

DIGI INTERNATIONAL INC  
Form DEF 14A  
December 05, 2012

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, DC 20549**  
**SCHEDULE 14A**

(Rule 14a-101)

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934 (Amendment No.)**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement  Soliciting Material Under Rule  
 Confidential, For Use of the Commission Pursuant to § 240.14a-12

Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement  
 Definitive Additional Materials

**DIGI INTERNATIONAL INC.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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1) Amount previously paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

**DIGI INTERNATIONAL INC.**

**11001 Bren Road East**

**Minnetonka, Minnesota 55343**

**952/912-3444**

December 5, 2012

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders to be held at the Minneapolis Marriott Southwest, 5801 Opus Parkway, Minnetonka, Minnesota, commencing at 3:30 p.m., Central Standard Time, on Monday, January 28, 2013.

The Secretary's Notice of Annual Meeting and the Proxy Statement which follow describe the matters to come before the meeting. We hope that you will be able to attend the meeting in person and we look forward to seeing you. Please mark, date and sign the enclosed proxy and return it in the accompanying postage-paid reply envelope as quickly as possible, even if you plan to attend the Annual Meeting. If you later desire to revoke the proxy, you may do so at any time before it is exercised.

Sincerely,

Joseph T. Dunsmore

*Chairman of the Board*

**DIGI INTERNATIONAL INC.**

**Notice of Annual Meeting of Stockholders**

**to be held on**

**January 28, 2013**

The Annual Meeting of Stockholders of Digi International Inc. will be held at the Minneapolis Marriott Southwest, 5801 Opus Parkway, Minnetonka, Minnesota, at 3:30 p.m., Central Standard Time, on Monday, January 28, 2013, for the following purposes:

1. To elect two directors for a three-year term.
2. To approve the Digi International Inc. 2013 Omnibus Incentive Plan.
3. To cast a non-binding advisory vote on executive compensation ( Say-on-Pay ).
4. To ratify the appointment of PricewaterhouseCoopers LLP as independent registered public accounting firm of the Company for the fiscal year ending September 30, 2013.
5. To transact such other business as may properly be brought before the meeting.

The Board of Directors has fixed November 29, 2012 as the record date for the meeting, and only stockholders of record at the close of business on that date are entitled to receive notice of and vote at the meeting.

**Your proxy is important to ensure a quorum at the meeting. Even if you own only a few shares, and whether or not you expect to be present at the meeting, please vote your shares by proxy as quickly as possible. You may revoke your proxy at any time prior to its exercise, and voting by proxy will not affect your right to vote in person if you attend the meeting and revoke the proxy.**

By Order of the Board of Directors,

David H. Sampsell

*Vice President, General Counsel & Corporate Secretary*

Minnetonka, Minnesota

December 5, 2012

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**PROXY STATEMENT**

**GENERAL INFORMATION**

Proxies are being solicited by the Board of Directors of Digi International Inc., a Delaware corporation (the Company, we, us or our ), for use in connection with the Annual Meeting of Stockholders to be held on Monday, January 28, 2013, at the Minneapolis Marriott Southwest, 5801 Opus Parkway, Minnetonka, Minnesota, commencing at 3:30 p.m., Central Standard Time, and at any adjournments thereof. Only stockholders of record at the close of business on November 29, 2012 will be entitled to vote at such meeting or adjournments.

The address of our principal executive office is 11001 Bren Road East, Minnetonka, Minnesota 55343 and our telephone number is (952) 912-3444. The mailing of this Proxy Statement and form of proxy, or a Notice Regarding the Availability of Proxy Materials, to stockholders will commence on or about December 6, 2012.

**Shares of Common Stock Outstanding on Record Date.** Our Common Stock, par value \$.01 per share, is our only authorized and issued voting security. At the close of business on November 29, 2012, there were 26,313,871 shares of Common Stock outstanding, each of which is entitled to one vote.

***Vote Required on Proposals***

**Election of Directors** A plurality of the votes of our outstanding shares of Common Stock present in person or represented by proxy at the meeting and entitled to vote on the election of directors is required for the election of directors. Holders of Common Stock are not entitled to cumulate their votes for the election of directors.

**2013 Omnibus Incentive Plan** The affirmative vote of the holders of a majority of the outstanding shares of Common Stock present in person or by proxy at the meeting and entitled to vote is required for the approval of the Digi International Inc. 2013 Omnibus Incentive Plan.

**Say-on-Pay Proposal** The Say-on-Pay proposal is advisory and not binding. We will consider stockholders to have approved, on an advisory basis, our executive compensation if the number of votes for the proposal exceeds the number of votes against the proposal.

**Ratification of Auditors** The affirmative vote of the holders of a majority of the outstanding shares of Common Stock present in person or represented by proxy at the meeting and entitled to vote is required for approval of the proposal to ratify the appointment of auditors.

**Abstentions and Broker Non-Votes.** Abstentions and broker non-votes will be counted as present for purposes of determining the existence of a quorum at the meeting. However, shares of a stockholder who abstains, withholds authority to vote for the election of directors or does not otherwise vote in person or by proxy (including broker non-votes) will not be counted for the election of directors or approval of the say-on-pay proposal; however, an abstention will have the effect of a vote against the 2013 Omnibus Incentive Plan and the ratification of auditors.

**Expenses of Soliciting.** We will pay the cost of soliciting proxies. In addition to solicitation by the use of the mails, certain of our directors, officers and employees may solicit proxies by telephone, email or personal contact, and have requested brokerage firms and custodians, nominees and other record holders to forward soliciting materials to the beneficial owners of our stock and will reimburse them for their reasonable out-of-pocket expenses in so forwarding such materials. To assist the Company in soliciting proxies for the 2013 Annual Meeting of Stockholders, the Company has retained D.F. King & Co., Inc. for a total fee not expected to exceed \$7,500 plus out-of-pocket expenses.

**Stockholder Proposals.** Stockholder proposals (other than director nominations) that are submitted for inclusion in our proxy statement for our 2014 Annual Meeting of Stockholders must follow the procedures set forth in Rule 14a-8 promulgated under the Securities Exchange Act of 1934 and our By-Laws. To be timely, such proposals must be received by us at our principal executive office no later than August 8, 2013.

If a stockholder does not submit a proposal for inclusion in our proxy statement but desires to propose an item of business to be considered at an annual meeting of stockholders or to nominate persons for election as director at an annual meeting, then the stockholder must give timely written notice of such proposal or nominations to our Secretary at our principal executive office. To be timely under our By-Laws, we must receive notice of the stockholder's intention to propose an item of business or to nominate persons for election as director not less than 120 days before the first anniversary of the date of the preceding year's annual meeting (unless the date of the annual meeting is more than 30 days before or 60 days after such anniversary date, in which case such notice will be timely only if delivered not less than 120 days before the annual meeting or, if later, within 10 days after the first public announcement of the date of such annual meeting), and the notice must otherwise comply with certain other requirements contained in our By-Laws as well as all applicable statutes and regulations.

Assuming that our next annual meeting of stockholders is held not more than 30 days before nor more than 60 days after the one-year anniversary of this year's Annual Meeting, we must receive notice of a stockholder's intention to propose an item of business or nominate persons for election as a director on or before September 30, 2013. A stockholder's notice will not be deemed to be submitted until we have received all of the required information.

### HOW TO VOTE

**Your vote is important.** We encourage you to vote promptly. Internet and telephone voting is available through 10:59 p.m. Central Standard Time on Sunday, January 27, 2013. If you received a Notice Regarding the Availability of Proxy Materials, you may vote as instructed in the notice. If you received paper copies of this Proxy Statement, you may vote in one of the following ways:

**By Telephone.** If you are located in the United States or Canada, you can vote your shares by calling the toll-free telephone number on your proxy card or in the instructions that accompany your proxy materials. You may vote by telephone 24 hours a day. The telephone voting system has easy-to-follow instructions and allows you to confirm that the system has properly recorded your votes. If you vote by telephone, you do not need to return your proxy card or your voting instruction form.

**By Internet.** You can also vote your shares by the Internet. Your proxy card indicates the Web site you may access for Internet voting. You may vote by the Internet 24 hours a day. As with telephone voting, you will be able to confirm that the system has properly recorded your votes. If you hold your shares in street name, please follow the Internet voting instructions that accompany your proxy materials. You may incur telephone and Internet access charges if you vote by the Internet. If you vote by the Internet, you do not need to return your proxy card or your voting instruction form.

**By Mail.** If you are a holder of record and received a paper copy of the proxy card by mail, you can vote by marking, dating, and signing your proxy card and returning it by mail in the envelope provided. If you hold your shares in street name, you can vote by completing and mailing the voting instruction form.

**At the Meeting.** The way you vote your shares now will not limit your right to change your vote at the meeting if you attend in person. If you hold your shares in street name, you must obtain a proxy, executed in your favor, from the holder of record if you wish to vote these shares at the meeting.

All shares that have been properly voted and not revoked will be voted as you have directed at the meeting. If you sign and return your proxy card without any voting instructions, your shares will be voted as the Board of Directors recommends.

**Revocation of Proxies.** You can revoke your proxy at any time before your shares are voted if you (1) submit a written revocation to our corporate secretary at our executive offices before the meeting, or at the meeting, (2) submit a timely later-dated proxy (or voting instruction form if you hold shares in street name), (3) provide timely subsequent telephone or Internet voting instructions, or (4) vote in person at the meeting.

**Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to Be Held on January 28, 2013:**

**The Proxy Statement and Annual Report to Stockholders are available at:**

<http://materials.proxyvote.com/253798>



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**SECURITY OWNERSHIP OF PRINCIPAL STOCKHOLDERS AND MANAGEMENT**

The following table sets forth the beneficial ownership of our Common Stock, as of November 29, 2012, by each of our directors or nominees for director, by each of our executive officers named in the Summary Compensation Table herein, by all directors, nominees and executive officers as a group, and by each stockholder who is known by us to own beneficially more than 5% of our outstanding Common Stock.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership <sup>1</sup>	Percentage Outstanding Shares
<b>Directors, nominees and executive officers:</b>		
Joseph T. Dunsmore	766,266 <sup>2</sup>	2.83%
Steven E. Snyder	99,861 <sup>3</sup>	*
Lawrence A. Kraft	305,875 <sup>4</sup>	1.15%
David H. Sampsell	26,250 <sup>5</sup>	*
Joel K. Young	298,403 <sup>6</sup>	1.12%
Guy C. Jackson	173,181 <sup>7</sup>	*
Kenneth E. Millard	109,681 <sup>8</sup>	*
Ahmed Nawaz	212,515 <sup>9</sup>	*
William N. Priesmeyer	127,431 <sup>10</sup>	*
Bradley J. Williams	216,629 <sup>11</sup>	*
All directors, nominees and executive officers as a group (12 persons)	2,635,344 <sup>12</sup>	9.17%
<b>Other beneficial owners:</b>		
Riverbridge Partners LLC		
801 Nicollet Mall, Suite 600		
Minneapolis, MN 55402		
Dimensional Fund Advisors LP	3,068,429 <sup>13</sup>	11.66%
Palisades West, Building One		
6300 Bee Cave Road		
Austin, TX 78746	2,124,929 <sup>14</sup>	8.08%
BlackRock, Inc.		
40 East 52 <sup>nd</sup> Street		
New York, NY 10022	1,996,959 <sup>15</sup>	7.59%
Generation Investment Management LLP		
One Vince Street		
London, United Kingdom W1J 0AH	1,429,956 <sup>16</sup>	5.43%
Royce & Associates, LLC		
745 Fifth Avenue		
New York, NY 10151	1,398,662 <sup>17</sup>	5.32%
The Vanguard Group, Inc.		
100 Vanguard Blvd.		
Malvern, PA 19355	1,307,824 <sup>18</sup>	4.97%

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\* Less than one percent.

<sup>1</sup> Fractional shares are rounded to the nearest whole share. Unless otherwise indicated in footnote below, (i) the listed beneficial owner has sole voting power and investment power with respect to such shares, and (ii) no director or executive officer has pledged as security any shares shown as beneficially owned.

<sup>2</sup> Includes 757,500 shares covered by options which are exercisable within 60 days of the record date.

<sup>3</sup> Includes 95,625 shares covered by options which are exercisable within 60 days of the record date.

<sup>4</sup> Includes 305,875 shares covered by options which are exercisable within 60 days of the record date.

<sup>5</sup> Includes 26,250 shares covered by options which are exercisable within 60 days of the record date.

- 6 Includes 296,875 shares covered by options which are exercisable within 60 days of the record date.
- 7 Includes 168,181 shares covered by options which are exercisable within 60 days of the record date.
- 8 Includes 109,681 shares covered by options which are exercisable within 60 days of the record date.
- 9 Includes 112,515 shares covered by options which are exercisable within 60 days of the record date.
- 10 Includes 124,431 shares covered by options which are exercisable within 60 days of the record date.
- 11 Includes 132,164 shares covered by options which are exercisable within 60 days of the record date.
- 12 Includes 2,425,013 shares covered by options which are exercisable within 60 days of the record date.
- 13 Based on information reported to the SEC in an amended Schedule 13G filed by Riverbridge Partners LLC on February 6, 2012 reflecting beneficial ownership as of December 31, 2011. Riverbridge Partners LLC had sole voting power over 2,315,869 shares and sole dispositive power over 3,068,429 shares.
- 14 Based on information reported to the SEC in an amended Schedule 13G filed by Dimensional Fund Advisors LP on February 14, 2012 reflecting beneficial ownership as of December 31, 2011. Dimensional Fund Advisors had sole voting power over 2,069,016 shares and sole dispositive power over all reported shares. Dimensional Fund Advisors LP or its subsidiaries (collectively, Dimensional ) possess voting and/or investment power over securities that are owned by four investment companies to which Dimensional Fund Advisors LP furnishes investment advice and certain other commingled group trusts and separate accounts to which Dimensional Fund Advisors LP may act as adviser, sub-adviser and/or manager (collectively, the Funds ), and may be deemed to be the beneficial owner of the shares held by the Funds. However, all such securities are owned by the Funds. Dimensional disclaims beneficial ownership of such securities.
- 15 Based on information reported to the SEC in an amended Schedule 13G filed by BlackRock, Inc. on February 13, 2012 reflecting beneficial ownership as of December 30, 2011.
- 16 Based on information reported to the SEC in a Schedule 13G filed by Generation Investment Management LLP on January 2, 2012 reflecting beneficial ownership as of January 24, 2012. Generation Investment Management LLP had shared voting power and sole dispositive power with respect to all shares reported.
- 17 Based on information reported to the SEC in an amended Schedule 13G filed by Royce & Associates, LLC on November 2, 2012 reflecting beneficial ownership as of October 31, 2012.
- 18 Based on information reported to the SEC in a Schedule 13G filed by The Vanguard Group, Inc. on February 8, 2012 reflecting beneficial ownership as of December 31, 2011. The Vanguard Group, Inc. had sole dispositive power over 1,275,421 shares. Vanguard Fiduciary Trust Company, a wholly-owned subsidiary of The Vanguard Group, Inc., was the beneficial owner and directed the voting of 32,403 shares as a result of serving as investment manager of collective trust accounts.

**PROPOSAL NO. 1**

**ELECTION OF DIRECTORS**

Our business is managed by or under the direction of a Board of Directors with a number of directors, not less than three, fixed from time to time by the Board of Directors. The Board is divided into three classes as nearly equal in number as possible, and directors of one class are elected each year for a term of three years. Each class consists of at least one director. The Board of Directors has fixed at two the number of directors to be elected to the Board at the 2013 Annual Meeting of Stockholders. The Nominating and Governance Committee has nominated Messrs. Jackson and Nawaz to stand for election for a three-year term. Proxies solicited by the Board of Directors will, unless otherwise directed, be voted to elect the nominees named below.

Each of the nominees named below is currently a director of our Company, and each has indicated a willingness to serve as a director. The Nominating and Governance Committee of the Board of Directors selected each of the nominees named below. In case any nominee is not a candidate for any reason, the proxies named in the enclosed form of proxy may vote for a substitute nominee selected by the Nominating and Governance Committee.

Following is certain information regarding the nominees for the office of director and the current directors whose terms expire after the 2013 Annual Meeting:

**Nominees for Term Expiring in 2016:**

*Guy C. Jackson, age 70*

Mr. Jackson has been a member of our Board of Directors since November 2003. In June 2003, Mr. Jackson retired from the accounting firm of Ernst & Young LLP after 35 years with the firm and one of its predecessors, Arthur Young & Company. During his career, he served as the audit partner on a number of public companies. Mr. Jackson also serves as a director and chair of the audit committees of Cyberonics, Inc. and Life Time Fitness, Inc. He is a former director of EpiCept Corporation and Urologix, Inc.

Mr. Jackson brings more than 35 years of finance, audit and accounting experience to the Board. Both as a director and as Chair of the Audit Committee, Mr. Jackson's significant leadership and professional expertise in audit and finance provide a valuable perspective for the Board regarding financial processes, financial risk management, mergers and acquisitions and corporate governance. In addition, Mr. Jackson's past professional and other outside board experiences provide a broad strategic and operating perspective that is valuable to the Board. Mr. Jackson's experience qualifies him as an Audit Committee financial expert.

*Ahmed Nawaz, age 63*

Mr. Nawaz has been a member of our Board of Directors since October 2006. Mr. Nawaz was Executive Vice President, Wireless Solutions Group at Spansion Inc. from October 2010 until November 2011 when he retired from his employment with Spansion Inc. In connection with his retirement, Mr. Nawaz offered to resign his directorship with us consistent with our Principles of Corporate Governance. Following deliberation, the Board of Directors determined not to accept Mr. Nawaz's offer to resign and Mr. Nawaz withdrew his offer. From July 2009 to October 2010, Mr. Nawaz was Executive Vice President of Worldwide Sales, Marketing and Corporate Development at Spansion Inc. and from November 2006 to June 2009, he was Executive Vice President for the Wireless Solutions Division at Spansion Inc. On March 1, 2009, Spansion Inc. filed a voluntary petition under Chapter 11 of the United States Bankruptcy Code. Mr. Nawaz was a management consultant from January 2006 to November 2006. Prior to that, Mr. Nawaz was Executive Vice President, Worldwide Sales of Agere Systems Inc., a provider of integrated circuit solutions, from March 2001 to December 2005. Mr. Nawaz was President of Worldwide Sales, Strategy and Business Development, from April 2000 to March 2001 and President, Integrated Circuits Division, from June 1998 to April 2000 of Lucent's Microelectronics and

Communications Technologies Group. He joined AT&T in 1992 and moved to Lucent following its spin-off from AT&T in 1996. Mr. Nawaz was Vice President of Lucent's Network Communications business unit from January 1996 to July 1998. While at AT&T, he was Vice President of the Applications business unit from 1994 to 1995. Prior to joining AT&T, Mr. Nawaz was at Texas Instruments where he was responsible for the personal computer business unit from 1990 to 1992 and also held various marketing and product management positions.

As a highly accomplished world-wide executive in the semiconductor and telecommunications industries, Mr. Nawaz has extensive leadership expertise in sales, marketing, distribution, industry strategy and international management. His valuable experiences leading and managing large global operations with semiconductor and wireless technologies give Mr. Nawaz particular insights and perspectives important to the Board for future direction of our Company. In addition, Mr. Nawaz's executive multinational management experiences in sales and product management, particularly in Asia Pacific, lend global technology insights to the Board view of future strategic direction. As our Lead Director, Mr. Nawaz employs his extensive senior management and corporate governance experience in leading our Board of Directors.

