

RUGGEDCOM INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THIRD QUARTER ENDED DECEMBER 31, 2008

Dated: February 11, 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 nine month periods ended December 31, 2008 compared with the three month and nine month periods ended December 31, 2007. This MD&A should be read in conjunction with the Company's consolidated interim financial statements for the three month and nine month periods ended December 31, 2008 and December 31, 2007 and the notes thereto, the audited annual consolidated financial statements for the fiscal years ended March 31, 2008 and March 31, 2007 and the notes thereto and the auditors report thereto.

Commencing in the second quarter of the 2008 fiscal year, the Company began reporting its financial results of operations and financial condition in US dollars. All amounts in this MD&A are in US dollars unless otherwise indicated. For further information in relation to the change of our reporting currency, please see "Critical Accounting Estimates – Change in Reporting Currency". 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 February 11, 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, our reliance on key personnel, growth in our key markets, our dependence on the electric power industry, increased efforts by competitors to compete in our markets, our reliance on third-party suppliers and contract manufacturers, our reliance on third-party channel partners, our dependence on licensed intellectual property, potential infringement by us of others' intellectual property rights, including our use of open source software, rapid technological changes, potential product liability claims, foreign exchange fluctuations and international risk, and changes in environmental and other regulation.

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:

- was granted two patents by the U.S. Patent and Trademarks Office related to the innovative methods used in transient suppression and isolation of the power supplies used within RuggedCom's Ethernet networking products, thus allowing for greater tolerance to electromagnetic interference which could affect the data transmission of the Ethernet devices;
- released a new high density industrially hardened Ethernet switch (the RuggedSwitch® RSG2300), to address the needs of large mission critical networks found in substation automation for electric utilities, intelligent transportation systems, and advanced control and automation for industrial processes;
- expanded, with new configuration options and models, the *i*-Series family of Ethernet switch products which have been specifically designed for demanding industrial applications, such as those found in process control applications (oil and gas, petro-chemical, metals and mining, and wind farms).

SELECTED CONSOLIDATED QUARTERLY FINANCIAL INFORMATION

The following tables set out selected consolidated financial information for the three month and nine month periods ended December 31, 2008 and 2007, respectively. The information in these tables have been derived from the unaudited consolidated interim financial statements and accompanying notes for the three month and nine month periods ended December 31, 2008 and December 31, 2007, as well as the March 31, 2008 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 nine months ended December 31, 2008 and 2007 has been prepared by management in accordance with GAAP in a manner consistent with its annual financial statements.

<u>Selected Consolidated Quarterly Financial Information</u>	Three months ended December 31 (unaudited)		Nine months ended December 31 (unaudited)	
	2008	2007	2008	2007
	In thousands, except share amounts, data expressed as percentages and per share data			
Revenue	\$ 15,821	\$ 10,312	\$ 42,957	\$ 27,713
Cost of goods sold	<u>5,420</u>	<u>4,520</u>	<u>15,897</u>	<u>12,390</u>
Gross margin	10,401	5,792	27,060	15,323
Gross margin %	65.7%	56.2%	63.0%	55.3%
Operating expenses:				
Research and development	1,052	732	2,915	2,041
Sales and marketing	2,666	1,777	7,743	5,367
General and administrative	751	1,137	3,256	3,656
Amortization	<u>271</u>	<u>214</u>	<u>859</u>	<u>598</u>
Total operating expenses	<u>4,740</u>	<u>3,860</u>	<u>14,773</u>	<u>11,662</u>
Net interest income	<u>303</u>	<u>484</u>	<u>1,131</u>	<u>773</u>
Earnings before income taxes	5,964	2,416	13,418	4,434
Provision for income taxes – current	1,829	1,043	4,357	1,781
Provision for income taxes – future	<u>153</u>	<u>16</u>	<u>151</u>	<u>78</u>
Net earnings for the period	<u>3,982</u>	<u>1,357</u>	<u>8,910</u>	<u>2,575</u>
Net Earnings Per Share:				
Basic	\$ 0.34	\$ 0.12	\$ 0.76	\$ 0.27
Diluted	\$ 0.33	\$ 0.11	\$ 0.72	\$ 0.26
Weighted Average Number of Common Shares Outstanding:				
Basic	11,798,435	11,510,060	11,760,669	9,624,458
Diluted	12,251,346	12,286,253	12,296,445	10,478,209
Other data:				
EBITDA ^{(1) (2)}	\$ 5,932	\$ 2,146	\$ 13,146	\$ 4,259
EBITDA Margin % ⁽¹⁾	37.5%	20.8%	30.6%	15.4%

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 December 31 (unaudited)		Nine months ended December 31 (unaudited)	
	2008	2007	2008	2007
	In thousands		In thousands	
Net earnings for the period	\$3,982	\$1,357	\$8,910	\$2,575
Interest	(303)	(484)	(1,131)	(773)
Taxes.....	1,982	1,059	4,508	1,859
Amortization.....	<u>271</u>	<u>214</u>	<u>859</u>	<u>598</u>
EBITDA ⁽¹⁾	<u>\$5,932</u>	<u>\$2,146</u>	<u>\$13,146</u>	<u>\$4,259</u>

Notes:

(1) See "Non-GAAP measures"

