

**ABSOLUTE SOFTWARE CORPORATION (TSX: ABT)**  
**Second Quarter Fiscal 2017 Management's Discussion and Analysis**  
**For the three and six months ended December 31, 2016**  
**Dated: February 6, 2017**

*The following Management's 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 2016 Consolidated Financial Statements and accompanying notes. These documents, along with additional information about the Company, including the Annual Information Form for the year ended June 30, 2016, as amended, are available at [www.absolute.com](http://www.absolute.com) and [www.sedar.com](http://www.sedar.com).*

*This MD&A contains certain forward-looking statements, which relate to future events or the Company's future business, operations and financial performance and condition, that include terms such as "will", "intend", "anticipate", "could", "should", "may", "might", "expect", "estimate", "forecast", "plan", "potential", "project", "assume", "contemplate", "believe", "shall", "scheduled" and similar terms. These statements involve known and unknown risks, uncertainties and other factors that are beyond the Company's control and which may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes the expectations reflected in these forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A or as of the date specified in the documents incorporated by reference into this MD&A.*

*This MD&A, and the documents incorporated by reference, contain forward-looking statements pertaining to expectations which include, but are not limited to: (a) the continuing need for computing endpoint security, management, tracking and investigation management products, services, and solutions; (b) the Company's attainment of certain revenue, profit and cash flow targets; (c) the Company's ability to successfully execute on its growth strategies, including attracting new customers and distribution partners and successfully launching new product features and functions, and marketing or branding campaigns; (d) the Company developing solutions that are compatible with new operating systems and platforms; (e) the continuation of computing device refresh/replacement cycles; (f) the Company's ability to successfully compete in an increasingly competitive landscape; (g) the continuation of embedded firmware, distribution and resale support from its current and future OEM partners; (h) the continued and increased demand for the Company's products and services; (i) the Company's ability to gain access to, and generate sales in, domestic and international markets; (j) the Company's ability to attract and retain key employees, executives and advisors; (k) the Company's ability to protect against the improper disclosure of customer data we process, store and/or manage; (l) any statements as to future dividend issuances or increases; and (m) other expectations, intentions, projections and plans contained in this document that are not historical facts.*

*The key assumptions underlying the aforementioned forward-looking statements are that: (a) the increasing adoption of mobile computing devices will lead to an increased demand for endpoint data and device protection products, services and solutions; (b) the Company's increased investments in sales, marketing, research and product development will lead to growth in its business as the worldwide information security, computer and mobile device markets grow; (c) the Company will be able to continue to add new features and functions to its product suite; and (d) the Company will expand and be able to benefit from its portfolio of intellectual property, including patents. Certain or all of the foregoing assumptions may prove to be incorrect which could negatively impact the Company's business, operations and financial performance and condition and the anticipated results discussed herein or in the documents incorporated by reference.*

*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, some of which are beyond the Company's control. Such risks and uncertainties include, without limitation: risks associated with increased competition from other companies; the impact of general economic and industry conditions, both domestically and internationally; changes in technological innovation, including new device types, operating systems and platforms; fluctuations in foreign exchange or interest rates; changes in laws and regulations (including new employment, tax, intellectual property, immigration, privacy and data collection laws and regulations) and changes in how they are interpreted and enforced; changes in federal, provincial and state tax laws and legislation; the lack of availability of qualified personnel or management; stock market volatility and market valuations of information security 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 this MD&A and the Company's Annual Information Form for the year ended June 30, 2016, as amended. All subsequent forward-looking statements, whether written or oral, attributable to the Company 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.*

*The words "we", "our", "us", "Company" and "Absolute" refer to Absolute Software Corporation, together with its subsidiaries, and/or the management and employees of the Company.*

*All dollar figures are stated in U.S. dollars unless otherwise indicated.*

## Selected Quarterly Information

USD Millions, except per share data	Q2			YTD		
	F2017	F2016	Change	F2017	F2016	Change
<b>Revenue</b>						
DDS Segment <sup>(1)</sup>	\$ 22.5	\$ 21.0	7%	\$ 44.9	\$ 42.2	6%
DDS recurring as % of DDS total	99%	99%		99%	98%	
<i>Total</i>	\$ 22.5	\$ 21.1	6%	\$ 44.9	\$ 45.1	(0%)
<b>Adjusted EBITDA</b> <sup>(2)(3)</sup>	\$ 1.7	\$ 2.0	(13%)	\$ 3.6	\$ 6.3	(43%)
As a percentage of revenue	8%	9%		8%	15%	
<b>Net (Loss) Income</b>	\$ (1.8)	\$ 8.7	(121%)	\$ (2.6)	\$ 9.8	(127%)
Per share (basic)	\$ (0.05)	\$ 0.22		\$ (0.07)	\$ 0.23	
Per share (diluted)	\$ (0.05)	\$ 0.21		\$ (0.07)	\$ 0.22	
<b>Cash (used in) from operating activities</b>	\$ (1.2)	\$ 1.4	(188%)	\$ 0.7	\$ 6.3	(89%)
<b>Dividends paid</b>	\$ 2.3	\$ 2.3	1%	\$ 4.7	\$ 4.7	2%
Per share (CAD)	\$ 0.08	\$ 0.08	-	\$ 0.16	\$ 0.15	7%
<b>Cash, equivalents, and investments</b>	\$ 37.7	\$ 55.9	(33%)			
<b>Total assets</b>	\$ 98.6	\$ 108.3	(9%)			
<b>Deferred revenue</b>	\$ 133.7	\$ 131.5	2%			
<b>Common shares outstanding</b>	39.0	38.5	1%			

- (1) As a result of the divestiture of the Absolute Manage and Absolute Service business unit (see “*Operating Segments*”), the Data and Device Security operating segment solely comprises Absolute’s ongoing operations. As a result, the analysis of our operating performance in this MD&A will be primarily focused on the results from the Data and Device Security operating segment. This measure is specifically related to our DDS operating segment.
- (2) Throughout this document, “Adjusted EBITDA” is used as a profitability measure and “Billings” is used as an indicator of future cash flows. Please refer to the “Non-IFRS Measures” and “Subscription Billings” sections of this MD&A for further discussion on these measures.
- (3) Adjusted EBITDA in the year to date period of F2016 included a \$1.0 million contribution from the Absolute Manage and Absolute Service business unit. This business unit was disposed in Q2-F2016.

## Q2-F2017 and YTD Overview

### **Key Financial Metrics**

- Q2-F2017 Absolute Data and Device Security (“DDS”) segment revenue was \$22.5 million, representing a year-over-year increase of 7%. Recurring revenue represented 99% of Q2-F2017 total revenue and increased 7% year-over-year
- Year-to-date DDS segment revenue was \$44.9 million, representing a year-over-year increase of 6%. Recurring revenue represented 99% of year-to-date revenue and increased 7% over the prior year period
- Absolute DDS Commercial annual contract value (“ACV”) Base of \$86.2 million increased by 8% over the trailing four quarters and by 2% sequentially
- Incremental ACV from New DDS Customers was \$2.1 million in Q2-F2017 compared to \$0.9 million in Q2-F2016. New customer ACV in the quarter included a significant enterprise license agreement to secure more than 100,000 endpoints for a large North American healthcare organization
- For the year-to-date period of F2017, incremental ACV from New DDS Customers was \$3.1 million compared to \$1.6 million in the prior year-to-date period
- Net ACV Retention from existing Absolute DDS customers was 100% during Q2-F2017 and 101% over the trailing four quarters
- Adjusted EBITDA in Q2-F2017 was \$1.7 million, or 8% of revenue, and was \$3.6 million, or 8% of revenue, for the year-to-date period
- Cash used in operating activities during Q2-F2017 was \$1.2 million. Prior to payment of reorganization charges of \$0.8 million, cash used in operating activities was \$0.4 million. For the year-to-date period, cash generated from operating activities was \$0.7 million, and prior to payment of reorganization charges of \$1.7 million and income tax payments of \$3.2 million, cash generated from operating activities was \$5.6 million
- DDS segment Billings in Q2-F2017 were \$21.0 million, representing a year-over-year increase of 11%. DDS segment Billings for the year-to-date period were \$40.7 million, representing a year-over-year increase of 6%

### **Technology and Products**

- Delivered a new Security Dashboard that provides customers with a broader view of their security posture across their entire deployment, including detailed reports on the status of complementary security applications
- Created faster remediation cycles within the Endpoint Data Discovery capability so that customers can take immediate action when at-risk data is detected on a device. This includes the ability to promptly freeze multiple devices and / or the covert deletion of multiple files before sensitive data can be accessed
- Delivered the first cycle of Device Usage Reporting, a new offering in our Device Analytics framework that allows customers to log device usage rates and user activity on each device. This initial offering is targeted to our Education customer base who must justify technology funding and perform comparisons across school districts

### **Operations and Corporate**

- Continued R&D expansion work in Vietnam and Vancouver, including the opening of a new Vietnam development centre

- Implemented a normal course issuer bid (“NCIB”) to purchase up to 2,643,256 of Absolute’s common shares until August 28, 2017. For the year-to-date period, the Company purchased 132,000 shares under the NCIB
- Paid a quarterly dividend of CAD\$0.08 per share on our common shares during Q2-F2017 and paid total dividends of CAD\$0.16 during the year-to-date period

## Company Overview

Absolute brings a new approach to cybersecurity by enabling the self-healing endpoint to ensure uncompromised visibility and remediation of endpoint security threats. Our cloud-based platform enables information technology (“IT”) and security professionals to control devices, data and applications -- whether they are on or off the enterprise network – in order to enhance IT asset management, protect sensitive data, reduce insider threats, and ensure compliance. Our patented Persistence technology is embedded in the firmware of laptop, desktop, tablet and mobile devices from the majority of the largest global manufacturers. We currently serve approximately 20,000 commercial customers globally, protecting approximately seven million customer devices. Our website is located at [www.absolute.com](http://www.absolute.com).

Our market opportunity is driven by the rapid adoption of mobile computing coupled with an increasing regulatory and corporate emphasis on information security and privacy protection. Enterprise computing devices commonly contain sensitive information and also serve as access points to enterprise networks. Increasingly, enterprise data breaches are associated with these devices and their users for reasons such as negligence (e.g. loss, theft or disregard of security protocols), misuse (e.g. installing unauthorized applications or removing security applications) and malicious activity (e.g. employee fraud or external parties gaining access to insider credentials), which are collectively referred to as insider threats. Due to the fact that traditional management and security applications are susceptible to accidental, or intentional, removal from the endpoint, as well as the fact that mobile devices are often disconnected from enterprise networks, these traditional IT management and security tools are inadequate in their ability to fully monitor and secure these devices.

