Risk Factors Comparison 2023-11-22 to 2022-11-23 Form: 10-K

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Multiple risk factors exist which could have a material effect on our operations, results of operations, financial position, liquidity, capital resources and common stock. Operational Risks ~~Global Supply Chain and Freight Transportation Disruptions As we previously disclosed, like many companies, we are experiencing disruptions in our supply chain for a variety of reasons that we believe were initially triggered by the ongoing COVID- 19 pandemic and that have now been exacerbated by the ongoing war in Ukraine. Among others these reasons include: labor force disruptions, container ship backlogs, physical container shortages at locations important for the global supply chain, energy disruptions in Europe, China and elsewhere, global increases in inflation and material and component shortages. We also are monitoring policy actions by the Chinese and Russian governments as well as the evolving implementation of economic sanctions against Russia that could cause other disruptions in the supply and production of components and products. Collectively these issues have led to shortfalls in available components we need to make products as well as increased costs to obtain components, to make products and to transport components and products. It has also lengthened the timelines for us to fulfill customer orders. The severity of the disruptions is continuously changing, meaning the impact on our ability to meet demand for particular products in a timely manner has been subject to ebb and flow. Some of these disruptions have been material with respect to certain of our products. We are taking steps to attempt to mitigate the impact of disruptions such as placing inventory demand further out into the future to secure our allocations of components, negotiating and engaging with suppliers to reserve components, encouraging customers to place orders earlier than normal due to longer lead times and attempting (in conjunction with customers) to influence political leaders to assure components needed to make products that are essential to the health and well- being of society are prioritized to our customer' s needs by suppliers. Many of our suppliers are also experiencing supply chain disruptions which in turn disrupt our operations. At present, we are unable to predict neither the duration or severity, nor the impact on our business and financial results of these disruptions, which could be material.~~ We depend on manufacturing relationships and ~~on~~ **a broad set of suppliers, some of whom provide us with** limited- source **components** ~~suppliers,~~ and ~~any~~ **parts, and** disruptions in these relationships may cause damage to our customer relationships **or otherwise negatively impact our business** . We procure all parts and certain services involved in the production of our products and subcontract most of our product manufacturing to outside firms that specialize in such services. Although most of the components of our products are available from multiple vendors, we have several single- source supplier relationships, either because alternative sources are not available or because the relationship is advantageous to us. As an example, Ventus relies almost exclusively on a manufacturer in China for the production of the hardware it provides to its customers. Further, **in recent years** ~~as discussed elsewhere, a range of factors have created stress on many~~ supply chains globally **have experienced stress due to a range of factors** . This ~~has~~ **continues to** ~~impacted~~ -- **impact** ~~on~~ our own ability to procure certain inventory and services ~~, in both of our business segments~~ . ~~Some~~ **These disruptions also caused us to order significant amounts of inventory as we were uncertain whether we would otherwise be able to procure necessary parts and components to meet customer needs. As a result, we have held elevated levels of inventory compared to historical norms. The impacts** of these ~~impacts~~ **circumstances driven by supply chain stress** have been material **in some instances** and it is possible additional material impacts could occur in the future. There can be no assurance that our suppliers will be able to meet our future requirements for products and components in a timely fashion. In addition, the availability of many of the components we need is dependent in part on our ability to provide our suppliers with accurate forecasts of our future requirements. Delays or lost revenue could be caused by other factors beyond our control, including late deliveries by vendors of components, or force majeure events. As an example of force majeure, a fire in November 2014 disrupted the operations at one of our contract manufacturers in Thailand. If we are required to identify alternative suppliers for any of our required components, qualification and pre- production periods could be lengthy and may cause an increase in component costs and delays in providing products to customers. Any extended interruption in the supply of any of the key components or the availability of manufacturing services that currently are obtained from limited sources could disrupt our operations and have a material adverse effect on our customer relationships and profitability. The long and variable sales cycle for certain of our products and services makes it more difficult for us to predict our operating results and manage our business. The sale of our products and services may require a significant technical evaluation and commitment of capital and other resources by potential customers and end users, as well as delays frequently associated with end users' internal procedures to deploy new technologies and to test and accept new technologies. For these and other reasons, the sales cycle associated with certain of our products is typically lengthy and is subject to a number of significant risks, such as end users' internal purchasing reviews, **as well as availability of capital for deployments,** that are beyond our control. Because of the lengthy sales cycle and the large size of certain customer orders, if orders forecasted for a specific customer are not realized or delayed, our operating results could be materially adversely affected. Our participation in a services and solutions model, using hardware and cloud- based services, presents execution and competitive risks. We participate in a services and solutions model that uses both hardware and cloud- based services. Both our SmartSense by Digi and Ventus offerings deploy hardware, software and cloud- based hosting. In other areas of our business we offer hosted services and cloud- based platform, software applications, and supporting products and services. We also employ significant human and financial resources to develop and deploy these offerings. As we work to grow and scale these offerings, these investments have **impacted previously** and ~~can~~ **may impact** adversely ~~impacted~~ **in the future** our gross margins and profitability ~~and may continue to do so in the future~~ . While we believe we have a strong foundation to compete, it is uncertain whether our strategies will attract the users or generate the revenue required to be successful. Certain customers and potential customers that use these offerings **were** ~~have also been~~ adversely impacted by the ~~COVID~~ **Covid** - 19 pandemic ~~that began in 2020~~ and the resulting global economic downturn. ~~This~~ **Any future economic slowdown** could impede our ability to win and retain customers. We have and expect to encounter competition from other solutions providers, some of whom may have more significant resources than us ~~with which to compete~~. Whether we are successful in this business model depends on a number of factors, including: • our ability to establish the infrastructure to deploy and evolve our solutions effectively and continuously; • the features and functionality of our offerings relative to competing offerings as well as our ability to market effectively; • our ability to engage in successful strategic relationships with