	As at	
	December 31, 2008 (unaudited)	March 31, 2008
Consolidated Balance Sheet Data:	(In thousands)	
Cash and cash equivalents	\$ 43,768	\$ 8,037
Short term investments	-	34,194
Working capital (1)	50,388	50,178
Total assets	61,367	58,210
Total liabilities	8,487	5,790
Total shareholders' equity	52,880	52,420

Notes:

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

Financial Highlights

- Achieved record revenues of \$15.8 million in the third quarter, the Company's 18th consecutive record quarter, representing an increase of 53.4% over the same quarter a year ago.
- Booked record orders of \$15.3 million in the third quarter, an increase of 37.9% over the same quarter a year ago.
- Gross margin of \$10.4 million in the third quarter, up 79.6% from the same quarter a year ago.
- Achieved 15th consecutive quarter of profitability with net income of \$4.0 million compared to \$1.4 million for the same quarter a year ago, an increase of 193.4%

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.

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 and (iv) 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. 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.

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 intellectual property including issued patents, and patents for which applications have been filed and trademarks.

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INTERIM PERIOD OPERATING RESULTS

Revenue

The Company's reporting currency is in US dollars. For the three month period ending December 31st, 2008 ("Q3-F09") approximately 90% of the Company's sales revenues were in US dollars.

Highlights (for Q3-F09):

- Achieved sales revenues of \$15.8 million
 - 18th consecutive record quarter
 - Increase of 53.4% from same period prior year
 - Increase of 10.0% from prior quarter
 - Seventh consecutive quarter of sequential double digit growth
- Achieved purchase orders totaling \$15.3 million
 - 2nd highest in company history
 - Increase of 37.9% from same period prior year
- Achieved new Company records for sales revenues in the following markets:
 - Electric Power - 11th consecutive record quarter; up 53.6% year-over-year
 - Military - up 90.9% year-over-year
- Added 98 new customers
 - Increase of 10.1% from same period prior year

Sales for Q3-F09 were \$15.8 million compared to \$10.3 million for the same period in the last fiscal year, representing an increase of 53.4%. Sales for the first nine months of F09 were \$43.0 million compared to \$27.7 million for the same period in the last fiscal year representing an increase of 55.0%. Sales revenues for Q3-F09 were also 10.0% above the prior quarter and represented the Company's 18th consecutive record quarter and 7th consecutive quarter of 10% or better quarter over quarter growth.

Customer purchase orders for Q3-F09 totaled \$15.3 million compared to \$11.1 million for the same period last year, representing an increase of 37.9%. Purchase orders for the first nine months of F09 totaled \$45.3 million compared to \$29.0 million for the same period last year, representing an increase of 56.1%. Purchase orders for Q3-F09 were also the second highest in the history of the Company but represented a sequential decrease of 10.1% from the prior record quarter of \$17.1 million.

In general, sales for Q3-F09 and for the first nine months of F09 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 Q3-F09 totaled \$10.7 million compared to \$7.0 million for the same period in the prior fiscal year, representing an increase of 53.6%. Sales in the electric power market for Q3-F09 comprised 67.6% of total Company sales for the quarter compared to 67.5% for the same period in the prior fiscal year. In addition, Q3-F09 sales in the electric power market represented the Company's 11th consecutive record quarter for sales in this market. Sales in the electric power market for the nine month period ended December 31st, 2008 totaled \$28.7 million compared to \$18.7 million for the same period the prior fiscal year, representing an increase of 53.1%. Sales in the electric power market for the nine month period ended December 31st, 2008 comprised 66.7% of total Company sales compared to 67.6% 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 Q3-F09 totaled \$1.6 million compared to \$1.3 million for the same period in the prior fiscal year, representing an increase of 24.5%. Sales in the transportation market for Q3-F09 comprised 10.0% of total Company sales for the quarter compared to 12.3% for the same period in the prior fiscal year. Sales in the transportation market for the nine month period ended December 31st, 2008 totaled \$5.5 million compared to \$3.9 million for the same period the prior fiscal year, representing an increase of 39.0%. Sales in the transportation market for the nine month period ended December 31st, 2008 comprised 12.7% of total Company sales compared to 14.2% 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 73.5% of the Q3-F09 sales in the sector. The Company expects that revenues from the transportation market could experience quarterly volatility for the remainder of fiscal 2009 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 Q3-F09 totaled \$2.0 million compared to \$1.2 million for the same period in the prior fiscal year, representing an increase of 61.8%. Sales in the industrial process market for Q3-F09 comprised 12.6% of total Company sales for the quarter compared to 12.0% for the same period in the prior fiscal year. Sales in the industrial process market for the nine month period ended December 31st, 2008 totaled \$5.7 million compared to \$3.0 million for the same period the prior fiscal year, representing an increase of 94.0%. Sales in the industrial process market for the nine month period ended December 31st, 2008 comprised 13.4% of total Company sales compared to 10.7% 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, with the largest growth coming from the APAC (Asia-Pacific) region.

