Commission (the "SEC"). Certain information and footnote disclosures, normally included in consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), have been condensed or omitted, pursuant to such rules and regulations. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto, including (but not limited to) the summary of significant accounting policies, presented in our Annual Report on Form 10-K for the year ended September 30, 2012 as filed with the SEC ("2012 Financial Statements").

The condensed consolidated financial statements presented herein reflect, in the opinion of management, all adjustments which consist only of normal, recurring adjustments necessary for a fair statement of the condensed consolidated balance sheets and the condensed consolidated results of operations and cash flows for the periods presented. The condensed consolidated results of operations for any interim period are not necessarily indicative of results for the full year. The year-end condensed consolidated balance sheet data were derived from our 2012 Financial Statements, but do not include all disclosures required by U.S. GAAP.

Recently Issued Accounting Pronouncements

In March 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-05, "Foreign Currency Matters (Topic 830); Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity." This guidance applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. ASU No. 2013-05 is effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. We will adopt this guidance beginning with our fiscal quarter ending December 31, 2014. We are currently reviewing the provisions of ASU No. 2013-05 but do not expect it to have a material effect on our consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, "Comprehensive Income (Topic 220); Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." This updated guidance improves the reporting of significant items reclassified out of accumulated other comprehensive income and requires an entity to present, either on the face of the statement where net income is presented or in the notes, separately for each component of comprehensive income, the current period reclassifications out of accumulated other comprehensive income by the respective line items of net income affected by the reclassification. The updated guidance is effective prospectively for reporting periods beginning after December 15, 2012. We adopted this guidance beginning January 1, 2013. Other than requiring additional disclosures, the adoption did not have an effect on our consolidated financial statements.

In August 2012, the SEC adopted a rule mandated by the Dodd-Frank Act to require companies to publicly disclose their use of conflict minerals that originated in the Democratic Republic of the Congo or an adjoining country. The final rule applies to a company that uses minerals including tantalum, tin, gold or tungsten. The final rule requires companies to provide disclosure on a new form filed with the SEC, with the first specialized disclosure report due on May 31, 2014, for the 2013 calendar year, and annually on May 31 each year thereafter. We are currently evaluating the impact of adoption.

2. EARNINGS PER SHARE

Basic net income per common share is calculated based on the weighted average number of common shares outstanding during the period. Diluted net income per common share is computed by dividing net income by the weighted average number of common and potentially dilutive common shares outstanding during the period. Potentially dilutive common shares of our stock result from dilutive common stock options, restricted stock units and shares purchased through our employee stock purchase plan.

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,	
	2013	2012	2013	2012
Numerator:				
Net income	$ 1,000	$ 2,122	$ 2,230	$ 2,846
Denominator:				
Denominator for basic net income per common share — weighted average shares outstanding	26,138	25,709	26,163	25,674
Effect of dilutive securities:				
Employee stock options, restricted stock units and employee stock purchase plan	338	496	311	498
Denominator for diluted net income per common share — adjusted weighted average shares	26,476	26,205	26,474	26,172
Net income per common share, basic	$ 0.04	$ 0.08	$ 0.09	$ 0.11
Net income per common share, diluted	$ 0.04	$ 0.08	$ 0.08	$ 0.11

Because their effect would be anti-dilutive, certain potentially dilutive shares related to stock options to purchase common shares were not included in the above computation of diluted earnings per common share. This is because the options' exercise prices were greater than the average market price of our common shares. For the three and six month periods ended March 31, 2013, there were 3,263,692 and 2,502,985 potentially dilutive shares related to such stock options. For both the three and six month periods ended March 31, 2012, there were 1,798,213 potentially dilutive shares related to such stock options.

3. ACQUISITION

Etherios, Inc.

On October 31, 2012, we acquired Etherios, Inc. ("Etherios"), a privately held corporation. The total purchase price of $20.5 million included $13.7 million in cash (excluding cash acquired of $0.8 million) and $6.8 million represented by 715,571 shares of our common stock. The common stock issued was valued at $9.508 per common share based on a per share value calculated as the average market price of the common stock during the fifteen trading days prior to the closing.

Cash in the amount of $2.35 million was deposited to an escrow fund with a third party agent. Of the $2.35 million escrow, $0.3 million related to a holdback amount pending final determination of the unpaid debt and working capital as shown on the closing balance sheet. This holdback amount was paid in February 2013 as we had no changes to the closing balance sheet. An additional $2.05 million is held in escrow for a period not to exceed eighteen months from the date of closing to satisfy possible claims that may arise pursuant to specific representation and warranty sections of the stock purchase agreement. The escrowed amounts have been included in the determination of the purchase consideration on the date of acquisition as management expects that the representation and warranty matters is determinable beyond a reasonable doubt.

Costs related to the acquisition, which include legal, accounting, and valuation fees, in the amount of $0.2 million have been charged directly to operations and are included in general and administrative expense in our consolidated statement of operations for the sixth months ended March 31, 2013.

The purchase price was allocated to the estimated fair value of assets acquired and liabilities assumed. The purchase price allocation resulted in the recognition of $17.1 million of goodwill. We believe that the acquisition resulted in the recognition of goodwill primarily because Etherios is a salesforce.com Platinum Partner and experienced in end user implementation of the

3. ACQUISITION (Continued)

Salesforce Service Cloud. Although we believe the relationship with salesforce.com is important to us, it is not an exclusive relationship and requires Etherios to compete with others for business opportunities. Accordingly, we have determined that this relationship cannot be valued as a separate intangible asset of Etherios and as a result is a component of goodwill.

As salesforce.com has signaled its intent for the Service Cloud to be used as a means to monitor machines, we also believe that the acquisition of Etherios will further enhance our solutions offerings and provide another channel for net sales of our networking products.

Etherios' operating results are included in our consolidated results of operations from the date of acquisition. The consolidated balance sheet as of March 31, 2013 reflects the allocation of the purchase price to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition.

The Etherios acquisition has been accounted for using the acquisition method of accounting which requires, among other things, that most assets acquired and liabilities assumed pursuant to the stock purchase agreement be recognized at fair value as of the acquisition date. Certain estimated values are not yet finalized (see below) and are subject to change, which could be significant. We will finalize the amounts recognized as information necessary to complete the analysis is obtained. We expect to finalize these amounts no later than the end of our third quarter of fiscal 2013. The following items remain subject to change:

- amounts for contingent liabilities, pending the finalization of our review of the Etherios contingent liabilities;
- certain tangible and intangible assets, pending the finalization of valuation procedures;
- certain assets and liabilities pending the results of a comprehensive accounting policy consistency review; and
- amounts for deferred tax assets and liabilities, pending the finalization of assets acquired, liabilities assumed and resulting goodwill.

The following table summarizes the values of Etherios assets acquired and liabilities assumed as of the acquisition date. To the extent previously discussed, such amounts are considered preliminary (in thousands):

Cash, including cash in escrow	$	13,696
Common stock		6,804
Total	$	20,500

Fair value of net tangible assets acquired	$	1,367
Identifiable intangible assets:		
Existing customer relationships		1,400
Non-compete agreements		1,100
Trade name		440
Order backlog		360
Goodwill		17,120
Deferred tax liabilities related to identifiable intangibles		(1,287)
Total	$	20,500

The weighted average useful life for all the identifiable intangibles listed above is 5.7 years. For purposes of determining fair value, the existing customer relationships identified above are assumed to have useful lives ranging between six to eight years, non-compete agreements are assumed to have useful lives of five years, the trade name is assumed to have a useful life of seven years, and the order backlog is assumed to have a useful life of one year. 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 which reflects the pattern in which the asset is expected to be consumed.

