



Management's Discussion and Analysis

# First Quarter Report 2009

**Dated November 3rd, 2008.** The following Management Discussion and Analysis ("MD&A") is prepared in accordance with National Instrument 51-102F1, and should be read in conjunction with the Company's Fiscal 2008 Consolidated Financial Statements and accompanying notes, and annual MD&A. These documents, along with additional information about the Company, including the Annual Report and Annual Information Form, are available at [www.absolute.com](http://www.absolute.com) and [www.sedar.com](http://www.sedar.com).

Certain statements in this MD&A constitute forward-looking statements that involve risks and uncertainties. These forward-looking statements relate to, among other things, worldwide legislative trends, rates of addition of new subscription contracts, adoption rates by users of certain brands of computer products, continuation of firmware support by OEMs, future adoption of firmware support by OEMs currently not doing so, the launch of bundling programs, the expansion of international markets, accelerated demand for products, plans and timing for the introduction or enhancement of services and products, and other expectations, intentions and plans contained in this analysis that are not historical fact. When used in this MD&A, the words "plan," "expect," "believe," and similar expressions generally identify forward-looking statements. These statements reflect current expectations. They are subject to a number of risks and uncertainties, including, but not limited to, changes in technology and general market conditions. In light of the many risks and uncertainties, readers should understand that Absolute Software Corporation cannot offer assurance that the forward-looking statements contained in this analysis will be realized.

## Selected Annual Information

(in millions, except percent and per share data)

	Q1 Fiscal 2009	Q1 Fiscal 2008	Q1 Fiscal 2007
Sales Contracts reported*	\$ 18.2	\$ 21.0	\$ 11.1
% (decrease) increase	(13%)	88%	116%
Sales Contracts in constant currency**	\$ 18.1	\$ 21.0	\$ 10.3
% increase	(13%)	103%	92%
Cash From Operations*	\$ 9.1	\$ 8.9	\$ 4.7
% increase	2%	92%	383%
Per Share (basic)* ***	\$ 0.19	\$ 0.19	\$ 0.11
Per Share (diluted)	\$ 0.18	\$ 0.18	\$ 0.10
Revenue	\$ 12.1	\$ 7.7	\$ 4.0
% increase	58%	92%	54%
Operating loss before stock-based compensation	\$ (1.6)	\$ (1.3)	\$ (1.4)
% decrease (increase)	(25%)	9%	(60%)
Net loss after income taxes	\$ (2.2)	\$ (2.9)	\$ (1.3)
Per share (basic and diluted)	\$ (0.05)	\$ (0.06)	\$ (0.03)
Total assets	\$ 106.8	\$ 76.8	\$ 40.1
Cash, cash equivalents and investments	\$ 72.8	\$ 44.0	\$ 21.5
Deferred Revenue	\$ 90.7	\$ 67.5	\$ 34.2
Long-term debt	\$ -	\$ -	\$ -

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

\*\* Sales Contracts in constant currency refers to the Canadian dollar sales that would have been reported had the average U.S. dollar exchange rate been unchanged from the average rate in fiscal 2007. With approximately 95% of Sales Contracts in U.S. dollars management believes this to be a more meaningful evaluation of the underlying performance of the business. The average U.S. dollar exchange rate on our sales was \$1.0445 in Q1 Fiscal 2009, compared to \$1.0409 in Q1 Fiscal 2008 and \$1.1204 in Q1 Fiscal 2007.

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

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

## Business Overview

As computing devices containing data, or having the ability to access data, have become more mobile, the demand for ways to access, control and protect those devices, and the information on them, has increased. Organizations and individuals have become more concerned about the potential exposure of confidential data and networks to the loss or theft of computing assets that are particularly vulnerable in today's mobile and remote office operating environment.

Absolute's mission is to protect our customers' information and mobile computing devices from loss and theft, and to simplify essential tracking and management functions. With a subscriber base at September 30, 2008 of over 3.8 million customer computers, we established and developed the "Anti-Theft" market category over ten years ago and remain its leader. We have a proven track record for tracking and recovering lost or stolen devices, and for protecting sensitive data. As a result, we have become an important component of the security strategy of many mobile computer users.

We are also one of the pioneers of the Software-as-a Service ("SaaS") business model which provides an opportunity for higher long term profitability than traditional license/maintenance models, and for significant operating cash flows. With server applications hosted by the SaaS provider, it also enables faster adoption/implementation for customers, simplifies day-to-day management and updating, and makes technology economically viable for customers of all sizes.

The hosted SaaS model is also well-suited for our anti-theft type security services as it enables us to maintain control and ensure immediate emergency response to our customers' security needs. When a laptop is lost or stolen, the owner is exposed to the loss of confidential and private information that can lead to identity theft, privacy breach and/or public embarrassment. The ability to respond immediately is critical, whether by property recovery or remote deletion of customer files, and our hosted services model ensures reliability of this service.

This emergency response capability is an area of unique advantage for Absolute, as we continue to be the only provider of premium theft recovery services. Our theft recovery team uses our Computrace platform to conduct investigations and recover our customers' lost and stolen computers. In the process we have built a loyal following with customers and law enforcement agencies as we have solved a variety of crimes, including internal theft rings in large organizations which have also led to a reduction in overall theft and loss rates for those customers.

From a regulatory compliance perspective, we can provide customers with the data and evidence required to confirm that sensitive data on their computers was protected post theft. In recovering customer computers, we are often providing valuable information about the level of risk, if any, that data was breached. In addition, our data delete solution includes an audit trail to confirm the data was eliminated and identifies whether any files were accessed post theft. This can often provide customers with enough evidence to comply with privacy legislation, without triggering notification requirements.

## Performance Overview – Q3 Fiscal 2008

As announced on October 9, 2008, economic turbulence in the final business days of September, resulted in an abrupt and unforeseen impact on our first quarter sales. As a result, our first quarter Sales Contracts of \$18.2 million were down 13% from September 2007, our first decline after 17 consecutive quarters of year-on-year sales growth. However, we expect to return to growth in the coming quarters, and accordingly, we have issued guidance for fiscal 2009 of \$82-\$90 million in Sales Contracts, and \$27-\$33 million in Cash from Operations.

### Operational highlights for the first quarter of fiscal 2009 include:

- Ended the first fiscal quarter with a subscriber base of 3.8 million customer computers, up 84% from 2.1 million at September 30, 2007.
- Generated cash from operations of \$9.1 million, up 2% over last year
- Reduced net loss excluding stock-based compensation to \$0.6 million from \$2.0 million in Q1-F2008.
- Grew deferred revenue to \$90.7 million, up 34% from \$67.5 million in Q1-F2008, net of a \$2.1 million adjustment for reversal of a Q4-F2008 Sales Contract that was included in deferred revenue at June 30, 2008.
- Ended the quarter with cash, cash equivalents and liquid investments of \$72.8 million, up from \$64.0 million at June 30, 2008.
- Increased consumer distribution channels by adding Digital River, Costco.com and 130 Future Shop stores in Canada.
- Announced our first private label program with one of the world's leading PC OEMs who is now actively selling anti-theft solutions powered by Absolute in their small and medium business channel.
- Launched new features and services, including computer mapping using GPS, and post theft file retrieval, both of which enable customers to better control their mobile assets and data.
- Extended the number of PC OEMs providing embedded firmware support for our Computrace solutions with the addition of Gamma Tech and ASUS.
- Named Carter McCrary, a seasoned high tech executive, as Absolute's Chief Operating Officer.

## Customer Base

The customer is the focal point of everything we do. Our objective is to deliver day-to-day management and emergency response services to customers of all sizes, and to do so with reliability and certainty. This is an essential part of building a successful SaaS business as recurring customer purchases are a critical element of the business model.