Military

Sales in the military market for Q3-F09 totaled \$1.5 million compared to \$0.8 million for the same period in the prior fiscal year, representing an increase of 90.9%. Sales in the military market for Q3-F09 comprised 9.5% of total Company sales for the quarter compared to 7.6% for the same period in the prior fiscal year. Sales in the military market for the nine month period ended December 31st, 2008 totaled \$3.0 million compared to \$1.9 million for the same period the prior fiscal year, representing an increase of 59.7%. Sales in the military market for the nine month period ended December 31st, 2008

comprised 6.9% of total Company sales compared to 6.7% 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 December 31 (as percentage of total)		Three months ended December 31 (\$ thousands)		Change
	2008	2007	2008	2007	%
Electric Power (Utilities)	67.6%	67.5%	\$10,694	\$6,961	53.6%
Transportation	10.0%	12.3%	\$1,579	\$1,268	24.5%
Industrial.....	12.6%	12.0%	\$2,001	\$1,237	61.8%
Military.....	9.5%	7.6%	\$1,497	\$784	90.9%
Other.....	<u>0.3%</u>	<u>0.6%</u>	<u>\$50</u>	<u>\$62</u>	<u>-19.4%</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>\$15,821</u>	<u>\$10,312</u>	<u>53.4%</u>

(Unaudited) MARKET/SECTOR	Nine months ended December 31 (as percentage of total)		Nine months ended December 31 (\$ thousands)		Change
	2008	2007	2008	2007	%
Electric Power (Utilities)	66.7%	67.6%	\$28,658	\$18,724	53.1%
Transportation	12.7%	14.2%	\$5,464	\$3,930	39.0%
Industrial.....	13.4%	10.7%	\$5,743	\$2,960	94.0%
Military.....	6.9%	6.7%	\$2,976	\$1,863	59.7%
Other.....	<u>0.3%</u>	<u>0.8%</u>	<u>\$116</u>	<u>\$236</u>	<u>-50.8%</u>
	<u>100.0%</u>	<u>100.0%</u>	<u>\$42,957</u>	<u>\$27,713</u>	<u>55.0%</u>

Sales by Region

North America

North America sales for Q3-F09 totaled \$6.7 million compared to \$4.8 million for the same period in the prior fiscal year, representing an increase of 38.8%. Sales in North America for Q3-F09 comprised 42.2% of total Company sales for the quarter compared to 46.6% for the same period in the prior fiscal year. Q3-F09 North America sales were driven primarily by sales in the electric power and transportation sectors. North American sales for the nine month period ended December 31st, 2008 totaled \$19.2 million compared to \$12.6 million for the same period the prior fiscal year, representing an increase of 51.7%. Sales in North America for the nine month period ended December 31st, 2008 comprised 44.6% of total Company sales compared to 45.6% over the same period the prior fiscal year. Sales in North America for the nine month period ended December 31st, 2008 were driven mainly by sales in the electric power and transportation sectors.

Europe, Middle-East and Africa (EMEA)

EMEA sales for Q3-F09 totaled \$4.6 million compared to \$3.3 million for the same period in the prior fiscal year, representing an increase of 39.5%. Sales in EMEA for Q3-F09 comprised 29.1% of total Company sales for the quarter compared to 32.0% for the same period in the prior fiscal year. Q3-F09 EMEA sales were driven primarily by sales in the electric power sector. EMEA sales for the nine month period ended December 31st, 2008 totaled \$12.1 million compared to \$9.6 million for the same period the prior fiscal year, representing an increase of 26.3%. Sales in EMEA for the nine month period ended

December 31st, 2008 comprised 28.2% of total Company sales compared to 34.7% over the same period the prior fiscal year. Sales in EMEA for the nine month period ended December 31st, 2008 were driven mainly by sales in the electric power sector.

Asia-Pacific (APAC)

APAC sales for Q3-F09 totaled \$3.1 million compared to \$1.7 million for the same period in the prior fiscal year, representing an increase of 88.1%. Sales in APAC for Q3-F09 comprised 19.7% of total Company sales for the quarter compared to 16.1% for the same period in the prior fiscal year. Q3-F09 APAC sales were driven primarily by sales in the electric power and industrial sectors. APAC sales for the nine month period ended December 31st, 2008 totaled \$8.9 million compared to \$3.6 million for the same period the prior fiscal year, representing an increase of 147.5%. Sales in APAC for the nine month period ended December 31st, 2008 comprised 20.8% of total Company sales compared to 13.0% over the same period the prior fiscal year. Sales in APAC for the nine month period ended December 31st, 2008 were driven mainly by sales in the electric power and industrial process sectors.

Latin America

Latin America sales for Q3-F09 totaled \$1.4 million compared to \$0.5 million for the same period in the prior fiscal year, representing an increase of 160.9%. Sales in Latin America for Q3-F09 comprised 9.0% of total Company sales for the quarter compared to 5.3% for the same period in the prior fiscal year. Q3-F09 Latin America sales were driven primarily by sales in the electric power sector. Latin America sales for the nine month period ended December 31st, 2008 totaled \$2.7 million compared to \$1.9 million for the same period the prior fiscal year. Sales in Latin America for the nine month period ended December 31st, 2008 comprised 6.4% of total Company sales compared to 6.7% over the same period the prior fiscal year. Sales in Latin America for the nine month period ended December 31st, 2008 were driven mainly by sales in the electric power sector.