Our unique Persistence® technology is embedded into the firmware of laptops, desktops, tablets and smartphones at the point of manufacture by most of the world’s leading device manufacturers (“OEMs”). Once activated, Persistence provides a reliable, highly tamper-resistant, two-way connection between the device and our cloud-based monitoring center, even when the device is off the corporate network and beyond the reach of other IT management and security tools. Persistence is a key differentiator for us, as it enables our Absolute Data and Device Security (“DDS”) solution to provide a high degree of visibility and control over computing endpoints. Persistence also enables the DDS software agent and critical third-party software agents to be highly tamper-resistant on an endpoint. If efforts are made to remove the software agent, an automatic reinstallation will occur, even if the firmware is overwritten or flashed, the device is reimaged, the hard drive is replaced, or if the device is restored to its factory settings.

Absolute DDS is our endpoint security and data risk management solution. Absolute DDS enables customers to continually monitor the security posture of their computing endpoints and the data they contain, so they can proactively respond to security threats. With Absolute DDS, customers can define security alerts based on changes in user and device activity. Examples include the presence of sensitive information on the device or in the cloud (e.g. patient or customer information); the status of business-critical applications such as encryption and anti-virus; or unauthorized user activity such as the movement of a device outside of a defined geographic boundary. In the event of a suspected security incident, customers can initiate remediation actions such as device freeze, remote data delete or can engage our investigations team to perform remote investigations on the device. The results of a remote investigation can include the identification of unauthorized users, confirmation of whether sensitive files have been accessed, and recovery of the device. The information collected by Absolute DDS can also be integrated into third-party security information and event management (“SIEM”) systems in order to correlate endpoint risk with other sources of security intelligence, thereby improving the returns our customers realize on pre-existing technology investments.

Absolute DDS is offered in specific versions for Enterprise, Healthcare, and Education. All versions of Absolute DDS are available in three editions: Premium, Professional, and Standard, each of which provides a different subset of product features and functionality.

We also offer Application Persistence by Absolute, which leverages our Persistence technology to maintain the installation and integrity of any third-party endpoint software agent on a customer's computing endpoints. This unique capability supports applications such as encryption, anti-malware, patching, VPN, client management tools and other installations. Application Persistence allows our customers to be confident they are providing consistent security coverage across all enabled devices, on and off the corporate network.

### **Business Model**

Our solutions are delivered in a software-as-a-service ("SaaS") business model. The majority of our customer arrangements are contracted under a subscription licensing model, with contract terms ranging from one to five years. In most cases subscriptions are invoiced in advance for the entire licensed term on ordinary invoice and payment terms. Our customer contract terms have historically averaged approximately 36 months.

We operate a direct sales force with responsibility for solution selling and relationship management with our end customers. During the selling process, we usually co-engage with our OEM, value-added reseller ("VAR") and distribution partners (see "Partner Ecosystem" below). Customer orders generally flow from our customers to our partners, who then place orders directly with Absolute. We generate approximately 75-80% of our total revenues in conjunction with our OEM partners.

We have offices in Vancouver, Canada; Austin, USA; Des Moines, USA; Reading, UK; Ho Chi Minh City, Vietnam; and Tokyo, Japan. We also service additional geographies through our remote sales force and through our partner network. Our products and customer support services are available in 10 languages. We have sales distribution agreements with global OEMs and a number of other in-country resellers in Europe, the Asia-Pacific region and Latin America.

### **Growth Strategy**

We are focused on one of the most rapidly growing segments for technology expenditures: information security. Our growth strategy focuses on the following:

**Vertical market expansion** – We believe that our opportunities for growth are strongest in the enterprise market, particularly in regulated industries such as financial services and healthcare, where there is a high proportion of mobile workers and where the consequences of a data breach are high. We are therefore directing a substantial portion of our product, sales and marketing investments to drive growth in these markets. We also believe there are customer expansion and new customer acquisition opportunities in the education and government markets, where we have established a leadership position in securing devices in North American schools

**Product development** – Product development is a key element of our growth strategy. Our product development efforts are centered on leveraging our unique Persistence technology and our large and growing customer base. These product development investments are focused on three initiatives: first, to continue the development of the data, user, device and application awareness capabilities of Absolute DDS, with a near-term emphasis on bolstering user awareness and analytics capabilities; second, to leverage our Persistence technology to secure additional third-party applications and to integrate with additional third party security and management applications, thereby enhancing the value we deliver to

our customers and improving returns that our customers realize on pre-existing technology investments; and finally, to evolve our cloud-based platform in order to increase the scalability and extensibility of our back-end platform. We believe that our platform investment will also support our aspiration of delivering our Persistence technology to every application and endpoint, across every geography.

Our product development initiatives support our objective of growing revenue and expanding customer ACV. For our existing customers, ongoing product development promotes the high levels of customer retention we historically have experienced and provides a compelling upsell and expansion opportunity on which we have begun to capitalize. With our new customers, particularly those in the enterprise and healthcare markets, we believe there is a trend towards purchasing product tiers that include higher levels of functionality and a higher ACV.

**Market awareness** – We are investing in marketing activities to drive awareness and position Absolute as an enabler of information security within key markets in North America and internationally.

**Geographic market expansion** – Currently Absolute generates approximately 10% of its revenue outside of North America, while international markets account for roughly half of the total global IT security market. As a result, we believe that there is a significant opportunity to further expand sales internationally. We have approached our international sales efforts in a focused manner, with a direct sales investment in the UK and an indirect sales model in the Asia Pacific and Latin American markets. We anticipate continued variability in our international sales results until our international businesses achieve maturity.

### Future Products

In F2017, we intend to increase our investment in product research and development in order to expand on the capabilities of our Persistence technology and our DDS solution. Our near-term product development efforts will focus on: enhancing the user awareness and analytics capabilities of Absolute DDS; extending DDS data exchange capabilities with third party security solutions; extending our Persistence capabilities to additional third party security and management software agents; and updating our underlying SaaS technology platform for increased scalability and reliability.

In conjunction with our internal product development efforts, we maintain an ongoing program to evaluate potential acquisition candidates.

### Competition

We have historically had few direct competitors for our Absolute DDS product line. On occasion, we encounter companies offering a subset of our competitive technology such as device tracking, locking and wiping. Examples include computer tracking software vendors such as Prey, Inc., and various enterprise mobility management vendors that provide management solutions for smartphones and tablets. Based on our proprietary Persistence technology and accompanying off-network capabilities, unique feature and services offerings, broad device coverage, extensive OEM relationships and extensive patent portfolio, we believe that we maintain a distinct competitive advantage in the marketplace.

In the information security market, we also compete indirectly with companies that offer other forms of endpoint security solutions, such as encryption and data loss prevention solutions. However, we believe that Absolute DDS is generally purchased as a complement to these solutions and enhances these solutions by providing status reporting on their presence and activity on the endpoint, as well as the ability to persistently reinstall these solutions on each endpoint.

## Patent Portfolio

We have a portfolio of 88 issued patents and currently have 64 new patent applications in process.

Due to the nature of our patent portfolio, from time to time the Company is involved in assertions and claims of patent infringement as both the initiating party and, from time to time, as a respondent to such claims.

## Partner Ecosystem

Our partner ecosystem is an essential component of our business strategy. Our primary partners are OEMs who are both key collaborative technology partners and key distribution partners.

Our OEM partners have adopted Absolute Persistence technology as a standard and have embedded it in the firmware of laptop, desktop, tablet and smartphone devices. This is an important collaboration for Absolute, as the embedded support enhances the persistence (ability to survive unauthorized or unintentional removal attempts) of our software, which is a key differentiator for the Company. Persistence technology is normally shipped in a dormant state and is activated after the customer purchases and installs the Absolute DDS software agent.

An additional element of our growth strategy is to increase the amount of sales generated from our VAR channel, within North America and internationally. We believe that the development of an enhanced VAR channel will enable us to extend the reach of our sales and marketing efforts and drive incremental sales growth.

The following table lists OEMs who provide embedded support for Persistence technology:

Aava Mobile (since 2015)	Microsoft (since 2014)
Acer (since 2009)	MPS Mayorista (since 2015)
ASUS (since 2009)	Mustek Systems (since 2015)
DDM Brands (since 2014)	NCS Technologies, Inc. (since 2007)
Dell (since 2005)	PC Smart SA (since 2013)
Fujitsu (since 2006)	Panasonic (since 2006)
GammaTech (since 2008)	Pinnacle Africa (since 2015)
Getac (since 2008)	Positivo Informatica SA (since 2014)
HP (since 2005)	Prestigio (since 2015)
Inforlandia LDA (since 2013)	Samsung (since 2011)
Intel (Classmate Computer) (since 2009)	Toshiba (since 2006)
Lanix (since 2014)	Xplore Technologies (since 2008)
Lenovo (since 2005)	Yezz (since 2015)



## Subscription Billings

We sell our solutions under a term license model in which customers acquire subscriptions to our software-based services for a specified term ranging from one to five years. The majority of these subscriptions are fully invoiced up-front for the entire licensed term (on ordinary payment terms and non-refundable), with an historical average prepaid license term of 36 months. We refer to our total invoiced sales in a period as our total “Billings”.

We have also recently introduced an Enterprise Licensing Agreement (“ELA”) model, which provides customers with the option to license our software for multiple years and pay annually. The ELA model was introduced in order to match the buying preferences of some of our enterprise and healthcare customers and generally results in a positive impact to ACV compared to multi-year prepaid licenses. While only a small percentage of our customer base has licensed our software through the ELA model, we do expect it to become a larger percentage of our new customer license sales over time and that, as a result, our average prepaid license term will decrease over time.

From a financial reporting perspective, the amount invoiced is recorded at the foreign exchange rate in effect at the time of sale in deferred revenue on the statement of financial position and is recognized as revenue ratably over the contract term. In general, only 15-25% of total Billings reported for any given fiscal year are also recognized as revenue in the same fiscal year. As a result of this business model, in times of rapid growth, earnings under International Financial Reporting Standards (“IFRS”) will often decrease or losses increase, while operating cash flow will accelerate.

## Seasonality

Our customer Billings have historically been subject to seasonality, with a higher concentration of Billings occurring in the first and fourth quarters of each fiscal year. This has been primarily due to higher activity in the North American education sector during these quarters. As we increase the proportion of our sales into the enterprise and healthcare markets, we expect the seasonal correlation of our overall Billings to the education market buying season to become less pronounced. In Q2-F2017, 54% of our Billings related to the combined enterprise and healthcare markets, compared to 51% in Q2-F2016. The seasonality of our Billings has a direct impact on our quarterly Cash from Operating Activities.

## Non-IFRS Measures

Throughout this MD&A, we refer to a number of measures which we believe are meaningful in the assessment of the Company's performance. Many of these metrics are non-standard measures under IFRS and are unlikely to be comparable to similarly titled measures reported by other companies. Readers are cautioned that the disclosure of these items is meant to add to, and not replace, the discussion of financial results or cash flows from operations as determined in accordance with IFRS.

