

Q2 2009 Financial Results

Fiber Optic Systems Technology, Inc.

Management's Discussion and Analysis

August 24, 2009

The following Management's Discussion and Analysis ("MD&A") relates to the financial condition and results of operations of Fiber Optic Systems Technology, Inc. ("FOX-TEK" or "the Company") for the six months ended June 30, 2009. It should be read in conjunction with the interim consolidated financial statements for the six months ended June 30, 2009 and related notes. Additional information relating to the Company is available on SEDAR at www.sedar.com.

We prepare and file our consolidated financial statements and MD&A in Canadian dollars and in accordance with Canadian generally accepted accounting principles. Unless otherwise noted, all numbers are expressed in thousands of dollars except for per share amounts which are expressed in dollars.

Forward-looking Statements

This MD&A contains certain forward-looking statements, except for historical information, and reflect the Company's present assumptions regarding future events. These statements involve known and unknown risks, uncertainties, and other factors that may cause the Company's actual results, levels of activity, performance, and/or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by these forward-looking statements.

Overview of Business

Corporate Overview

FOX-TEK was incorporated on October 13, 1999 under the laws of the State of Delaware under the name "Pantheon Airport Systems, Inc". The corporate name was subsequently changed to "Fos-Tek, Inc." on April 17, 2000 and then to "Fiber Optic Systems Technology, Inc." on June 6, 2000. The Company has three wholly-owned subsidiaries, Fiber Optic Systems Technology, (Canada) Inc., a corporation incorporated under the laws of Ontario by a Certificate of Incorporation dated May 12, 2000 and Fiber Optic Systems Technology, (U.S.A.) Inc. a Delaware Company incorporated on April 7, 2005. The Company became a reporting issuer on August 3, 2004. On January 19, 2007 all of the shares of PinPoint Corrosion Monitoring Inc. were acquired and its corporate name was changed to PinPoint FOX-TEK Inc. on January 26, 2007.

Fiber Optic Systems Technology, Inc. is engaged in the development, design, manufacture and sale of two product lines primarily focused on applications within the oil and gas industry. The first product line is fiber optic technology which uses fiber optic sensors and related monitoring instruments to provide periodic or continuous monitoring of bending and associated strain or direct soil movement in localized areas of interest. PinPoint, the second product line is a technology that uses electrical field mapping and thermocouple probes to detect internal pitting and/or corrosion on a nonintrusive basis. Management believes that FOX-TEK's fiber optic and PinPoint products provide flexible and reliable monitoring and reporting solutions due to their high precision, continuous monitoring capability, suitability for harsh environments and low operating cost.

Q1 and Q2 of 2009 are the first two complete quarters where the impact of the 2008 cost-cutting measures are evident to the readers of our financial statements. Sales have continued to lag behind our forecasts and we continue to get orders for one and two units rather than the multiple unit orders that are required to break even and become profitable. To-date, FOX-TEK has 15 FT installations and 16 PinPoint systems fully functional and continuously monitoring pipeline activities. Sales have lagged, partly due to the price of our product when compared to less accurate older technologies, but also due to the fact that corrosion and pipe monitoring is a long sales process. The cost-benefits of our systems are uncovered only when processes are changed or actions taken as a result of the data that our systems record.

The Company has begun to actively pursue various funding alternatives including some provincial funding that is offered through the Ontario Ministry of Research & Innovation. The 2009 Ontario Budget announced more than \$715 million in investments to support technical innovations similar to the products produced by FOX-TEK. We have begun the application process for this funding which usually takes the form of either a forgivable/non-forgivable interest-free loan which is matched dollar-for-dollar with an equity funder. Given the Company's proximity to being a profitable company we will seek the least dilutive alternatives that are available to our shareholders. In conjunction with this, management has engaged a consultant to help facilitate with strategic transactions including possible mergers and acquisitions and the raising of additional capital.

Business Development

FOX-TEK continues to contract with independent sales agents and distributors primarily outside of North America, with the intent of utilizing their local contacts and established relationships within the oil and gas industry to expedite the distribution of FOX-TEK's products in the local jurisdictions. Typically, these sales agents will be entitled to a fee of approximately 5% - 10% of the selling price of the product. Distributors sell our products at prices that the local market will bear.

