

**ABSOLUTE SOFTWARE CORPORATION (TSX: ABT)**  
**Third Quarter Fiscal 2010 Interim Report**  
**Management Discussion and Analysis**  
**For the period ended March 31, 2010**  
**Dated: May 3, 2010**

*The following Management Discussion and Analysis ("MD&A") is prepared in accordance with National Instrument 51-102F1, and should be read in conjunction with the Company's Fiscal 2009 Consolidated Financial Statements and accompanying notes, and the annual 2009 MD&A. These documents, along with additional information about the Company, including the Annual Report and Annual Information Form, are available at [www.absolute.com](http://www.absolute.com) and [www.sedar.com](http://www.sedar.com).*

*Certain statements in this MD&A constitute forward-looking statements that involve risks and uncertainties. These forward-looking statements relate to, among other things, a continuing need for data protection and theft recovery services in difficult economic times, the continued successful integration of recently-acquired products and technologies, an increase in computer refresh/replacement cycles, the attainment of certain subscription targets and company performance, the increased adoption, or attach rates, of the Company's lifecycle management, computer tracking and computer theft recovery solutions, the ability of the Company to achieve its targets for Sales Contracts and Cash from Operating Activities, the ability of the Company to successfully execute on its growth strategies, including attracting new distribution partners, continuation of embedded firmware support from its current and anticipated PC OEM partners, the demand for its products continuing to increase, stable currency valuations and a sufficiently stable and healthy global economic and business environment, and other expectations, intentions and plans contained in this press release that are not historical fact. When used in this MD&A, the words "plan," "expect," "believe," and similar expressions generally identify forward-looking statements. These statements reflect 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, readers should understand that Absolute Software Corporation cannot offer assurance that the forward-looking statements contained in this analysis will be realized.*

*The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of substantial known and unknown risks and uncertainties, certain of which are beyond the Company's control. Such risks and uncertainties include, without limitation, risks associated with increased competition from other producers, the impact of general, economic conditions in Canada, the United States and overseas, industry conditions, changes in laws and regulations (including the adoption of new environmental laws and regulations) and changes in how they are interpreted and enforced, changes in federal and provincial tax laws and legislation, the lack of availability of qualified personnel or management, fluctuations in foreign exchange or interest rates, stock market volatility and market valuations of companies with respect to announced transactions and the final valuations thereof, and obtaining required approvals of regulatory authorities. Readers are cautioned that the foregoing list of risks to the Company's performance is not exhaustive and reference is made to the items under "Risk Factors" in the Corporation's Annual Information Form (AIF) for the year ended June 30, 2009. All subsequent forward-looking statements, whether written or oral, attributable to the Corporation or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements. Furthermore, the forward-looking statements contained in this MD&A are made as at the date hereof and the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.*

**Selected Quarterly Information**  
(in millions, except percent and per share data)

	<b>Q3 Fiscal 2010</b>	Q3 Fiscal 2009	<b>YTD Fiscal 2010</b>	YTD Fiscal 2009
Sales Contracts reported*	\$ <b>15.0</b>	\$ 16.9	\$ <b>50.3</b>	\$ 51.6
% increase (decrease)	<b>(11%)</b>	13%	<b>(3%)</b>	1%
Sales Contracts in constant currency**	\$ <b>18.2</b>	\$ 16.9	\$ <b>55.0</b>	\$ 51.6
% increase	<b>7%</b>	(10%)	<b>6%</b>	(11%)
Cash from Operating Activities*	\$ <b>0.2</b>	\$ 3.1	\$ <b>6.2</b>	\$ 15.3
% (decrease) increase	<b>(92%)</b>	(53%)	<b>(60%)</b>	(38%)
Per Share (basic)	\$ <b>0.01</b>	\$ 0.07	\$ <b>0.13</b>	\$ 0.32
Per Share (diluted)	\$ <b>0.01</b>	\$ 0.06	\$ <b>0.13</b>	\$ 0.31
Revenue	\$ <b>16.6</b>	\$ 13.7	\$ <b>47.5</b>	\$ 38.9
% increase	<b>22%</b>	35%	<b>22%</b>	46%
Net loss after income taxes	\$ <b>(0.0)</b>	\$ (1.1)	\$ <b>(4.3)</b>	\$ (18.7)
Per share (basic and diluted)	\$ <b>(0.00)</b>	\$ (0.02)	\$ <b>(0.09)</b>	\$ (0.39)
Total assets***			\$ <b>126.5</b>	\$ 104.5
Cash, cash equivalents and investments			\$ <b>65.5</b>	\$ 67.2
Deferred Revenue***			\$ <b>99.6</b>	\$ 88.8

\* Throughout this document we refer to “**Sales Contracts**” (invoiced sales) as a revenue measure, **Cash from Operating Activities** as a profitability measure, and “**Basic or Diluted Cash from Operating Activities per Share**” (Cash from Operating Activities divided by the average shares outstanding for the period (basic), or diluted calculated using the treasury stock method) as an earnings per share measure. With the exception of Cash from Operating Activities, these are non-standard measures under Generally Accepted Accounting Principles (“GAAP”). We consider these non-standard measures to be our key performance metrics since substantially all Sales Contracts in each quarter are deferred on the balance sheet, while the majority of the related costs are expensed in that same quarter. Refer to the Business Model section below for more details.

\*\* Sales Contracts in constant currency refers to the Canadian dollar sales that would have been reported had the average U.S. dollar exchange rate been unchanged from the average rate in fiscal 2009. With approximately 95% of Sales Contracts in U.S. dollars management believes this to be a more meaningful evaluation of the underlying performance of the business. The average U.S. dollar exchange rate on our sales was \$1.0970 in Q1 Fiscal 2010, \$1.0555 in Q2 Fiscal 2010, and \$1.0356 in Q3 Fiscal 2010, compared to \$1.0445 in Q1 Fiscal 2009, \$1.2148 in Q2 Fiscal 2009, and \$1.2507 in Q3 Fiscal 2009.

\*\*\* Fiscal 2009 total assets and deferred revenue are restated for adoption of CICA Section 3064, Goodwill and Intangible Assets.

The words “we”, “our”, “us”, “Company”, and “Absolute” refer to Absolute Software Corporation and/or the management and employees of the Company.

All dollar figures are stated in Canadian dollars unless otherwise stated.

## **BUSINESS OVERVIEW**

### **Background**

Absolute is a leading software-as-a-service (“SaaS”) provider of solutions for computer endpoint management and security. Prior to December 2009, we focused primarily on security with our anti-theft and post-theft services (asset tracking, theft deterrence, theft recovery, data deletion, etc.). However, about 5% of our sales have traditionally been in the endpoint management space with our persistent firmware and cloud-based technology. In this space, customers often add our computer inventory and tracking solutions as a complement to other asset management systems to improve management of their mobile assets.

With this in mind, in December 2009, Absolute completed the purchase of a comprehensive computer lifecycle management solution, Absolute Manage (previously LANrev). With this acquisition, we are now poised to compete directly with the leaders in the lifecycle management space, and to leverage the advantages of our unique technology and security advantages to win market share. We believe that the computer endpoint management and security markets are merging, in particular due to the trend in ever-increasing mobile assets and compliance requirements. Combined with the anticipated increases in computer refresh cycles and expected growth in mobile computing in the coming years, we believe this was optimal timing for this acquisition.

As a SaaS solution delivered over the Internet (i.e. cloud computing), our customers can implement rapidly and take action on their computers on and off their network at any time – whether such action is to provide daily tracking reports on their assets, alerts and action items for potential policy or asset breaches, or responding to a compromising situation with forensic investigations, data deletion and theft recovery.

We are also expanding our sales and marketing capability globally and developing programs to drive our attach rates (the number of subscriptions sold divided by estimated number of portable computers shipped over the same period) at our key computer manufacturer (“OEM”) partners. In the U.S., we have achieved an attach rate of approximately 12% at our largest OEM partner, and are rolling out new programs to achieve similar attach rates with other partners.

### **Globalization**

In developing the market for our solutions, we have focused primarily on North America from where we have historically generated over 90% of our sales.

During fiscal 2010 to date, we continued to increase our efforts to globalize our products and presence. On September 30, 2009, we announced the opening of our Japan office and

introduced a Japanese version of our product, and now have offices in Vancouver, Austin, London, Amsterdam, Nuremburg, and Tokyo.

At the beginning of fiscal 2009, we supported one language and had sales distribution outside North America with one OEM in Europe (“EMEA”). Our products and customer support are now available in 13 languages and our market reach has extended globally. We now have sales distribution agreements with nine OEMs and a number of other in-country resellers in EMEA, and have also started adding sales capability in Asia Pacific (“APAC”) and Latin America (“LTAM”).