The purpose of these non-IFRS measures is to provide supplemental information that may prove useful to investors who wish to consider the impact of certain non-cash or uncontrollable items on the Company's operating performance. Share-based compensation and non-cash amortization of acquired intangible assets are being excluded from the Company's operating expenses because the decisions which gave rise to these expenses were not made to increase sales in a particular period, but were made for the Company's long-term benefit over multiple periods. While strategic decisions, such as those to issue share-based awards or to acquire intangible assets, are made to further the Company's long-term strategic objectives and do impact the Company's earnings under IFRS, these items affect multiple periods and management is not able to change or affect these items within any particular period. As such, supplementing IFRS disclosure with non-IFRS disclosure using the non-IFRS measures outlined below provides management with an additional view of operational performance by excluding expenses that are not directly related to performance in any particular period. Management uses both IFRS and non-IFRS measures when planning, monitoring and evaluating the company's performance.

These measures, as well as their method of calculation or reconciliation to IFRS measures, are as follows:

*a) Commercial ACV Base, Net ACV Retention and ACV from New Customers*

As the majority of our customer contracts are sold under multi-year term licenses, there is a significant lag between the timing of the Billing and the associated revenue recognition. As a result, we focus on the aggregate annualized value of our subscriptions under contract, measured by Annual Contract Value ("ACV"), as an indicator of our future revenues.

Commercial ACV Base measures the amount of recurring annual revenue we will receive from our commercial customers under contract at a point in time, and therefore is an indicator of our future revenue streams. The Commercial ACV base will change over a period through the retention, attrition and expansion of existing customers, and the acquisition of new customers.

Net ACV Retention measures the percentage increase or decrease in the Commercial ACV Base at the end of a period for customers that comprised the Commercial ACV Base at the beginning of the same period. This metric provides insight into the effectiveness of our activities to retain and expand the ACV of our existing customers.

ACV from New Customers measures the addition to the Commercial ACV base from sales to new commercial DDS customers during the quarter.

We believe that increases in the amount of ACV from New Customers, and improvement in our Net ACV Retention, will grow our Commercial ACV Base and, in turn, our future revenues.

b) *Adjusted Operating Expenses*

A number of significant non-cash expenses are reported in our Cost of Revenue and Operating Expenses. In addition, restructuring and reorganization charges and post-retirement benefits are also reported in Operating Expenses. Management defines “Adjusted Operating Expenses” as IFRS Cost of Revenue and Operating Expenses adjusted for these items, as we believe that analyzing these expenses exclusive of these items provides a useful measure of the cash invested in operating the ongoing business. The non-cash items include share-based compensation, amortization of acquired intangible assets, and amortization of property and equipment.

Specifically, management adjusts for the following items in computing its Adjusted Operating Expenses:

- 1) *Share-based compensation:* Our compensation strategy includes the use of share-based awards to attract and retain key employees, executives and directors. It is principally aimed at aligning their interests with those of our shareholders and at long-term employee retention, rather than to motivate or reward operational performance for any particular period. Thus, share-based compensation expense varies for reasons that are generally unrelated to operational decisions and performance in any particular period.
- 2) *Amortization of Acquired Intangible Assets:* We believe that amortization of acquired intangible assets is not necessarily reflective of current period operational activities. In particular, the amortization of acquired technologies and customer relationships relates to items arising from pre-acquisition activities. These are costs that are determined at the time of an acquisition or when other intangible assets are acquired. While it is continually reviewed for potential impairment, amortization of the cost is a static expense, one that is typically not affected by operations during any particular period.
- 3) *Amortization of Property and Equipment:* We believe that amortization of property and equipment is not necessarily reflective of current period operational activities. In particular, the costs associated with these assets relate to operational decisions made in prior periods. Amortization of these costs is a static expense, one that is typically not affected by operations during any particular period.
- 4) *Restructuring or Reorganization Charges and Post-Retirement Benefits:* We believe that costs incurred in restructuring or reorganization, and certain significant post-retirement benefits afforded to executives upon departure from the Company, are not necessarily reflective of current period operational activities. In particular, these items relate to decisions which will impact future operating periods. The magnitude of these expenses is typically determined by contractual law, common law, or by statute, and is unaffected by operations and performance in any particular period.

Please see the following for a reconciliation of Cost of Revenue and Operating Expenses to Adjusted Operating Expenses:

Three months ended December 31,						
(in millions)	2016			2015		
	Per consolidated financial statements	Adjustments	Adjusted	Per consolidated financial statements	Adjustments	Adjusted
Cost of Revenue ("COR")	\$ 3.9	\$ (0.4) <sup>(1)(3)</sup>	\$ 3.5	\$ 3.2	\$ (0.3) <sup>(1)</sup>	\$ 2.9
Total Operating Expenses	20.6	(3.4) <sup>(2)(3)</sup>	17.2	17.7	(1.5) <sup>(2)</sup>	16.2
Adjusted Operating Expenses	\$ 24.5	\$ (3.8)	\$ 20.7	\$ 20.9	\$ (1.8)	\$ 19.1

Six months ended December 31,						
(in millions)	2016			2015		
	Per consolidated financial statements	Adjustments	Adjusted	Per consolidated financial statements	Adjustments	Adjusted
Cost of Revenue ("COR")	\$ 7.4	\$ (0.6) <sup>(1)(3)</sup>	\$ 6.8	\$ 6.7	\$ (0.4) <sup>(1)</sup>	\$ 6.3
Total Operating Expenses	40.3	(5.8) <sup>(2)(3)</sup>	34.5	36.3	(3.8) <sup>(2)(3)</sup>	32.5
Adjusted Operating Expenses	\$ 47.7	\$ (6.4)	\$ 41.3	\$ 43.0	\$ (4.2)	\$ 38.8

**Notes:**

- (1) Amortization of acquired intangible assets (excluding contract costs and brand) per the Statement of Cash Flows.
- (2) Share-based compensation and amortization of property and equipment per the Statement of Operations and the Statement of Cash Flows, respectively.
- (3) Post-retirement benefits and reorganization charges per Note 8 of the Condensed Consolidated Financial Statements.

**c) Adjusted Earnings before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA")**

Management believes that analyzing operating results exclusive of the significant non-cash items noted above provides a useful measure of the Company's performance. The term Adjusted EBITDA refers to earnings before deducting interest income, income taxes, amortization of acquired intangible assets and property and equipment, foreign exchange gains or losses, share-based compensation, reorganization charges and post-retirement benefits. The items excluded in the determination of Adjusted EBITDA include share-based compensation, amortization of acquired intangible assets, amortization of property and equipment and restructuring or reorganization charges and post-retirement benefits. See point (b) above for a discussion of these items.

The following table provides a reconciliation of our Operating Income to Adjusted EBITDA:

Three months ended December 31,						
2016			2015			
(in millions)	Per consolidated financial statements	Adjustments	Adjusted EBITDA	Per consolidated financial statements	Adjustments	Adjusted EBITDA
Operating Income (EBITDA)	\$ (2.1)	\$ 3.8 <sup>(1)(2)</sup>	\$ 1.7	\$ 0.2	\$ 1.8 <sup>(1)(2)</sup>	\$ 2.0

Six months ended December 31,						
2016			2015			
(in millions)	Per consolidated financial statements	Adjustments	Adjusted EBITDA	Per consolidated financial statements	Adjustments	Adjusted EBITDA
Operating Income (EBITDA)	\$ (2.8)	\$ 6.4 <sup>(1)(2)(3)</sup>	\$ 3.6	\$ 2.1	\$ 4.2 <sup>(1)(2)(3)</sup>	\$ 6.3

**Notes:**

- (1) Amortization of acquired intangible assets (excluding contract costs and brand) per the Statement of Cash Flows.
- (2) Share-based compensation and amortization of property and equipment per the Statement of Operations and the Statement of Cash Flows, respectively.
- (3) Post-retirement benefits and reorganization charges per Note 8 of the Condensed Consolidated Financial Statements.

*d) Billings*

See the “Subscription Billings” and “Seasonality” sections of this MD&A for a detailed discussion of Billings. Billings are a component of deferred revenue (see Note 7 of the Notes to the Condensed Consolidated Financial Statements) and result from invoiced sales of our solutions. Most of our Billings relate to prepaid term license subscriptions, which currently average approximately 36 months. We view Cash from Operating Activities as a meaningful performance metric, and the total amount of our Billings in a period will have a material impact on our operating cash flows.

## FINANCIAL PERFORMANCE REVIEW AND ANALYSIS

### Operating Segments

On July 1, 2015, the Company reorganized its internal information reported to the chief operating decision maker for the purposes of resource allocation and assessment of operational performance. This reorganization focused on the bifurcation of two markets in which the Company's products participated, namely, a) Data and Device Security and b) Endpoint and Service Management.

The disposal of the Absolute Manage and Absolute Service business unit on October 5, 2015 eliminated the Endpoint and Service Management segment.

The following tables show the breakdown of our Revenue and IFRS Operating Expenses between the Data and Device Security and the Endpoint and Service Management operating segments (see Note 12 of the Notes to the Condensed Consolidated Financial Statements):

(millions of dollars)	Q2-F2017			Q2-F2016		
	Data and Device Security	Endpoint and Service Management	Total	Data and Device Security	Endpoint and Service Management	Total
<b>Revenue</b>	\$ 22.5	\$ -	\$ 22.5	\$ 21.0	\$ 0.1	\$ 21.1
Cost of revenue ("COR")	(4.0)	-	(4.0)	(3.2)	-	(3.2)
Sales and marketing ("S&M")	(11.1)	-	(11.1)	(11.1)	(0.1)	(11.2)
Research and development ("R&D")	(4.9)	-	(4.9)	(3.0)	(0.1)	(3.1)
General and administration ("G&A")	(3.6)	-	(3.6)	(2.4)	-	(2.4)
Share-based compensation	(1.2)	-	(1.2)	(1.0)	-	(1.0)
Operating expenses	(24.6)	-	(24.6)	(20.7)	(0.2)	(20.9)
<b>Operating (loss) income</b>	\$ (2.1)	\$ -	\$ (2.1)	\$ 0.3	\$ (0.1)	\$ 0.2

(millions of dollars)	YTD F2017			YTD F2016		
	Data and Device Security	Endpoint and Service Management	Total	Data and Device Security	Endpoint and Service Management	Total
<b>Revenue</b>	\$ 44.9	\$ -	\$ 44.9	\$ 42.2	\$ 2.9	\$ 45.1
Cost of revenue ("COR")	(7.5)	-	(7.5)	(6.5)	(0.2)	(6.7)
Sales and marketing ("S&M")	(22.4)	-	(22.4)	(21.9)	(1.1)	(23.0)
Research and development ("R&D")	(9.2)	-	(9.2)	(5.7)	(0.4)	(6.1)
General and administration ("G&A")	(6.4)	-	(6.4)	(5.0)	(0.2)	(5.2)
Share-based compensation	(2.2)	-	(2.2)	(2.0)	-	(2.0)
Operating expenses	(47.7)	-	(47.7)	(41.1)	(1.9)	(43.0)
<b>Operating (loss) income</b>	\$ (2.8)	\$ -	\$ (2.8)	\$ 1.1	\$ 1.0	\$ 2.1

## Commercial Annual Contract Value Base

The Commercial ACV Base measures the annualized value of recurring revenue we have under contract with our commercial customers at a point in time, and is therefore a more direct indicator of our future revenue streams. The increase or decrease in our Commercial ACV Base during a given period measures our success in impacting the amount of future annual revenue that will be earned by the Company. The Commercial ACV Base will increase (or decrease) in a period through the retention (or attrition) and expansion (or contraction) of license subscriptions from existing commercial customers, and through the acquisition of new commercial customers.