3. ACQUISITION (Continued)

We have determined that the Etherios acquisition is not material to our consolidated results of operations or financial position. Therefore, pro forma financial information is not presented.

4. SELECTED BALANCE SHEET DATA
(in thousands)

	March 31, 2013	September 30, 2012
Accounts receivable, net:		
Accounts receivable	$ 24,216	$ 24,929
Less allowance for doubtful accounts	359	295
	$ 23,857	$ 24,634
Inventories:		
Raw materials	$ 20,607	$ 18,159
Work in process	489	428
Finished goods	4,703	5,848
	$ 25,799	$ 24,435

Inventories are stated at the lower of cost or market value, with cost determined using the first-in, first-out method.

5. MARKETABLE SECURITIES

Our marketable securities consist of certificates of deposit, commercial paper, corporate bonds and government municipal bonds. We analyze our available-for-sale marketable securities for impairment on an ongoing basis. When we perform this analysis, we consider factors such as the length of time and extent to which the securities have been in an unrealized loss position and the trend of any unrealized losses. We also consider whether an unrealized loss is a temporary loss or an other-than-temporary loss based on factors such as: (a) whether we have the intent to sell the security, or (b) whether it is more likely than not that we will be required to sell the security before its anticipated recovery, or (c) permanent impairment due to bankruptcy or insolvency.

In order to estimate the fair value for each security in our investment portfolio, where available, we obtain quoted market prices and trading activity for each security. We obtain relevant information from our investment advisor and also may review the financial solvency of certain security issuers if warranted. As of March 31, 2013, 61 of our 72 securities that we are holding were trading below our amortized cost basis. We determined each decline in value to be temporary based upon the above described factors. We expect to realize the fair value of these securities, plus accrued interest, either at the time of maturity or when the security is sold. All of our current holdings are classified as available-for-sale marketable securities and are recorded at fair value on our consolidated balance sheet with the unrealized gains and losses recorded in accumulated other comprehensive loss. All of our non-current marketable securities will mature in less than 3 years.

5. MARKETABLE SECURITIES (CONTINUED)

At March 31, 2013 our marketable securities were (in thousands):

	Amortized Cost (1)	Unrealized Gains	Unrealized Losses (2)	Fair Value (1)
Current marketable securities:				
Corporate bonds	$ 24,036	$ 1	$ (18)	$ 24,019
Commercial paper	2,000	—	—	2,000
Certificates of deposit	4,758	—	(2)	4,756
Government municipal bonds	6,626	—	—	6,626
Current marketable securities	37,420	1	(20)	37,401
Non-current marketable securities:				
Corporate bonds	15,906	4	(37)	15,873
Certificates of deposit	6,251	—	(19)	6,232
Government municipal bonds	—	—	—	—
Non-current marketable securities	22,157	4	(56)	22,105
Total marketable securities	$ 59,577	$ 5	$ (76)	$ 59,506

(1) Included in amortized cost and fair value is purchased and accrued interest of $500.
(2) The aggregate related fair value of securities with unrealized losses as of March 31, 2013 was $49,320. These investments have been in an unrealized loss position for less than twelve months.

At September 30, 2012 our marketable securities were (in thousands):

	Amortized Cost (1)	Unrealized Gains	Unrealized Losses (2)	Fair Value (1)
Current marketable securities:				
Corporate bonds	$ 39,306	$ 14	$ (19)	$ 39,301
Commercial paper	2,000	—	—	2,000
Certificates of deposit	7,262	—	(4)	7,258
Government municipal bonds	9,814	1	(2)	9,813
Current marketable securities	58,382	15	(25)	58,372
Non-current marketable securities:				
Corporate bonds	2,019	—	(3)	2,016
Total marketable securities	$ 60,401	$ 15	$ (28)	$ 60,388

(1) Included in amortized cost and fair value is purchased and accrued interest of $485.
(2) The aggregate related fair value of securities with unrealized losses as of September 30, 2012 was $34,503. These investments have been in an unrealized loss position for less than twelve months.

6. FAIR VALUE MEASUREMENTS

Fair value is defined as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. This standard also establishes a hierarchy for inputs used in measuring fair value. This standard maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability based on market data obtained from independent sources. Unobservable inputs are inputs that reflect our assumptions about the factors market participants would use in valuing the asset or liability based upon the best information available in the circumstances. The categorization of financial assets and liabilities within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

6. FAIR VALUE MEASUREMENTS (CONTINUED)

The hierarchy is broken down into the following three levels:

- Level 1 — Inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 — Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs (other than quoted prices) that are observable for the asset or liability, either directly or indirectly.
- Level 3 — Inputs are unobservable for the asset or liability and their fair values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Level 3 may also include certain investment securities for which there is limited market activity or a decrease in the observability of market pricing for the investments, such that the determination of fair value requires significant judgment or estimation.

Fair value is applied to financial assets such as our marketable securities, which are classified and accounted for as available-for-sale. These items are stated at fair value at each reporting period using the above guidance.

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

		Fair Value Measurements at March 31, 2013 using:		
	Total carrying value at March 31, 2013	Quoted price in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents:				
Money market	$ 7,775	$ 7,775	$ —	$ —
Available-for-sale marketable securities:				
Corporate bonds	39,892	—	39,892	—
Commercial paper	2,000	—	2,000	—
Certificates of deposit	10,988	—	10,988	—
Government municipal bonds	6,626	—	6,626	—
Total cash equivalents and marketable securities measured at fair value	$ 67,281	$ 7,775	$ 59,506	$ —

		Fair Value Measurements at September 30, 2012 using:		
	Total carrying value at September 30, 2012	Quoted price in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Cash equivalents:				
Money market	$ 28,355	$ 28,355	$ —	$ —
Available-for-sale marketable securities:				
Corporate bonds	41,317	—	41,317	—
Commercial paper	2,000	—	2,000	—
Certificates of deposit	7,258	—	7,258	—
Government municipal bonds	9,813	—	9,813	—
Total cash equivalents and marketable securities measured at fair value	$ 88,743	$ 28,355	$ 60,388	$ —

6. FAIR VALUE MEASUREMENTS (CONTINUED)

Cash equivalents are measured at fair value using quoted market prices in active markets for identical assets and are therefore classified as Level 1 assets. We value our Level 2 assets using inputs that are based on market indices of similar assets within an active market. There were no transfers in to or out of our Level 2 financial assets during the six months ended March 31, 2013.

We had no financial assets valued with Level 3 inputs as of March 31, 2013 nor did we purchase or sell any Level 3 financial assets during the six months ended March 31, 2013.

The use of different assumptions, applying different judgment to matters that are inherently subjective and changes in future market conditions could result in different estimates of fair value of our securities, currently and in the future. If market conditions deteriorate, we may incur impairment charges for securities in our investment portfolio.

