

DIGI INTERNATIONAL INC

Form DEF 14A

November 29, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A**

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

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

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.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

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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- o Fee paid previously with preliminary materials.
- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

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**DIGI INTERNATIONAL INC.
11001 Bren Road East
Minnetonka, Minnesota 55343
952/912-3444**

November 29, 2010

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 Thursday, January 20, 2011.

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

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**DIGI INTERNATIONAL INC.
Notice of Annual Meeting of Stockholders
to be held on
January 20, 2011**

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 Thursday, January 20, 2011, for the following purposes:

1. To elect two directors for a three-year term.
2. To ratify the appointment of PricewaterhouseCoopers LLP as independent registered public accounting firm of the Company for the fiscal year ending September 30, 2011.
3. To transact such other business as may properly be brought before the meeting.

The Board of Directors has fixed November 23, 2010 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 mark, date and sign the enclosed proxy and return it in the accompanying postage-paid reply envelope as quickly as possible. You may revoke your proxy at any time prior to its exercise, and returning your 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,

James E. Nicholson
Secretary
Minnetonka, Minnesota
November 29, 2010

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**PROXY STATEMENT
GENERAL INFORMATION**

The enclosed proxy is being solicited by the Board of Directors of Digi International Inc., a Delaware corporation (Digi, we, us or our), for use in connection with the Annual Meeting of Stockholders to be held on Thursday, January 20, 2011, 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 23, 2010 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 to stockholders will commence on or about December 10, 2010.

Stockholder Proposals. Stockholder proposals (other than director nominations) that are submitted for inclusion in our proxy statement for our 2012 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 under Rule 14a-8, such proposals must be received by us at our principal executive office no later than August 5, 2011.

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 22, 2011. A stockholder s notice will not be deemed to be submitted until we have received all of the required information.

Expenses of Soliciting. We will pay the cost of soliciting proxies in the accompanying form. 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 2011 Annual Meeting of Stockholders, the Company has retained D.F. King for a total fee not to exceed \$6,000 plus out-of-pocket expenses.

Vote Required. 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. 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 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 proposal.

Our Common Stock, par value \$.01 per share, is our only authorized and issued voting security. At the close of business on November 23, 2010, there were 25,107,340 shares of Common Stock outstanding, each of which is entitled to one vote. Holders of Common Stock are not entitled to cumulate their votes for the election of directors.

HOW TO VOTE

Your vote is important. We encourage you to vote promptly. Internet and telephone voting is available through 12:00 p.m. Central Time on Wednesday January 19, 2011. You may vote in one of the following ways:

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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 20, 2011:

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

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

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The following table sets forth the beneficial ownership of our Common Stock, as of November 23, 2010, 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 ⁽¹⁾	Percentage Outstanding Shares
Directors, nominees and executive officers:		
Joseph T. Dunsmore	422,375 ⁽²⁾	1.65%
Lawrence A. Kraft	234,625 ⁽³⁾	*
Subramanian Krishnan	20,891	*
Brenda L. Mueller	70,219 ⁽⁴⁾	*
Joel K. Young	235,154 ⁽⁵⁾	*
Guy C. Jackson	141,831 ⁽⁶⁾	*
Kenneth E. Millard	98,481 ⁽⁷⁾	*
Ahmed Nawaz	181,165 ⁽⁸⁾	*
William N. Priesmeyer	96,081 ⁽⁹⁾	*
Bradley J. Williams	205,796 ⁽¹⁰⁾	*
All directors, nominees and executive officers as a group (10 persons)	1,706,618 ⁽¹¹⁾	6.42%
Other beneficial owners:		
BlackRock, Inc. 40 East 52 nd Street New York, NY 10022	2,020,306 ⁽¹²⁾	8.05%
Dimensional Fund Advisors LP 1299 Ocean Avenue Santa Monica, CA 90401	2,079,485 ⁽¹³⁾	8.28%
Royce & Associates, LLC 1414 Avenue of the Americas New York, NY 10019	2,317,244 ⁽¹⁴⁾	9.23%
Riverbridge Partners LLC 801 Nicollet Mall, Suite 600 Minneapolis, MN 55402	2,501,543 ⁽¹⁵⁾	9.96%

* Less than one percent.

(1) 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.

(2) Includes 417,604 shares covered by options which are exercisable within 60 days of the record date.

