

# Fiscal Year 2001

# 1

## First Quarterly Report

(Ended Sept. 30, 2000)

### Highlights:

- Sales contracts reached a quarterly high of \$1.46 million, a 73% increase over the \$0.84 million achieved for the quarter ended September 30, 1999.
- Monitoring revenues of \$0.72 million for the quarter increased 72% over the same quarter last year.
- Overall expenses were reduced to 151% of sales contracts in the first quarter of fiscal 2001 from 190% in the first quarter of fiscal 2000.
- Dell Computer Corporation continued to be one of our major sources of growth, accounting for 37% of sales contracts during the quarter.
- Lockheed Martin Mission Systems was added as a reseller during the quarter.
- An enhanced asset tracking feature set was announced during the quarter.
- Key hires occurred in the research and development area of the organization.

### Summary Financial Information

Consolidated Operational Data (000s)	For the Three Months Ended September 30,		
	2000	1999	% Change
Sales Contracts	\$ 1,458	\$ 843	73.0%
Monitoring Revenue	\$ 725	\$ 420	72.4%
Loss for the period	\$ 1,205	\$ 1,140	5.7%
Loss per share	\$ 0.06	\$ 0.14	-58.5%
Cash used for operating activities	\$ 982	\$ 786	25.0%
Cash per share used for operating activities	\$ 0.05	\$ 0.10	-51.0%
Weighted average number of shares outstanding	20,295	7,963	154.9%

Consolidated Balance Sheet Data (000s)	As at September 30,		
	2000	1999	% Change
Cash and cash equivalents	\$ 19,192	\$ 3,556	439.7%
Long-term debt and preferred shares	\$ -	\$ 9,007	N/A
Deferred revenue	\$ 4,880	\$ 2,228	119.0%
Working Capital	\$ 17,628	\$ 2,386	638.9%
Liquidity ratio	5.9 : 1	2.1 : 1	N/A
Number of common shares outstanding	20,295	7,966	154.8%

Absolute completed the first quarter of fiscal year 2001 with a quarterly record for sales contracts at \$1.46 million. Important steps were taken to enhance the Computrace service offering with the introduction of PC Asset Tracking features. Absolute continued to grow its team, adding five new staff primarily in the research and development area.

### **Development and Operations:**

During Q1FY01, the research and development team has been working hard to continue to broaden Absolute's service offering. On September 11, 2000, Absolute announced the introduction of "PC Asset Tracking", a new set of asset tracking features which enhance Computrace® - the company's flagship computer tracking, monitoring and theft recovery solution. PC Asset Tracking extends the functionality of Computrace by enabling the Tracking Agent to monitor and report on vital statistics of on and off-site computers, thereby providing an alternative solution for tracking computer inventory.

By the end of the quarter, PC Asset Tracking was in beta testing with existing customers. Testing has been very positive and this new service is expected to be generally available to existing customers in November 2000. Combined with other enhancements to the Tracking Agent, the majority of customers will be able to upgrade to the PC Asset Tracking service seamlessly when their computer makes its next regular call to the Computrace Monitoring Centre.

PC Asset Tracking will be offered to customers as part of existing monitoring contracts. The service automatically discovers system components such as hard drive size and available space, processor type and speed, operating system in use, and e-mail address to name a few. Customers can view or receive status and exception reports through the Computrace website. The second phase of the service is currently being developed and features will include inventory of software, lease management and integration with large asset management systems. It is expected that the second phase will be priced and available as a paid for add-on to the Computrace service.

A key priority for Absolute this fiscal year is to add new data security services to its portfolio, and management is evaluating services such as encryption, backup, and software based firewalls. Management believes that in order for a comprehensive data security service to be successful it must be automated and operate seamlessly - without interrupting the end user. Absolute's current Tracking Agent technology is well suited for this purpose. The Company would like to license, integrate and/or partner with other companies that have existing products that could be enhanced through the use of the Tracking Agent. To that end, discussions have been started with several companies about integrating technologies.