With a majority of the growth in computer shipments expected to come from outside of North America over the next three years and our global OEM partnerships, we are investing now to ensure we can properly penetrate and support these markets in the coming years.

### **Partner Ecosystem**

Our partner ecosystem is as an essential component of our business strategy. Our primary partners are OEMs, who are both key collaborative technology partners and key distribution partners. We have also been developing relationships with leaders in infrastructure (for example, Intel<sup>®</sup> and Microsoft<sup>®</sup>), other software vendors and resellers.

From a technology perspective, these OEMs have adopted our Computrace technology as a standard and have embedded it in the firmware of their portable computers. We are now embedded in the firmware of an estimated 80 million computers shipped worldwide every year. Historically, we have generated approximately 85% of our total sales through our OEM partners using various sales and marketing programs and our direct sales force to help identify and close the sales opportunities.

Over the last year we have developed a number of new programs with our existing and new OEM partners, many of which have launched in fiscal 2010. The objective of these programs is to grow our attach rates to at least 12% with our top three OEMs, and to develop programs with similar potential with our new OEMs. Recent examples of these programs include the Dell Nickelodeon consumer bundle and the Lenovo Lost and Found program that were both announced in October. The Lenovo program in particular included the launch of the new Computrace for Lenovo offerings that we expect to help grow Lenovo toward our 12% attach rate target from an estimated 4% in calendar 2009. In addition, we are a Windows 7 launch partner, and we are the first and largest anti-theft company collaborating with Intel in their Intel Anti-Theft 2.0 launch.

## Performance Overview – Fiscal 2010

During the first three quarters of fiscal 2010, we continued to invest in our infrastructure, services, personnel and go-to-market strategies in order to expand globally and maximize our attach rates. We continue to believe it is the right time to invest, and that we are well positioned to capitalize on computer refresh cycles as we head into fiscal 2011.

One of the key strategic investments we made was the acquisition of the Absolute Manage (previously LANrev) product. We are excited by the early signs of success of this offering. During Q3, we completed phase one of our integration plan, which consisted of re-branding the acquired product to Absolute Manage as well as performing some product integration with our existing products. We expect that Absolute Manage will provide a key catalyst for our sales growth in the future.

In addition, on April 8, 2010, we announced the acquisition of the technology assets of the FailSafe® and Phoenix Freeze™ products from Phoenix Technologies Ltd. These were competitive products and as a result, we believe we have increased our competitive advantage in the antitheft space. We intend to integrate certain components of these products into our existing product suite and expect to capture new OEM partners for our solutions.

In constant currency, our third quarter sales grew 7% over last year despite the weak economy, which we believe reflects our investment strategy. With a large commercial customer base, new and expanded programs with our partners, an established worldwide presence, and our acquired Absolute Manage product, we believe we are well positioned to accelerate our sales growth. As we head into the fourth quarter of fiscal 2010 and fiscal 2011, while we believe favorable market trends are now beginning, the timing and impact of these trends on our business is uncertain. In addition, the continued devaluation of the US dollar has impacted our sales contract performance. As a result, on April 8, 2010 we announced a revision to our fiscal 2010 guidance. The new ranges for our sales contract and cash from operating activities are:

- Sales contracts of \$68-72 million (was \$76-82 million)
- Cash from Operating Activities of \$5-7 million (was \$8-11 million)

Financial highlights for Q3-Fiscal 2010:

- Sales Contracts of \$15.0 million, down 11% (up 7% in constant currency) from \$16.9 million in Q3-F2009.
- Cash from Operating Activities was \$0.2 million, down 92% from \$3.1 million in Q3-F2009.
- Deferred revenue grew 4% to \$99.6 million, from \$95.9 million at June 30, 2009.
- Ended the quarter with cash, cash equivalents and investments of \$65.5 million, down from \$68.9 million at June 30, 2009 due primarily to the use of \$10.3 million for the purchase of LANrev.

## **Patent Portfolio**

We have a portfolio of 15 issued patents, and currently have 65 new patent applications in process. Several potential competitors have taken licenses to our patent portfolio to enable them to participate in the computer theft recovery space. The royalty revenue from these licensees is currently not material.

We have initiated action with respect to assertions and claims of patent infringement in three cases that are currently pending. There were no material changes therein from the update provided in our Fiscal 2009 annual management's discussion and analysis.

## **Software-as-a-Service Business Model**

Absolute sells the majority of its solutions in a SaaS model in which customers acquire subscriptions to software based services for a limited license term. Sales from Absolute Manage are primarily in a perpetual license model, but we expect to migrate to a SaaS model over time. From a financial perspective, the SaaS model improves the visibility of revenue streams, increases recurring cash flows and is expected to maximize profitability over time.

However, the accounting treatment for the SaaS model results in a significant deferral of revenue and profitability generated from pre-paid subscriptions, despite the cash flow it generates in the current reporting period. As a result, SaaS companies are generally evaluated based on Sales Contracts (or prepaid bookings) and free cash flow as opposed to revenue and net earnings. Accordingly, we believe that an understanding of this distinction is important to an evaluation of Absolute's performance.

Subscriptions to Absolute's solutions are fully invoiced up-front for the purchase term (which varies from one to five years) on ordinary invoice and payment terms. Payments, when received, are non-refundable. However, as the customer pays the same amount on renewal of the contract, or on purchase of a new subscription, the full value invoiced is deferred on the balance sheet and recognized ratably over the contract term. We refer to these subscriptions as "Sales Contracts", which, as previously mentioned, are not a standardized measure prescribed under Canadian GAAP. Sales Contracts are a component of deferred revenue and are calculated by adding revenue to the change in deferred revenue and adjusting for the deferred warranty costs. Sales Contracts are recorded at the value received by Absolute from either the reseller or directly from the customer. The value received from the reseller is net of reseller discounts.

As our Sales Contracts have traditionally averaged around 30 months in term there is a significant lag between revenue recognition and the timing of the Sales Contract and non-refundable cash flows. In general, only 15-20% of total Sales Contracts reported for any given fiscal year are also recognized as revenue in the same fiscal year. Conversely, a majority of our operating expenses in each fiscal year are incurred to generate these Sales Contracts for the period. As a result, in times of rapid growth in the business, GAAP earnings will often decrease or losses increase, while operating cash flow accelerates.

Should Sales Contract growth slow, it is expected that the GAAP earnings would eventually increase to the point where it aligns with cash flow.

Accordingly, we focus on Sales Contracts and Cash from Operating Activities as the key performance metrics for the Company. We believe these metrics provide the most meaningful evaluation of the business, while revenue and operating income, or loss, provide a lagging indication of performance.

## FINANCIAL PERFORMANCE REVIEW AND ANALYSIS

### Sales Contracts and Revenue

Third quarter fiscal 2010 Sales Contracts decreased 11% to \$15.0 million, compared to \$16.9 million in Q3 2009. However, in constant dollar terms, Sales Contracts have increased from Q3 2009 by 7%, indicating the reported decrease is due to the Canadian/U.S. dollar exchange rate. Sales Contracts for the year-to-date period in 2010 were \$50.3 million, down 3% from \$51.6 million in the prior year (up 6% in constant currency).

The following table shows Sales Contracts by commercial and consumer customers:

(in millions)	Q3 Fiscal 2010	Q3 Fiscal 2009	YTD Fiscal 2010	YTD Fiscal 2009
Commercial Customers	\$ 13.2	\$ 15.4	\$ 43.0	\$ 43.2
Consumer Customers	1.8	1.5	7.3	8.4
Total Sales Contracts	\$ 15.0	\$ 16.9	\$ 50.3	\$ 51.6
U.S. foreign exchange rate	\$1.0356	\$1.2507	\$1.0648	\$1.1591
Closing Subscriber Base			5.5	4.0

### *Commercial Customer Sales Performance:*

In constant currency, commercial sales were up 3% over Q3-F2009 and up 8% in the year-to-date period. This increase was expected and is due to our strategic investments. As noted above, the impact of the Canadian/U.S. dollar exchange rate impacted our Canadian dollar sales. We believe our commercial sales performance is being negatively impacted by the current economic environment through delayed purchase decisions for new commercial customers and delayed computer refresh cycles for our existing customers. Our commercial sales to new customers of \$2.2 million increased 26% (51% in constant currency) from \$1.8 million in Q3-F2009, and increased 2% (8% in constant currency) to \$7.0 million from \$6.9 million in the year-to-date period. Existing commercial sales declined 19% (3% in constant currency) to \$11.0 million from \$13.6 million in Q3-F2010, and were flat in the year-to-date period (grew 9% in constant currency) to \$36.0 million from \$36.2 million.

