

## ABSOLUTE SOFTWARE CORPORATION (TSX: ABT)

### Fiscal 2009 Management Discussion and Analysis

For the years ended June 30, 2009, 2008 and 2007

Dated: August 25, 2009

The following Management Discussion and Analysis ("MD&A") is prepared in accordance with National Instrument 51-102F1, and should be read in conjunction with the Company's Fiscal 2009 Consolidated Financial Statements and accompanying notes, and 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, a continuing, or increased need for data protection and theft recovery services in difficult economic times, the attainment of certain subscription targets and company performance, the increased adoption, or attach rates, of the Company's data protection and theft deterrence products, the ability of the Company to achieve its targets for Sales Contracts and Cash from Operating Activities, the ability of the Company to successfully execute on its growth strategies, including attracting new distribution partners, continuation of embedded firmware support from its current and anticipated PC OEM partners, the demand for its products continuing to increase, stable currency valuations and a sufficiently stable and healthy global economic and business environment, and other expectations, intentions and plans contained in this press release that are not historical fact. When used in this MD&A, the words "plan," "expect," "believe," and similar expressions generally identify forward-looking statements. These statements reflect current expectations. They are subject to a number of risks and uncertainties, including, but not limited to, changes in technology and general market conditions. In light of the many risks and uncertainties, readers should understand that Absolute Software Corporation cannot offer assurance that the forward-looking statements contained in this analysis will be realized.

### Selected Annual Information

(in millions, except percent and per share data)

	Fiscal 2009	Fiscal 2008	Fiscal 2007
Sales Contracts reported*	\$ 71.9	\$ 72.5	\$ 47.3
% increase (decrease)	(1%)	53%	110%
Sales Contracts in constant currency**	\$ 62.9	\$ 72.5	\$ 42.5
% increase	(13%)	70%	115%
Cash from Operating Activities*	\$ 17.4	\$ 30.0	\$ 16.9
% increase (decrease)	(42%)	78%	302%
Per Share (basic)* ***	\$ 0.37	\$ 0.64	\$ 0.38
Per Share (diluted)	\$ 0.36	\$ 0.60	\$ 0.35
Revenue	\$ 53.2	\$ 37.9	\$ 20.1
% increase	41%	88%	72%
Net loss	\$ (2.3)	\$ (8.4)	\$ (5.9)
Per share (basic and diluted) ***	\$ (0.05)	\$ (0.18)	\$ (0.13)
Total assets****	\$ 117.3	\$ 94.6	\$ 56.4
Cash, cash equivalents and investments	\$ 68.9	\$ 64.0	\$ 34.9
Deferred Revenue*****	\$ 95.9	\$ 79.5	\$ 47.7
Long-term debt	\$ -	\$ -	\$ -

\* Throughout this document we refer to "Sales Contracts" (invoiced sales) as a revenue measure, Cash from Operating Activities as a profitability measure, and "Basic or Diluted Cash from Operating Activities per Share" (Cash from Operating Activities divided by the average shares outstanding for the period (basic), or diluted calculated

using the treasury stock method) as an earnings per share measure. With the exception of Cash from Operating Activities, these are non-standard measures under Generally Accepted Accounting 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 rate in fiscal 2008. With approximately 95% of Sales Contracts in U.S. dollars, management believes this to be important to consider when evaluating the underlying performance. The average U.S. dollar exchange rate on sales was \$1.1248 in fiscal 2007, \$1.0131 in fiscal 2008 and \$1.1578 in fiscal 2009.

\*\*\* Per share figures for Fiscal 2009 reflect a reduced number of outstanding shares following the Company’s purchase and retirement of 3,257,000 common shares under a Normal Course Issuer Bid commenced in November 2008.

\*\*\*\* 2008 and 2007 total assets and deferred revenue are restated for adoption of CICA Section 3064, Goodwill and Intangible Assets. See Note 2 of our Consolidated Financial Statements for additional information.