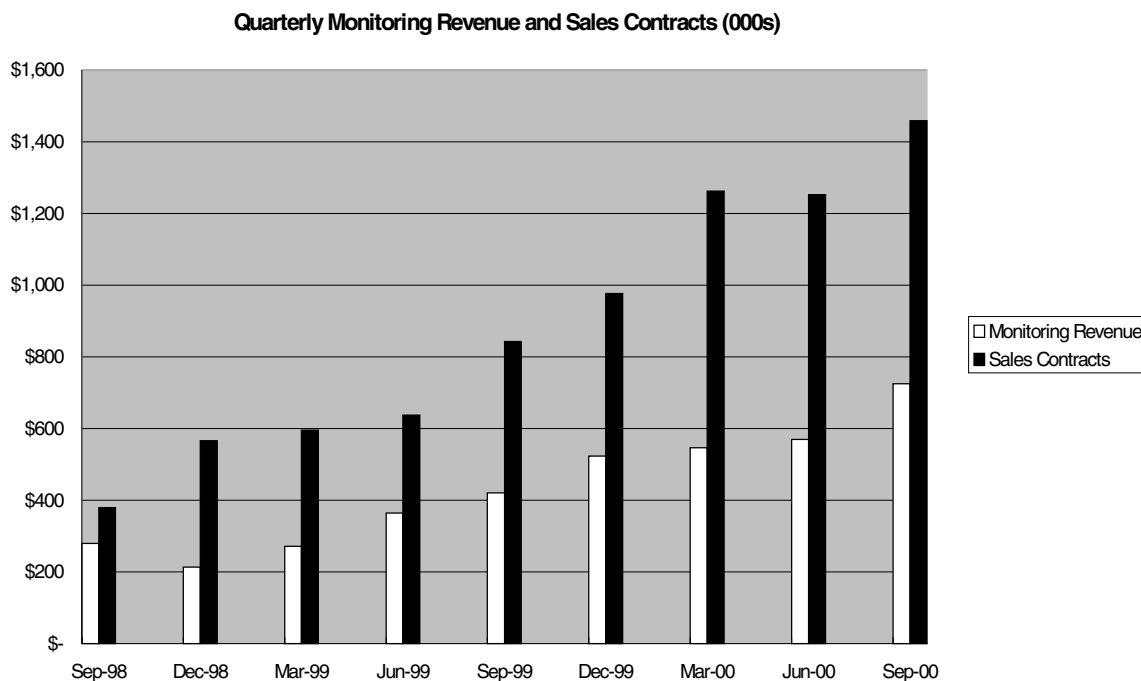
Absolute continues to develop strategic reseller partnerships in order to leverage the efforts of the direct sales force. Reseller partners have grown to 50% of total sales contracts in the first quarter of fiscal 2001 compared to 38% of total sales contracts in the first quarter of fiscal 2000. The most notable increase in this period has come from Dell Computer Corporation, generating 37% of the total sales contracts for the first quarter of fiscal 2001 compared to 7% for the corresponding period in the previous year.

Over the quarter, Absolute was active in many Dell and DellWare direct marketing programs including the "Office by Dell" catalog. It is expected that the Dell relationship will continue to grow but that the percentage of sales contracts generated through the Dell reseller partnership will decrease as sales contracts from new strategic partnerships ramp up through fiscal 2001.

In September, the Company added Lockheed Martin Corporation as a reseller. Lockheed intends to offer Computrace through its Mission Systems Division to US federal government and large corporate accounts. The Company expects Lockheed Martin to start contributing to sales contracts late in this fiscal year as the US federal government accounts begin to pilot the Computrace system and provision for it in their next budgets. It is expected that sales will begin in earnest in the following fiscal year once budgets are in place and the US federal government enters its new procurement cycle.

## Financial:

Sales contracts for the first quarter were \$1.46 million, a 73% increase over the \$0.84 million in the first quarter of fiscal 2000. The quarterly compounded growth in sales contracts has averaged 18% over the past eight quarters. Sales contracts are a key indicator of Absolute's business model as they represent the value of monitoring contracts, regardless of term, signed during the period. The contracts are usually invoiced in full upon delivery of the software, while monitoring revenue from the sales contracts is recognized over the life of the service contract.



Monitoring revenue recognized in the financial statements for the quarter ended September 30, 2000 of \$0.72 million increased 72% over the \$0.42 million in the corresponding quarter of fiscal 2000. The growth in monitoring revenue was commensurate with the growth in sales contracts for the quarter.