third parties such as telecommunications carriers, component makers and systems integrators; • our ability to meet service assurance commitments required by certain contracts; • competing effectively for market share; and • deploying complete end- to- end solutions that meet the needs of the marketplace generally as well as the particular requirements of our customers more effectively and efficiently than competitive solutions. Our ability to sustain and grow our business depends in large part on the success of our ~~channel partner~~ **third party** distributors and resellers. A substantial portion of our revenue is generated through sales by ~~channel partner~~ **third party** distributors and resellers. Further, ~~in recent~~ **for several** years we have been taking steps to expand our relationship with certain distributors who have global reach. These expansion efforts may increase the percent of our revenue driven through channel partners or heighten our reliance on certain channel partners to drive sales. To the extent our channel partners are unsuccessful selling our products or if we are unable to obtain and retain a sufficient number of high- quality channel partners, our operating results could be **affected** materially and adversely ~~affected~~. In addition, our ~~channel partners~~ **distributors and resellers** may market, sell and support products and services that are competitive with ours, and **they** may devote more resources to the marketing, sales and support of such products. These ~~channel partners~~ **distributors and resellers** may have incentives to promote our competitors' products in lieu of our products, particularly for our competitors with larger volumes of orders, more diverse product offerings and longer relationships with our distributors and resellers. It is possible ~~,~~ one or more of our important ~~channel partners~~ **distributors and resellers** may stop selling our products completely. Our ~~channel partner~~ **distributor and reseller** sales structure could subject us to lawsuits, potential liability and reputational harm if, for example, any of **these** ~~our channel partners~~ - **parties** misrepresents the functionality of our products or services to customers, or violates laws or our corporate policies. If we fail to manage our existing or future sales ~~channel partners~~ **through distributors and resellers** effectively, our business and operating results could be materially and adversely affected . Our sales and operations globally face...... to capital from lenders or other sources . Acquisitions could disrupt our business and seriously harm our financial condition. We will continue to consider acquisitions of businesses, products or technologies. In the event of any future acquisitions, we could issue stock that would dilute our current stockholders' percentage ownership, incur additional debt, assume liabilities or incur large and immediate write- offs. Our operation of any acquired business also involves numerous risks, including but not limited to: • problems combining the acquired operations, technologies, or products; • unanticipated costs; • diversion of management' s attention from our core business; • difficulties integrating businesses in different countries and cultures; • effectively implementing internal control over financial reporting; • adverse effects on existing business relationships with suppliers and customers; • risks associated with entering markets in which we have no or limited prior experience; and • potential loss of key employees, particularly those of the acquired business We cannot assure that we will be able to integrate successfully any businesses, products, technologies, or personnel that we have acquired or that we might acquire in the future. Any such integration failure could disrupt our business and have a material adverse effect on our consolidated financial condition and results of operations. Moreover, from time to time, we may enter into negotiations for a proposed acquisition, but be unable or unwilling to consummate the acquisition under consideration. This could cause significant diversion of management' s attention and out- of- pocket expenses for us. We could also be exposed to litigation as a result of any consummated or unconsummated acquisition. ~~The~~ **Certain parts of our business are subject to customer concentrations. Several of our acquired** businesses **historically have depended on relationships with one or a small number** of **customers or have a significant number of customers that are from particular industries. Any disruption in their business with those customers, whether as a result of changes in demand for the customer' s services, adverse changes in the customer' s industry generally or other challenges in securing or renewing contracts, could have a material adverse impact on our business, results of operations, financial condition and prospects. For example, we acquired** Accelerated ~~, which we acquired~~ in fiscal 2018 ~~, Opengear, which we acquired in fiscal 2019, and Ventus, which we acquired in fiscal 2022, are subject to significant customer concentration~~ . **Although** ~~In 2018, we acquired Accelerated. While~~ Accelerated has many customers, its business historically has been highly dependent on its relationship with a single telecommunications carrier customer. **We acquired Opengear** ~~Any disruption or difficulties~~ in ~~securing or renewing contractual relationships with this customer, maintaining such relationship on favorable terms or any other disruption in our business with this customer could have an adverse impact on our business, results of operations, financial condition and prospects. In the first quarter of~~ fiscal 2019 ~~, we acquired Opengear~~ . ~~While~~ **Although** Opengear has many customers, its business historically has been significantly concentrated on its relationships with a few large customers. **We acquired Ventus** ~~Any disruption or difficulties~~ in ~~securing or renewing contractual relationships with any of these customers, maintaining such relationships on favorable terms or any other disruption in our business with one or more of these customers could have an adverse impact on our business, results of operations, financial condition and prospects. In the first quarter of~~ fiscal 2022 ~~, we acquired Ventus~~ . ~~While~~ **Although** Ventus has many customers, its business historically has been significantly concentrated on its relationships with fewer than twenty customers **and it also serves a significant number of customers in the financial and gaming terminal industries. Likewise, our SmartSense by Digi business services a significant number of customers in the pharmaceutical, medical facility and retail food industries. Both Ventus and SmartSense by Digi produce significant ARR** . Any disruption or difficulties in ~~securing or renewing contractual relationships with~~ any of **the industries** these ~~customers, maintaining such relationships on favorable terms or any other disruption in our business~~ **businesses serve** ~~with one~~