Our success with respect to the retention and expansion of license subscriptions from existing commercial customers is represented by our Net ACV Retention rate, and our success with respect to acquiring new commercial customers is measured by the amount of incremental ACV from new DDS commercial customers (“ACV from New Customers”). In Q2-F2017, Net ACV Retention from existing DDS commercial customers was 100%, consistent with each of Q2-F2016 and Q1-F2017. ACV from New Customers was \$2.1 million in Q2-F2017, as compared to \$0.9 million in Q2-F2016 and \$1.0 million in Q1-F2017.

The following table shows the components of our Commercial ACV Base broken out by industry vertical and geography. In addition, it shows the percentage increase in the Commercial ACV base over the trailing four quarters (“T4Q”), as well as the sequential quarterly (“QoQ”) percentage increase (decrease) in our Commercial ACV Base, also broken out by industry vertical and geography:

(millions of USD)	Q2-F2017	Q1-F2017	Q4-F2016	Q3-F2016	Q2-F2016
<b>Commercial ACV Base – Total</b>	<b>\$ 86.2</b>	<b>\$ 84.3</b>	<b>\$ 83.0</b>	<b>\$ 80.9</b>	<b>\$ 79.5</b>
<i>Enterprise and healthcare</i>	<i>41.2</i>	<i>39.7</i>	<i>39.3</i>	<i>38.0</i>	<i>36.6</i>
<i>Education and government</i>	<i>44.9</i>	<i>44.4</i>	<i>43.5</i>	<i>42.8</i>	<i>42.8</i>
<i>North America</i>	<i>77.4</i>	<i>75.3</i>	<i>74.2</i>	<i>72.6</i>	<i>71.5</i>
<i>International</i>	<i>8.8</i>	<i>9.0</i>	<i>8.8</i>	<i>8.3</i>	<i>8.1</i>
<b>T4Q Growth – Total</b>	<b>8%</b>	<b>7%</b>	<b>5%</b>	<b>5%</b>	<b>3%</b>
<i>Enterprise and healthcare</i>	<i>12%</i>	<i>10%</i>	<i>10%</i>	<i>n/a</i>	<i>n/a</i>
<i>Education and government</i>	<i>5%</i>	<i>4%</i>	<i>1%</i>	<i>n/a</i>	<i>n/a</i>
<i>North America</i>	<i>8%</i>	<i>7%</i>	<i>6%</i>	<i>7%</i>	<i>6%</i>
<i>International</i>	<i>9%</i>	<i>5%</i>	<i>(2%)</i>	<i>(9%)</i>	<i>(17%)</i>
<b>Sequential QoQ Growth – Total</b>	<b>2%</b>	<b>2%</b>	<b>3%</b>	<b>2%</b>	<b>1%</b>
<i>Enterprise and healthcare</i>	<i>4%</i>	<i>1%</i>	<i>3%</i>	<i>4%</i>	<i>1%</i>
<i>Education and government</i>	<i>1%</i>	<i>2%</i>	<i>2%</i>	<i>(0%)</i>	<i>0%</i>
<i>North America</i>	<i>3%</i>	<i>1%</i>	<i>2%</i>	<i>2%</i>	<i>2%</i>
<i>International</i>	<i>(3%)</i>	<i>3%</i>	<i>7%</i>	<i>3%</i>	<i>(6%)</i>

We believe that our market growth opportunity is most highly concentrated in the enterprise and healthcare verticals, and therefore we have directed a substantial portion of our sales and marketing and product development investment to target these verticals. As a result, we expect the enterprise and healthcare verticals to represent an increasing proportion of our Commercial ACV Base over time. At December 31, 2016, the Commercial ACV Base was represented 48% by enterprise and healthcare customers and 52% by education and government customers. During Q2-F2017, approximately 80% of

ACV from New Customers was attributable to customers from the enterprise and healthcare verticals, with the remaining 20% being attributable to customers from the education and government verticals.

From a geographic perspective, the December 31, 2016 ACV base was represented 90% by North American customers and 10% by international customers. As a result of its smaller ACV base, we expect international results to fluctuate with a higher degree of variability.

## Revenue

Total revenue in Q2-F2017 increased 6% to \$22.5 million from \$21.1 million in Q2-F2016. In the year to date period of F2017, revenue decreased marginally to \$44.9 million, as compared to \$45.1 million in F2016. The increase in Q2-F2017 is a result of increased revenues from our DDS operating segment, while a similar increase in the year to date period was offset by the removal of revenue from our divested Endpoint and Service Management segment.

Revenue from our Data and Device Security operating segment, which represents our ongoing operations, increased 7% to \$22.5 million in Q2-F2017 from \$21.0 million in Q2-F2016, and increased 6% in the year-to-date period of F2017 to \$44.9 million from \$42.2 million in F2016. Approximately 99% of our Q2 and year to date F2017 revenues were related to recurring billings (term licenses and recurring managed services), compared to 99% and 98%, respectively, in F2016. In general, we believe our future revenue performance will be closely aligned with the net growth in our Commercial ACV Base.

The table below provides details of our DDS segment revenue over the trailing five quarters:

(in millions)	Q2-F2017	Q1-F2017	Q4-F2016	Q3-F2016	Q2-F2016
Total DDS Segment Revenue	\$ 22.5	\$ 22.5	\$ 22.0	\$ 21.7	\$ 21.0
Year over year increase	7%	6%	7%	2%	4%

The table below provides a breakdown of DDS segment revenue recognized from DDS term licensing, professional services, and other, which includes ancillary product lines such as digital subscriber rights management and our consumer products.

(in millions)	Q2 F2017	Q2 F2016	Increase (decrease)	YTD F2017	YTD F2016	Increase (decrease)
Revenue recognized from:						
DDS term licensing <sup>(1)</sup>	\$ 20.6	\$ 19.2	8%	\$ 40.6	\$ 38.5	6%
Managed services <sup>(1)</sup>	0.5	0.3	65%	1.2	0.6	117%
Professional services	0.2	0.2	(16%)	0.7	0.7	(1%)
Other	1.2	1.3	(8%)	2.4	2.4	(4%)
Total DDS Segment Revenue	\$ 22.5	\$ 21.0	7%	\$ 44.9	\$ 42.2	6%

(1) DDS term licensing and recurring managed service revenues are included as part of our Commercial ACV Base.



The table below provides a breakdown of revenue recognized from current fiscal year and prior period Billings for our Data and Device Security segment. See the “Subscription Billings” section of this MD&A for further discussion.

(in millions)	<b>YTD F2017</b>	YTD F2016
Revenue recognized from:		
Prior year deferred revenue	<b>\$ 40.8</b>	\$ 38.7
Current year Billings	<b>4.1</b>	3.5
Total	<b>\$ 44.9</b>	\$ 42.2
Percent of revenue from current year Billings	<b>9%</b>	8%

## Billings

Our Billings in a period represent amounts related to a combination of expiring contract renewals and new customer purchases. As our average contract term has historically averaged approximately 36 months, our Billings in a period are heavily influenced by the expiration of contracts sold in the same period three years prior. As a result, a comparison of current period Billings to prior period Billings may be misleading, as a year-over-year increase/decrease in Billings may infer an expansion/contraction of our Commercial ACV Base when no such expansion/contraction exists. For this reason, we believe that the change in the Commercial ACV Base is a more accurate measure of our revenue generating activities.

The following table shows Billings in our Data and Device Security and Endpoint and Service Management operating segments:

(in millions)	<b>Q2 F2017</b>	Q2 F2016	Increase (decrease)	<b>YTD F2017</b>	YTD F2016	Increase (decrease)
<b>Billings from:</b>						
DDS Segment	<b>21.0</b>	19.0	11%	<b>40.7</b>	38.4	6%
Endpoint and Service Management <sup>(1)</sup>	-	0.2	(100%)	-	2.0	(100%)
	<b>\$ 21.0</b>	\$ 19.2	9%	<b>\$ 40.7</b>	\$ 40.4	1%

(1) The Endpoint and Service Management operating segment was disposed of in Q2-F2016. Refer to “Operating Segments” above.

Absolute DDS and Consumer Billings were \$21.0 million in Q2-F2017, representing an 11% increase compared to \$19.0 million in Q2-F2016. For the year-to-date period of F2017, DDS and Consumer Billings were \$40.7 million, representing an increase of 6% over \$38.5 million in the prior year period. The year-over-year change in Billings was influenced by a lower expiring contract opportunity in the first quarter, which was partially offset by a slightly higher expiring contract opportunity in the second quarter, as compared to the prior year periods.

Our average prepaid contract term in Q2-F2017 was 33 months, which was lower than our historical average of 36 months and was impacted by a significant one-year renewable enterprise license agreement with a large healthcare organization.

## Adjusted Operating Expenses<sup>(1)</sup>

(Millions of dollars)	Q2 Fiscal 2017	Q2 Fiscal 2016	Increase (decrease)	YTD Fiscal 2017	YTD Fiscal 2016	Increase (decrease)
Cost of revenue ("COR") <sup>(1)</sup>	\$ 3.5	\$ 2.9	18%	\$ 6.8	\$ 6.3	9%
Sales and marketing ("S&M") <sup>(1)</sup>	10.7	11.2	(5%)	21.7	22.2	(3%)
Research and development ("R&D")	4.1	3.1	34%	8.2	6.1	35%
General and administration ("G&A") <sup>(1)</sup>	2.4	1.9	26%	4.6	4.2	11%
<b>Adjusted Operating Expenses<sup>(1)</sup></b>	<b>\$ 20.7</b>	<b>\$ 19.1</b>	<b>8%</b>	<b>\$ 41.3</b>	<b>\$ 38.8</b>	<b>6%</b>
Number of employees at December 31	<b>420</b>	411	2%	<b>420</b>	411	2%

### ADJUSTMENTS:

- (1) Please refer to the Non-IFRS Measures section of this MD&A for a reconciliation of these adjusted expenses to those in the Interim Consolidated Financial Statements.

