

RUGGEDCOM INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE SECOND QUARTER ENDED SEPTEMBER 30, 2009

Dated: November 4, 2009

The following is management's discussion and analysis ("MD&A") of the consolidated results of operations, financial condition and cash flows of RuggedCom Inc. ("RuggedCom" or the "Company") for the three month and six month periods ended September 30, 2009 compared with the three month and six month periods ended September 30, 2008. This MD&A should be read in conjunction with the Company's consolidated interim financial statements for the three month and six month periods ended September 30, 2009 and September 30, 2008 and the notes thereto, the audited annual consolidated financial statements for the fiscal years ended March 31, 2009 and March 31, 2008 and the notes thereto and the auditors report thereto.

All amounts in this MD&A are in US dollars unless otherwise indicated. The content of this MD&A has been approved by the Board of Directors, on the recommendation of its Audit Committee. This MD&A is dated November 4, 2009 and is current to that date, unless otherwise stated.

Additional information relating to the Company, including the Company's Annual Information Form, is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com as well as the Company's website at www.ruggedcom.com.

NON-GAAP MEASURES

The Company reports its financial results in accordance with Canadian generally accepted accounting principles ("GAAP"). However, this MD&A contains references to certain non-GAAP financial measures such as EBITDA and EBITDA Margin. Non-GAAP financial measures are used by management to evaluate the performance of the Company. Non-GAAP financial measures do not have any meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other reporting issuers. Non-GAAP financial measures used herein have been applied on a consistent basis. "EBITDA" means earnings before interest, income taxes, depreciation and amortization. "EBITDA Margin" means the percentage obtained by dividing "EBITDA" by revenue. "EBITDA" is a measure used by many investors to compare issuers on the basis of their ability to generate cash from operations. We believe that EBITDA and EBITDA Margin is useful supplemental information as it provides an indication of the results generated by the Company's main business activities before taking into consideration how these activities are financed and taxed and also prior to taking into consideration asset depreciation. Investors are cautioned that non-GAAP measures, such as those presented herein, should not be construed as an alternative to net income or loss determined in accordance with GAAP as indicators of the Company's performance or to cash flows from operating and investing activities as measures of liquidity and cash flow.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

Certain statements in this MD&A, particularly statements regarding future economic performance and finances, plans, expectations and objectives of management, may constitute "forward-looking" statements which reflect our current views with respect to future events and financial performance. When used in this MD&A, such forward-looking statements use words such as "may", "will", "expect", "believe", "anticipate", "plan", "intend", "estimate", "project", "continue" and other similar terminology of a forward-looking nature or negatives of those terms. These forward-looking statements are based on certain assumptions by management, certain of which are set out herein. The forward-looking statements appearing in this MD&A reflect current expectations regarding future events and operating performance and speak only as of the date of this MD&A.

Although management believes that the expectations reflected in such forward-looking statements are reasonable, all forward-looking statements address matters that involve known and unknown risks, uncertainties and other factors and should not be read as guarantees of future performance or results. Accordingly, there are or will be a number of significant factors which could cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Factors that could cause actual future results, performance or achievements to differ materially include, but are not limited to, our ability to manage our growth, growth in our key markets, increased efforts by competitors to compete in our markets, our dependence on the electric power industry, the impact of the global financial crisis, foreign currency fluctuations, changes in environmental and other regulation, our reliance on key personnel, our reliance on third-party suppliers, contract manufacturers and channel partners, our ability to protect our intellectual property, rapid technological change, potential product liability claims, our dependence on certain licensed intellectual property, and potential infringement by us of others' intellectual property rights, including our use of open source software.

RuggedCom is subject to significant risks and any past performance is no guarantee of future performance. RuggedCom cannot predict all of the risk factors, nor can it assess the impact, if any, of such risk factors on RuggedCom's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those projected in any forward-looking statements. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results. This MD&A offers a brief overview of some of the risk factors to be considered in relation to RuggedCom's business. This list may not be exhaustive and new risk factors emerge from time to time. Please see the section "Risks and Uncertainties" for further information. We disclaim any intention or obligation to publicly update or revise any forward-looking statements after distribution of this MD&A, whether as a result of new information, future events or other circumstances, except as may be required pursuant to applicable securities laws.

Additional risk factor discussion can be found in the Company's continuous disclosure filings, reports and other filings with securities commissions and regulatory authorities in Canada and filed under the Company's profile on SEDAR at www.sedar.com.

RUGGEDCOM INC.

RuggedCom is a leading provider of rugged communications networking solutions designed for mission-critical applications in harsh environments. When used outside of benign office environments, communications networking equipment can be exposed to harmful conditions that impact network reliability, throughput, availability, security and data integrity. The Company's solutions are designed for use in harsh environments such as those found in electric power substations and "Smart Grids", intelligent transportation systems, industrial process control and military applications. RuggedCom's robust technology solutions include proprietary hardware (Ethernet switches, network routers, wireless devices, serial servers and media converters), software (proprietary embedded software and application software) and professional services.

RuggedCom's solutions facilitate the extension of Internet Protocol ("IP") based communications networks from benign office environments to harsh non-office environments. IP-based communications networks are faster, more flexible and offer greater functionality than the legacy, serial, low-speed communications systems currently used in most harsh environments. The extension of IP-based communications networks enables the seamless flow of information between an enterprise's non-office environment and its office environment. Moreover, the implementation of a common networking technology and infrastructure across an entire enterprise improves overall efficiency, increases the ability to monitor and secure operational assets and reduces costs associated with installation, integration, maintenance, parts and training.

RuggedCom continues to execute on its core strategies to capitalize on the opportunities presented by the Industrial Ethernet, Industrial Wireless, Cyber Security, and Smart Grid trends within the Electric Power, Transportation Systems, Industrial Processes and Military markets. During this quarter RuggedCom:

- acquired WiNetworks Ltd., a leader in the development of systems based on WiMAX 802.16e mobile broadband wireless technology. WiNetworks' technology is used by large private networks and service providers to extend mobile broadband connectivity over metropolitan areas. The WiNetworks WiMAX products will form the basis for the new RuggedMAX™ product line and augment RuggedCom's growing RuggedWIRELESS™ portfolio;
- received approval of the RuggedRouter® RX1000 and RX1100 series routers for use on the Verizon Wireless network through its open development program;
- was named for the fourth year in a row to the Deloitte Technology Fast 50, a ranking of the 50 fastest growing technology companies in Canada, based on a percentage of revenue growth over five years. RuggedCom's increase in revenue from 2004 to 2008 resulted in a ranking of 30th overall;
- began the initial stages of the move, now completed, to its new office and manufacturing facility in Concord, Ontario.

SELECTED CONSOLIDATED QUARTERLY FINANCIAL INFORMATION

The following tables set out selected consolidated financial information for the three month and six month periods ended September 30, 2009 and 2008, respectively. The information in these tables has been derived from the unaudited consolidated interim financial statements and accompanying notes for the three month and six month periods ended September 30, 2009 and September 30, 2008, as well as the March 31, 2009 audited consolidated financial statements. Each investor should read the following information in conjunction with those statements and related notes. The financial information for the three months and six months ended September 30, 2009 and 2008 has been prepared by management in accordance with GAAP in a manner consistent with its annual financial statements. All amounts are in US dollars.

Selected Consolidated Quarterly Financial Information	Three months ended September 30 (unaudited)		Six months ended September 30 (unaudited)	
	2009	2008	2009	2008
In thousands, except share amounts, data expressed as percentages and per share data				
Revenue	\$ 16,740	\$ 14,385	\$ 32,757	\$ 27,136
Cost of goods sold	<u>6,847</u>	<u>5,594</u>	<u>13,787</u>	<u>10,477</u>
Gross margin	9,893	8,791	18,970	16,659
Gross margin %	59.1%	61.1%	57.9%	61.4%
Operating expenses:				
Research and development	1,780	1,156	3,805	2,362
Sales and marketing	3,485	2,513	6,463	5,077
General and administrative	1,808	1,238	3,761	2,697
Investment tax credits	(199)	(404)	(386)	(499)
Foreign currency loss (gain)	998	(384)	1,529	(192)
Amortization	<u>508</u>	<u>329</u>	<u>901</u>	<u>588</u>
Total operating expenses	<u>8,380</u>	<u>4,448</u>	<u>16,073</u>	<u>10,033</u>
Net interest income	<u>38</u>	<u>382</u>	<u>101</u>	<u>828</u>
Earnings before income taxes	1,551	4,725	2,998	7,454
Provision for income taxes – current	492	1,523	997	2,528
Provision (recovery) for income taxes – future	<u>54</u>	<u>(3)</u>	<u>111</u>	<u>(2)</u>
Net earnings for the period	<u>1,005</u>	<u>3,205</u>	<u>1,890</u>	<u>4,928</u>
Net Earnings Per Common Share:				
Basic	\$ 0.08	\$ 0.27	\$ 0.16	\$ 0.42
Diluted	\$ 0.08	\$ 0.26	\$ 0.15	\$ 0.40
Weighted Average Number of Common Shares Outstanding:				
Basic	12,098,002	11,763,504	11,997,705	11,741,683
Diluted	12,574,050	12,356,833	12,599,535	12,318,891
Other data:				
EBITDA ^{(1) (2)}	\$ 2,021	\$ 4,672	\$ 3,798	\$ 7,214
EBITDA Margin % ⁽¹⁾	12.1%	32.5%	11.6%	26.6%

Notes:

(1) For an explanation of how EBITDA and EBITDA Margin are calculated, please see "Non-GAAP Measures".