7. GOODWILL AND OTHER IDENTIFIABLE INTANGIBLE ASSETS

Amortizable identifiable intangible assets were (in thousands):

	March 31, 2013			September 30, 2012		
	Gross carrying amount	Accum. amort.	Net	Gross carrying amount	Accum. amort.	Net
Purchased and core technology	$ 46,177	$ (43,847)	$ 2,330	$ 46,597	$ (43,639)	$ 2,958
License agreements	2,840	(2,719)	121	2,840	(2,682)	158
Patents and trademarks	11,729	(9,018)	2,711	10,943	(8,469)	2,474
Customer maintenance contracts	700	(700)	—	700	(700)	—
Customer relationships	18,641	(13,083)	5,558	17,504	(12,465)	5,039
Non-compete agreements	2,129	(1,121)	1,008	1,045	(1,045)	—
Order backlog	360	(150)	210	—	—	—
Total	$ 82,576	$ (70,638)	$ 11,938	$ 79,629	$ (69,000)	$ 10,629

Amortization expense was $1.1 million and $1.2 million for the three month periods ended March 31, 2013 and 2012, respectively. Amortization was $2.2 million and $2.4 million for the six month periods ended March 31, 2013 and 2012, respectively. Amortization expense is recorded on our consolidated statement of operations within cost of sales and in general and administrative expense. Estimated amortization expense related to identifiable intangible assets for the remainder of fiscal 2013 and the five succeeding fiscal years is (in thousands):

2013 (six months)	$ 2,246
2014	3,871
2015	2,660
2016	1,323
2017	696
2018	482

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

	Six months ended March 31,	
	2013	2012
Beginning balance, October 1	$ 86,209	$ 86,012
Acquisition of Etherios, Inc.	17,120	—
Foreign currency translation adjustment	(856)	102
Ending balance, March 31	$ 102,473	$ 86,114

7. GOODWILL AND OTHER IDENTIFIABLE INTANGIBLE ASSETS (CONTINUED)

The goodwill related to the acquisition of Etherios is not tax deductible. Etherios is included in our single reporting segment for purposes of goodwill impairment testing. 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. An impairment could have a material effect on our consolidated balance sheet and results of operations. The calculation of asset impairment requires us to make assumptions about future cash flows and revenues. These assumptions require significant judgment and actual results may differ from assumed or estimated amounts. At June 30, 2012, our market capitalization was $264.3 million compared to our carrying value of $265.7 million. Our market capitalization plus our estimated control premium of 40% resulted in a fair value in excess of our carrying value by a margin of 39% and therefore no impairment was indicated.

8. INCOME TAXES

Income taxes have been provided at an overall effective rate of 18.0% and 37.2% for the six month periods ended March 31, 2013 and 2012, respectively. The overall effective tax rate includes the discrete items mentioned in the following paragraphs. Our effective tax rate will vary based on a variety of factors, including overall profitability, the geographical mix of income before taxes and related statutory tax rate in each jurisdiction, and discrete events, such as settlements of audits.

In the second quarter of fiscal 2013, we recorded a discrete tax benefit of $0.4 million resulting from the enactment of legislation on January 2, 2013 extending the research and development tax credit for the last three quarters of fiscal 2012. In the first quarter of fiscal 2013, we recorded a discrete tax benefit of $0.1 million for the release of income tax reserves due to the expiration of the statutes of limitation from various U.S. and foreign tax jurisdictions. These discrete tax benefits reduced our effective tax rate by 19.1 percentage points for the six month period ended March 31, 2013.

In the first quarter of fiscal 2012, we recorded a discrete tax benefit of $0.1 million for the release of income tax reserves due to the expiration of statutes of limitation from various U.S. tax jurisdictions. This discrete tax benefit reduced our effective tax rate by 2.7 percentage points for the six month period ended March 31, 2012.

The effective tax rate for the first half of fiscal 2012, before consideration of the impact of the discrete tax benefit, was higher than the Federal statutory rate primarily due to state income taxes, lower domestic tax benefits and increases in certain foreign tax reserves.

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

Unrecognized tax benefits as of September 30, 2012	$	2,720
Increases related to:		
Prior year income tax positions		202
Decreases related to:		
Expiration of statute of limitations		(98)
Unrecognized tax benefits as of March 31, 2013	$	2,824

The total amount of unrecognized tax benefits that, if recognized, would affect our effective tax rate is $2.8 million. We expect that it is reasonably possible that the total amounts of unrecognized tax benefits will increase approximately $0.2 million over the next 12 months due to increases in current year reserves, partially offset by the expiration of the statute of limitations.

We recognize interest and penalties related to income tax matters in income tax expense. During both the six month periods ended March 31, 2013 and 2012, there were insignificant amounts of interest and penalties related to income tax matters in income tax expense. We had accrued interest and penalties related to unrecognized tax benefits as of March 31, 2013 and September 30, 2012 of $0.5 million and $0.6 million, respectively. Our long-term income taxes payable on our condensed consolidated balance sheets includes these accrued interest and penalties in addition to the unrecognized tax benefits in the table above.

At March 31, 2013, we had approximately $23.4 million of accumulated undistributed foreign earnings, for which we have not accrued additional U.S. tax. Our policy is to reinvest earnings of our foreign subsidiaries indefinitely to fund current operations and provide for future international expansion opportunities, and only repatriate earnings to the extent that U.S. taxes have already been recorded. Although we have no current need to do so, if we change our assertion that we do not intend to repatriate additional undistributed foreign earnings for cash requirements in the United States, we would have to accrue applicable taxes. The amount of any taxes and the application of any tax credits would be determined based on the income tax

8. INCOME TAXES (CONTINUED)

laws at the time of such repatriation. Under current tax laws, we estimate the unrecognized deferred tax liability to be in the range of $2.5 million to $3.5 million which could have a material impact on our current consolidated balance sheet, results of operations and cash flows.

We operate in multiple tax jurisdictions both in the U.S. and outside of the U.S. Accordingly, we must determine the appropriate allocation of income to each of these jurisdictions. This determination requires us to make several estimates and assumptions. Tax audits associated with the allocation of this income, and other complex issues, may require an extended period of time to resolve and may result in adjustments to our income tax balances in those years that are material to our consolidated balance sheet and results of operations. We are no longer subject to income tax examination for tax years prior to fiscal 2009 in the case of U.S. federal tax authorities and prior to fiscal 2008 for non-U.S. income tax authorities. For state taxing authorities, consisting primarily of Minnesota, California and Texas, we are no longer subject to income tax examination for tax years generally before fiscal 2008.

9. PRODUCT WARRANTY OBLIGATION

In general, we warrant our products to be free from defects in material and workmanship under normal use and service. The warranty periods generally range from one to five years. We typically have the option to either repair or replace products we deem defective with regard to material or workmanship. Estimated warranty costs are accrued in the period that the related revenue is recognized based upon an estimated average per unit repair or replacement cost applied to the estimated number of units under warranty. These estimates are based upon historical warranty incidents and are evaluated on an ongoing basis to ensure the adequacy of the warranty accrual.

The following table summarizes the activity associated with the product warranty accrual (in thousands) and is included on our Condensed Consolidated Balance Sheets as its own line item within current liabilities:

Period	Balance at January 1	Warranties issued	Settlements made	Balance at March 31
Three months ended March 31, 2013	$ 935	$ 103	$ (113)	$ 925
Three months ended March 31, 2012	$ 1,007	$ 145	$ (171)	$ 981

Period	Balance at October 1	Warranties issued	Settlements made	Balance at March 31
Six months ended March 31, 2013	$ 1,021	$ 153	$ (249)	$ 925
Six months ended March 31, 2012	$ 941	$ 365	$ (325)	$ 981

We are not responsible for, and do not warrant that, custom software versions, created by original equipment manufacturer (OEM) customers based upon our software source code, will function in a particular way, will conform to any specifications or are fit for any particular purpose. Further, we do not indemnify these customers from any third-party liability as it relates to or arises from any customization or modifications made by the OEM customer.