FOX-TEK will continue to entertain strategic alliances and partnerships. However, management's primary focus is on the supply of its two high-quality product lines at the most competitive prices possible.

Significant Business Activities

Notable events include the following:

- Year-to-date revenue increased by 65% from \$240 in 2008 to \$395 in 2009.
- Operation costs reduced by \$620 from \$1,431 in Q2 2008 to \$811 in Q2 2009 representing a 43% decline.
- FOX-TEK earned its first strategic partnership commission on a South America fiber optic leak detection system.
- Attended the Banff Pipeline Integrity Conference in April 2009.
- Sales continued for new PinPoint high temperature refinery systems, secured another purchase order for a Middle East refinery.
- Completed first South American refinery installation in Q2 2009
- Attended 2009 Mideast Corrosion Exchange Meeting & Exhibition , by invitation only.

Selected Financial Information

	Q2 2009	Q2 2008	Years ended Dec. 31 (000's)		
	\$	\$	2008	2007	2006
	\$	\$	\$	\$	\$
Revenues	118	155	751	1,033	104
Cost of sales	74	82	396	415	341
Gross profit, (loss)	44	72	355	618	(237)
Operating expenses	811	1,431	4,905	6,241	5,402
Loss from operations	(767)	(1,359)	(4,550)	(5,623)	(5,639)
Net loss	(784)	(1,320)	(4,430)	(5,376)	(5,444)
Net loss per share (basic and diluted)	(0.02)	(0.04)	(0.09)	(0.14)	(0.15)
Cash & cash equivalents	1,105	4,150	2,400	3,307	8,586
Total assets	2,873	5,752	4,251	5,303	9,462
Total liabilities	451	495	510	642	392
Total shareholders' equity	2,422	5,257	3,741	4,661	9,070
Shares outstanding - issued	48,932	48,932	37,518	37,518	36,975
- options outstanding	3,590	3,712	3,399	3,399	3,901
Cash Dividends declared per share	Nil	Nil	Nil	Nil	Nil

The above tables set forth selected data derived from the audited consolidated financial statements of the Company in respect of the financial years ended December 31, 2008, 2007, and 2006.

Results of Operations – June 30, 2009 versus December 31, 2008

As of June 30, 2009, FOX-TEK had working capital of \$1,781, a decrease of \$1,281 from December 31, 2008. This net decrease is due to the ongoing funding of operating costs in excess of gross profits achieved.

Equipment purchases in the quarter were made totaling \$3 (2008 - \$13) both of which were for scientific equipment.

Total liabilities decreased \$59 to \$451 primarily as a result of decreased payroll during the first six months and the reversal of deferred revenue associated with an installation that was completed in Argentina during the quarter.

Shareholders' equity decreased \$1,319 to \$2,422 and the accumulated deficit increased \$1,390 to \$26,340 both due to losses from operations during the period.

Results of Operations – Q2 2009 vs. Q2 2008

During the quarter ended June 30, 2009 the Company recorded revenues of \$118 compared to \$155 in the same period last year reflecting a 24% quarter over quarter decrease. The decrease in revenue is a result of fewer orders in 2009 associated with current economic slowdown. The effects of the slowdown have seemed to peak and the Company anticipates a stronger third quarter based on orders currently on hand and the number of recent quotes that have been issued.

The following table shows the Company's average monthly net loss over the past eight quarters:

Q2 09	Q1 09	Q4 08	Q3 08	Q2 08	Q1 08	Q4 07	Q3 07
(261)	(202)	(242)	(299)	(440)	(496)	(404)	(531)

The average net loss for the last three quarters is \$235 per quarter. The non-cash components for our average net loss are amortization and stock-based compensation. Reversing for these two non-cash expenditures reduces our average quarterly loss by approximately \$20 per month thus resulting in an average net cash loss of approximately \$215 per month. At this current cash outflow rate, our current cash reserves would provide funding for our operations for approximately 7 months.

During the quarter ended June 30, 2009 the Company had gross profit of \$44 (37.3%) compared to a \$72 (46.5%) gross profit in the same quarter in 2008. The lower margins in 2009 are due to increased costs associated with the installation in Argentina which was done as part of a relationship-building activity with one of our US customers. As volumes increase, we expect the margins will stabilize in the 45% – 55% range.

