

Terrorists no part of wireless company's growth plan

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Digi International Inc. produces an array of wireless devices that allow businesses to do all sorts of things by remote - from monitoring the temperature of a brewer's beer tanks to connecting police and fire departments during emergencies.

The devices offer tremendous reach and encryption capabilities that make them popular with businesses such as Sprint and Verizon. But they're also sought after by a demographic that Digi and the U.S. want no part of - terrorists.

At least 16 of the Minnetonka, Minn., company's radio modules were found in improvised [explosive devices](#) in Iraq that were designed to target U.S. soldiers, [federal authorities](#) say. None of the devices were detonated.

When the modules were sold about four years ago, the buyers told Digi the devices were for a telecommunications project in Singapore. The company was duped by an Iranian and four Singapore citizens who were working an elaborate scheme to circumvent U.S. export laws, according to a federal indictment.

Even though investigators say Digi did nothing wrong, the case put an unwanted spotlight on the company as the U.S. tries to prevent the export of products and technology that could be used to threaten national security. Last year, U.S. Commerce Department investigations into dubious exports resulted in 31 criminal convictions and more than \$12

million in fines.

Digi's role in the Singapore plot is an example of how a technology-based company in good standing can find its products being misused without its knowledge, said Ahmed Tewfik, chairman of the electrical and computer engineering department at the University of Texas-Austin. Even parts of a product can be in violation of export laws, depending on how they are used by those who receive them, he said.

"When a company (legally) sells a plane to China, that plane has components in it, which if extracted as stand-alone pieces would fall under export controls," Twfik said.

Digi officials declined to comment about the case or how its devices ended up in Iraq. But the company outlines prohibited uses for its products, as well as laws governing their export and distribution. "All Digi products are subject to anti-terrorism controls, which limit where products can be shipped," the company says on its website.

Wireless products are fueling growth at Digi, which was founded in 1985 as a maker of serial port adapters to connect computer peripherals to networks. In recent years, the company has shifted its business to wireless products that connect and manage local or remote electronic devices.

"Where the Internet was initially about connecting people via personal computers, the next phase of the Internet is about connecting things or devices," said Matt Serra, a company spokesman. "The entire Digi solution set is targeted to allow any device to communicate with any application, anywhere in the world."

Wireless products accounted for less than 5 percent of Digi's revenue in 2006. The company recently reported its wireless sales this year

increased more than 27 percent to almost \$85 million, more than 40 percent of total revenue. Sales from wired products increased less than 3 percent.

On its earnings conference call, CEO Joe Dunsmore said wireless products should account for at least 47 percent of total sales in the coming year.

Michael Cox, an analyst at Piper Jaffray in Minneapolis, said that in some wireless business segments, Digi competes with Qualcomm and Sierra Wireless. But Digi is unique in that it provides not only hardware, but integrated communication packages with equipment and integrated software.

Customers include Honeywell subsidiary Trend France to connect commercial building energy management systems, TankScan to enable remote access and management of storage tanks throughout the world, and Inteligistics to track shipping containers for the U.S. Navy.

The city of Roseville, Minn., uses Digi equipment to connect its police cars and firetrucks to the 911 emergency dispatcher. Serra said the company also has many telecommunications customers, including Sprint and Verizon.

The federal indictment said the smuggled devices, used to remotely detonate bombs, had encryption capabilities and could transmit data as far as 40 miles. That's considerably longer than the range of Wi-Fi, although the basic technology is similar, said Tewfik.

Encryption is common in wireless devices, including cellphones, Tewfik said. "Otherwise people could get your number and make calls that would be charged to your account." For an industrial customer, encryption would prevent an unauthorized user from intercepting a

signal and using it to manipulate manufacturing or other operating controls.

One of Digi's biggest market opportunities is in "smart-grid" technology that allows for two-way communication between electric power utilities and their customers, allowing both to monitor their energy usage.

"Digi's exposure to smart grid and energy will be a key driver of growth," Cox said in a recent research report.

The company recently announced a partnership with AT&T that will enable its business and residential customers to use Digi products to monitor and control energy consumption through AT&T's wireless network. AT&T's wireless network has about 13 million smart electric meters that can be monitored remotely.

"Digi is in the right place in the (smart-grid) market," said Jesse Berst, founder and chief analyst at Smart Grid News, a website and newsletter for utility industry professionals. The company plays an important intermediary role between smart grid companies and customers with a technology platform that communicates to devices like programmable thermostats, load control switches and sensors, in the same general way Microsoft's Windows communicates to printers, he said.

More than half of Digi's 700 employees are in Minnesota at its Minnetonka offices and manufacturing operations in Eden Prairie. But the company has an extensive global network, with sales offices in Europe and Asia as well as about 260 distributors in more than 70 countries.

About 42 percent of Digi's sales this year were in foreign markets where its business is growing faster than its business in the U.S.

"International sales are very important to our long-run success," Serra said. "In today's economy, we have to compete globally to preserve the health of the company and preserve and grow employment in Minnesota."

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