## Adjusted Operating Expenses and EBITDA as a Percentage of Revenue<sup>(1)</sup>

(percentage of Revenue)	Q2 Fiscal 2017	Q2 Fiscal 2016	YTD Fiscal 2017	YTD Fiscal 2016
Cost of revenue ("COR") <sup>(1)</sup>	16%	14%	15%	14%
Sales and marketing ("S&M") <sup>(1)</sup>	48%	53%	48%	49%
Research and development ("R&D")	18%	15%	18%	14%
General and administration ("G&A") <sup>(1)</sup>	10%	9%	11%	9%
<b>Adjusted Operating Expenses<sup>(1)</sup></b>	<b>92%</b>	<b>91%</b>	<b>92%</b>	<b>86%</b>
<b>Adjusted EBITDA<sup>(1)</sup></b>	<b>8%</b>	<b>9%</b>	<b>8%</b>	<b>14%</b>

### ADJUSTMENTS:

- (1) Please refer to the Non-IFRS Measures section of this MD&A for a reconciliation of Adjusted Operating Expenses and EBITDA to those in the Interim Consolidated Financial Statements.

Total Adjusted Operating Expenses in Q2-F2017 were \$20.7 million, up 8% from \$19.1 million in Q2-F2016. In the year to date period of F2017, Adjusted Operating Expenses increased 6%, from \$38.8 million in F2016 to \$41.3 million in F2017. The year over year increases in F2017 were primarily attributable to increased spending on DDS-related research and development, as we have expanded our investment in our product functions in order to increase the innovativeness of our product portfolio and the frequency of introduction of new features, which we believe will influence existing customer retention and new customer acquisition. In addition, in F2017, we have increased our investment in our hosted data infrastructure as compared to F2016.

Adjusted EBITDA was 8% of revenue in Q2-F2017, down from 9% in Q2-F2016, and was 8% in the year to date period of F2017, down from 14% in F2016. These decreases were attributable to the increased level of Adjusted Operating Expenses, while revenue has remained relatively consistent with F2016, partially due to the removal of the Endpoint and Service Management segment revenue in the comparative year to date period.

### *Cost of Revenue and Gross Margin*

Cost of revenue includes the costs of operating our SaaS-hosted infrastructure, customer support, professional and investigative services, as well as service guarantee costs and allocated overhead.

On an overall basis, COR was \$4.0 million in Q2-F2017, up 23% from \$3.2 million in Q2-F2016, and was \$7.5 million in the year to date period of F2017, up 12% from \$6.7 million in F2016. As a result, gross margin was 82% in Q2-F2017, compared to 85% in Q2-F2016, and was 83% in the year to date period of F2017, compared to 85% in F2016. In the Q2 and year to date periods of F2017, we incurred reorganization charges of \$0.4 million and \$0.5 million, respectively, related to a realignment of resources within our professional services and investigations organizations.

On an adjusted basis, COR was \$3.5 million in Q2-F2017, up 18% from \$2.9 million in Q2-F2016. In the year to date period of F2017, adjusted cost of revenue was \$6.8 million, up 9% from \$6.3 million in the prior year to date period. Adjusted COR was impacted by higher personnel and infrastructure expenses related to our hosted data centers, and increased personnel costs in our professional services organization, a result of increased professional services revenues. Adjusted gross margin was 84% in the year to date period of F2017, down from 86% in F2016.

We exited Q2-F2017 with a headcount of 74 in this area, as compared to 81 at June 30, 2016, and 79 at December 31, 2015. While our overall headcount numbers in these departments are lower, the realignment of resources resulted in an investment in more senior and tenured resources.

### *Sales and Marketing*

Sales and marketing expenses consist of salaries and related expenses for sales, marketing, partner support and business development personnel, amortization of deferred commission expenses, marketing program and event expenditures, travel and entertainment expenses, and allocated overhead. We undertake a number of general marketing initiatives including: participation in tradeshow and partner events; market development programs with partners; public and industry analyst relations; webinars; and advertising expenditures. These expenditures are incurred to increase awareness with partners and customers, drive coverage with industry analysts and help to establish Absolute as a global information security leader.

On an overall basis, S&M expense decreased 1% to \$11.1 million in Q2-F2017 compared to \$11.2 million in Q2-F2016, and decreased 3% to \$22.4 million in the year to date period of F2017 compared to \$23.0 million in F2016. In the Q2 and year to date periods of F2017, we incurred reorganization charges of \$0.4 million and \$0.8 million, respectively, as we continued to optimize our go to market functions. We incurred \$0.8 million of reorganization charges in the year to date period of F2016.

After excluding the impact of these reorganization charges, adjusted S&M expense was \$10.7 million in Q2-F2017, a 5% decrease from \$11.2 million in Q2-F2016, and was \$21.7 million in the year to date period of F2017, down 3% from \$22.2 million in the prior year. As a percentage of revenue, adjusted S&M expenses were 48% in the Q2 and year to date periods of F2017, compared to 53% and 49%, respectively, in F2016.

Our Q2 and year to date F2017 S&M expense was impacted by increased personnel-related expenses and amortized commission expense, in addition to increased allocated overheads, as compared to F2016. These increases were offset by lower levels of partner and direct marketing program spending compared to the prior year periods. We exited Q2-F2017 with a headcount of 156 in sales and marketing, as compared to 185 at June 30, 2016, and 167 at December 31, 2015. While our overall headcount numbers in these departments are lower, the realignment of resources has resulted in an investment in more senior and tenured resources, and allocated overheads were also higher as a result of an increased amount of sales-related system infrastructure expenditures.

### *Research and Development*

Research and development expenses consist primarily of salaries and related expenses for our research and development staff, contractor and outsourcing costs, and allocated overhead. These expenses are partially offset by Canadian government Scientific Research and Experimental Development investment tax credits (“SRED ITCs”).

R&D expense increased 59% to \$4.9 million in Q2-F2017 from \$3.1 million in Q2-F2016, and increased 52% in the year to date period of F2017 to \$9.3 million from \$6.1 million in F2016. In the Q2 and the year to date periods of F2017, we incurred reorganization charges of \$0.8 million and \$1.1 million, respectively, related to a post-retirement allowance and a reorganization of our R&D personnel as a result of international expansion.

These reorganization charges resulted in adjusted R&D expense of \$4.1 million in Q2-F2017, a 34% increase from \$3.1 million in Q2-F2016. Adjusted R&D expense was up 35% in the year to date period of F2017 at \$8.2 million, compared to \$6.1 million in F2016. When measured as a percentage of revenues, adjusted R&D expenses were 18% in Q2-F2017 compared to 15% in Q2-F2016, and 18% in the year to date period of F2017 compared to 14% in the prior year.

The increase in our F2017 adjusted R&D expense reflects our ongoing commitment to invest significantly in our product functions. This increased investment included increased personnel related expenses in the areas of software development, product management, and leadership. We exited Q2-F2017 with a headcount of 137 in research and development, compared to 132 at June 30, 2016, and 121 at December 31, 2015. We have also increased our investment in offshore contract resources to 28, from 10 at December 31, 2015 and 18 at June 30, 2016. We expect to increase these offshore investment levels and to convert these contract resources to employees during the course of F2017 as we build a permanent development presence and incorporate a legal subsidiary in Vietnam.

### *General and Administration*

General and administration expenses increased 43% to \$3.5 million in Q2-F2017 compared to \$2.4 million in Q2-F2016. In the year to date period, G&A expenses increased 23% to \$6.4 million in F2017 as compared to \$5.2 million in the prior year. Adjusted G&A expenses were 26% higher in Q2-F2017, at \$2.4 million compared to \$1.9 million in Q2-F2016, and increased 11% to \$4.6 million in the year to date period compared to \$4.2 million in F2016. When measured as a percentage of revenue, adjusted G&A expenses were 11% in the year to date period of F2017, compared to 9% in F2016.

The increase in adjusted G&A expenses in the Q2 and year to date periods of F2017 was primarily the result of increased professional fees as a result of upgrades to our financial and operational infrastructure, in addition to higher levels of bonus accruals as compared to the prior year periods. We exited Q2-F2017 with a headcount of 53 in general and administration, compared to 47 at June 30, 2016 and 44 at December 31, 2015. While our headcount in this area is up, the majority of the increased expenses are applied as overheads to other departments.

General and administration expenses consist of salaries and related expenses for finance and accounting, human resources and administration, bad debt provisions, legal expenses, professional fees, other corporate expenses and allocated overhead.

## **Operating Income and Adjusted EBITDA**

We recorded an IFRS operating loss of \$2.1 million in Q2-F2017, compared to operating income of \$0.2 million in Q2-F2016. In the year to date period of F2017, we recorded an operating loss of \$2.8 million, compared to operating income of \$2.1 million in F2016.

Adjusted EBITDA decreased 13% to \$1.7 million in Q2-F2017 from \$2.0 million in Q2-F2016, and decreased 43% in the year date period of F2017 to \$3.6 million from \$6.3 million in F2016. As a percentage of revenue, Adjusted EBITDA was 8% in Q2-F2017, down from 9% in Q2-F2016, and was 8% in the year to date period of F2017 as compared to 14% in F2016. These results reflect the impact of an increase in DDS segment revenue of \$2.7 million, offset by the removal of \$2.9 million in Endpoint and Service Management segment revenue and an increase of \$2.9 million in Adjusted Operating Expenses.

## **Other Income and Expenses**

Absolute has historically earned interest income on its cash and investment resources beyond immediate operating requirements. We recorded interest income of \$6,000 in Q2-F2017 compared to \$83,000 in Q2-F2016, and \$48,000 in the year to date period of F2017 compared to \$179,000 in F2016. During Q2-F2017, we liquidated our investment positions.

Other income and expenses also include foreign exchange gains and losses incurred primarily on the translation of Canadian dollar and British Pound cash, investment and liability balances.

In Q2-F2017, we experienced a foreign exchange loss of \$50,000, as compared to \$719,000 in the comparative period. In the year to date period of F2017, we recorded a foreign exchange loss of \$29,000, compared to \$796,000 in F2016. In F2017, the small losses were the result of intra-quarter fluctuations between the U.S. and Canadian dollar. In the Q2 and year to date periods of F2016, the loss was the result of appreciation of the U.S. dollar compared to the Canadian dollar, which resulted in foreign exchange losses on our Canadian dollar denominated net assets.

In Q2-F2016, we completed the disposal of our Absolute Manage and Absolute Service business unit, which comprised our Endpoint and Service Management operating segment. The business unit was sold for proceeds of \$11.0 million, and we recorded a gain on this disposition of \$14.1 million net of \$1.3 million in transaction costs.

## **Income Taxes**

Our overall effective tax rate is significantly impacted by the source of income or losses amongst our subsidiaries as a result of varying tax rates in different jurisdictions. In addition, our overall effective tax rate is impacted by share-based compensation, which is generally not deductible for income tax purposes. We are also subject to foreign exchange fluctuations on deferred tax balances originating in foreign jurisdictions, and the impact of non-recognition of deferred tax assets in some jurisdictions.

In Q2-F2017, we recorded a current tax recovery of \$740,000 and a deferred tax expense of \$390,000, as compared to a current tax expense of \$5.7 million and deferred tax recovery of \$730,000 in Q2-F2016. In the year to date period of F2017, we recorded a current tax recovery of \$670,000 and a deferred tax expense of \$480,000, as compared to a current tax expense of \$7.2 million and a deferred tax recover of \$1.3 million in F2016.