In fiscal 2008, we generated 59% or \$42.6 million (Fiscal 2007: 52% or \$25.0 million) of our sales from new and renewal subscriptions to existing customers. On a unit basis, this translated to 991,000 subscriptions (Fiscal 2007: 470,000), compared to a total of 520,000 subscriptions (Fiscal 2007: 201,000) that expired in the year. We believe this level of existing customer sales to be a testament to the value of our services.

We expect to see a similar trend in Fiscal 2009 as we have 501,000 commercial customer subscriptions and another 548,000 consumer subscriptions that are expiring (or coming up for renewal). However, the number of expiring consumer subscriptions is significantly larger than in prior periods, so we are expecting the ratio of total existing customer purchases (including consumer) to subscriptions coming up for renewal to be less than those achieved in the last two years.

In terms of our customer base, in Q1-F2009, we generated 80% (72% in Q1-F2008) of our Sales Contracts from commercial customers (corporations, healthcare, educational and government institutions), with the remaining 20% (28% in Q1-F2008) from consumer customers.

## Technology

There are three main components of Absolute's SaaS technology – the Network Operating Center (NOC), the Computrace Agent, and client applications.

The NOC is hosted by Absolute in one of three North American locations. It accepts encrypted communications from activated Computrace Agents, provides instructions, scripts and client applications to the client and manages the services. Customers are able to access their management console via a secure web portal in order to manage, monitor and track their computing devices.

The Computrace Agent is a stealthy and persistent software communication technology that occupies little space and operates in the background without end-user interruption. The Agent is only 27kb in size and is installed on the device hard drive once a customer activates the service. The Agent is also cross-platform and is capable of being deployed on, and integrated into, the firmware of any computing device.

Some of the world's leading PC OEMs provide embedded firmware support for the Computrace Agent that increases its persistence, i.e. the ability of the Agent to survive unauthorized attempts to tamper with it. Embedded firmware support for Absolute's Computrace Agent is built into the BIOS of laptops shipped worldwide by Dell, HP, Lenovo, Gateway (recently acquired by Acer, with its commercial businesses sold to MPC), Toshiba, Fujitsu, Panasonic, Motion Computing, Itronix and, most recently, Gamma Tech and ASUS. In addition, embedded BIOS support for Computrace is also provided with certain desktop lines from Dell, HP, Lenovo and Gateway. As a result, Absolute estimates that Computrace is now shipping embedded in the BIOS/Firmware of more than 50 million computers per year.

Client applications include software developed by Absolute and other third-party software. The applications are able to be deployed remotely via the NOC and Computrace Agent communication protocol. The required applications are delivered only when needed. For example, Absolute's forensic investigative tools are only deployed once a computer is reported stolen and the tools are only accessible by Absolute's Investigative Recovery Team. In this manner, we keep these powerful tools in the hands of experts and protect our customers' privacy during normal usage, and we also minimize the disc space used by our solutions.

The client applications include a variety of powerful tools, including asset tracking and policy management applications, our data delete capability, and our forensic investigative tools (keystroke loggers, IP address trackers, Wi-Fi and GPS locators, remote access technology, etc.).

Some of our recent technology developments include:

- A post-theft audit tool that provides confirmation to customers that their sensitive data was deleted and that it was not accessed prior to deletion. This is an essential compliance tool for all types of organizations.
- Windows Mobile handset solutions that enable commercial customers to track smartphones and delete compromised data via the same customer console with which they secure and track their computers. This has created a new market opportunity for Absolute and the Company expects to launch support for more services and devices in fiscal 2009.
- Collaborative integration and support for Intel's Anti-Theft-Technology platform. Absolute expects Intel's initiative to significantly increase the market opportunity for anti-theft solutions through their marketing and worldwide awareness campaigns. As one of only six vendors currently authorized to leverage the Intel chip, and as the pioneer and leader in this emerging category, Absolute expects to win a significant share of this market, and to leverage it to accelerate its globalization initiatives. The new Intel chipsets with the Anti-Theft-Platform are expected to begin shipping in the fourth quarter of calendar 2008.
- Support for the Qualcomm Gobi module – the world's only multimode 3G and GPS embedded chipsets. These chipsets were launched in the marketplace in the third quarter of calendar 2008. We expect this to accelerate the adoption of embedded broadband cellular capability. For customers who adopt this new technology, they can automatically utilize Absolute's enhanced real-time data delete, asset tracking and theft recovery services, together with GPS tracking and mapping. With this capability, customers can see all of their computing assets on a map in real-time, providing powerful geo-fencing capability and immediate emergency response capability. Absolute launched a beta version of this solution for customers to evaluate in July of 2008.

## Sales and Distribution Channels

Absolute has a relatively large sales and marketing organization that focuses on: generating end user customer demand, closing business, fulfilling the sale through our PC OEM partner, and serving the end customer. Over 80% of our sales are distributed through the PC OEMs that provide embedded BIOS support (Dell, HP, Lenovo, MPC (continuing Gateway's former corporate business), Toshiba, Fujitsu, Panasonic, Motion Computing, Itronix, Gamma Tech and ASUS), as well as others who do not (such as Apple, Acer and Sony).

We continue to focus on collaboration efforts with our PC OEM partners as we can better support our mutual customers by working together. However, in efforts to maximize adoption, we have begun to expand our distribution channels to include other retailers, value added resellers, system integrators and other industry-leading technology manufactures for computer and hand-held devices.

We support our partner channels and customer demand via a team of sales and marketing professionals who work alongside our partners to sell our solutions. We have found this to be highly effective and an essential component of our success.

## Patent Portfolio

In addition to our customer base, embedded support and partner ecosystem, we also rely on a portfolio of 14 patents to maintain our competitive advantage. We continue to build this portfolio and currently have 16 new patent applications in process.

In order to protect our intellectual property and support our competitive position, we began licensing and litigating to protect our patent portfolio in calendar 2005. Several competitors have since taken licenses to our patent portfolio, and are paying royalties to Absolute for this right, which to date have not been significant, while others have opted to exit the business.

In defending its patent portfolio Absolute has been the initiating party with respect to assertions and claims of patent infringement in two cases. In one case initiated by Absolute, Absolute Software, Inc. v. Stealth Signal, Inc. (USDC Southern District of Texas – Case No. H-05-1416), as a result of a counterclaim in that suit, Absolute is also defendant to a patent infringement claim. Stealth Signal, Inc. ("Stealth"), in an attempt to defend against Absolute's action, obtained a license to a third-party patent and has asserted a counterclaim alleging that Absolute is infringing this third-party patent. Management and its expert advisors believe strongly that the counterclaim is without merit, and accordingly no provision or contingency has been recorded in the financial statements. The parties had claim construction hearings in early June, 2007, and supplementary briefings have also been filed. The parties continue to await the Court's ruling regarding claim construction of the asserted patents.

According to SEC documents filed in August 2007, Phoenix Technologies Inc. ("Phoenix") purchased certain intellectual property assets relating to the laptop computer software security products of Stealth. At this time it is uncertain whether, when or how this development may impact Absolute's case against Stealth.

We do not regard the second patent dispute as material, and the defendant in that case has not asserted any affirmative counterclaims against Absolute.

While we firmly believe that Absolute will prevail in these two cases, the outcome, time to resolution and impact on Absolute's business and patent portfolio, if any, cannot be determined at this time. The actual resolution of any matter before the courts, whether at a final or interlocutory stage, may differ materially as a result of future rulings issued by such courts; therefore, as additional information becomes available, management continually re-assesses the potential liability relating to pending litigation, if any. Refer to the "risks and uncertainties" section of this MD&A for further information.

## Software-as-a-Service Business Model

Absolute sells solutions in a SaaS model in which customers acquire subscriptions to software based services for a limited license term. From a financial perspective, the SaaS model improves the visibility of revenue streams, increases recurring cash flows and is expected to maximize profitability over time.