~~or more of these customers~~ could have an adverse impact on our business, results of operations **(including, but not limited to, ARR)** , financial condition and prospects. In addition, some larger customers may demand discounts and rebates. As a result, our future revenue opportunities **with these customers** may be limited, and we may face pricing pressures, which in turn could adversely impact our gross margin and our profitability. The loss of, reduction in, or pricing discounts associated with orders from ~~any~~ key ~~customer~~ **customers** ~~would~~ **may** significantly reduce our revenue and harm our business. Furthermore, delays in payment and / or extended payment terms from ~~any of our key or~~ larger customers could have a **disproportionate and** material negative impact on our cash flows and working capital to support our business operations. **The businesses of our IoT Solutions segment are subject to the risks faced by businesses operating in emerging markets.** SmartSense by Digi ~~remains subject to the risks faced by a business operating in an emerging market. SmartSense by Digi primarily was formed through acquisitions of four businesses, the last of which was completed in October 2017, and~~ is operated in an emerging market where technology **-** based solutions to monitor the condition of perishable goods as well as the ~~competition~~ -- **completion** of employee tasks have not been used historically. **Similarly, our Ventus business is operating in an evolving marketplace where the breadth of companies with collections of assets that require connectivity and general monitoring is evolving.** The operation of ~~SmartSense by Digi will~~ **each of these businesses can therefore** be subject to significant additional risks that are not necessarily related to our ~~legacy~~ **more established** products and services. Additional risks that relate to **IoT Solutions** ~~SmartSense by Digi~~, include, but are not limited to: • SmartSense by Digi offerings are deployed in part to help assure perishable goods are safely preserved. ~~This presents~~ **Ventus' s offering is deployed so that dispersed collections of critical, operational assets requiring network connectivity (such as ATMs, lottery terminals, etc.) are fully operational. In each case, there is** a potential risk of loss in the event of a malfunction or failure ~~of~~ **in** our offerings. • SmartSense by Digi has a limited history with us in a marketplace that is ~~nascent~~ **relatively early** in its development and has numerous competitors **. Although Ventus has a longer operating history and some of the marketplaces in which it operates are quite mature, new use cases continue to emerge as businesses increasingly rely on self- service devices in their operations with customers** . We cannot provide assurances we will be successful in operating and continuing to grow ~~this~~ **either of these** ~~business~~ **businesses** . • Our ability to succeed with the ~~SmartSense by Digi~~ offerings **of these businesses** will depend in large part on our ability to provide customers with hardware and software products that are easy to deploy and offer features and functionality that address the needs of particular businesses. ~~The customer desire for ease of deployment has been heightened by the COVID- 19 pandemic that commenced during 2020.~~ We may face challenges and delays in the development of ~~this~~ **these** ~~business~~ **businesses** as the marketplace for products and services evolves to meet the needs and desires of customers. In light of these risks and uncertainties, we may not be able to establish or maintain the market share of **these businesses** ~~SmartSense by Digi, integrate it successfully into our other operations~~ or take full advantage of businesses we ~~have acquired or~~ may acquire in the future **related to either of these businesses** . There can be no assurance that we will recover our investments in SmartSense by Digi or **Ventus or** that we will realize ~~significant~~ **ongoing** and consistent profits from ~~this~~ **these** ~~business~~ **businesses** . Also, there can be no assurance that diverting our management' s attention to ~~this~~ **these** ~~business~~ **businesses** will not have a material adverse effect on our other existing businesses, any of which may have a material adverse effect on our results of operations, financial condition and prospects ~~addition,in the ordinary course of business from~~ **From** time to time **,we are subject to claims and litigation regarding intellectual property rights or other claims,which could seriously harm us and require us to incur significant costs.The communications technology industry is characterized by frequent litigation regarding patent and other intellectual property rights.From time to time,** we receive ~~other~~ **notification of a** third- party ~~claims~~ - **claim** that ~~may include,but are not limited to,commercial relationships,employment disputes,contractual disputes or alleged issues with the use of~~ our products ~~or services~~ **infringe intellectual property rights owned by others** .Any litigation to determine the validity of third- party infringement claims ~~or other litigation claims made against us~~ ,whether or not determined in our favor or settled by us,may be costly and divert the efforts and attention of our management and technical personnel from productive tasks.This could have a material adverse effect on our ability to operate our business and service the needs of our customers.There can be no assurance that any **infringement** claims by third parties,regardless if they have merit,will not materially adversely affect our business,operating results,financial condition or prospects.In the event of an adverse ruling in any such matter,we may be required to pay substantial damages,cease ~~engaging in or make alterations to certain business activities,cease~~ the manufacture,use and sale of infringing products,discontinue the use of certain processes or be required to obtain a license under the intellectual property rights of the third party claiming infringement.There can be no assurance ~~with respect to an infringement claim~~ that a license would be available on reasonable terms or at all.Any limitations on our ability to market our products,or delays and costs associated with redesigning our products or payments of license fees to third parties,or any failure by us to develop or license a substitute technology on commercially reasonable terms could have a material adverse effect on our business,operating results and financial condition. ~~Our sales and~~ . Risks Relating to Our Foreign Operations Our use of suppliers in other parts of the world **as well as our purchases of components containing certain materials** involves risks that could negatively impact us. We purchase **many** ~~a number of~~ components from suppliers in other parts of the world. Product delivery times may be extended due to the distances involved **or events beyond our control** , requiring more lead time in ordering. In addition, ocean freight delays may occur as a result of labor problems, weather delays, expediting orders for third parties ~~or~~ **,** customs issues **or other events beyond our control** . Any extended delay in receipt of the component parts could eliminate anticipated cost savings and have a material adverse effect on our customer relationships and profitability. Governments continue to impose tariffs on various products and components which may impact the pricing of certain components and inventories and could have a material adverse effect on our competitive standing in the marketplace and our financial results. Potential power outages, most notably in recent times in Asia and Europe could also have a material adverse effect ability to obtain components for our products from our foreign suppliers. Additional challenges could occur if these suppliers allocate materials and components to other customers. The Chinese government in recent years has implemented policies that adversely have impacted various industries in that nation and it is possible they may take actions in the future that are adverse to suppliers who we rely upon. ~~Finally, sanctions~~ **Sanctions** against and actions of the Russian government resulting from the war in Ukraine may be adverse to suppliers who we rely upon **. Finally, the introduction of new regulations by governments may also impact the availability, delivery or certain components or our ability to use certain components because of, among other potential reasons, the materials those components may contain or the location of the supplier of the component or certain materials contained in the component** . We face risks associated with our international operations that could impair our ability to grow our revenue abroad as well as our overall financial condition. Our future growth may be dependent in part upon our ability to increase sales in international markets. These sales are subject to a variety of risks, including fluctuations in currency exchange rates, tariffs, import restrictions and other trade barriers, unexpected **or very burdensome** changes in regulatory requirements, longer