The Company reported a net loss for the first quarter of fiscal 2001 of \$1.20 million (\$0.06 per share), compared to a net loss of \$1.14 million (\$0.14 per share) for the same quarter of the previous year. The decrease in the loss per share in Q1FY01 reflects the increase in the number of shares outstanding following the Company's initial public offering on March 28, 2000. The net loss for the first quarters of fiscal 2000 and fiscal 2001 are relatively constant, reflecting increased staffing levels to facilitate growth in the business, with a similar increase in monitoring revenues. Since monitoring revenues are deferred over the life of sales contracts, a lag is expected between the increased staffing and the recognition of corresponding revenues.

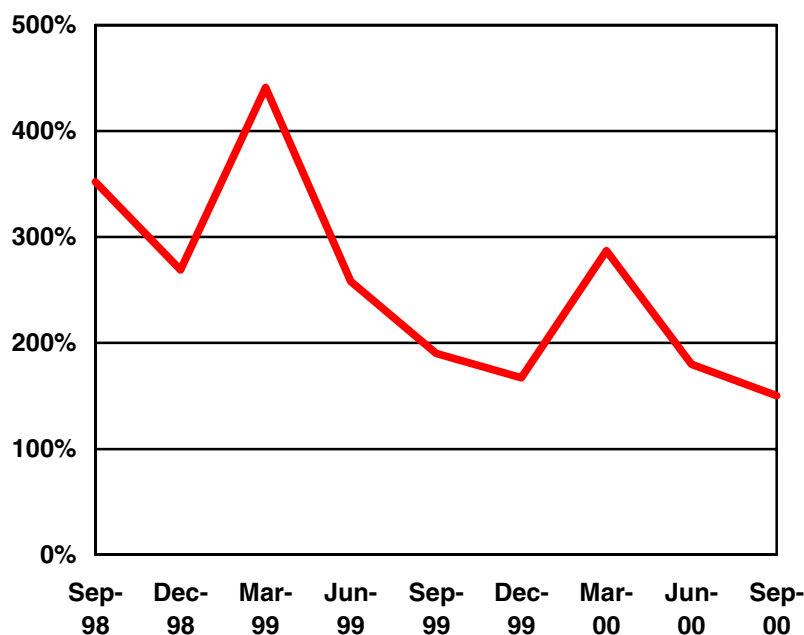
Commensurate with the increase in sales and operations, the number of employees has increased from 40 at September 30, 1999 to 54 at September 30, 2000 and to 60 at October 31, 2000. Since the IPO, the Company has added staff in 19 new positions; 8 in research and development, 5 in sales, 4 in marketing and 2 in finance and administration. The new team members in these key areas will be instrumental in developing and growing the business as Absolute moves forward.

Overall expenses increased 37% to \$2.20 million in the first quarter of fiscal 2001 from \$1.60 million in the first quarter of fiscal 2000. However, as a percentage of sales contracts, improvements were made in most major expense categories.

Overall expenses fell to 151% of sales contracts in the first quarter of fiscal 2001 from 190% in the first quarter of fiscal 2000. Significantly, sales and marketing expense, the largest expense component, dropped from 97% of sales contracts to 72% for these periods. Likewise, G&A expense fell from 48% of sales contracts to 39% in the corresponding quarters. Monitoring and recovery expense remained unchanged at 11% of sales contracts while research and development expenses improved slightly to 25% of sales contracts in the first quarter of fiscal 2001 from 26% in the first quarter of fiscal 2000. Research and development expense primarily reflects staffing levels.

The increases in actual expenses and accounts receivable have more than offset the growth in sales contracts, causing cash used in operations to increase from \$0.79 million (\$0.10 per share) in the first quarter of fiscal 2000 to \$0.98 million (\$0.05 per share) in the first quarter of fiscal 2001. Over this period, accounts receivable have grown from \$0.90 million in the first quarter of fiscal 2000 to \$1.94 million in the first quarter of fiscal 2001. The increase in accounts receivable is driven by the overall growth in sales contracts and particularly non-direct sales. Non-direct sales have grown to 50% of sales

**Expenses as a Percentage of Sales Contracts**



contracts in the first quarter of fiscal 2001 compared to 38% in the corresponding quarter last year. The collection time for non-direct sales is longer than for direct sales and, as a result, contributed to the growth in accounts receivable. The percentage of accounts receivable less than 60 days outstanding has decreased from 79% in the first quarter of fiscal 2000 to 63% in the first quarter of fiscal 2001.