10. CONTINGENCIES

Patent Infringement Lawsuits

On May 29, 2012, U.S. Ethernet Innovations, LLC ("USEI") filed a patent infringement lawsuit against us in federal court in the Eastern District of Texas. The lawsuit included allegations against us and one other company pertaining to the infringement of four patents related to Ethernet technology. On April 22, 2013, we announced the settlement of this patent infringement lawsuit for $1.5 million, which has been recorded in general and administrative expense on our Condensed Consolidated Statement of Operations and on our Condensed Consolidated Balance Sheet at March 31, 2013. The settlement fully resolves the claims by USEI with no future payment obligations. Net of taxes, the settlement was $1.0 million and therefore reduced earnings per diluted share for the second quarter of fiscal 2013 by approximately $0.04.

On May 11, 2010, SIPCO, LLC filed a complaint naming us as a defendant in federal court in the Eastern District of Texas. This claim subsequently was moved to the Northern District of Georgia. The complaint included allegations against us and five other companies pertaining to the infringement of SIPCO's patents by wireless mesh networking and multi-port networking

10. CONTINGENCIES (CONTINUED)

products. On October 23, 2012, we settled the lawsuit for a payment of $500,000, which was recorded during the fourth quarter of fiscal 2012, and we entered into a royalty-bearing license agreement for future sales of licensed products sold during the term of the agreement through 2018. We do not expect this license agreement to have a material impact on our consolidated financial statements in the future.

In addition to the matters 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. With the exception of certain capitalized legal costs related to patents and trademarks, we expense our legal costs as incurred and record them in general and administrative expense.

11. RESTRUCTURING

U.S. Restructuring

On April 26, 2012, we announced our intention to restructure certain of our operations. We recorded $1.0 million of restructuring charges on a pre-tax basis. The restructuring relates primarily to changes being implemented to focus on a shift in our business to more aggressively sell end-to-end M2M solutions. As a result of this restructuring, we eliminated employment positions in our work force of 30 employees at a cost of $0.6 million for severance and have moved to hire new employees or re-assign existing employees into newly created positions. We also expect to incur expenses from vacating facilities in Davis, California and Huntington Beach, California at a cost of approximately $0.4 million. The payments associated with these charges and all the actions associated with the restructuring were completed during the second quarter of fiscal 2013.

Below is listed a summary of the restructuring charges and other activity within the restructuring accrual (in thousands):

	Employee Termination Costs	Other	Total
Restructuring charge at April 26, 2012	$ 568	$ 395	$ 963
Payments	(555)	(287)	(842)
Balance at September 30, 2012	$ 13	$ 108	$ 121
Payments	—	(80)	(80)
Balance at December 31, 2012	$ 13	$ 28	$ 41
Payments	—	(4)	(4)
Reversal	(13)	(24)	(37)
Balance at March 31, 2013	$ —	$ —	$ —

12. SUBSEQUENT EVENT

On April 22, 2013, we announced the settlement of a patent infringement lawsuit with U.S. Ethernet Innovations, LLC ("USEI") for $1.5 million ($1.0 million, net of taxes). For more detail, see Note 10 to our Condensed Consolidated Financial Statements.

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, 2012, as well as our reports on Forms 10-Q and 8-K and other publicly available information.

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.

The words "assume," "believe," "anticipate," "intend," "estimate," "target," "may," "will," "expect," "plan," "project," "should," or "continue" or the negative thereof or other variations thereon or similar terminology, 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 we operate, 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, including risks related to 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, delays in product development efforts, uncertainty in user acceptance of our products, the ongoing shift of our sales efforts to focus more on the delivery of broader based solutions which can be a more complex sales process, has not been a historical sales focus of our company and can involve longer sales cycles than the sale of our legacy hardware 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, the ability to achieve the anticipated benefits and synergies associated with acquisitions, such as our recently announced purchase of Etherios, Inc., 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, 2012 and subsequent quarterly reports 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of 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 year ended September 30, 2012. There have been no material changes to our critical accounting policies as disclosed in that report.

OVERVIEW

We are a leading provider of machine to machine (M2M) networking products and solutions that enable the connection, monitoring and control of local or remote physical assets by electronic means. These networking products and solutions can connect communication hardware to a physical asset and convey information about the asset's status and performance, which can be sent to a computer system and used to improve or automate one or more processes. Increasingly these products and solutions are being deployed via wireless networks as wireless communications become more and more prevalent. Our products are deployed by a wide range of businesses and institutions. We compete for customers on the basis of existing and planned product features, service and software application capabilities, company reputation, brand recognition, technical support, relationships with partners, quality and reliability, product development capabilities, price and availability.

Net sales were $48.2 million for the second quarter of fiscal 2013, compared to $49.0 million for the second quarter of fiscal 2012, a decrease of $0.8 million. The results for the second quarter of fiscal 2013 included the net sales from Etherios' consulting services of $2.4 million in North America. We believe that the acquisition of Etherios will further enhance our solutions offerings and provide another channel for net sales of our networking products. North American net sales decreased by $0.4 million, or 1.3%, and international net sales decreased by $0.4 million, or 2.2%, in the second quarter of fiscal 2013 compared to the comparable quarter a year ago. In the second quarter of fiscal 2012, we recorded revenue of approximately $3.0 million that was delayed from the first quarter of fiscal 2012 as a result of the flooding in Thailand that took place in October 2011, impacting the operations of our contract manufacturer located near Bangkok, Thailand.

Net income was $1.0 million in the second quarter of fiscal 2013, or $0.04 per diluted share, compared to $2.1 million, or $0.08 per diluted share, in the second quarter of fiscal 2012. Net income in the second quarter of fiscal 2013 included the settlement described below of $1.0 million, net of taxes, which reduced earnings per diluted share by approximately $0.04. This was partially offset by a tax benefit of $0.4 million, or $0.01 per diluted share, resulting from the enactment of legislation extending the research and development tax credit that allowed us to record tax credits for the last three quarters of fiscal 2012 in the second quarter of fiscal 2013, based on the enactment date of January 2, 2013.

On April 22, 2013, we announced the settlement of a patent infringement lawsuit with U.S. Ethernet Innovations, LLC for $1.5 million ($1.0 million, net of taxes). We recorded the pre-tax settlement of $1.5 million in general and administrative expense in the second quarter of fiscal 2013 (See Note 10 to our Condensed Consolidated Financial Statements).

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

CONSOLIDATED RESULTS OF OPERATIONS

The following table sets forth selected information derived from our interim condensed consolidated statements of operations (dollars in thousands):

	Three months ended March 31,				% incr.	Six months ended March 31,				% incr.
	2013		2012		(decr.)	2013		2012		(decr.)
Net sales	$ 48,197	100.0 %	$ 49,016	100.0%	(1.7)	$ 95,188	100.0%	$ 95,678	100.0%	(0.5)%
Cost of sales	23,236	48.2	23,233	47.4	—	45,748	48.1	45,465	47.5	0.6
Gross profit	24,961	51.8	25,783	52.6	(3.2)	49,440	51.9	50,213	52.5	(1.5)
Operating expenses	24,542	50.9	22,354	45.6	9.8	47,349	49.7	45,968	48.1	3.0
Operating income	419	0.9	3,429	7.0	(87.8)	2,091	2.2	4,245	4.4	(50.7)
Other income, net	451	0.9	67	0.1	573.1	627	0.7	286	0.3	119.2
Income before income taxes	870	1.8	3,496	7.1	(75.1)	2,718	2.9	4,531	4.7	(40.0)
Income tax (benefit) provision	(130)	(0.3)	1,374	2.8	(109.5)	488	0.6	1,685	1.7	(71.0)
Net income	$ 1,000	2.1 %	$ 2,122	4.3%	(52.9)%	$ 2,230	2.3%	$ 2,846	3.0%	(21.6)%

NET SALES

Net sales decreased by $0.8 million, or 1.7%, for the three months ended March 31, 2013 compared to the three months ended March 31, 2012. Net sales decreased $0.5 million, or 0.5%, for the six months ended March 31, 2013 compared to the six months ended March 31, 2012. Net sales for the three and six month periods ended March 31, 2013 included Etherios net sales from the date of acquisition of $2.4 million and $3.9 million, respectively. The net sales of our mature products decreased at a faster rate than the increases in net sales of our growth and services products. In the second quarter of fiscal 2012, we recorded revenue of approximately $3.0 million that was delayed from the first quarter of fiscal 2012 as a result of the flooding in Thailand that took place in October 2011, impacting the operations of our contract manufacturer located near Bangkok, Thailand. We did not experience a significant change in net sales as a result of pricing during the three and six month periods ended March 31, 2013.