The difference between our effective tax rate in F2017 6.7% (F2016 – 37.5%) and our expected tax rate of 26.00% (F2016 – 26.00%) is primarily due to the interplay of the factors mentioned above. In the year to date period of F2017, our effective tax rate was impacted by the amount of non-deductible expenses in relation to our loss before tax, in addition to the amount of tax losses in foreign jurisdictions that we have not benefitted.

In F2017 and F2016, our current tax receivable or payable is net of ITCs to be claimed, which are presented as a reduction of research and development expenses.

### **Net Income**

The Company recorded a net loss in Q2-F2017 of \$1.8 million compared to net income of \$8.7 million in Q2-F2016. In the year to date period of F2017, we recorded a net loss of \$2.6 million, compared to net income of \$9.8 million in F2016. The current year net loss reflects the impact of IFRS operating income and income tax expense, as described above, while the net income in F2016 was impacted by the result of the divestiture of the Endpoint and Service Management business segment.

### **Cash from Operating Activities**

In Q2-F2017, we used cash in operating activities of \$1.2 million, a decrease of 188% from the \$1.4 million we generated in Q2-F2016. In the year to date period of F2017, we generated cash from operating activities of \$0.7 million, down 89% from \$6.3 million in F2016. Our Q2-F2017 cash from operations was negatively impacted by \$0.8 million in reorganization charges, and our year to date F2017 cash from operations was further impacted by \$3.2 million of income taxes payable and an additional \$0.9 million of reorganization charges incurred earlier in the year. After adjusting for the impact of these items, adjusted cash used in operations was \$0.4 million in Q2-F2017, and cash from operations was \$5.6 million in the year to date period of F2017. Cash from operations, adjusted for similar items, was \$1.4 million in Q2-F2016, and was \$5.6 million in the year to date period of F2016.

As noted above, the decrease in cash from operating activities in the current periods primarily reflects higher Adjusted Operating Expenses in addition to an increase of \$2.3 million in income taxes and \$1.7 million in reorganization charges paid.

### **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 December 31, 2016, our cash, cash equivalents and investments were \$37.7 million, compared to \$47.6 million at June 30, 2016. The Company's cash and investment position was impacted in F2017 by cash generated from operations, an amount of \$3.1 million in capital expenditures, a payment of \$2.6 million for income taxes related to a previous business disposition, and an outlay of \$4.7 million for our quarterly dividends. These amounts were offset by the receipt of \$1.0 million on stock option exercises. Based on current sales and investment plans, management believes that the Company has sufficient capital resources to meet its growth and operating requirements.

### *Accounts receivable*

Accounts receivable balances decreased to \$13.8 million at December 31, 2016 (66% of Q2-F2017 Billings) from \$21.1 million at June 30, 2016 (70% of Q4-F2016 Billings). The increase is primarily due to lower sales volumes in Q2-F2017 as compared to Q4-F2016, as well as improved collection cycles.

At December 31, 2016, 3% of the Company's accounts receivable balance was over 90 days past due as compared to 2% at June 30, 2016. At December 31, 2016, accounts receivable included four OEM and distributor partners that represented more than 10% of receivables, at 23%, 21%, 18%, and 15%, respectively. At June 30, 2016, these four partners comprised 15%, 30%, 26%, and 13%, respectively, of our total accounts receivable.

### *Accrued Warranty*

Accrued warranty is related to a service guarantee associated with certain of our products. The accrued warranty was \$0.5 million at both December 31 and June 30, 2016. Each period, management evaluates our guarantee payment experience and considers whether changes are required to the estimated warranty provision.

### *Deferred revenue*

Deferred revenue was \$133.7 million at December 31, 2016, compared to \$138.0 million at June 30, 2016, a decrease of 3%. Deferred revenue is comprised of the unamortized portion of deferred revenue from Billings, which is amortized to revenue over time.

The scheduled recognition of deferred revenue is as follows:

(in millions)	<b>F2017</b>	<b>F2018</b>	<b>F2019</b>	<b>F2020</b>	<b>F2021</b>	<b>F2022</b>	<b>Total</b>
Revenue to be recognized	\$41.0	\$52.4	\$28.0	\$9.7	\$2.5	\$0.1	\$133.7

### *Deferred income tax assets and current taxes receivable*

At December 31, 2016, we had current taxes receivable of \$1.1 million, compared to taxes payable of \$6.0 million at June 30, 2016.

At December 31, 2016, we had total deferred income tax assets of \$22.2 million, compared to \$22.4 million at June 30, 2016. These deferred tax assets are primarily attributable to the future benefit of deferred revenue balances in our U.S. operations. Management believes these deferred income tax assets are more likely than not to be realized.

The Company operates in various tax jurisdictions and, accordingly, the Company's income is subject to varying rates of tax. Losses incurred in one jurisdiction cannot be used to offset income taxes payable in another. The Company's ability to use income tax losses and future income tax deductions is dependent upon the profitable operations of the Company in the tax jurisdictions in which such losses or deductions arise.

In assessing the recognition of deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the years in which the temporary differences are deductible. To the extent that management believes that the realization of the deferred income tax assets does not meet the more likely than not realization criteria, deferred tax assets are not recognized.

## **Outlook**

Based on our success of delivering targeted product enhancements that directly contributed to sales results in F2016, we intend to continue the expansion of our research and development capabilities in F2017 to accelerate delivery of new DDS features and functions that are in demand in key vertical markets. These research and development initiatives, combined with our go-to-market capabilities, will support our objective of delivering on our long term growth and profitability objectives.

### *Revenue*

We expect F2017 total revenue of \$92.0 million to \$94.6 million, representing 7% to 10% annual DDS segment revenue growth. Revenue is expected to grow at an accelerating rate as we move through the year, driven by new customer acquisition, existing customer expansion and continuing sales productivity improvements.

### *Adjusted EBITDA*

We expect Adjusted EBITDA margins of 5% to 8%, reflecting relatively stable spending across most departments and increased investment in research and development.

Investment in research and development will accelerate product innovation, as well as the migration of all product offerings to our next-generation service platform. These investments will facilitate greater scalability and operating efficiency, support the rapid deployment of new services across our customer base and liberate resources currently required to support two platforms.

### *Cash from Operations*

We expect cash from operations, prior to payments for income taxes and reorganization charges, as a percentage of revenue to be 8% to 12%, reflecting a double-digit year-over-year increase in Billings.

Capital expenditures are expected to be between \$3.9 million and \$4.4 million, with the spending largely related to upgrades and expansion of our hosted data centres, office expansion and ongoing hardware refresh cycles.



## Shareholders' Deficiency and Outstanding Share Data

At December 31, 2016, Absolute had a shareholders' deficiency of \$49.8 million. In evaluating shareholders' deficiency, management believes it is important to consider the \$133.7 million of deferred revenue carried on the statement of financial position. Deferred revenue represents prepaid (or due to be paid in full on payment terms) and non-refundable revenue, on which we expect to generate high margins when recognized in income, as much of the associated contract acquisition costs are already included in the operating deficit. In addition, any common shares repurchased as part of our historical Substantial Issuer Bid or Normal Course Issuer Bids are recorded at an historical per share average value, and the difference between these amounts and the amount paid is recorded as part of deficit. This has amounted to \$0.9 million in F2017.

The Company's common shares trade on the TSX (TSX: ABT) and at December 31, 2016 the Company had 39,023,802 (February 6, 2017 – 38,985,131) fully issued and outstanding common shares. The following rights to receive common shares are issued and outstanding at December 31, 2016:

- Stock Option Plan: 3,493,895 (February 6, 2017 – 3,491,395) stock options granted and outstanding. The options have a weighted average exercise price of CAD \$7.22 per share and a weighted average term to expiry of 2.7 years. There have been 122,720 options granted in F2017.
- Phantom Share Unit ("PhSU") Plan: 436,063 (February 6, 2017 – 435,616) PhSUs granted and outstanding. The PhSUs have a weighted average term to expiry of 1.0 years. There have been 4,503 PhSUs granted in F2017.
- Performance and Restricted Share Unit ("PRSU") Plan: 118,170 (February 6, 2017 – 118,170) Performance Share Units ("PSU"s) granted and outstanding. The PSUs have a weighted average term to expiry of 2.6 years. There have been 68,359 PSUs granted in F2017. The PSUs outstanding, and issued in F2017, include 40,000 units that were issued pursuant to a market-based PRSU Plan, and have been acquired under the terms of permissible share buyback mechanisms.
- PRSU Plan: 528,460 (February 6, 2017 – 528,460) Restricted Share Units ("RSU"s) granted and outstanding. The RSUs have a weighted average term to expiry of 2.5 years. There have been 261,538 RSUs granted in F2017. The RSUs outstanding, and issued in F2017, include 51,567 units that were issued pursuant to a market-based PRSU Plan, and have been acquired under the terms of permissible share buyback mechanisms.
- Share Purchase Plan: Under the Purchase Plan, employees may purchase treasury shares at a 15% discount from market during two discrete six month offering periods each year. A total of two million shares have been reserved for grant under the Plan, of which 1,675,841 have been issued as at December 31, 2016 (February 6, 2017 – 1,718,170).

On August 23, 2016, the Company received approval from the TSX to commence a Normal Course Issuer Bid on August 29, 2016 that enables the Company to purchase and cancel up to 2,643,256 of its common shares. The Bid allows for the purchase of up to 19,864 common shares on a daily basis until August 28, 2017, except where purchases are made in accordance with "block purchases" exemptions under applicable TSX policies. Prior to August 29, 2016, the Company purchased and cancelled shares under previously approved Normal Course Issuer Bids (together, the "Bids").

Under the Bids, during the six months ended December 31, 2016, the Company repurchased and cancelled 132,400 common shares for a total cost of \$612,042. On cancellation of the common shares, the difference between the purchase price and the average book value of the common shares is recorded in deficit, which amounted to \$416,520.

## **Off Balance Sheet Arrangements**

We have not entered into any off balance sheet arrangements other than standard office lease agreements.

## **Corporate Developments**

*None.*

## **Subsequent Events**

### *Employee share purchase plan*

On January 17, 2017, 42,329 common shares were issued pursuant to the Employee Share Purchase Plan.

### *Quarterly dividend*

On January 20, 2017, the Company declared a quarterly dividend of CAD\$0.08 per share on its common shares, payable in cash on February 24, 2017 to shareholders of record at the close of business on February 3, 2017.

### *Share repurchase*

Pursuant to its Normal Course Issuer Bid, subsequent to December 31, 2016 through February 6, 2017, the Company repurchased and settled payment for 147,700 common shares for a total cost of \$704,818. The difference between the purchase price and the average book value of the common shares was \$487,000. As a result of the Company's agreement with a financial institution to administer these share repurchases, these amounts have been recorded in share capital and deficit and in accrued liabilities.