accounts receivable payment cycles, potentially adverse tax consequences, and export license requirements. In addition, we are subject to the risks inherent in conducting business internationally, including political and economic instability and unexpected changes in diplomatic and trade relationships. In many markets where we operate business and cultural norms are different than those in the United States and practices that may violate laws and regulations applicable to us like the Foreign Corrupt Practices Act (" FCPA") and the UK Anti- Bribery Act (" UKBA") are more commonplace. Although we have implemented policies and procedures with the intention of ensuring compliance with these laws and regulations, our employees, contractors and agents, as well as channel partners involved in our international sales, may take actions in violation of our policies. Many of our vendors and strategic business allies also have international operations and are subject to the **above described** risks ~~described above~~ . Even if we are able to successfully manage the risks of international operations, our business may be adversely affected if one or more of our business ~~partners~~ **relations** are not able to successfully manage these risks. There can be no assurance that one or more of these factors will not have a material adverse effect on our business strategy and financial condition. Our failure to comply effectively with regulatory laws pertaining to our foreign operations could have a material adverse effect on our revenue and profitability. We are required to comply with U. S. government export regulations in the sale of our products to foreign customers, including requirements to properly classify and screen our products against a denied parties list prior to shipment. We are also required to comply with the provisions of the FCPA and all other anti- corruption laws, such as UKBA, of all other countries in which we do business, directly or indirectly, including compliance with the anti- bribery prohibitions and the accounting and recordkeeping requirements of this law. Violations of **export regulations,** the FCPA or other similar laws **or other laws and regulations** could trigger sanctions, including ineligibility for U. S. government insurance and financing, as well as large fines. Failure to comply with the aforementioned regulations could also deter us from selling our products in international jurisdictions, which could have a material adverse effect on our revenue and profitability. Competitive and Reputational Risks We face intense competition from established companies that may have significant advantages over us and our products. The market for our products is intensely competitive. Certain of our competitors and potential competitors have or may develop greater financial, technological, manufacturing, marketing and personnel resources than us either generally or relative to the product sets they sell in competition to us. Further, there are numerous companies competing with us in various segments of the market for our products, and their products may have advantages over our products in areas such as conformity to existing and emerging industry standards **or new regulations** , interoperability with other products, management and security capabilities, performance, price, ease of use, scalability, reliability, flexibility, product features and technical support. Our current and potential competitors have or may develop one or more of the following significant advantages over us in the product areas where they compete with us: • tighter focus on an individual product or product category; • greater financial, technical and marketing resources; • barriers to transition to our products; • higher brand recognition across larger geographic regions; • more comprehensive product features and functionality; • longer- standing cooperative relationships with OEM and end- user customers; • superior customer service capacity and quality; • longer operating history; and • larger customer base. We cannot provide assurance that we will be able to compete successfully with our current and potential competitors. Such competitors may be able to more quickly develop or adapt to new or emerging technologies and changes in customer requirements **, changes in regulatory requirements** or devote greater resources to the development, promotion and sale of their products. Additionally, it is probable that new competitors or new alliances among existing competitors could emerge and rapidly acquire significant market share. Our dependence on new product development and the rapid technological change that characterizes our industry make us susceptible to loss of market share resulting from competitors' product introductions and enhancements, service capabilities and similar risks **as well as from regulatory changes** . Our industry is characterized by rapidly changing technologies, evolving industry standards, frequent new product introductions, short product life cycles in certain instances and rapidly changing customer requirements. The introduction of products and enhancements embodying new technologies that can disrupt one or more markets in which we compete and the emergence of new industry standards or regulations impacting our industry can render existing products obsolete or unmarketable. Our future success will depend on our ability to enhance our existing products, to introduce new products to meet changing customer requirements and emerging technologies **as well as potential regulatory changes** , and to demonstrate the performance advantages and cost- effectiveness of our products over competing products. Failure by us to modify our products to support new alternative technologies or failure to achieve widespread customer acceptance of such modified products could cause us to lose market share and cause our revenue to decline. Further, if our competitors offer better service capabilities associated with the implementation and use of their products, our business could be impacted negatively. We may experience delays in developing and marketing product enhancements or new products that respond to technological change, evolving industry standards or regulations and changing customer requirements. There can be no assurance that we will not experience difficulties that could delay or prevent the successful development, introduction, and marketing of these products or product enhancements, or that our new products and product enhancements will meet the requirements of the marketplace adequately and achieve any significant or sustainable degree of market acceptance in existing or additional markets. In addition, the future introductions or announcements of products by us or one of our competitors embodying new technologies or changes in industry standards or regulations or customer requirements could render our then- existing products obsolete or unmarketable. This risk may become more pronounced as new competitors emerge in markets where we sell our products, especially if these competitors have more resources than us to develop and market new products and technologies and provide related services. There can be no assurance that the introduction or announcement of new product offerings by us or one or more of our competitors will not cause customers to defer their purchase of our existing products, which could cause our revenue to decline. Our failure to compete successfully in our highly competitive market could result in reduced prices and loss of market share. The market in which we operate is characterized by rapid technological advances and evolving industry standards. The market can be affected significantly by new product introductions and marketing activities of industry participants. In addition, the amount of competition we face in the marketplace may change and grow as the market for our industry grows and new entrants enter the marketplace. Present and future competitors may be able to identify new markets and develop products more quickly, which are superior to those developed by us. Such competitors may adapt new technologies faster, devote greater resources to research and development, promote products more aggressively and price products more competitively than us. Competition may also intensify, or we may no longer be able to compete effectively in the markets in which we compete. Strategic Risks We intend to continue to devote significant resources to our research and development, which, if not successful, could cause a decline in our revenue and harm our business. We intend to continue to devote significant resources to research and development in the coming years to enhance our existing product offerings and develop additional product offerings. For fiscal **2023,** 2022, **and** 2021 ~~, and 2020~~, respectively, our research and development expenses were ~~14~~ **13**. 