Beginning in the second quarter of fiscal 2013, we are no longer measuring our products and services in the embedded and non-embedded product categories. We are now measuring our net sales by growth products and services and mature product categories as we believe that this is a more meaningful presentation and reflects how we are viewing and measuring our revenue.

Net Sales by Growth Products and Services and Mature Product Categories

	Three months ended March 31,				% incr.	Six months ended March 31,				% incr.
($ in thousands)	2013		2012		(decr.)	2013		2012		(decr.)
Growth products and services	$ 27,176	56.4%	$ 26,398	53.9%	2.9 %	$ 53,024	55.7%	$ 50,194	52.5%	5.6 %
Mature products	21,021	43.6	22,618	46.1	(7.1)	42,164	44.3	45,484	47.5	(7.3)
Total net sales	$ 48,197	100.0%	$ 49,016	100.0%	(1.7)%	$ 95,188	100.0%	$ 95,678	100.0%	(0.5)%

Our growth products and services portfolio includes all wireless products, as well as the ARM-based embedded module product line, which leverages the Device Cloud by Etherios™ ((Device Cloud) formerly known as the iDigi® platform) with both wired and wireless connectivity. The services portfolio includes our wireless design solutions, application consulting services, Etherios consulting services, and the Device Cloud platform. Growth products and services increased by $0.8 million and $2.8 million for the three and six month periods ended March 31 2013 as compared to the same periods a year ago. The growth products and services portfolio includes net sales of Etherios' consulting services of $2.4 million and $3.9 million for the three and six month periods ended March 31, 2013. Our mature products portfolio includes all wired products, except for ARM-based embedded modules which are included in growth products. Net sales of our mature products decreased as expected for both the three and six month periods ended March 31, 2013 as compared to the same periods a year ago.

We believe that our serial servers, Rabbit-branded modules, chips and USB products are mature products and we expect that net sales of these products will continue to decrease in the future as they are near the end of their product life cycles.

Table of Contents

Net Sales by Wireless, Wired and Other Categories

	Three months ended March 31,				% incr.	Six months ended March 31,				% incr.
($ in thousands)	2013		2012		(decr.)	2013		2012		(decr.)
Wireless	$ 20,816	43.2%	$ 21,827	44.5%	(4.6)%	$ 42,481	44.6%	$ 41,662	43.5%	2.0 %
Wired	24,938	51.7	27,189	55.5	(8.3)	48,843	51.3	54,016	56.5	(9.6)
Other	2,443	5.1	—	N/A	N/A	3,864	4.1	—	N/A	N/A
Total net sales	$ 48,197	100.0%	$ 49,016	100.0%	(1.7)%	$ 95,188	100.0%	$ 95,678	100.0%	(0.5)%

Our Wireless products category comprised 43.2% and 44.6% of our total net sales for the three and six months ended March 31, 2013, respectively, and 44.5% and 43.5% of our net sales for the three and six months ended March 31, 2012, respectively. The Wireless products category includes all wireless products, in addition to wireless design services, application consulting services and the Device Cloud platform. The Other category includes consulting services revenue from Etherios.

As we continue to transition to a wireless products and solutions-based sales organization, we may experience uneven demand, that may cause fluctuations in revenue in future quarters.

Net Sales by Geographic Location

The following summarizes our total net sales by geographic region for all products:

	Three months ended March 31,		$ incr.	% incr.	Six months ended March 31,		$ incr.	% incr.
($ in thousands)	2013	2012	(decr.)	(decr.)	2013	2012	(decr.)	(decr.)
North America	$ 28,593	$ 28,981	$ (388)	(1.3)%	$ 55,595	$ 56,745	$ (1,150)	(2.0)%
EMEA	11,940	12,168	(228)	(1.9)	23,923	23,742	181	0.8
Asia countries	6,268	6,174	94	1.5	12,760	11,801	959	8.1
Latin America	1,396	1,693	(297)	(17.5)	2,910	3,390	(480)	(14.2)
Total net sales	$ 48,197	$ 49,016	$ (819)	(1.7)%	$ 95,188	$ 95,678	$ (490)	(0.5)%

Net sales in North America decreased by $0.4 million and $1.2 million for the three and six months ended March 31, 2013, respectively compared to the same periods a year ago as the net sales of our mature products decreased at a faster rate than the increases in net sales of our growth and services products. Net sales of Etherios for the three and six months ended March 31, 2013 were $2.4 million and $3.9 million, respectively.

Net sales in Europe, Middle East & Africa (“EMEA”) decreased by $0.2 million for the three months ended March 31, 2013 compared to the same period a year ago primarily due to decreases in net sales of cellular and embedded modules. EMEA net sales for the six months ended March 31, 2013 compared to the same period a year ago increased by $0.2 million primarily due to an increase in cellular product net sales.

Net sales in Asia countries increased by $0.1 million and $1.0 million for the three and six month periods ended March 31, 2013, respectively, compared to the same periods a year ago. This was primarily due to an increase in project-based revenue.

Net sales in Latin America decreased by $0.3 million and $0.5 million for the three and six month periods ended March 31, 2013, respectively, compared to the same periods a year ago primarily due to reduction in cellular product net sales.

The fluctuation of foreign currency rates had an unfavorable impact on net sales of $0.1 million for the three month period ended March 31, 2013, when compared to the same periods a year ago, primarily related to the weakening of the Yen compared to the U.S. dollar. For the six months ended March 31, 2013 as compared to the same period a year ago, the unfavorable impact on net sales was $0.3 million due to the weakening of the Euro and the Yen compared to the U.S. dollar.

GROSS MARGIN

Gross margins were 51.8% and 51.9% for the three and six month periods ended March 31, 2013, respectively compared to gross margins of 52.6% and 52.5% for the three and six month periods ended March 31, 2012, respectively. The gross margin decreased for the three and six months ended March 31, 2013 by 0.8 percentage points and 0.6 percentage points, respectively primarily due to the inclusion of gross margins from Etherios' consulting services. The margins on these services are generally lower than our products' margins.

OPERATING EXPENSES

Operating expenses increased by $2.2 million and $1.4 million for the three and six month periods ended March 31, 2013 as compared to the same periods a year ago. Incremental operating expenses for Etherios for the three and six month periods ended March 31, 2013 were $1.2 million and $1.9 million, respectively. The settlement of the patent infringement lawsuit of $1.5 million ($1.0 million, net of taxes) is included in general and administrative expenses for the three and six months ended March 31, 2013. This was partially offset by cost containment measures that were put in place to achieve targeted expense levels.