These results are shown in the following table:

	<b>Q3 Fiscal 2010</b>	Q3 Fiscal 2009	<b>YTD Fiscal 2010</b>	YTD Fiscal 2009
Sales to existing commercial customers	<b>\$ 11.0</b>	\$ 13.6	<b>\$ 36.0</b>	\$ 36.2
Percent of total sales	<b>73%</b>	81%	<b>71%</b>	70%
Total subscriptions sold to existing customers (units)	<b>222,000</b>	237,000	<b>744,000</b>	694,000
Total subscriptions expiring in period (units)	<b>148,000</b>	77,000	<b>464,000</b>	281,000
<b>Expiring Subscription Ratio</b>	<b>1.50</b>	3.08	<b>1.60</b>	2.48

We monitor the ratio of existing customer sales and renewals compared to total subscriptions expiring in the period (the “Expiring Subscription Ratio”) as a measure of customer satisfaction and renewal rates. We believe the current levels reflect delayed refresh cycles and expect the ratio to improve in fiscal 2011. We also expect the addition of Absolute Manage to assist in increasing existing customer sales. The expiring subscription ratio is particularly important as we are entering a period of substantial expiring subscriptions with 1,030,000 subscriptions expiring in F2011, up 55% from F2010.

*Consumer Sales Performance:*

Consumer sales in Q3-F2010 increased 24% (49% in constant currency) from Q3-F2009, and for the year-to-date period, consumer sales were down 12% (5% in constant currency). The strategy for consumer has been to diversify the business, and to build a significant renewal customer base via bundling and other acquisition programs. The current quarter and year to date performance is reflective of these efforts, as retail and online sales have increased for the quarter and year to date periods. However, these increases have been offset by bundle and OEM sales, which have declined for the year. These sales have returned to growth in Q3-F2010 through customer acquisition strategies with our OEM partners. As a result, the consumer subscriber base has increased significantly, with 1.6 million consumer subscriptions coming up for renewal in fiscal 2011, up 198% from 533,000 in fiscal 2010 and 548,000 in fiscal 2009. In fiscal 2010 and fiscal 2009, this renewal opportunity generated a majority of our online sales, which averaged approximately US\$400,000 per quarter.

**Revenue**

Revenue for Q3-F2010 increased 22% to \$16.6 million, compared to \$13.7 million in Q3-F2009. On a year-to-date basis, revenue increased 22% to \$47.5 million in F2010 from \$38.9 million in F2009. Revenue is derived almost entirely from the amortization of Sales Contracts through deferred revenue. As the average contract life is approximately 30 months, a majority of revenue is from Sales Contracts entered into during the prior three years. In general, only 15-20% of Sales Contracts reported for any given fiscal year are included in revenue for that particular year, with the remainder included in deferred revenue on the balance sheet. See the SaaS Model section of this MD&A for further discussion.

**Operating Expenses**  
(dollar and subscription figures in millions):

	<b>Q3 Fiscal 2010</b>	Q3 Fiscal 2009	<b>YTD Fiscal 2010</b>	YTD Fiscal 2009
Cost of sales (“COS”)	\$ 3.5	\$ 3.5	\$ 11.1	\$ 10.5
Sales and marketing (“S&M”)	8.0	7.7	25.3	21.6
Research and development (“R&D”)	2.1	1.8	5.8	5.2
General and administration (“G&A”)	2.3	1.8	6.1	5.5
Total operating expenses, excluding investment tax credits and stock-based compensation*	\$ 15.9	\$ 14.8	\$ 48.3	\$ 42.8
<i>% increase</i>	8%	39%	13%	47%
<i>% of Sales Contracts</i>	105%	87%	96%	83%
Number of employees at quarter-end			346	296

\* Investment tax credits and stock-based compensation are excluded as they are not meaningful to evaluate relative to prior periods.

Total operating expenses excluding stock-based compensation and investment tax credits increased 8% in Q3 and 13% year-to-date in F2010 compared to F2009, as a result of the expansion of the employee base and sales and marketing efforts to generate and support current and future sales growth targets. These increases were offset by a \$1.1 million adjustment to COS in Q3-F2010 related to our warranty accrual, in order to account for expected lower future warranty payout rates.

*Percent of Sales Contracts*

A majority of total operating costs relate to efforts to generate Sales Contracts in the same and future periods. Therefore, management focuses on total expenses excluding stock-based compensation and investment tax credits as a percentage of Sales Contracts to measure its operating efficiency and effectiveness. This percentage was 105% of Sales Contracts in Q3-F2010 as opposed to 87% in Q3-F2009, and was 96% of Sales Contracts in the year-to-date period in F2010 as opposed to 83% in the same period of F2009. This percentage was expected to increase, given management’s decision to continue investing in the future growth potential of the business. Management expects this ratio to improve as the market rebounds and its investments begin to generate new sales, as discussed in the Sales Contracts section of this MD&A.

*Cost of Sales (“COS”)*

The gross margin in Q3 and year-to-date F2010 was 79% and 77%, respectively, compared to 74% and 73%, respectively, in the same periods of F2009. The increased margin in the quarterly and year-to-date periods is primarily the result of increased revenues and a \$1.1 million warranty accrual adjustment, as noted above. This increase in gross margin was offset by the amortization of the intangible assets acquired as part of the LANrev acquisition, which commenced in December 2009 and is expected to result in a non-cash intangible asset charge to COS of approximately \$900,000 per quarter through

December 2014. When considering the gross margin, it is important to recognize that in addition to the amortization of intangibles, COS includes up-front costs related to the Sales Contracts generated in the period as opposed to revenue, including: packaging costs and initial training, delivery and customer support costs associated with new customer subscriptions. The remaining costs relate to monitoring, recovery and guarantee costs.

#### *Sales and Marketing (“S&M”)*

Increases in sales and marketing (“S&M”) expenditure reflect expansion of the sales team and increased marketing expenditures to support partner and vertical growth strategies, consistent with our overall strategy. As a percent of Sales Contracts, S&M expenses were 53% for the current quarter and 50% year-to-date F2010, compared to 45% and 42% in F2009, respectively. The increase is primarily due to sales headcount, as we have increased the number of sales regions in the U.S. market and have also increased the number of salespeople serving each region. We exited Q3-F2010 with a headcount of 142 in sales and marketing, as opposed to 121 at March 31, 2009 and 125 at June 30, 2009. In addition, we have continued to develop marketing programs to support our consumer business, to accelerate attach rates, and support international growth strategies.

#### *Research and Development (“R&D”)*

Research and development (“R&D”) expenditures increased 16% from Q3 last year, and increased 10% against the comparative year-to-date period. In the current year, we have expanded our internal headcount in order to continue to develop new products on a more cost effective basis, while continuing to utilize outsourcing for specific product development initiatives. In addition, we have added additional costs related to development of our recently acquired products. As a result, we expect R&D expenses to trend higher in future quarters as compared to prior years.

#### *General and Administrative (“G&A”)*

General and administrative (“G&A”) expenses increased 25% from the same quarter in the prior year and 11% from the comparative year-to-date period. The increase in the current quarter was primarily due to increases in legal professional fees, while the increase in the year-to-date period also reflects moderately increased headcount to support the globalization of the business.

#### **Operating Income (Loss)**

Absolute generated operating income of \$482,000 in Q3-F2010, compared to an operating loss of \$1.5 million in Q3 last year. For the year to date period, the operating loss was \$1.7 million, down 91% from \$18.2 million last year. For the year to date period, a majority of the operating loss reduction relates to stock-based compensation, which included a one-time charge of \$12.0 million in fiscal 2009 due to surrender and cancellation of 2.8 million employee stock options.

Excluding stock-based compensation and investment tax credits, the adjusted operating income for Q3-F2010 was \$727,000, compared to an operating loss of \$1.1 million in Q3 last year. For the year to date periods, the adjusted operating loss was \$786,000 this year, compared to \$3.9 million last year. The reduced operating losses relate in part to a \$1.1 million warranty adjustment benefit to COS in Q3-F2010, with the remainder of the

reduction reflecting increases in revenue from prior period Sales Contract performance and improving gross margins.

### **Other Income (Expense)**

Absolute earns interest income on its cash resources beyond immediate operating requirements. These cash balances are invested in money market funds, bankers' acceptances and investment grade bonds and commercial paper. For Q3-F2010, interest income decreased to \$172,000 from \$268,000 in Q3-F2009, and to \$525,000 for the year-to-date period in F2010 from \$1,233,000 in F2009. These decreases are due primarily to lower interest rates currently available on our investments.

In Q3-F2010, we experienced an unrealized loss of \$12,000 (\$159,000 for the year-to-date period) related to marketable securities included in investments. In F2009, we experienced an unrealized gain of \$163,000 in Q3, and an unrealized loss of \$754,000 for the year-to-date period. A majority of these investments are investment grade bank bonds held to maturity, while the remaining investments in marketable securities are marked-to-market at the end of the period.