Total expenses for the quarter decreased by \$620 from \$1,431 to \$811 primarily as a result of the cost-cutting measures were done in the second half of 2008. The full effect of these cost-cutting measures has been realized and these current expenses are reflective of our ongoing expectations. Other expenses are broken down in more detail below.

The following table provides the breakdown of the major expenses of the Company for the quarter:

	Q2 2009	Q2 2008
Engineering		
Salaries	130	162
Consulting	78	138
Product development	22	71
	<u>230</u>	<u>371</u>
Selling		
Consulting	2	64
Salaries	86	168
Tradeshows and travel	25	135
Marketing collateral	1	9
Sales offices	31	45
Other	16	6
	<u>161</u>	<u>427</u>
General and Administrative		
Salaries	129	164
Consulting	-	3
Rent and occupancy	55	74
Office and general	40	66
Insurance	12	14
Professional fees	106	72
Travel	19	74
Stock option expense	34	135
	<u>395</u>	<u>602</u>
Amortization		
TOTAL	<u>25</u>	<u>31</u>
	<u>811</u>	<u>1,431</u>

Engineering costs decreased from \$371 to \$230 resulting in a \$141 decrease. This was primarily comprised of cost reductions in consulting and product development which resulted in decreases of \$60 and \$49 respectfully. Engineering salaries were also reduced by \$32 due to decreases in expensive research and development staffing which were replaced with less expensive commercialization personnel.

Selling expenses decreased by \$266 from \$427 to \$161. Consulting salaries decreased by \$62 with the elimination of outside consultants. Salaries, tradeshows, travel and sales offices were decreased by \$82, \$110 and \$14 respectively due to the closing of the Houston office and the elimination of non-essential trade show expenditures. FOX-TEX reduced its sales force significantly as well as travel outside of North America. Other, which is partly comprised of commissions and royalties increased by \$10 due to the increase in PinPoint sales.

General and administrative expenses decreased by \$207 from \$602 to \$395. The decrease in salaries of \$35 and office expenses of \$26 was due to the closing of the Houston office. Travel expenses decreased by \$55 as a result of decreased travel abroad and the concentrated effort to increase market share in North America. Stock option expense decreased by \$101 due to the reduction in employees and the reduced stock market price. There was also an increase of \$34 in professional fees relating to the defense of the international lawsuit.

Liquidity and Capital Resources

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has net losses of \$4,430, \$5,376, and \$5,444 for the years ended December 31, 2008, December 31, 2007 and December 31, 2006 respectively. These losses, combined with losses of prior years and Q1 & Q2 2009, have resulted in an accumulated deficit of \$26,340 as at June 30, 2009.

The primary sources of funding have been through equity funding. Prior to 2009, the primary uses of funding had been for technology development of the products which the Company is currently bringing to market. The primary use of funds is for the sales and marketing of FOX-TEK's fiber optic and PinPoint technologies.

The Company is currently exploring alternative forms of equity financing, including the Innovation Demonstration Fund which is offered by the Province of Ontario. Under this program, the Provincial government will match private equity financing and invest in companies which are focused on the commercialization and globally competitive, innovative green technologies, processes and/or products. FOX-TEK has begun the application process and plans to submit our proposal in early September 2009.

The Company's need for capital expenditures is nominal and is limited to such items as computers and small equipment and interpretation software tied to our FT and PinPoint systems.

FOX-TEK's capital requirements in the future will be largely dependent upon the revenue generated from the sale of its products, the availability of equity capital and the government program described above. The price at which additional equity is issued, is dependent upon the success of FOX-TEK's activities and upon the general state of the capital markets.

Operating Activities

Cash outflow from operating activities was \$592 for the three months ended June 30, 2009 compared to \$1,133 for the same period in 2008. The decreased cash outflow is due to cost cutting measures implemented in the second half of 2008.

Financing Activities

For the six months ended June 30, 2009 the Company had no financing activities.

Investing Activities

For the three months ended June 30, 2009 the Company purchased \$3 of equipment compared to \$13 in the 2008 period.