The following summarizes our total operating expenses, in dollars and as a percentage of net sales:

	Three months ended March 31,				$ incr.	Six months ended March 31,				$ incr.
($ in thousands)	2013		2012		(decr.)	2013		2012		(decr.)
Sales and marketing	$ 10,414	21.6 %	$ 10,340	21.1%	$ 74	$ 20,688	21.7 %	$ 20,439	21.4%	$ 249
Research and development	7,775	16.1	7,753	15.8	22	15,192	15.9	15,985	16.7	(793)
General and administrative	6,390	13.3	4,201	8.6	2,189	11,506	12.1	9,248	9.7	2,258
Restructuring	(37)	(0.1)	60	0.1	(97)	(37)	—	296	0.3	(333)
Total operating expenses	$ 24,542	50.9 %	$ 22,354	45.6%	$ 2,188	$ 47,349	49.7 %	$ 45,968	48.1%	$ 1,381

Sales and marketing expenses for the three and six months ended March 31, 2013 as compared to the same periods a year ago increased by $0.1 million and $0.2 million, respectively, primarily related to an increase in compensation-related expense partially offset by a decrease in outside services expense.

Research and development expenses remained mostly unchanged for the three months ended March 31, 2013 as compared to the three months ended March 31, 2012. Research and development expenses decreased $0.8 million for the six months ended March 31, 2013 as compared to the six months ended March 31, 2012 due primarily to a decrease of $0.5 million in outside services and a decrease of $0.3 million in other research and development expenses.

General and administrative expenses increased $2.2 million for the three months ended March 31, 2013 as compared to the three months ended March 31, 2012. The increase was primarily related to a patent infringement settlement of $1.5 million ($1.0 million, net of taxes) (see Note 10 to our Condensed Consolidated Financial Statements) and an increase of $0.3 million related to a prior year reversal of a reserve for the NetSilicon IPO litigation as our insurers paid on our behalf to the plaintiffs the full amount of the settlement share allocated to us. In addition, professional fees increased by $0.3 million. General and administrative expenses increased by $2.3 million for the six months ended March 31, 2013 as compared to the six months ended March 31, 2012 due primarily to the patent infringement settlement mentioned above of $1.5 million ($1.0 million, net of taxes), the $0.3 million prior year reversal for the NetSilicon IPO litigation as previously described and an increase of $0.6 million for professional fees.

Restructuring expense was $0.1 million and $0.3 million for the three and six month periods ended March 31, 2012, respectively related to the Breisach, Germany restructuring announced July 21, 2011.

OTHER INCOME (EXPENSE), NET

Other income (expense), net increased by $0.4 million for the both the three and six month periods ended March 31, 2013 compared to the same periods a year ago primarily due to unrealized exchange gains resulting from remeasuring net assets held in non-functional currencies to local currencies, and realized exchange gains. We recorded a gain on the sale of an investment of $0.1 million in the first quarter of fiscal 2012.

INCOME TAXES

Income taxes have been provided at an overall effective rate of 18.0% and 37.2% for the six month periods ended March 31, 2013 and 2012, respectively. The overall effective tax rate includes the discrete items mentioned in the following paragraphs. Our effective tax rate will vary based on a variety of factors, including overall profitability, the geographical mix of income before taxes and related statutory tax rate in each jurisdiction, and discrete events, such as settlements of audits.

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

In the second quarter of fiscal 2013, we recorded a discrete tax benefit of $0.4 million resulting from the enactment of legislation on January 2, 2013, extending the research and development tax credit for the last three quarters of fiscal 2012. In the first quarter of fiscal 2013, we recorded a discrete tax benefit of $0.1 million for the release of income tax reserves due to the expiration of the statutes of limitation from various U.S. and foreign tax jurisdictions. These discrete tax benefits reduced our effective tax rate by 19.1 percentage points for the six month period ended March 31, 2013.

In the first quarter of fiscal 2012, we recorded a discrete tax benefit of $0.1 million for the release of income tax reserves due to the expiration of statutes of limitation from various U.S. tax jurisdictions. This discrete tax benefit reduced our effective tax rate by 2.7 percentage points for the six month period ended March 31, 2012.

The effective tax rate for the first half of fiscal 2012, before consideration of the impact of the discrete tax benefit, was higher than the Federal statutory rate primarily due to state income taxes, lower domestic tax benefits and increases in certain foreign tax reserves.

LIQUIDITY AND CAPITAL RESOURCES

We have financed our operations and capital expenditures principally with funds generated from operations. At March 31, 2013, we had cash, cash equivalents and short-term marketable securities of $79.8 million compared to $118.6 million at September 30, 2012. Our working capital (total current assets less total current liabilities) was $119.6 million at March 31, 2013 and $155.4 million at September 30, 2012. The decreases in both the liquid assets and the working capital resulted primarily from an increase of $20.1 million in long-term marketable securities from September 30. 2012 to March 31, 2013 as we modified our investment policy to allow purchases of certificates of deposits for up to a three year term. In addition we spent $12.9 million, net of cash acquired for the acquisition of Etherios, and $6.8 million on the purchase of our treasury stock. We presently anticipate total fiscal 2013 capital expenditures will be approximately $3.9 million.

Reconciliation of Changes in Operating Assets and Liabilities:

	Six months ended March 31,		$ incr.
($ in thousands)	2013	2012	(decr.)
Accounts receivable	$ 1,315	$ 1,151	$ 164
Inventories	(1,920)	(1,848)	(72)
Other assets	(960)	(652)	(308)
Accounts payable	730	1,228	(498)
Income taxes	(3,647)	(3,461)	(186)
Accrued expenses	379	862	(483)
Changes in operating assets and liabilities	$ (4,103)	$ (2,720)	$ (1,383)

Net cash provided by operating activities was $3.4 million for the six months ended March 31, 2013 as compared to $6.1 million for the six months ended March 31, 2012, a net decrease of $2.7 million. This is primarily due to a reduction for changes in working capital of $1.4 million, a decrease in net income of $0.6 million, a decrease in the restructuring accrual of $0.3 million and a decrease of $0.4 million for inventory obsolescence and other reconciling items. The decrease of $1.4 million for working capital was due to lower bonus payouts relating to the fiscal 2012 bonus plan in the first quarter of fiscal 2013 compared to the prior fiscal year, a decrease in accounts payable balances due to less inventory purchases, additional prepaid expenses and income taxes receivable.

Net cash used in investing activities was $14.2 million during the six months ended March 31, 2013 as compared to $13.6 million for the six months ended March 31, 2012, a net increase of $0.6 million. During the first six months of fiscal 2013 as compared to the first six months of fiscal 2012, we had net proceeds from maturities of marketable securities of $0.8 million in the first half of fiscal 2013 offset by net purchases of $11.1 million in the first half of fiscal 2012 and fewer expenditures for net capital equipment of $0.6 million. This was partially offset by an expenditure of $12.9 million, net of cash acquired, for the purchase of Etherios, Inc.

Cash used by financing activities was $5.9 million for the six months ended March 31, 2013 and cash provided by financing activities was $1.2 million for the six months ended March 31, 2012, a net decrease of $7.1 million. The majority of this decrease was due to our purchase of treasury stock of $6.8 million during the six months ended March 31, 2013.