(3) Includes 234,625 shares covered by options which are exercisable within 60 days of the record date.

(4) Includes 62,547 shares covered by options which are exercisable within 60 days of the record date.

- (5) Includes 233,625 shares covered by options which are exercisable within 60 days of the record date.
- (6) Includes 136,831 shares covered by options which are exercisable within 60 days of the record date.
- (7) Includes 78,331 shares covered by options which are exercisable within 60 days of the record date.
- (8) Includes 81,165 shares covered by options which are exercisable within 60 days of the record date and 100,000 shares held in a margin account secured by a pledge of such shares.

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- (9) Includes 93,081 shares covered by options which are exercisable within 60 days of the record date.
- (10) Includes 121,331 shares covered by options which are exercisable within 60 days of the record date.
- (11) Includes 1,459,140 shares covered by options which are exercisable within 60 days of the record date held by five non-employee directors and five executive officers.
- (12) Based on information reported to the SEC in a Schedule 13G filed by BlackRock, Inc. on February 29, 2010 reflecting beneficial ownership as of December 31, 2009. On December 1, 2009, BlackRock, Inc. completed its acquisition of Barclays Global Investors, and certain of its affiliates (collectively, the BGI Entities) from Barclays Bank PLC. As a result, the BGI Entities are now included as subsidiaries of BlackRock, Inc. for purposes of Schedule 13G filings.
- (13) Based on information reported to the SEC in an amended Schedule 13G filed by Dimensional Fund Advisors LP on February 8, 2010 reflecting beneficial ownership as of December 31, 2009. Dimensional Fund Advisors had sole voting power over 2,029,855 shares and sole dispositive power over 2,079,485 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 or sub-adviser (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.
- (14) Based on information reported to the SEC in an amended Schedule 13G filed by Royce & Associates, LLC on January 25, 2010 reflecting beneficial ownership as of December 31, 2009.
- (15) Based on information reported to the SEC in an amended Schedule 13G filed by Riverbridge Partners LLC on February 2, 2010 reflecting beneficial ownership as of December 31, 2009. Riverbridge Partners LLC had sole voting power over 2,007,668 shares, shared voting power with respect to 9,400 shares and sole dispositive power over 2,501,543 shares.

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**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 2011 Annual Meeting of Stockholders. The Nominating and Governance Committee has nominated Messrs. Dunsmore and Williams 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 2011 Annual Meeting:

Nominees for Term Expiring in 2014:

Joseph T. Dunsmore, age 52

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, Mr. Dunsmore was Vice President of Access for Lucent Microelectronics, a telecommunications company now known as Agere Systems Inc., since June 1999. 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 Digi's business, culture, strategy, people, operations, competition and financial position. Mr. Dunsmore provides demonstrated executive leadership and strategic vision.

Bradley J. Williams, age 50

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 2007 to April 2008, Mr. Williams served as the Vice President of Sales for Doextra Corporation. From October 2005 to February 2007, 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 market perspective for the board.

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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.

Directors Whose Terms Expire in 2013:

Guy C. Jackson, age 68

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 numerous public companies in Ernst & Young's New York and Minneapolis Offices. Mr. Jackson also serves as a director and chair of the audit committees of Cyberonics, Inc., EpiCept Corporation and Life Time Fitness, Inc. He is a former director of 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 and corporate governance. In addition, Mr. Jackson's other outside board experiences provide a broad strategic and operating perspective that is valuable to the board.

Ahmed Nawaz, age 61

Mr. Nawaz has been a member of our Board of Directors since October 2006. Since October 2010, Mr. Nawaz has been Executive Vice President, Wireless Solutions Group at Spansion Inc. 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 in leading our board of directors.

Directors Whose Terms Expire in 2012:

Kenneth E. Millard, age 64

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 Oncor 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

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products. This background is particularly valuable as our board considers expansion strategies for our company. In addition, Mr. Millard's legal background and financing experience add valuable perspective to ongoing governance and financial matters.

William N. Priesmeyer, age 65

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 film energy cells 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.

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 as defined in the applicable listing standards of the Nasdaq Stock Market (Nasdaq). In making the independence determinations, our Board of Directors considered the following relationship: Mr. Nawaz, who has served as a director of our company since October 2006, is Executive Vice President of Worldwide Sales, Marketing and Corporate Development of Spansion Inc. During fiscal 2010, Digi purchased exclusively through independent third party distributors in the ordinary course of business an aggregate of approximately \$243,000 of Spansion Inc. components. Because the purchases were made through independent third party distributors, the Board of Directors has determined that the purchases of Spansion Inc. components do not interfere with Mr. Nawaz's exercise of independent judgment in carrying out his responsibilities as a director.