**Directors Whose Terms Expire in 2015:**

*Kenneth E. Millard, age 66*

Mr. Millard has been a member of our Board of Directors since October 1999. Mr. Millard was Chairman, Chief Executive Officer, President and a director of Telular Corporation, a telecommunications company, until February 2005, after serving as President and Chief Executive officer since April 1996 and Chairman since 2001. Prior to that, Mr. Millard was the President and Chief Operating Officer of Oncom Communications, a telecommunications company, from February 1992 to January 1996. Prior to that, he held various executive management positions at Ameritech Corporation and worked as an attorney for AT&T and Wisconsin Bell. Mr. Millard serves as chairman and a director of Dascom Systems Group LLC, a private corporation.

Mr. Millard brings to the Board business leadership, corporate strategy and operating expertise. As a former chief executive officer and business executive with multiple companies in the telecommunications industry, Mr. Millard has extensive experience formulating and implementing advanced telecommunications strategies and products. This background is particularly valuable as our Board considers expansion strategies for our Company. In addition, Mr. Millard's legal background and financial experience add valuable perspective to ongoing governance and financial matters.

*William N. Priesmeyer, age 67*

Mr. Priesmeyer has been a member of our Board of Directors since November 2005. He has been the Chief Executive Officer of Cymbet Corporation, a manufacturer of thin solid state batteries for the semiconductor industry, since November 2001. Mr. Priesmeyer served as Senior Vice President and Chief Financial Officer of Jostens Inc., a producer of educational products, from August 1997 to June 2001. Prior to that, he held Chief Financial Officer positions at Waldorf Corporation, DataCard Corporation and Onan Corporation and was a Vice President at The Pillsbury Company. Mr. Priesmeyer began his career at Xerox Corporation.

As the chief executive officer and board member of a technology company in the semiconductor industry, Mr. Priesmeyer brings to our Board extensive leadership experience in corporate strategy, manufacturing, operations, technology and finance. In addition, Mr. Priesmeyer has held chief financial officer positions in both publicly held and private companies where he employed his expertise overseeing all global financial, mergers and acquisitions, and risk management functions on a daily basis. Mr. Priesmeyer provides a continuous improvement perspective towards Company financial performance and operations for the Board. He is also one of our Audit Committee financial experts.

**Directors Whose Terms Expire in 2014:**

*Joseph T. Dunsmore, age 54*

Mr. Dunsmore joined our Company in October 1999 as President and Chief Executive Officer and a member of the Board of Directors and was elected Chairman of the Board in May 2000. Prior to joining us, since June 1999 Mr. Dunsmore was Vice President of Access for Lucent Microelectronics, a telecommunications company that became known as Agere Systems Inc. From October 1998 to June 1999, he acted as an independent consultant to various high technology companies. From February 1998 to October 1998, Mr. Dunsmore was Chief Executive Officer of NetFAX, Inc., a telecommunications company. From October 1995 to February 1998, he held executive management positions at US Robotics and then at 3COM after 3COM acquired US Robotics in June 1997. Prior to that, Mr. Dunsmore held various marketing management positions at AT&T Paradyne Corporation from May 1983 to October 1995. Mr. Dunsmore is also a director of Analysts International Corporation.

Mr. Dunsmore has led our Company for more than 10 years. Under his leadership our Company has been repositioned in growth markets. As Chairman and Chief Executive Officer, he brings to the Board his thorough knowledge of our business, culture, strategy, people, operations, competition and financial position. Mr. Dunsmore provides demonstrated executive leadership and strategic vision.

*Bradley J. Williams, age 52*

Mr. Williams has been a member of our Board of Directors since June 2001. Since April 2008, Mr. Williams has been the President of Doextra Corporation, a value-added reseller of Customer Relationship Management (CRM) software. From February 2006 to April 2008, Mr. Williams served as the Vice President of Sales for Doextra Corporation. From October 2005 to February 2006, Mr. Williams was the President of Catalyst Resources, L.C., a management consulting firm specializing in business development for entrepreneurs and small business owners. Prior to that, Mr. Williams was the Vice President of Sales for On Demand Technologies, a provider of technology driven communications products, from February 2004 to October 2005. Mr. Williams was the President of Relationship Marketing, Inc., a provider of marketing communications solutions, from August 2003 to February 2004 and he previously served as Executive Vice President, Sales of Relationship Marketing commencing June 2002. In January 2000, Mr. Williams co-founded Raviant Networks, Inc., a provider of comprehensive software solutions and professional services to the telecommunications industry, where he served as its Chief Operating Officer from April 2000 until June 2002. He also served as a director of Raviant from April 2000 to August 2002. An involuntary Chapter 7 bankruptcy petition was filed against Raviant in October 2002 and was dismissed in March 2003. From August 1996 to December 1999, Mr. Williams worked for Integrated Network Solutions, a value-added reseller of hardware, software and network services, where he started a telecommunications consulting division that was eventually spun off as Raviant Networks.

Mr. Williams has had an extensive career as an entrepreneur and product innovator in the software solutions industry. As a senior executive officer of a software marketing company with extensive leadership experience in sales management and business development, Mr. Williams adds an important strategic and marketing perspective for the Board. The knowledge and experience Mr. Williams gained through various roles in the areas of business software systems, software strategy and product development are important to the future strategic direction of our Company.

**Director Independence**

None of the directors is related to any other director or to any executive officer of our Company. The Board of Directors has determined that Messrs. Jackson, Millard, Nawaz, Priesmeyer and Williams, who constitute a majority of the Board of Directors, are independent directors as defined in the applicable listing standards of the Nasdaq Stock Market ( Nasdaq ).

### **Board Leadership Structure**

Our Company does not have a written policy with respect to separation of the roles of Chief Executive Officer and Chairman of the Board because our Board of Directors believes it is in the best interests of our stockholders to make that determination based on the applicable circumstances. The Board of Directors is currently led by Mr. Dunsmore in his role as Chairman of the Board. The Board has determined that having our Chief Executive Officer serve as Chairman of the Board is in the best interest of our stockholders at this time, in large part because the Chief Executive Officer is responsible for the daily management of the Company and the development and implementation of our corporate strategy and has regular contact and access to the people, information and resources necessary to facilitate the appropriate flow of information and to support the functions of the Board of Directors. Our independent non-employee directors have elected Mr. Nawaz from among themselves to serve as lead director to complement the Chairman of the Board's role.

As our lead director, Mr. Nawaz: (i) presides as chair of meetings of the Board of Directors when the Chairman of the Board is absent; (ii) organizes, convenes and presides over executive sessions of the independent non-employee directors, (iii) serves as a liaison between the Chairman of the Board and CEO and the independent directors, (iv) consults with the Chairman of the Board in establishing schedules and agendas for meetings of the Board of Directors, and (v) serves in such other capacities with such other duties as the independent non-employee directors may determine from time to time.

The Board of Directors has determined that this leadership structure is appropriate given the specific characteristics and circumstances of the Company because it strengthens the Board's role in fulfilling its risk oversight and general oversight responsibilities and its fiduciary duties to our stockholders. Furthermore, our Company's current leadership structure recognizes the depth of Company and industry experience of Mr. Dunsmore, and the need for a leader among independent non-employee directors in order to facilitate both compliance with listing requirements and communication among our independent directors and the Chairman of the Board and Chief Executive Officer.

### **The Board's Role in Risk Oversight**

The Board of Directors is actively involved in the oversight of risks facing our Company and endeavors to provide management with guidance on the mitigation of identified risks. While the Board of Directors generally is responsible for risk management, certain committees of the Board of Directors are responsible for specific areas of risk relating to their respective focuses:

Our Audit Committee is responsible for the oversight of financial risk relating to our consolidated financial statements, financial reporting processes and internal control over financial reporting.

Our Compensation Committee is responsible for the oversight of company-wide compensation risk and reviews on an annual basis whether the risks arising from our compensation policies and practices with respect to our employees generally are reasonably likely to have a material adverse effect on the Company.

Our Nominating and Governance Committee monitors the risks related to our governance structure, policies and procedures. The chair of each committee is responsible for reporting to the full Board of Directors the activities of the committee, the significant issues that have been presented to or otherwise discussed by the committee, and the committee's final determination with respect to such issues, as appropriate. By leveraging the particular competencies of its committees, the Board of Directors actively utilizes its leadership structure to administer its role in the risk oversight of the Company.

### **Risks Arising from Compensation Policies and Practices**

Our management recently conducted an evaluation of the risks arising from our company-wide compensation policies and practices with respect to employees. Management prepared a report and analysis of our compensation policies and practices and concluded that they do not create risks that are reasonably likely to have a material adverse effect on our Company. In connection with its risk oversight role, our Compensation Committee reviewed management's analysis and conclusions.

### **Committees of the Board of Directors and Meeting Attendance**

The Board of Directors met 10 times during fiscal 2012. All directors attended at least 75% of the meetings of the Board and of the Committees on which they served during fiscal 2012. We have an Audit Committee, a Compensation Committee and a Nominating and Governance Committee. Following is a description of the functions performed by each of these committees.

#### ***Audit Committee***

Our Audit Committee presently consists of Messrs. Jackson (Chairman), Priesmeyer and Williams. The Board of Directors has determined that all members of the Audit Committee are independent as that term is defined in the applicable Nasdaq listing standards and regulations of the SEC. The Board of Directors has determined that all members are financially literate as required by the applicable Nasdaq listing standards. In addition, the Board of Directors has determined that Messrs. Jackson, Priesmeyer and Williams have the financial experience required by the applicable Nasdaq listing standards and Messrs. Jackson and Priesmeyer are each an audit committee financial expert as defined by applicable regulations of the SEC. The Audit Committee oversees our accounting, internal controls and financial reporting process by, among other things, taking action to oversee the independence of and annual audit by the independent registered public accounting firm and selecting and appointing the independent registered public accounting firm. The Audit Committee met eight times during fiscal 2012. As discussed below under Related Person Transaction Approval Policy, the Audit Committee is also responsible for the review and approval or ratifications of transactions under our Related Person Transaction Approval Policy. The responsibilities of the Audit Committee are set forth in the Audit Committee Charter, a copy of which is available on the Investor Relations section of our website, [www.digi.com](http://www.digi.com). The Audit Committee reviews the Audit Committee Charter annually and may make additional recommendations to the Board of Directors for further revision of the Audit Committee Charter to reflect changing circumstances and requirements.

#### ***Compensation Committee***

We have a Compensation Committee presently consisting of Messrs. Millard (Chairman), Jackson and Nawaz. The Board of Directors has determined that all members of the Compensation Committee are independent as that term is defined in the applicable Nasdaq listing standards. The Compensation Committee determines the compensation of the Chief Executive Officer and all other executive officers. With respect to employees other than executive officers, the Compensation Committee oversees general compensation policies and reviews the annual incentive compensation structure. The Compensation Committee also oversees our benefit plans and the Digi International Inc. Stock Option Plan, the Digi International Inc. Non-Officer Stock Option Plan, the Digi International Inc. Employee Stock Purchase Plan, the Digi International Inc. 2000 Omnibus Stock Plan and, if approved through Proposal 2, the Digi International Inc. 2013 Omnibus Incentive Plan. The Compensation Committee met eight times during fiscal 2012. The responsibilities of the Compensation Committee are set forth in the Compensation Committee Charter, a copy of which is available on the Investor Relations Section of our website, [www.digi.com](http://www.digi.com). The Compensation Committee reviews the Compensation Committee Charter annually and may recommend to the Board of Directors revisions to the Compensation Committee Charter to reflect changing circumstances and requirements. The processes and procedures used by the Compensation Committee for considering and determining executive and director compensation are described below under Executive Compensation Compensation Discussion and Analysis on pages 13 through 15.



### *Nominating and Governance Committee*

We have a Nominating and Governance Committee, presently consisting of Messrs. Priesmeyer (Chairman), Millard and Williams. The Board of Directors has determined that all members of the Nominating and Governance Committee are independent as that term is defined in the applicable Nasdaq listing standards. The Nominating and Governance Committee selects candidates as nominees for election as directors, advises the Board of Directors about the appropriate composition of the Board of Directors and its committees and oversees corporate governance matters. The Nominating and Governance Committee met five times during fiscal 2012. The responsibilities of the Nominating and Governance Committee are set forth in the Nominating and Governance Committee Charter, a copy of which is available on the Investor Relations Section of our website, [www.digi.com](http://www.digi.com). The Nominating and Governance Committee reviews the Nominating and Governance Committee Charter annually and may recommend to the Board of Directors revisions to the Nominating and Governance Committee Charter to reflect changing circumstances and requirements.

### **Director Nominee Selection Process and Criteria**

The Nominating and Governance Committee generally identifies director candidates based upon suggestions from current directors and senior management, recommendations by stockholders and/or use of a director search firm. Stockholders who wish to suggest qualified candidates should write to: Digi International Inc., 11001 Bren Road East, Minnetonka, MN 55343, Attention: Chairman, Nominating and Governance Committee. All recommendations should state in detail the qualification of such persons for consideration by the Committee and should be accompanied by an indication of the person's willingness to serve. The Nominating and Governance Committee will consider candidates recommended by stockholders in the same manner that it considers all director candidates.

Candidates for director nominees are reviewed in the context of the current composition of the Board, our operating requirements and the long-term interests of our stockholders. We do not have a formal policy regarding the consideration of diversity in identifying director nominees. The Nominating and Governance Committee will consider, at a minimum, the following factors in nominating existing and potential new members of the Board of Directors, in addition to other factors it deems appropriate based on the current needs and desires of the Board of Directors:

demonstrated character and integrity, an inquiring mind, experience at a strategy/policy setting level, sufficient time to devote to our affairs, and high-level managerial experience;

whether the member/potential member is subject to a potentially disqualifying factor, such as, relationships with competitors, customers, suppliers, contractors, counselors or consultants, or recent previous employment with us;

the member's/potential member's independence;

whether the member/potential member assists in achieving a mix of members on the Board of Directors that represents a diversity of background and experience, including with respect to age, gender, international background, race and specialized experience;

whether the member/potential member has general and strategic business management experience and financial experience with companies of a similar size that operate in the same general industry as us;

whether the member/potential member, by virtue of particular experience, technical expertise, or specialized skills, will add specific value as a member of the Board of Directors; and

any factors related to the ability and willingness of a new member to serve, or an existing member to continue his/her service.

### **Stockholder Communications with the Board of Directors**

Stockholders may communicate with the Board of Directors by addressing correspondence to Digi International Inc., 11001 Bren Road East, Minnetonka, MN 55343, Attention: Lead Director. Mr. Nawaz currently serves as the Lead Director. All such communications will be forwarded directly to the Chairman. The Chairman will forward communications directed at particular members of the Board of Directors directly to the particular members. Communications directed to the Board of Directors in general will be handled by the Lead Director.

We do not have a policy regarding attendance of members of the Board of Directors at annual meetings of our stockholders. Mr. Dunsmore attended the January 2012 Annual Meeting of Stockholders.

### **Compensation Committee Interlocks and Insider Participation**

The Compensation Committee is comprised entirely of independent, outside directors. No member of this committee was at any time during fiscal 2012 or at any other time an officer or employee of the Company or any of our subsidiaries or affiliates, or has had any relationship with our Company requiring disclosure in our proxy statement other than service as a director. None of our executive officers has served on the board of directors or on the compensation committee of any other entity, any officers of which served either on our Board of Directors or on our Compensation Committee.

### **Report of the Audit Committee**

The role of our Audit Committee, which is composed of three independent non-employee directors, is one of oversight of our management and our independent registered public accounting firm in regard to our financial reporting and our internal controls respecting accounting and financial reporting. The Audit Committee also considers and pre-approves any non-audit services provided by our independent registered public accounting firm to ensure that no prohibited non-audit services are provided by the independent registered public accounting firm and that the independent registered public accounting firm's independence is not compromised. In performing its oversight function, the Audit Committee relies upon advice and information received in its discussions with our management and independent registered public accounting firm.

The Audit Committee has (i) reviewed and discussed our audited consolidated financial statements for the fiscal year ended September 30, 2012 with our management and with PricewaterhouseCoopers LLP, our independent registered public accounting firm; (ii) discussed with PricewaterhouseCoopers LLP the matters required to be discussed by the Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1, AU section 380) as adopted by the Public Company Accounting Oversight Board (PCAOB) in Rule 3200T regarding communication with audit committees; and (iii) received the written disclosures and the letter from our independent registered public accounting firm required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence, and has discussed with PricewaterhouseCoopers LLP their independence.

Based on the review and discussions with management and our independent registered public accounting firm referred to above, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2012 for filing with the SEC.

Guy C. Jackson (Chairman)

William N. Priesmeyer

Bradley J. Williams

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

This compensation discussion and analysis (sometimes referred to in this Proxy Statement as the CD&A ):

Describes compensation philosophy, objectives and programs and contains details of actual and targeted compensation of our named executive officers (referred to elsewhere in this CD&A as Named Executives ). These individuals include our: Chairman, Chief Executive Officer and President; Senior Vice President, Chief Financial Officer and Treasurer; Senior Vice President, Global Sales and Marketing; Senior Vice President, Research and Development and Chief Technology Officer; and Vice President, General Counsel and Corporate Secretary;

Describes the process used to determine our compensation program elements and targets; and

Provides details of each element of our Named Executive compensation program, including targeted and actual compensation for fiscal 2012 and fiscal 2011.

#### *Executive Summary*

In fiscal 2012 our revenue decreased 6.7%, operating income decreased 36.1% and net income decreased 30.9% versus fiscal 2011. Reflective of these results, the annual rate of total cash compensation of our Named Executives decreased by 25% on average in fiscal 2012 compared to fiscal 2011.

Our compensation philosophy is built on a foundation of pay-for-performance and rewards Named Executives for positive developments in the results of our Company and the price of our Common Stock over time. Below is a comparison of our total stockholder returns for the past one, three and five most recently completed fiscal years as compared to the median total stockholder returns for the same periods of our relevant peer group listed on pages 16 17 and modified as noted below in footnote 1.

Data Source: Yahoo Finance

<sup>1</sup> Total stockholder return was calculated using the average stock price of the ten trading days up to and including September 30, 2012 for all periods presented. LogMein and Neutral Tandem were excluded from the 5 year analysis because each company began trading as a public company within 5 years of September 30, 2012. TeleNav was excluded from both the 5 year and 3 year analysis because it began trading as a public company within 3 years of September 30, 2012.

Decisions regarding fiscal 2012 compensation for our Named Executives, as discussed in more detail in this CD&A, were made in accordance with our pay-for-performance philosophy and evaluated in light of available information regarding the compensation practices of our relevant peer group.

Base pay increases were consistent with general market practices and pay levels of our comparable peer group;

Total annual cash incentives were paid at 33% of target, consistent with our lower than expected performance against annual financial metrics; and

Stock option grants considered market practices and our fiscal 2011 performance against our goals, our relative performance against our peer group and our desire to incent Named Executives for the long-term with options that require our share price to increase to create value and align the interests of Named Executives with our stockholders.

As discussed in further detail in this CD&A, we believe we exercise sound executive compensation management practices, including:

Independent oversight of compensation programs by our Compensation Committee and their use of external consultants as needed;

Balanced compensation programs that emphasize pay-for-performance, alignment with stockholder value creation, and attraction and retention of key talent without placing undue emphasis on risk;

Competitive compensation levels that are supported by our peer group compensation practices;

Multiple compensation program elements that emphasize short and long term business strategies and performance; and

At our annual stockholders meeting in January 2012, 97.1% of the votes cast approved, on an advisory basis, the compensation of our named executive officers as disclosed in the proxy statement for that annual meeting. Our compensation committee has considered the results of that vote in its subsequent deliberations, and no changes have been made in compensation policies or practices as a result of the vote.

#### ***Compensation Philosophy***

The philosophies that drive our compensation program design and objectives are:

Incent Named Executives to advance the Company's business and financial objectives through a pay-for-performance culture that tightly ties the rewards of our Named Executives to the performance of the individual, the Company, and the price of our Common Stock.