Capital Management

The Company uses its capital to finance marketing expenses, research and development activities, administrative and working capital and capital assets. Historically, the Company has financed activities through rounds of public, and private financing. The Company reviews on a quarterly basis its net loss and quarterly burn rate. Quarterly burn rate is defined by the Company as the quarterly cash flows from operating activities taking into consideration changes in non-cash operating working capital items. For the three-month period ended June 30, 2009, the net loss and the quarterly burn rate were respectively \$784 and \$725. The Company believes that its current liquid assets are sufficient to finance its activities for the next 7 months.

Other

Commitments, events, risks or uncertainties that we reasonably believe will materially affect our Company's future performance including losses before discontinued operations and extraordinary items, are discussed.

The pricing for our systems and services is adjusted to take into account any price increases and any inflation effects.

Management does not see any significant variances from our planned usages of cash and the impact of these variances on the Company's ability to achieve its business objectives and future milestones.

FOX-TEK has no defaults or arrears or anticipated defaults or arrears on dividend payments, lease payments, interest or principal payment on debt, debt covenants during the most recently completed financial year, and redemption or retraction or sinking fund payments.

Contractual Commitments

Future minimum commitment under the Company's operating lease obligations for office premises and office equipment are approximately as follows:

	\$
2009	159
2010	268
2011	220
2012	75
	<u>722</u>

Based on our operating history and our knowledge of our expected events, we expect minor fluctuations and no major change in our liquidity requirements.

Transactions with Related Parties

During the quarter the Company had no transactions with related parties.

Internal Controls over Financial Reporting

The design of internal controls over financial reporting was assessed as of June 30, 2009. The Company does not have a sufficient number of personnel to allow for the proper segregation of duties. To compensate for this weakness, the Company relies heavily on senior management review and approvals. Controls have been implemented that require that all major commitments are approved by any two of the following positions: the President & CFO or the Chief Technology Officer. All payments must have the signature of any two of the following: President & CFO or Chief Technology Officer or Director of Sales.

There has been no change in the design of the Company's internal control over financial reporting during the quarter ended June 30, 2009, that would materially affect or are reasonably likely to materially affect FOX-TEK'S internal control over financial reporting.

Disclosure Controls and Procedures

Disclosure Controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management including the Company's President & CFO, on a timely basis so that appropriate decisions can be made regarding public disclosure. Management of the Company, with the participation of the President & CFO, has evaluated the effectiveness of the Company's disclosure controls and procedures as at June 30, 2009. There have been no changes in our disclosure controls and procedures during the period ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect our disclosure controls and procedures. Based on this evaluation, the President & CFO, has concluded that, as of June 30, 2009, the disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the Company's annual filings (as such terms are defined under Multilateral Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws and that material information is accumulated and communicated to management of the Company, including the President & CFO, as appropriate to allow for accurate disclosure to be made on a timely basis.

It should be noted that while our President & CFO believes that the Company's disclosure controls and procedures provide a reasonable level of assurance that they are effective, he does not expect disclosure controls and internal control procedures over financial reporting will prevent all errors and fraud. A control system no matter how well conceived or operated can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Significant Accounting Policies

Critical accounting policy - Revenue recognition

The Company recognizes revenue when it is realized and earned. The Company considers revenue realized or realizable and earned when the product has been delivered or the services have been provided to the customer, the sales price is fixed or determinable and collectability is reasonably assured. In addition to this general policy, the following paragraphs describe the specific revenue recognition policies for each major category of revenue.

Monitors and equipment

Revenues from the sale of monitors and equipment are recognized when title is transferred to the customer and all significant contractual obligations that affect the customer's final acceptance have been fulfilled.

Data analysis reports

Revenue from service is recognized on a monthly basis when the data analysis report is provided. In instances where the Company bills the customer prior to performing the data analysis report, the prepayment amount is recorded as deferred revenue.