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

Subscriptions to Absolute's solutions are fully invoiced up-front for the purchase term (which varies from one to five years) on ordinary invoice and payment terms. Payments, when received, are non-refundable. However, as the customer pays the same amount on renewal of the contract, or on purchase of a new subscription, the full value invoiced is deferred on the balance sheet and recognized ratably over the contract term. We refer to these subscriptions as "Sales Contracts", which, as previously mentioned, are not a standardized measure prescribed under Canadian GAAP. Sales Contracts are a component of deferred revenue and are calculated by adding revenue to the change in deferred revenue (see Note 6 of the Notes to the Consolidated Financial Statements). Sales Contracts are recorded at the value received by Absolute from either the reseller or directly from the customer. The value received from the reseller is net of reseller discounts.

As our Sales Contracts have traditionally averaged around 30 months in term (27 months in Q1-F2009; 33 months in Q1-F2008 and 30 months in Fiscal 2008), there is a significant lag between revenue recognition and the timing of the Sales Contract and non-refundable cash flows. In general, only 15-20% of total Sales Contracts reported for any given fiscal year are also recognized as revenue in the same fiscal year. Conversely, a majority of our operating expenses in each fiscal year are incurred to generate these Sales Contracts for the period. As a result, in times of rapid growth in the business, GAAP earnings will often decrease or losses increase, while operating cash flow accelerates. Should Sales Contract growth slow, it is expected that the GAAP earnings would eventually increase to the point where it aligns with cash flow.

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

## Financial Performance Review & Analysis

### Sales Contracts and Revenue

First quarter fiscal 2009 Sales Contracts declined 13% to \$18.2 million, compared to \$21.0 million in Q1 last year, and declined 15% compared to \$21.5\* million in Q4 fiscal 2008. The decline is primarily due to economic turmoil in the final days of September 2008 that resulted in a delay, and in some cases elimination, of certain sales that had been expected to close for the quarter.

In Q1-F2009, 232,583 (Q1-F2008: 254,812) new and renewal subscriptions were sold to existing commercial customers which generated \$11.5 million or 64% (Q1-F2008: \$12.8 million or 60%) of total Sales Contracts. This compares to 198,000 (Q1-F2008: 68,000) subscriptions that came up for renewal in the quarter, for an overall existing commercial customer purchase ratio of 1.2 (Q1-F2008: 3.7) for every expiring subscription. The reduced ratio for existing customer purchases is in part due to the impact of the economic turmoil at the end of quarter, combined with an increase in the portion of consumer subscriptions up for renewal (Q1-F2009: 93,000 compared to Q1-F2008: 13,000).

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

(in millions)	Q1-F2009	Q4-F2008*	Q1-F2008*
Commercial Customers	\$ 14.5	\$ 19.0	\$ 15.2
Consumer Customers	3.7	2.5	5.8
Total Sales Contracts	\$ 18.2	\$ 21.5	\$ 21.0
Closing Subscriber Base	3.8	3.3	2.1

\* In Q1-F2009, a \$2.1 million adjustment was made to deferred revenue for reversal of a Q4-F2008 Sales Contract.

Q1-F2009 commercial Sales Contracts declined 4% from Q1-F2008 and 23% sequentially from Q4-F2008, primarily due to the end of quarter market turbulence affecting Absolute's government and education sales as discussed above.

The 37% decline in consumer sales from Q1-F2008 is program related as opposed to being an economic issue. In January 2007, a program was established with a world leading PC OEM under which consumer theft recovery services were automatically bundled on certain laptop lines and accidental damage programs. In Q1-F2008, this program generated 17% of first quarter sales, compared to 11% in Q1-F2009. In February 2008, the program was renegotiated, resulting in both a volume and pricing reduction which in turn led to a decline in sales levels from the program. This decline reached its lowest volumes in Q4-F2008, and has since begun to increase as Absolute has successfully increased the number of laptop lines and programs on which the bundle is being applied. This, combined with various other retail, on-line and OEM initiatives, and the back-to-school purchasing season, led to this quarter's 49% sequential increase of consumer sales over Q4-F2008.

Revenue for Q1-F2009 increased 58% to \$12.1 million, compared to \$7.7 million in Q1 last year. Revenue is derived almost entirely from the amortization of Sales Contracts through deferred revenue. Since the average contract life is approximately 30 months, a majority of revenue is from Sales Contracts completed during the prior three years. In general, only 15-20% of new and renewal Sales Contracts reported for any given fiscal year are included in revenue for that particular year, with the remainder included in deferred revenue on the balance sheet. See the SaaS Model section of this MD&A for further discussion.

## Operating Expenses

(dollar and subscription figures in millions)

	Q1-F2009	Q1-F2008*
Cost of goods sold ("COS")	\$ 3.3	\$ 2.7
Sales and Marketing ("S&M")	6.9	3.7
Research and Development ("R&D")	1.7	.09
General and Administration ("G&A")	1.7	1.6
Total operating expenses, excluding stock-based compensation*	\$ 13.7	\$ 8.9
% increase	54%	66%
% of sales contracts	75%	42%
Number of employees at quarter-end	275	190

\* Stock-based compensation is excluded as it is a non-cash item which has increased primarily due to changes in the Company's stock price and growth in headcount.

Total operating expenses excluding stock-based compensation have increased commensurate with sales growth over the past three fiscal years. The 54% increase over last year is a result of expansion of the employee base and sales and marketing efforts to generate and support current and future sales growth targets. A majority of operating costs relate to current Sales Contracts and therefore, management focuses on total expenses excluding stock-based compensation as a percentage of Sales Contracts to measure the efficiency and effectiveness of this investment.

For Q1-F2009, this ratio increased to 75% of Sales Contracts from just 42% in Q1 last year. This increase is primarily due to the recent economic turbulence that resulted in an unexpected decline in first quarter Sales Contracts. As a result, management has reset its expectations for sales growth, and has taken necessary steps to ensure costs are kept in line with its sales and cash flow targets for the year.

The gross margin in Q1-F2009 improved to 73% compared to 64% in Q1-F2008, but was in line with the 74% gross margin in Q4-F2008. The increased margin is expected given that revenue is now beginning to reflect the high growth rates in Sales Contracts over the past few years. When considering the gross margin, it is important to recognize that approximately 30% of the cost of goods sold ("COS") in the period is made up of up-front costs related to the Sales Contracts generated in the period as opposed to revenue. These COS items include packaging costs and initial training, delivery and customer support costs associated with new customer subscriptions. The remaining costs relate to monitoring, recovery and guarantee costs.

Increases in sales and marketing ("S&M") expenditure reflect expansion of the sales team and increased marketing expenditures to support partner and vertical growth strategies. As a percent of Sales Contracts, S&M expenses were 38% for the current quarter, compared to 18% in Q1-F2008. The increase is primarily due to marketing programs implemented to accelerate attach rates and support international growth, and expansion of Absolute's business development team to capitalize on partnering opportunities such as those with Intel and Qualcomm. However, this percentage increase was amplified in the most recent quarter due to the unexpected reduction in Sales Contracts in Q1-F2008.

Research and development ("R&D") expenditures increased 93% in Q1-F2009 over Q1 last year in support of current and future sales targets, partner integration initiatives, new feature development (such as the recent real-time and smartphone launches), and international expansion. In Q1-F2009, 31% of the increase in R&D relates to contractor expenses associated with specific globalization projects.

General and administrative ("G&A") expenses increased 9% over last year primarily due to increases in rent and compensation expenses. Rent has increased as the Company moved its head office in August 2007, and acquired additional space in June 2008, which increased both its square footage and lease rate. The compensation expense has increased with sales, reflecting rising headcount and compensation levels.

## Operating Loss

Absolute's operating loss excluding stock-based compensation was \$1.6 million in Q1-F2009, a 25% increase from \$1.3 million in Q1 last year. The increased operating loss is primarily due to strategic investments in the areas of sales and marketing, and research and development which were aimed at generating Sales Contract growth in future periods.