Other expenses also include foreign exchange gains and losses primarily on the translation of U.S. dollar cash, receivable and liability balances. U.S. denominated assets normally exceed liabilities as over 95% of sales are denominated in U.S. dollars, compared to approximately 50% of costs. This generally results in foreign exchange losses (gains) in periods where the U.S. dollar declines (appreciates) relative to the Canadian dollar. In Q3-F2010, the foreign exchange loss was \$0.5 million compared to a \$0.3 million gain in Q3-F2009, as a result of the appreciation of the Canadian dollar compared to the U.S. dollar in the current quarter. This trend mirrored that of the year-to-date period, where we experienced a \$2.4 million loss in F2010 compared to a \$2.3 million gain in F2009.

In F2009, the Company entered into foreign exchange forward contracts, and recorded related losses of \$0.3 million and \$1.5 million in the third quarter and year-to-date periods of F2009, respectively. No such contracts existed in F2010. In addition, the Company incurred restructuring charges of \$1.0 million in the year-to-date period of F2009.

### **Income Taxes**

In Q3-F2010, we recorded current income tax expense of \$230,000 and a future income tax recovery of \$40,000. For the year-to-date period, we recorded current income tax expense of \$2.7 million and a future income tax recovery of \$2.1 million.

At March 31, 2010, the Company's current taxes payable amounted to \$3.5 million, which represents management's estimate of income taxes payable for fiscal 2009 and 2010 operations. In addition, we had future income tax assets of \$22.3 million, which are primarily attributable to the benefit of estimated tax loss carryforwards and deferred revenue balances. Management has estimated that 48% of these future income tax assets are current, as the deferred revenue portion of the future tax asset will be recovered in the next fiscal year.

### **Net Loss**

The Company's net loss after income taxes for Q3-F2010 was \$32,000, compared to \$1.1 million last year. The net loss for the year-to-date period was \$4.3 million, down 77%

from \$18.7 million last year. The changes in the net loss reflect the net impact of those factors discussed above with the changes in the operating loss and other income.

Excluding stock-based compensation, we experienced net income for Q3-F2010 of \$463,000, a 174% improvement from the net loss of \$629,000 in Q3 last year, and for the year-to-date period, the net loss was \$2.7 million, a 25% decrease from \$3.6 million last period. The current year periods benefited from a \$1.1 million warranty adjustment, which was offset by a reduction in other income, primarily from foreign exchange losses and reductions in interest income. On a net basis, other expenses were \$324,000 in Q3-F2010 compared to other income of \$476,000 in Q3 last year, and for the year to date period other expenses were \$2.0 million compared to other income of \$273,000 last year.

### **Cash from Operating Activities**

Cash from Operating Activities for Q3-F2010 of \$0.2 million decreased 92% from \$3.1 million in Q3-F2009, and also decreased 60% in the year-to-date period from \$15.3 million in F2009 to \$6.2 million in F2010. As noted above, the decrease is primarily the result of investments in our business, consistent with our strategy and reflective of the current economic climate.

### **Liquidity and Capital Resources**

Absolute is in a strong financial position, with no debt and the financial resources necessary to fund its operating and capital requirements and to execute on its growth strategies. At March 31, 2010, Absolute's cash, cash equivalents and investments remained at \$65.5 million, compared to \$68.9 million at June 30, 2009 and \$65.0 million at December 31, 2009. The Company's cash and investment position has improved on operating cash flows, with the lower overall balance reflecting the Company's cash outlay of \$10.3 million related to the LANrev acquisition. Based on current sales and investment plans, management believes that the Company has sufficient capital resources to meet its growth and operating requirements.

The Company has no material capital expenditure commitments for fiscal 2010, however, we did acquire technology assets subsequent to quarter end for cash of US \$6.9 million (see the "Subsequent Events" section of this MD&A). Given its strong cash and investment balances and operating cash flow, at this time the Company does not require any additional capital resources.

### **Accounts receivable**

Accounts receivable balances decreased to \$10.9 million at March 31, 2010 (73% of third quarter F2010 Sales Contracts), down from \$13.4 million at March 31, 2009 (79% of third quarter F2009 Sales Contracts) and \$15.6 million at June 30, 2009 (77% of fourth quarter F2009 Sales Contracts). The decreases relative to prior periods as a percent of Sales Contracts are due primarily to strong collections in the quarter and year-to-date periods.

### **Deferred contract costs**

Certain direct contract costs are capitalized as deferred contract costs on the balance sheet and are charged to income over the term of the contract to which they relate. Capitalized direct contract costs are primarily comprised of prepaid employee commissions. At March 31, 2010, deferred contract costs of \$7.6 million (7% of deferred Sales Contract revenue) are relatively consistent with the \$7.4 million (7% of deferred Sales Contract

revenue) at June 30, 2009 and \$7.0 million (7% of deferred Sales Contract revenue) at March 31, 2009.

### **Accrued warranty**

Accrued warranty is related to a service guarantee with certain of our products. The accrued warranty decreased to \$10.2 million (10% of deferred Sales Contract revenue) at March 31, 2010, compared to \$11.3 million (11% of deferred Sales Contract revenue) at June 30, 2009. The current period amount is less than the \$14.1 million (14% of deferred Sales Contract revenue) at March 31, 2009. The reduction relative to Q3-F2009 as a percent of deferred revenue reflects warranty experience gains. Each period, management evaluates its guarantee payment experience and considers whether changes are required to the estimated warranty provision. In Q3-F2010, we determined that an adjustment of \$1.6 million was required in order to bring our warranty accrual in line with our estimates for future payments, \$1.1 million of which was recorded in the statement of loss, with the remainder recorded against deferred warranty included within deferred revenue.

### **Deferred revenue**

Deferred revenue was \$99.6 million at March 31, 2010, compared to \$95.9 million at June 30, 2009, and \$88.8 million at March 31, 2009. Deferred revenue is comprised of the unamortized portion of deferred revenue from Sales Contracts, less the deferred portion of accrued warranty liabilities relating to the Sales Contracts. Following the adoption of CICA Handbook Section 3064, the balance of deferred warranty costs are now offset against the deferred revenue to which they relate. The deferred revenue balance is amortized to revenue, while the deferred warranty cost is amortized to cost of sales.

The deferred Sales Contract revenue component of deferred revenue increased to \$105.9 million at March 31, 2010, up 3% from \$103.2 million at June 30, 2009, and up 9% from \$97.3 million at March 31, 2009.

### **Accounting Changes**

None.

## Quarterly Operating Data

(in millions except per share data)	Q3-10	Q2-10	Q1-10	Q4-09	Q3-09	Q2-09	Q1-09	Q4-08
Sales Contracts	\$15.0	\$16.1	\$19.2	\$20.2	\$16.9	\$16.5	\$18.2	\$21.5
Revenue	16.6	15.8	15.0	14.3	13.7	13.1	12.1	11.2
Net income (loss) (ex-Stock-Based Comp)	0.5 <sup>(1)</sup>	(1.7)	(1.5)	17.1 <sup>(2)</sup>	(0.6)	(2.3)	(0.6)	(0.7)
Net (Loss) Income	(0.0)	(2.3)	(2.0)	16.5	(1.1)	(15.5)	(2.2)	(2.3)
Basic and diluted (loss) income per share	(0.00)	(0.05)	(0.04)	0.36	(0.02)	(0.32)	(0.05)	(0.05)
Cash from Operating Activities	0.2	1.6	4.3	2.1	3.1	3.1	9.1	5.4
Operating cash per share (basic)	0.01	0.04	0.09	0.05	0.07	0.06	0.19	0.11

(1) Q3-10 results included the impact of a \$1.1 million positive adjustment to warranty accrual.

(2) Q4-09 results included the impact of a \$16.8 million future tax recovery and a \$2.3 million positive adjustment to warranty accrual.

## Shareholder's Equity and Outstanding Share Data

At March 31, 2010, Absolute had shareholders' equity of \$1.1 million. In evaluating shareholder's equity, management believes it is important to consider the \$99.6 million of deferred revenue carried on the balance sheet. This amount represents prepaid (or due to be paid in full on payment terms) and non-refundable revenue, on which management expects to generate high margins when recognized in income as much of the associated contract costs are already included in the operating deficit.