## Quarterly Operating Data

(in millions except per share data)

	Q2-17	Q1-17	Q4-16	Q3-16	Q2-16	Q1-16	Q4-15	Q3-15
Revenue – DDS	\$ 22.5	\$ 22.5	\$ 22.0	\$ 21.7	\$ 21.0	\$ 21.3	\$ 20.5	\$ 21.2
Billings - DDS <sup>(1)(2)</sup>	21.0	19.7	30.1	20.1	19.0	19.5	25.4	18.4
Revenue – Total	22.5	22.5	22.0	21.7	21.1	24.0	23.3	24.1
Billings - Total <sup>(1)(2)</sup>	21.0	19.7	30.1	20.1	19.2	21.3	29.0	21.2
Adjusted EBITDA <sup>(2)</sup>	1.7	1.9	1.9	2.8	2.0	4.3	2.1	6.8
Net (loss) income	(1.8)	(0.8)	(1.2)	1.2	8.7	1.0	(0.7)	2.8
Basic and diluted (loss) income per share	(0.05)	(0.02)	(0.03)	0.03	0.22	0.02	(0.02)	0.06
Cash (used in) from Operating Activities	(1.2)	1.9	(1.6)	0.1	1.4	5.0	2.7	5.3
Dividends paid	2.3	2.4	2.4	2.2	2.3	2.4	2.6	2.5
Repurchases of common shares	0.6	0.0	0.4	0.6	38.1	4.3	0.0	0.0
Number of common shares outstanding	39.0	39.0	38.9	38.8	38.5	44.3	44.9	44.8

(1) Please refer to the “Seasonality” and “Billings” sections of this MD&A.

(2) Please refer to the “Non-IFRS Measures” section of this MD&A.

## **Critical Accounting Policies and Estimates**

Management considers the Company's accounting for Billings, revenue, intangible assets (relating to deferred contract costs) and deferred taxes to be critical accounting policies. An understanding of the accounting policies for these items is important for meaningful analysis of Absolute's business.

Billings 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 on the start date of services. A majority of Absolute's Billings are transacted via OEM and reseller 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 Billing 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 Billings are recorded as a receivable and deferred revenue item at the time of sale (and not included in revenue at the time) and no estimates for returns, bad debts and reversals are made until such time as subsequent evidence suggests such an estimate is required.

We sell services and products including endpoint management, secure asset tracking, forensic investigation and device recovery. Revenue represents the fair value of consideration received or receivable from clients for services and products provided by the Company, net of discounts. Revenues are recognized when a contractual arrangement is in place, the fee is fixed and determinable, the services and products have been delivered, and collectability is reasonably assured. Amounts invoiced but not yet earned are recorded as deferred revenue. The Company's principal source of revenue results from Billings of the above services, with subscription terms ranging from one to five years. The full value of each Billing is invoiced and receivable upon execution of the contract, delivery of the products and initiation of the services. Typically, revenue arrangements are comprised of multiple elements, as they may include software licensing, asset monitoring, theft recovery, and maintenance and support services over the term. These elements are typically not separable for accounting purposes, and as a result, revenue from Billings is recognized ratably over the subscription term.

All Billings are recorded at the net amount received by Absolute from the reseller, provided that all significant contractual obligations have been satisfied and collection is reasonably assured. For direct sales, billings are recorded at the amount received from the end customer.

Deferred contract costs represent expenses that are generated or incurred at the start of each service subscription (or Billing) and are primarily comprised of prepaid employee sales commissions. These items are capitalized on the statement of financial position as a portion of intangible assets and are amortized into sales and marketing expense ratably over the contract term. Management estimates the benefit period of deferred costs to be equivalent to the contract term of the Billing 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.

The Company has recognized deferred tax assets on its Statement of Financial Position. Each reporting period, management assesses the likelihood of realizing deferred 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 statement of financial position. The net income or loss after income taxes can vary widely in periods where tax assets are recognized and such variances could result from a material write-down or increase in the estimated value of the Company's deferred tax assets.

## **Evaluation of Disclosure Controls and Internal Controls over Financial Reporting**

### *Disclosure controls and procedures*

The Company has disclosure controls and procedures in place that are designed to provide reasonable assurance that material information relating to Absolute is disclosed on a timely basis. Management has reviewed the Company's disclosure controls and concluded that they were effective during the reporting period.

The Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) have evaluated the effectiveness of the Company's disclosure controls and procedures related to the preparation of Management's Discussion and Analysis and the consolidated financial statements. They have concluded that the Company's disclosure controls and procedures were effective, at a reasonable assurance level, to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities, particularly during the period in which the Management's Discussion and Analysis and the consolidated financial statements contained in this report were being prepared.

### *Internal control over financial reporting*

The Company's management, with the participation of its CEO and CFO, are also responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Under the supervision of the CEO and CFO, 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 IFRS.

There have been no changes in the Company's disclosure controls or internal control over financial reporting during the three months ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company's CEO and CFO expect to certify Absolute's quarterly filings with the Canadian securities regulatory authorities.

## **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. Our discussion in this section is qualified in its entirety by the cautions regarding certain forward-looking statements at the beginning of this MD&A.

**Ability to Predict Rate of Growth and Profitability** – Absolute focuses on our Revenue, Adjusted EBITDA, change in Commercial ACV Base and Cash from Operating Activities as our key performance metrics. Management believes that IFRS profitability will increase over time, however, due to the evolving SaaS business model and the unpredictability of our emerging and competitive category of information security products, Absolute may not be able to accurately forecast the rate of adoption of its services and hence its revenue growth and profitability. Absolute bases its current and future expense levels and its investment plans on estimates of future revenue 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. Absolute's operating results may fluctuate significantly on a quarterly basis. Accordingly, period-to-period comparisons of our operating results may not necessarily be a meaningful indicator of future performance.

**Operating Systems** – Absolute has designed the majority of its services to operate on certain generations of Microsoft Windows and other 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 the Company is not able to adapt its technology to be compatible with these new operating systems. In addition, end users may want to deploy our products and services in computing environments with operating systems, software and/or hardware different than those in which we test our products and services before release or where our products are not compatible. The costs incurred in analyzing, correcting or eliminating any material defects or errors in our software may be substantial. Furthermore, we may not be able to correct any defects or errors or promptly address any vulnerabilities or compatibility issues with our products which could have a material adverse effect on Absolute's business, operating results and financial condition.

**Dependence on Distribution Channels** – Absolute generates a substantial portion of its revenue through OEM channels and distribution partners. Absolute's sales strategy is built upon its ability to continue to maintain its BIOS and firmware positions with these partners and grow its reseller channels. Certain of our distribution and reseller arrangements are non-exclusive, and our products may compete with other products marketed by such OEM channel or distribution partner. If we fail to manage our sales and distribution channels effectively or if our partners choose to favour competing products, Absolute will have to change its sales strategy and may not be able to grow at the rates we anticipate, which could have a material adverse effect on Absolute's business, operating results and financial condition.

Our OEM channel and distribution partners may also cease marketing our products and services with limited or no notice and with little or no penalty. New channel or distribution partners require extensive training and may take several months or more to achieve productivity. The loss of a substantial number of our OEM channel and distribution partners, our possible inability to replace them, or the failure to recruit additional channel partners could materially and adversely affect our results of operations. Our ability to achieve revenue growth in the future will depend in part on our success in maintaining successful relationships with our OEM channel and distribution partners, and training our channel partners to independently sell our products and services. If we are unable to maintain our relationships with these channel partners or otherwise develop and expand our indirect sales channel, or if our channel partners fail to perform, our business, financial position and results of operations could be adversely affected.

**Breach of Security Measures and Unauthorized Access** – The Company’s service involves the storage and transmission of certain customer information. Internal or external security incidents or breaches could expose the Company 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 interfered with or breached as a result of third-party action, employee error, malfeasance or otherwise, during the 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.

**Data Security and Hacking** - Increasingly, companies are subject to a wide variety of attacks on their networks on an ongoing basis. In addition to traditional computer “hackers,” malicious code (such as viruses and worms), employee theft or misuse, denial of service attacks, ransomware, malware and sophisticated nation-state and nation-state supported actors now engage in incidents, interferences, intrusions and attacks (including advanced persistent threat intrusions), and add to the risks to our internal networks and the information they store, manage and process. Despite significant efforts to create security barriers to such threats, it is virtually impossible for Absolute to entirely mitigate these risks. Any such security incident or breach could compromise our networks, creating system disruptions or slowdowns and exploiting security vulnerabilities of our products, and the information stored on our networks could be accessed, publicly disclosed, lost, or stolen, which could subject us to liability and cause us financial harm. These breaches, or any perceived breach, may also result in damage to our reputation, negative publicity, loss of partners, end-customers and sales, increased costs to remedy any problem, and costly litigation and may result in the Company’s business, operating results and financial condition being materially adversely affected.

**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 or current partners (including OEMs) 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.

Absolute’s products and technologies are not available for all existing and emerging mobile computers and other mobile devices that are or will be available in the marketplace, and some features of Absolute’s products are offered for only some devices. For example, Absolute Persistence technology is not currently embedded in Apple devices or on Google Chromebooks. Absolute targets its product development efforts towards those devices and operating systems that Absolute believes have the best strategic value to the Company. However, Absolute may not be successful in identifying future trends in the marketplace for these devices on a timely basis, or in creating or adapting Absolute’s products and

features for enough of the devices that are available. If the present decline in PC and tablet sales continues, or if Absolute's customers replace their existing mobile computers and mobile devices with other devices for which Absolute has not developed products, our revenue may decline and our results from operations may be adversely impacted.

**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 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 the 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 stagnant economic conditions, political deadlock, 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, and therefore impact its ability to meet its targets for its Commercial ACV Base, Revenue, Adjusted EBITDA, 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.

**Competition** – It is possible that new competitors will enter the marketplace. Several potential competitors (including OEMs) are marketing or have announced the development of products in direct competition with Absolute. In addition, as Absolute develops new products and services, we may begin competing against companies with whom it did not previously compete. Such competitors may be able to develop and expand their products and 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, devote greater resources to the marketing and sale of their services and products than Absolute and place downward pressure on the pricing of Absolute's products and services. Accordingly, the entry of new competitors could have a material adverse effect on Absolute's business, financial condition and results of operations. In addition, competitors are continuing to surface as security and management applications for mobile devices are introduced to market. Industry consolidation also may affect prices or demand for our products.

**Foreign Exchange** – The Company's reporting and functional currency is the United States dollar. However, a significant portion of operating expenses is denominated in Canadian dollars. As a result, the Company is exposed to fluctuations in the Canadian dollar exchange rate for which it has not entered into foreign exchange hedges. A significant appreciation of the Canadian dollar relative to the U.S. dollar could materially impact the profitability of the Company. In addition, the Company will be exposed to greater foreign exchange risk from other countries as our operations, and our operating expenses, expand in foreign jurisdictions.

**Research and Development** - We intend to continue to accelerate our investment in research and development activities as we focus on organic growth through internal innovation. We believe that we must continue to dedicate a significant amount of resources to our research and development efforts to maintain our competitive position. We recognize the costs associated with these research and development investments earlier than the anticipated benefits, and the return on these investments may be lower, or may develop more slowly, than we expect. If we spend significant resources on research and development and are unable to generate an adequate return on our investment, our business, financial condition and results of operations may be materially and adversely affected.