Attract and retain qualified executive talent by providing competitive compensation packages.

Align Named Executive focus on Company financial performance and stockholder value creation by providing balanced compensation programs. Balance is achieved through plans that reward for the advancement of long term strategic business objectives and annual financial objectives.

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Ensure that the design of our compensation program does not encourage Named Executives to take unnecessary or undesirable risks.

### ***Responsibility for Determining Executive Compensation***

Our Compensation Committee (referred to in this CD&A as the Committee ) reviews and approves all executive compensation programs and the specific compensation arrangements with each of our Named Executives. The Committee also provides general oversight of our compensation plans. The Committee is composed of three independent, non-employee directors as defined by the SEC and the Nasdaq Global Select

Market. The Committee maintains responsibility for overseeing the independence of any compensation consultant that it retains. A brief summary of the role of the Committee is found in "Committees of the Board of Directors and Meeting Attendance" in this Proxy Statement.

The Committee retains the services of a third party consultant to provide guidance and recommendations on compensation strategy, program design, peer group selection, and market compensation trends. The Committee also has utilized a third party consultant to recommend peer group companies and to determine peer group and/or larger market compensation levels. In fiscal 2012, the Committee retained the consulting division of Radford to provide competitive benchmarking and market trend data in support of compensation decisions. Our management also utilized the survey division of Radford to purchase industry compensation surveys to help assess compensation trends for our overall employee population, the value of which is below \$10,000. Radford provides no other services to management and the Committee believes that Radford meets all criteria for independence and is free of any conflict of interest.

Members of management participate in Committee meetings at the Committee's request. Our Vice President of Human Resources contributes analysis on market trends, peer group compensation levels and compensation levels of companies in our broad technology industry category to the Committee. Our Chief Executive Officer provides recommendations on the compensation of other Named Executives. Our Vice President, General Counsel and Corporate Secretary generally serves as Secretary of Committee meetings.

#### ***Compensation Determination Process***

Compensation targets are set for each Named Executive based on a number of factors, including:

Compensation levels of comparable positions at companies in our targeted peer group and our broad technology industry with comparable annual revenues and compensation of each Named Executive;

Each Named Executive's performance against annual objectives;

The qualifications of the Named Executive and the potential for positive performance in the future;

The achievement of strategic goals to which the Named Executives are held accountable;

The recommendations of the Chief Executive Officer (except with respect to his own compensation); and

Current financial conditions, goals and performance of the Company.

#### ***Compensation Benchmarking***

To determine a range of competitive compensation for comparable jobs, the Committee reviews compensation data for a targeted group of peer companies. The Committee also has considered third party survey data of companies in our broad technology industry category with comparable annual revenues to supplement peer group data.

#### ***Cash Compensation***

The Committee generally sets base salaries for Named Executives to fall between the 25<sup>th</sup> and 60<sup>th</sup> percentile of comparable positions at peer group companies. Determination of the base salary level is based on the compensation determination factors listed above, with specific focus on the nature of the position, the Named Executives' skills and potential, and past performance results. Currently, the base salaries of our Named Executives comprise 50% to 70% of their total annual cash compensation target, which places significant emphasis on annual incentive compensation. This supports our pay-for-performance philosophy as the Company will need to meet or exceed Company financial targets for Named Executives to realize their full annual cash compensation potential.



Total cash compensation, when earned, typically will result in Named Executive total cash compensation falling on average between the 25<sup>th</sup> and 75<sup>th</sup> percentile of the comparable peer group positions if all financial metrics associated with annual incentive compensation are achieved or exceeded. Actual total cash compensation for Named Executives has fallen as low as the 25<sup>th</sup> percentile in past years in reflection of our performance against financial targets. In fiscal 2012, Named Executives earned 33% of their total annual cash incentives as our Company did not perform well against our targets.

### Equity Compensation

The Committee awards stock options to Named Executives based on the following factors:

The value of equity awards within our peer group for comparable positions. The Committee considers ranges of equity between the 25<sup>th</sup> and 75<sup>th</sup> percentile;

Each Named Executive's past performance and potential for Executive to contribute to Company success in the future; and

The strategic impact of the Named Executive's position and necessity to retain the Named Executive.

Actual stock option awards for Named Executives in fiscal 2012 and fiscal 2013 have fallen between peer group 25<sup>th</sup> and 75<sup>th</sup> percentile.

### Fiscal 2012 Compensation Benchmarking

For fiscal 2012, the Committee considered a competitive analysis report prepared by our Vice President of Human Resources that reviewed the base salary, annual cash incentives and long-term equity incentive elements and levels for our Named Executives against comparable positions in our peer group and companies in our broad technology industry category. Our fiscal 2012 peer group was updated from the fiscal 2011 peer group to remove Adaptec due to its acquisition. The fiscal 2012 peer group was composed of Anaren, Inc., BigBand Networks, Inc. CalAmp Corp., Communications Systems Inc., Echelon Corp., EMS Technologies Inc., Extreme Networks Inc., Globecom Systems, Inc., Ixia, Network Engines, Inc., Network Equipment Technologies, Inc., Neutral Tandem, Inc., Oplink Communications, Inc., Orbcomm Inc., Seachange International, Inc., Shoretel Inc., Sierra Wireless Inc., Silicon Laboratories, Inc., and Symmetricom, Inc. The Committee considered this competitive analysis report, in addition to the compensation determination factors described above, to determine the appropriate base salary, annual cash incentive targets and equity incentive awards for fiscal 2012.

### Fiscal 2013 Compensation Benchmarking

For fiscal 2013, the Committee reviewed a competitive analysis of the base salary, annual cash incentives and equity incentive elements and levels for our Named Executives. This assessment was compiled and presented by Radford Consulting:

1. A review of our fiscal 2012 peer group and industry to assess whether modifications were appropriate based on acquisitions or significant changes in the financial metrics of the companies in our peer group. Eleven peer group companies were retained, eight were removed and eight new companies were added. These changes, recommended by Radford Consulting, were made to better align our peer group with Digi International's business and financial metrics. These changes resulted in the fiscal 2013 peer group that consists of the following companies:

Anaren  
Aruba Networks  
Calamp  
Echelon

NetScout Systems  
Neutral Tandem  
Novatel Wireless  
Oplink Communications



Emulex	Radsys
EnerNOC	Shoretel Inc.
Extreme Networks	Sierra Wireless, Inc.
Globecomm Systems	Symmetricom, Inc.
Ixia	TeleNav
LogMein	

2. A comparison of our compensation elements and levels against the fiscal 2013 peer group to determine our overall market percentile position on each element as well as our total cash compensation and total equity compensation.
3. A comparison of our compensation elements and levels against companies in our broad technology industry category as reported by Radford Consulting, based on data obtained from Radford's independent third party compensation survey. This survey data contained competitive information for high technology companies in our broader industry and revenue categories. This broader survey data was used in conjunction with the peer group data.

**Compensation Program Elements**

**Total Cash Compensation**

To determine the allocation of cash compensation among each of our cash compensation program elements, we consider the practices of companies within our peer group as well as our compensation philosophy of maintaining a strong pay for performance environment. The portion of the Named Executive's total cash compensation dependent on annual incentive will differ by position. For instance, while we want our Chief Financial Officer to be concerned with our financial performance, an important part of his job is to oversee our financial controls and reporting. Similarly, while we want our Vice President, General Counsel and Corporate Secretary to be concerned with our financial performance, an important part of his job is to oversee corporate legal compliance issues. As such, their targeted level of annual incentive is lower than that of other Named Executives, and a higher emphasis is placed on base salary.

The target total cash compensation for Named Executives in fiscal 2012 was:

Name	Annual Base Salary (\$)	Target Annual Cash Incentive (\$)	Target Annual Cash Incentive as % of Base Salary	Target Total Cash Compensation (\$)
Joseph T. Dunsmore	436,000	436,000	100%	872,000
Steven E. Snyder	281,000	153,000	54%	434,000
Lawrence A. Kraft	243,500	243,500	100%	487,000
David H. Sampsell	238,408	107,283	45%	345,691
Joel K. Young	268,000	179,000	67%	447,000

After a review of our compensation targets against our peer group and broader survey group practices, cash compensation targets for Named Executives for fiscal 2013 were set to be the same as fiscal 2012.

**Base Salaries**

Base salary levels reflect the Committee's compensation philosophy of favoring compensation, as appropriate, that is contingent on the achievement of performance objectives while providing a market competitive level of salary that will allow us to attract and retain talent. This translates to base salary levels for our Named Executives that fall between the 25<sup>th</sup> and 60<sup>th</sup> percentile of our peer group. Base salaries are reviewed annually but are not automatically increased. Adjustments are approved by the Committee based upon changes in competitive market data and the compensation determination factors listed earlier in this CD&A.

Base salaries for Named Executives other than Mr. Young increased in fiscal 2012 from 1% to 3%. Mr. Young's base salary increased by 11% due to a realignment of his total compensation to place a slightly higher emphasis on base salary. Mr. Young's total targeted compensation increased by 3% in fiscal 2012.



For fiscal 2013, the Committee did not increase the base salary of any Named Executives. This action was based on the Company's lower than expected financial performance in fiscal 2012.

#### Annual Cash Incentives

Our annual cash incentive program provides Named Executives the opportunity to receive quarterly and annual cash incentive payments depending on the degree to which we achieve quarterly and annual financial goals. This incentive typically has been divided into one or more specific financial metrics. Each metric has a minimum threshold of performance against goal required for any payment, and a maximum payment opportunity. Each metric is measured independently such that achievement of the minimum goal for any metric will trigger a payment. Annual cash incentives are paid following the release of our audited consolidated financial statements. Quarterly cash incentives are paid upon the release of our quarterly unaudited consolidated financial statements.

Cash incentive plan metrics and potential cash incentive amounts are determined by the Committee near the start of each fiscal year based upon elements of our board-approved operating plan for that year. In some years, the metrics have included other objective measurements of quarterly or annual financial success as approved by the Committee. The Committee approves plan elements and targets that they believe will support continued growth and creation of stockholder value.

The annual cash incentive component pays out based on performance if the Named Executive remains employed with us for the full year. A pro-rated cash incentive is paid based on the number of months of service during the year and our actual financial performance against our operating plan, in the event the employment of a Named Executive is terminated without cause during the year.

The Committee also reserves the right to award discretionary cash bonuses based upon its assessment of a Named Executive's performance and contributions.

#### Fiscal 2012 Incentive Compensation

For fiscal 2012, the Committee set a cash incentive plan for Named Executives on performance against quarterly and annual revenue and earnings before taxes, interest, depreciation and amortization (EBITDA) goals, which were deemed to be aggressive but attainable. Forty percent (40%) of the annual cash incentive was dependent on achievement of quarterly financial goals, 30% dependent on achievement of annual revenue goal and 30% dependent on achievement of annual EBITDA goal. The 40% tied to quarterly financial performance divided equally between quarterly revenue and EBITDA goals, resulting in 5% of target incentive tied to each quarter's revenue and EBITDA goals. There was a minimum achievement of 80% required to earn any payment for a financial component on both the quarterly and annual components. The plan also contained an opportunity to earn up to 120% of the target incentive amount tied to each quarterly component for overachievement of the goal and up to 150% of the target incentive amount tied to each annual component for overachievement of the goals. The revenue and EBITDA components of the annual cash incentive plan are set and measured on EBITDA exclusive of the impact of any acquisition we may complete during the fiscal year.

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The cash incentive plan metrics and achievement percentages for the 2012 plan for Named Executives were:

Quarter Ended	Revenue Goal (in 000 s) (\$)	Actual Revenue (in 000 s) (\$)	Percent of Revenue Target Achieved	Percent of Incentive Target tied to this Component Earned	EBITDA <sup>1</sup> Goal (in 000 s) (\$)	Actual EBITDA <sup>1</sup> (in 000 s) (\$)	Percent of EBITDA Target Achieved	Percent of Incentive Target tied to this Component Earned
12/31/2011	53,500	46,662	87.20%	77.20%	6,193	2,992	48.30%	0%
3/31/2012	55,700	49,016	88.00%	78.00%	7,006	5,462	77.96%	0%
6/30/2012	58,500	47,632	81.40%	71.40%	8,105	3,867	44.70%	0%
9/30/2012	62,300	47,248	76.00%	0.00%	10,796	6,136	57.00%	0%

Fiscal Year Ended	Revenue Goal (in 000 s) (\$)	Actual Revenue (in 000 s) (\$)	Percent of Revenue Target Achieved	Percent of Incentive Target tied to this Component Earned	EBITDA <sup>1</sup> Goal (in 000 s) (\$)	Actual EBITDA <sup>1</sup> (in 000 s) (\$)	Percent of EBITDA Target Achieved	Percent of Incentive Target tied to this Component Earned
9/30/2012	230,000	190,558	82.85%	72.85%	32,100	18,446	57.46%	0%

<sup>1</sup> EBITDA is a non-GAAP financial measure that can be calculated from our audited financial statements by adding interest, depreciation of property, equipment and improvements plus amortization of identifiable intangible assets and other assets, both of which are located on the Consolidated Statements of Cash Flows, to income before income taxes, located on the consolidated Statements of Operations. EBITDA net of the impact of any acquisitions made during the current fiscal year is calculated by subtracting that portion of EBITDA pertaining to income before taxes, depreciation and identifiable intangible assets amortization for any businesses acquired in the current fiscal year from the consolidated EBITDA. We use this metric because it believes it provides a clear view of operations that were ongoing throughout the entire fiscal year as well as a better comparison of performance year over year. Since we completed no acquisitions in fiscal 2012, there is no adjustment to EBITDA for acquisitions.

The actual incentives earned for fiscal 2012 were:

Name	Total Target Annual Cash Incentive (\$)	Total Target Incentive Tied to Quarterly Performance (\$)	Actual Incentive Earned for Quarterly Performance (\$)	Total Target Incentive Tied to Annual Performance (\$)	Actual Incentive Earned for Annual Performance (\$)	Actual Annual Cash Incentive (\$)	Percent of Target Annual Cash Incentive Earned
Joseph T. Dunsmore	436,000	174,400	49,404	261,600	95,290	144,694	33.2%
Steven E. Snyder	153,000	61,200	17,337	91,800	33,439	50,776	33.2%
Lawrence A. Kraft	243,500	97,400	27,592	146,100	53,218	80,810	33.2%
David H. Sampsell	107,283	42,912	12,156	64,370	23,447	35,603	33.2%
Joel K. Young	179,000	71,600	20,282	107,400	39,121	59,403	33.2%

The low cash incentive plan payments earned in fiscal 2012 reflect our lower than expected performance against key financial measurements and are consistent with our pay for performance philosophy. A more detailed analysis of our financial and operational performance is contained in the Management's Discussion & Analysis section of our 2012 Annual Report on Form 10-K filed with the SEC.

Fiscal 2013 Cash Incentives

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For fiscal 2013, the Committee established an annual cash incentive plan for Named Executives based on achievement of quarterly and annual revenue and EBITDA goals. As in fiscal 2012, 40% of the annual cash incentive for fiscal 2013 is dependent on achievement of quarterly financial goals, 30% dependent on achievement of annual revenue goal and 30% dependent on achievement of the annual EBITDA goal. The 40% tied to quarterly financial performance is divided equally between quarterly revenue and EBITDA goals, resulting in 5% of target incentive tied to each quarter's revenue and EBITDA goals. There is a minimum

achievement of 80% required to earn any payment for a financial component on both the quarterly and annual components. The plan also contains an opportunity to earn up to 120% of the target incentive amount tied to each quarterly component for over-achievement of the goal and up to 150% of the target incentive amount tied to each annual component for over-achievement of the goals. The revenue and EBITDA components of the annual cash incentive plan are set and will be measured exclusive of the impact of our acquisition of Etherios, Inc. and any other acquisition we may complete during the fiscal year.

These quarterly and annual financial objectives, approved by the Committee, are considered confidential commercial and financial data, the disclosure of which would result in competitive harm to the Company. The quarterly objectives were determined after taking into account historical seasonal patterns in quarterly performance and projected revenue opportunity. The annual targets are a sum of the quarterly targets. These objectives are deemed to be aggressive, but attainable.

### **Equity Incentive Compensation**

Equity incentive compensation, in the form of stock options, is designed to reward demonstrated performance and leadership, motivate future superior performance that drives overall Company growth, align the interests of the Named Executive with our stockholders, and allow us to attract and retain talent through the long-term reward potential of this program. We currently provide non-statutory stock options as our only equity vehicle. Stock option awards are made to Named Executives annually and on other dates that generally correspond to the Named Executive's start date with us, promotions or, in rare cases, an extraordinary performance award. Stock option grant amounts have historically been based upon competitive equity compensation within our peer group and/or survey group along with the above listed individual factors. Existing ownership levels generally are not a factor in award determinations as we do not want to discourage Named Executives from accumulating Digi stock; however, the Committee may take into consideration a Named Executive's previous option awards and may approve larger awards to newer Named Executives with fewer options by reason of their shorter tenure.

Stock options have an exercise price equal to the closing price of a share of Digi Common Stock on the grant date. As a result, stock options only have value to the extent the price of Digi stock on the date of exercise exceeds the exercise price on the date of the grant. For this reason the Committee believes that stock options are a motivational tool to drive stockholder value.

Generally stock options granted become exercisable as to one-fourth of the shares beginning one year after the grant date and in 36 monthly installments as to the remainder, and have a maximum ten-year term. This vesting schedule aids us in retaining our Named Executives and motivating long-term performance. Under our current practice, options awarded to our Named Executives include a provision for accelerated vesting upon the permanent disability or death of the executive. In addition, options awarded to our Named Executives include a provision for accelerated vesting either upon a change in control or upon termination of employment either without cause by the Company or for good reason by the Named Executive following a change in control. From time to time, at the discretion of the Committee, a stock option grant may contain different terms for vesting or term if the Committee deems, that by doing so, we will better achieve our compensation objectives.

The exercise price of each stock option awarded to the Named Executives and other employees under our equity incentive plans is the closing price of Digi stock on the date of grant. Grants generally are made annually on a date after we announce earnings for our fiscal fourth quarter and full fiscal year. Awards for new hires or for promotions and other performance-related awards are also made during the course of the year on a date after we have announced quarterly earnings. In all instances, the grant date for awards is on a date when the Company's trading window is open.

### **Fiscal 2012 Equity Awards**

In fiscal 2012, the following equity awards were made to our Named Executives. To determine the size of these awards, the Committee reviewed equity and long term incentive practices of equivalent positions within our

peer group positions. In the case of Mr. Sampsell, the Committee also considered that he served in his position for only a portion of fiscal 2011 as his employment with the Company commenced on April 25, 2011. The value of the awards was deemed to fall between the 50<sup>th</sup> and 75<sup>th</sup> percentile of peer group reported equity and long-term incentive actual awards for the most recent fiscal year. The selection of the value of each award between the 50<sup>th</sup> and 75<sup>th</sup> percentile was based on compensation determination factors listed above, most notably, individual performance, long-term potential and retention goals.