Multiple-element arrangements

The Company enters into transactions that represent multiple-element arrangements which may include any combination of monitor, equipment and data analysis. These multiple-element arrangements are assessed to determine whether they can be separated into more than one unit of accounting or element for the purpose of revenue recognition. When the appropriate criteria for separating revenue into more than one unit of accounting is met and there is vendor specific objective evidence of fair value for all units of accounting or elements in an arrangement, the arrangement consideration is allocated to the separate units of accounting or elements based on each unit's relative fair value. This vendor-specific objective evidence of fair value is established through prices charged for each revenue element when that element is sold separately. The revenue recognition policies described above are then applied to each unit of accounting.

Future accounting changes

a) International Financial Reporting Standards

The Accounting Standards Board of Canada has announced that accounting standards in Canada, as used by public companies, will converge to International Financial Reporting Standards ("IFRS") over a transition period that is expected to be complete by 2011. On February 13, 2008, the CICA confirmed 2011 as the official changeover date from current Canadian GAAP to IFRS. The Company will convert to these new standards according to the timetable set with these new rules. The Company has begun working with its financial advisors to assess the future impact of these new standards on its interim and annual consolidated financial statements.

b) Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, "Goodwill and intangible assets", replacing Section 3062, "Goodwill and other intangible assets" and Section 3450, "Research and development costs". Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new Section will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation, and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements. The Company does not expect that the adoption of this new Section will have a material impact on its consolidated financial statements.

Accounting Developments – Changes in Accounting Policies Including Initial Adoption

The company adopted the recommendations of CICA Handbook Section 3031 on inventories which provides guidance on the determination of cost of inventories and its subsequent recognition as an expense, and includes additional disclosure requirements. The new Section also requires an entity to account for the reversal of write-downs previously recognized when there is a subsequent increase in the value of inventories. This accounting policy, which was adopted as of January 1, 2008, was applied retroactively and the comparative financial statements have been restated to reflect this change. The cumulative effect of the change as of January 1, 2008 did not have a significant impact on the financial statements.

The Company adopted the following new CICA Handbook Sections on January 1, 2008: Section 1400 – General Standards of Financial Statement Presentation, Section 1535 - Capital Disclosures, Section 3862, Financial Instruments – Disclosures, and Section 3863, Financial Instruments - Presentation.

General Standards of Financial Statement Presentation, Section 1400, was amended and now requires companies to assess and disclose an entity's ability to continue as a going concern (note 1).

Capital Disclosures, Section 1535, requires companies to disclose their objectives, policies and processes for managing capital. In addition, disclosures include whether companies have complied with externally imposed capital requirements and includes qualitative disclosures and quantitative data on capital as at June 30, 2009, (note 17 of the December 31, 2008 Financial Statements).

Financial Instruments – Disclosures, Section 3862 and Financial Instruments –Presentation, Section 3863 replaced Section 3861, Financial Instruments – Disclosure and Presentation revising and enhancing the disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks associated with both recognized and unrecognized financial instruments and how those risks are managed (note 8).

Changes in accounting policies not yet adopted

Business Combinations, Section 1582 replaces Section 1581 Business Combinations and applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period of the Company beginning on or after January 1, 2011. Section 1582 is not expected to have a significant impact on the financial statements.

The Company has begun its initial planning process for the IFRS conversion. The Company continues to monitor standards development as issued by the International Accounting Standards Board and the Canadian Institute of Chartered Accountants Accounting Standards Board, as well as regulatory developments as issued by the Canadian Securities Administrators, which may affect the timing, nature or disclosure of the Company's adoption of IFRS. The transition to IFRS is a significant change that will affect the Company's reported financial position and results of operations. The Company is unable to quantify the impact of IFRS on its financial statements at this time.

Risks and Uncertainties

Operating history and history of financial loss

The Company was established in October 1999 and has a history of financial losses. In addition, the Company is only starting to generate significant product sales. The business and prospects of the Company must be considered in light of the risks, expenses and difficulties frequently encountered by companies in the early stage of commercialization, particularly companies in new and rapidly evolving markets. There can be no assurance that the Company will be successful in addressing such concerns.

The Company incurred net losses of \$4,430, \$5,376 and \$5,444, during the fiscal years ended December 31, 2008, 2007 and 2006 respectively. The Company expects to maintain or decrease its current level of expenditures in the near term as it continues to sell its products. Even with the post reductions in expenditures, no assurance can be given that the Company will be able to attain profitability on a quarterly or annual basis in the future. The Company's business strategies may not be successful, and its results of operations will be negatively affected if revenue does not increase at a rate equal to or greater than the Company's planned level of expenditures. If the Company is not able to sustain profitability, its share price may decline and it may require additional financing, which may not be available.