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 our 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 the principal liaison between the independent non-employee directors and the Chairman of the Board and Chief Executive Officer, (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

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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 is generally 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 our 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 16 times during fiscal 2010. All directors attended at least 95% or more of the meetings of the Board and of the Committees on which they served during fiscal 2010. 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 and all members are financially literate as required by the applicable Nasdaq listing standards. In addition, the Board of Directors has determined that Messrs. Jackson, Williams and Priesmeyer 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 16 times during fiscal 2010. As discussed below under the 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. The Audit Committee reviews the Audit Committee Charter annually and

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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 administers the Digi International Inc. Stock Option Plan, the Digi International Inc. Non-Officer Stock Option Plan, the Digi International Inc. Employee Stock Purchase Plan and the Digi International Inc. 2000 Omnibus Stock Plan. The Compensation Committee met 11 times during fiscal 2010. 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. 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 11 through 19.

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 2 times during fiscal 2010. 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. 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;

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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. One director attended the January 2010 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 2010 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, 2010 with our management; (ii) discussed with PricewaterhouseCoopers LLP, our independent registered public accounting firm, the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, as adopted by the Public Company Accounting Oversight Board 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, 2010 for filing with the SEC.

Guy C. Jackson (Chairman)

William N. Priesmeyer

Bradley J. Williams

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview

The compensation program goals for our Named Executives (whom we refer to as Executives elsewhere) identified on the Summary Compensation Table on page 20 are to incent profitable growth and create long-term value for our shareholders. Our pay-for-performance compensation programs reward sustained financial and operating performance and the creation of shareholder value, align the interests of our Executives with those of our shareholders, support retention goals, and attract qualified executive talent.

Compensation elements are designed to simultaneously fulfill one or more performance, alignment, attraction and retention objectives. Direct compensation elements consist of base salary, annual and quarterly cash incentive and equity incentive compensation. We place great emphasis on the opportunity for incentive compensation, thus aligning total direct compensation with the performance of the Company.

Our Compensation Committee (whom we refer to as Committee elsewhere), composed of three independent, non-employee directors, discharges board of directors responsibilities with respect to all forms of compensation for Executives as well as general oversight of compensation plans. The Committee has the authority to retain outside counsel, experts and other advisors as it determines appropriate.

Compensation Elements and Objectives

Base salary

Base salaries need to be competitive to attract and retain key talent. Base salaries for our Executives depend on the level of their responsibilities, management experience and performance against strategic objectives, level of contribution to the business, internal rates for comparable positions, and external market rates for comparable positions within our peer and/or survey group. Base salaries are reviewed annually but not automatically increased. Adjustments are approved by the Committee based upon changes in competitive market data and the other factors noted above, or for changes in responsibilities due to promotion. Base salary levels reflect the Committee's compensation philosophy of favoring compensation that is contingent on the achievement of performance objectives while providing a level of salary that will support our goals of attracting and retaining talent.

Cash Incentives

Cash incentives reward Executives for achievement of financial goals and other key strategic measures. Cash incentives range from 35% to 50% of an Executive's total cash compensation target, and therefore, provide significant incentive for the achievement of annual financial goals.

This cash incentive program provides 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 is typically 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. Cash incentives are paid annually following the release of our audited consolidated financial statements. Quarterly incentives are paid quarterly 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 business plan for that year and, in some years, have included other objective measurements of quarterly or annual financial success as the Committee determines to approve. The Committee approves plan elements and targets that they believe will support continued growth and creation of shareholder value.

The annual cash incentive component pays out based on performance and only if the executive remains employed with us for the full year. (In the event an executive is terminated without cause during the year, a pro-rated cash incentive is earned based on the number of months of service during the year and our actual financial performance against plan.)

From time to time, the Compensation Committee has also awarded discretionary cash bonuses based upon its assessment of an executive's performance and contributions, and may do so in the future.