(Unaudited) REGION	Three months ended December 31 (as percentage of total)		Three months ended December 31 (\$ thousands)		Change
	2008	2007	2008	2007	%
	North America.....	42.2%	46.6%	\$6,668	\$4,805
Latin America.....	9.0%	5.3%	\$1,427	\$547	160.9%
Asia Pacific.....	19.7%	16.1%	\$3,122	\$1,660	88.1%
Europe, Middle East & Africa ...	<u>29.1%</u>	<u>32.0%</u>	<u>\$4,604</u>	<u>\$3,300</u>	<u>39.5%</u>
	100.0%	100.0%	\$15,821	\$10,312	53.4%

(Unaudited) REGION	Nine months ended December 31 (as percentage of total)		Nine months ended December 31 (\$ thousands)		Change
	2008	2007	2008	2007	%
	North America.....	44.6%	45.6%	\$19,165	\$12,635
Latin America.....	6.4%	6.7%	\$2,739	\$1,869	46.5%
Asia Pacific.....	20.8%	13.0%	\$8,933	\$3,609	147.5%
Europe, Middle East & Africa ...	<u>28.2%</u>	<u>34.7%</u>	<u>\$12,120</u>	<u>\$9,600</u>	<u>26.3%</u>
	100.0%	100.0%	\$42,957	\$27,713	55.0%

Sales by Customer

The total number of customers who placed orders in Q3-F09 was 389 as compared to 287 for the same period in the previous financial year, an increase of 35.5%. In Q3-F09 the Company also added 98 new customers as compared to 89 for the same period in the prior fiscal year, representing an increase of 10.1%. For the nine month period ended December 31st, 2008 the company added 288 new customers as compared to 244 for the same period in the prior fiscal year, representing an increase of 18.0%. For the nine month period ended December 31st, 2008 the electric power sector contributed the largest number of new customers (133 out of 288) accounting for 46.2%.

In Q3-F09 the Company's top ten customers accounted for 42.8% of sales revenues. For the nine month period ended December 31st, 2008 the Company's top ten customers accounted for 42.1% of sales revenues. The following table outlines the revenue generated from the Company's customers which represents 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 December 31, 2008	% of total revenues for Three months ended December 31, 2007	% of total revenues for Nine months ended December 31, 2008	% of total revenues for Nine months ended December 31, 2007
Customer A	13.1%	17.6%	12.4%	12.7%
Customer B	6.5%	6.6%	9.2%	10.3%
Total	19.6%	24.2%	21.6%	23.0%

Gross Margin

Gross margin for Q3-F09 increased 80% to \$10.4 million, compared to \$5.8 million in the same period in the last fiscal year, and as a percentage of revenue, increased to 65.7% from 56.2% for the same period in the last fiscal year.

The significant increase in gross margin percentage experienced in Q3-F09 compared to the same period last year was due to a combination of favourable product and customer mix and continuing efforts to reduce product unit costs. Cost productivity gains continue to be realized as the Company's revenue base grows. In addition, gross margins were favourably affected by a significant weakening of the Canadian dollar versus the US dollar during the quarter.

Operating Expenses

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

Expenses as a Percentage of Revenue

	Three months ended December 31 (unaudited)		Nine months ended December 31 (unaudited)	
	2008	2007	2008	2007
	\$	\$	\$	\$
Revenue	<u>15,821</u>	<u>10,312</u>	<u>42,957</u>	<u>27,713</u>
Research and development.....	1,052	732	2,915	2,041
% of revenue	6.6%	7.1%	6.8%	7.4%
Sales and marketing	2,666	1,777	7,743	5,367
% of revenue	16.9%	17.2%	18.0%	19.4%
General and administrative	751	1,137	3,256	3,656
% of revenue	4.7%	11.0%	7.6%	13.2%
Amortization.....	271	214	859	598
% of revenue	1.7%	2.1%	2.0%	2.2%
Total operating expenses.....	<u>4,740</u>	<u>3,860</u>	<u>14,773</u>	<u>11,662</u>
% of revenue	<u>30.0%</u>	<u>37.4%</u>	<u>34.4%</u>	<u>42.1%</u>

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Research and Development Expenses

Research and development expenses for Q3-F09 increased 44% to \$1.1 million, or 6.6% of revenue, compared to \$0.7 million, or 7.1% of revenue, for the same period in the previous fiscal year. Both Q3-FY09 and Q3-FY08 included accrued investment tax credits of \$0.1 million each. When these tax credits are factored out, gross research and development expenditures totaled \$1.2 million, or 7.5% of revenue for Q3-FY09, compared to \$0.8 million, or 8.2% of revenue for Q3-FY08. For the first nine months of F09, research and development expenses (including \$0.6 of accrued investment tax credits) increased 43% to \$2.9 million compared to \$2.0 million in the same period in the last fiscal year, representing 6.8% and 7.4% of total revenues for each period, respectively. Removing the effect of investment tax credits accrued in the first nine months of F09, the Company's research and development expenditures were 8.3% of revenue. The increase in absolute dollar expense for Q3-F09 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 33 to 46, and to the continued development of new products and the enhancement of existing products.