The Company's Balance Sheet reflects cash balances of \$19.19 million (\$0.95 per share) and no debt other than trade payables at September 30, 2000.

Absolute expects to continue to use cash in its operations until sales contracts have reached critical mass. The Company has the financial resources to carry out its sales and marketing efforts and to continue to develop new services based on the Computrace® technology platform.

**Outlook:**

The first quarter of fiscal 2001 was a positive start to the year for Absolute. Sales contracts reached record levels for the quarter. In addition, as a percentage of sales contracts, the Company saw a reduction in all significant expense areas. The PC Asset Tracking service announced during the quarter is being very well received by beta customers and the service should be generally available in November 2000. Management believes that PC Asset Tracking will be an important building block for adding new revenue generating services in the future.

The Company is pleased to have been able to recruit many new talented people to our team. Their knowledge and experience are key assets as we continue to grow and build the Company.

John Livingston  
 President and CEO  
 Absolute Software Corporation

**Financial Statements:****ABSOLUTE SOFTWARE CORPORATION**

## CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(Expressed in Canadian Dollars)

	Three Months Ended September 30	
	2000	1999
	(unaudited)	(unaudited)
Sales contracts	\$ 1,458,489	\$ 842,968
Income:		
Monitoring	\$ 724,965	\$ 420,483
Expenses:		
Selling and marketing	1,057,014	817,116
Monitoring and recovery	158,884	94,131
Research and development	357,773	219,945
General and administrative	574,223	405,209
Share-based compensation	-	-
Amortization	49,156	62,605
	2,197,050	1,599,006
Loss from operations	1,472,085	1,178,523
Interest and other income	290,432	62,765
Interest expense	(5,227)	(18,866)
Foreign exchange gains and (losses)	(17,960)	(5,638)
Loss for the period	1,204,840	1,140,262
Deficit, beginning of period	20,798,447	14,137,664
Deficit, end of period	\$ 22,003,287	\$ 15,277,926
Loss per common share	\$ (0.06)	\$ (0.14)
Weighted number of shares outstanding	20,295,033	7,962,950

**ABSOLUTE SOFTWARE CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(Expressed in Canadian Dollars)

	As at September 30,	
	2000	1999
	(unaudited)	(unaudited)
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents	\$ 19,191,693	\$ 3,555,742
Accounts receivable	1,939,585	904,499
Investment tax credits receivable	-	-
Prepaid expenses and deposits	116,534	55,617
	<u>21,247,812</u>	<u>4,515,858</u>
Loans to employees	838,608	459,850
Capital assets	665,586	753,681
	<u>\$ 22,752,006</u>	<u>\$ 5,729,389</u>
<b>Liabilities and Shareholders' Equity (Deficiency)</b>		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 769,840	\$ 700,272
Current portion of deferred revenue	2,850,175	1,292,359
Current portion of long-term debt	-	129,396
Due to shareholder	-	8,008
	<u>3,620,015</u>	<u>2,130,035</u>
Deferred revenue	2,029,503	935,847
Long-term debt	-	8,877,982
	<u>5,649,518</u>	<u>11,943,864</u>
Shareholders' equity (deficiency)		
Common shares	39,105,775	9,063,451
Deficit	(22,003,287)	(15,277,926)
	<u>17,102,488</u>	<u>(6,214,475)</u>
	<u>\$ 22,752,006</u>	<u>\$ 5,729,389</u>
Common shares outstanding	20,295,033	7,966,146

**Note:**

In the first quarter of fiscal 2001, the Company adopted the new accounting standards for accounting for income taxes. Effective July 1, 2000, the liability method was adopted; previously the Company followed the deferral method. The new method did not result in changes to the carrying amount of future income taxes in the prior nor current period statements.