Stock-based compensation increased to \$1.6 million in Q1-F2009, compared to \$0.8 million in Q1 last year. The increase reflects the Company's significant headcount expansion to 275 people (190 at September 30, 2007), and share price appreciation resulting in a higher Black-Scholes value for calculating stock-based compensation expense. As a result, the GAAP operating loss increased to \$3.1 million for this year, compared to \$2.1 million in Q1 last year.

## Other Income (Expense)

Absolute earns interest income on its cash resources beyond immediate operating requirements. These cash balances are invested in money market funds, bankers' acceptances and investment grade bonds and commercial paper. During fiscal 2008, investment management of Absolute's cash resources was outsourced to institutional money managers. For Q1-F2009, interest income increased to \$528,000 from \$361,000 in Q1-F2008.

Other expenses include \$424,000 of write-downs relating to investments recorded at \$2.7 million on the balance sheet at September 30, 2008. These investments, which include asset backed commercial paper and marketable securities, have been written down to their estimated market value at the end of the period.

Other expenses also include foreign exchange gains and losses primarily on the translation of U.S. dollar cash, receivable and liability balances. U.S. denominated assets normally exceed liabilities as over 95% of sales are denominated in U.S. dollars, compared to approximately 50% of costs. This generally results in foreign exchange losses (gains) in periods where the U.S. dollar declines (appreciates) relative to the Canadian dollar. In Q1-F2009, the foreign exchange gain was \$916,000 compared to a \$786,000 loss in Q1-F2008, as a result of swings in the value of the U.S. dollar in those quarters.

## Net Loss

The Company's net loss after income taxes for Q1-F2009 was \$2.2 million, a 24% decline from \$2.9 million last year. The changes in the net loss reflect the net impact of those factors discussed above with the changes in the operating loss and other income.

## Cash from Operations

Cash from operations for Q1-F2009 of \$9.1 million increased 2% from \$8.9 million in Q1 last year. The increase is primarily the result of Sales Contract growth achieved in Q4-F2008. As a result of the reduced sales and receivable levels for Q1-F2009, management expects second quarter cash from operations will be less than it was in Q1-F2009.

## 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 September 30, 2008, Absolute's cash, cash equivalents and investments increased on positive operating cash flows to \$72.8 million, compared to \$64.0 million at June 30, 2008, and \$44.0 million at September 30, 2007. Based on current sales and investment plans, management believes that the Company has sufficient capital resources to meet its growth and operating requirements.

The Company has no material capital expenditure commitments for fiscal 2009. Given its cash and short term investment balances and operating cash flow, at this time the Company does not have, nor require, any additional capital resources.

## Accounts receivable

Accounts receivable balances decreased to \$12.6 million at September 30, 2008 (69% of first quarter fiscal 2009 Sales Contracts), down from \$14.8 million at September 30, 2007 (71% of first quarter fiscal 2008 Sales Contracts) and \$18.4 million at June 30, 2008 (86% of fourth quarter Sales Contracts). The decreases reflect lower sales in Q1-F2009, reversal of a \$2.1 million Sales Contract that was included in receivables at June 30, 2008, and an increase to bad debt allowances. The bad debt allowances were \$1.1 million at September 30, 2008, compared to \$715,000 at June 30, 2008, and \$20,000 at September 30, 2007. Management has increased its bad debt provision due to concerns over the current economic climate, and due to the deterioration in the financial condition of a particular PC OEM. As a majority of the related revenue is included in deferred revenue, a majority of the bad debt allowances is charged to deferred revenue and amortized against revenue over the term of the sales to which the allowance relates.

Under current economic conditions, management believes that receivables credit risk has increased. Accordingly, in addition to the bad debts and reversal provisions taken in the first quarter, management is also increasing its risk management procedures to mitigate exposure from the current economic uncertainty.

## Deferred contract costs

Certain direct contract costs are capitalized as deferred contract costs on the balance sheet and are charged to income over the term of the contract to which they relate. Capitalized direct contract costs are primarily comprised of prepaid employee commissions and estimated warranty costs over the life of each contract.

At June 30, 2008, deferred contract costs of \$15.0 million (17% of deferred revenue) are up from \$14.7 million (17% of deferred revenue) at June 30, 2007 and \$12.9 million (19% of deferred revenue) at September 30, 2007.

## Accrued warranty

Absolute offers a recovery guarantee, or warranty, with certain of its products whereby customers are eligible for up to a US\$1,000 guarantee payout if they follow the proper terms and conditions, and Absolute is unable to recover the stolen computer within a specified timeframe. For each Sales Contract that includes the guarantee, Absolute records a warranty provision for the full value of estimated guarantee payments under the program. The corresponding expense is recorded as deferred contract costs and charged to cost of sales over the term of each contract. Net guarantee payments made to subscribers reduce the warranty accrual.

Accrued warranty increased to \$12.7 million (14% of deferred revenue) at September 30, 2008, compared to \$11.8 million (13% of deferred revenue) at June 30, 2008. Each period, management evaluates its guarantee payment experience and considers whether changes are required to the estimated warranty provision. Based on this evaluation of actual warranty experience, management decreased the accrual rate in Q1-F2009 to an average of \$3.15 per unit per year from \$3.36 per unit per year in fiscal 2008.

## Deferred revenue

Deferred revenue represents Sales Contracts invoiced for which the non-refundable payment is received or due to be paid in full, but for which the revenue is not yet recognizable under GAAP. Refer to Note 6 of the Notes to the Consolidated Financial Statements for a reconciliation of deferred revenue to Sales Contracts and revenue.

Deferred revenue was \$90.7 million at September 30, 2008, compared to \$87.8 million at June 30, 2008, and \$67.5 million at September 30, 2007. Future Sales Contracts will continue to increase this balance and will have a corresponding effect on revenue in future periods. Deferred revenue provides a high degree of visibility for future period revenues, with the current portion showing the amount that will be included in revenue over the next twelve months.

The deferred revenue increase over June 30, 2008 is due to Sales Contracts of \$18.2 million, less revenue of \$12.1 million and other adjustments of \$3.2 million. The other adjustments include approximately \$1.0 million of bad debt provisions and a \$2.1 million reversal of a Sales Contract that was included in results for Q4-F2008. The bad debt provisions are primarily due to a second tier PC OEM that has ceased making payments on overdue balances, and has recently had action brought by other creditors. In addition, given the current economic climate, management has increased its general provision for bad debts.

The \$2.1 million reversal relates to a Q4-F2008 Sales Contract to a reseller for a government-sector customer that was included in accounts receivable and deferred revenue at June 30, 2008. Subsequent to the fiscal 2008 year end, the reseller was advised it would be unable to complete its purchasing process with the end customer, and as a result the reseller was required to cancel its original order with Absolute. The reversal adjustment affects the balance sheet only; no revenue was recorded in income for either Q1-F2009 or Q4-F2008, and the adjustment had no impact on the reported cash from operations. Management, with assistance from outside counsel, is reviewing its procedures in light of this reversal, and in light of the current economic climate, to minimize the risk of bad debts, returns and reversals as it pertains to the Canadian non-GAAP measure of Sales Contracts.

## Accounting Changes

None

## Quarterly Operating Data

(in millions except per share data)	Q1-09	Q4-08	Q3-08	Q2-08	Q1-08	Q4-07	Q3-07	Q2-07	Q1-07
Sales Contracts	\$18.2	\$21.5*	\$15.0	\$15.0	\$21.0	\$16.2	\$10.6	\$ 9.3	\$11.1
Revenue	12.1	11.2	10.1	8.9	7.7	6.3	5.3	4.6	4.0
Net Loss (ex-Stock-Based Comp)	(0.6)	(0.7)	0.1	(0.8)	(2.0)	(2.0)	(0.9)	(0.8)	(1.2)
Net (Loss)	(2.2)	(2.3)	(1.3)	(1.9)	(2.9)	(2.4)	(1.2)	(1.0)	(1.3)
Basic and diluted (loss) per share	(0.05)	(0.05)	(0.03)	(0.04)	(0.06)	(0.05)	(0.03)	(0.02)	(0.03)
Cash from operations	9.1	5.4	6.6	9.1	8.9	4.5	3.5	4.3	4.7
Operating cash per share (basic)	0.19	0.11	0.14	0.19	0.19	0.10	0.08	0.10	0.11

\* In Q1-F2009, a \$2.1 million adjustment was made to deferred revenue for reversal of a Q4-F2008 Sales Contract.