We expect positive cash flows from operations and believe that our current cash, cash equivalents and marketable securities balances, cash generated from operations and our ability to secure debt and/or equity financing will be sufficient to fund our business operations and capital expenditures for the next twelve months and beyond. On July 25, 2012 our Board of Directors authorized a program to repurchase up to $20.0 million of our common stock. We began repurchasing our common stock on the open market in the first quarter of fiscal 2013. This repurchase authorization expires on September 30, 2013. During the first six months of fiscal 2013, we repurchased 707,654 shares for $6.8 million.

At March 31, 2013, our total cash and cash equivalents and short-term marketable securities balance was $79.8 million. This balance includes approximately $32.9 million of cash and cash equivalents held by our controlled foreign subsidiaries of which $23.4 million represents accumulated undistributed foreign earnings. Although we have no current need to do so, if we change our assertion that we do not intend to repatriate additional undistributed foreign earnings for cash requirements in the United States, we would have to accrue applicable taxes. The amount of any taxes and the application of any tax credits would be determined based on the income tax laws at the time of such repatriation. Under current tax laws, we estimate the unrecognized deferred tax liability to be in the range of $2.5 million to $3.5 million which could have a material impact on our current consolidated balance sheet, results of operations and cash flows.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In March 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update ("ASU") 2013-05, "Foreign Currency Matters (Topic 830); Parent’s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity." This guidance applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. ASU No. 2013-05 is effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. We will adopt this guidance beginning with our fiscal quarter ending December 31, 2014. We are currently reviewing the provisions of ASU No. 2013-05 but do not expect it to have a material effect on our consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, "Comprehensive Income (Topic 220); Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." This updated guidance improves the reporting of significant items reclassified out of accumulated other comprehensive income and requires an entity to present, either on the face of the statement where net income is presented or in the notes, separately for each component of comprehensive income, the current period reclassifications out of accumulated other comprehensive income by the respective line items of net income affected by the reclassification. The updated guidance is effective prospectively for reporting periods beginning after December 15, 2012. We adopted this guidance beginning January 1, 2013. Other than requiring additional disclosures, the adoption did not have an effect on our consolidated financial statements.

In August 2012, the U.S. Securities and Exchange Commission (the “SEC”) adopted a rule mandated by the Dodd-Frank Act to require companies to publicly disclose their use of conflict minerals that originated in the Democratic Republic of the Congo or an adjoining country. The final rule applies to a company that uses minerals including tantalum, tin, gold or tungsten. The final rule requires companies to provide disclosure on a new form filed with the SEC, with the first specialized disclosure report due on May 31, 2014, for the 2013 calendar year, and annually on May 31 each year thereafter. We are currently evaluating the impact of adoption.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE RISK

Our exposure to interest rate risk relates primarily to our investment portfolio. Our marketable securities are classified as available-for-sale and are carried at fair value. Marketable securities consist of 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 a year.

FOREIGN CURRENCY RISK

We have transactions that are executed in the U.S. Dollar, British Pound, Euro, Japanese Yen and Indian Rupee. As a result, we are exposed to foreign currency transaction risk associated with certain sales transactions being denominated in Euros, British Pounds, Japanese Yen or Indian Rupees, and foreign currency translation risk as the financial position and operating results of our foreign subsidiaries are translated into U.S. Dollars for consolidation. We have not implemented a formal hedging strategy to reduce foreign currency risk.

For the six months ended March 31, 2013 and 2012, we had approximately $39.6 million and $38.9 million, respectively, of net sales to foreign customers including export sales. Of these sales, $11.5 million and $12.4 million, respectively, were denominated in foreign currency, predominantly Euros and British Pounds. In future periods, we expect a significant portion of sales will continue to be made in both Euros and British Pounds.

The table below compares the average monthly exchange rates of the Euro, British Pound, Japanese Yen and Indian Rupee to the U.S. Dollar:

	Six months ended March 31,		% increase
	2013	2012	(decrease)
Euro	1.3087	1.3297	(1.6)%
British Pound	1.5804	1.5711	0.6 %
Japanese Yen	0.0116	0.0128	(9.4)%
Indian Rupee	0.0185	0.0196	(5.6)%

A 10% change from the first six months of fiscal year 2013 average exchange rate for the Euro, British Pound, Japanese Yen and Indian Rupee to the U.S. Dollar would have resulted in a 1.2% increase or decrease in net sales and a 1.9% 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 some 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 on customer contacts to facilitate payment.

Investments are made in accordance with our investment policy and consist of certificates of deposit, commercial paper, money market funds, government municipal bonds and corporate bonds. We may have some credit exposure related to the fair value of our securities, which could change based on changes in market conditions. If market conditions deteriorate or if these securities experience credit rating downgrades, we may incur impairment charges for securities in our investment portfolio. All of our securities are held domestically.

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 principal executive officer and principal 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 principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act was recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and is accumulated and communicated to our management, including the principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in our internal control over financial reporting during our most recently completed fiscal quarter that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The disclosures set forth in Note 10 to the Condensed Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q are 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, 2012.

We are subject to various cybersecurity risks, which are particularly acute in the cloud-based technologies operated by us and other third parties that form a part of our solutions, that may increase our costs and could damage our brand and reputation.

As we continue to direct a substantial portion of our sales and development efforts toward broader based M2M solutions, including the Device Cloud by Etherios™, we expect to store, convey and potentially process increasing amounts of data produced by customer devices. This data may include confidential or proprietary information, intellectual property or personally identifiable information of our customers or other third parties with whom they do business. It is important for us to maintain solutions and related infrastructure that are perceived by our customers and other parties with whom we do business to provide a reasonable level of reliability and security. Despite available security measures and other precautions, the infrastructure and transmission methods used by our products and services may be vulnerable to interception, attack or other disruptive problems. Continued high-profile data breaches at other companies evidence an external environment that is becoming increasingly hostile to information security. Improper disclosure of data or perception that our data security is insufficient could harm our reputation, give rise to legal proceedings, or subject our company to liability under laws that protect data, any of which could result in increased costs and loss of revenue.

If a cyberattack or other security incident were to allow unauthorized access to or modification of our customers' data or our own data, whether due to a failure with our systems or related systems operated by third parties, we could suffer damage to our brand and reputation. The costs we would incur to address and fix these incidents would increase our expenses. These types of security incidents could also lead to lawsuits, regulatory investigations and increased legal liability, including in some cases contractual costs related to customer notification and fraud monitoring. Further, as regulatory focus on privacy and data security issues continues to increase and worldwide laws and regulations concerning the protection of information become more complex, the potential risks and costs of compliance to our business will intensify.

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

On July 25, 2012 our Board of Directors authorized a new program to repurchase up to $20.0 million of our common stock and terminated the prior repurchase authorization. This repurchase authorization expires on September 30, 2013. During the first quarter of fiscal 2013, we began to repurchase our common stock in the open market. The following table presents our repurchases during the second quarter of fiscal 2013:

Period	Total Number of Shares Purchased	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, 2013 - January 31, 2013	86,532	$9.67	86,532	$14,839,445.58
February 1, 2013 - February 28, 2013	59,451	$9.96	59,451	$14,247,169.70
March 1, 2013 - March 31, 2013	103,664	$9.77	103,664	$13,234,701.68
Total	249,647	$9.78	249,647	$13,234,701.68

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibit No.		Description
3	(a)	Restated Certificate of Incorporation of the Company, as amended (1)
3	(b)	Amended and Restated By-Laws of the Company (2)
4	(a)	Share Rights Agreement, dated as of April 22, 2008, between the Company and Wells Fargo Bank, N.A., as Rights Agent (3)
4	(b)	Form of Amended and Restated Certificate of Powers, Designations, Preferences and Rights of Series A Junior Participating Preferred Shares (4)
10	(a)	Digi International Inc. 2013 Omnibus Incentive Plan (5)*
10	(a)(i)	Form of Notice of Grant of Stock Options and Option Agreement including Addendums to Option Agreement that may apply to certain grants (for grants under Digi International Inc. 2013 Omnibus Incentive Plan)*
10	(a)(ii)	Form of (Director) Restricted Stock Unit Award Agreement (for awards under Digi International Inc. 2013 Omnibus Incentive Plan)*
31	(a)	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31	(b)	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32		Section 1350 Certification
101.INS		XBRL Instance Document
101.SCH		XBRL Taxonomy Extension Schema Document
101.CAL		XBRL Taxonomy Calculation Linkbase Document
101.DEF		XBRL Taxonomy Definition Linkbase Document
101.LAB		XBRL Taxonomy Label Linkbase Document
101.PRE		XBRL Taxonomy Presentation Linkbase Document

*Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-Q.