Sales and Marketing Expenses

Sales and marketing expenses for Q3-F09 increased 50% to \$2.7 million, compared to \$1.8 million for the same period in the previous fiscal year, representing 16.9% and 17.2% of total revenues for each period, respectively. For the first nine months of F09, sales and marketing expenses increased 44% to \$7.7 million compared to \$5.4 million in the same period in the last fiscal year, representing 18.0% and 19.4% of total revenues for each period, respectively. The increase in dollar amounts for both Q3-F09 and the first nine 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 28 to 34 and an increase in their total compensation, a portion of which is performance based, contributed to the increase, as did expansion of the Company's marketing group from five to seven personnel. Marketing activity also increased 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 Q3-F09 decreased 34% to \$0.8 million, compared to \$1.1 million for the same period in the last fiscal year, representing 4.7% and 11.0% of total revenues for each period, respectively. The decrease in dollar amounts for Q3-F09 compared to the corresponding prior period last year was primarily due to foreign exchange gains of \$0.6 million resulting from a weakening of the Canadian dollar relative to the US dollar during the quarter. Factoring out the foreign exchange effects, general and administrative expenses for Q3-F09 would have shown an increase of approximately 8% over the corresponding quarter from a year ago, due to the general growth in the Company's business. The Company's general and administrative staff increased over the past 12 months from 21 to 26 to support the Company's staffing requirements in finance, administration and customer support. For the first nine months of F09, general and administrative expenses were \$3.3 million, compared to \$3.7 million from the same period in the last fiscal year, representing 7.6% and 13.2% of total revenues for each period, respectively. Excluding the effects of foreign exchange gains and losses as

well as other unusual expenses from both periods, general and administrative expenses would have been \$4.0 million and \$3.1 million for the nine months ending December 31, 2008 and 2007 respectively, representing 9.3% and 11.1% of total revenues for each period, respectively.

Interest and Other Income

The Company earned \$0.3 million of interest income in Q3-F09. This compares to \$0.5 million of interest expense incurred in the same period last fiscal year. Interest income for Q3-F09 was earned on the Company's cash, cash equivalents, and short term investments, less a nominal amount of interest expense related principally to capital leases. For the first nine months of F09, the Company earned net interest income of \$1.1 million compared to \$0.8 million of interest income incurred in the same period last fiscal year. The net interest income for the first nine months of the prior period was comprised of a mix of interest income earned on the Company's cash, cash equivalents, and short term investments netted against interest expense incurred by the Company related to accretion of the Company's Series A preferred shares, which were outstanding at that time.

Income Tax Expense

The Company recorded a tax provision for Q3-F09 of \$2.0 million which equates to an effective tax rate of 33.2%. This rate is lower than the statutory rate of 34.0% principally due to a manufacturing and processing deduction available to the Company on an ongoing basis. This compares to a \$1.1 million income tax expense for the same period in the prior year, due to significantly lower net income before taxes for that period. For the first nine months of F09, the Company incurred income tax expense of \$4.5 million which is calculated at an effective rate of 33.6%. This compares to \$1.9 million income tax expense for the first nine months of F08.

Net Earnings

Net earnings before taxes for Q3-F09 was \$6.0 million compared to \$2.4 million for the same period in the last fiscal year, representing 37.7% and 23.4%, respectively, of total revenues for each period. For the first nine months of F09, net earnings before taxes was \$13.4 million compared to \$4.4 million for the same period in the prior year, representing 31.2% and 16.0%, respectively, of total revenue for each period. Net earnings before taxes for Q3-F09 increased significantly compared to the same period a year ago due to increased revenues, a significantly higher gross margin percentage (65.7% compared to 56.2%), as well as foreign exchange gains from a weakening of the Canadian dollar relative to the US dollar. The favourable effect of these factors resulted in an increase in operating expenses of only 23% compared to a 80% increase in gross margin dollars from the same period a year ago.

Net earnings after taxes for Q3-F09 was \$4.0 compared to \$1.4 million for Q3-F08, representing 25.2% and 13.2%, respectively, of total revenues for each period. This represents an increase of 193% over the corresponding period last year. For the first nine months of F09, net earnings after taxes was \$8.9 million compared to \$2.6 million for the same period in the last fiscal year, representing 20.7% and 9.3%, respectively, of total revenues for each period. This represents an increase of 246% over the corresponding period last year.

OUTLOOK

Despite the current global financial and economic crisis, the Company expects continued annual growth and profitability. The Company believes it is well positioned for tougher markets and slowing economic conditions. In particular, the Company currently has the following strengths: a strong balance sheet with large cash reserves, positive cash flow from operations, strong gross, operating and net profit margins, as well as a large and diverse global customer base spread across multiple markets. As such, the Company will continue to make investments in research and development for new products and services as well as continue to invest in sales and marketing as it continues to promote the RuggedCom brand and build out its global sales channels.

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LIQUIDITY AND CAPITAL

	As at December 31, 2008	As at March 31, 2008
(In thousands, except Balance Sheet ratios)		
Key Balance Sheet Amounts and Ratios:		
Cash and cash equivalents	\$ 43,768	\$ 8,037
Short term investments	-	34,194
Working capital	50,388	50,178
Long term assets	3,254	2,998
Long term liabilities	762	756
Working capital ratio ⁽¹⁾	7.5	11.0
Days sales outstanding in accounts receivable ⁽²⁾	39 days	42 days
Inventory turnover ⁽³⁾	4.7 times	5.2 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, Cash Equivalents and Short Term Investments

Cash, cash equivalents and short term investments include cash on hand, banks 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 December 31, 2008, the Company had \$43.8 million of cash, cash equivalents and short term investments compared to \$42.2 million as at March 31, 2008.