## Shareholder's Deficiency and Outstanding Share Data

At September 30, 2008, Absolute had shareholder's deficiency of \$2.6 million. In evaluating the shareholder's equity, management believes it is important to consider the \$90.7 million of deferred revenue carried on the balance sheet. This represents prepaid (or due to be paid in full on payment terms) and non-refundable revenue, which management expects to generate high margins when recognized in income as much of the associated contract costs are already included in the operating deficit.

Effective January 4, 2008 Absolute's common shares were subdivided on a two-for-one basis. All per share amounts in this discussion and analysis have been restated to reflect the split.

The Company's common shares trade on the TSX (TSX:ABT), and at September 30, 2008 the Company had 48,223,325 (48,238,325 at November 3, 2008) fully issued and outstanding common shares.

At an Extraordinary General Meeting of the Company held on June 8, 2007, shareholders approved an amendment to the Company's Employee Share Option Plan which resulted in an increase in the number of options available for grant under the Plan to 6,916,346. In addition, shareholders approved a two-year rolling option plan whereby the number of options is increased to 15% of outstanding common shares.

The following common share stock options and warrants are issued and outstanding at Sept. 30, 2008:

- Employee Share Option Plan (2007): 6,064,367 common stock options granted and outstanding. The options have a weighted average strike price of \$9.14 per share, and a weighted average term to expiry of 3.1 years. In Q1-F2009, a total of 181,000 stock options were granted to employees at an average strike price of \$11.17.
- Employee Share Purchase Plan (2006): Under the Plan, employees may purchase treasury shares at a 15% discount from market during a six month offering period. A total of two million shares have been reserved for grant under the Plan, of which 353,946 have been issued as at September 30, 2008.
- Branding Agreement Warrants: The Company issued 1,000,000 warrants in fiscal 2006 to acquire rights to the "LoJack" brand name, of which 400,000 remained outstanding at September 30, 2008 and November 3, 2008. The warrants have an exercise price of \$1.00 per share, vest 20% per year starting June 30, 2006, and expire the earlier of two years after vesting, June 30, 2010, or upon termination of the agreement

## Corporate Developments

None

## Critical Accounting Policies and Estimates

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

Sales Contracts represent invoiced sales for subscriptions to Absolute's services and software that are included in deferred revenue and amortized to revenue ratably over the contract term, commencing in the month after sale. A majority of Absolute's Sales Contracts are transacted via channel partners who purchase from Absolute in order to resell to their customers. While Absolute's services are provided directly to the end user customer, the orders come in various forms from reseller partners. Absolute ships the software if applicable, commences the subscription term, and invoices the reseller and reports this as a Sales Contract for the applicable period. Accordingly, Absolute relies upon the reseller partner to have sufficiently concluded the sales process with the end user customer to ensure that the order is valid and the risk of returns and/or reversals is kept to a minimum. These Sales Contracts are recorded as a receivable and deferred revenue item at period end (and not included in revenue at the time), and no estimates for returns, bad debts and reversals are made until such time as subsequent evidence suggests such an estimate is required.

Deferred costs represent expenses that are generated or incurred at the start of each service subscription (or Sales Contract). These items are capitalized on the balance sheet as deferred contract costs, and are recognized as expense ratably over the contract term. Management estimates the benefit period of deferred costs to be equivalent to the contract term of the Sales Contract to which the expense relates. If management's estimate of the future value of such costs should change it could result in a significant write-down in the value of this deferred asset.

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

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

## Contractual Commitments

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

## Off Balance Sheet Arrangements

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

## Related Party Transactions

Except in extenuating circumstances, the Company does not enter into related party transactions. No related party transactions were entered into in Q1-F2009, however, a related party loan was entered into subsequent to quarter end (see Subsequent Events section below).

## Subsequent Events

On October 10, 2008, the Company entered into a related party transaction with Mr. Christian Cotichini, a member of Absolute's Board of Directors. Due to the sharp decline in North American stock markets at the end of September 2008, Mr. Cotichini received margin calls resulting in the sale of 276,000 Absolute shares between September 26 and October 7, 2008. The sales were made by an independent brokerage who is not privy to insider information, nor bound by Absolute's trading policies.

By October 9, 2008, Mr. Cotichini had exhausted all possible sources and was still unable to settle his margin situation. Commencing September 24, 2008, Mr. Cotichini was subject to a Company imposed trading ban as the Company was in the process of completing its first quarter financial statements. Accordingly, on October 10, 2008, the Company loaned \$1.12 million to Mr. Cotichini to avoid further liquidations of his shares in Absolute during a quiet period. The loan is secured by his remaining 979,000 shares, bears interest at the rate of prime plus 5%, and is due in full by November 30, 2008.

On October 22, 2008, the Company conducted a reduction in force in which 14 positions were eliminated. The severance charge related to this reduction is expected to be approximately \$500,000.

Also during October 2008, the Company entered into a \$15 million forward exchange contract to sell \$5 million US dollars in December 2008, March 2009 and June 2009 at an average rate of \$1.14. This forward contract will be accounted for as a hedge in accordance with CICA Handbook Section 3865 "Hedges".

## Recent Canadian Accounting Pronouncements

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

The CICA plans to converge Canadian GAAP with IFRS over a transition period expected to end in 2011. The Company is currently assessing the future impact of these new standards on its financial statements.

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

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 Company has also designed internal controls 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 Canadian GAAP. During Q1-F2009 there were no changes to internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, these internal controls over financial reporting.

## 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.

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

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

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

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

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

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

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

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

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

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

**Customer Subscription Renewal Rates** – Absolute generates more than 50% of its annual sales from continued purchases and subscription renewals to 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.

**Additional Patent Applications** – The Company's commercial success depends upon its ability to develop new or improved technologies and products, and to successfully obtain patent or other proprietary or statutory protection for these technologies and products in Canada, the United States and other countries. The Company seeks to patent concepts, components, protocols and other inventions that are considered to have commercial value or that will likely yield a technological advantage. The Company owns rights to patented and patent pending technologies in the United States, Canada and other countries. However, the Company may not be able to develop new technology that is patentable, new patents may not be issued in connection with the Company's pending applications and allowed claims may not be sufficient to protect the Company's new technology. Furthermore, any patents issued could be challenged, invalidated or circumvented and may not provide proprietary protection or a competitive advantage. New entrants to the field may have been issued patents, and may have filed patent applications or may obtain additional patents and proprietary rights, for technologies similar to those that the Company has made or may make in the future. Since patent applications filed before November 29, 2000 in the United States are maintained in secrecy until issued as patents, and since publication or public awareness of new technologies often lags behind actual discoveries, the Company cannot be absolutely certain that it was the first to develop the technology covered by its pending patent applications or that it was the first to file patent applications for the technology. In addition, the disclosure in the Company's new patent applications, particularly in respect of the utility of its claimed inventions, may not be sufficient to meet the statutory requirements for patentability in all cases. As a result, there can be no assurance that the Company's new patent applications will result in enforceable patents, nor can the breadth of allowed claims in the Company's patents, and their enforceability, be predicted. Even if the Company's patents are held to be enforceable, others may be able to design around these patents or develop products similar to the Company's products that are not within the scope of these patents.

**Other Proprietary Rights** – In addition to patents, the Company relies on, among other things, copyrights, trademarks, trade secrets, confidentiality procedures and contractual provisions to protect its proprietary rights. While the Company enters into confidentiality and non-disclosure agreements with its employees, consultants, business partners, customers, potential customers and other third parties having access to proprietary and confidential information, it is possible that: some or all of its confidentiality agreements will not be honored; third parties will independently develop equivalent technology or misappropriate the Company's technology and/or designs; disputes will arise with the Company's strategic partners, customers or others concerning the ownership of intellectual property; unauthorized disclosure of source code; unauthorized disclosure of the Company's know-how or trade secrets will occur; 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.