2 %, **14. 2 % and** 15. 1 ~~% and 15. 7~~ % of our revenue. If we are unable to enhance existing products and develop new products, applications and services as a result of our research and development efforts, if we encounter delays in deploying these enhanced or new products, applications and services, or if the products, applications and services we enhance or develop are not successful, our business could be harmed. Even if we enhance existing products and develop new products, applications and services that are accepted by our target markets, the net revenue from these products, applications and services may not be sufficient to justify our investment in research and development. Many of our products, applications and services have been developed through a combination of internally developed technologies and acquired technologies. Our ability to continue to develop products, applications and services could be partially dependent on finding and acquiring new technologies in the marketplace. Even if we identify new technologies that we believe would be complementary to our internally developed technologies, we may not be successful in obtaining those technologies or integrating them effectively with our existing technologies. Our ability to grow our business is dependent in part on strategic relationships we develop and maintain with third parties as well as our ability to integrate and assure use of our products and services in coordination with the products and services of certain strategic partners in a commercially acceptable manner. We believe that our ability to increase our sales depends in part on maintaining and strengthening relationships with parties such as telecommunications carriers, systems integrators, enterprise application providers, component providers and other strategic technology companies. Once a relationship is established, we likely will dedicate significant time and resources to it in an effort to advance our business interests and there is no assurance any strategic relationship will generate enough revenue to offset the significant resources we use to advance the relationship. Parties with whom we establish strategic relationships also work with companies that compete with us. We have limited, if any, control as to whether these parties devote adequate resources to promoting, selling, and implementing our products. Further, new or emerging technologies, technological trends or changes in customer requirements may result in certain companies with whom we maintain strategic relationships de- emphasizing their dealings with us or becoming potential competitors in the future. We also have limited, if any, control as to other business activities of these parties and we could experience reputational harm because of our association with such parties if they fail to execute on business initiatives, are accused of breaking the law or otherwise suffer reputational harm for other reasons. All of these factors could materially and adversely impact our business and results of operations. In some cases, we expect the establishment of a strategic relationship with a third party to result in integrations of our products or services with those of other parties. Identifying appropriate parties for these relationships as well as negotiating and documenting business agreements with them requires significant time and resources. We expect these agreements typically to be non- exclusive and not to prohibit the other party from working with our competitors or offering competing services. Once the relationship is established, we may encounter difficulties in combining our products and services in a commercially acceptable manner. We expect this dynamic, where our ability to generate sales is dependent on our products and services interacting with those sold by third parties, may become more common in the future. There can be no guarantee in any particular instance that we will be successful in making our products interact with those of other parties in a commercially acceptable manner and, even if we do, we cannot guarantee that the resulting products and services will be **marketed** effectively ~~marketed~~ or sold via the relationship. Our failure to anticipate or manage product transitions effectively could have a material adverse effect on our revenue and profitability. From time to time, we or our competitors may announce new or enhanced products that may replace or shorten the life cycles of our existing products. Announcements of currently planned or other new or enhanced products may cause customers to defer or stop purchasing our products until these products become available. Furthermore, the introduction of new or enhanced products **because of customer requirement, regulation or otherwise may** ~~requires~~ - **require** us to manage the transition from older product inventories and ensure that adequate supplies of new or enhanced products can be delivered to meet customer demand. Our failure to anticipate the revenue declines associated with older products or manage transitions from older products effectively could result in inventory obsolescence and also have a material adverse effect on our revenue and profitability. We are dependent on third parties to manufacture our products which could have adverse impacts on our business if such manufacturers encounter operating restraints or if we do not properly forecast customer demand. We are reliant on third parties to manufacture our products in countries such as **Mexico, Thailand, Taiwan and** China ~~, Mexico and Thailand~~. The ability of these manufacturers to provide us with the timely provision of finished products is subject to a number of disruptions beyond their control such as, among others: the availability of components from suppliers, labor shortages ~~such as those caused by the ongoing COVID- 19 pandemic~~ , energy shortages such as those from time to time encountered in China, changes in government regulations **, tensions with foreign governments** or other factors. If we do not properly forecast customer demands for products any lengthening in lead times or disruptions in service could result in lost revenues and adversely impact our business, results of operation, financial condition and prospects. The loss of key personnel could prevent us from executing our business strategy. Our business and prospects depend to a significant degree upon the continuing contributions of our executive officers and key technical and other personnel. Competition for such personnel is intense, and in the current environment of large numbers of workers leaving their current employment for new opportunities, there can be no assurance that we will be successful in retaining qualified personnel. Failure to attract and retain key personnel could result in our failure to execute our business strategy. Risks Related to Economic and Market Conditions Our consolidated operating results and financial condition may be adversely impacted by worldwide economic conditions and credit tightening. If worldwide economic conditions experience a significant downturn, these conditions may make it difficult or impossible for our customers and suppliers to accurately forecast and plan future business activities, which may cause them to slow or suspend spending on products and services. Our customers **or suppliers** may find it difficult to gain sufficient credit **or service existing credit** in a timely manner, which could result