Working Capital

Working capital is defined as current assets less current liabilities. The Company's working capital balance increased slightly to \$50.4 million at December 31, 2008 compared to \$50.2 million at the end of fiscal 2008. The Company's working capital ratio (current assets divided by current liabilities) decreased to 7.5:1 compared to 11.0:1 at March 31, 2008. The decrease in the Company's working capital ratio is partly attributable to a rise in trade payables associated with increased business activity and increased inventory purchases during the nine months ending December 31, 2008. The decrease is also due to an increase in income taxes payable as at the end of the current period.

The Company's accounts receivable balance increased \$1.1 million to \$7.7 million from \$6.6 million at the end of fiscal 2008 due principally to the growth in the Company's revenue during the first nine months of F09. Days sales outstanding in accounts receivable ("DSO") was 39 days at December 31, 2008, a decrease from 42 days at the end of fiscal 2008. 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 decreased from \$57,000 at the end of fiscal 2008 to \$37,000 as at December 31, 2008. (See "Critical Accounting Policies and Estimates – Allowance for Doubtful Accounts.")

Inventory balances increased by \$1.7 million to \$5.1 million at the end of Q3-FY09 from \$3.4 million at the end of fiscal 2008. Inventory levels have increased due to advance purchase of certain components to achieve unit cost reductions as well as a natural result of the general growth in business. Inventory turnover, calculated using the last 12 months' cost of sales and average inventory balances, decreased from 5.2 times at the end of fiscal 2008 to 4.7 times at the end of Q3-F09. The Company expects 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.

Accounts payable and accrued liabilities increased \$0.9 million to \$5.1 million at the end of Q3-F09 from \$4.2 million at the end of fiscal 2008. The increase was mainly due to an increase in trade payables as a result of the general growth in the Company's business.

Cash Provided by (used in) Operating Activities

The Company generated \$4.6 million cash in operating activities in Q3-F09 as compared to generating \$1.1 million in the same period last fiscal year. For Q3-F09, \$4.0 million was provided through operating performance. Approximately \$0.6 million cash was provided by non-cash items with only a nominal amount being provided by the net change in current non-cash working capital. In the same period in the last fiscal year, \$1.1 million cash was generated from operating activities. Approximately \$1.4 million was provided through operating performance. The balance related to \$0.3 million provided by non-cash items, offset by \$0.6 million cash used through the net change in current non-cash working capital.

For the first nine months of F09, the Company generated \$10.8 million cash from operating activities as compared to \$2.9 million in the same period last fiscal year. Approximately \$8.9 million was provided through operating performance. The balance relates to \$1.8 million cash provided by non-cash items, in addition to \$0.1 million cash provided by the net change in current non-cash working capital. In the same period in the last fiscal year, \$2.9 million cash was generated from operating activities. Approximately \$2.6 million was provided through operating performance. The balance related to \$1.3 million provided by non-cash items, offset by \$1.0 million used through the net change of non-cash working capital.

Investing Activities

For Q3-F09, additions of capital assets were \$0.7 million compared with \$0.3 million for the same period in the last fiscal year. For the first nine months of F09, capital asset additions were \$1.8 million compared with \$0.7 million for the same period in F08. These additions represent continued investment by the Company in hardware, software and tooling as well as office and information

technology infrastructure. See “Capital Resources.” Investing activities for the first nine months of F09 also included the disposal of \$34.8 million of short term investments into cash and cash equivalents compared with the investment of \$33.4 million in short term investments in the same period in the prior fiscal year.

Financing Activities

During Q3-F09 the Company issued 2,669 common shares upon exercise of employee stock options for net proceeds of approximately \$3,000. Also during Q3-F09 the Company repaid capital lease obligations of approximately \$56,000. There were no other financing activities during the quarter. For the first nine months of F09 the Company issued 83,008 common shares upon exercise of employee stock options for net proceeds of approximately \$176,000. Also during the first nine months of F09 the Company repaid capital lease obligations of approximately \$196,000.

During the first nine months of F08 financing activities generated \$35.7 million. The Company completed its initial public offering on June 21, 2007. The Company offered a total of 3,080,000 shares at \$12.12 (Cdn \$13.00) per common share, of which 2,808,175 were issued and sold from treasury and 271,825 were sold by the selling shareholders in a secondary offering. The Company received net proceeds of approximately \$32.0 million (Cdn \$34.3 million) and the selling shareholders received net proceeds of an aggregate of approximately \$3.1 million (Cdn \$3.3 million). Partially offsetting the cash proceeds from the initial public offering and exercise of the underwriters’ over-allotment were share issuance costs of \$3.8 million (Cdn \$4.1 million), including underwriter fees of an aggregate of approximately \$2.2 million (Cdn \$2.4 million).

Upon completion of the initial public offering, the 10,813,734 outstanding Class A preferred shares automatically converted to common shares on a four for one basis, resulting in the issuance of 2,703,432 common shares. Upon the conversion, the total accreted value of the Class A preferred shares, including all cumulative dividends, was credited to capital stock, along with the value of the conversion feature included in contributed surplus.