(2) EBITDA includes investment tax credits

Net Earnings to EBITDA Reconciliation	Three months ended September 30 (unaudited)		Six months ended September 30 (unaudited)	
	2009	2008	2009	2008
	In thousands		In thousands	
Net earnings for the period	\$1,005	\$3,205	\$1,890	\$4,928
Interest, net	(38)	(382)	(101)	(828)
Taxes.....	546	1,520	1,108	2,526
Amortization.....	<u>508</u>	<u>329</u>	<u>901</u>	<u>588</u>
EBITDA ⁽¹⁾	<u>\$2,021</u>	<u>\$4,672</u>	<u>\$3,798</u>	<u>\$7,214</u>

Notes:

(1) See "Non-GAAP measures"

	As at		As at	
	September 30, 2009 (unaudited)		March 31, 2009	
Consolidated Balance Sheet Data:	(In thousands)			
Cash and cash equivalents	\$	38,255	\$	45,099
Working capital (1)		48,642		52,023
Total assets		84,597		64,230
Total liabilities		15,316		9,141
Total shareholders' equity		69,281		55,089

Notes:

(1) Working capital is calculated as current assets less current liabilities, unaudited

Financial Highlights

- Achieved revenues of \$16.7 million in the second quarter, representing an increase of 16.4% over the same quarter a year ago.
- Booked record orders of \$18.9 million in the second quarter, an increase of 10.7% over the same quarter a year ago.
- Gross margin of \$9.9 million in the second quarter, up 12.5% from the same quarter a year ago.
- Achieved net income of \$1.0 million compared to \$3.2 million for the same quarter a year ago, a decrease of 68.6%

OVERALL PERFORMANCE

Revenue and Expenses

Revenue

The Company's revenue is derived principally from the sale of IP-based rugged communications networking solutions including Ethernet switches, network routers, wireless devices, serial servers and media converters. The Company currently generates an insignificant percentage of revenue from application software and professional services.

The Company markets and sells rugged communications networking solutions worldwide through offices in North America, Europe and Asia. The Company's sales channel structure is different in each of the Company's target markets, but the majority of sales are derived from its sales team.

The Company's sales team is comprised of regional sales managers who are employees of RuggedCom and are supported by its field application engineers. The Company's regional sales managers also utilize a network of manufacturers' representatives and distributors, as well as channel partners, such as original equipment manufacturers, system integrators and consultants, each utilized to varying degrees based on the specific nature of target markets.

The Company's revenues have increased from both sales to new customers as well as sales of additional products and services to its existing customer base and it has broadened its geographic sales base. The sales cycle is typically characterized by extensive evaluation periods and in some cases bench trials and pilot deployments. Most of the Company's orders are made pursuant to purchase orders and the Company does not typically have long term supply contracts with our customers.

Through its acquisition of WiNetworks Ltd. on September 17, 2009, RuggedCom gained key technology that will enable it to significantly enhance its wireless product offering, thereby providing customers with more comprehensive cost effective solutions.

The Company monitors revenue performance in four main geographical areas: North America, Europe, the Middle East and Africa ("EMEA"), Asia-Pacific (including Australia) ("APAC") and Latin America. The Company also monitors revenue performance in four main market categories: Electric Power, Transportation, Industrial and Military.

Cost of Goods Sold

Cost of goods sold consists primarily of costs of manufacturing and assembly of products. A significant portion of these costs is represented by components and compensation costs for the manufacture and assembly of products. Cost of goods sold also includes related overhead, final assembly, quality assurance, inventory management and payments to local third-party subcontract manufacturers that perform outsourced manufacturing and assembly for the Company. Cost of goods sold also includes the cost of providing services to customers, primarily the cost of service-related personnel used for training and professional services.

Operating Expenses

The Company's operating expenses consist of (i) research and development expenditures, (ii) sales and marketing expenses, (iii) general and administrative expenses, (iv) foreign currency gains and losses and (v) amortization.

Research and development expenses consist primarily of personnel and related costs associated with the Company's research and development efforts, including the development of new products,

enhancements to existing products, quality assurance activities, software development, tools and equipment. The Company is entitled to certain investment tax credits for qualifying research and development activities performed in Canada and Israel. Expenses are shown net of applicable investment tax credits.

Sales and marketing expenses consist primarily of costs relating to personnel and to the Company's sales and marketing activities, including the salaries and commissions paid to the Company's sales force, commissions paid to independent industry sales representatives, advertising, trade shows and other promotional expenses.

General and administrative expenses are comprised primarily of costs relating to personnel and related costs associated with the administration of the Company's business, including: information technology, finance and customer support functions, legal and other professional fees, rental of office and manufacturing space, insurance and other corporate and overhead expenses.

Foreign currency gains and losses are made up of a combination of realized and unrealized gains and losses resulting principally from fluctuations in the Canadian dollar and US dollar foreign exchange rate and to a lesser extent, fluctuations between the Canadian dollar and other foreign currency exchange rates.

Amortization of property and equipment and intangible assets is recorded over the estimated useful lives of the assets on a straight-line basis. Intangible assets consist primarily of certain computer software assets and intellectual property including issued patents, patents for which applications have been filed, trademarks, license agreements and customer lists.

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INTERIM PERIOD OPERATING RESULTS

Revenue

The Company's reporting currency is in US dollars. For the three month period ending September 30, 2009 ("Q2-F10") approximately 91% of the Company's sales revenues were in US dollars.

Highlights (for Q2-F10):

- Achieved sales revenues of \$16.7 million:
 - Increase of 16.4% from same period prior year
 - Increase of 4.5 % from prior quarter
- Achieved record purchase orders totaling \$18.9 million:
 - Increase of 10.7% from same period prior year
 - 2nd consecutive record quarter - up 4.5 % quarter-over-quarter
- Achieved record sales revenues in the following regions and sectors:
 - Electric Power market – up 15.9% year-over-year
 - APAC (Asia-Pacific) region - up 11.5% year-over-year
 - LAT (Latin America) region – up 141.3% year-over-year
- Added 100 new customers:
 - Increase of 3.1% from same period prior year

Sales for Q2-F10 were \$16.7 million compared to \$14.4 million for the same period in the last fiscal year, representing an increase of 16.4%. Sales for the first six months of F10 were \$32.8 million compared to \$27.1 million for the same period in the last fiscal year representing an increase of 20.7%. Sales revenues for Q2-F10 were also 4.5% above the prior quarter.

Customer purchase orders for Q2-F10 totaled \$18.9 million compared to a \$17.1 million for the same period last year, representing an increase of 10.7%. Purchase orders for the first six months of F10 totaled \$37.0 million compared to \$29.9 million for the same period last year, representing an increase of 23.4%. Purchase orders for Q2-F10 were also 4.5% above the prior quarter's record total of \$18.1 million and represented a new Company record.

In general, sales for Q2-F10 and for the first six months of F10 were driven by the continued deployment of IP-based rugged communications networking solutions across all of the Company's target markets and regions to both existing and new customers.

Sales by Market

Electric Power

Sales in the electric power market for Q2-F10 totaled \$11.0 million compared to \$9.5 million for the same period in the prior fiscal year, representing an increase of 15.9%. Sales in the electric power market for Q2-F10 comprised 66.0% of total Company sales for the quarter compared to 66.2% for the same period in the prior fiscal year. In addition, Q2-F10 sales in the electric power market represented a new Company record for sales in this market. Sales in the electric power market for the six month period ended September 30th, 2009 totaled \$21.5 million compared to \$18.0 million for the same period the prior fiscal year, representing an increase of 19.5%. Sales in the electric power market for the six month period ended September 30th, 2009 comprised 65.5% of total Company sales compared to 66.2% over the same period the prior fiscal year. Growth in the electric power market continues to be led by the deployment of the Company's rugged communications networking solutions for use in substation automation as part of the transmission and distribution infrastructure across all geographic regions.

Transportation

Sales in the transportation market for Q2-F10 totaled \$2.7 million compared to \$1.7 million for the same period in the prior fiscal year, representing an increase of 62.5%. Sales in the transportation market for Q2-F10 comprised 16.1% of total Company sales for the quarter compared to 11.5% for the same period in the prior fiscal year. Sales in the transportation market for the six month period ended September 30th, 2009 totaled \$5.5 million compared to \$3.9 million for the same period the prior fiscal year, representing an increase of 41.1%. Sales in the transportation market for the six month period ended September 30th, 2009 comprised 16.7% of total Company sales compared to 14.3% over the same period the prior fiscal year. Growth in the current quarter was led by sales from the USA region, which has historically been the largest contributor, and represented approximately 80% of the Q2-F10 sales in the sector. The Company expects that revenues from the transportation market could experience quarterly volatility for the remainder of F10 depending on project activity in the USA and the Company's ability to generate sales in other geographic regions.

Industrial

Sales in the industrial process market for Q2-F10 totaled \$2.2 million compared to \$2.4 million for the same period in the prior fiscal year, representing a decrease of 8.3%. Sales in the industrial process market for Q2-F10 comprised 13.0% of total Company sales for the quarter compared to 16.5% for the same period in the prior fiscal year. Sales in the industrial process market for the six month period ended September 30th, 2009 totaled \$3.66 million compared to \$3.74 million for the same period the prior fiscal year, representing a decrease of 2.2%. Sales in the industrial process market for the six month period ended September 30th, 2009 comprised 11.2% of total Company sales compared to 13.8% over the same period the prior fiscal year. Sales in this sector were driven primarily by sales of the Company's RuggedSwitch® family of industrial Ethernet switches for use in process automation applications across all geographic regions. The Company expects that revenues in this sector could experience quarterly volatility depending on global spending on process automation in the Oil and Gas, Mining and Metals, and Chemical sectors.

Military

Sales in the military market for Q2-F10 totaled \$0.82 million compared to \$0.80 million for the same period in the prior fiscal year, representing an increase of 3.2%. Sales in the military market for Q2-F10 comprised 4.9% of total Company sales for the quarter compared to 5.6% for the same period in the prior fiscal year. Sales in the military market for the six month period ended September 30th, 2009 totaled \$2.1 million compared to \$1.5 million for the same period the prior fiscal year, representing an increase of

41.8%. Sales in the military market for the six month period ended September 30th, 2009 comprised 6.4% of total Company sales compared to 5.5% over the same period the prior fiscal year. The Company's experience indicates that sales by the Company in the military sector have quarterly variability due the nature of sales in this sector which are characterized by long sales cycles and a relatively small number of large scale projects and a relatively small customer base.