in an impairment of their ability to **process or** place orders with us **, deliver inventory or services to us in the case of suppliers** or to make timely payments to us for previous purchases **in the case of customers** . If this occurs, our revenue may be reduced, thereby having a negative impact on our results of operations. In addition, we may be forced to increase our allowance for credit losses and our days sales outstanding may increase, which would have a negative impact on our cash position, liquidity and financial condition. To the extent we incur debt, we may be unable to adhere to financial covenants or to service the debt. **These risks associated with credit and debt are more pronounced for the parties with whom we do business and ourselves in the current environment which has seen interest rates rise rapidly, especially if they remain elevated for an extended period of time** We cannot predict either the timing or duration of an economic downturn in the economy, should one occur. Any downturn could have a material adverse impact on our business, results of operations, financial condition and prospects. Our gross margins may be subject to decline. Our gross margins may be subject to declines which could decrease our overall profitability and impact our financial performance adversely. Some of the hardware products we sell are approaching the end of their product life cycles. These mature hardware products have sold historically at higher gross margins than our other product and service offerings. We expect this general trend of declining sales for many of our mature products to continue and the pace of the decline may accelerate. In addition, rising prices for goods and services due to inflation along with ongoing cost pressures in our industry create downward pressure on the prices at which we and other manufacturers can sell hardware products. We have indicated that we would be willing to realize lower levels of gross margins from customers in return for long- term, binding purchase commitments. If this strategy were successful, it could apply downward pressure on our gross margins. ~~While part~~ **Part** of our longer term strategy is to sell software applications and IoT solutions such as SmartSense by Digi and Ventus offerings ~~, which~~ **as well as selling hardware together with bundled services on a subscription basis. These sales** may provide recurring revenues at relatively high gross margins, **but** these types of offerings are still ~~at early~~ **in the earlier** stages of adoption by customers ~~and~~ **. As such,** their sales growth is not necessarily predictable or assured. **Our** ~~As such, our~~ gross margins **therefore** may be subject to decline unless we can implement cost reduction initiatives effectively to offset the impact of these factors. Our revenue may be subject to fluctuations based on the level of significant large project- based purchases. No single customer has represented more than 10 % of our revenue in any of the last three fiscal years. However, many of our customers make significant one- time hardware purchases for large projects that are not repeated. As a result, our revenue may be subject to significant fluctuations based on whether we are able to close significant project based sales opportunities. In addition, in our SmartSense by Digi and Ventus businesses certain customers have outsized deployments relative to other customers. It is possible we will see revenue fluctuations in ~~this~~ **these** ~~business~~ **businesses** based upon the scale of new deployments in different financial periods. Our failure to complete one or a series of significant sales opportunities in a particular fiscal period could have a material adverse effect on our revenue for that period. Some of our products are sold into mature markets, which could limit our ability to continue to generate revenue from these products. Some of our hardware products are sold into mature markets that are characterized by a trend of declining demand. We have made targeted investments to provide enhanced and new products into these mature markets and believe this may mitigate declining demand. However, over the longer term, the overall market for these hardware products is expected to decrease due to the adoption of new technologies. As such, we expect that our revenue from these products will continue to decline over time. As a result, our future prospects depend in part on our ability to acquire or develop and successfully market additional products that address growth markets. Unanticipated changes in our tax rates could affect our future results. Our future effective tax rates could be favorably or unfavorably affected by unanticipated changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of our deferred tax assets and liabilities, or by changes in tax laws or our interpretation of such laws. In addition, we may be subject to the examination of our income tax returns by the Internal Revenue Service and other U. S. and international tax authorities. We regularly assess the potential outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these examinations will not have an adverse effect on our consolidated operating results and financial condition. We may have additional tax liabilities. We are subject to income taxes in the United States and many foreign jurisdictions. Significant judgment is required in determining our worldwide provision for income taxes, including our reserves for uncertain tax positions. In the ordinary course of business, there are many transactions and calculations where the ultimate tax determination is uncertain. We regularly are under audit by tax authorities. Although we believe our tax estimates are reasonable, the final determination of tax audits could be materially different from our historical income tax provisions and accruals. The results of an audit could have a material effect on our consolidated financial position, results of operations, or cash flows in the period or periods for which that determination is made. Credit and Liquidity Risks Failure to comply with the covenants under our credit facility may have a material adverse effect on our ability to access additional capital and / or create an event of default. On December 22, 2021, Digi entered into a third amended and restated credit agreement, which amended and restated the second amended and restated credit agreement entered into on November 1, 2021, consisting of a $ 350 million term loan B secured loan (the" Term Loan") and a $ 35 million revolving credit facility (the" Revolving Credit Facility", and together with the Term Loan, the" Loan"). This Loan replaced our syndicated senior secured credit agreement with BMO that was entered into on March 15, 2021 and replaced the remaining balances of our term loan and revolver. The $ 35 million revolving credit facility, which presently is undrawn, includes a $ 10 million letter of credit subfacility and $ 10 million swingline subfacility. Amounts under the Term Loan are being repaid in quarterly installments on the last day of each fiscal quarter, with an annual amortization rate of 5 % of the original aggregate principal amount of the term loans, commencing on June 30, 2022. The remaining outstanding balance under the Term Loan is due to be repaid in full after seven years. If we are unable to generate sufficient cash flow or otherwise obtain funds necessary to make required payments on the Loan, we will be in default. We are also required to comply with several financial covenants under the Credit Agreement. Our ability to comply with such financial covenants may be affected by events beyond our control, which could result in a default under the Credit Agreement; such default may have a material adverse effect on our business, financial condition, operating results or cash flows. The Term Loan contains some affirmative covenants and the Revolving Credit Facility contains customary affirmative and negative covenants, including covenants that restrict the ability of Digi and its subsidiaries to incur additional indebtedness, dispose of significant assets, make certain investments, including any acquisitions