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

**Intellectual Property Licensing and or Enforcement** – Absolute's revenue, cost of sales, and expenses may suffer if it cannot continue to license or enforce our intellectual property rights or if third parties assert that Absolute violates their intellectual property rights. The Company relies upon patent, copyright, trademark and trade secret laws in the United States and similar laws in other countries, and agreements with employees, customers, suppliers and other parties, to establish and maintain intellectual property rights in its Computrace technology platform. However, the industry in which the Company competes may include new or existing entrants that own, or claim to own, intellectual property, and the Company has received, and may receive in the future, assertions and claims from third parties that the Company's products infringe on their patents or other intellectual property rights. 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 Law Concerns** – Absolute’s customers use our service to transmit, receive and store identifying information regarding their mobile computing devices, including location information. Our products and monitoring systems are developed to ensure that components or tools that enable personal information to be obtained from host computers are not resident in the products during normal use, and are only implemented by Absolute’s trained experts in the case of emergency. While information obtained in normal usage is generally not of a personally identifiable nature, advances in location and tracking technology may evolve such that certain types of information collected in the tracking process could be considered to be personally identifiable information. Federal, provincial, state and foreign government bodies and agencies have adopted or are considering adopting laws and regulations regarding the collection, use and disclosure of personal information obtained from consumers and individuals. The costs of compliance with, and other burdens imposed by, such laws and regulations that are applicable to the businesses of our customers may limit the use and adoption of our service and reduce overall demand for it. Even the perception of privacy concerns, whether or not valid, may inhibit market adoption of our service in certain industries.

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

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

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

**Foreign Operations** – The Company intends to continue to pursue international market growth opportunities, which could result in a scenario where international sales account for an increasing portion of the Company’s consolidated revenues. The Company intends to commit increased resources to its international operations as well as to related sales and marketing activities. The Company maintains offices in Canada, the U.S. and the United Kingdom. The Company may not be aware of all the factors that may affect its business in foreign jurisdictions. The Company will be subject to a number of risks associated with international business activities that may increase liability or costs, lengthen sales cycles or require significant management attention. International operations carry certain risks and associated costs, such as: the complexities and expense of administering a business abroad; complications in compliance with, and unexpected changes in legal and regulatory restrictions or requirements; foreign laws, international

import and export legislation; trading and investment policies; foreign currency fluctuations; exchange controls; tariffs and other trade barriers; difficulties in collecting accounts receivable; potential adverse tax consequences; uncertainties of laws and enforcement relating to intellectual property and privacy rights; unauthorized copying of software; difficulty in managing a geographically dispersed workforce in compliance with diverse local laws and customs; and other factors, depending upon the country involved. There can be no assurance that the Company will not experience these factors 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 factors could have a material adverse effect on the Company's business, operating results and financial condition.

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

**Foreign Exchange** – The Company's reporting and functional currency is the Canadian dollar. However, over 90% of the Company's sales, compared to approximately 50% of costs, are denominated in U.S. dollars. As a result, the Company is exposed to fluctuations in the Canadian and U.S. dollar exchange rate for which it has not entered into foreign exchange hedges. Should the Canadian dollar significantly appreciate relative to the U.S. dollar, then it could impede Absolute's ability to meet its Canadian dollar sales contract growth and margin targets.

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

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

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

industry standard return policies are generally less than 90 days, so any returns are generally accounted for prior to any material recognition of revenue. Accordingly, the effect of any customer returns may not be fully reflected in Sales Contracts and deferred revenue figures until a future period.

**Income Taxes** – The Company's operations are conducted in a number of countries with complex tax legislation and regulations pertaining to the Company's activities. Any reassessment of the Company's tax filings by the tax authorities may result in material adjustments to net income or loss, tax assets and operating loss carry-forwards.

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

## Financial Statements

The interim consolidated financial statements included herein dated September 30, 2008 have not been reviewed by the Company's external auditors, nor have the external auditors been involved in the preparation of these interim financial statements. These statements should be read in conjunction with the Company's 2008 Audited Financial Statements, and first quarter fiscal 2009 Management Discussion and Analysis.

**ABSOLUTE SOFTWARE CORPORATION**  
**Consolidated Balance Sheets (Unaudited)**  
(Expressed in Canadian dollars)

		As At	
	Notes	September 30, 2008	June 30, 2008
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash and cash equivalents	(Note 3)	\$ 54,167,938	\$ 46,460,299
Short-term investments	(Note 3)	9,514,583	10,488,167
Accounts receivable, net of allowance for doubtful accounts of \$1,123,000 (2008 - \$715,000)		12,580,916	18,396,731
Prepaid expenses and deposits		823,805	906,792
Current portion of deferred contract costs	(Note 4)	7,689,530	7,234,859
Current portion of future income tax assets		1,341,691	1,341,691
		<b>86,118,463</b>	<b>84,828,539</b>
INVESTMENTS	(Note 3)	9,138,428	7,016,074
DEFERRED CONTRACT COSTS	(Note 4)	7,336,475	7,448,945
PROPERTY AND EQUIPMENT		2,447,094	1,971,003
FUTURE INCOME TAX ASSETS		1,512,970	1,512,970
INTANGIBLE ASSET		223,606	255,549
		<b>\$ 106,777,036</b>	<b>\$ 103,033,080</b>
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Accounts payable and accrued liabilities		\$ 5,964,156	\$ 6,240,941
Current portion of accrued warranty	(Note 5)	5,971,139	5,448,513
Current portion of deferred revenue	(Note 6)	43,287,154	41,675,479
		<b>55,222,449</b>	<b>53,364,933</b>
ACCRUED WARRANTY	(Note 5)	6,733,412	6,396,080
DEFERRED REVENUE	(Note 6)	47,443,847	46,170,998
		<b>109,399,708</b>	<b>105,932,011</b>
<b>SHAREHOLDERS' DEFICIENCY</b>			
Share capital and other equity	(Note 7(a))	43,211,585	41,915,225
Contributed surplus	(Note 7(b))	13,096,090	11,938,462
Deficit		(58,930,347)	(56,752,618)
		<b>(2,622,672)</b>	<b>(2,898,931)</b>
		<b>\$ 106,777,036</b>	<b>\$ 103,033,080</b>

APPROVED ON BEHALF OF THE BOARD:



John Livingston

Director



Ian Reid

Director

## ABSOLUTE SOFTWARE CORPORATION

### Consolidated Statements of Operations and Deficit (Unaudited)

Three months ended September 30, 2008 and 2007

(Expressed in Canadian dollars)

	Notes	2008	2007
REVENUE		\$ 12,109,048	\$ 7,652,006
COST OF GOODS SOLD		3,323,685	2,752,264
GROSS MARGIN		8,785,363	4,899,742
EXPENSES			
Sales and marketing		6,924,218	3,694,108
Research and development		1,702,988	884,093
General and administration		1,719,761	1,573,271
Stock-based compensation		1,560,327	839,353
		11,907,294	6,990,825
OPERATING LOSS		(3,121,931)	(2,091,083)
OTHER INCOME (EXPENSE)			
Interest and other income		528,332	361,014
Interest and bank charges		(76,189)	(22,731)
Foreign exchange gain (loss)		916,148	(786,105)
Write-down of investment	(Note 3)	(424,089)	(316,200)
		944,202	(764,022)
LOSS FOR PERIOD BEFORE INCOME TAXES		(2,177,729)	(2,855,105)
INCOME TAX (EXPENSE) RECOVERY		-	-
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD		(2,177,729)	(2,855,105)
DEFICIT, BEGINNING OF PERIOD		(56,752,618)	(48,361,101)
DEFICIT, END OF PERIOD		\$ (58,930,347)	\$ (51,216,206)
BASIC AND DILUTED LOSS PER SHARE		\$ (0.05)	\$ (0.06)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED		47,949,560	46,955,130

See accompanying Notes to the Consolidated Financial Statements.