Name	Option Award
Joseph T. Dunsmore	165,000
Steven E. Snyder	60,000
Lawrence A. Kraft	60,000
David H. Sampsell	15,000
Joel K. Young	60,000

#### Fiscal 2013 Equity Awards

For fiscal 2013, the Committee reviewed equity and long term incentive practices of equivalent positions within our peer group positions, and for certain positions, the practices within the broader survey group. The Committee approved option awards that were deemed as falling between the 25<sup>th</sup> and 50<sup>th</sup> percentile of reported equity and long-term incentive awards for the most recent fiscal year of companies in our peer group and our broad technology industry category. The selection of award size between the 25<sup>th</sup> and 50<sup>th</sup> percentile was based on the Company's fiscal 2012 performance and the individual factors listed above, most notably, individual performance, long-term potential and retention goals. This resulted in the following option awards on November 20, 2012:

Name	Option Award
Joseph T. Dunsmore	165,000
Steven E. Snyder	55,000
Lawrence A. Kraft	50,000
David H. Sampsell	25,000
Joel K. Young	55,000

#### **Other Compensation**

We provide our Named Executives with perquisites and benefits that we believe are reasonable and aligned with our overall Executive compensation program objectives. Named Executives receive the same benefits that are available to all regular full-time employees with the sole addition of a \$500,000 supplemental life insurance policy. The Company purchases season tickets for certain sporting events for marketing purposes. Named Executives, along with other regular full-time employees, may be entitled to the use of these tickets when they remain unused for business related purposes.

As described below in the section entitled "Employment Contracts; Severance; Termination of Employment and Change-in-Control Arrangements", we have entered into severance arrangements with Named Executives to align their interests with stockholders and attract and retain executives by providing contractual arrangements that address the consequences of significant organizational changes.

#### ***Assessing Risk in our Executive Compensation Program***

The Committee reviews an annual compensation plan risk assessment provided by management. This assessment includes a review of each cash and equity incentive compensation plan within the Company, a discussion on potential risks, and a review of any process controls for effective plan administration. The Committee believes it has implemented an executive compensation program that provides our Named Executives with incentives to drive business and financial results, but not in a manner that encourages excessive or unnecessary risk taking behaviors. This is demonstrated by the following design features:

Having base salaries that are competitive;

Utilizing a rigorous process to establish annual and quarterly financial performance metrics for our cash incentive plan that are challenging but achievable;

For our annual and quarterly cash incentives, utilizing more than one financial metric with an opportunity for payment under each component without regard to the performance of the other. In addition, each component has a minimum and maximum payment that can be earned. This assures Named Executives are not focused on limited aspects of business performance; and

Providing Named Executives with an opportunity for an annual stock option award that vests over a period of four years. This equity accumulation opportunity incents Named Executives to take actions that promote longer term sustainability of our business.

***Employment Agreements and Change-in-Control Provisions***

As discussed in greater detail under Employment Contracts; Severance; Termination of Employment and Change-in-Control Arrangements on page 27, the Company and our Chief Executive Officer, Mr. Dunsmore, are parties to an employment agreement. That agreement provides that, if we terminate Mr. Dunsmore's employment without cause: (1) he will receive a lump sum equal to one year's base salary and commencing, 12 months after termination, he will receive monthly base salary payments for an additional year (for a total of two years); and (2) in addition to the base salary continuation for two years, Mr. Dunsmore will receive a bonus based on the number of months that he was employed by us during the year in which his employment was terminated and our actual performance against the annual objectives set by the Committee.

We also have severance agreements with our other Named Executives. See Employment Contracts; Severance; Termination of Employment and Change-in-Control Arrangements on pages 27-28. Messrs. Snyder, Young and Kraft each have a letter agreement that provides that if his employment is terminated by us without cause at any time, he will be entitled to receive severance equal to one year's base salary and a bonus that will be based on the number of months of service during the fiscal year in which his employment was terminated and our actual financial performance against plan as determined through his annual cash incentive compensation plan. Mr. Sampsell has a letter agreement that provides that if his employment is terminated by us without cause at any time, he will be entitled to receive severance equal to six months' base salary and a bonus that will be based on the number of months of service during the fiscal year in which his employment was terminated and our actual financial performance against plan as determined through his annual cash incentive compensation plan.

We also have awarded stock options containing a provision for accelerated vesting upon a change in control of our Company for all options granted to Mr. Dunsmore. For Messrs. Young and Kraft, this provision is included in agreements for awards made on or after November 26, 2007. Mr. Snyder has received this provision for all awards made on or after his date of employment with the Company. Mr. Sampsell has received this provision for an award made on April 27, 2011 in connection with the commencement of his employment and the award made on November 20, 2012.

***Accounting and Tax Impacts of Executive Compensation***

Section 162(m) of the Internal Revenue Code generally precludes a public corporation from taking a federal income tax deduction for compensation paid in excess of one million dollars per year to certain covered officers. Under this section, compensation that qualifies as performance-based is excludable in determining what compensation amount shall qualify for tax deductibility.

Our Committee considers our ability to fully deduct compensation in accordance with the one million dollar limitations of Section 162(m) in structuring our compensation programs. However, the Committee retains the authority to authorize the payment of compensation that may not be deductible if it believes such payments would be in the best interests of the Company and our stockholders.



We believe none of our Named Executives have been compensated in a manner that would be non-deductible under Section 162(m), although for fiscal 2013 the Committee established performance-based goals for our Chief Executive Officer which, if fully achieved, would result in annual base salary and other cash compensation exceeding the one million dollar deductible maximum.

### Report of the Compensation Committee

The Compensation Committee has reviewed the above Compensation Discussion and Analysis and discussed that analysis with management. Based on its review and discussions with management, the Compensation Committee recommended to our Board of Directors that the Compensation Discussion and Analysis be included in Digi's Annual Report on Form 10-K for the year ended September 30, 2012 and this Proxy Statement. This report is provided by the following independent directors, who comprise the Compensation Committee:

Kenneth E. Millard (Chairman)

Guy C. Jackson

Ahmed Nawaz

### Summary Compensation Table

The following Summary Compensation Table contains information for the last three fiscal years concerning all compensation provided to the individuals who served at any time during our fiscal 2012 as Chief Executive Officer or Chief Financial Officer as well as our other three most highly compensated executive officers (whom we have referred to in the CD&A and here as the Named Executives).

#### Summary Compensation Table

Name and Principal Position	Year	Salary (\$) <sup>1</sup>	Option Awards (\$) <sup>2</sup>	Non-Equity Incentive Plan Compensation (\$) <sup>3</sup>	All Other Compensation (\$) <sup>4</sup>	Total (\$)
<b>Joseph T. Dunsmore</b> Chairman of the Board, President and Chief Executive Officer	2012	436,000	732,782	144,694	10,567	1,324,043
	2011	422,250	751,602	415,072	10,291	1,599,215
	2010	406,000	607,966	121,496	9,799	1,145,261
<b>Steven E. Snyder</b> Senior Vice President, Chief Financial Officer and Treasurer <sup>5</sup>	2012	281,000	266,466	50,776	10,850	609,092
	2011	231,635	572,730	123,488	11,311	939,164
<b>Lawrence A. Kraft</b> Senior Vice President of Sales and Marketing	2012	243,500	266,466	80,810	8,844	599,620
	2011	237,750	276,906	233,709	10,643	759,008
	2010	226,500	213,610	67,782	11,346	519,238
<b>David H. Sampsell</b> Vice President, General Counsel and Corporate Secretary	2012	238,408	66,617	35,603	4,672	345,300
<b>Joel K. Young</b> Senior Vice President of Research and Development, and Chief Technical Officer	2012	268,000	266,466	59,403	9,355	603,224
	2011	241,000	276,906	189,720	10,781	718,407
	2010	234,000	213,610	56,111	11,189	514,910

<sup>1</sup> The Salary column presents the pre-tax base salary earned during the fiscal year.

<sup>2</sup> The Option Awards column presents the aggregate grant date fair value of stock option awards granted in the respective year as computed in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718, Compensation Stock Compensation. The fair value of each stock option award is estimated on the date of grant using a Black-Scholes option valuation model. We calculated these amounts based on the grant date fair value of the awards using the valuation assumptions set forth in Note 11 to our fiscal 2012 audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2012.

<sup>3</sup> The Non-Equity Incentive Plan Compensation column presents cash incentives earned during fiscal 2010, 2011 and 2012 under our annual cash incentive plan.

<sup>4</sup> Amounts shown in the All Other Compensation column include the following\*:

Name	Year	Digi Contribution to 401(k) Plan (\$)	Value of Supplemental Life Insurance Premiums (\$)	Total (\$)
Joseph T. Dunsmore	2012	10,082	485	10,567
	2011	9,806	485	10,291
	2010	9,314	485	9,799
Steven E. Snyder	2012	9,362	1,488	10,850
	2011	9,823	1,488	11,311
Lawrence A. Kraft	2012	8,604	240	8,844
	2011	10,403	240	10,643
	2010	11,106	240	11,346
David H. Sampsell	2012	4,004	668	4,672
Joel K. Young	2012	9,065	290	9,355
	2011	10,491	290	10,781
	2010	10,899	290	11,189

\* In addition to the amounts set forth above, our Named Executives received perquisites for which there was no incremental cost to our Company. These perquisites include use of season tickets at certain venues that Digi subscribes for or leases for business-related entertainment. Tickets for individual events that remain unused by Digi for business-related entertainment periodically are made available to Named Executives and other employees for personal use. However, as such subscriptions and leases are made for entire seasons or annual periods rather than individually by event, there is no incremental cost to Digi associated with periodically providing such tickets for personal use.

<sup>5</sup> Effective November 15, 2010, Steven E. Snyder was elected to the position of Senior Vice President, Chief Financial Officer and Treasurer. In connection with the commencement of his employment on November 30, 2010, he received a new hire option grant of 150,000 shares.

**Grants of Plan-Based Awards**

For services during fiscal 2012, the Named Executives received two types of plan-based awards: (i) cash awards under the annual incentive plan, and (ii) non-qualified stock option awards granted on November 22, 2011. Each stock option vests as to 25% of the shares subject to the option one year after the date of grant and in 36 monthly installments thereafter as to the rest of the shares, has a ten year term, and has an exercise price equal to the closing price of a share of our Common Stock on the date of grant. The annual incentive plan is described on pages 13 – 23 in the Compensation Discussion and Analysis.

**Grants of Plan-Based Awards in Fiscal 2012**

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards <sup>1</sup>			All Other Option Awards:	Exercise or Base Price of Option Awards (\$/Sh) <sup>2</sup>	Grant Date Fair Value of Option Awards (\$) <sup>3</sup>
		Threshold(\$)	Target(\$)	Maximum(\$)	Number of Securities Underlying Options (#)		
Joseph T. Dunsmore	11/22/11	305,200	436,000	872,000	165,000	10.63	732,782
Steven E. Snyder	11/22/11	107,100	153,000	306,000	60,000	10.63	266,466
Lawrence A. Kraft	11/22/11	107,450	243,500	487,000	60,000	10.63	266,466
David H. Sampsell	11/22/11	75,098	107,283	214,566	15,000	10.63	66,617
Joel K. Young	11/22/11	125,300	179,000	358,000	60,000	10.63	266,466

<sup>1</sup> These columns present possible payments under the annual incentive plan for fiscal 2012. See the Summary Compensation Table for fiscal 2012 (under the column Non-Equity Incentive Plan Compensation ) for the actual amount paid to each Named Executive under the annual incentive plan for fiscal 2012. Threshold refers to the minimum amount payable if all of the annual incentive plan components performed at the minimum threshold level required to earn any incentive. Target refers to the amount payable under all components if specified targets are reached. Maximum refers to the maximum payout possible under the plan.

<sup>2</sup> The exercise price for the options granted was the closing price of our Common Stock on the Nasdaq Global Select Market on November 22, 2011.

<sup>3</sup> This column shows the grant date fair value under authoritative guidance issued by FASB ASC Topic 718, Compensation – Stock Compensation of the stock options granted to the Named Executives in fiscal 2012.

**Outstanding Equity Awards at Fiscal 2012 Year-End**

The table below provides information on each Named Executive's outstanding equity awards as of September 30, 2012. The equity awards consist solely of stock options.

**Outstanding Equity Awards at Fiscal 2012 Year-End**

Name	Grant Date	Option Awards		Option Exercise Price (\$)	Option Expiration Date
		Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable <sup>1</sup>		
Joseph T. Dunsmore	11/22/11		165,000	10.63	11/22/21
	11/23/10	87,083	102,917	9.68	11/23/20
	11/24/09	131,042	53,958	8.03	11/24/19
	11/25/08	143,750	6,250	8.49	11/25/18
	11/27/07	90,000		15.23	11/27/17
	9/27/05	80,000		10.44	9/27/15
	9/07/04	80,000		10.78	9/07/14
	11/05/03	60,000		9.65	11/05/13
<b>Total</b>		671,875	328,125		
Steven E. Snyder	11/22/11		60,000	10.63	11/22/21
	11/30/10	68,750	81,250	9.60	11/30/20
<b>Total</b>		68,750	141,250		
Lawrence A. Kraft	11/22/11		60,000	10.63	11/22/21
	11/23/10	32,083	37,917	9.68	11/23/20
	11/24/09	46,042	18,958	8.03	11/24/19
	11/25/08	47,917	2,083	8.49	11/25/18
	11/27/07	35,000		15.23	11/27/17
	11/27/06	35,000		13.41	11/27/16
	11/28/05	35,000		12.73	11/28/15

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	11/22/04	30,000		14.74	11/22/14
	11/05/03	14,000		9.65	11/05/13
<b>Total</b>		275,042	118,958		
David H. Sampsell	11/22/11		15,000	10.63	11/22/21
	4/27/11	17,708	32,292	12.07	4/27/21
<b>Total</b>		17,708	47,292		
Joel K. Young	11/22/11		60,000	10.63	11/22/21
	11/23/10	32,083	37,917	9.68	11/23/20
	11/24/09	46,042	18,958	8.03	11/24/19
	11/25/08	47,917	2,083	8.49	11/25/18
	11/27/07	35,000		15.23	11/27/17
	11/27/06	35,000		13.41	11/27/16
	11/28/05	25,000		12.73	11/28/15
	11/22/04	25,000		14.74	11/22/14
	11/05/03	20,000		9.65	11/5/13
<b>Total</b>		266,042	118,958		

<sup>1</sup> All options vest as to 25% of the shares one year after the date of grant and in 36 equal monthly installments thereafter as to the rest of the shares.

**Options Exercised and Stock Vested During Fiscal 2012**

The table below provides information regarding stock option exercises by the Named Officers during the fiscal year ended September 30, 2012. None of the Named Executive Officers had any other form of stock award that vested during the most recent fiscal year.

**Option Exercises and Stock Vested During Fiscal 2012**

Name	Option Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$) <sup>1</sup>
Joseph T. Dunsmore		
Steven E. Snyder		
Lawrence A. Kraft		
David H. Sampsell		
Joel K. Young	18,000	110,340

<sup>1</sup> Represents the difference between the market value of the shares acquired upon exercise and the aggregate exercise price of the shares acquired.

**Employment Contracts; Severance; Termination of Employment and Change-in-Control Arrangements**

*Joseph T. Dunsmore.* We and Mr. Dunsmore are parties to an employment agreement dated September 27, 2006, which set the minimum level of Mr. Dunsmore's base salary at \$375,000 and provides that if we terminate Mr. Dunsmore's employment without cause he will receive: (1) his base salary for two years; and (2) a bonus based on the number of months that he was employed by us during the year in which his employment was terminated and our actual performance against the objectives set by the Committee.

The employment agreement also provides that the Committee will review Mr. Dunsmore's base salary annually and may, in its sole discretion, increase it to reflect performance and other factors. Under the employment agreement, Mr. Dunsmore is entitled to a cash bonus equal to 100% of his base salary, provided that the objectives set by the Committee are met. If some or all of the objectives are not met for a fiscal year, then the Committee shall determine the actual bonus earned based on actual performance against plan as determined through his annual cash incentive plan. If the objectives set by the Committee for a cash performance bonus are exceeded for a fiscal year, the Committee may, in its discretion, award Mr. Dunsmore a bonus in addition to any other bonus to which he is otherwise entitled.

The employment agreement also provides that Mr. Dunsmore is entitled to the benefits and perquisites which we generally provide to our other employees under our applicable plans and policies. The stock options awarded to him vest upon a change-in-control of our Company or termination of employment due to death or disability.

*Steven E. Snyder.* We and Mr. Snyder are parties to a letter agreement dated November 5, 2010. Under this agreement, if Mr. Snyder's employment is terminated by us without cause at any time, he will be entitled to receive severance equal to twelve months' base salary and a bonus that will be based on the number of months of service during the fiscal year in which his employment was terminated and our actual financial performance against plan as determined through his annual cash incentive compensation plan. The stock options awarded to Mr. Snyder vest upon his termination of employment due to death or disability. Stock options awarded to Mr. Snyder in fiscal 2011 vest upon a change-in-control of our Company and those awarded to him in fiscal 2012 vest in the event the Company terminates his employment without cause or he terminates his employment for good reason within twelve months of a change-in-control of the Company.

*Lawrence A. Kraft.* We and Mr. Kraft are parties to a letter agreement dated July 30, 2007. Under this agreement, if Mr. Kraft's employment is terminated by us without cause at any time, he will be entitled to receive severance equal to twelve months' base salary and a bonus that will be based on the number of months of service during the fiscal year in which his employment was terminated and our actual financial performance against plan as determined through his annual cash incentive compensation plan. The vesting of stock options awarded to Mr. Kraft accelerates upon his termination of employment due to death or disability. Stock options awarded to Mr. Kraft from November 2007 through November 2010 also vest upon a change-in-control of our Company. Stock options awarded to him in fiscal 2012 vest in the event the Company terminates his employment without cause or he terminates his employment for good reason within twelve months of a change-in-control of the Company.

*David H. Sampsell.* We and Mr. Sampsell are parties to a letter agreement dated April 8, 2011. The letter agreement provides that if Mr. Sampsell's employment is terminated by us without cause at any time, he will be entitled to receive severance equal to six months' base salary and a bonus that will be based on the number of months of service during the fiscal year in which his employment was terminated and actual financial performance against plan as determined through his annual cash incentive compensation plan. The vesting of stock options awarded to Mr. Sampsell on April 27, 2011 will accelerate upon a change in control and the options awarded to him on November 20, 2012 will accelerate if the Company terminates his employment without cause or he terminates his employment for good reason within twelve months of a change-in-control of our Company.

*Joel K. Young.* We and Mr. Young are parties to a letter agreement dated July 30, 2007. The letter agreement provides that if Mr. Young's employment is terminated by us without cause at any time, he will be entitled to receive severance equal to twelve months' base salary and a bonus that will be based on the number of months of service during the fiscal year in which his employment was terminated and actual financial performance against plan as determined through his annual cash incentive compensation plan. The vesting of stock options awarded to Mr. Young accelerates upon his termination of employment due to death or disability. Stock options awarded to Mr. Young from November 2007 to November 2010 also vest upon a change-in-control of our Company. Stock options awarded to him in fiscal 2012 vest in the event the Company terminates his employment without cause or he terminates his employment for good reason within twelve months of a change-in-control of the Company.



**Potential Payments Upon Termination or Change in Control**

The table that follows provides the estimated payments and benefits that would be provided to our Named Executives or their beneficiaries under the employment agreements and equity compensation plans described above under various scenarios involving a termination of employment and/or a change in control, and assuming that the event(s) occurred on September 30, 2012. For these purposes, cause generally refers to acts by an executive that result in a felony conviction, willful non-performance of material employment duties, or willfully engaging in fraud or gross misconduct that is materially detrimental to our financial interests.