Subsequent to the Company’s completion of its initial public offering in Q1-F08, the Company’s underwriters’ exercised its over-allotment option and purchased 462,000 common shares at \$12.46 (Cdn \$13.00) per share on July 16, 2007, of which 421,226 shares were issued and sold by the Company from treasury for net proceeds of approximately \$4.9 million (Cdn \$5.1 million) to the Company, and 40,774 shares were sold by the selling shareholders, for net proceeds of an aggregate of approximately \$0.5 million (Cdn \$0.5 million) paid to the selling shareholders. The Company's share of the net proceeds from the issue and sale of common shares in the over-allotment option is being used as disclosed in the prospectus. Partially offsetting the cash proceeds from the exercise of the underwriters’ over-allotment, the Company had share issuance costs of \$1.4 million (Cdn \$1.4 million), including underwriters’ commissions, for Q2-F08.

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 11,800,276 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 December 31, 2008 the Company had long-term liabilities of \$0.8 million. This compares to long-term liabilities of \$0.8 million as at March 31, 2008.

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.

Due to the Company's rapid growth, in Q1-F09 the Company signed a binding offer to lease new, larger office and manufacturing facilities. The Company has agreed to rent 101,326 square feet for 10 years commencing May 1, 2009 at rates between \$5.62 (\$6.85 Canadian) and \$6.77 (\$8.25 Canadian) per square foot per annum. The new facilities will replace the Company's current head office and manufacturing facility for which it currently pays \$5.13 per square foot per annum for approximately 34,000 square feet. The new premises will require expenditures for certain leasehold improvements. Accelerated amortization is being taken on the leasehold improvements for our current facility so that they will have a zero net book value at the time the new facility is ready to be occupied.

The Company is also in the middle stages of a major enterprise software implementation. The total cost of the software and consulting fees to implement the software are expected to be in excess of \$0.8 million. Approximately \$0.3 million of these expenditures have been made as at December 31, 2008.

The Company also has a credit facility from a chartered financial institution comprising a \$0.82 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 December 31, 2008 there were no borrowings outstanding under the facility. In July 2008, the Company issued a performance guarantee in favour of a customer for approximately \$0.1 million and a portion of the revolving demand facility will be allocated for this guarantee. The guarantee expires in July 2013.

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 2008 or the first nine months of F09.

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 December 31, 2008 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 December 31, 2008 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.

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Selected Consolidated Quarterly Information

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

(Unaudited)	Fiscal 2009				Fiscal 2008			Fiscal 2007	
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Revenue	\$ 15,821	\$ 14,385	\$ 12,751	\$ 11,466	\$ 10,312	\$ 9,370	\$ 8,031	\$ 6,863	\$ 6,638
Cost of goods sold	<u>5,420</u>	<u>5,594</u>	<u>4,883</u>	<u>4,078</u>	<u>4,520</u>	<u>4,227</u>	<u>3,643</u>	<u>3,153</u>	<u>2,933</u>
Gross margin	10,401	8,791	7,868	7,388	5,792	5,143	4,388	3,710	3,705
Gross margin %	65.7%	61.1%	61.7%	64.4%	56.2%	54.9%	54.6%	54.1%	55.8%
Operating expenses:									
Research and development	1,052	752	1,111	883	732	607	702	(497)	513
Sales and marketing	2,666	2,513	2,564	2,244	1,777	1,849	1,741	1,932	1,410
General and administrative	751	854	1,651	1,093	1,137	1,282	1,237	874	595
Amortization	<u>271</u>	<u>329</u>	<u>259</u>	<u>225</u>	<u>214</u>	<u>187</u>	<u>197</u>	<u>172</u>	<u>156</u>
Total operating expenses	<u>4,740</u>	<u>4,448</u>	<u>5,585</u>	<u>4,445</u>	<u>3,860</u>	<u>3,925</u>	<u>3,878</u>	<u>2,481</u>	<u>2,674</u>
Interest income (expense)	<u>303</u>	<u>382</u>	<u>446</u>	<u>461</u>	<u>484</u>	<u>400</u>	<u>(111)</u>	<u>(127)</u>	<u>(140)</u>
Earnings before income taxes	5,964	4,725	2,729	3,404	2,416	1,618	400	1,102	891
Provision for income taxes – current	1,829	1,523	1,005	1,004	1,043	487	251	120	238
Provision (recovery) for income taxes - future	<u>153</u>	<u>(3)</u>	<u>1</u>	<u>111</u>	<u>16</u>	<u>77</u>	<u>(15)</u>	<u>(110)</u>	<u>-</u>
Net earnings for the period	<u>\$3,982</u>	<u>\$3,205</u>	<u>\$1,723</u>	<u>\$2,289</u>	<u>\$1,357</u>	<u>\$1,054</u>	<u>\$164</u>	<u>\$1,092</u>	<u>\$653</u>
Net Earnings Per Share:									
Basic	\$ 0.34	\$ 0.27	\$ 0.15	\$ 0.20	\$ 0.12	\$ 0.09	\$ 0.03	\$ 0.20	\$ 0.12
Diluted	\$ 0.33	\$ 0.26	\$ 0.14	\$ 0.19	\$ 0.11	\$ 0.09	\$ 0.02	\$ 0.13	\$ 0.09
Weighted Average Number of Common Shares Outstanding									
Basic	11,798,435	11,763,504	11,719,623	11,520,092	11,510,060	11,412,488	5,926,776	5,345,717	5,345,717
Diluted	12,251,346	12,356,833	12,280,710	12,191,377	12,286,253	12,294,460	7,215,243	9,223,222	9,207,833
Other data:									
EBITDA ⁽¹⁾	\$ 5,932	\$ 4,672	\$ 2,542	\$ 3,168	\$ 2,146	\$ 1,405	\$ 708	\$ 1,401	\$ 1,187
EBITDA Margin ⁽¹⁾ %	37.5%	32.5%	19.9%	27.6%	20.8%	15.0%	8.8%	20.4%	17.9%