(Unaudited) MARKET/SECTOR	Three months ended September 30 (as percentage of total)		Three months ended September 30 (\$ thousands)		Change
	2009	2008	2009	2008	%
Electric Power (Utilities)	66.0%	66.2%	\$11,045	\$9,529	15.9%
Transportation	16.1%	11.5%	\$2,693	\$1,657	62.5%
Industrial.....	13.0%	16.5%	\$2,178	\$2,374	-8.3%
Military	4.9%	5.6%	\$824	\$799	3.2%
Other	<u>0.0%</u>	<u>0.2%</u>	<u>\$0</u>	<u>\$26</u>	<u>-</u>
See note (1)	<u>100.0%</u>	<u>100.0%</u>	<u>16,740</u>	<u>\$14,385</u>	<u>16.4%</u>

(Unaudited) MARKET/SECTOR	Six months ended September 30 (as percentage of total)		Six months ended September 30 (\$ thousands)		Change
	2009	2008	2009	2008	%
Electric Power (Utilities)	65.5%	66.2%	\$21,470	\$17,964	19.5%
Transportation	16.7%	14.3%	\$5,483	\$3,886	41.1%
Industrial.....	11.2%	13.8%	\$3,660	\$3,741	-2.2%
Military	6.4%	5.5%	\$2,097	\$1,479	41.8%
Other	<u>0.1%</u>	<u>0.2%</u>	<u>\$47</u>	<u>\$66</u>	<u>-29.2%</u>
See note (1)	<u>100.0%</u>	<u>100.0%</u>	<u>\$32,757</u>	<u>\$27,136</u>	<u>20.7%</u>

Notes:

(1) Totals may not equal column sum due to rounding

Sales by Region

North America

North America sales for Q2-F10 totaled \$6.7 million compared to \$5.9 million for the same period in the prior fiscal year, representing an increase of 13.9%. Sales in North America for Q2-F10 comprised 40.0% of total Company sales for the quarter compared to 40.9% for the same period in the prior fiscal year. Q2-F10 North America sales were driven primarily by sales in the electric power and transportation sectors. North American sales for the six month period ended September 30th, 2009 totaled \$14.5 million compared to \$12.5 million for the same period the prior fiscal year, representing an increase of 16.0%. Sales in North America for the six month period ended September 30th, 2009 comprised 44.3% of total Company sales compared to 46.1% over the same period the prior fiscal year. Sales in North America for the six month period ended September 30th, 2009 were primarily driven by sales in the electric power and transportation sectors.

Europe, Middle-East and Africa (EMEA)

EMEA sales for Q2-F10 totaled \$4.2 million compared to \$4.1 million for the same period in the prior fiscal year, representing an increase of 2.5%. Sales in EMEA for Q2-F10 comprised 25.0% of total Company sales for the quarter compared to 28.4% for the same period in the prior fiscal year. Q2-F10 EMEA sales were driven primarily by sales in the electric power sector. EMEA sales for the six month period ended September 30th, 2009 totaled \$8.7 million compared to \$7.5 million for the same period the prior fiscal year, representing an increase of 15.4%. Sales in EMEA for the six month period ended September 30th, 2009 comprised 26.5% of total Company sales compared to 27.7% over the same period the prior fiscal year. Sales in EMEA for the six month period ended September 30th, 2009 were primarily driven by sales in the electric power sector.

Asia-Pacific (APAC)

APAC sales for Q2-F10 totaled \$4.1 million compared to \$3.7 million for the same period in the prior fiscal year, representing an increase of 11.5%. Sales in APAC for Q2-F10 comprised 24.6% of total Company sales for the quarter compared to 25.7% for the same period in the prior fiscal year. Q2-F10 APAC sales were driven primarily by sales in the electric power sector. APAC sales for the six month period ended September 30th, 2009 totaled \$6.8 million compared to \$5.8 million for the same period the prior fiscal year, representing an increase of 16.8%. Sales in APAC for the six month period ended September 30th, 2009 comprised 20.7% of total Company sales compared to 21.4% over the same period the prior fiscal year. Sales in APAC for the six month period ended September 30th, 2009 were primarily driven by sales in the electric power sector.

Latin America

Latin America sales for Q2-F10 totaled \$1.7 million compared to \$0.7 million for the same period in the prior fiscal year, representing an increase of 141.3%. Sales in Latin America for Q2-F10 comprised 10.3% of total Company sales for the quarter compared to 5.0% for the same period in the prior fiscal year. Q2-F10 Latin America sales were driven primarily by sales in the electric power sector. Latin America sales for the six month period ended September 30th, 2009 totaled \$2.8 million compared to \$1.3 million for the same period the prior fiscal year, representing an increase of 113.4%. Sales in Latin America for the six month period ended September 30th, 2009 comprised 8.5% of total Company sales compared to 4.8% over the same period the prior fiscal year. Sales in Latin America for the six month period ended September 30th, 2009 were primarily driven by sales in the electric power sector.

(Unaudited) REGION	Three months ended September 30 (as percentage of total)		Three months ended September 30 (\$ thousands)		Change
	2009	2008	2009	2008	%
North America.....	40.0%	40.9%	\$6,700	\$5,885	13.9%
Latin America.....	10.3%	5.0%	\$1,730	\$717	141.3%
Asia Pacific.....	24.6%	25.7%	\$4,120	\$3,695	11.5%
Europe, Middle East & Africa ...	<u>25.0%</u>	<u>28.4%</u>	<u>\$4,190</u>	<u>\$4,088</u>	<u>2.5%</u>
See note (1)	<u>100.0%</u>	<u>100.0%</u>	<u>\$16,740</u>	<u>\$14,385</u>	<u>16.4%</u>

(Unaudited) REGION	Six months ended September 30 (as percentage of total)		Six months ended September 30 (\$ thousands)		Change
	2009	2008	2009	2008	%
North America.....	44.3%	46.1%	\$14,495	\$12,500	16.0%
Latin America.....	8.5%	4.8%	\$2,800	\$1,312	113.4%
Asia Pacific.....	20.7%	21.4%	\$6,785	\$5,808	16.8%
Europe, Middle East & Africa ...	<u>26.5%</u>	<u>27.7%</u>	<u>\$8,677</u>	<u>\$7,516</u>	<u>15.4%</u>
See note (1)	<u>100.0%</u>	<u>100.0%</u>	<u>\$32,757</u>	<u>\$27,136</u>	<u>20.7%</u>

Notes:

(1) Totals may not equal column sum due to rounding

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Sales by Customer

The total number of customers who placed orders in Q2-F10 was 434 as compared to 351 for the same period in the previous financial year, an increase of 23.6%. In Q2-F10 the Company also added 100 new customers as compared to 97 for the same period in the prior fiscal year, representing an increase of 3.1%. In Q2-F10 the electric power sector contributed the largest number of new customers (61 out of the 100) accounting for 61.0%. For the six month period ended September 30, 2009 the company added 205 new customers as compared to 190 for the same period in the prior fiscal year, representing an increase of 7.9%. For the six month period ended September 30, 2009 the electric power sector contributed the largest number of new customers (130 out of 205) accounting for 63.4%.

In Q2-F10 the Company's top ten customers accounted for 41.2% of sales revenues. For the six month period ended September 30, 2009 the Company's top ten customers accounted for 39.6% of sales revenues. The following table outlines the revenue generated from the Company's customers which represented more than 10% of the Company's sales revenues for a given period.

Customers comprising greater than 10% of sales revenues for a given period				
	% of total revenues for Three months ended September 30, 2009	% of total revenues for Three months ended September 30, 2008	% of total revenues for Six months ended September 30, 2009	% of total revenues for Six months ended September 30, 2008
Customer A	7.8%	14.9%	7.9%	11.9%
Customer B	7.5%	9.4%	8.5%	10.7%
Total	15.3%	24.3%	16.4%	22.6%

Gross Margin

Gross margin for Q2-F10 increased 13% to \$9.9 million, compared to \$8.8 million in the same period in the last fiscal year, and as a percentage of revenue, decreased to 59.1% from 61.1% for the same period in the last fiscal year. For the first six months of F09, gross margin increased 14% to \$19.0 million, compared to \$16.7 million in the comparable period in the previous fiscal year, and as a percentage of revenue, decreased to 57.9% from 61.4% for the same period in the previous fiscal year.

Approximately half of the decline in gross margin percentage experienced in Q2-F10 compared to the same period last year was due to the continued significant strengthening of the Canadian dollar versus the US dollar. Gross margins are generally unaffected by movements in the Canadian to US dollar exchange rate, however during periods of high exchange rate volatility, gross margins are impacted by exchange rate translations. The other half of the decline in gross margin percentage was due mainly to product/sector mix and to a lesser degree competitive pricing pressure.

Operating Expenses

The following table presents additional comparative data for the Company's operating expenses:

Expenses as a Percentage of Revenue

	Three months ended September 30 (unaudited)		Six months ended September 30 (unaudited)	
	2009	2008	2009	2008
	\$	\$	\$	\$
Revenue	<u>16,740</u>	<u>14,385</u>	<u>32,757</u>	<u>27,136</u>
Research and development, net of investment tax credits..	1,581	752	3,419	1,863
% of revenue	9.4%	5.2%	10.4%	6.9%
Sales and marketing	3,485	2,513	6,463	5,077
% of revenue	20.8%	17.5%	19.7%	18.7%
General and administrative	1,808	1,238	3,761	2,697
% of revenue	10.8%	8.6%	11.5%	9.9%
Foreign exchange loss (gain)	998	(384)	1,529	(192)
% of revenue	6.0%	-2.7%	4.7%	-0.7%
Amortization.....	508	329	901	588
% of revenue	2.9%	2.3%	2.8%	2.2%
Total operating expenses.....	<u>8,380</u>	<u>4,448</u>	<u>16,073</u>	<u>10,033</u>
% of revenue	<u>50.1%</u>	<u>30.9%</u>	<u>49.1%</u>	<u>37.0%</u>

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Research and Development Expenses

Research and development expenses for Q2-F10 (net of \$0.2 million of accrued investment tax credits) increased 110% to \$1.6 million, or 9.4% of revenue, compared to \$0.8 million, or 5.2% of revenue, for the same period in the previous fiscal year. The three month period ending September 30, 2008 included adjustments to accrued investment tax credits for prior periods and when these adjustments are factored out along with the normal accrued investment tax credits for that period, gross research and development expenditures totaled \$1.2 million, or 8.0% of revenue for Q2-FY09. For the first six months of F10, research and development expenses (including \$0.2 million of accrued investment tax credits) increased 84% to \$3.4 million compared to \$1.9 million in the same period in the last fiscal year, representing 10.4% and 6.9% of total revenues for each period, respectively. Removing the effect of investment tax credits accrued in the first six months of F10, the Company's research and development expenditures were 11.1% of revenue. The increase in absolute dollar expense for Q2-F10 compared to the corresponding prior period was mainly attributable to increased research and development personnel costs resulting from an increase in the number of employees over the past 12 months from 44 to 57 (excluding additional headcount as a result of the WiNetworks Ltd. acquisition), and to the continued development of new products and the enhancement of existing products. The acquisition of WiNetworks Ltd. on September 17, 2009 resulted in the inclusion of research and development expense of \$0.1 million in the consolidated results for the period ended September 30, 2009.