The Company's common shares trade on the TSX (TSX:ABT), and at March 31, 2010 the Company had 46,651,675 (46,651,675 at May 3, 2010) fully issued and outstanding common shares. The following common share stock options and warrants are issued and outstanding at March 31, 2010:

- Employee Share Option Plan (2007): 3,725,125 (3,725,125 at May 3, 2010) common stock options granted and outstanding. The options have a weighted average exercise price of \$4.93 per share, and a weighted average term to expiry of 2.8 years. In Q3-F2010, a total of 96,500 stock options were granted to employees at an average strike price of \$6.18.
- Employee Share Purchase Plan (2006): Under the Plan, employees may purchase treasury shares at a 15% discount from market during a six month offering period. A total of two million shares have been reserved for grant under the Plan, of which 714,956 have been issued as at March 31, 2010 (May 3, 2010 – 714,956).
- Branding Agreement Warrants: The Company issued 1,000,000 warrants in fiscal 2006 to acquire rights to the "LoJack" brand name, of which 200,000 remained outstanding at March 31, 2010 and May 3, 2010. The warrants have an exercise price of \$1.00 per share, vest 20% per year starting June 30, 2006, and expire the earlier of two years after vesting, June 30, 2010, or upon termination of the agreement.

## Corporate Developments

### *LANrev Acquisition*

On December 2, 2009, the Company acquired certain assets of Pole Position Software GmbH, a software company specializing in systems management software. Pole Position's sole product is LANrev, a comprehensive, cross-platform endpoint and computer asset management software solution.

The asset purchase has been accounted for as a business combination, with the Company being identified as the acquirer. The results of the acquired LANrev business are included in the Company's results of operations after the purchase date of December 2, 2009.

The allocation of the purchase price disclosed hereunder has been based upon management's preliminary estimates and certain assumptions with respect to the fair value increment associated with the assets acquired and liabilities assumed. The Company will continue to review information and perform further analysis prior to finalizing the allocation of the purchase price. The actual fair values of the assets and liabilities will be determined as of the date of acquisition and may differ materially from the amounts disclosed below in the preliminary purchase price allocation.

The aggregate purchase price of \$15,408,596 was comprised of cash and 500,000 common shares of the Company, as follows:

Cash	\$ 12,624,043
Common shares	2,568,518
Acquisition costs	216,035
	<hr/>
	\$ 15,408,596

Of the above, \$2,555,822 (USD \$2,500,000) and the 500,000 common shares are deferred consideration, with each amount payable in equal one-third installments annually on the first three anniversary dates of the acquisition. The fair value of the common shares to be issued was determined based on the average closing price of the Company's common shares for a reasonable period prior to and following the acquisition date of December 2, 2009. These deferred amounts have been discounted to present value using a discounted cash flow model.

The total purchase consideration has been allocated to the fair values of the assets acquired and liabilities assumed based on management's best estimates and taking into account all available information at the time of the acquisition and at the time of preparation of these interim consolidated financial statements.

The purchase consideration has been allocated to the net assets acquired as follows:

Property and equipment	\$ 16,998
Intangible assets	17,247,572
Accrued liabilities	(26,801)
Deferred revenue	(380,317)
Future income taxes	(1,448,856)
	<u>\$ 15,408,596</u>

Details of the acquired intangible assets are as follows:

Acquired software	\$ 16,895,602
Customer relationships	351,970
	<u>\$ 17,247,572</u>

These intangible assets have each been determined to have a useful life of 5 years. In the three and nine months ended March 31, 2010, the Company recorded \$860,880 and \$1,147,840, respectively, of amortization of these acquired intangible assets.

#### *FailSafe® and Phoenix Freeze™ technology acquisition*

On April 8, 2010, the Company acquired the technology assets of FailSafe® and Phoenix Freeze™ from Phoenix Technologies Ltd. Absolute intends to integrate certain components of the acquired technology into its products to extend its data protection and theft recovery capabilities. Under the terms of the asset purchase agreement, Absolute paid US\$6.9 million in cash.

#### **Critical Accounting Policies and Estimates**

Management considers the Company's accounting for Sales Contracts, deferred contract costs, warranty accruals and future tax assets to be critical accounting policies. An understanding of the accounting policies for these items is important for meaningful analysis of Absolute's business.

Sales Contracts represent invoiced sales for subscriptions to Absolute's services and software that are included in deferred revenue and amortized to revenue ratably over the contract term, commencing in the month after sale. A majority of Absolute's Sales Contracts are transacted via channel partners who purchase from Absolute in order to resell to their customers. While Absolute's services are provided directly to the end user customer, the orders come in various forms from reseller partners. Absolute ships the software if applicable, commences the subscription term, and invoices the reseller and reports this as a Sales Contract for the applicable period. Accordingly, Absolute relies upon the reseller partner to have sufficiently concluded the sales process with the end user customer to ensure that the order is valid and the risk of returns and/or reversals is kept to a minimum. These Sales Contracts are recorded as a receivable and deferred revenue item at period end (and not included in revenue at the time).

Deferred costs represent expenses that are generated or incurred at the start of each service subscription (or Sales Contract). These items are capitalized on the balance sheet as

deferred contract costs, and are recognized as expense ratably over the contract term. Management estimates the benefit period of deferred costs to be equivalent to the contract term of the Sales Contract to which the expense relates. If management's estimate of the future value of such costs should change it could result in a significant write-down in the value of this deferred asset.

Warranty accruals require management estimates of the amount of warranty claims that will be paid over the life of each sales contract. The value of the accrued warranty estimate is capitalized with deferred contract costs and charged to cost of sales ratably over the contract term. Accrual estimates are established based on Absolute's experience with loss and recovery rates, and are reviewed for reasonableness based on actual experience on a regular basis. However, actual experience will likely vary and may require a change in the estimated liability. Should these estimates change, they may require changes to the amount of warranty expense in future periods, in addition to a change in the warranty accrual.

The Company has recognized a portion of its future tax assets on the balance sheet. Each reporting period, management assesses the likelihood of realizing future tax assets. Where management considers that it is more likely than not that some portion or all of the future tax assets will be realized, the estimated realizable value of the future tax asset is recognized on the balance sheet. The net income or loss after income taxes can vary widely in periods where tax assets are recognized, and such variances could lead to a material write-down or increase in the estimated value of the Company's tax assets.

### **Contractual Commitments**

The Company does not have minimum purchase commitments and does not have significant contractual commitments beyond its leased premises, LoJack branding agreement and fulfillment of services under its Sales Contracts.

### **Off Balance Sheet Arrangements**

The Company has not entered into any off balance sheet arrangements.

### **Related Party Transactions**

The Company generally does not enter into related party transactions. No related party transactions were entered into in Q3-F2010.

### **Subsequent Events**

#### *FailSafe® and Phoenix Freeze™ technology acquisition*

On April 8, 2010, the Company acquired the technology assets of FailSafe® and Phoenix Freeze™ from Phoenix Technologies Ltd. Absolute intends to integrate certain components of the acquired technology into its products to extend its data protection and theft recovery capabilities. Under the terms of the asset purchase agreement, Absolute paid US\$6.9 million in cash.

### **Recent Canadian Accounting Pronouncements**

#### *Adoption of International Financial Reporting Standards (IFRS)*

The CICA plans to converge Canadian GAAP with IFRS over a transition period expected to end in 2011. The Company's first annual financial statements required to be filed using IFRS are for the year ended June 30, 2012 (with comparative financial statements for

fiscal 2011). The Company is currently assessing the future impact of these new standards on its financial statements, as outlined below under “Convergence with International Financial Reporting Standards”.

### **Convergence with International Financial Reporting Standards**

The following outlines the Company’s progress, future milestones and process for the implementation of International Financial Reporting Standards leading to a Fiscal 2012 implementation:

<b>Key Activities</b>	<b>Milestones/Deadlines</b>	<b>Progress made and yet to be completed</b>
<p><b>Financial Statement Preparation:</b></p> <p>Identification of differences between Canadian GAAP and IFRS accounting policies and choices</p> <ul style="list-style-type: none"> <li>• Selection of the Company’s continuing IFRS policies</li> <li>• Selection of IFRS 1 accounting policy choices</li> <li>• Financial statement format</li> <li>• Quantification of effects of change in IFRS 1 disclosures and 2011 financial statements including note disclosure</li> </ul>	<p>Planning for F2011 commenced.</p>	<p>Currently assessing IFRS policy choices; options with regard to financial statement format; and impact on effect of IFRS 1 adoption on financial statements and disclosures.</p>
<p><b>Infrastructure requirements:</b></p> <p>IFRS expertise identification and development at level of:</p> <ul style="list-style-type: none"> <li>• Finance and accounting personnel</li> <li>• Board level, including audit committee</li> </ul> <p>Information technology including:</p> <ul style="list-style-type: none"> <li>• Systematic processing changes</li> <li>• Program upgrades</li> <li>• One-off calculations (IFRS 1)</li> <li>• Disclosure data gathering</li> <li>• Budget and forecast monitoring processes</li> </ul>	<p>Ready for commencement of F2011 conversion by December 31, 2010.</p> <p>Ready for parallel processing of F2011 transactions and monitoring processes by October 1, 2010</p>	<p>Leadership team and resources identified. Further development of expertise in F2010 and F2011.</p> <p>Scoping and resource assessment initiated in F2010, specifically with regard to changes required in stock-based compensation.</p>