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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 Executive with our shareholders, 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 Executives annually and on other dates that correspond to the 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 individual factors listed above. Existing ownership levels are generally not a factor in award determinations as we do not want to discourage Executives from accumulating Digi stock; however, the Committee may take into consideration an Executive's previous option awards and approve larger awards to newer Executives with fewer options by reason of their shorter tenure.

Stock options have an exercise price equal to the closing sale 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 grant date. For this reason the Committee believes that stock options are a motivational tool to drive shareholder 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 executives and motivating long-term performance. Under our current practice, options awarded to our Executives include a provision for accelerated vesting upon the permanent disability or death of the executive or upon a change in control. From time to time, at the discretion of the Compensation 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.

Other Compensation

We provide our Executives with perquisites and benefits that we believe are reasonable and aligned with our overall executive compensation program objectives. Executives receive the same benefits that are available to all regular full-time employees with the sole addition of a supplemental life insurance policy. Executives, along with other regular full-time employees, may be entitled to the use of Company paid tickets to sporting events.

We may enter into severance arrangements with Executives to align their interests with shareholders and attract and retain executives by providing contractual arrangements that address the consequences of significant organizational changes.

Compensation Determination Process

There is no specific formula used to determine the mix of compensation components. The Compensation Committee designs the mix of short-term cash compensation and long-term equity compensation to be commensurate to the level of responsibility of the Executive. The factors the Committee considers when determining total compensation plans and targets include, but are not limited to, the following:

Compensation levels of comparable jobs at companies in our targeted peer group and our broad technology industry category with comparable annual revenues, and compensation of each Executive relative to that of our other executives other than our Chief Executive Officer;

Executive's performance against annual objectives;

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

The portion of total compensation that should be performance-based;

The strategic goal achievement to which the Executives are held accountable;

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

Current financial conditions and goals of the Company.

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The Compensation Committee reviews the overall executive compensation program and specific compensation elements each year. The Committee begins this review process by determining the total cash compensation and equity incentive compensation to be paid to an Executive based on the factors listed above along with a review of the executive pay levels for comparable jobs as described below.

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

Digi does not set specific market percentile targets for base salary and cash incentives for Executives. After determining total cash compensation targets based on the factors listed above, our Committee determines the appropriate mix of base salary, cash incentive and equity incentive compensation for each Executive. Our pay-for-performance philosophy results in total cash compensation plans more leveraged towards cash incentive compensation than base salary. For Executives, base salaries comprise 50% to 65% of total cash compensation targets. As a result, our base salaries can fall below the median base salary of our peer group. Total cash compensation, when earned, will result in Executive total cash compensation falling on average between the peer group median and 75th percentile. Actual total cash compensation for Executives has fallen close to the 25th percentile for the past three years. This is a result of performance targets not being met, or in the case of fiscal 2009, the incentive plan being cancelled for the majority of the year.

The Committee awards stock options to 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 25th and 75th percentile,

Executive's past performance and potential for Executive to contribute to Company success in the future, and

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

Actual stock option awards for Executive in fiscal 2011 and fiscal 2010 have fallen between peer group 50th and 75th percentile.

Fiscal 2010 Compensation

For fiscal year 2010, the Committee reviewed the base salary, annual cash incentives and long-term equity incentive elements and levels for our Executives after consideration of the competitive analysis report as prepared by our Vice President of Human Resources. This report contained competitive data on base salaries, annual cash incentives and long-term equity incentives from a peer group and a survey group. The peer group was originally defined in 2007 through an independent analysis and recommendation from Pearl Meyer & Partners and modified annually to reflect company data that was no longer available. The peer group selection process was based on criteria defined by Pearl Meyer & Partners, namely strong technology industry/product similarity, annual revenues, and market capitalization. The 2010 peer group consisted of Acme Packet, Adaptec, Adtran, Avocent, Communication Systems Inc., Extreme Networks, Foundry Networks, Network Engines, Network Equipment Technologies, and Pctel. The survey group contained data as reported by Radford and Associates, an independent third party compensation survey that the Company subscribes to. This survey data contained competitive information for high technology companies in our broad industry category and within a revenue range of \$100 to \$200 million. The Committee considered this information, in addition to the factors described above, to determine the appropriate base salary, annual cash incentives and equity incentive awards and when setting the corresponding compensation levels to be paid to Executives for fiscal 2010.