Sales and Marketing Expenses

Sales and marketing expenses for Q2-F10 increased 39% to \$3.5 million, compared to \$2.5 million for the same period in the previous fiscal year, representing 20.8% and 17.5% of total revenues for each period, respectively. For the first six months of F10, sales and marketing expenses increased 27% to \$6.5 million compared to \$5.1 million in the same period in the last fiscal year, representing 19.7% and 18.7% of total revenues for each period, respectively. The increase in dollar amounts for both Q2-F10 and the first six months compared to their corresponding prior periods was partially attributable to an increase in the Company's sales personnel over the past 12 months from 32 to 44 (excluding additional headcount as a result of the WiNetworks Ltd. acquisition) and also to an increase in their total compensation, a portion of which is performance based. Marketing activity also increased during the quarter resulting in higher levels of advertising, trade show and related promotional expenses. The Company expects that selling and marketing expenses will continue to increase in dollar amounts in future periods as amounts paid out to its sales force and to industry sales representatives increase commensurate with the growth in the Company's sales, as overall marketing activities and efforts increase, and as the Company continues to invest in marketing activities to promote its products.

General and Administrative Expenses

General and administrative expenses for Q2-F10 increased 46% to \$1.8 million, compared to \$1.2 million for the same period in the last fiscal year, representing 10.8% and 8.6% of total revenues for each period, respectively. The increase in dollar amounts for Q2-F10 compared to the corresponding prior period last year was primarily due to increased salary, benefits and stock compensation expense associated with our finance, administration and customer support staff, as well as salary adjustments made to ensure the Company remains competitive with regard to the compensation it offers to employees. The Company's general and administrative staff increased over the past 12 months from 23 to 29 (excluding additional headcount as a result of the WiNetworks Ltd. acquisition) to support the Company's staffing

requirements in finance, administration and customer support. Additionally, the Company incurred higher premises costs related to the start of the lease for its new premises which was occupied during Q2-F10 upon completion of certain leasehold improvements. As the Company had not fully occupied the new facility during Q2-F10, the portion of the lease cost which would normally be attributable to manufacturing overhead was allocated to general and administrative expense.

For the first six months of F10, general and administrative expenses were \$3.8 million, compared to \$2.7 million for the same six month period last year, representing 11.5% and 9.9% of total revenues for each period, respectively.

Foreign Exchange Loss (Gain)

Foreign exchange losses were primarily due to the strengthening of the Canadian dollar against the US dollar and the negative impact this had on the Company's US dollar denominated working capital (i.e. US\$ receivables)

Interest and Other Income

The Company earned \$38,000 of interest income in Q2-F10. This compares to \$0.4 million of interest expense incurred in the same period last fiscal year. Interest income for Q2-F10 was earned on the Company's cash and cash equivalents, less a nominal amount of interest expense related principally to capital leases. The decrease in net interest income compared to the same quarter in the prior year is due to generally lower interest rates available currently as compared to a year ago.

Income Tax Expense

The Company recorded a tax provision for Q2-F10 of \$0.5 million which equates to an effective tax rate of 35.2%. This rate is higher than the statutory rate of 31.1% due to the existence of certain permanent differences. This compares to a \$1.5 million income tax expense for the same period in the prior year, due to higher net income before taxes for that period. This reflected an effective tax rate of 32.2% for the same period in the prior year.

Net Earnings

Net earnings before taxes for Q2-F10 was \$1.6 million compared to \$4.7 million for the same period in the last fiscal year, representing 9.3% and 32.8%, respectively, of total revenues for each period. For the first six months of F10, net earnings before taxes was \$3.0 million compared to \$7.5 million for the same period in the prior year, representing 9.2% and 27.5%, respectively, of total revenue for each period.

Net earnings before taxes for Q2-F10 decreased significantly compared to the same period a year ago due to slower revenue growth (16%) as compared to the growth in operating expenses (88%), as well as a decrease in gross margin percentage (59.1% compared to 61.1%). The increase in operating expenses for Q2-F10 was due to a number of factors. Roughly a third of the increase was due to foreign exchange losses from a strengthening Canadian dollar relative to the US dollar, compared to a foreign exchange gain realized in the same period a year ago, during which the Canadian dollar had weakened

significantly against the US dollar. Additionally, the prior period included one-time positive investment tax credit adjustments of \$0.3 million. Falling interest rates also contributed to the decrease in earnings for the current quarter as the Company earned only \$38,000 net interest income compared to \$0.4 million in the same period last year. Also, as expected, the recent WiNetworks Ltd. acquisition on September 17, 2009 resulted in the inclusion of a \$0.2 million loss before and after taxes in the Company's consolidated financial results.

Net earnings after taxes for Q2-F10 were \$1.0 compared to \$3.2 million for Q2-F09, representing 6.0% and 22.3%, respectively, of total revenues for each period. This represents a decrease of 69% over the corresponding period last year. For the first six months of F10, net earnings after taxes were \$1.9 million compared to \$4.9 million for the same period in the last fiscal year, representing 5.8% and 18.2%, respectively, of total revenues for each period. This represents a decrease of 62% over the corresponding period last year.

OUTLOOK

In the long term, we believe we are well positioned to take advantage of the planned global infrastructure spending, specifically in the Electric Power and Transportation sectors. In addition, we are continuing to see increasing opportunities in the Military market. On this basis, the Company expects to achieve continued annual growth and profitability. The Company expects to increase total dollar gross margins, however, gross margin percentages may vary depending on the mix of products and services sold, our success in winning large customer orders and the effects of significant movements from quarter to quarter in the foreign exchange rate between the Canadian dollar versus the US dollar.

In the short term, our mainly purchase order driven business, with hard to predict order timing, makes quarterly results susceptible to quarter over quarter variability. The risk of variability has increased as a result of a number of factors, including the impact of the global economic downturn on the Industrial Process sector (eg. mining and metals, oil and gas, chemical), which has resulted in deferral of new projects and as such, we continue to see signs of softening order growth for that sector.

The acquisition of WiNetworks Ltd. on September 17, 2009 had minimal impact on the Company's operating results for Q2-F10, however it can be expected that for at least the next several quarters the Company's consolidated operating expenses will be significantly affected by the inclusion of WiNetworks' development centre. As WiNetworks' current revenues are not significant, there will be a negative impact on the Company's net earnings for at least several quarters as the Company refocuses WiNetworks' engineering efforts on RuggedCom's existing markets and customers.

Our objective remains to run the business for long term growth and profitability. Research and development will continue to be a key focus as the Company continues to invest in new product and service development and in current product and service enhancements. Additional resources will continue to be committed to sales and marketing as the Company further develops its global sales channels and continues to promote the RuggedCom brand in its key target markets.

LIQUIDITY AND CAPITAL

	As at September 30, 2009	As at March 31, 2009
(In thousands, except Balance Sheet ratios)		
Key Balance Sheet Amounts and Ratios:		
Cash and cash equivalents	\$ 38,255	\$ 45,099
Working capital	48,642	52,023
Long term assets	21,310	3,488
Long term liabilities	671	422
Working capital ratio ⁽¹⁾	4.3	7.0
Days sales outstanding in accounts receivable ⁽²⁾	47 days	40 days
Inventory turnover ⁽³⁾	4.6 times	4.7 times

Notes:

- (1) Current assets divided by current liabilities.
- (2) Days sales in accounts receivable represents the number of days' worth of sales uncollected as at the date indicated. It is derived by calculating the number of days required to accumulate total cumulative daily sales equal to the current trade receivable balance.
- (3) Inventory turnover is defined as the total cost of goods sold for the last 12 months' period divided by the average inventory balance over that same 12 months.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, bank balances and short-term highly liquid investments that are readily convertible into known amounts of cash within three months or less and are subject to an insignificant risk of change in value.

Investments in cash equivalents and marketable securities are governed by the Company's Cash Management & Investment Policy as approved by the Board of Directors. Excess funds are invested in accordance with sound investment management principles. The policy stipulates that investments will at all times be based on the requirements for safety, liquidity and yield in that order of importance. The Company has no exposure to non-bank asset-backed commercial paper.

As at September 30, 2009, the Company had \$38.3 million of cash and cash equivalents compared to \$45.1 million as at March 31, 2009. The decrease was due to the acquisition of WiNetworks Ltd. in September 2009, which had a net cash cost, including acquisition costs and assumption of debt, of \$13.7 million. Had the acquisition not occurred, the Company would have had \$52.0 million of cash and cash equivalents on hand as at September 30, 2009.

Working Capital

Working capital is defined as current assets less current liabilities. The Company's working capital balance decreased to \$48.6 million at September 30, 2009 compared to \$52.0 million at the end of fiscal 2009. The Company's working capital ratio (current assets divided by current liabilities) decreased to 4.3:1 compared to 7.0:1 at March 31, 2009. The decrease in the Company's working capital ratio is mainly attributable to the WiNetworks Ltd. acquisition during the quarter.