## ABSOLUTE SOFTWARE CORPORATION

### Consolidated Statements of Cash Flows (Unaudited)

Three months ended September 30, 2008 and 2007

(Expressed in Canadian dollars)

	Notes	2008	2007
<b>OPERATING ACTIVITIES</b>			
Net loss for the period		\$ (2,177,729)	\$ (2,855,105)
Items not involving cash			
Amortization of property and equipment		229,808	157,749
Stock-based compensation		1,560,327	839,353
Amortization of intangible asset		31,943	31,944
Future income taxes		-	-
Write-down of investment	(Note 3)	424,089	316,200
Change in non-cash operating working capital			
Accounts receivable		5,815,815	(3,139,465)
Prepaid expenses and deposits		82,987	380,588
Deferred contract costs		(342,201)	(1,704,070)
Accounts payable and accrued liabilities		(276,785)	188,062
Accrued warranty		859,958	1,464,317
Deferred revenue		2,884,524	13,245,263
<b>CASH FROM OPERATING ACTIVITIES</b>		<b>9,092,736</b>	<b>8,924,836</b>
<b>INVESTING ACTIVITIES</b>			
Property and equipment purchased		(705,899)	(439,400)
Proceeds from maturities of short term investments		1,570,571	8,142,926
Purchases of short term investments		(704,876)	(12,753,759)
Purchases of investments		(2,438,554)	-
<b>CASH FROM (USED IN) INVESTING ACTIVITIES</b>		<b>(2,278,758)</b>	<b>(5,050,233)</b>
<b>FINANCING ACTIVITIES</b>			
Issuance of common shares		893,661	939,319
<b>CASH FROM FINANCING ACTIVITIES</b>		<b>893,661</b>	<b>939,319</b>
<b>NET CASH INFLOW</b>		<b>7,707,639</b>	<b>4,813,922</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>		<b>46,460,299</b>	<b>7,779,505</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>		<b>\$ 54,167,938</b>	<b>\$ 12,593,427</b>
<b>COMPOSITION OF CASH AND CASH EQUIVALENTS:</b>			
Cash		\$ 6,983,250	\$ 11,314,942
Cash equivalents		47,184,688	1,278,485
		<b>\$ 54,167,938</b>	<b>\$ 12,593,427</b>

See accompanying Notes to the Consolidated Financial Statements.

## ABSOLUTE SOFTWARE CORPORATION

Notes to the Interim Consolidated Financial Statements (Unaudited)  
Three months ended September 30th, 2008 and 2007  
(Expressed in Canadian dollars)

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### *(a) Basis of presentation*

These unaudited consolidated financial statements present the financial position, results of operations, changes in shareholders' equity and cash flows of Absolute Software Corporation (the "Company") and its subsidiaries. All significant intercompany balances have been eliminated.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to interim financial information and are based on accounting principles and practices consistent with those used in the preparation of the annual consolidated financial statements. The accompanying unaudited interim consolidated financial statements do not include all information and footnote disclosures required for an annual set of financial statements under Canadian generally accepted accounting principles. The interim financial statements should be read in conjunction with the June 30, 2008 audited consolidated financial statements. Certain prior year amounts have been reclassified in order to conform to the 2009 presentation.

#### *(b) Deferred revenue and revenue recognition*

A majority of the Company's sales contracts are for subscriptions for computer theft recovery and secure asset tracking services with subscription terms ranging from one to five years. The full value of each sales contract is invoiced and receivable upon signing the contract, and is non-refundable. However, these sales are comprised of multiple elements, including software, monitoring service and maintenance, which are not separable for accounting purposes. As a result, the revenue from these contracts is carried as deferred revenue on the balance sheet and is amortized to monitoring revenue ratably over the contract term. Amortization of sales contracts to revenue commences in the month after sale. A portion of the associated direct costs, such as commissions and warranty accruals (Note 4), are also deferred and expensed ratably over the contract term. Despite this partial cost deferral, a majority of period costs relate to generating the period Sales Contracts as opposed to the revenue for the period.

The Company completes a majority of its sales contracts through OEM and reseller partners primarily in North America. All sales contracts are recorded at the net sale amount received by Absolute from the reseller. For direct sales, the sales contract is recorded at the sale amount received direct from the customer.

Foreign denominated Sales Contracts are recorded at the Canadian dollar equivalent based on the average exchange rate in the month the sale occurred. The average U.S. dollar exchange rate for the Company's Sales Contracts was \$1.045 for Q1 Fiscal 2009 and \$1.0409 for Q1 Fiscal 2008.

### 2. CREDIT RISK

The Company is subject to routine credit risk. However, in light of the current economic climate, management is continually reviewing its risk management policies and procedures, particularly around investments and accounts receivable. Such procedures, combined with recent economic, customer and partner circumstances, have led to an increase in bad debt allowances, sales reversals, and investment write-downs in the first quarter of fiscal 2008.

Upon adoption, the Company had no hedges in effect or components that caused comprehensive income to differ materially from the Company's statement of operations. The adoption of these standards did not result in any material impact on the Company's financial statements. The Company entered into a forward contract during the quarter ended March 31, 2008 which is described in Note 8.

### 3. CASH AND CASH EQUIVALENTS AND SHORT TERM INVESTMENTS

The components of the Company's cash and cash equivalents and investments balances are as follows:

	Cost and Recorded Basis			Allocation for Balance Sheet		
	Cost Basis	Unrealized Losses	Recorded Basis	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments
<b>As at September 30, 2008</b>						
Bank balances and term deposits	54,891,194		54,891,194	54,167,938	723,256	
Non-government ABCP	2,108,000	(1,032,920)	1,075,080			1,075,080
Investment Grade Securities	15,181,593		15,181,593		7,118,245	8,063,348
Marketable securities	2,434,037	(760,955)	1,673,082		1,673,082	
	<b>74,614,824</b>	<b>(1,793,875)</b>	<b>72,820,949</b>	<b>54,167,938</b>	<b>9,514,583</b>	<b>9,138,428</b>
<b>As at June 30, 2008</b>						
Bank balances and term deposits	46,746,913		46,746,913	46,460,299	286,614	
Non-government ABCP	2,108,000	(843,200)	1,264,800			1,264,800
Investment Grade Securities	14,045,376		14,045,376		8,294,102	5,751,274
Marketable securities	2,434,037	(526,586)	1,907,451		1,907,451	
	<b>65,334,326</b>	<b>(1,369,786)</b>	<b>63,964,540</b>	<b>46,460,299</b>	<b>10,488,167</b>	<b>7,016,074</b>

In the quarter ended September 30, 2008, the Company took an additional valuation provision for investments held-for-resale in the amount of \$190,000 for non-bank ABCP and \$234,089 for marketable securities.

### 4. DEFERRED CONTRACT COSTS

	As at	
	September 30, 2008	June 30, 2008
Prepaid sales commissions	\$ 6,276,199	\$ 6,081,205
Accrued warranty and prepaid insurance costs	8,503,096	8,384,144
Other prepaid / accrued contract costs	246,710	218,455
Balance at the end of the period	<b>15,026,005</b>	14,683,804
Less: Current portion	<b>(7,689,530)</b>	(7,234,859)
Long term portion	<b>\$ 7,336,475</b>	\$ 7,448,945

## 5. ACCRUED WARRANTY AND GUARANTEE

The Company offers a recovery guarantee, or warranty, with certain of its products. Upon signing Sales Contracts that include the recovery guarantee, the Company records accrued warranty for the estimated cost of potential warranty claims during the term of each contract. During the quarter ended September 30, 2008, based on evaluation of actual warranty experience, the accrual rate was decreased to \$3.15 per unit per year (fiscal 2008: \$3.36).