**ABSOLUTE SOFTWARE CORPORATION**  
**CONSOLIDATED STATEMENTS CASH FLOWS**  
(Expressed in Canadian Dollars)

	Three Months Ended September 30	
	2000	1999
	(unaudited)	(unaudited)
Cash flows from operating activities:		
Loss for the period	\$ (1,204,840)	\$ (1,140,262)
Items not involving cash:		
Amortization	49,156	62,605
Share-based compensation to employees	-	-
Common shares issued for services	-	-
Interest on loans to employees	(12,566)	(7,395)
Changes in non-cash operating working capital:		
Accounts receivable	(522,119)	(82,747)
Prepaid expenses and deposits	3,857	8,038
Investment tax credit receivable	-	50,000
Accounts payable and accrued liabilities	(93,864)	(98,596)
Deferred revenue	798,210	422,485
Net cash used for operating activities	(982,166)	(785,872)
Cash flows from investing activities:		
Capital assets purchased, net of investment tax credits	(110,902)	(3,156)
Net cash used for investing activities	(110,902)	(3,156)
Cash flows from financing activities:		
Loans to employees	-	132,773
Repayment of loans to employees	-	-
Due to shareholder	-	-
Common shares issued on exercise of options and warrants	-	-
Common shares issued for cash, net of share issue costs	2,638	2,100
Preferred shares issued	-	-
Net cash provided by financing activities	2,638	134,873
Increase in cash and cash equivalents	(1,090,430)	(654,155)
Cash and cash equivalents, beginning of period	20,282,123	4,209,897
Cash and cash equivalents, end of period	\$ 19,191,693	\$ 3,555,742
Net cash per share used for operating activities	\$ (0.05)	\$ (0.10)
Weighted average number of shares outstanding	20,295,033	7,962,950

**Forward-Looking Statements:**

This quarterly report contains forward-looking statements that involve risks and uncertainties. These forward-looking statements relate to, among other things, plans and timing for the introduction or enhancement of our services and products, and other expectations, intentions and plans contained in this press release that are not historical fact. When used in this press release, the words “plan,” “expect,” “believe,” and similar expressions generally identify forward-looking statements. These statements reflect our current expectations. They are subject to a number of risks and uncertainties, including, but not limited to, changes in technology and general market conditions. In light of the many risks and uncertainties you should understand that we cannot assure you that the forward-looking statements contained in this press release will be realized.

Computrace® is a registered trademark of Absolute Software Corporation. Other product or company names are the registered trademarks or trademarks of their respective owners.

## CORPORATE INFORMATION

### ***Board of Directors:***

Christian Cotichini  
Vancouver, BC

Terry Libin  
Calgary, AB

John Livingston  
Vancouver, BC

Peter Scott  
Vancouver, BC

Ian Reid  
Vancouver, BC

Trust Agent:  
CIBC Mellon Trust  
<http://www.cibcmellon.com>

Auditors:  
KPMG LLP  
Vancouver, BC

Legal Counsel:  
Lang Michener Lawrence & Shaw  
Vancouver, BC

Stock Exchange Listing:  
Canadian Venture Exchange (CDNX)  
Trading Symbol: ABT

### ***For additional information:***

Carly Hutchinson, Public Relations Manager  
(604) 730-9851 ext. 118  
chutchinson@absolute.com

Chevonne Miller, Shareholder Communications  
(604) 730-9851 ext. 172  
cmiller@absolute.com

Peter Scott, Chief Financial Officer  
(604) 730-9851 ext. 105  
pscott@absolute.com

John Livingston, President & CEO  
(604) 730-9851 ext. 104  
jliving@absolute.com

Visit our websites:  
[www.absolute.com](http://www.absolute.com)  
[www.computrace.com](http://www.computrace.com)

### ***Officers and Senior Management:***

John Livingston  
President & Chief Executive Officer

Peter Scott  
Executive Vice-President & Chief Financial Officer

Phil Gardner  
Chief Technology Officer

Michael Anfield  
Vice-President, Recovery Services

Robert Chase  
Director of Finance & Corporate Controller

Robin Jones  
Director, Marketing

James Mantell  
Vice-President, Sales - United States

Grant Kendall  
Director of Sales - Canada

Fred McConnell  
Director of Development

Robert Schram  
Senior Vice-President, Strategic Development

Leo Raffin  
Corporate Secretary

### ***Canadian Headquarters***

Absolute Software Corporation  
Suite 304  
1212 West Broadway  
Vancouver, BC  
Canada V6H 3V1  
Tel: 1-800-220-0733 or (604) 730-9851  
Fax: (604) 730-2621  
[info@absolute.com](mailto:info@absolute.com)

### ***US Headquarters***

Absolute Software, Inc.  
Suite 400  
10655 NE 4<sup>th</sup> Street  
Bellevue, WA 98004  
Tel: 1-800-220-0733 or (425) 943-6470  
Fax: (425) 943-6401