Key Activities	Milestones/Deadlines	Progress made and yet to be completed
<p><b>Business activity assessment:</b></p> <ul style="list-style-type: none"> <li>• Effects on compensation arrangements</li> </ul>	<p>Renegotiated compensation arrangements by March 31, 2011.</p>	<p>Identification of GAAP-dependent metrics once impact on sales and earnings quantified.</p>
<p><b>Control environment – internal controls over financial reporting:</b></p> <ul style="list-style-type: none"> <li>• Accounting policy determination, documentation and implementation</li> <li>• Independent review of application</li> </ul>	<p>Review and signoff by management, and review by Audit Committee, of all accounting policy changes by March 31, 2011. Implementation review by external auditor by June 30, 2011.</p> <p>CEO/CFO certification process updated by June 30, 2011.</p>	<p>Scoping and resource assessment initiated.</p>
<p><b>Control environment – disclosure controls and procedures:</b></p> <ul style="list-style-type: none"> <li>• External communication plan development</li> </ul>	<p>Publication of revised F2011 results and MD&amp;A by October 15, 2011.</p>	<p>Resources identified and scoping assessment initiated.</p>

### **Disclosure Controls and Procedures**

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate disclosure controls and procedures. Under the supervision of the Chief Executive Officer and Chief Financial Officer, the Company's disclosure controls and procedures have been designed to provide reasonable assurance that a) material information relating to the Company is made known to management by others, particularly during the period in which our filings are being prepared; and b) the information required to be disclosed by the Company in reports it files is recorded, processed, summarized and reported, within the appropriate time periods and forms.

### **Internal Control Over Financial Reporting**

The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, are responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision of the Chief Executive Officer and Chief Financial Officer, the Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

There has been no changes in the Company's disclosure controls or internal control over financial reporting during the three months ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

### **Limitations of Controls and Procedures**

The Company's management, including the Chief Executive Officer and Chief Financial Officer, believes that any disclosure controls and procedures or internal controls over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected.

### **Risks and Uncertainties**

The Company is selling and developing products and services for new and emerging markets and, as a result, faces a number of risks, many of which are outlined below.

**Economic Uncertainty** - Many of Absolute's customers are being affected by economic conditions affecting the broader market. Current and future conditions in the domestic and global economies remain uncertain. As a result, it is difficult to estimate the level of growth or contraction for the economy as a whole. It is even more difficult to estimate growth or contraction in various parts, sectors and regions of the economy, including the markets in which the Company participates. Because all components of the Company's budgeting and forecasting are dependent upon estimates of growth or contraction in the markets it serves and demand for its products and services, the prevailing economic uncertainties render estimates of future income and expenditures very difficult to make.

Adverse changes may occur as a result of soft economic conditions, wavering consumer confidence, unemployment, declines in stock markets, contraction of credit availability, declines in real estate values, or other factors affecting economic conditions generally. These changes may negatively affect the sales of the Company's products and services, including its ability to meet its guidance for Sales Contract and Cash from Operating Activities, affect the Company's ability to retain key employees, or increase the exposure to losses from investments and bad debts.

**Dependence on Distribution Channels** – Absolute generates a substantial portion of its revenue through PC OEM channels and its sales strategy is built upon Absolute's ability to continue to maintain its BIOS position with these partners and grow its reseller channels. If unable to access end customers through its reseller channels, Absolute will have to change its sales strategy and may not be able to grow at the rates anticipated.

**Ability to Predict Rate of Growth and Profitability** – Absolute focuses on sales growth and Cash from Operating Activities as its key performance metrics, and management believes that revenue and GAAP profitability will approach the Company's Cash Margins as the rate of growth slows. However, due to the evolving SaaS business model and the unpredictability of our emerging category of security, Absolute may not be able to accurately forecast the rate of adoption of its services and hence its sales growth. Absolute bases its current and future expense levels and its investment plans on estimates of future sales growth. Absolute may not be able to adjust its spending quickly enough if the rate of new or renewed subscriptions falls short of its expectations. As a result, Absolute's operating results may fluctuate significantly on a quarterly basis. In addition, Absolute's historic Sales Contract, revenue and cash flow growth rates may not be sustainable and may decline in the future. Accordingly, period-to-period comparisons of our operating results may not necessarily be a meaningful indicator of future performance.

**Ability to Successfully Integrate Acquisitions** – We expect to continue to evaluate possible acquisitions of, or strategic investments in, businesses, products or technologies that are complementary to our business. In December 2009, we acquired certain assets of Pole Position Software GmbH, and in April 2010, we acquired certain technology assets of Phoenix Technologies Ltd. We may not realize future benefits from any of these past or future acquisitions. If we fail to integrate successfully our past and future acquisitions, or the technologies associated with such acquisitions, the revenue and operating results of the combined company could be adversely affected. Any integration process will require significant time and resources, and we may not be able to manage the process successfully. If our customers are uncertain about our ability to operate on a combined basis, they could delay or cancel orders for our products. We may not successfully evaluate or utilize the acquired technology and accurately forecast the financial impact of an acquisition transaction, including accounting charges. The areas where we may face risks include:

- difficulties in integrating the operations, technologies, products and personnel of the companies we acquire into our operations;
- potential disruption of our on-going business and diversion of management's attention from normal daily operations of the business;
- insufficient revenues to offset increased expenses associated with acquisitions;
- potential for third party intellectual property infringement claims against the

- companies we acquire;
- failure to successfully further develop acquired technology, resulting in the impairment of amounts capitalized as intangible assets;
  - impairment of relationships with customers and partners of the companies we acquire or in which we invest, or with our customers and partners, as a result of the integration of acquired operations;
  - impairment of relationships with employees of the acquired companies or our existing employees as a result of integration of new management personnel;
  - impact of known potential liabilities or unknown liabilities associated with the companies we acquire; and
  - in the case of foreign acquisitions, uncertainty regarding foreign laws and regulations and difficulty integrating operations and systems as a result of cultural, systems and operational differences.

We are likely to experience similar risks in connection with our future acquisitions, if any. Our failure to be successful in addressing these risks or other problems encountered in connection with our past or future acquisitions could cause us to fail to realize the anticipated benefits of such acquisitions, incur unanticipated liabilities and adversely affect our business, operating results or financial condition, or result in significant or material control weaknesses.

Future acquisitions or dispositions could also result in dilutive issuances of our equity securities, the incurrence of additional expense related to compliance, contingent liabilities or amortization of expenses, or write-offs of goodwill, any of which could harm our financial condition and negatively impact our operating results

**Customer Subscription Renewal Rates** – Absolute generates more than 50% of its annual sales through purchases and subscription renewals from existing customers. Our customers’ renewal rates may decline or fluctuate as a result of a number of factors, including their level of satisfaction with the services and their ability to continue their operations and spending levels. If our customers do not renew their service subscriptions, our revenue will decline and our business will suffer.

**Competition** – It is also possible that new competitors will enter the marketplace. Several potential competitors are marketing or have announced the development of computer products in direct competition with Absolute. In addition, as Absolute develops new services, the Company may begin competing against companies with whom it did not previously compete. Such competitors may be able to develop and expand their services more quickly, adapt more swiftly to new or emerging technologies and changes in customer requirements, take advantage of acquisition and other opportunities more readily, and devote greater resources to the marketing and sale of their services and products than Absolute. Accordingly, the entry of new competitors could have a material adverse effect on Absolute’s business, financial condition and results of operations.

**Emerging Products and Technology** – The market for Absolute’s products is still emerging and continued growth and demand for, and acceptance of, these products remains uncertain. In addition, other emerging technology and products may impact the

viability of the market for Absolute's products. Absolute's continued success will depend upon its ability to keep pace with technological and marketplace change and to introduce, on a timely and cost-effective basis, new and enhanced products that satisfy changing customer requirements and achieve market acceptance. There can be no assurance that Absolute will be able to respond effectively to changes in technology or customer demands. Moreover, there can be no assurance that Absolute's competitors will not develop competitive products or that any such products will not have an adverse effect upon Absolute's business, financial condition or results of operations.

**Management of Growth** – In the past four fiscal years, Absolute has continued to experience rapid sales growth and has been focused on continuing this growth trend. This has resulted in increasing headcount and operational costs to generate and support this growing customer base, which has placed, and will continue to place, to the extent that Absolute is able to sustain such growth, a significant strain on management, administrative, operational and financial infrastructure. Absolute anticipates that further growth will be required to address increases in the customer base, further development of the service, as well as expansion into new geographic areas. Further growth will require Absolute to continue to hire, train and manage new employees as needed. If new hires perform poorly, or if Absolute is unsuccessful in hiring, training, managing and integrating these new employees, or if Absolute is not successful in retaining existing employees, our business may be harmed.