Fiscal 2011 Compensation

For fiscal 2011, the Committee reviewed a competitive analysis of the base salary, annual cash incentives and equity incentive elements and levels for our Executives. This assessment was compiled and presented by Pearl Meyer & Partners, the Committee's independent compensation consultant. This assessment consisted of:

1. A review of our fiscal 2010 peer group and industry review to assess whether modifications were appropriate based on changes in the industry. As a result of this review, Pearl Meyer & Partners recommended a modified peer group which was approved by the Compensation Committee. Peer

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group companies were recommended based on strong technology/industry similarity, annual revenues and market capitalization. The fiscal 2011 peer group consists of the following companies:

Adaptec, Inc.	Network Engines, Inc.
Anaren Inc.	Network Equipment Technologies, Inc.
BigBand Networks, Inc.	Neutral Tandem, Inc.
CalAmp Corp.	Oplink Communications, Inc.
Communications Systems Inc.	Orbcomm, Inc.
Echelon Corp.	Seachange International, Inc.
EMS Technologies Inc.	Shoretel, Inc.
Extreme Networks Inc.	Sierra Wireless, Inc.
Globecomm Systems, Inc.	Silicon Laboratories, Inc.
Ixia	Symmetricom, Inc.

2. A comparison of our compensation elements and levels against the fiscal 2011 peer group to determine our overall market percentile position on each element as well as our total cash compensation and total equity compensation. The Committee considered this data, in addition to the factors described above prior to making compensation decisions for fiscal 2011.

Equity Grant Practices

The exercise price of each stock option awarded to the Executives and other employees under our equity incentive plans is the closing price of Digi stock on the date of grant, which, for Executives, is the November Committee meeting date that follows the public announcement of our year-end results. Equity awards for other employees are generally made at the same time, although awards for new hires and for promotions and other performance-related awards are also made during the course of the year. Board and Committee meetings are generally scheduled several months in advance with regard to anticipated earnings announcement schedules as grants are only made when the Company's trading window is open. Scheduling decisions are made without regard to anticipated earnings or other major Company announcements.

Management Participation

Members of executive management participate in Committee meetings at the Committee's request. Management's role is to contribute input and analysis to the Committee's discussions. Management does not participate in the final determination or recommendation of the amount or form of executive compensation, except that our Chief Executive Officer does participate in the final recommendation discussion, but not determination, of the amount and form of compensation to be paid to the other Executives.

Use of Consultants

From time to time, as noted above, the Compensation Committee uses outside compensation consultants to assist it in analyzing our compensation programs and determining appropriate levels of compensation and benefits. The decision to retain consultants and, if so, which consultants to retain, is made solely by the Committee.

In fiscal 2010, the Compensation Committee retained Pearl Meyer & Partners as its outside compensation consultant. Company management also purchases third party survey data from Pearl Meyer & Partners, the value of which is below \$7,500 per year.

Compensation of Chief Executive Officer in Fiscal 2010

The specific compensation paid to our Chief Executive Officer for fiscal 2010 reflects our performance against key financial measurements established by the Compensation Committee at the beginning of the year. A more detailed analysis of our financial and operational performance is contained in the Management's Discussion & Analysis section of our 2010 Annual Report on Form 10-K filed with the SEC.

Table of Contents**Base Salary**

Mr. Dunsmore's annual base salary for fiscal 2010 was set at \$406,000, with no increase over his fiscal 2009 base salary.

Annual Cash Incentive

Mr. Dunsmore's employment agreement dated September 27, 2006 fixed his cash incentive target at not less than 100% of his base salary. Mr. Dunsmore's cash incentive target based on financial objectives was set by the Committee at \$406,000 with additional incentives described below for financial performance in excess of plan and acquisitions.

For fiscal 2010, the Committee set a cash incentive plan based on performance against financial and strategic goals. This plan included both quarterly and annual cash incentive opportunity, an excess revenue component and an acquisition component.

Quarterly Performance Objectives (target and maximum of \$30,450 per quarter). Mr. Dunsmore earned the following cash incentive payment for quarterly performance during 2010. This Quarterly Financial Objective component was dependent on achievement of quarterly revenue goals, which were deemed to be aggressive but attainable. There was a minimum of 85% achievement required to earn payment, with maximum payment of 100% for each quarter.

Quarter Ended	Revenue Goal (in 000 s)	Actual Revenue (in 000 s)	Revenue Achievement	Incentive Payment
12/31/2009	\$ 41,600	\$ 42,968	103.3%	\$