Competition

The Company has experienced, and expects to continue to experience, competition from a number of companies. The Company's competitors may announce new products, services or enhancements that better meet the needs of customers or changing industry standards. Increased competition may cause price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on the Company's business, results of operations and financial condition.

Many of the competitors and potential competitors of the Company have significantly greater financial, technical, marketing and/or service resources than does the Company. Many of these companies also have a larger installed base of users, longer operating histories or greater name recognition than the Company. Customers of the Company are particularly concerned that their suppliers will continue to operate and provide upgrades and maintenance over a long-term period. The Company's smaller size and short operating history may be considered negatively by prospective customers. Even if competitors of the Company provide products with more limited system functionality than those of the Company, these products may incorporate other capabilities of interest to some customers and may be appealing due to a reduction in the number of different types of systems used to operate such customers' businesses. Further, competitors of the Company may be able to respond more quickly than the Company to changes in customer requirements and devote greater resources to the enhancement, promotion and sale of their products.

Market Uncertainty

The Company's success depends to a significant degree on its ability to develop the market and gain acceptance for its products and services. There is no assurance that a significant market will develop for the Company's principal products and services. Implementation and adoption of its products have been slow to develop and may continue to be subject to delays. There can be no assurances that the additional commercial applications and markets for the Company's products will develop as currently contemplated. The market for the Company's products is just beginning to develop and the Company's business plan will continue to require significant marketing efforts and working capital. To manage such development, the Company must continue to expand its existing resources and management information systems and must attract, train, and motivate qualified marketing, management, technical and administrative personnel. There can be no assurance that the Company will be able to achieve these goals.

Quarterly Revenue and Operating Results May Be Difficult to Predict

The Company's revenue continues to be difficult to forecast and is likely to fluctuate significantly from quarter to quarter. In addition, the Company's operating results may not follow any past trends. The factors affecting the Company's revenue and results of operations, many of which are outside the Company's control, include:

- competitive conditions in the industrial sensing industry, including new products, product announcements and special pricing offered by competitors of the Company;
- market acceptance of the Company's products;
- ability to hire, train and retain sufficient sales and professional services staff;
- ability to complete its service obligations related to product sales in a timely manner;
- varying size, timing and contractual terms of product orders, which may delay the recognition of revenue;
- ability to maintain existing relationships and to create new relationships to assist with sales and marketing efforts;
- the length and variability of the sales cycles for the Company's products;
- strategic decisions by the Company or its competitors, such as acquisitions, divestitures, spin-offs, joint ventures, strategic investments or changes in business strategy;
- general weakening of the oil and gas industry resulting in a decrease in the overall demand for the products and services offered by the Company or otherwise affecting its customers' capital investment levels in workforce management software;
- changes in the Company's pricing policies and the pricing policies of its competitors;
- timing of product development and new product initiatives; and
- changes in the mix of revenue attributable to substantially lower-margin service revenue as opposed to higher-margin product license revenue.

Because the Company's revenue will be dependent upon a relatively small number of transactions, even minor variations in the rate and timing of conversion of sales prospects into revenue could cause the Company to plan or budget inaccurately, which variations could adversely affect the Company's financial results. Delays and reductions in the amount of, or cancellations of, customers' purchases would adversely affect the Company's revenue, results of operations and financial condition.

High Degree of Product Concentration

Substantially all of the Company's currently anticipated revenues will be derived from a limited number of products and services. Consequently, the Company's performance will depend on establishing market acceptance of these products and services in a single market, as well as enhancing the performance of such products and services to meet the evolving needs of customers. The Company, like other entities involved in a rapidly evolving new industry, faces the risk that the Company's products and services may not prove to be commercially successful or may be rendered obsolete by further scientific and technological developments. There can be no assurances that the Company will establish and maintain a position at the forefront of emerging technological trends. Any reduction in anticipated future demand or anticipated future sales of these products or any increase in competition could have a material adverse effect on the Company's business prospects, operating results or financial condition.