The Company's accounts receivable balance increased \$0.5 million to \$10.3 million from \$9.8 million at the end of fiscal 2009 due principally to the growth in the Company's revenue during the first six months of F10. Days sales outstanding in accounts receivable ("DSO") increased to 47 days at September 30, 2009 compared to 40 days at the end of fiscal 2009. The Company's DSO increased in part due to longer terms extended to several customers during the quarter. The Company's DSO could trend upward to the extent that the Company increases its revenue base in markets outside of North America as, in the Company's experience, international receivables tend to take longer to collect. The Company's allowance for doubtful accounts increased from \$36,000 at the end of fiscal 2009 to \$43,000 as at September 30, 2009. (See "Critical Accounting Policies and Estimates – Allowance for Doubtful Accounts.")

Inventory balances increased by \$4.5 million to \$9.1 million at the end of Q2-F10 from \$4.6 million at the end of fiscal 2009. Inventory levels increased due to the acquisition of the WiNetworks Ltd. business and to advance purchase of certain components to achieve unit cost reductions. Inventory turnover, calculated using the last 12 months' cost of sales and average inventory balances, decreased slightly from 4.7 times at the end of fiscal 2009 to 4.6 times at the end of Q2-F10. The inventory turn calculation does not include the impact of inventory held by WiNetworks Ltd., the Company's recent acquisition, as the acquisition date of September 17, 2009 was close to the end of the reporting period. The Company would normally expect inventory turnover to increase over time as the Company continues to achieve cost productivity gains as a result of the growth in its business. However, the Company gives priority to meeting customers' request dates for delivery, which may require the stocking of additional inventory in order to meet short delivery schedules. This can occasionally impact inventory turnover negatively. In addition, there will likely be a negative impact on inventory turns for the next several quarters as a result of the WiNetworks Ltd. acquisition, due to relatively high existing WiNetworks inventory levels.

Accounts payable and accrued liabilities increased \$5.2 million to \$11.0 million at the end of Q2-F10 from \$5.8 million at the end of fiscal 2009. The increase was mainly due to the acquisition of the WiNetworks Ltd. business and partly due to increased payables associated with certain leasehold improvements and other costs regarding the Company's new office and manufacturing facility.

Cash Provided by (used in) Operating Activities

The Company generated \$2.8 million cash in operating activities in Q2-F10 as compared to generating \$5.1 million in the same period last fiscal year. For Q2-F10, \$1.0 million was provided through operating performance. Approximately \$0.9 million cash was provided by non-cash items and another \$0.9 million cash was provided by the net change in current non-cash working capital. The net change in current non-cash working capital was attributable to decreases in receivables, prepaids and inventories, offset by an increase in trade payables and accrued liabilities. In the same period in the last fiscal year, \$5.1 million cash was generated from operating activities. Approximately \$3.2 million was provided through operating performance. The balance related to \$0.6 million provided by non-cash items and \$1.3 million cash provided by the net change in current non-cash working capital.

For the first six months of F10, the Company generated \$0.7 million cash from operating activities as compared to \$6.1 million in the same period last fiscal year. Approximately \$1.9 million was provided through operating performance. The balance related to \$1.8 million cash provided by non-cash items, offset by \$3.0 million cash used by the net change in current non-cash working capital. In the same period in the last fiscal year, \$6.1 million cash was generated from operating activities. Approximately \$4.9 million was provided through operating performance. The balance related to \$1.1 million provided by non-cash items and \$0.1 million provided through the net change of non-cash working capital.

Investing Activities

Investing activities for Q2-F10 and the first six months of F10 included \$8.0 million related to the acquisition of WiNetworks Ltd. Additions to leasehold improvements and other fixed asset purchases were \$2.3 million for Q2-F10 compared to \$0.6 million for the same period last year and \$2.9 million for the first six months of F10 compared to \$1.0 million for the prior period last year. Other additions mostly involving computer software resulted in \$0.3 million purchased during Q2-F10 compared to \$38,000 in the same period last year and purchases of \$1.0 million for the first six months of F10 compared to \$0.1 million for the comparable period in the prior year.

The Company continues to invest in hardware, software and tooling as well as office and information technology infrastructure. See “Capital Resources.”

Financing Activities

During Q2-F10 the Company acquired WiNetworks Ltd. The purchase transaction involved the assumption and repayment of a \$4,875,000 loan to WiNetworks Ltd. from a venture debt lender.

During Q2-F10 the Company issued 10,384 common shares upon exercise of employee stock options for net proceeds of approximately \$31,000. Also during Q2-F10 the Company repaid capital lease obligations of approximately \$46,000. There were no other financing activities during the quarter.

For the first six months of F10 the Company issued 250,000 common shares for net proceeds of \$1.5 million pursuant to the exercise of a share purchase warrant held by Korona Group Ltd. The Company issued 44,026 common shares upon exercise of employee stock options for net proceeds of approximately \$276,000. Also during the first six months of F10 the Company repaid capital lease obligations of approximately \$92,000.

The Company also has a credit facility from a chartered financial institution as well as outstanding capital leases under which periodic payments are made. See “Contractual Obligations” and “Capital Resources.”

Outstanding Share Capital

The Company's authorized share capital is comprised of an unlimited number of common shares of which there are 12,106,634 outstanding as of the date of this MD&A.

Financial Instruments

The fair value of accounts receivable, other receivables, accounts payable and accrued liabilities approximates their carrying value due to the immediate or short-term maturity of these financial instruments.

The Company is subject to financial risk related to earnings and expenses that arises from fluctuations in foreign exchange rates. The Company does not currently enter into hedging arrangements or utilize derivative financial instruments to manage its exposure to foreign exchange rate fluctuations, but may do so in the future.

Contractual Obligations

The majority of the Company's contractual obligations consists of current and long-term capital and operating lease obligations. The Company also accrues warranty costs regarding the five year warranty associated with the sale of its products. As at September 30, 2009 the Company had long-term liabilities of \$0.7 million. This compares to long-term liabilities of \$0.4 million as at March 31, 2009.

Capital Resources

Future capital expenditures will continue to be funded through a combination of internally generated cash flows and capital lease financing. Capital expenditures will continue to include a mix of computer hardware, software, test equipment, tooling, leasehold improvements and office furniture as the Company continues to invest in its office and IT infrastructure.

In order to support the Company's growth, in Q1-F09 the Company signed a binding offer to lease new, larger office and manufacturing facilities. The Company agreed to rent 101,326 square feet for 10 years commencing May 1, 2009 at rates between \$6.40 (\$6.85 Canadian) and \$7.71 (\$8.25 Canadian) per square foot per annum. The new facilities replace the Company's current head office and manufacturing facility for which it currently pays \$5.84 (\$6.25 Canadian) per square foot per annum for approximately 34,000 square feet. The new premises has require expenditures for certain leasehold improvements. Accelerated amortization was taken on the leasehold improvements for our current facility so that they now have a zero net book value.

The Company also has a credit facility from a chartered financial institution comprising a \$0.93 million (Cdn \$1.0 million) revolving demand facility that is secured by certain of our assets. The facility is available for working capital requirements and general corporate purposes. As at September 30, 2009 there were no borrowings outstanding under the facility. During fiscal 2009, the Company issued performance guarantees in favour of a customer for a total of approximately \$139,000 and a portion of the revolving demand facility will be allocated for these guarantees. The guarantees expire in 2013 and 2014.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements other than those disclosed under "Contractual Obligations" and "Financial Instruments".

Transactions with Related Parties

The Company did not enter into any transactions with related parties during fiscal 2009 or the first six months of F10.

Disclosure Controls and Procedures

The Company's CEO and CFO are responsible for establishing and maintaining disclosure controls and procedures for the Company. The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed in filings is recorded, processed, summarized and reported within the time periods specified in the Canadian Securities Administrators rules and forms. The Company's Chief Executive Officer and Chief Financial Officer have evaluated the Company's disclosure controls and procedures as at September 30, 2009 and have determined that such disclosure controls and procedures are effective.

Internal Controls Over Financial Reporting and Procedures

The CEO and CFO are responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The CEO and CFO have evaluated whether there were changes to the Company's internal control over financial reporting during the fiscal period ended September 30, 2009 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. No such changes were identified through their evaluation.

The CEO and CFO have limited the scope of the Company's disclosure controls and procedures and the design of internal controls over financial reporting as of September 30, 2009 to exclude the controls, policies and procedures of WiNetworks Ltd., acquired by the Company during Q2-F09. WiNetworks Ltd. will be included within the scope of the Company's disclosure controls and procedures and the design of internal controls over financial reporting within one year of the date of acquisition.

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Selected Consolidated Quarterly Information

(In thousands, except share amounts, data expressed as percentages and per share data)