<b>Compensation Element</b>	<b>Involuntary Termination Without Cause (\$)</b>	<b>Death, Disability or Change in Control (Single Trigger) <sup>1</sup> (\$)</b>
<b>Severance <sup>2</sup></b>		
Joseph T. Dunsmore	872,000	
Steven E. Snyder	281,000	
Lawrence A. Kraft	243,500	
David H. Sampsell	119,204	
Joel K. Young	268,000	
<b>Pro Rata Bonus <sup>3</sup></b>		
Joseph T. Dunsmore	144,694	
Steven E. Snyder	50,776	
Lawrence A. Kraft	80,810	
David H. Sampsell	35,603	
Joel K. Young	59,403	
<b>Accelerated Stock Options <sup>4</sup></b>		
Joseph T. Dunsmore		174,768
Steven E. Snyder		45,500
Lawrence A. Kraft		62,059
David H. Sampsell		
Joel K. Young		62,059
<b>Total</b>	<b>1,016,694</b>	<b>174,768</b>
Joseph T. Dunsmore	331,776	45,500
Steven E. Snyder	324,310	62,059
Lawrence A. Kraft	154,807	
David H. Sampsell	327,403	62,059

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Joel K. Young

- <sup>1</sup> Situation in which there is a change in control but the individual continues in his job.
- <sup>2</sup> Severance arrangements generally provide Mr. Dunsmore with two years of base salary, Messrs. Kraft, Young and Snyder with one year of base salary, and Mr. Sampsell with six months of base salary.
- <sup>3</sup> Pro rata bonus is based on the number of months that the individual was employed during the year in which his employment was terminated and our actual performance against the annual objectives set by the Committee. For purposes of this presentation, since the assumed date of termination was September 30, 2012, the bonus amount shown is the actual cash incentive earned for all of fiscal 2012.
- <sup>4</sup> Amounts represent the intrinsic value of stock option awards as of September 30, 2012 for which the vesting was accelerated. The value entered is based on the difference between \$10.16, the closing price of our Common Stock on September 28, 2012 (the last trading day of the fiscal year), and the option exercise price.

## COMPENSATION OF DIRECTORS

The current director compensation program is designed to provide non-employee directors with a combination of cash and options that have resulted in an annual aggregate value ranging from approximately \$110,000 – \$125,000 per director depending on committee service in fiscal 2012.

The Compensation Committee conducts periodic competitive reviews of the compensation plan of non-employee directors. For fiscal 2012, a competitive analysis of director compensation as compared to our peer group was provided by our Vice President of Human Resources. This analysis provided details on total compensation levels and committee service fees for directors in our peer group as well as the allocation of compensation between cash and equity. As a result of this analysis, the Compensation Committee implemented a \$2,500 cash fee increase in the chair fee for the Audit Committee and a \$1,000 cash fee increase for members of the Audit Committee. The Compensation Committee felt that these increases aligned us with market practices in this area, while maintaining an overall compensation target between the 50<sup>th</sup> and 70<sup>th</sup> percentile of its relative peer group (described above) compensation levels. For fiscal 2013, the Compensation Committee did not implement any changes in the total compensation targets or fee amounts and expects that we will fall between the 25<sup>th</sup> and 50<sup>th</sup> percentile of the fiscal 2013 peer group (as described earlier). For fiscal 2013 the Committee has decided to implement a change in equity award structure by granting restricted stock units instead of our historic practice of granting stock options. The change was made in response to the more predominant market practice and the practices of our peer group in the use of restricted stock units as a primary equity award vehicle for directors.

In January 2012, the Compensation Committee awarded annual option awards to non-employee directors per the compensation plan for non-employee directors. Options awarded become fully vested after one year. Other than in the case of an outside director who is elected at other than an annual meeting, options are awarded to directors at a regularly scheduled meeting of the Compensation Committee in January following the annual meeting of stockholders and the public announcement of first fiscal quarter financial results. The Compensation Committee presently expects to continue to make a one-time stock option award, restricted stock unit award, or a combination of stock options and restricted stock units to any newly elected director, as well as to continue to compensate newly elected directors ratably for service during any stub term.

The following table describes the compensation arrangements with our non-employee directors during fiscal 2012:

Compensation Element	Amount Payable (\$)
Annual Cash Retainers <sup>1</sup>	
Board Member	30,000
Audit Committee Chair	17,500
Compensation Committee Chair	10,000
Nominating & Governance Committee Chair	6,500
Lead Director	10,000
Audit Committee Member	9,000
Compensation Committee Member	5,000
Nominating & Governance Committee Member	3,000
Annual Equity Award <sup>2</sup>	70,000 <sup>2</sup>
New Director Equity Award <sup>3</sup>	100,000 <sup>3</sup>

<sup>1</sup> Retainers are paid in quarterly installments each representing 25% of total annual retainer amount.

- <sup>2</sup> An annual equity award is provided to each non-employee director on or near the date of the annual meeting of stockholders and each such award becomes fully vested after one year. This traditionally has been delivered in the form of stock options, however, this is expected to be delivered in the form of restricted stock units in the future. A director who is first elected to the Board between annual meetings of stockholders receives an equity award covering a prorated number of shares. The amount of the annual equity award indicated in the table represents the target valuation of the equity award. For fiscal 2012 the actual number of stock option shares awarded was determined by dividing the targeted option award value of \$70,000 by a Black-Scholes valuation per share (utilizing the Company's current model for determination of the value per share as approved by the Compensation Committee). The exercise price of options awarded was the closing price per share on the date of grant. The number of any restricted stock units awarded in the future is expected to be determined by dividing the target valuation of the award by the closing price of the Company's common stock on the date the award is granted.
- <sup>3</sup> A one-time equity award received by each director elected for the first time to the Board. The amount indicated in the table represents the valuation target of the equity award. If options are provided, the actual number of shares will be determined by dividing the targeted option award value of \$100,000 by a Black-Scholes valuation per share (utilizing the Company's current model for determination of the value per share as approved by the Compensation Committee). The exercise price of any options awarded will be the closing price per share on the date of grant. The number of any restricted stock units awarded in the future is expected to be determined by dividing the target valuation of the award by the closing price of the Company's common stock on the date the award is granted.

The following table summarizes compensation provided to each non-employee director for services provided during fiscal 2012:

#### Director Compensation for Fiscal 2012

Name	Fees		Total (\$)
	Earned or Paid in Cash (\$)	Option Awards (\$) <sup>1</sup>	
Guy C. Jackson	52,500	72,216	124,716
Kenneth E. Millard	43,000	72,216	115,216
Ahmed Nawaz	45,000	72,216	117,216
William N. Priesmeyer	45,500	72,216	117,716
Bradley J. Williams	42,000	72,216	114,316

- <sup>1</sup> The Option Awards column presents the aggregate grant date fair value of stock option awards granted to each non-employee director during fiscal 2012 as computed in accordance with FASB ASC Topic 718, Compensation - Stock Compensation. The fair value of each stock option award is estimated on the date of grant using a Black-Scholes option valuation model using the valuation assumptions set forth in Note 11 to our fiscal 2012 audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2012. The amounts reported have been adjusted to eliminate service-based forfeiture assumptions used for financial reporting purposes. Information regarding the stock option awards made to the non-employee directors during fiscal 2012, and their aggregate option awards outstanding at September 30, 2012, is contained in the following table:

Name	Grant Date	Number of Shares Underlying Option Award (#)	Option Exercise Price (\$)	Grant Date Fair Value of Option Award (\$) <sup>1</sup>	Total Number of Shares Underlying Options at 9/30/12 (#) <sup>2</sup>
Guy C. Jackson	1/24/12	15,250	11.30	72,616	168,181
Kenneth E. Millard	1/24/12	15,250	11.30	72,616	109,681
Ahmed Nawaz	1/24/12	15,250	11.30	72,616	112,515
William N. Priesmeyer	1/24/12	15,250	11.30	72,616	124,431
Bradley J. Williams	1/24/12	15,250	11.30	72,616	132,164

- <sup>1</sup> This column shows the full grant date fair value under authoritative guidance issued by FASB ASC Topic 718, Compensation - Stock Compensation related to stock-based compensation of the stock options granted to the non-employee directors in fiscal 2012.
- <sup>2</sup> All options granted to non-employee directors have an exercise price equal to the closing price of our Common Stock on the date of grant. Options granted become fully vested on the date of the annual meeting of stockholders the year following the date of grant.

**RELATED PERSON TRANSACTION APPROVAL POLICY**

Our Board of Directors has adopted a written policy (the Related Person Transaction Approval Policy ) regarding transactions with any Related Person, which is defined to include any of our directors or nominees for directors, executive officers and greater than five percent stockholders and any of their respective immediate family members. In accordance with the policy, the Audit Committee is responsible for the review and approval or ratification of all transactions with Related Persons that are required to be disclosed under the rules of the Securities and Exchange Commission.

The Related Person Transaction Approval Policy covers Related Person Transactions (as defined below) between us and any Related Person. Related Person Transactions include any transactions, arrangements or relationships involving the payment of money or other value involving us and in which a Related Person has a direct or indirect interest. A Related Person Transaction does not include:

payments of compensation to Related Persons for the Related Person's service to us as a director, officer or employee;

transactions available to all employees or all stockholders on the same terms; or

transactions, which when aggregated with the amount of all other transactions between us and the Related Person or any entity in which the Related Person has an interest, involve less than \$120,000 in a fiscal year.

The Audit Committee must approve a Related Person Transaction prior to commencement of the transaction, except where the transaction is identified after it has commenced or first becomes a Related Person Transaction, in which case the Related Person Transaction will be brought before the Audit Committee for ratification. Our executives are responsible for disclosing all material information pertaining to any Related Person Transaction to the Audit Committee prior to entering into the transaction. The Audit Committee Chairperson has been granted the authority to approve transactions that arise between Audit Committee meetings provided that any actions taken by the Chairperson pursuant to such authority must be reported to the Audit Committee at its next regularly scheduled meeting.

While the Audit Committee is permitted to use any factors it deems appropriate in determining whether to approve a Related Person Transaction, the Related Person Transaction Approval Policy requires the Audit Committee, at a minimum, to consider:

the fairness of the terms to us;

materiality of the transaction to us;

the role of the Related Person in arranging the Related Person Transaction;

the structure of the Related Person Transaction; and

the interests of all Related Persons in the Related Person Transaction.

The Audit Committee will only approve a Related Person Transaction if the Committee determines it is beneficial and fair to us.

For fiscal 2012, the Audit Committee did not evaluate any Related Party Transactions.



**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the 1934 Act requires that our directors and executive officers file initial reports of ownership and reports of changes in ownership with the SEC. Directors and executive officers are required to furnish us with copies of all Section 16(a) forms they file. Based solely on a review of the copies of such forms furnished to us and written representations from our directors and executive officers, all Section 16(a) filing requirements were met for the fiscal year ended September 30, 2012, except that late filings were made for option awards granted on November 22, 2011 to each of Messrs. Dunsmore, Kraft, Snyder and Young.

**Equity Compensation Plan Information**

The following table gives information as of September 30, 2012 about the Company's equity compensation plans, under which shares of its Common Stock may be issued.

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	(b) Weighted- Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity Compensation Plan Approved by Security Holders	5,195,594	\$ 10.67	1,040,127 <sup>1</sup>
Equity Compensation Plans Not Approved by Security Holders <sup>2</sup>	557,699	\$ 11.53	-0-
<b>Total</b>	<b>5,753,293</b>	<b>\$ 10.76</b>	<b>1,040,127</b>

<sup>1</sup> Includes the following securities available for future issuance under stockholder approved compensation plans other than upon the exercise of options, warrants or rights: 840,447 shares under the Company's 2000 Omnibus Stock Plan and 199,680 shares under the Company's Employee Stock Purchase Plan. No further awards will be made under the 2000 Omnibus Stock Plan if the 2013 Omnibus Incentive Plan is approved as set forth in Proposal 2.

<sup>2</sup> Relates to the Digi International Inc. Non-Officer Stock Option Plan only.

**Equity Compensation Plan Not Approved by Stockholders Digi International Inc. Non-Officer Stock Option Plan**

In April 1998, the Board adopted the Digi International Inc. Non-Officer Stock Option Plan (the Non-Officer Plan). The Non-Officer Plan has not been approved by the stockholders of the Company.

**Plan Administration**

The Non-Officer Plan is administered by the Compensation Committee.

**Shares Subject to the Non-Officer Plan**

As of September 30, 2012, 557,699 shares of the Company's common stock were subject to outstanding awards granted under the Non-Officer Plan. No shares are available for future award grants, and no additional awards may be made under this Plan. Pursuant to the Non-Officer Plan, the Compensation Committee must adjust the number of shares and the purchase price per share to give effect to adjustments made in the number of outstanding shares of Common Stock of the Company pursuant to mergers, consolidations, splits, combinations, or other changes in capitalization as described in the Non-Officer Plan.





***Eligibility***

All employees of the Company and its subsidiaries who are not also officers or directors of the Company, and consultants to the Company or its subsidiaries, were eligible to receive awards under the Non-Officer Plan.

***Incentive and Non-Statutory Stock Options***

The Non-Officer Plan authorizes the grant of non-statutory stock options. Because the Non-Officer Plan has not been approved by the Company's stockholders, under the Internal Revenue Code of 1986, as amended, incentive stock options were not granted under the Non-Officer Plan. The exercise price of an option was determined by the Compensation Committee. The exercise price could not be less than 50% of the fair market value, as defined in the Non-Officer Plan, of the Company's Common Stock on the date the option is granted. Stock options could be granted and exercised at such times as the Compensation Committee may determine, provided that the term could not exceed ten years from the date of grant. The purchase price for Common Stock upon the exercise of stock options may be payable in cash, bank draft or money order, by delivery of shares of Company Common Stock having a fair market value on the date the option is exercised equal to all or any part of the option price of the Common Stock being purchased or any combination of the above.

***Transferability and Termination of Options***

The Non-Officer Plan allows the recipient to transfer options to members of his or her immediate family under certain circumstances. Other than such transfers to family members, no option shall be assignable or transferable by the recipient other than by will or the laws of descent and distribution. If a recipient's employment or other relationship with the Company or its affiliates is terminated for any reason other than death or disability, then any unexercised portion of such recipient's award will generally be forfeited, except as provided in the Non-Officer Plan or such recipient's agreement or by the Compensation Committee. Upon death or disability, any unexercised portion of such recipient's award will automatically vest. Upon a change in control as described in the Non-Officer Plan, the Compensation Committee shall declare all outstanding options cancelled at the time of the change in control in exchange for cash in the amount described in the Non-Officer Plan unless appropriate provisions have been made for the protection of the outstanding options by the substitution of such options for options to purchase appropriate stock of the surviving entity in the change in control.

***Adjustments, Modifications, Termination***

The Non-Officer Plan gives the Board the right to amend, suspend or discontinue the Non-Officer Plan. Amendments to the Non-Officer Plan are subject to stockholder approval, however, if needed to comply with applicable laws or regulations. The Compensation Committee may generally also alter or amend any agreement covering an award granted under the Non-Officer Plan to the extent permitted by law.

**PROPOSAL NO. 2**

**TO APPROVE THE DIGI INTERNATIONAL INC.**

**2013 OMNIBUS INCENTIVE PLAN**

**Introduction**

On November 20, 2012, our Board of Directors, upon recommendation of the Compensation Committee (as used in this section of the Proxy Statement, the Committee), approved the Digi International Inc. 2013 Omnibus Incentive Plan (as used in this section of the Proxy Statement, the 2013 Plan), subject to stockholder approval. The purpose of the 2013 Plan is to provide long-term incentives to persons with responsibility for success and growth at our Company. The 2013 Plan authorizes the issuance of up to 1,750,000 shares of our Common Stock pursuant to awards granted under the 2013 Plan. As provided in the 2013 Plan, we will cease making awards under the 2000 Omnibus Stock Plan, as Amended and Restated as of December 4, 2009 (as used in this section of the Proxy Statement, the Prior Plan) upon stockholder approval of the 2013 Plan.

**Why We Believe You Should Vote for the 2013 Plan**

Our Board of Directors believes that equity-based incentives are an important part of total compensation for our executives as well as for employees and our non-employee directors. We believe that stockholders should approve this new plan for the following reasons:

*Compensation Philosophy.* As described in our CD&A, our compensation includes rewarding our executives for positive developments in the results of our Company and the price of our Common Stock over time. We believe that equity compensation is one of the most effective tools to achieve these goals. In the past, we have historically used stock options to achieve this goal because the employee only receives value if the price of our Common Stock increases. Consistent with our goals for the future, we believe that equity-based incentives will continue to play an important role in our ability to incentivize our executives and other employees.

*Plan Provisions Designed to Serve Stockholders' Interests and Promote Effective Corporate Governance.* The 2013 Plan, which is summarized in more detail below, includes several provisions that are designed to serve the interests of our stockholders and promote effective corporate governance, including:

The 2013 Plan is administered by our independent Compensation Committee.

The 2013 Plan recognizes the value delivered with full value awards (awards other than stock options and stock appreciation rights (SARs)) and counts each full value award as 2 shares against the shares available for issuance under the 2013 Plan (the Prior Plan counts full value shares as 1.3 shares against the shares available).

The 2013 Plan does not permit liberal share counting. Shares delivered or withheld to pay the exercise price or satisfy a tax withholding obligation in connection with any award and shares subject to a SAR that are not issued in connection with the stock settlement of SARs may not be used again for new grants. We also may not use shares repurchased using option exercise proceeds for new grants.

We cannot issue stock options or SARs at an exercise price that is less than the fair market value of our Common Stock on the date of grant.

Stock options and SARs cannot have a term longer than eight years from the date of grant. The term has been reduced from the Prior Plan in which the term could not be longer than 10 years from the date of grant.



Time-based restricted shares and stock units generally must vest over a period of at least three years and performance-awards generally must vest over a period of at least one year, subject to certain exceptions when determined by the Committee.

The 2013 Plan generally provides for the forfeiture of outstanding awards if the Committee determines that the employee has engaged in certain misconduct, including commission of a felony or other serious crime, substantial and repeated failures to perform his or her duties, acting with gross negligence or willful misconduct, breach of an agreement with the Company, and certain other inappropriate behaviors.

Dividends or dividend equivalents payable on restricted shares and stock units will be subject to the same restrictions as the underlying shares or units.

The 2013 Plan prohibits any repricing of stock options or SARs without prior stockholder approval. Unlike the Prior Plan, the 2013 Plan specifically provides that cash buy-outs are prohibited repricings.

We cannot materially modify the 2013 Plan without prior stockholder approval, which includes amendments to increase the number of shares, extend the period for granting awards, add new award types, change the performance measures for performance-based awards and modify the eligibility requirements.

Unlike the Prior Plan, the 2013 Plan provides that awards granted under the 2013 Plan will be subject to any recoupment policy we adopt. We anticipate adopting a recoupment policy after issuance of final stock exchange rules on this topic that implements the requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

The descriptions set forth below are in all respects qualified by the terms of the 2013 Plan, which is attached to this Proxy Statement as [Appendix A](#).

### **Purpose**

The purpose of the 2013 Plan is to promote the interests of our Company and our stockholders by providing key personnel of our Company and our affiliates with an opportunity to acquire a proprietary interest in the Company and thereby develop a stronger incentive to put forth maximum effort for the continued success and growth of our Company and our affiliates. In addition, the opportunity to acquire a proprietary interest in our Company will aid in attracting and retaining key personnel of outstanding ability. The 2013 Plan is also intended to provide non-employee directors of the Company with an opportunity to acquire a proprietary interest in the Company, to compensate non-employee directors for their contributions to the Company and to aid in attracting and retaining non-employee directors.

### **Administration**

The 2013 Plan is administered by our Compensation Committee. The Committee has the authority to adopt, revise and waive rules relating to the 2013 Plan and to determine the timing and identity of participants, the amount of any awards and other terms and conditions of awards. The Committee may delegate its responsibilities under the 2013 Plan to members of management of the Company or to others with respect to the selection and grants of awards to employees of the Company who are not deemed to be officers, directors or 10% stockholders of the Company under applicable Federal securities laws.