**Intellectual Property Licensing and/or Enforcement** – Absolute’s revenue, cost of sales and expenses may suffer if we 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 Absolute DDS and Persistence 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.

**Privacy Laws** – Absolute’s customers use our service to transmit, receive and store certain identifying information regarding their computing devices in various jurisdictions, including, in some instances, location information. Our Absolute DDS products and monitoring system are developed to ensure that forensic 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 and used by Absolute’s trained and authorized experts in the case of emergency or with our customer’s explicit instructions. 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. Location information may be obtained as part of normal use, and we instruct and rely on our customers to obtain the required notices and consents for such geolocation tracking. If a customer fails to give the required notice or obtain the consent required by law, we may not be aware of the breach and could be in violation of applicable privacy laws. Federal, provincial, state and certain foreign governmental bodies and agencies are experiencing heightened sensitivity to privacy issues and 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 or jurisdictions.

**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, allowed claims may not be sufficient to protect the Company’s new technology, and patents may not be obtained by the Company in every jurisdiction where the Company’s products are sold. 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.

**Interruptions or Delays in Service From Our Third-Party Hosting Facilities** – Absolute currently serves its customers from facilities that include third-party hosting facilities located on the west coast of both Canada and the United States. 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. In addition, acts of terrorism and other geo-political unrest could cause disruptions in our business or the business of our partners, customers or the economy as a whole.

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 the delivery of our products and our services. Even with the disaster recovery arrangements, our service could be interrupted.

**Product Errors and Third-Party Mischief** – The software technology enabling Absolute’s software services is complex and, despite testing prior to their release, 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, liability claims and our end-customers’ unwillingness to buy products from us. In addition, it is possible that the Company’s product may become the subject of a third party attack or disruption, whether malicious or otherwise. This could detrimentally affect the persistence of the Company’s technology, which could have a material adverse effect on its business.

**Management of Growth** – At times in prior fiscal years, Absolute has experienced rapid sales growth and has been focused on continuing this growth trend. This has resulted, at times, 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 Absolute’s 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. In addition, we may continue to expand our sales teams in an attempt to increase sales growth. Such growth may not match or exceed the increase in operating costs associated with hiring, training, managing and integrating of such employees.

**Volatility in our Share Price** – The trading price of our common shares has in the past been subject to wide fluctuations and may also be subject to fluctuation in the future. This may make it more difficult for you to resell your common shares when you want at prices that you find attractive. Increases in our common share price may also increase our compensation expense pursuant to our existing director, officer and employee compensation arrangements. Fluctuations in our common share price may be caused by events unrelated to our operating performance and beyond our control. Factors that may contribute to fluctuations include, but are not limited to:

- Revenue or results of operations in any quarter failing to meet the expectations, published or otherwise, of the investment community;
- Changes in recommendations or financial estimates by industry or investment analysts;
- Changes in management or the composition of our board of directors;
- Outcomes of litigation or arbitration proceedings;
- Announcements of technological innovations or acquisitions by us or by our competitors;
- Introduction of new products or significant customer wins or losses by us or by our competitors;
- Developments with respect to our intellectual property rights or those of our competitors;
- Fluctuations in the share prices of other companies in the technology and emerging growth sectors;
- General market conditions;
- Foreign exchange rates; and
- Other risk factors as set out in this MD&A.

If the market price of our common shares drops significantly, shareholders could institute securities class action lawsuits against us, regardless of the merits of such claims. Such a lawsuit could cause us to incur

substantial costs and could divert the time and attention of our management and other resources from our business.

**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 quickly enough and with the skills required to enable Absolute to execute on its business plans. Effective and thorough succession planning is also important to our long-term success. Failure to ensure effective transfer of knowledge and smooth transitions involving key employees could hinder our strategic planning and execution. The loss of any key employee could result in significant disruptions to our operations, including adversely affecting the timeliness of product releases, the successful implementation and completion of company initiatives and our results of operations.

Competition for people with the specific skills that we require is significant in the industry in which we operate and in the Vancouver, B.C., Austin, Texas and Ho Chi Minh City, Vietnam areas where we have a substantial presence and require highly skilled personnel and, as a result, we may face difficulties in attracting, retaining and motivating employees. In addition, periodic changes to the organizational structure, geographic focus and concentration and compensation plans for our sales organization may be disruptive and may impact our sales cycle or alter the average cost of sales. The inability to obtain key employees or the loss of the services of Absolute’s key employees and related severance or termination payments 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, less favourable terms and conditions, 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 or products may be an enterprise-wide decision and, if so, these types of sales may require Absolute to provide increased product discounts, additional global support and professional services, increased service level availability, 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 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 over time to its international operations as well as to related sales and marketing activities. The Company maintains offices in Canada, the United States and the United Kingdom, and is currently expanding its product development and technical employee base in Ho Chi Minh City, Vietnam. 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; foreign governmental regulations (especially in countries with communist ruling parties); 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 its common stock could decline. Moreover, the stock price may be based on expectations of Absolute's future performance that may be unrealistic or that may not be met. Absolute believes that quarter-to-quarter comparisons of its results should not necessarily be relied upon as a reliable indicator of future performance.

**Litigation or Dispute Resolution** – From time to time, we may be subject to litigation or dispute resolution relating to any number or type of claims, including claims for damages related to undetected errors or malfunctions of our services and products, claims related to previously-completed acquisition transactions, claims related to wrongful termination, discrimination, harassment, or employee matters, or claims relating to applicable securities laws. A product liability, patent infringement, acquisition-related, employee-related or securities class action claim could seriously harm our business because of the costs of defending the lawsuit, diversion of employees' time and attention and potential damage to our reputation. Further, our services and products are complex and often implemented by our customers to interact with third-party technology. Claims may be made against us for damages properly attributable to those third-party technologies, regardless of our lack of responsibility for any failure resulting in a loss. As a result, we could be required to pay substantial amounts of damages in settlement or upon the determination of any of these types of claims and incur damage to the reputation of Absolute and our products. The likelihood of such claims and the amount of damages we may be required to pay may increase as our customers increasingly use our services and products. Our insurance may not cover potential claims, or may not be adequate to cover all costs incurred in defense of potential claims or to indemnify us for all liability that may be imposed.

**Ability to Successfully Manage and Integrate Acquisitions and/or Dispositions** – We expect to continue to evaluate possible acquisitions of, or strategic investments in, businesses, products or technologies that are complementary to our business. In November 2012, we purchased certain assets of LiveTime Software, Inc., in June 2013 we purchased the assets of Palisade Systems, and in October 2015, we completed the divestiture of our Absolute Manage and Absolute Service product lines. We may not realize future benefits from any of these past or future acquisitions or divestitures nor be able to release new products and features arising from these acquisitions to market in a timely manner. If we fail to successfully integrate our past and future acquisitions, or the technologies associated with such acquisitions, or successfully transition after a completed divestiture, 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, or unknown, liabilities associated with the companies we acquire;
- failure to adequately understand and mitigate the risks of new product lines and services; 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, including the recently-completed disposition of our Absolute Manage and Absolute Service product lines, could also result in dilutive issuances of our equity securities, a decrease in our cash and cash equivalents and short-term investments, 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.

**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 Billings. The average term (and related renewal subscription) is approximately 36 months, although terms under this model can range from one year to as much as five years. As a result, most of the revenue the Company reports in each quarter results from the recognition of deferred revenue relating to Billings 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 Billings. Accordingly, the effect of significant downturns in sales and market acceptance of the Company's service or products may not be fully reflected in Absolute's results of operations until future periods.

**Billings** – Management considers Billings to be an important financial performance indicator for the Company. Most Billings (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 Billing 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 sufficient. However, it is possible that a reseller may order from us and subsequently return the product in accordance with generally accepted industry practices. In such cases, if a sale had been reported in a prior period, it would have to be subsequently reversed, impacting future Billings and revenue performance. However, Absolute does not make a provision against Billings for potential returns because revenue recognition from Billings does not commence 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 approximately 36 months compared to industry standard return policies which 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 Billings and deferred revenue figures until a future period.

**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 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.

**Operating Environment** – The Absolute DDS software that enables Absolute's product operates in a potentially disruptive environment. In addition, Absolute's DDS services rely upon a 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 device. If Absolute is unable to successfully demonstrate to customers that the Absolute DDS Agent will call in, it may affect Absolute's ability to sell its Absolute DDS line of products.

**Legislative Risk** – New laws that restrict the manner in which we conduct forensic investigations, or our ability to track and recover missing devices, could negatively impact our revenue, profit, and cash flows. Certain investigative techniques may become prohibited in certain jurisdictions, or additional and more costly steps or changes to our technology may be required in order to comply with new laws. In addition, our business model may be inadvertently affected by laws intended to address other problems that are receiving increasing attention from the media, the public and legislators. If these proposed laws do not include inappropriate exemptions for theft recovery, we may incur higher costs for lobbying and education efforts or may need to change our theft recovery methodology, our recovery success rate may decline and our service guarantee payments may increase.

**Consumer Product Liability** – The Company may be subject to claims related to product liability and consumer protection legislation, particularly in the United States.

The limitation of liability provisions in the standard terms and conditions in our license agreements may not fully or effectively protect us from claims as a result of federal, state, or local laws or ordinances, or unfavorable judicial decisions in the United States or other countries. The sale and support of our products also entails the risk of product liability claims. Although we may be indemnified by our third-party manufacturers for product liability claims arising out of manufacturing defects or inadvertent activation by manufacturers of our Absolute DDS agent on endpoint devices, because we control the design of our products, we may not be indemnified for product liability claims arising out of design defects. We maintain insurance to protect against certain claims associated with the use of our products, but our insurance coverage may not adequately cover any claim asserted against us. In addition, even claims that ultimately are unsuccessful could result in our expenditure of funds in litigation, divert management's time and other resources, and harm our reputation.

**Customer Subscription Renewal Rates** – Absolute typically generates 80-90% of its annual Billings 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.

**Cyclical Nature of our Business** – Our business may be impacted from time to time by the general cyclical and seasonal nature of PC and other device purchases by corporate, education and governmental entities. Factors which may create cyclical fluctuations include the development and adoption of new operating system software, the expiry of leases on devices or the introduction of newer or more advanced devices, legal and regulatory requirements, timing of contract renewals between our partners and their own customers and seasonal-based purchasing for educational institutions. Since some of our revenue from particular products and services are tied to the volume of shipments being processed, adverse fluctuations in the volume of global shipments may adversely affect our revenues. There can be no assurance that declines in shipment volumes in the United States or internationally will not have a material adverse effect on our business.

**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 in Canada, the United States and other countries. 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 honoured; 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 in Canada, the United States and other countries.



**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 incurs 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.

**Securities Analysts** – The trading market for Absolute’s common shares 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.