(Unaudited)	Fiscal 2010		Fiscal 2009				Fiscal 2008	
	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Revenue	\$ 16,740	\$ 16,017	\$ 17,416	\$ 15,821	\$ 14,385	\$ 12,751	\$ 11,466	\$ 10,312
Cost of goods sold.....	<u>6,847</u>	<u>6,940</u>	<u>6,371</u>	<u>5,420</u>	<u>5,594</u>	<u>4,883</u>	<u>4,078</u>	<u>4,520</u>
Gross margin	9,893	9,077	11,045	10,401	8,791	7,868	7,388	5,792
Gross margin %	59.1%	56.7%	63.4%	65.7%	61.1%	61.7%	64.4%	56.2%
Operating expenses:								
Research and development	1,581	1,838	1,004	1,052	752	1,111	883	732
Sales and marketing.....	3,485	2,978	3,022	2,666	2,513	2,564	2,244	1,777
General and administrative.....	1,808	1,953	1,518	1,346	1,238	1,459	1,133	1,249
Foreign exchange loss (gain)	998	531	45	(595)	(384)	192	(40)	(112)
Amortization.....	<u>508</u>	<u>393</u>	<u>307</u>	<u>271</u>	<u>329</u>	<u>259</u>	<u>225</u>	<u>214</u>
Total operating expenses.....	<u>8,380</u>	<u>7,693</u>	<u>5,896</u>	<u>4,740</u>	<u>4,448</u>	<u>5,585</u>	<u>4,445</u>	<u>3,860</u>
Net interest income.....	<u>38</u>	<u>63</u>	<u>142</u>	<u>303</u>	<u>382</u>	<u>446</u>	<u>461</u>	<u>484</u>
Earnings before income taxes	1,551	1,447	5,291	5,964	4,725	2,729	3,404	2,416
Provision for income taxes – current	492	505	1,470	1,829	1,523	1,005	1,004	1,043
Provision (recovery) for income taxes - future	<u>54</u>	<u>57</u>	<u>403</u>	<u>153</u>	<u>(3)</u>	<u>1</u>	<u>111</u>	<u>16</u>
Net earnings.....	<u>\$1,005</u>	<u>\$885</u>	<u>\$3,418</u>	<u>\$3,982</u>	<u>\$3,205</u>	<u>\$1,723</u>	<u>\$2,289</u>	<u>\$1,357</u>
Net Earnings Per Common Share:								
Basic	\$ 0.08	\$ 0.07	\$ 0.29	\$ 0.34	\$ 0.27	\$ 0.15	\$ 0.20	\$ 0.12
Diluted.....	\$ 0.08	\$ 0.07	\$ 0.28	\$ 0.33	\$ 0.26	\$ 0.14	\$ 0.19	\$ 0.11
Weighted Average Number of Common Shares Outstanding								
Basic	12,098,002	11,896,306	11,804,347	11,798,435	11,763,504	11,719,623	11,520,092	11,510,060
Diluted.....	12,574,050	12,623,918	12,417,319	12,251,346	12,356,833	12,280,710	12,191,377	12,286,253
Other data:								
EBITDA ⁽¹⁾	\$ 2,021	\$ 1,777	\$ 5,456	\$ 5,932	\$ 4,672	\$ 2,542	\$ 3,168	\$ 2,146
EBITDA Margin ⁽¹⁾ %.....	12.1%	11.1%	31.3%	37.5%	32.5%	19.9%	27.6%	20.8%

(1) For an explanation of how EBITDA and EBITDA Margin are calculated, please see "Non-GAAP Measures" above.

Net Income to EBITDA Reconciliation

(Unaudited)	Fiscal 2010		Fiscal 2009		Fiscal 2008			
	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Net income	\$1,005	\$885	\$3,418	\$3,982	\$3,205	\$1,723	\$2,289	\$1,357
Interest	(38)	(63)	(142)	(303)	(382)	(446)	(461)	(484)
Taxes	546	562	1,873	1,982	1,520	1,006	1,115	1,059
Amortization	<u>508</u>	<u>393</u>	<u>307</u>	<u>271</u>	<u>329</u>	<u>259</u>	<u>225</u>	<u>214</u>
EBITDA^{(1) (2)}	<u>\$2,021</u>	<u>\$1,777</u>	<u>\$5,456</u>	<u>\$5,932</u>	<u>\$4,672</u>	<u>\$2,542</u>	<u>\$3,168</u>	<u>\$2,146</u>

Notes:

(1) For an explanation of how EBITDA and EBITDA Margin are calculated, please see "Non-GAAP Measures".

(2) EBITDA includes investment tax credits.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The significant areas requiring management's estimates include the estimates of the allowance for doubtful accounts, allowance for inventory obsolescence, the estimated useful lives of long-lived assets, the value of future income tax assets and liabilities, accruals for warranty and employee-related liabilities, and assumptions relating to the fair value of stock-based compensation, warrants and financial instruments.

Revenue Recognition

The Company derives revenue from the sale of Ethernet based networking products, which includes embedded software and a license to use said software, post contract customer support, customer services and product warranties. Software is considered to be incidental to the product. Post contract customer support consists of on-site support. Services range from installation and training to basic consulting. Revenue is recognized when persuasive evidence of an arrangement exists, shipment has occurred, there are no significant remaining vendor obligations, collection of receivables is probable and the fee is fixed and determinable. The Company's business agreements contain multiple elements, however to date revenue from multiple elements has not been significant. Accordingly, the Company is required to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes, the fair value of these separate units of accounting and when to recognize revenue for each element. For arrangements involving multiple elements, the Company allocates revenue to each component of the arrangement using the residual value method, based on vendor-specific objective evidence of the fair value of the undelivered elements. These elements may include one or more of the following: advanced replacement, training and installation. The Company first allocates the arrangement fee, in a multiple element transaction, to the undelivered elements based on the total fair value of those undelivered elements, as indicated by vendor-specific objective evidence. This portion of the arrangement fee is deferred. Then the difference between the total arrangement fee and the amount deferred for the undelivered elements is recognized as revenue related to the delivered elements. In some instances, a group of contracts or agreements with the same customer may be so closely related that they are, in effect, part of a single multiple element arrangement and, therefore, the Company will allocate the corresponding revenue among the various components, as described above.

Revenue from engineering services or development agreements is recognized according to the specific terms and acceptance criteria, as services are rendered.

Shipping and handling costs borne by the Company are recorded in costs of goods sold. Shipping and handling costs charged to customers are recorded as a reduction of cost of goods sold and recorded as revenue.

Allowance for Doubtful Accounts

The Company's accounts receivable balance as at September 30, 2009 was \$10.3 million compared to \$9.8 million at March 31, 2009. The allowance for doubtful accounts was \$43,000 as at September 30, 2009 compared to \$36,000 as at March 31, 2009.

The allowance for doubtful accounts represents management's best estimate of potential losses that may be incurred if customers are unable to pay for products and services provided by the Company. Management regularly reviews its accounts receivable and makes an assessment as to the collectibility of each receivable. For those amounts deemed to be uncollectible, an allowance is recorded on a by-account basis.

Inventory

Inventories are recorded at the lower of cost or market value, cost being determined on an average cost basis. The cost of finished goods and work-in-process is comprised of material, labour and manufacturing overhead.

Warranty Costs

The Company's products have an associated five-year product warranty. A liability for the expected cost of warranty related claims is established when products are sold and the related revenue is recognized. The amount of the warranty liability accrued reflects an estimate of the expected future costs of honouring obligations under the warranty. In estimating the warranty liability, anticipated replacement costs and associated labour to correct the product's failure are considered. Should future product failure rates and/or replacement costs differ from these estimated levels, revisions to the warranty liability may be required.

Investment Tax Credits

The Company is entitled to certain Canadian federal and provincial tax incentives for qualified scientific research and experimental development. Tax incentives refundable to the Company are recorded when the qualifying expenditure is incurred and there is a reasonable assurance that the refund will be received.

Research and Development Costs

Research and development costs incurred prior to establishing the technological feasibility of products are expensed as incurred. Once the technological feasibility is established, direct costs incurred to develop the product, net of investment tax credits received, are capitalized until the product is available for general release. To date, products developed have had a very short time frame between technological feasibility and commercialization. As a result, the Company has expensed all related costs as incurred.

Stock-based Compensation

The Company reports and records all stock-based transactions following the guidelines of The Canadian Institute of Chartered Accountants (CICA) Handbook Section 3870, "Stock-Based Compensation and Other Stock-Based Payments." The guidelines use a fair value methodology for recording all stock-based awards to employees issued or altered in the year. The Black-Scholes option pricing model is

used to determine the fair value. The fair value of stock options and warrants are determined at the date of grant and charged to operations over the period of vesting.

Foreign Currency Translation

For foreign currency balances and integrated subsidiaries, monetary assets and liabilities are translated into Canadian dollars at the exchange rate in effect at the consolidated balance sheet date and non-monetary assets and liabilities are translated at the rate of exchange in effect when the assets are acquired or obligations incurred. Revenues and expenses are translated into Canadian dollars, the company's functional currency, at the monthly average exchange rates. Provisions for amortization are translated at the same rate as the related items.

Income Taxes

The Company accounts for income taxes under the liability method and records future income tax assets and liabilities that reflect the net income tax effects of temporary differences between carrying amounts for financial reporting purposes and the amounts used for income tax purposes. Valuation allowances are established to the extent that it is more likely than not that they will not be realized.

ACCOUNTING CHANGES

The CICA has issued Section 3064, Goodwill and Intangible Assets, to replace Section 3062. It establishes standards for the recognition, measurement, and disclosure of goodwill and intangible assets to converge with international financial reporting. This standard is effective for the Company for interim and annual financial statements beginning on April 1, 2009. The Company is in the process of evaluating the impact of the adoption of this standard on its financial statements.

In January 2009, The Canadian Institute of Chartered Accountants (CICA) issued Section 1582, Business Combinations, replacing Section 1581, Business Combinations. This section establishes the standards for the accounting of business combinations and states that all assets and liabilities of an acquired business will be recorded at fair value at the date of acquisition. The standard also states that the acquisition-related costs will be expensed as incurred and that the restructuring charges will be expensed in the periods after the acquisition date. This new Section will be applicable to financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. The Company is currently assessing the future impact of this new standard on its consolidated financial statements.

In January 2009, the CICA issued Section 1601, Consolidated Financial Statements, which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. The Company is currently assessing the future impact of this new standard on its consolidated financial statements.

International Financial Reporting Standards (IFRS)

In February 2008, the Canadian Accounting Standards Board confirmed that the use of IFRS will be required in Canada for publicly accountable profit-oriented enterprises for fiscal years beginning on or after January 1, 2011. The Company will be required to prepare its financial statements using IFRS for the fiscal year beginning April 1, 2011. The Company has begun the process of evaluating the impact of the change to IFRS on the Company's financial statements. During 2009, the Company carried out a diagnostic evaluation of all financial statement elements that would be affected by the implementation of IFRS. The elements that will be affected the most by the implementation of IFRS are revenue recognition, income taxes, capital assets and stock-based compensation. Although we have not quantified that impact as of September 30, 2009, the Company has a process in place to further refine the analysis to focus on quantifying the impact.

The impact of the implementation of IFRS on the Company's information systems, internal controls over financial reporting, disclosure controls and procedures or business activities such as capital requirements or compensation arrangements has not been determined at this time.

The Company plans to complete the assessment of the impact of IFRS on the above-noted items and implement such changes as may be required to ensure that IFRS reporting is fully implemented in the Company's operations by the end of the fiscal year ending March 31, 2010.