### **Eligibility**

All employees of our Company and our affiliates, non-employee directors of our Company and any consultant or advisor who is a natural person and provides services to us or our affiliates are eligible to receive awards under the 2013 Plan at the discretion of the Committee. Incentive stock options under the 2013 Plan may

be awarded by the Committee only to employees. There are approximately 650 total employees, non-employee directors and others who provide services to us and our affiliates, any or all of whom may be considered for the grant of awards under the 2013 Plan at the discretion of the Committee.

### **Shares Available**

The total number of shares of Company Common Stock available for distribution under the 2013 Plan is 1,750,000, subject to adjustment for future stock splits, stock dividends and similar changes in the capitalization of the Company.

Shares that are subject to awards of options or SARs granted under the 2013 Plan will be counted against this limit as one (1) share for every one (1) share granted. Shares that are subject to awards granted under the 2013 Plan other than options or SARs will be counted against this limit as two (2) shares for every one (1) share granted. The shares of our Common Stock covered by the 2013 Plan may be treasury shares, authorized but unissued shares, or shares purchased in the open market.

Any shares subject to an award under the 2013 Plan or the Prior Plan that are forfeited, cancelled, returned to the Company for failure to satisfy vesting requirements, settled for cash or otherwise terminated without payment being made thereunder shall, to the extent of such expiration, forfeiture, cancellation, return, cash settlement or termination, again be available for grant under the 2013 Plan. The following shares will, however, continue to be charged against the foregoing maximum share limitations and will not again become available for grant: (i) shares tendered by the participant or withheld by us in payment of the purchase price of an Option, (ii) shares tendered by the participant or withheld by us to satisfy any tax withholding obligation with respect to an Award, (iii) shares subject to a SAR that are not issued in connection with the settlement of the SAR upon its exercise and (iv) shares repurchased by us with proceeds received from the exercise of a stock option issued under the 2013 Plan or the Prior Plan. Any shares that again become available for grant will be added back as (i) one (1) share if such shares were subject to an option or SAR granted under the 2013 Plan, (ii) as two (2) shares if such shares were subject to awards other than options or SARs granted under the 2013 Plan or (iii) as one and three-tenths (1.3) shares if such shares were subject to awards other than options or SARs granted under the Prior Plan.

### **Types of Awards**

The 2013 Plan allows us to grant stock options, SARs, restricted stock, stock units and other stock-based awards. The Committee may provide that the vesting or payment of any award will be subject to the attainment of certain performance objectives established by the Committee, in addition to completion by the plan participant of a specified period of service. The Committee may amend the terms of any award previously granted, but no amendment may materially impair the rights of any participant with respect to an outstanding award without the participant's consent, unless such amendment is necessary to comply with applicable laws or stock exchange rules.

#### *Stock Options*

Stock options granted under the 2013 Plan may be either incentive or nonqualified stock options. The exercise price of options may not be less than the fair market value of our Common Stock on the date of grant. The closing sale price of a share of our Common Stock on the Nasdaq Global Select Market on November 29, 2012 was \$9.75 per share. The exercise price must be paid in full at the time of exercise and may be paid in cash or such other manner as permitted by the Committee, including by withholding shares issuable upon exercise or by delivery of shares already owned by a participant. The maximum number of shares that may be issued upon the exercise of incentive stock options under the 2013 Plan is 1,750,000.

#### *Stock Appreciation Rights*

SARs provide for payment to the participant of all or a portion of the excess of the fair market value of a specified number of shares of our Common Stock on the date of exercise over a specified exercise price, which may not be less than the fair market value of our Common Stock on the date of grant. Payment may be made in cash or shares of our Common Stock or a combination of both, as determined by the Committee.

#### *Restricted Stock*

Restricted stock awards are awards of shares of our Common Stock that are subject to vesting conditions, and the corresponding lapse or waiver of forfeiture conditions and other restrictions, based on such factors and occurring over such period of time as the Committee may determine.

#### *Stock Units*

Stock units provide a participant with the right to receive, in cash or shares of our Common Stock or a combination of both, the fair market value of a specified number of shares of our Common Stock, and will be subject to such vesting and forfeiture conditions and other restrictions as the Committee determines.

#### *Other Stock-Based Awards*

The Committee may grant other awards under the 2013 Plan that are valued by reference to and/or payable in whole or in part in shares of our Common Stock.

#### *Cash Incentive Awards*

Cash incentive awards permit a participant to receive cash or other forms of awards upon the satisfaction of one or more performance goals over a specified performance cycle as determined by the Committee.

### **Terms of Awards and Plan Provisions**

#### *Performance-Based Compensation*

For purposes of any 2013 Plan awards (other than stock options and SARs) that are intended to qualify as performance-based compensation for Section 162(m) purposes, the lapsing of restrictions, vesting and payment of such awards, as applicable, will be subject to the achievement of one or more performance goals over a specified performance period, all as determined by the Committee. The vesting and exercisability of stock options and SARs need not be made subject to the achievement of one or more performance goals in order to be considered performance-based compensation for purposes of Code Section 162(m). The performance measures upon which such performance goals may be based shall be limited to one or a combination of two or more of the following business criteria: revenue or net sales; gross profit; operating profit; net income; earnings before one or more of interest, taxes, depreciation, amortization and other adjustments; profitability as measured by return ratios (including, but not limited to, return on assets, return on equity, return on investment and return on revenues or gross profit) or by the degree to which any of the foregoing earnings measures exceed a percentage of revenues or gross profit; cash flow; market share; margins (including one or more of gross, operating and net earnings margins); stock price; total stockholder return; asset quality; non-performing assets; operating assets; operating expenses; balance of cash, cash equivalents and marketable securities; improvement in or attainment of expense levels or cost savings; operating asset turnover; accounts receivable levels (including measured in terms of days sales outstanding); economic value added; improvement in or attainment of working capital levels; employee retention; customer satisfaction; implementation or completion of critical projects; and growth in customer base.

Any performance goal utilized may be expressed in absolute amounts, on a per share basis, relative to one or more other performance measures, as a growth rate or change from preceding periods, or as a comparison to the performance of specified companies or other external measures, and may relate to one or any combination of corporate or business performance. The Committee will specify the manner of calculating the performance goals it establishes for any performance period. The Committee will select the applicable performance measures and establish the corresponding performance goals for any performance period, and certify any amount payable in connection with an award intended to qualify as performance-based compensation, within the time periods prescribed by and consistent with the other requirements of Code Section 162(m). The Committee may adjust downward, but not upward, any amount determined to be otherwise payable in connection with such an award.

#### *Maximum Award Amounts*

The aggregate number of shares that may be subject to certain awards during any calendar year to any one participant under the 2013 Plan shall not exceed 350,000 shares with respect to stock options, 175,000 shares with respect to SARs and 175,000 shares with respect to other awards intended to qualify as performance-based compensation for Section 162(m) purposes.

#### *Substitute Awards*

Awards may be granted under the 2013 Plan in substitution for awards granted by another entity acquired by our company or with which our company combines. The terms and conditions of these substitute awards will be comparable to the terms of the awards replaced, and may therefore differ from the terms and conditions otherwise set forth in the 2013 Plan. Shares subject to substitute awards will not count against the 2013 Plan share reserve.

#### *Repricing of Awards*

The Committee may not reduce the exercise price of stock options or SARs granted under the 2013 Plan, exchange outstanding stock options or SARs with new stock options or SARs with a lower exercise price or a new full value award, repurchase underwater stock options or SARs or take any other action that would constitute a repricing, unless such action is first approved by our stockholders.

#### *Transferability of Awards*

Except as noted below, during the lifetime of a person to whom an award is granted, only that person, or that person's legal representative, may exercise an option or SAR, or receive payment with respect to performance units or any other award. No award may be sold, assigned, transferred, exchanged or otherwise encumbered other than to a successor in the event of a participant's death or pursuant to a qualified domestic relations order. However, the Committee may provide that awards, other than incentive stock options, may be transferable to members of the participant's immediate family or to one or more trusts for the benefit of such family members or partnerships in which such family members are the only partners, if the participant does not receive any consideration for the transfer.

#### *Termination of Service*

Unless otherwise provided in an award agreement, upon termination of a participant's service with us, all unvested and unexercisable portions of the participant's outstanding awards will immediately be forfeited. If a participant's service with us terminates other than for cause, death or disability, the vested and exercisable portions of the participant's outstanding stock options and SARs generally will remain exercisable for three months after termination, except in the case of a stock option or SAR held by a non-employee director, in which case the vested and exercisable portion shall remain exercisable through the original term of the award. If a participant's service terminates due to death or disability, the vested and exercisable portions of the participant's outstanding stock options and SARs generally will remain exercisable for one year after termination. Upon termination for cause, all unexercised stock options and SARs will be forfeited.

Unless otherwise provided in an agreement with respect to performance awards or restricted stock, or under other circumstances provided by the Committee, if a participant's service with us terminates due to death or disability, the participant shall be entitled to (i) a payment with respect to performance units at the end of the performance cycle based upon the achievement of performance targets at the end of such period and prorated for the portion of the performance cycle during which the participant was employed and/or (ii) receive a number of shares of restricted stock or time-based stock units under outstanding awards that has been prorated for the term of the participant's employment and for which portion the restrictions shall lapse.

#### *Withholding*

The 2013 Plan permits us to withhold from cash awards, and to require a participant receiving Common Stock under the 2013 Plan to pay us in cash, an amount sufficient to cover any required withholding taxes. In lieu of cash, the Committee may permit a participant to cover withholding obligations through a reduction in the number of shares delivered to such participant or a surrender of shares then owned by the participant.

#### *Fundamental Change*

Unless otherwise provided in an award agreement, in the event of a sale of all or substantially all of our assets or a merger, consolidation, or share exchange involving our company (any such event referred to as a fundamental change), the surviving or successor entity may continue, assume or replace some or all of the outstanding awards under the 2013 Plan. Award agreements with our executive officers will typically provide that if an award is continued, assumed or replaced in connection with a corporate transaction and if within one year after the transaction the executive officer's employment is involuntarily terminated other than for cause or the executive officer terminates his or her employment for good reason, the award will immediately vest in full or become fully exercisable. If awards granted to any participant are not continued, assumed or replaced in connection with a corporate transaction, the Committee may accelerate the vesting and exercisability of any award or require the surrender of any outstanding award in exchange for payment to the participant of the intrinsic value of the award.

#### *Adjustment of Awards*

In the event of an equity restructuring, such as a stock dividend or stock split, that affects the per share value of our Common Stock, the Committee will make appropriate adjustment to: (i) the number and kind of securities reserved for issuance under the 2013 Plan, (ii) the number and kind of securities subject to outstanding awards under the 2013 Plan, (iii) the exercise price of outstanding options and SARs, and (iv) any maximum limitations prescribed by the 2013 Plan as to grants of certain types of awards. The Committee may also make similar adjustments in the event of any other change in our company's capitalization, including a merger, consolidation, reorganization or liquidation.

#### *Amendment and Termination*

The 2013 Plan has a term of ten years from its effective date, or the earlier termination of the plan by our board of directors. Our board of directors may amend the 2013 Plan at any time, but no amendment may materially impair the rights of any participant with respect to outstanding awards without the participant's consent. Stockholder approval of any amendment of the 2013 Plan will be obtained if required by applicable law or the rules of the Nasdaq Stock Market. Awards that are outstanding on the plan's termination date will remain in effect in accordance with the terms of the plan and the applicable award agreements.



**New Plan Benefits**

No benefits or amounts have been granted, awarded or received under the 2013 Plan that were subject to stockholder approval. In addition, the Committee will determine the number and types of awards that will be granted under the 2013 Plan. Thus, it is not possible to determine the benefits that will be received by eligible participants if the 2013 Plan is approved by our stockholders.

**Voting Requirements, Recommendation**

The affirmative vote of the holders of a majority of the outstanding shares of Common Stock of the Company entitled to vote on this item and present in person or by proxy at the annual meeting of stockholders is required for approval of the 2013 Plan and the shares authorized under the 2013 Plan. Proxies solicited by the Board will be voted for approval of the proposal, unless stockholders specify otherwise in their proxies.

**THE BOARD OF DIRECTORS RECOMMENDS THE STOCKHOLDERS VOTE FOR APPROVAL OF THE DIGI INTERNATIONAL INC. 2013 OMNIBUS STOCK PLAN.**

**PROPOSAL NO. 3**

**ADVISORY VOTE ON EXECUTIVE COMPENSATION**

We are seeking a non-binding advisory vote from stockholders to approve the compensation as disclosed in the CD&A, tabular disclosures and related narrative of this Proxy Statement.

Our compensation programs are structured to align the interests of our executives with the interests of our stockholders by rewarding sustained financial and operating performance and the creation of stockholder value. More specifically, our programs:

Utilize a mix of cash and equity compensation with varying time triggers for payment and financial measures that reward sustained financial performance; and

Place a significant emphasis on the opportunity for incentive compensation, thus aligning total direct compensation with Company performance.

Our Compensation Committee, composed of three independent, non-employee directors, discharges the Board of Directors' responsibilities with respect to all forms of compensation for Named Executives as well as general oversight of compensation plans. The Compensation Committee has the authority to retain outside counsel, experts and other advisors as it determines appropriate.

Stockholders are urged to read the CD&A, which discusses in-depth how our compensation programs are aligned with our performance and the creation of stockholder value. The Compensation Committee and the Board of Directors believe that the policies and practices described in the CD&A effectively implement our pay-for-performance compensation philosophy.

**THE BOARD OF DIRECTORS, UPON RECOMMENDATION OF THE COMPENSATION COMMITTEE, RECOMMENDS THAT STOCKHOLDERS VOTE FOR APPROVAL OF THE FOLLOWING NON-BINDING RESOLUTION:**

**RESOLVED, that the stockholders approve the compensation awarded to the Named Executives, as described in the CD&A, tabular disclosures, and other narrative executive compensation disclosures in this Proxy Statement.**

**Effect of Proposal**

The Say-on-Pay resolution is non-binding. The approval or disapproval of this proposal by stockholders will not require the Board of Directors or the Compensation Committee to take any action regarding our executive compensation practices. The final decision on the compensation and benefits of our executive officers and on whether, and if so, how, to address any stockholder disapproval remains with the Board of Directors and the Compensation Committee.

The Board believes that the Compensation Committee is in the best position to consider the extensive information and factors necessary to make independent, objective, and competitive compensation recommendations and decisions that are in the best interest of our Company and its stockholders.

The Board values the opinions of our stockholders as expressed through their votes and other communications. Although the resolution is non-binding, the Board and the Compensation Committee will carefully consider the outcome of the advisory vote on executive compensation and stockholder opinions received from other communications when making future compensation decisions.

**PROPOSAL NO. 4****RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The firm of PricewaterhouseCoopers LLP, independent registered public accounting firm, or one of its predecessors, has been the independent registered public accounting firm for us since 1986. The Audit Committee has again selected PricewaterhouseCoopers LLP to serve as our independent registered public accounting firm for the fiscal year ending September 30, 2013, subject to ratification by the stockholders. While it is not required to do so, the Audit Committee is submitting the selection of that firm for ratification in order to ascertain the view of the stockholders. If the selection is not ratified, the Audit Committee will reconsider its selection.

A representative of PricewaterhouseCoopers LLP will be present at the annual meeting and will be afforded an opportunity to make a statement if such representative so desires and will be available to respond to appropriate questions during the meeting.

**Audit and Non-Audit Fees**

The following table presents fees for fiscal 2012 and 2011 for professional audit services performed by PricewaterhouseCoopers for the audit of our annual consolidated financial statements, the review of our interim consolidated financial statements for each quarter in fiscal 2012 and 2011 and all other services performed:

	<b>Year Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
Audit Fees	\$ 768,133	\$ 674,205
Audit-Related Fees	58,229	
Tax Fees	198,689	3,308
All Other Fees		
<b>Total</b>	<b>\$ 1,025,051</b>	<b>\$ 677,513</b>

The Audit Committee pre-approved all of the services described above pursuant to engagements that occurred in fiscal 2012 and 2011.

The Audit Committee's current practice on pre-approval of services performed by the independent registered public accounting firm is to approve annually all audit services and each recurring permissible non-audit service to be provided by the independent registered public accounting firm during the fiscal year. In addition, the Audit Committee may pre-approve other non-audit services during the year on a case-by-case basis, and delegates authority to grant such pre-approvals during the year between Audit Committee meetings to the Audit Committee Chairman. The Audit Committee reviews each non-audit service to be provided and assesses the impact of the service on the independent registered public accounting firm's independence.

**THE BOARD OF DIRECTORS RECOMMENDS THAT THE STOCKHOLDERS VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF PRICEWATERHOUSECOOPERS LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2013.**

**ADDITIONAL MATTERS**

Our Annual Report on Form 10-K for the fiscal year ended September 30, 2012, including our consolidated financial statements, is being mailed or made available with this Proxy Statement.

As of the date of this Proxy Statement, management knows of no matters that will be presented for determination at the annual meeting other than those referred to herein. If any other matters properly come before the annual meeting calling for a vote of stockholders, it is intended that the shares represented by the proxies solicited by the Board of Directors will be voted by the persons named therein in accordance with their best judgment.

By Order of the Board of Directors,

David H. Sampsell

*Vice President, General Counsel & Corporate Secretary*

Dated: December 5, 2012

**Digi International Inc.****2013 Omnibus Incentive Plan**

1. *Purpose.* The purpose of the Digi International Inc. 2013 Omnibus Incentive Plan (the *Plan*) is to promote the interests of the Company and its stockholders by providing key personnel of the Company and its Affiliates and Non-Employee Directors with an opportunity to acquire a proprietary interest in the Company and thereby develop a stronger incentive to put forth maximum effort for the continued success and growth of the Company and its Affiliates. In addition, the opportunity to acquire a proprietary interest in the Company will aid in attracting and retaining key personnel and Non-Employee Directors of outstanding ability.

2. *Definitions.*

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

(a) *Affiliate* means any corporation that is a parent corporation or subsidiary corporation of the Company, as those terms are defined in Code Sections 424(e) and (f), or any successor provisions, and, for purposes other than the grant of Incentive Stock Options, any entity in which the Company or any such subsidiary corporation owns at least 20% of the combined voting power of the entity's voting securities and which is designated by the Committee as covered by the Plan.

(b) *Agreement* means a written or electronic contract (i) entered into between the Company and a Participant and (ii) containing the terms and conditions of an Award in such form and not inconsistent with the Plan as the Committee shall approve from time to time, together with all amendments thereto, which amendments may be unilaterally made by the Company (with the approval of the Committee) unless such amendments are deemed by the Committee to be materially adverse to the Participant and not required to comply with applicable law or stock exchange rules.

(c) *Award* or *Awards* means a grant made under the Plan in the form of Restricted Stock, Options, Stock Appreciation Rights, Stock Units, an Other Stock-Based Award or a Cash Incentive Award.

(d) *Board* means the Board of Directors of the Company.

(e) *Cash Incentive Award* means an Award described in Section 8.2 of the Plan.

(e) *Code* means the Internal Revenue Code of 1986, as amended and in effect from time to time or any successor statute.

(f) *Committee* means two or more Non-Employee Directors designated by the Board to administer the Plan under Plan Section 3.1, each of whom shall be (i) an independent director within the meaning and rules of the Nasdaq Stock Market, (ii) a non-employee director within the meaning of Exchange Act Rule 16b-3 and (iii) an outside director for purposes of Code Section 162(m). Unless otherwise specified by the Board, the Committee shall be the Compensation Committee of the Board.

(g) *Company* means Digi International Inc., a Delaware corporation, or any successor to all or substantially all of its businesses by merger, consolidation, purchase of assets or otherwise.

(h) *Effective Date* means the date specified in Plan Section 13.1.

(i) *Employee* means an employee (including an officer or director who is also an employee) of the Company or an Affiliate.