	As at	
	September 30, 2008	June 30, 2008
Balance at the beginning of the period	\$ 11,844,593	\$ 8,005,050
Warranty accrual on new sales contracts	* 1,088,851	4,907,939
Warranty claims paid	* (228,893)	(1,068,396)
Balance at the end of the period	12,704,551	11,844,593
Less: Current portion	(5,971,139)	(5,448,513)
Long term portion	\$ 6,733,412	\$ 6,396,080

\* For 3 months ended September 30, 2008 and 12 months ended June 30, 2008.

## 6. DEFERRED REVENUE

	As at	
	September 30, 2008	June 30, 2008
Balance at the beginning of the period	\$ 87,846,477	\$ 54,243,816
Add: Sales contracts during the period	* 18,206,697	72,452,073
Less: Revenue recognized during the period	* (12,109,048)	(37,853,404)
Less: Other adjustments	* (3,213,125)	(996,008)
Balance at the end of the period	90,731,001	87,846,477
Less: Current portion	(43,287,154)	(41,675,479)
Long term portion	\$ 47,443,847	\$ 46,170,998

\* For 3 months ended September 30, 2008 and 12 months ended June 30, 2008.

Other adjustments at September 30, 2008 include approximately \$1.0 million of bad debt provisions and a \$2.1 million reversal of a Sales Contract that was included in results for Q4-F2008. The bad debt provisions are primarily due to a second tier PC OEM that has ceased making payments on overdue balances, and has recently had action brought by other creditors. In addition, given the current economic climate, management has increased its general provision for bad debts.

The \$2.1 million reversal relates to a Q4-F2008 Sales Contract to a reseller for a government-sector customer that was included in accounts receivable and deferred revenue at June 30, 2008. Subsequent to the fiscal 2008 year end, the reseller was advised it would be unable to complete its purchasing process with the end customer, and as a result the reseller was required to cancel its original order with Absolute. The reversal adjustment affects the balance sheet only; no revenue was recorded in income for either Q1-F2009 or Q4-F2008, and the adjustment had no impact on the reported cash from operations. Management, with assistance from outside counsel, is reviewing its procedures in light of this reversal, and in light of the current economic climate, to minimize the risk of bad debts, returns and reversals as it pertains to the Canadian non-GAAP measure of Sales Contracts.

## 7. SHAREHOLDERS' (DEFICIENCY) EQUITY

### (a) Issued

	Number of Shares	Number of Warrants	Amount
Common shares			
Balance at June 30, 2008	47,811,570	600,000	\$ 41,915,225
Shares issued on options exercised (c)	164,793	-	677,623
Shares issued under Employee Share Purchase Plan	46,962	-	418,737
Shares issued on broker warrants exercised	200,000	(200,000)	200,000
Balance September 30, 2008	48,223,325	400,000	\$ 43,211,585

*(b) Contributed Surplus*

	As at	
	September 30, 2008	June 30, 2008
Contributed surplus, beginning of period	\$ 11,938,462	\$ 7,814,428
Stock-based compensation expense recorded on option and purchase plans	* 1,560,327	4,948,972
Transfer to share capital on exercise of options and warrants	* (402,699)	(824,938)
<b>Contributed surplus, end of period</b>	<b>\$ 13,096,090</b>	<b>\$ 11,938,462</b>

\* For 3 months ended September 30, 2008 and 12 months ended June 30, 2008.

*(c) Stock Options*

The 2001 Employee Share Option Plan initially provided for a maximum of 8,130,412 common shares to be allocated to participants. During fiscal 2007, the Company's shareholders approved a change to the Plan whereby the option pool is set at a rolling maximum equal to 15% of outstanding shares, subject to ratification by shareholders every two years. Accordingly, the maximum number of shares issuable under the Plan at September 30, 2008 was 7,233,499. At September 30, 2008, the total share options outstanding were:

Share options outstanding, beginning of period	6,169,410
Exercised during the period	(164,793)
Forfeited during the period	(121,250)
Granted during the period	181,000
<b>Outstanding, end of period</b>	<b>6,064,367</b>
Weighted average exercise price	\$ 9.14
Weighted average term remaining	3.1 years
Number of options exercisable at September 30, 2008	1,446,417
Weighted average price of exercisable options	\$ 4.68

**8. SEGMENTED INFORMATION**

The Company carries on business in the computer security monitoring industry and all sales are made in this segment. Geographic revenue information is based on the location of the customer invoiced. Long-lived assets include fixed assets and intangible assets.

	Three months ended September 30,	
	2008	2007
Revenue		
United States	\$ 11,291,226	\$ 7,243,631
Canada and International	817,822	408,375
<b>Total</b>	<b>\$ 12,109,048</b>	<b>\$ 7,652,006</b>
	As at	
	September 30, 2008	June 30, 2008
Long Lived Assets		
Canada	\$ 2,581,157	\$ 2,158,666
United States and International	89,543	67,886
<b>Total</b>	<b>\$ 2,670,700</b>	<b>\$ 2,226,552</b>

**9. SUBSEQUENT EVENTS**

(a) In October 2008, the Company conducted a reduction in force in which 14 positions were eliminated. The severance charge related to this reduction is expected to be approximately \$500,000.

(b) In October 2008, the Company entered into a \$15 million forward exchange contract to sell \$5 million US dollars in December 2008, March 2009 and June 2009 at an average rate of \$1.14. This forward contract will be accounted for as a hedge in accordance with CICA Handbook Section 3865 "Hedges".

(c) On October 10, 2008, the Company entered into a related party transaction with Mr. Christian Cotichini, a member of Absolute's Board of Directors. Due to the sharp decline in North American stock markets at the end of September 2008, Mr. Cotichini received margin calls resulting in the sale of 276,000 Absolute shares between September 26 and October 7, 2008. The sales were made by an independent brokerage who is not privy to insider information, nor bound by Absolute's trading policies.

By October 9, 2008, Mr. Cotichini had exhausted all possible sources and was still unable to settle his margin situation. Commencing on September 24, 2008, Mr. Cotichini was subject to a Company imposed trading ban as the Company was in the process of completing its first quarter financial statements. Accordingly, on October 10, 2008, the Company loaned \$1.12 million to Mr. Cotichini to avoid further liquidations of his shares in Absolute during a quiet period. The loan is secured by his remaining 979,000 shares, bears interest at the rate of prime plus 5%, and is due in full by November 30, 2008.

## BOARD OF DIRECTORS

John Livingston  
Chairman, Chief Executive Officer  
Absolute Software Corporation  
Vancouver, BC

Christian Cotichini\*  
Vancouver, BC

Terry Libin\*\*  
Calgary, AB

Ian Reid\*\*\*  
Vancouver, BC

Phil Gardner  
Minnesota, USA

## OFFICERS AND SENIOR MANAGEMENT

John Livingston  
Chairman, Chief Executive Officer

Phil Gardner  
Chief Technology Officer

Rob Chase  
Chief Financial Officer

Carter McCrary  
Chief Operations Officer

Rich Cohen  
Senior Vice President, Business Development

John Sarantakes  
Vice President, North American Sales

Mark Grace  
Vice President, Consumer Business

Gareth Mason  
Vice President, Service Delivery

Jim MacCallum  
Vice President, Finance

Bill Pound  
Vice President, International Operations

## CORPORATE INFORMATION

### Auditors

Deloitte & Touche LLP  
Vancouver, BC

### Transfer Agent

CIBC Mellon Trust  
www.cibcmellon.com  
Toronto, ON

### Legal Counsel

Lang Michener  
Vancouver, BC

### Common Shares

Absolute Software common shares are traded on the Toronto Stock Exchange (TSX) under the trading symbol ABT.

## ADDITIONAL INFORMATION

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Dave Mason – The Equicom Group  
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\* Chairman of Compensation Committee

\*\* Chairman of Strategic Planning Committee

\*\*\* Chairman of Audit Committee