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Risk and Uncertainties

The risks and uncertainties discussed below are not the only ones the Company faces. Additional risks and uncertainties not presently known to it or that the Company currently considers immaterial also may impair its business operations and cause the price of its common shares to decline. If any of the following risks actually occur, its business may be harmed and its financial condition and results of operations may suffer significantly.

Growth Management

The growth of the Company's operations places a strain on managerial, sales, financial and human resources personnel as well as its physical plant. The Company's ability to succeed will depend in large part upon its ability to manage future growth to successfully expand all aspects of its business in a timely and cost effective manner consistent with the sales growth the Company experiences.

Growth in Key Markets

The overall market for rugged communications networking solutions has experienced significant growth in the past few years. There can be no assurance that the market for its solutions will continue to grow or grow as quickly as it currently anticipates, that firms in its target markets will adopt its solutions, or that it will be able to establish additional markets for its solutions.

Competition

The market for the Company's products is highly competitive. The Company has experienced, and expects to continue to experience, substantial competition from numerous competitors whom it expects to continue to improve their products and technologies. Competitors may announce and introduce new products, services or enhancements that better meet the needs of end-users or changing industry standards, or achieve greater market acceptance due to pricing, sales channels or other factors. Competitors may be able to respond more quickly than RuggedCom to changes in end-user requirements and devote greater resources to the enhancement, promotion and sale of their products.

The Company competes with a wide range of competitors of varying sizes. New competitors or alliances among competitors could emerge. Many of the Company's competitors and potential competitors have significantly greater financial, technical, marketing or service resources than RuggedCom with which to pursue research and development, marketing and distribution of their products. Many of these competitors also have a larger installed base of products, have longer operating histories or have greater name recognition than RuggedCom.

Certain of RuggedCom's original equipment manufacturers have or could acquire the internal capabilities to manufacture their own solutions competitive to RuggedCom's rather than reselling the Company's products, which could result in a reduction in its sales.

While many of the Company's direct competitors today are relatively small, consolidation is taking place in the industry resulting in competitors who are larger and better capitalized and therefore have greater resources. In addition, if two or more of the Company's competitors were to merge or partner, the change in the competitive landscape could adversely affect the Company's ability to compete effectively.

If RuggedCom's competitors offer deep discounts or more favourable purchase terms on certain products or services, the Company may be required to lower prices or offer other favourable terms to compete successfully. Any changes would likely reduce its margins and could adversely affect its operating results, particularly if it is unable to affect the changes with a corresponding increase in the

quantity of sales or through lower spending. In addition, its level of product gross margin may not be sustainable as it enters new geographic regions, adjusts its product mix or if it experiences increased warranty costs.

Dependence on Electric Power Industry

The Company currently derives approximately two-thirds of its revenue from sales to the electric power market and it expects revenue from these sales to continue to account for a substantial portion of its revenue for the foreseeable future. The Company is highly dependent for its sales on the ongoing electric power market migration to Internet Protocol-based communications networks throughout the non-office environment and there can be no assurance that the migration will continue. For example, as the electric power market is a regulated industry, the migration to Internet Protocol-based networks could be adversely affected by legislative developments.

Impact of the Global Financial Crisis

Recent events in the global financial markets have created a challenging environment for many businesses. Events seemingly unrelated to us or to our industry may adversely affect us over the course of time. It is possible that credit contraction in the financial markets and reduced economic activity may adversely affect our customer base, which could result in the postponement or cancellation of customers' projects. As a result, these customers may need to reduce their purchases of our products or services and we may experience greater difficulty in receiving payment for the products and services that these customers purchase from us. These events, or any other events caused by volatility in world financial markets or a decline in economic growth, may have a material adverse effect on the Company's business, operating results and financial condition.

Currency Fluctuations

The Company enters into transactions in multiple currencies and is subject to gains and losses due to fluctuations between those currencies. Recent events in the global financial markets have been coupled with increased volatility in the currency markets. A substantial portion of the Company's revenue is earned in US dollars, but a substantial portion of its operating expenses are incurred in Canadian dollars. Fluctuations in the exchange rate between the US dollar and other currencies, such as the Canadian dollar, may have a material adverse effect on the Company's business, financial condition and operating results. The Company intends to continue to expand operations internationally so it may be subject to additional gains and losses against additional currencies. The Company does not currently have a foreign exchange hedging program in place. However, in the future, it may establish a program to hedge a portion of its foreign currency exposure with the objective of minimizing the impact of adverse foreign currency exchange movements. However, even if the Company develops a hedging program, it may not hedge its entire exposure to any one foreign currency and it may not hedge its exposure at all with respect to certain foreign currencies.

Regulation

Certain components of the Company's products may be subject to current or future regulation, including relating to environmental protection, for example, lead solder and wireless solutions. Regulatory agencies may make rulings or adopt new standards with which its solutions may need to be compliant. The timing and nature of these rulings or adoption of new standards may impact future sales to the Company's customers, its ability to conform its solutions and/or to retain its market position.

In addition, in the future the Company may be required to comply with substance bans and product/component take-back requirements that would make the Company responsible for recycling and disposing of certain of its products/components that it has sold.

Reliance on Key Personnel

The Company depends on the services of its senior management and key professional, technical, sales, marketing and other specialized personnel to develop, market and support its solutions and develop the business. Most of its employees are not subject to non-competition restrictions that would prohibit them from leaving the Company to immediately join or form competitive businesses. The Company's success is highly dependent on its continuing ability to identify, hire, train, motivate and retain appropriate personnel. Competition for these personnel can be intense, and the Company cannot provide assurance that it will be able to attract or retain them. To do so, it may be necessary for the Company to materially increase the compensation it pays.

Reliance on Third-Party Suppliers

The Company relies on third-party suppliers, in some cases sole suppliers, to provide components, such as processor chips, necessary for the manufacture of its products. It depends on these suppliers to allocate to the Company a portion of their manufacturing capacity sufficient to meet its needs, to produce components of acceptable quality and to deliver those components to the Company on a timely basis at acceptable prices. The Company is not a major customer of any of its key suppliers and consequently they may be unwilling or unable to devote sufficient resources to meet the Company's requirements. Should a shortage of components occur (e.g. due to production interruption or a worldwide shortage of certain parts), a supplier may limit the number of components it may purchase. Additionally, a supplier may determine to cease production of components supplied to the Company. If it is unable to obtain sufficient allocations of these components in a timely manner, or a supplier ceases production of any if the components it relies on, production and shipment of products will be delayed. Reliance on third-party suppliers also reduces its control over production costs, delivery schedules, reliability and quality of materials.

Manufacturing and Reliance on Contract Manufacturers

The Company has one manufacturing and assembly facility which is located in Woodbridge, Ontario at which final assembly and testing of all of its products is completed. Should the operation of the facility be interrupted for a significant period of time for any reason, its ability to fulfill orders in a timely fashion will be significantly adversely affected.

If any of the Company's outsourced manufacturers are unable or unwilling to continue manufacturing its products in required volumes and quality levels, the Company will have to identify, qualify, select and implement acceptable alternative manufacturers, which could be time consuming and costly. In addition, an alternate source may not be available to the Company or may not be in the position to satisfy the Company's production requirements at commercially reasonable prices and quality. Therefore, any significant interruption in contract manufacturing would result in the Company being unable to deliver the affected products to meet its customer orders.

Reliance on Third Party Channel Partners

The Company is dependent upon its ability to establish and develop new relationships and to build on existing relationships with channel partners including manufacturer's representatives, distributors, original equipment manufacturers, systems integrators and consultants. It currently relies and expects to rely upon these relationships in the future to sell or facilitate the sale of a material portion of its solutions. These third parties may provide the Company with direct or indirect customer referrals, co-

operate with the marketing of its products and integrating its products in end-users' systems and infrastructure or include the Company as a specified supplier in their projects. It cannot provide assurance that it will be successful in maintaining or advancing its relationships with them. In addition, it cannot provide assurance that those with whom it currently has relationships will act in a manner that will promote the success of its solutions.

Some channel partners also sell products and services of the Company's competitors.

Some of the Company's competitors have been acquired by certain original equipment manufacturers with whom the Company has relationships, which could result in products and services of its competitors being favoured by them.

Protection of the Company's Intellectual Property

The Company's success depends in part on its ability to protect its rights in its intellectual property. The Company relies on various intellectual property protections, including patents, copyright, trade-mark and trade secret laws and contractual provisions, to preserve its intellectual property rights. Despite these precautions, it may be possible for third parties to obtain and use RuggedCom's intellectual property without its authorization. Policing unauthorized use of intellectual property is difficult, and some foreign laws do not protect proprietary rights to the same extent as the laws of Canada and the United States. Furthermore, many key aspects of networking technology are governed by industry wide standards, which are freely available to all market entrants.

To protect the Company's intellectual property, it may become involved in litigation, which could result in substantial expenses, divert the attention of its management, cause significant delays and materially disrupt the conduct of its business.

Rapid Technological Change

The markets for the Company's products are characterized by rapidly changing technology, evolving industry standards and increasingly sophisticated customer requirements. The introduction by competitors of products embodying new technology and the emergence of new industry standards can render RuggedCom's existing products obsolete and unmarketable and can exert price pressures on existing products. It is critical to the Company's success that it be able to anticipate and react quickly to changes in technology or in industry standards and successfully develop and introduce new, enhanced and competitive products on a timely basis. The Company cannot give assurance that it will successfully develop new products or enhance and improve its existing products, that new products and enhanced and improved existing products will achieve market acceptance or that the introduction of new products or enhanced existing products by others will not render the Company's products obsolete. The process of developing new technology is complex and uncertain, and, if RuggedCom fails to accurately predict customers' changing needs and emerging technological trends, its business could be harmed. The Company must commit significant resources to developing new products before knowing whether its investments will result in products the market will accept. To remain competitive, the Company may be required to invest significantly greater resources than currently anticipated in research and development and product enhancement efforts, and result in increased operating expenses.