- (j) Exchange Act means the Securities Exchange Act of 1934, as amended and in effect from time to time or any successor statute.
- (k) Exchange Act Rule 16b-3 means Rule 16b-3 promulgated by the Securities and Exchange Commission under the Exchange Act, as now in force and in effect from time to time or any successor regulation.
- (l) Fair Market Value as of any date means, unless otherwise expressly provided in the Plan, the fair market value of a Share determined as follows:
- (i) If the Shares are then readily tradable on an established securities market (as determined under Code Section 409A), then Fair Market Value will be the closing sale price for a Share on the principal securities market on which it trades on such date, or if no sale of Shares occurred on that date, on the next preceding date on which a sale of Shares occurred, as reported in *The Wall Street Journal* or such other source as the Committee deems reliable; or
- (ii) If clause (i) is inapplicable, then Fair Market Value will be determined by the Committee as the result of a reasonable application of a reasonable valuation method that satisfies the requirements of Code Section 409A.
- In the case of an Incentive Stock Option, if this determination of Fair Market Value is not consistent with the then current regulations of the Secretary of the Treasury, Fair Market Value shall be determined in accordance with those regulations. The determination of Fair Market Value shall be subject to adjustment as provided in Plan Section 17.
- (m) Full Value Award means any Award other than an Option Award, Stock Appreciation Rights Award or Cash Incentive Award.
- (n) Fundamental Change means a dissolution or liquidation of the Company, a sale of substantially all of the assets of the Company, a merger or consolidation of the Company with or into any other corporation, regardless of whether the Company is the surviving corporation, or a statutory share exchange involving capital stock of the Company.
- (o) Incentive Stock Option means any Option designated as such and granted in accordance with the requirements of Code Section 422 or any successor provision.
- (p) Insider as of a particular date means any person who, as of that date, is a director of the Company or an officer of the Company as defined under Exchange Act Rule 16a-1(f) or its successor provision.
- (q) Non-Employee Director means a member of the Board who is not an Employee.
- (r) Non-Statutory Stock Option means an Option other than an Incentive Stock Option.
- (s) Option means a right to purchase Stock, including both Non-Statutory Stock Options and Incentive Stock Options.
- (t) Other Stock-Based Award means an Award described in Section 8.1 of the Plan.
- (u) Participant means a person to whom an Award is or has been made in accordance with the Plan.
- (v) Performance-Based Compensation means a Full Value or Cash Incentive Award to a person who is, or is determined by the Committee to likely become, a covered employee (as defined in Code Section 162(m)(3)) and that is intended to constitute performance-based compensation within the meaning of Code Section 162(m)(4)(C).

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

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

### 3. Administration and Indemnification.

#### 3.1 Administration.

- (a) The Committee shall administer the Plan. The Committee shall have exclusive power to (i) make Awards, (ii) determine when and to whom Awards will be granted, the form of each Award, the amount of each

Award, and any other terms or conditions of each Award consistent with the Plan, and (iii) determine whether, to what extent and under what circumstances, Awards may be settled, paid or exercised in cash, Shares or other Awards, or other property or canceled, forfeited or suspended. Each Award shall be subject to an Agreement authorized by the Committee. A majority of the members of the Committee shall constitute a quorum for any meeting of the Committee, and acts of a majority of the members present at any meeting at which a quorum is present or the acts unanimously approved in writing by all members of the Committee shall be the acts of the Committee. Any such action of the Committee shall be valid and effective even if any member of the Committee at the time of the action is later determined not to have satisfied all of the criteria for membership in clauses (i), (ii) and (iii) of Section 2(f). Notwithstanding the foregoing, the Board shall have the sole and exclusive power to administer the Plan with respect to Awards granted to Non-Employee Directors.

(b) Solely for purposes of determining and administering Awards to Participants who are not Insiders, the Committee may delegate all or any portion of its authority under the Plan to one or more persons who are not Non-Employee Directors.

(c) To the extent within its discretion and subject to Plan Sections 16, 17, and 19, the Committee may amend the terms and conditions of any outstanding Award.

(d) It is the intent that the Plan and all Awards granted pursuant to it shall be administered by the Committee so as to permit the Plan and Awards to comply with Exchange Act Rule 16b-3, except in such instances as the Committee, in its discretion, may so provide. If any provision of the Plan or of any Award would otherwise frustrate or conflict with the intent expressed in this Section 3.1(d), that provision to the extent possible shall be interpreted and deemed amended in the manner determined by the Committee so as to avoid the conflict. To the extent of any remaining irreconcilable conflict with this intent, the provision shall be deemed void as applicable to Insiders to the extent permitted by law and in the manner deemed advisable by the Committee.

(e) The Committee's interpretation of the Plan and of any Award or Agreement made under the Plan and all related decisions or resolutions of the Board or Committee shall be final and binding on all parties with an interest therein. Consistent with its terms, the Committee shall have the power to establish, amend or waive regulations to administer the Plan. In carrying out any of its responsibilities, the Committee shall have discretionary authority to construe the terms of the Plan and any Award or Agreement made under the Plan.

(f) The Committee may grant Awards to Employees and other eligible service providers who are foreign nationals, who are located outside of the United States or who are not compensated from a payroll maintained in the United States, or who are otherwise subject to (or could cause the Company to be subject to) legal or regulatory requirements of countries outside of the United States, on such terms and conditions different from those specified in the Plan as may, in the judgment of the Committee, be necessary or desirable to comply with applicable foreign laws and regulatory requirements and to promote achievement of the purposes of the Plan. In connection therewith, the Committee may establish such sub-plans and modify exercise procedures and other Plan rules and procedures to the extent such actions are deemed necessary or desirable, and may take any other action that it deems advisable to obtain local regulatory approvals or to comply with any necessary local governmental regulatory exemptions.

3.2 Indemnification. Each person who is or shall have been a member of the Committee, or of the Board, and any other person to whom the Committee delegates authority under the Plan, shall be indemnified and held harmless by the Company, to the extent permitted by law, against and from any loss, cost, liability or expense that may be imposed upon or reasonably incurred by such person in connection with or resulting from any claim, action, suit or proceeding to which such person may be a party or in which such person may be involved by reason of any action taken or failure to act, made in good faith, under the Plan and against and from any and all amounts paid by such person in settlement thereof, with the Company's approval, or paid by such person in satisfaction of any judgment in any such action, suit or proceeding against such person, provided such person shall give the Company an opportunity, at the Company's expense, to handle and defend the same before



such person undertakes to handle and defend it on such person's own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such person or persons may be entitled under the Company's Certificate of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

4. Shares Available Under the Plan and Maximum Awards.

4.1 Number of Shares Available for Grants. Subject to adjustment as provided in Sections 4.1(a) and 17 herein, the number of Shares that may be the subject of Awards and issued to Participants under the Plan shall be 1,750,000. After the Effective Date, no additional awards may be granted under the Prior Plan. Any Shares that are subject to Awards of Options shall be counted against the maximum Share limitation as one Share for every one Share granted, and Awards of Stock Appreciation Rights shall be counted against this maximum Share limitation as equal to the number of Shares to which such Stock Appreciation Rights relate. Any Shares that are subject to Full Value Awards shall be counted against this maximum Share limitation as 2.0 Shares for every one Share granted. Substitute Awards shall not be counted against this maximum Share limitation, nor shall they reduce the number of Shares authorized for grant to a Participant in any calendar year. The Shares to be delivered under the Plan will be made available from authorized but unissued Shares or issued Shares that are held in the Company's treasury.

(a) Any Shares subject to an Award under this Plan, or to an award granted under the Prior Plan that is outstanding on the Effective Date (a Prior Plan Award), that expires, is forfeited, cancelled, returned to the Company for failure to satisfy vesting requirements, is settled for cash or otherwise terminates without payment being made thereunder shall, to the extent of such expiration, forfeiture, cancellation, return, cash settlement or termination, again be available for grant under the Plan. Each Share that again becomes available for grant pursuant to the preceding sentence shall increase the total number of Shares remaining available for Awards by (i) one Share if such Share was subject to an Option or Stock Appreciation Right granted under the Plan or to a stock option or stock appreciation right granted under the Prior Plan, (ii) 2.0 Shares if such Share was subject to a Full Value Award granted under the Plan, or (iii) 1.3 Shares if such Share was subject to a Full Value Award granted under the Prior Plan. The following Shares will, however, continue to be charged against the foregoing maximum Share limitation and will not again become available for grant: (i) Shares tendered by the Participant or withheld by the Company in payment of the purchase price of an Option, (ii) Shares tendered by the Participant or withheld by the Company to satisfy any tax withholding obligation with respect to an Award, (iii) Shares subject to a Stock Appreciation Right that are not issued in connection with the settlement of the Stock Appreciation Right upon its exercise, and (iv) Shares repurchased by the Company with proceeds received from the exercise of a stock option issued under this Plan or the Prior Plan.

(b) Where two or more types of Awards (all of which are payable in Shares) are granted to a Participant in tandem with each other, such that the exercise of one type of Award with respect to a number of Shares cancels at least an equal number of Shares of the other, the number of Shares to be counted against the maximum Share limitation shall be the maximum number of Shares available under the larger of the two Awards.

(c) If a company acquired by the Company or any Subsidiary or with which the Company or any Subsidiary combines has shares available under a pre-existing plan approved by stockholders and not adopted in contemplation of such acquisition or combination, the number of shares remaining available for grant pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the holders of common stock of the entities party to such acquisition or combination) may be used for Awards under the Plan and shall not reduce the number of Shares authorized for grant under the Plan. Awards using such available shares shall not be made after the date awards or grants could have been made under the terms of the pre-existing plan, absent the acquisition or combination, and shall only be made to individuals who were not Employees or Non-Employee Directors prior to such acquisition or combination.

(d) Additional rules for determining the number of Shares granted under the Plan may be made by the Committee as it deems necessary or desirable.

(e) No fractional Shares may be issued under the Plan; however, cash shall be paid in lieu of any fractional Share in settlement of an Award.

4.2 Individual Award Limitations. Subject to adjustment pursuant to Plan Section 17, the maximum number of Shares that may be awarded to a Participant in any calendar year in the form of Options is 350,000, and the maximum number of Shares that may be awarded to a Participant in any calendar year in the form of Stock Appreciation Rights is 175,000.

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

6. General Terms of Awards.

6.1 Amount of Award. Each Agreement shall set forth the number of Shares of Restricted Stock, Stock or Stock Units subject to the Agreement, or the number of Shares to which the Option subject to the Agreement applies or with respect to which payment upon the exercise of the Stock Appreciation Right subject to the Agreement is to be determined, as the case may be, together with such other terms and conditions applicable to the Award as determined by the Committee acting in its sole discretion.

6.2 Term. Each Agreement, other than those relating solely to Awards of Shares without restrictions, shall set forth the Term of the Option, Stock Appreciation Right, Restricted Stock, Stock Unit or other Award or the Performance Cycle for any performance-based Award, as the case may be. Acceleration of the expiration of the applicable Term is permitted, upon such terms and conditions as shall be set forth in the Agreement, which may, but need not, include, without limitation, acceleration in the event of the Participant's death or retirement. Acceleration of the Performance Cycle of any performance-based Awards shall be subject to Plan Section 6.6. Each award granted to a Participant shall have such Term as the Committee shall determine at the time of grant; provided, however, that any such Term shall not exceed eight (8) years.

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

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

(a) Options and Stock Appreciation Rights.

(i) If a Participant's employment with the Company and its Affiliates terminates because of the Participant's death, then any Option or Stock Appreciation Right that has not expired or been terminated shall become exercisable in full if the Participant's employment has been continuous between the date the Option or Stock Appreciation Right was granted and a date not more than three months prior to such death, and may be exercised by the Participant's Successor at any time, or from time to time, within one year after the date of the Participant's death.

(ii) If a Participant's employment with the Company and its Affiliates terminates because the Participant is disabled (within the meaning of Section 22(e)(3) of the Code), then any Option or Stock Appreciation Right that has not expired or been terminated shall become exercisable in full if the Participant's employment has been continuous between the date the Option or Stock Appreciation Right was granted and the date of such disability, and the Participant or the Participant's Successor may exercise such Option or Stock Appreciation Right at any time, or from time to time, within one year after the date of the Participant's disability.

(iii) If a Participant's employment terminates for any reason other than death or disability, then any Option or Stock Appreciation Right that has not expired or been terminated shall remain exercisable for three months after termination of the Participant's employment, but, unless otherwise provided in the Agreement, only to the extent that such Option or Stock Appreciation Right was exercisable immediately prior to such Participant's termination of employment; provided, however, that if the Participant is a Non-Employee Director, the Option or Stock Appreciation Right shall remain exercisable until the expiration of the Term after such Non-Employee Director ceases to be a director of the Company but, unless otherwise provided in the Agreement, only to the extent that such Option or Stock Appreciation Right was exercisable immediately prior to such Non-Employee Director ceasing to be a director.

(iv) Notwithstanding the foregoing Plan Sections 6.4(a)(i), (ii) and (iii), in no event shall an Option or a Stock Appreciation Right be exercisable after the expiration of the Term of such Award. Any Option or Stock Appreciation Right that is not exercised within the periods set forth in Plan Sections 6.4 (i), (ii) and (iii), except as otherwise provided by the Committee in the Agreement, shall terminate as of the end of the periods described in such Sections.

(b) Performance-Based Full Value Awards. If a Participant's employment with the Company and its Affiliates terminates during a Performance Cycle because of death or disability, or under other circumstances provided by the Committee in its discretion in the Agreement or otherwise, the Participant, unless the Committee shall otherwise provide in the Agreement, shall be entitled to a payment with respect to a performance-based Full Value Award at the end of the Performance Cycle based upon the extent to which achievement of performance goals was satisfied at the end of such period (as determined at the end of the Performance Cycle) and prorated for the portion of the Performance Cycle during which the Participant was employed by the Company or its Affiliates. Except as provided in this Section 6.4(b) or in the Agreement, if a Participant's employment or other service relationship with the Company and its Affiliates terminates during a Performance Cycle, then such Participant shall not be entitled to any payment with respect to that Performance Cycle.

(c) Time Vested Restricted Stock and Stock Unit Awards. Unless otherwise provided in the Agreement, in case of a Participant's death or disability, the Participant shall be entitled to have vest a number of Shares of Restricted Stock or a number of Stock Units under outstanding Awards subject only to service-based vesting that has been prorated for the portion of the Term of the Awards during which the Participant was employed by the Company and its Affiliates, and, with respect to such Shares or Stock Units, all restrictions shall lapse. Any

Shares of Restricted Stock or Stock Units that do not vest and as to which restrictions do not lapse under the preceding sentence shall terminate at the date of the Participant's termination of employment and such Shares of Restricted Stock or Stock Units shall be forfeited to the Company.

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

6.6 Performance-Based Awards. Any Award may be granted as a performance-based Award if the Committee establishes one or more measures of Company, Subsidiary, business unit or individual performance which must be attained, and the Performance Cycle over which the specified performance is to be attained, as a condition to the vesting, exercisability, lapse of restrictions and/or settlement in cash or Shares of such Award. In connection with any such Award, the Committee shall determine the extent to which performance goals have been attained and other applicable terms and conditions have been satisfied, and the degree to which vesting, exercisability, lapse of restrictions and/or settlement in cash or Shares of such Award has been earned. Any performance-based Award that is intended by the Committee to qualify as Performance-Based Compensation shall additionally be subject to the requirements of Section 12 of this Plan. Except as provided in Section 12 with respect to Performance-Based Compensation, the Committee shall also have the authority to provide, in an Agreement or otherwise, for the acceleration of a Performance Cycle and an adjustment or waiver of the achievement of performance goals upon the occurrence of certain events, which may, but need not include, without limitation, a Fundamental Change, a recapitalization, a change in the accounting practices of the Company, a change in a Participant's title or employment responsibilities, a Participant's death or retirement or, with respect to settlements in Shares with respect to an Award, a reclassification, stock dividend, stock split or stock combination as provided in Plan Section 17. An Agreement also may provide for a limitation on the value of an Award that a Participant may receive.

6.7 Dividends and Dividend Equivalents. Any dividends or distributions paid with respect to Shares that are subject to the unvested portion of a Restricted Stock Award will be subject to the same restrictions as the Shares to which such dividends or distributions relate, except for regular cash dividends on Shares subject to the unvested portion of a Restricted Stock Award that is subject only to service-based vesting conditions. In its discretion, the Committee may provide in an Agreement for a Stock Unit Award or an Other Stock-Based Award that the Participant will be entitled to receive dividend equivalents on the units or other Share equivalents subject to the Award based on dividends actually declared on outstanding Shares. The terms of any dividend equivalents will be as set forth in the applicable Award Agreement, including the time and form of payment and whether such dividend equivalents will be credited with interest or deemed to be reinvested in additional units or Share equivalents. Any dividend equivalents payable with respect to the unvested portion of a Stock Unit Award or an Other Stock-Based Award that is performance-based within the meaning of Section 6.6 will be subject to the same restrictions as the units or other Share equivalents to which such dividend equivalents relate. The Committee may, in its discretion, provide in Award Agreements for restrictions on dividends and dividend equivalents in addition to those specified in this Section 6.7.

6.8 Minimum Vesting Period. The Committee may provide in an Agreement for such vesting conditions as it may determine, subject to the following limitations on Full Value Awards:

- (1) A Full Value Award that vests solely as the result of the passage of time and continued employment by the Participant shall be subject to a vesting period of not less than three years from the grant date of the Award (but permitting pro rata vesting over such vesting period); and
- (2) A Full Value Award whose vesting is subject to the satisfaction of performance goals over a Performance Cycle shall be subject to a Performance Cycle of not less than one year.

The minimum vesting periods specified in clauses (1) and (2) above will not, however, apply in the following situations: (i) an Award made to attract a key executive to join the Company; (ii) upon a Fundamental Change; (iii) upon termination of Service due to death, disability or retirement; (iv) Awards made in payment of or

exchange for other earned compensation (including performance-based Awards); (v) any Substitute Award that does not reduce the vesting period of the award being replaced; (vi) Awards made to Non-Employee Directors; and (vii) Awards involving an aggregate number of Shares not in excess of 10% of the number of Shares specified in the first sentence of Section 4.1.

7. Restricted Stock Awards.

7.1 Nature of Award. An Award of Restricted Stock under the Plan shall consist of Shares subject to restrictions on transfer and conditions of forfeiture, which restrictions and conditions shall be included in the applicable Agreement. The Committee may provide for the lapse or waiver of any such restrictions or conditions and the vesting of the Shares based on such factors or criteria as the Committee, in its sole discretion, may determine.

7.2 Stock Certificates. Except as otherwise provided in the applicable Agreement, each Stock certificate issued with respect to an Award of Restricted Stock shall either be deposited with the Company or its designee, together with an assignment separate from the certificate, in blank, signed by the Participant, or bear such legends with respect to the restricted nature of the Restricted Stock evidenced thereby as shall be provided for in the applicable Agreement.

7.3 Vesting of Awards. The Agreement shall describe the terms and conditions by which the restrictions and conditions of forfeiture upon awarded Restricted Stock shall lapse and the Shares vest. Upon the lapse of the restrictions and conditions, Shares free of restrictive legends, if any, relating to such restrictions shall be issued to the Participant or a Successor or Transferee.

7.4 Rights as a Stockholder. Except as otherwise provided in the Plan, a Participant or a Transferee with a Restricted Stock Award shall have all the rights of a stockholder, including the right to vote the Shares of Restricted Stock.