**Reliance on Key Personnel** – Absolute's future performance depends in part upon attracting and retaining key technical, sales and management personnel. There can be no assurance that Absolute can retain these personnel and continue to recruit required talent. The loss of the services of Absolute's key employees could have a material adverse effect on Absolute's business, operating results and financial condition.

**Efforts to Sell to Larger Enterprise Customers** – As Absolute targets more sales efforts at larger enterprise customers, the Company could face greater costs, longer sales cycles, less predictability in completing some sales and greater fluctuation in sales and cash flow in quarters where these large deals conclude. In this market segment, the customer's decision to use Absolute's service may be an enterprise-wide decision and, if so, these types of sales may require Absolute to provide greater levels of education regarding the use and benefits of the service, as well as education regarding privacy and data protection laws and regulations to prospective customers with international operations. As a result of these factors, these sales opportunities may require Absolute to devote greater sales support and professional services resources to individual customers, driving up costs and time required to complete sales and diverting sales and professional services resources to a smaller number of larger transactions.

**Foreign Exchange** – The Company's reporting and functional currency is the Canadian dollar. However, substantially all the Company's sales are denominated in U.S. dollars while a majority of operating expenses are denominated in Canadian dollars. As a result, the Company is exposed to fluctuations in the Canadian and U.S. dollar exchange rate for which it has not entered into foreign exchange hedges. Should the Canadian dollar significantly appreciate relative to the U.S. dollar, then it could impede Absolute's ability to meet its Canadian dollar Sales Contract growth and margin targets.

**Foreign Operations** – The Company intends to continue to pursue international market growth opportunities, which could result in international sales accounting for an increasing portion of the Company’s consolidated revenues. The Company intends to commit increased resources to its international operations as well as to related sales and marketing activities. The Company maintains offices in Canada, the U.S., United Kingdom, Netherlands, Germany, and Japan. The Company may not be aware of all the factors that may affect its business in foreign jurisdictions. The Company will be subject to a number of risks associated with international business activities that may increase liability or costs, lengthen sales cycles or require significant management attention. International operations carry certain risks and associated costs, such as: the complexities and expense of administering a business abroad; complications in compliance with, and unexpected changes in legal and regulatory restrictions or requirements; foreign laws, international import and export legislation; trading and investment policies; foreign currency fluctuations; exchange controls; tariffs and other trade barriers; difficulties in collecting accounts receivable; potential adverse tax consequences; uncertainties of laws and enforcement relating to intellectual property and privacy rights; unauthorized copying of software; difficulty in managing a geographically dispersed workforce in compliance with diverse local laws and customs; and other factors depending upon the country involved. There can be no assurance that the Company will not experience these risks in the future. If foreign operations expand to the point where they account for a significant portion of the Company’s consolidated revenues, the presence of such risks could have a material adverse effect on the Company’s business, operating results and financial condition.

**Fluctuation of Quarterly Results and Failure to Meet the Expectations of Analysts or Investors** – Absolute’s quarterly operating results are likely to fluctuate, and if Absolute fails to meet or exceed the expectations of securities analysts or investors, the trading price of our common stock could decline. Moreover, the stock price may be based on expectations of our future performance that may be unrealistic or that may not be met. Absolute believes that quarter-to-quarter comparisons of our results should not necessarily be relied upon as a reliable indicator of future performance.

**The Effect of Amortization of Revenue Over the Term of the Subscription** – Absolute generally recognizes revenue from customer subscriptions ratably over the terms of the Sales Contracts. The average term is approximately 30 months, although terms can range from one year to as much as five years. As a result, most of the revenue we report in each quarter results from the recognition of deferred revenue relating to Sales Contracts entered into during previous periods. Consequently, a decline in new or renewal subscriptions in any one quarter will not necessarily be fully reflected in the revenue in that quarter but will negatively affect revenue in future quarters. In addition, Absolute may be unable to adjust its cost structure to reflect the changes in Sales Contracts. Accordingly, the effect of significant downturns in sales and market acceptance of our service may not be fully reflected in Absolute’s results of operations until future periods. Our subscription model also makes it difficult to rapidly increase revenue through additional sales in any period, as revenue from new customers must be deferred and recognized over the applicable subscription term.

**Sales Contracts** – Management considers Sales Contracts to be one of the key financial performance indicators for the Company. Most Sales Contracts (greater than 90%) are

conducted via channel partners who purchase from Absolute in order to resell to their customers. While Absolute's services are provided directly to the end user customer, the orders, which include ship dates, customer name, product, pricing and volume, come in various forms from the reseller partner (sales reports, purchase orders, shipping reports, royalty reports, etc.). Absolute ships the software, commences the subscription term, and invoices the reseller (and receives payment from the reseller) based on receipt of, or ship dates, contained in these forms of evidence of the end customer purchase, and reports this as a Sales Contract for the applicable period. Accordingly, Absolute is relying upon the reseller partner to have sufficiently concluded the sales process with the end user customer to ensure that the order is valid and the risk of returns is kept to a minimum. Historically, Absolute's experience with returns has corroborated that this reliance is justified. However, it is possible that a reseller may order from us and subsequently return the product in accordance with generally accepted industry return practices. In such cases, if a sale had been reported in a prior period, it would have to be subsequently reversed, impacting future Sales Contracts and revenue performance. However, Absolute does not make a provision against Sales Contracts for potential returns for the following reasons: revenue recognition from Sales Contracts until the month after sale so there would be no income statement impact as a result of such provision; and the revenue recognition term averages around 30 months compared to industry standard return policies are generally less than 90 days, so any returns are generally accounted for prior to any material recognition of revenue. Accordingly, the effect of any customer returns may not be fully reflected in Sales Contracts and deferred revenue figures until a future period.

**Microsoft Operating Systems** – Absolute has designed the majority of its services to operate on certain generations of Microsoft Windows operating systems. The development by Microsoft of new versions of Windows and or upgrades or updates to Windows or other operating systems and or the market adoption of these or other operating systems developed by other vendors may have an adverse effect on Absolute's business if we are not able to adapt our technology to be compatible with these new operating systems.

**Product Errors and Third Party Mischief** – The software technology enabling Absolute's software services is complex and the related application software may contain errors or defects, especially when first introduced or when new versions are released. Any errors that are discovered after commercial release could result in loss of revenues or delay in market acceptance, diversion of development resources, damage to Absolute's reputation, increased service and warranty costs and liability claims. In addition, it is possible that our product may become the subject of a third party attack or disruption, whether malicious or otherwise. This could detrimentally affect the persistence of our technology, which could have a material adverse effect on our business.

**Operating Environment** – The Computrace software that enables this product operates in a potentially hostile environment. In addition, Absolute's services rely upon connection to the Absolute Monitoring Center. If the computer is prevented from making, or is not able to make, a connection, Absolute will not have an opportunity to assist in recovering the stolen computer. If Absolute is unable to successfully demonstrate to customers that the Computrace Agent will call in, it may affect Absolute's ability to sell the theft recovery portion of the products offered to customers.

**Breach of Security Measures and Unauthorized Access** – The Company’s service involves the storage and transmission of certain customer information, and security breaches could expose us to a risk of loss of this information, litigation and possible liability. Absolute’s technology and security measures have been designed and implemented in order to mitigate risks of this nature. However, if our security measures are breached as a result of third-party action, employee error, malfeasance or otherwise, during transfer of data to additional data centers or at any time, and, as a result, someone obtains unauthorized access to our data or our customers’ data, our reputation could be damaged, our business may suffer and Absolute could incur significant liability. The Company may be unable to anticipate new attack techniques or may not have time to implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and Absolute could lose sales and customers. In addition, our customers may authorize third party service providers to access their customer data. Because the control of these third-party service providers is undertaken by our customers, Absolute cannot ensure the complete integrity or security of such transmissions or processing.

**Interruptions or Delays in Service From Our Third-Party Hosting Facilities** – Absolute currently serves its customers from facilities that include a third-party hosting facilities located on the west coast of Canada and the U.S. Damage to, or failure of, our systems generally could result in interruptions in our service. Interruptions in our service may reduce our revenue, cause us to issue credits or pay penalties, cause customers to terminate their subscriptions and adversely affect our renewal rates and our ability to attract new customers. Our business will also be harmed if our customers and potential customers believe our service is unreliable.