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

Net Earnings to EBITDA Reconciliation

(Unaudited)	Fiscal 2009			Fiscal 2008			Fiscal 2007		
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
Net earnings	\$3,982	\$3,205	\$1,723	\$2,289	\$1,357	\$1,054	\$164	\$1,092	\$ 653
Interest ⁽¹⁾	(303)	(382)	(446)	(461)	(484)	(400)	111	127	140
Taxes	1,982	1,520	1,006	1,115	1,059	564	236	10	238
Amortization	<u>271</u>	<u>329</u>	<u>259</u>	<u>225</u>	<u>214</u>	<u>187</u>	<u>197</u>	<u>172</u>	<u>156</u>
EBITDA ^{(2) (3)}	<u>\$5,932</u>	<u>\$4,672</u>	<u>\$2,542</u>	<u>\$3,168</u>	<u>\$2,146</u>	<u>\$1,405</u>	<u>\$708</u>	<u>\$1,401</u>	<u>\$1,187</u>

Notes:

- Upon completion of the initial public offering, the Class A Shares were automatically converted to common shares and virtually all of the future interest expense ceased to accrue. See "Interim Period Operating Results – Interest and Other Income".
- For an explanation of how EBITDA and EBITDA Margin are calculated, please see "Non-GAAP Measures".
- EBITDA includes investment tax credits.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Change in Reporting Currency

Commencing in the Q2-F08 reporting period, the Company changed its reporting currency from Canadian dollars to United States dollars because a majority of the Company's business is conducted in US dollars and the Company believes that reporting in US dollars more accurately reflects the Company's true operating results and financial position. Additionally, management believes that reporting financial results in US dollars facilitates easier comparison of the Company's results with those of similar companies reporting in United States dollars (although the Company still reports in Canadian GAAP). The Company has used the current rate method to translate financial results for comparative periods shown in our financial statements from Canadian dollars to US dollars. Under this method, income statement and cash flow statement items for each period are translated into the reporting currency using the rates then in effect at the date of the transactions, and the assets and liabilities are translated using the exchange rate at the end of the relevant period. Opening equity for fiscal 2006 has been translated at the opening balance sheet rate with subsequent changes in equity translated at historical rates. All resulting exchange differences are reported as a separate component of shareholders' equity. The functional currencies of the Company and its subsidiary remained unchanged as Canadian dollars.

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 December 31, 2008 was \$7.7 million compared to \$6.6 million at March 31, 2008. The allowance for doubtful accounts was \$37,000 as at December 31, 2008 compared to \$57,000 as at March 31, 2008.

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

Effective April 1, 2008, the Company adopted the new recommendations from the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3031, Inventories. The new standard clarifies the definition of "cost" to include all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. As a result, companies are required to systematically allocate fixed and variable production overheads that are incurred in converting materials into finished goods. The allocation of fixed production overheads is based on normal production capacity of the production facilities. In addition, the standard requires companies to assess the recoverability of inventory costs in comparison to net realizable value. Declines in replacement cost below carrying values for raw material inventories do not require write downs if the finished goods in which they will be incorporated are expected to be sold at or above cost. The adoption of this standard did not result in a change from the Company's existing policy.

Effective April 1, 2008, the Company adopted the CICA issued Handbook Section 1535, Capital Disclosures. This new guidance establishes standards for disclosing information about an entity's capital and how it is managed. This section requires the disclosure of an entity's objectives, policies and processes for managing capital and information regarding an entity's compliance or non-compliance with any capital requirements. This standard affects disclosure only.

Effective April 1, 2008, the Company adopted the CICA issued Handbook Sections 3862, Financial instruments: disclosure, and 3863, Financial instruments: presentation. These new standards establish additional presentation and disclosure requirements including the significance of financial instruments to the Company's position and performance, discussion regarding the nature and extent of risks surrounding the Company's financial instruments. This standard affects disclosure only.

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 February 2008, The Canadian Accounting Standards Board confirmed that International Financial Reporting Standards will replace Canada's current generally accepted accounting principles for publicly accountable profit-oriented enterprises effective January 1, 2011. The Company is presently considering the effect these standards will have on its financial statements.

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 its 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, cooperate 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 maintain product liability and errors & omissions insurance coverage. The Company has not experienced a material 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 claim could result in significant monetary liability and could seriously disrupt or harm its business if the liability was substantially in excess of the Company's current insurance coverage limits.

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 may engage in 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 Woodbridge, 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.