8. Other Awards.

8.1 Other Stock-Based Awards. The Committee may from time to time grant Stock and other Awards that are valued by reference to and/or payable in whole or in part in Shares under the Plan. The Committee, in its sole discretion, shall determine the terms and conditions of such Awards, provided that such Awards shall not be inconsistent with the terms and purposes of the Plan. The Committee may, at its sole discretion, direct the Company to issue Shares subject to restrictive legends and/or stop transfer instructions that are consistent with the terms and conditions of the Award to which the Shares relate.

8.2 Cash Incentive Awards. A Cash Incentive Award shall be considered a performance-based Award for purposes of, and subject to, Section 6.6, the payment of which shall be contingent upon the degree to which one or more specified performance goals have been achieved over a specified Performance Cycle. Cash Incentive Awards may be granted to any Participant in such amounts and upon such terms and at such times as shall be determined by the Committee, and may be denominated in units that have a dollar value established by the Committee as of the applicable grant date. Following the completion of the applicable Performance Cycle and the vesting of a Cash Incentive Award, payment of the settlement amount of the Award to the Participant shall be made at such time or times in the form of cash or other forms of Awards under the Plan (valued for these purposes at their grant date fair value) or a combination of cash and other forms of Awards as determined by the Committee and specified in the applicable Agreement. If a Cash Incentive Award is not by its terms exempt from the requirements of Code Section 409A, then the applicable Agreement shall contain terms and conditions intended to avoid adverse tax consequences specified in Code Section 409A.

9. Stock Options.

9.1 Terms of All Options.

(a) An Option shall be granted pursuant to an Agreement as either an Incentive Stock Option or a Non-Statutory Stock Option. The purchase price of each Share subject to an Option shall be determined by the Committee and set forth in the Agreement, but shall not be less than the Fair Market Value of a Share as of the date the Option is granted, except in the case of Substitute Awards.

(b) The purchase price of the Shares with respect to which an Option is exercised shall be payable in full at the time of exercise, provided that to the extent permitted by law, the Agreement may permit some or all Participants to simultaneously exercise Options and sell the Shares thereby acquired pursuant to a brokerage or similar relationship and use the proceeds from the sale as payment of the purchase price of the Shares. The purchase price may be payable in cash or in such other manner as the Committee may permit, including by delivery to the Company of Shares (by actual delivery or attestation) already owned by the Participant or by the Company withholding Shares otherwise issuable to the Participant upon the exercise of the Option (in either case, such Shares delivered or withheld having a Fair Market Value as of the date the Option is exercised equal to the purchase price of the Shares being purchased pursuant to the Option), or a combination thereof, as determined by the Committee, but no fractional Shares will be issued or accepted.

(c) Each Option shall be exercisable in whole or in part on the terms provided in the Agreement. In no event shall any Option be exercisable at any time after the expiration of its Term. When an Option is no longer exercisable, it shall be deemed to have lapsed or terminated.

(d) Each Option granted to a Participant shall expire at such time as the Committee shall determine at the time of grant; provided, however, that no Option shall be exercisable later than the eight (8<sup>th</sup>) anniversary date of its grant.

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

(a) The maximum number of Shares that may be issued upon the exercise of Incentive Stock Options shall equal the maximum number of Shares that may be the subject of Awards and issued under the Plan as provided in the first sentence of Section 4.1.

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

(c) The Agreement covering an Incentive Stock Option shall contain such other terms and provisions that the Committee determines necessary to qualify this Option as an Incentive Stock Option.

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

10. Stock Appreciation Rights. An Award of a Stock Appreciation Right shall entitle the Participant (or a Successor or Transferee), subject to terms and conditions determined by the Committee, to receive upon exercise of the Stock Appreciation Right all or a portion of the excess of (i) the Fair Market Value of a specified number of Shares as of the date of exercise of the Stock Appreciation Right over (ii) a specified price that shall not be less than 100% of the Fair Market Value of such Shares as of the date of grant of the Stock Appreciation Right. A Stock Appreciation Right may be granted in connection with part or all of, in addition to, or completely independent of an Option or any other Award under the Plan. If issued in connection with a previously or contemporaneously granted Option, the Committee may impose a condition that exercise of a Stock Appreciation Right cancels a pro rata portion of the Option with which it is connected and vice versa. Each Stock Appreciation Right may be exercisable in whole or in part on the terms provided in the Agreement. No Stock Appreciation Right shall be exercisable at any time after the expiration of its Term. When a Stock Appreciation Right is no longer exercisable, it shall be deemed to have lapsed or terminated. Upon exercise of a Stock Appreciation Right, payment to the Participant or a Successor or Transferee shall be made at such time or times as shall be provided in the Agreement in the form of cash, Shares or a combination of cash and Shares as determined by the Committee. The Agreement may provide for a limitation upon the amount or percentage of the total appreciation on which payment (whether in cash and/or Shares) may be made in the event of the exercise of a Stock Appreciation Right. The Term of a Stock Appreciation Right granted under the Plan shall be determined by the Committee, in its sole discretion; provided, however, that such Term shall not exceed eight (8) years.

11. Stock Units.

11.1 Vesting and Consideration. A Stock Unit shall consist of the right to receive, in cash and/or in Shares as determined by the Committee, the Fair Market Value of one or more Shares, with any Stock Unit Award subject to such vesting conditions, and the corresponding lapse of forfeiture conditions and other restrictions, based on such factors and occurring over such period of time as the Committee may determine in its discretion. The Committee may provide whether any consideration other than Services must be received by the Company or any Affiliate as a condition precedent to the settlement of a Stock Unit Award.

11.2 Payment of Award. Following the vesting of a Stock Unit Award, settlement of the Award and payment to the Participant shall be made at such time or times in the form of cash, Shares (which may themselves be considered Restricted Stock under the Plan subject to restrictions on transfer and forfeiture conditions) or a combination of cash and Shares as determined by the Committee. If the Stock Unit Award is not by its terms exempt from the requirements of Code Section 409A, then the applicable Agreement shall contain terms and conditions intended to avoid adverse tax consequences specified in Code Section 409A.

12. Performance-Based Compensation.

12.1 Designation of Awards. If the Committee determines at the time a Full Value Award or a Cash Incentive Award is granted to a Participant that such Participant is, or is likely to be, a covered employee for purposes of Code Section 162(m) as of the end of the tax year in which the Company would ordinarily claim a tax deduction in connection with such Award, then the Committee may provide that this Section 12 will be applicable to such Award, which shall be considered Performance-Based Compensation.

12.2 Compliance with Code Section 162(m). If an Award is subject to this Section 12, then the lapsing of restrictions thereon and the distribution of cash, Shares or other property pursuant thereto, as applicable, shall be subject to the achievement over the applicable Performance Cycle of one or more performance goals based on one or more of the performance measures specified in Section 12.4. The Committee will select the applicable performance measure(s) and specify the performance goal(s) based on those performance measures for any Performance Cycle, specify in terms of an objective formula or standard the method for calculating the amount payable to a Participant if the performance goal(s) are satisfied, and certify the degree to which applicable performance goals have been satisfied and any amount payable in connection with an Award subject to this Section 12, all within the time periods prescribed by and consistent with the other requirements of Code

Section 162(m). In specifying the performance goals applicable to any performance period, the Committee may provide that one or more objectively determinable adjustments shall be made to the performance measures on which the performance goals are based, which may include adjustments that would cause such measures to be considered non-GAAP financial measures within the meaning of Rule 101 under Regulation G promulgated by the Securities and Exchange Commission. The Committee may also adjust performance goals for a Performance Cycle to the extent permitted by Code Section 162(m) in connection with an event described in Section 17 to prevent the dilution or enlargement of a Participant's rights with respect to Performance-Based Compensation. The Committee may adjust downward, but not upward, any amount determined to be otherwise payable in connection with such an Award. The Committee may also provide, in an Agreement or otherwise, that the achievement of specified performance goals in connection with an Award subject to this Section 12 may be waived upon the death or Disability of the Participant or under any other circumstance with respect to which the existence of such possible waiver will not cause the Award to fail to qualify as performance-based compensation under Code Section 162(m).

12.3 Limitations. With respect to Awards of Performance-Based Compensation, the maximum number of Shares that may be the subject of any Full Value Awards that are denominated in Shares or Share equivalents and that are granted to any one Participant during any calendar year shall not exceed 175,000 Shares (subject to adjustment as provided in Section 17). The maximum amount payable with respect to any Cash Incentive Awards and Full Value Awards that are denominated other than in Shares or Share equivalents and that are granted to any one Participant during any calendar year shall not exceed \$1,000,000.

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

### 13. Effective Date and Duration of the Plan.

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

13.2 Duration of the Plan. The Plan shall remain in effect until all Stock subject to it shall be distributed, all Awards have expired or lapsed, the Plan is terminated pursuant to Plan Section 16, or the tenth anniversary of the effective date of the Plan, whichever occurs first (the Termination Date). Awards made before the Termination Date may be exercised, vested or otherwise effectuated beyond the Termination Date.



unless limited in the Agreement or otherwise. No Award of an Incentive Stock Option shall be made more than 10 years after the Effective Date of the Plan (or such other limit as may be required by the Code) if this limitation is necessary to qualify the Option as an Incentive Stock Option. The date and time at which an Award is made or granted shall be the date and time the Committee approves the grant of the Award, or such later date and time as may be specified by the Committee at the time it approves the Award.

14. Plan Does Not Affect Employment Status.

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

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

15. Tax Withholding. The Company shall have the right to withhold from any cash payment under the Plan to a Participant or other person (including a Successor or a Transferee) an amount sufficient to cover any required withholding taxes. The Company shall have the right to require a Participant or other person receiving Shares under the Plan to pay the Company a cash amount sufficient to cover any required withholding taxes before actual receipt of those Shares. In lieu of all or any part of a cash payment from a person receiving Shares under the Plan, the Committee may permit the individual to cover all or any part of the required withholdings (up to the Participant's minimum required tax withholding rate) through a reduction of the number of Shares delivered or delivery or tender to the Company of Shares held by the Participant or other person, in each case valued in the same manner as used in computing the withholding taxes under the applicable laws.

16. Amendment, Modification and Termination.

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

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

17. Adjustment for Changes in Capitalization. In the event of any equity restructuring (within the meaning of authoritative guidance issued by the Financial Accounting Standards Board relating to stock-based compensation) that causes the per Share value of Shares to change, such as a stock dividend, stock split, spin off, rights offering, or recapitalization through a large, nonrecurring cash dividend, the Committee shall cause there to be made an equitable adjustment to (i) the number and kind of Shares that may be issued under the Plan, (ii) the limitations on the number of Shares that may be issued to an individual Participant as an Option or a Stock Appreciation Right or in the form of Restricted Stock in any calendar year or that may be issued in the form of Restricted Stock or Shares without restrictions and (iii) the number and kind of Shares or, subject to Plan

Section 6.6, Stock Units, subject to and the exercise price (if applicable) of any then outstanding Awards of Options, Stock Appreciation Rights, Restricted Stock, Stock Units or any other Awards related to shares of Stock (to the extent such other Awards would not otherwise automatically adjust in the equity restructuring); provided, in each case, that with respect to Incentive Stock Options, no such adjustment shall be authorized to the extent that such adjustment would cause such options to violate Section 422(b) of the Code or any successor provision; provided further, with respect to all Awards, no such adjustment shall be authorized to the extent that such adjustment would cause the Awards to be subject to adverse tax consequences under Section 409A of the Code. In the event of any other change in corporate capitalization, such as a merger, consolidation, any reorganization (whether or not such reorganization comes within the definition of such term in Section 368 of the Code), including a Fundamental Change (subject to Plan Section 18), or any partial or complete liquidation of the Company, such equitable adjustments described in the foregoing sentence may be made as determined to be appropriate and equitable by the Committee to prevent dilution or enlargement of rights. In either case, any such adjustment shall be conclusive and binding for all purposes of the Plan. Unless otherwise determined by the Committee, the number of Shares subject to an Award shall always be a whole number. In no event shall an outstanding Option or Stock Appreciation Right be amended for the sole purpose of reducing the exercise price or grant price thereof.

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

(a) if the Fundamental Change is a merger or consolidation or statutory share exchange, make appropriate provision for the protection of the outstanding Options and Stock Appreciation Rights by the substitution of options, stock appreciation rights and appropriate voting common stock of the corporation surviving any merger or consolidation or, if appropriate, the parent corporation of the Company or such surviving corporation; or

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

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

19. Prohibition on Repricing. Except pursuant to Section 17 of the Plan in connection with an equity restructuring, or pursuant to Section 18 of the Plan in connection with a Fundamental Change, in either case in order to prevent dilution or enlargement of the benefits or potential benefits intended to be provided under the Plan, no Option or Stock Appreciation Right granted under the Plan may be amended to decrease the exercise price or grant price thereof, be cancelled in exchange for the grant of any new Option or Stock Appreciation Right with a lower exercise or grant price or any new Full Value Award, be repurchased by the Company or any Affiliate, or otherwise be subject to any action that would be treated under accounting rules or otherwise as a repricing of such Option or Stock Appreciation Right, unless such action is first approved by the Company's stockholders.

20. Forfeitures and Compensation Recovery.

20.1 Forfeiture for Cause. Notwithstanding any other provision of the Plan or an Agreement, if a Participant's employment is terminated for cause as defined in this Section 20.1, then as of the date of such termination, any of the Participant's outstanding Awards that have not vested or been exercised by the Participant will be forfeited to the Company. For purposes of this Section 20.1, cause means the Participant: (i) committed a felony or a crime involving moral turpitude or committed any other act or omission involving fraud, embezzlement or any other act of dishonesty in the course of his employment by the Company or an Affiliate which conduct damaged the Company or an Affiliate; (ii) substantially and repeatedly failed to perform duties of the office held by the Participant as reasonably directed by the Company or an Affiliate; (iii) committed gross negligence or willful misconduct with respect to the Company or an Affiliate; (iv) committed a material breach of any employment agreement between the Participant and the Company or an Affiliate that is not cured within ten (10) days after receipt of written notice thereof from the Company or the Affiliate, as applicable; (v) failed, within ten (10) days after receipt by the Participant of written notice thereof from the Company or an Affiliate, to correct, cease or otherwise alter any failure to comply with instructions or other action or omission which the Board reasonably believes does or may materially or adversely affect the Company's or an Affiliate's business or operations; (vi) committed misconduct which is of such a serious or substantial nature that a reasonable likelihood exists that such misconduct will materially injure the reputation of the Company or an Affiliate; (vii) harassed or discriminated against the Company's or an Affiliate's employees, customers or vendors in violation of the Company's policies with respect to such matters; (viii) misappropriated funds or assets of the Company or an Affiliate for personal use or willfully violated the Company policies or standards of business conduct as determined in good faith by the Board; (ix) failed, due to some action or inaction on the part of the Participant, to have immigration status that permits the Participant to maintain full-time employment with the Company or an Affiliate in the United States in compliance with all applicable immigration law; or (x) disclosed trade secrets of the Company or an Affiliate. The findings and decision of the Committee or the Board, if applicable, with respect to any such matter, including those regarding the acts of the Participant and the damage done to the Company, will be final for all purposes. No decision of the Committee, however, will affect the finality of the discharge of the individual by the Company or an Affiliate.

20.2 Forfeiture Events. The Committee may specify in an Agreement that the Participant's rights, payments and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Such events may include, but shall not be limited to, termination of employment for cause, termination of employment for any other reason, violation of material policies of the Company and its Affiliates, breach of noncompetition, confidentiality, or other restrictive covenants that may apply to the Participant, or other conduct by the Participant that is detrimental to the business or reputation of the Company and its Affiliates.

20.3 Compensation Recovery Policy. Awards and any compensation associated therewith may be made subject to forfeiture, recovery by the Company or other action pursuant to any compensation recovery policy adopted by the Board or the Committee at any time, including in response to the requirements of Section 10D of the Exchange Act and any implementing rules and regulations thereunder, or as otherwise required by law. Any Agreement may be unilaterally amended by the Committee to comply with any such compensation recovery policy.

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

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

23. Limits of Liability.

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

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

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

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

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

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

28. Requirements of Law.

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

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

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

(1) If any amount is payable under such Award upon a termination of employment, a termination of employment will be deemed to have occurred only at such time as the Participant has experienced a separation from service as such term is defined for purposes of Code Section 409A; and

(2) If any amount shall be payable with respect to any such Award as a result of a Participant's separation from service at such time as the Participant is a specified employee within the meaning of Code Section 409A, then no payment shall be made, except as permitted under Code Section 409A, prior to the first business day after the earlier of (i) the date that is six months after the Participant's separation from Service or (ii) the Participant's death. Unless the Committee has adopted a specified employee identification policy as contemplated by Code Section 409A, specified employees will be identified in accordance with the default provisions specified under Code Section 409A.

None of the Company, the Committee nor any other person involved with the administration of this Plan shall in any way be responsible for ensuring the exemption of any Award from, or compliance by any Award with, the requirements of Code Section 409A. By accepting an Award under this Plan, each Participant acknowledges that the Company has no duty or obligation to design or administer the Plan or Awards granted thereunder in a manner that minimizes a Participant's tax liabilities, including the avoidance of any additional tax liabilities under Code Section 409A.

**VOTE BY INTERNET - [www.proxyvote.com](http://www.proxyvote.com)**

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

*DIGI INTERNATIONAL INC.*

*ATTN: Office of General Counsel*

*11001 BREN RD. EAST*

*MINNETONKA, MN 55343*

**ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS**

If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

**VOTE BY PHONE - 1-800-690-6903**

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

**VOTE BY MAIL**

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

**THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.**

**For All      Withhold All      For All Except**

To withhold authority to vote for any individual nominee(s), mark **For All Except** and write the number(s) of the nominee(s) on the line below.

**The Board of Directors recommends you vote FOR the following:**      ..      ..      ..

- 1. Election of Directors Nominees:

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01 Guy C. Jackson

02 Ahmed Nawaz

**The Board of Directors recommends you vote FOR proposals 2, 3 and 4.**

**For    Against    Abstain**

- |  |    |    |    |
|--|----|----|----|
| 2. Company proposal to approve the Digi International Inc. 2013 Ominbus Incentive Plan.  | .. | .. | .. |
| 3. Company proposal to cast a non-binding advisory vote on executive compensation.   | .. | .. | .. |
| 4. Ratification of the appointment of PricewaterhouseCoopers LLP as independent registered public accounting firm of the company for the 2013 fiscal year. | .. | .. | .. |

**NOTE:** If any other matters properly come before the annual meeting calling for a vote of stockholders, the shares represented by this proxy will be voted by the persons named herein in accordance with their best judgment.

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name, by authorized officer.

Signature [PLEASE SIGN WITHIN BOX]  
Date

Signature (Joint Owners)  
Date

**11001 Bren Road East**

**Minnetonka, Minnesota 55343**

Annual Meeting of Stockholders

January 28, 2013

3:30 p.m.

Minneapolis Marriot Southwest

5801 Opus Parkway

Minnetonka, Minnesota

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:** The Notice & Proxy Statement, Annual Report is/are available at [www.proxyvote.com](http://www.proxyvote.com).

**DIGI INTERNATIONAL INC.**

**Annual Meeting of Stockholders**

**January 28, 2013 3:30 P.M**

**This proxy is solicited on behalf of the Board of Directors.**

The undersigned hereby appoints Joseph T. Dunsmore and David H. Sampsell, and each of them, as Proxies, each with the power to appoint his substitute, and hereby authorizes such Proxies to represent and to vote, as designated on the reverse, all shares of Common Stock of Digi International Inc. held of record by the undersigned at the close of business on November 29, 2012, at the Annual Meeting of Stockholders to be held on January 28, 2013, or any adjournment thereof.

**This proxy, when properly executed, will be voted in the manner directed herein. If no such direction is made, this proxy will be voted in accordance with the Board of Directors' recommendations.**

**Continued and to be signed on the reverse side**