other than permitted acquisitions, make certain payments, enter into sale and leaseback transactions, grant liens on its assets or rate management transactions, subject to certain limitations. These restrictions could adversely affect our business. Negative conditions in the global credit markets may impair a portion of our investment portfolio. Our investment portfolio may consist of certificates of deposit, commercial paper, money market funds, corporate bonds and government municipal bonds. These marketable securities are classified as available- for- sale and are carried at fair market value. Some of our investments could experience reduced liquidity and could result in an impairment charge should the impairment be considered as other- than- temporary. This loss would be recorded in our consolidated statements of operations, which could materially adversely impact our consolidated results of operations and financial condition. Technology and Cybersecurity Risks We are subject to various cybersecurity risks, which are particularly acute in cloud- based technologies that we and other third parties operate that form a part of our solutions **or that we rely on to conduct our operations** . These risks may increase our costs and could damage our brand and reputation. As we continue to direct a substantial portion of our sales and development efforts toward broader based solutions, such as SmartSense by Digi, the Digi Remote Manager and Ventus offerings, we expect to store, convey and potentially process significant amounts of data produced by devices. **We have completed a number of acquisitions in recent years and have inherited a range of different systems that store, convey and potentially process data and in some cases we may be delayed or choose not to integrate these systems into similar systems used in other parts of our business.** Further many of our business applications **that we rely upon to operate our business** now exist within cloud platforms that are managed by third parties ~~, which also~~ **. These factors may** ~~adds~~ - **add to the** risk ~~from~~ **of** breach ~~of~~ **by** third parties. This data may include confidential or proprietary information, intellectual property or personally identifiable information of our customers or other third parties with whom they do business. It is important for us to maintain solutions and related infrastructure that are perceived by our customers and other parties with whom we do business as providing reasonable levels of reliability and security. Despite available security measures and other precautions, the infrastructure and transmission methods used by our products and services **or otherwise associated with our operations** may be vulnerable to interception, attack or other disruptive problems. Continued high- profile data breaches at other companies evidence an external environment that is becoming increasingly hostile to information security. Improper disclosure of data or a perception that our data security is insufficient could harm our reputation, give rise to legal proceedings or subject our company to liability under laws that protect data, which may evolve and expand in scope over time. Any of these factors could result in increased costs and loss of revenue for us. If a cyberattack or other security incident were to allow unauthorized access to or modification of our customers' data or our own data, whether due to a failure with our systems or related systems operated by third parties, we could suffer damage to our brand and reputation. The costs we would incur to address and fix these incidents could significantly increase our expenses. These types of security incidents could also lead to lawsuits, regulatory investigations and increased legal liability, including in some cases contractual costs related to customer notification and fraud monitoring. Further, as the regulatory focus on privacy and data security issues continues to increase and worldwide laws and regulations concerning the protection of information **continue to** become more complex, the potential risks and costs of compliance to our business are expected to intensify. Our products operate with and are dependent on products and components across a broad ecosystem. If there is a security vulnerability in one of these components, and if there is a security exploit targeting it, we could face increased costs, reduced revenue, liability claims or damage to our reputation or competitive position **. In addition, cybersecurity is an issue that is becoming increasingly regulated. As regulations take effect or evolve it is possible we may encounter issues being fully compliant with these legal standards which could result in material adverse effects on our business** . Risks Related to Our Intellectual Property Our ability to compete could be jeopardized if we are unable to protect our intellectual property rights. Our ability to compete depends in part on our proprietary rights and technology. Our proprietary rights and technology are protected by a combination of copyrights, patents, trade secrets and trademarks. We enter into confidentiality agreements with our employees, and sometimes with our customers, potential customers and other third parties, and limit access to the distribution of our proprietary information. There can be no assurance that the steps taken by us in this regard will be adequate to prevent the misappropriation of our technology. Our pending patent applications may be denied and any patents, once issued, may be circumvented by our competitors. Furthermore, there can be no assurance that others will not develop technologies that are superior to our technologies. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. In addition, the laws of some foreign countries do not protect our proprietary rights as fully as do the laws of the United States. There can be no assurance that our means of protecting our proprietary rights in the United States or abroad will be adequate or that competing companies will not independently develop similar technologies. Our failure to adequately protect our proprietary rights could have a material adverse effect on our competitive position and our business. From time to time, we are......, operating results and financial condition. Government and Political Risks Our inability to obtain the appropriate telecommunications carrier certifications or approvals from governmental regulatory bodies could impede our ability to grow revenue in our wireless products. The sale of our wireless products in certain geographical markets is sometimes dependent on the ability to gain telecommunications carrier certifications and / or approvals by certain governmental bodies. Failure to obtain these approvals, or delays in receiving the approvals, could impact our ability to enter our targeted markets or to compete effectively or at all in these markets and could have an adverse impact on our business and prospects. Our failure to comply effectively with the requirements of applicable **legislation and regulation, including but not limited to** environmental ~~legislation~~ **rules** and ~~regulation~~ **regulations ,** could have a material adverse effect on our revenue and profitability. Production and marketing of products in certain states and countries may subject us to environmental and other regulations. In addition, certain states and countries may pass new regulations requiring our products to meet certain requirements to use environmentally friendly components **or to avoid the procurement of materials and components from certain places in the world** . ~~The~~ **For instance, the** European Union has issued two directives relating to chemical substances in electronic products. The Waste Electrical and Electronic Equipment Directive makes producers of certain electrical and electronic equipment financially responsible for collection, reuse, recycling, treatment and disposal of equipment placed in the European Union market. The Restrictions of Hazardous Substances Directive bans the use of certain hazardous materials in electric and electrical equipment which are put on the market in the European