As part of our current disaster recovery arrangements, redundant hardware is deployed where possible in all production customer environments. Production data is backed up onto encrypted media and taken off-site. The recovery procedures and encryption keys are held remotely by Absolute employees, so that the systems can be restored in the event of a site-wide disaster. Other than contractual assurances and agreed-to controls, Absolute does not control the operation of any of these facilities, and they are vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunications failures and similar events. They may also be subject to break-ins, sabotage, intentional acts of vandalism and similar misconduct. Despite precautions taken at these facilities, the occurrence of a natural disaster or an act of terrorism, a decision to close the facilities without adequate notice or other unanticipated problems at these facilities could result in lengthy interruptions in our service. Even with the disaster recovery arrangements, our service could be interrupted.

**Consumer Product Liability** – With the expansion of its consumer business, as with all manufacturers of products and services designed for use by consumers, the Company may be subject to claims related to product liability and consumer protection legislation, particularly in the U.S. Although the Company is insured for claims relating to product liability, no assurance can be given that a judgment will not be rendered against it in an amount exceeding the amount of insurance coverage or in respect of a claim for which the Company is not insured.

**Intellectual Property Licensing and or Enforcement** – Absolute’s revenue, cost of sales, and expenses may suffer if it cannot continue to license or enforce our intellectual property rights or if third parties assert that Absolute violates their intellectual property rights. The Company relies upon patent, copyright, trademark and trade secret laws in the United States and similar laws in other countries, and agreements with employees, customers, suppliers and other parties, to establish and maintain intellectual property rights in its Computrace technology platform. However, the industry in which the Company competes may include new or existing entrants that own, or claim to own, intellectual property, and the Company has received, and may receive in the future, assertions and claims from third parties that the Company’s products infringe on their patents or other intellectual property rights (see “Patent Portfolio”). Litigation has been and will likely continue to be necessary to determine the scope, enforceability and validity of third-party proprietary rights or to establish the Company’s proprietary rights. Any of the Company’s direct or indirect intellectual property rights could be challenged, invalidated or circumvented, or such intellectual property rights may not be sufficient to permit Absolute to take advantage of current market trends or otherwise to provide competitive advantages, which could result in costly or delayed product redesign efforts, discontinuance of certain product offerings or other competitive harm. Further, the laws of certain countries do not protect proprietary rights to the same extent as the laws of the United States. Therefore, in certain jurisdictions Absolute may be unable to protect its proprietary technology adequately against unauthorized third-party copying or use, which could adversely affect its competitive position. Third parties also may claim that Absolute or customers or partners indemnified by Absolute are infringing upon their intellectual property rights. In recent years, individuals and groups have begun purchasing intellectual property assets for the sole purpose of making claims of infringement and attempting to extract settlements from established companies. Even if management believes that the claims are without merit, the claims can be time-consuming and costly to defend and divert management’s attention and resources away from the business. Claims of intellectual property infringement also might require Absolute to redesign affected products, enter into costly settlement or license agreements (if such licenses can be obtained on commercially reasonable terms, or at all) or pay costly damage awards, or face a temporary or permanent injunction prohibiting the marketing or selling certain of our products, which could result in the Company’s business, operating results and financial condition being materially adversely affected.

**Additional Patent Applications** – The Company’s commercial success depends upon its ability to develop new or improved technologies and products, and to successfully obtain patent or other proprietary or statutory protection for these technologies and products in Canada, the United States and other countries. The Company seeks to patent concepts, components, protocols and other inventions that are considered to have commercial value or that will likely yield a technological advantage. The Company owns rights to patented and patent pending technologies in the United States, Canada and other countries. However, the Company may not be able to develop new technology that is patentable, new patents may not be issued in connection with the Company’s pending applications and allowed claims may not be sufficient to protect the Company’s new technology. Furthermore, any patents issued could be challenged, invalidated or circumvented and may not provide proprietary protection or a competitive advantage. New entrants to the

field may have been issued patents, and may have filed patent applications or may obtain additional patents and proprietary rights, for technologies similar to those that the Company has made or may make in the future. Since patent applications filed before November 29, 2000 in the United States are maintained in secrecy until issued as patents, and since publication or public awareness of new technologies often lags behind actual discoveries, the Company cannot be absolutely certain that it was the first to develop the technology covered by its pending patent applications or that it was the first to file patent applications for the technology. In addition, the disclosure in the Company's new patent applications, particularly in respect of the utility of its claimed inventions, may not be sufficient to meet the statutory requirements for patentability in all cases. As a result, there can be no assurance that the Company's new patent applications will result in enforceable patents, nor can the breadth of allowed claims in the Company's patents, and their enforceability, be predicted. Even if the Company's patents are held to be enforceable, others may be able to design around these patents or develop products similar to the Company's products that are not within the scope of these patents.

**Other Proprietary Rights** – In addition to patents, the Company relies on, among other things, copyrights, trademarks, trade secrets, confidentiality procedures and contractual provisions to protect its proprietary rights. While the Company enters into confidentiality and non-disclosure agreements with its employees, consultants, business partners, customers, potential customers and other third parties having access to proprietary and confidential information, it is possible that the following may occur: some or all of its confidentiality agreements will not be honored; third parties will independently develop equivalent technology or misappropriate the Company's technology and/or designs; disputes will arise with the Company's strategic partners, customers or others concerning the ownership of intellectual property; there may occur an unauthorized disclosure of source code, know-how or trade secrets, or contractual provisions may not be enforced in foreign jurisdictions. There can be no assurance that the Company will be successful in protecting its proprietary rights.

**Privacy Law Concerns** – Absolute's customers use our service to transmit, receive and store identifying information regarding their mobile computing devices, including location information. Our products and monitoring systems are developed to ensure that components or tools that enable personal information to be obtained from host computers are not resident in the products during normal use, and are only implemented by Absolute's trained experts in the case of emergency and on the instructions of our customers. While information obtained in normal usage is generally not of a personally identifiable nature, advances in location and tracking technology may evolve such that certain types of information collected in the tracking process could be considered to be personally identifiable information. Federal, provincial, state and foreign government bodies and agencies have adopted or are considering adopting laws and regulations regarding the collection, use and disclosure of personal information obtained from consumers and individuals. The costs of compliance with, and other burdens imposed by, such laws and regulations that are applicable to the businesses of our customers may limit the use and adoption of our service and reduce overall demand for it. Even the perception of privacy concerns, whether or not valid, may inhibit market adoption of our service in certain industries.

**Development of Brand** – Absolute believes that developing and maintaining awareness of its proprietary and licensed brands in a cost-effective manner is critical to achieving widespread acceptance of its existing and future services and is an important element in attracting new customers. Furthermore, Absolute believes that the importance of brand recognition will increase if competition in our market develops or intensifies. Successful promotion of our brands will depend largely on the effectiveness of our marketing efforts and on our ability to provide reliable secure and useful services at competitive prices. If Absolute fails to successfully promote and maintain its brands, or incur substantial expenses in an unsuccessful attempt to promote and maintain its brands, Absolute may fail to attract enough new customers or retain existing customers to the extent necessary to realize a sufficient return on brand-building efforts. In addition, failing to maintain the Company’s license rights to the LoJack® brand, which Absolute licenses from a third party, could also harm our consumer business.

**Income Taxes** – Significant judgment is required in determining our provision for income taxes. Various internal and external factors may have favourable or unfavourable effects on our future provision for income taxes, income taxes payable, and/or effective income tax rate. These factors include, but are not limited to: changes in tax laws, regulations and/or rates; results of audits by tax authorities; changing interpretations of existing tax laws or regulations; changes in estimates of prior years’ items; future levels of R&D spending; changes in the overall mix of income among the different jurisdictions in which we operate; and changes in overall levels of income before taxes. To the extent that the taxation authorities do not agree with our tax positions, we may not be able to realize all or a portion of the tax benefits recognized. Furthermore, new accounting pronouncements or new interpretations of existing accounting pronouncements (such as those described in “Recent Canadian Accounting Pronouncements” in this MD&A) can have a material impact on our effective income tax rate.

The Company and its subsidiaries file income tax returns and pay income taxes in jurisdictions where we believe we are subject to tax. In jurisdictions in which the Company and its subsidiaries do not believe we are subject to tax and therefore do not file income tax returns, we can provide no certainty that tax authorities in those jurisdictions will not subject one or more tax years (since inception of the Company or its subsidiaries) to examination. Tax examinations are often complex as tax authorities may disagree with the treatment of items reported by the Company, the result of which could have a material adverse effect on our financial condition and results of operations.

**Securities Analysts** - The trading market for Absolute’s common stock is in part affected by the research and reports that independent industry or financial analysts publish about Absolute or its business. Absolute does not control these analysts. If one or more of the analysts who publish reports on Absolute were to downgrade Absolute’s stock or lower future stock price targets or estimates of operating results, Absolute’s stock price could be adversely affected. Furthermore, if one or more of these analysts cease coverage of Absolute, Absolute could lose visibility in the market, which in turn could cause Absolute’s stock price to decline.