Product Defects and Liability Claims

The Company is subject to proceedings and claims that may arise in the ordinary conduct of the business, which could include product and service warranty claims, which could be substantial. The Company's products are highly complex and sophisticated, and could contain design defects or software errors that are difficult to detect and correct. The Company provides product warranties that typically run for five years. If its products fail to perform as warranted and it fails to resolve product quality or

performance issues in a timely manner, sales may be lost and it may be forced to pay damages. In addition, because its products are sold and marketed in different countries, the products must function in and meet the requirements of many different environments and be compatible with different systems. Any failure to meet customer requirements could materially affect its business, results of operations and financial condition. The occurrence of product defects and the inability to correct errors could result in the delay or loss of market acceptance of its products, material warranty expense, diversion of engineering and other resources from its product development efforts, and the loss of credibility with its customers, manufacturer's representatives, distributors, value added resellers, systems integrators, original equipment manufacturers and end-users, any of which could have a material adverse effect on the Company's business, operating results and financial condition.

The Company does not currently maintain product liability insurance coverage. The Company has not experienced a material product liability claim to date; however, if that claim were to arise it would likely be substantial in light of the use of its products in mission critical applications. A successful product liability claim could result in significant monetary liability and could seriously disrupt or harm its business.

International Risk

The Company's international operations are significant and it intends to continue to expand these international operations. RuggedCom's foreign operations face additional specific local risks, which may adversely affect the Company, including: changes in legal and regulatory requirements (including tariffs and other trade barriers); less favourable intellectual property laws; any loss of sales personnel in one of RuggedCom's small foreign offices that could result in a significant loss of sales in that foreign country; changes in local tax rates and other potentially adverse tax consequences (including the cost of repatriation of earnings); collectibility of accounts in foreign jurisdictions; and burdens of complying with a wide variety of foreign laws, including changing import and export regulations.

The Company believes that its future growth depends in large part on its ability to increase its business in international markets. This will require significant management attention and financial resources, including capital to hire additional personnel and establish additional international facilities.

Economic and Geopolitical Uncertainty

The market for RuggedCom's solutions depends on economic and geopolitical conditions affecting the broader market. Economic conditions globally are beyond the Company's control. In addition, acts of terrorism and the outbreak of hostilities, disease, and armed conflicts between countries can create geopolitical uncertainties that may affect the global economy. Downturns in the economy or geopolitical uncertainties may cause end-users to delay or cancel projects, reduce their overall information technology budgets or reduce or cancel orders for the Company's solutions, which could have a material adverse effect on its business, results of operations and financial condition.

Acquisitions

The Company acquired WiNetworks Ltd. on September 17, 2009 and may engage in additional selective acquisitions. There is a risk that it will not be able to identify suitable acquisition candidates available for sale at reasonable prices. It is likely to face competition for acquisition candidates from other parties including those that have substantially greater available resources. Acquisitions may involve a number of other risks, including: diversion of management's attention; disruption to its ongoing business; failure to retain key acquired personnel; difficulties in integrating acquired operations, technologies, products or personnel; unanticipated expenses, events or circumstances; assumption of disclosed and undisclosed liabilities; and inappropriate valuation of the acquired in-process research and development. In addition, if the Company proceeds with an acquisition, its available cash may be used to complete the

transaction, diminishing its liquidity and capital resources, or shares may be issued which could cause significant dilution to existing shareholders.

Fluctuations in Quarterly Results

The Company's quarterly operating results have fluctuated in the past and may fluctuate significantly in the future depending on factors such as seasonality, demand for its products, the size and timing of orders, progress on implementation of projects, the number, timing and significance of new product announcements by the Company and its competitors, the ability to develop, introduce and market new and enhanced versions of products on a timely basis, the level of product and price competition, changes in operating expenses, changes in the sales incentive strategy, sales personnel changes and general economic factors, among others. A significant portion of the Company's expenses are based on expectations of future revenue and, therefore, is relatively fixed in the short-term. Accordingly, if revenue levels are below expectations, operating results are likely to be adversely affected.

The Company relies on individual purchase orders for product sales to customers and has no long-term customer supply contracts providing for specified sales. Because its quarterly revenue is dependent upon a relatively small number of transactions, even minor variations in the rate and timing of conversion of its sales prospects into revenue could cause the Company to plan or budget inaccurately, and those variations could adversely affect its financial results.

Dependence on Certain Licensed Intellectual Property

The Company licenses certain technologies used in its products from third parties, including as part of ROS (Rugged Operating System). The termination of any of these licenses, or the failure of the licensors to maintain or update their products adequately, could delay its ability to ship solutions while it seeks to implement alternative technology offered by other sources that may require significant unplanned investments. In addition, alternative technology may not be available, and even if it is available it may not be available on commercially reasonable terms. In the future, it may be necessary or desirable to obtain other third-party technology licenses relating to one or more of its solutions or relating to current or future technologies to enhance the Company's product offerings. There is a risk that the Company will not be able to obtain licensing rights to the needed technology on commercially reasonable terms, if at all.

Infringement of Intellectual Property Rights

While the Company believes that its products and other intellectual property do not infringe upon the proprietary rights of third parties, its commercial success depends, in part, upon the Company not infringing intellectual property rights of others. A number of the Company's competitors and other third parties have been issued patents and may have filed patent applications or may obtain additional patents and proprietary rights for technologies similar to those used in the Company's solutions. Some of these patents may grant very broad protection to the owners of the patents. The Company has not undertaken a review to determine whether any existing third party patents or the issuance of any third party patents would require the Company to alter its technology, obtain licenses or cease certain activities. The Company may become subject to claims by third parties that its technology infringes their intellectual property rights due to the growth of products in its target markets, the overlap in functionality of these products and the prevalence of products. The Company may become subject to these claims either directly or through indemnities against these claims that it routinely provides to its end-users, manufacturer's representatives, distributors, value added resellers, systems integrators and original equipment manufacturers.

Litigation may be necessary to determine the scope, enforceability and validity of third party proprietary rights or to establish the Company's proprietary rights. Some of its competitors have, or are affiliated with companies having, substantially greater resources than RuggedCom and these competitors

may be able to sustain the costs of complex intellectual property litigation to a greater degree and for a longer period of time than RuggedCom. Regardless of their merit, any such claims could be time consuming to evaluate and defend; result in costly litigation; cause product shipment delays or stoppages; divert management's attention and focus away from the business; subject the Company to significant liabilities and equitable remedies, including injunctions; require the Company to enter into costly royalty or licensing agreements; and require the Company to modify or stop using infringing technology.

The Company may be prohibited from developing or commercializing certain technologies and products unless it obtains a license from a third party. There can be no assurance that it will be able to obtain any such license on commercially favourable terms, or at all. If it does not obtain such a license, it could be required to cease the sale of certain of its solutions.

Use of Open Source Software

The Company uses certain open source software (such as Linux) in the development of certain of its software products, which are not maintained or supported by the original developers thereof. This open-source software was developed originally by third parties over whom the Company has no control. The Company has no assurances that the Linux operating system and the Company's related components do not infringe on the intellectual property rights of others and the Company could be exposed to infringement claims and liability in connection with the use of such open source software. The Company conducted no independent investigation to determine whether the sources of that software have the rights necessary to permit the Company to use this software free of claims of infringement by third parties. The Company could be required to replace certain components with internally developed or commercially licensed equivalents, which could delay product development plans, interfere with its ability to support its customers and/or require the Company to pay licensing fees. Certain open source software licenses provide that any software that makes use of or incorporates components distributed under that license will itself become subject to the same general distribution rights and other terms of that license. As a result, there is a risk that third parties, including RuggedCom's competitors, could have the right to use and distribute certain elements of the Company's software products which is based on open-source software.

Health and Safety

In recent years there has been publicity regarding the potentially negative direct and indirect health and safety effects of electromagnetic emissions from wireless equipment sources, including allegations that these emissions may cause cancer. The Company's wireless communications products emit electromagnetic radiation. Health and safety issues related to its products may arise that could lead to litigation or other actions against the Company or to regulation of certain of its product components. The Company may be required to modify its technology and may not be able to do so. It may also be required to pay damages that may reduce its profitability and adversely affect its financial condition. Even if these concerns prove to be baseless, the resulting negative publicity could affect the Company's ability to market certain of its products and, in turn, could harm its business and results of operations.

Transfer Pricing

The Company conducts business operations in various jurisdictions and through legal entities in Canada, United States and Germany. RuggedCom and its wholly-owned subsidiaries, RuggedCom (USA) Inc. and RuggedCom Deutschland GmbH i. Gr., provide solutions to, and may from time to time undertake certain significant transactions with, other currently existing or new subsidiaries in different jurisdictions. The tax laws of these jurisdictions, including Canada, have detailed transfer pricing rules which require that all transactions with non-resident related parties be priced using arm's length pricing principles and that contemporaneous documentation must exist to support that pricing. The taxation authorities in the jurisdictions where it carries on business could challenge RuggedCom's arm's length related party transfer pricing policies. International transfer pricing is a subjective area of taxation and

generally involves a significant degree of judgment. If any of these taxation authorities were to successfully challenge the Company's transfer pricing policies, its income tax expense may be adversely affected and it could also be subjected to interest and penalty charges. Any such increase in its income tax expense and related interest and penalties could have a significant impact on its future earnings and future cash flows.

Other Tax Matters

Although management is of the view that all expenses and tax credits claimed by the Company, including research and development expenses and investment tax credits, are reasonable and deductible and have been correctly determined, there can be no assurance that the Canadian taxation authorities will agree. If the Canadian taxation authorities successfully challenge such expenses or the correctness of such income tax credits claimed, the Company's operating results could be adversely affected. If the Canadian taxation authorities reduce the tax credit either by reducing the rate of the grant or the eligibility of some research and development expenses in the future, its operating results will be adversely affected.

The majority of the Company's research and development activities are conducted at its headquarters in Concord, Ontario. The Company participates in government programs with both the federal Government of Canada and the Government of Ontario that provide investment tax credits based upon qualifying investment expenditures. These expenditures primarily consist of the salaries of the persons conducting research and development activities. If these investment tax credits are reduced or eliminated, the Company's business, financial condition and results of operations may be adversely affected.