Union. In the future, various **governments** ~~countries including the United States~~ may adopt further environmental compliance programs **or other rules or regulations that may impact our business operations** . If we fail to comply with these regulations, we may not be able to sell our products in jurisdictions where these regulations apply, which could have a material adverse effect on our revenue and profitability. Risks Related to Our Common Stock Unsolicited takeover proposals, governance change proposals, proxy contests and resulting litigation may adversely impact our operations, create uncertainty and affect the market price and volatility of our securities. In 2017, we received an unsolicited takeover proposal and other companies in our industry have been the target of unsolicited takeover proposals in the past. In the event that a third party, such as a competitor, private equity firm or activist investor makes an unsolicited takeover proposal or proposes to change our governance policies or board of directors, or makes other proposals concerning our ownership structure or operations, our review and consideration of such proposals may be a significant distraction for our management and employees, and could require us to expend significant time and resources. Such proposals may create uncertainty for our employees and this uncertainty may adversely affect our ability to retain key employees, to hire new talent or to complete acquisitions we may desire to make. Similar uncertainty among our customers, suppliers and other business partners could cause them to terminate, or not to renew or enter into, arrangements with us. Certain proposals may result in costly proxy contests or litigation that can disrupt our business operations or result in an adverse effect on our operating results. Management and employee distraction related to any such proposals also may adversely impact our ability to conduct our business optimally and pursue our strategic objectives. Such proposals, or their withdrawal, could create uncertainty among investors and potential investors as to our future direction and affect the market price of our common stock without regard to our operational or financial performance. Certain provisions of the Delaware General Corporation Law and our charter documents have an anti- takeover effect. There exist certain mechanisms under the Delaware General Corporation Law and our charter documents that may delay, defer or prevent a change of control. For instance, under Delaware law, we are prohibited from engaging in certain business combinations with interested stockholders for a period of three years after the date of the transaction in which the person became an interested stockholder unless certain requirements are met, and majority stockholder approval is required for certain business combination transactions with interested parties. Our Certificate of Incorporation contains a" fair price" provision requiring majority stockholder approval for certain business combination transactions with interested parties, and this provision may not be changed without the vote of at least 80 % of the outstanding shares of our voting stock. Other mechanisms in our charter documents may also delay, defer or prevent a change of control. For instance, our Certificate of Incorporation provides that our Board of Directors has authority to issue series of our preferred stock with such voting rights and other powers as the Board of Directors may determine. Furthermore, we have a classified board of directors, which means that our directors are divided into three classes that are elected to three- year terms on a staggered basis. Since the three- year terms of each class overlap the terms of the other classes of directors, the entire board of directors cannot be replaced in any one year. Under Delaware law, directors serving on a classified board may not be removed by shareholders except for cause. The effect of these anti- takeover provisions may deter business combination transactions not approved by our Board of Directors, including acquisitions that may offer a premium over the market price to some or all stockholders. The price of our common stock has been volatile and could continue to fluctuate in the future. The market price of our common stock, like that of many other high- technology companies, has fluctuated significantly and is likely to continue to fluctuate in the future. During fiscal ~~2022~~ **2023** , the closing price of our common stock on the Nasdaq Global Select Market ranged from $ ~~18~~ **27** . ~~54~~ **00** to $ ~~37~~ **42** . ~~44~~ **94** per share. Our closing sale price on November ~~17~~ **20** , ~~2022~~ **2023** was $ ~~39~~ **25** . ~~50~~ **29** per share. Announcements by us or others regarding the receipt of customer orders, quarterly variations in operating results, departures of key personnel, acquisitions or divestitures, additional equity or debt financings, results of customer field trials, scientific discoveries, technological innovations, litigation, product developments, patent or proprietary rights, government regulation and general market conditions and risks may, for example, have a significant impact on the market price of our common stock. If our stock price declines over a sustained period of time, our profits significantly decrease or our acquired businesses do not attain results that were anticipated at the time of acquisition, we may need to recognize an impairment of our goodwill. The price of our common stock could decline. If such a decline continued over a sustained period of time, we could have an impairment of our goodwill. Our market value is dependent upon certain factors, including continued future growth of our products, services and solutions. If such growth does not materialize or our forecasts are not met (including forecasts established at the time of acquisition), our profits could be significantly reduced, and our market value may decline, which could result in an impairment of our goodwill. As discussed in other risk factors, there could be circumstances beyond our control that could exacerbate the conditions that would lead to such an impairment. Risks Relating to Our Industry We are dependent on wireless communication networks owned and controlled by others. Our revenue could decline if we are unable to deliver continued access to digital cellular wireless carriers that we depend on to provide sufficient network capacity, reliability and security to our customers. Our financial condition could be impacted if our wireless carriers increase the prices of their services or suffer operational or technical failures. Natural disasters, wars and other events beyond our control could impact our supply chain and customers negatively resulting in an adverse impact to our revenue and profitability. Certain of our components and other materials used in producing our products are from regions susceptible to natural disasters or other events beyond our control, such as the ~~COVID~~ **Covid** - 19 pandemic **that was highly disruptive to businesses during the last few years** or the ongoing ~~war~~ **wars** in Ukraine **and the Middle East** . These and other events beyond our control can adversely impact our supply chains and our business. If we are unable to procure necessary materials, we could experience a disruption to our supply chain that would hinder our ability to produce our products in a timely manner. It also could cause us to seek other sources of supply which may be more costly or which we may not be able to procure on a timely basis. We also risk damage to any tooling, equipment or inventory at the supplier' s facilities. For instance, flooding in October 2011 and a fire in November 2014 disrupted the operations at one of our contract manufacturers in Thailand. In addition, our customers may not follow their normal purchasing patterns or temporarily cease purchasing from us due to impacts to their businesses in the region, creating unexpected fluctuations or decreases in our revenue and profitability. Natural disasters, wars and other events beyond our control could have material adverse impacts on our business.