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(1) Incorporated by reference to Exhibit 3(a) to the Company’s Form 10-K for the year ended September 30, 1993 (File No. 0-17972)
(2) Incorporated by reference to Exhibit 3 to the Company’s Current Report on Form 8-K filed January 21, 2011 (File No. 1-34033)

(3) Incorporated by reference to Exhibit 4(a) to the Company's Registration Statement on Form 8-A filed on April 25, 2008 (File No. 1-34033)
(4) Incorporated by reference to Exhibit 4(b) to the Company's Registration Statement on Form 8-A filed on April 25, 2008 (File No. 1-34033)
(5) Incorporated by reference to Exhibit 99 to the Company's Registration Statement on Form S-8 filed on April 16, 2013 (File No. 333-187949)

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 3, 2013	By:	/s/ Steven E. Snyder
			Steven E. Snyder
			Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer and Duly Authorized Officer)

EXHIBIT INDEX

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32		Section 1350 Certification	Filed Electronically
101.INS		XBRL Instance Document	Filed Electronically
101.SCH		XBRL Taxonomy Extension Schema Document	Filed Electronically
101.CAL		XBRL Taxonomy Calculation Linkbase Document	Filed Electronically
101.DEF		XBRL Taxonomy Definition Linkbase Document	Filed Electronically
101.LAB		XBRL Taxonomy Label Linkbase Document	Filed Electronically
101.PRE		XBRL Taxonomy Presentation Linkbase Document	Filed Electronically

Notice of Grant of Stock Options and Option Agreement	**Digi International Inc.** **ID:** 41-1532464 11001 Bren Road East Minnetonka, MN 55343
[Optionee] **[Address]** **[City, State, County, Zip Code]**	**Option Number:** **Plan: 2013 Omnibus Incentive Plan** **ID:**

Effective [date], you have been granted a Non-Qualified Stock Option to buy [number of shares] shares of Digi International Inc. (the Company) stock at $[per share exercise price] per share.

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

By your signature and the Company's signature below, you and the Company agree that these options are granted under and governed by the terms and conditions of the Company's Stock Option Plan as amended and the Option Agreement, all of which are attached and made a part of this document.

______________________________	______________________________
Digi International Inc.	Date
______________________________	______________________________
[Optionee]	Date

DIGI INTERNATIONAL INC.
2013 OMNIBUS INCENTIVE PLAN

Terms and Conditions of an Award

These are the terms and conditions applicable to the INCENTIVE PLAN 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 Incentive Plan Award Agreement constitute the "Incentive Plan Award Agreement."

WHEREAS, the Company desires to carry out the purposes of its Digi International Inc. 2013 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(1) 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 eight 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 Incentive Plan Award 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 Incentive Plan Award Agreement, the Option may be exercised online with E*Trade at 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 Incentive Plan Award Agreement, except that:

(i) if the Participant is not a Non-Employee Director (as defined in paragraph 2.1(q) 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 Incentive Plan Award 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)) 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 Incentive Plan Award 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 Incentive Plan Award 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 Incentive Plan Award 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, a date not more than three months prior to such 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 which 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 of this Incentive Plan Award Agreement. 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 Incentive Plan Award Agreement and the Plan, the provisions of the Plan shall govern.

12. Discontinuance of Employment. This Incentive Plan Award 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 Incentive Plan Award 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 Incentive Plan Award Agreement. This Incentive Plan Award Agreement shall be binding in all respects on the Participant's heirs, representatives, successors and assigns. This Incentive Plan Award Agreement is entered into under the laws of the State of Minnesota and shall be construed and interpreted thereunder.

DIGI INTERNATIONAL INC.
2013 OMNIBUS INCENTIVE PLAN

Addendum I
to
Terms and Conditions of Nonstatutory Stock Option Agreement

Paragraph 6, entitled “Acceleration of Option,” is amended to add new subparagraph (c) which provides as follows:

(c) Change in Control. The Option, whether or not previously exercisable, shall become immediately exercisable in full upon the occurrence of any “Change in Control”. A “Change in Control” shall 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.

DIGI INTERNATIONAL INC.
2013 OMNIBUS INCENTIVE PLAN

Addendum IA
to
Terms and Conditions of Nonstatutory Stock Option Agreement

Paragraph 6, entitled “Acceleration of Option,” is amended to add new subparagraph (c) which provides as follows:

(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” which occurs contemporaneously with, or is followed within 12 months of the Change in Control by, an “Employment Termination Event”.

A “Change in Control” shall 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” shall be deemed to have occurred upon either:

(i) the involuntary termination of Participant's employment, for reasons other than Cause, or
(ii) the voluntary termination of the Participant's employment for Good Reason.

For purposes of this subparagraph (c), “Cause” shall mean 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 which 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” shall mean only the following:

(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.

Exhibit 10 (a)(ii)

Digi International Inc.
2013 Omnibus Incentive Plan

(Director) Restricted Stock Unit Award Agreement

Digi International, Inc. (the "*Company*"), pursuant to its 2013 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. 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:	
Vesting Date(s)	Number of Stock Units that Vest

By signing below, 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: DIGI INTERNATIONAL, INC.

____________________________________ By:_____________________________________

Title:____________________________________

Digi International Inc.
2013 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 common 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 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 March 15 of the year following the calendar year in 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 of the Company's common stock, par value $.01 per 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 common 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. **Governing Plan Document**. This Agreement and the Award are subject to all the provisions of the Plan, and to all interpretations, rules and regulations which 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 regard to its conflicts or choice of law principles).

9. **Binding 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 any 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 exception specified in Treas. Reg. § 1.409A-l(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.

Exhibit No. 31(a)

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

I, Joseph T. Dunsmore, certify that:

1. I have reviewed this annual report on Form 10-K 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 3, 2013	/s/ Joseph T. Dunsmore
	Joseph T. Dunsmore President, Chief Executive Officer and Chairman

Exhibit No. 31(b)

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

I, Steven E. Snyder, certify that:

1. I have reviewed this annual report on Form 10-K 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.

/s/ Steven E. Snyder

May 3, 2013

Steven E. Snyder

Senior Vice President, Chief Financial Officer and Treasurer

Exhibit No. 32

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, each of the undersigned certifies that:

(1) The Annual Report on Form 10-K of the Company for the year ended March 31, 2013 (the "Report") fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 3, 2013

By: /s/ Joseph T. Dunsmore

Joseph T. Dunsmore
President, Chief Executive Officer, and Chairman

May 3, 2013

By: /s/ Steven E. Snyder

Steven E. Snyder
Senior Vice President, Chief Financial Officer and Treasurer