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

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

## **BUSINESS OVERVIEW:**

### **Background**

Organizations and individuals continue to adopt mobile computing and communication devices at a rapid rate in order to benefit from the efficiency, cost, productivity and convenience gains they offer. However, this trend has introduced significant management and security risks that were not inherent with desktop computing. Many of these risks have been exacerbated by legislative and regulatory requirements for protecting against unauthorized access to private information stored in or accessible through these mobile devices.

Compliance with these regulations and best practices for managing and protecting computing assets is now consistently showing as one of the top technology issues and budget items for organizations and individuals. 90% of CISOs surveyed by Forrester indicate that data security is their top 2009 priority (IT Security’s Critical Role During Layoffs, Forrester, July 2009). As well, Gartner expects enterprise security spending to rise from the traditional 3-6% of IT budgets to as much as 8% during 2009 (2009 Update: What Organizations Are Spending on IT, Gartner Group, March 2009). This in turn has created a compelling market need for Absolute’s solutions.

With our firmware embedded Computrace technology, Absolute's mission is to provide the world's best solutions to track, manage and protect these mobile devices. We deliver to our customers the ability to track, manage and protect their computing assets, no matter where they are in the world, even if they've been lost or stolen, with an unmatched level of confidence.

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

We believe the addressable market for our solutions to be large and growing, with every computer sold worldwide being a potential customer. This applies to both commercial and consumer customers, which currently represent 86% and 14% of our sales respectively (fiscal 2008 – 78% and 22%). Accordingly, we are capitalizing on the current economic climate to continue with priority investments in our worldwide go-to-market platform and product offerings. We believe this investment is prudent in light of our success to date and the compelling market need for our solutions.

We estimate our current attach rates (number of subscriptions sold divided by estimated number of portable computers shipped over the same period) in North America to be approximately 4%, excluding subscriptions from a consumer bundle program with a PC OEM. However, we are currently achieving attach rates of above 12% with our largest computer manufacturer partner ("PC OEM") to their North American laptop shipments and have been implementing programs with our other PC OEMs to replicate this success. We believe this provides an indication of potential long-term attach rates in the broader market. Accordingly, our objective now and over the next few years is to make the right investments to realize on these potential attach rates globally. As of June 2009, IDC estimates computer shipments will be as follows over the next three years:

- Worldwide computer shipments are expected to go from approximately 280 million in 2009 to approximately 420 million by 2013.
- Portable computers are expected to increase from approximately 50% of worldwide shipments in 2009 to approximately 70% by 2013.
- Markets outside North America are expected to represent over 80% of computer shipments by 2013, compared to less than 75% today.

In addition to our efforts to penetrate the global market we are also adding to our product suite with new solutions for asset management and data protection. The aim of these initiatives is to increase market adoption and revenue per subscription, while increasing the leverage of our sales, distribution and technology platform.

## **Globalization**

In developing the market for our solutions, we have focused primarily on North America from which we currently generate approximately 96% of our sales.

During fiscal 2009, we increased our efforts to globalize our products and presence. We now have offices in Vancouver, Austin, London, Amsterdam and Tokyo.

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

This investment has begun to pay dividends with both awareness and adoption increasing globally. For example, in June 2009 we announced a new customer in the Asia Pacific region, who intends to purchase our tracking and data protection solution with up to 250,000 new netbooks. The number of units being protected makes this Absolute’s largest customer deployment. We are seeing similar opportunities in other international regions that are rolling out large netbook deployments.

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

## **Partner Ecosystem**

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

### *PC OEMs*

From a technology perspective, the PC OEMs have adopted our Computrace technology as a standard and have embedded it in the firmware of their portable computers. This is an essential collaboration for us as the embedded support enhances the persistence (ability to survive unauthorized or un-intentional attempts to remove it) of our software. In turn, this gives our customers the confidence that our management and security solutions will be there whenever they need them. This is a key value proposition and differentiator for Absolute.

We are now shipping embedded in the firmware of an estimated 80 million computers worldwide every year. The following table lists the 12 PC OEMs who are currently providing embedded support for Computrace:

Embedded Support Added by Fiscal Year		
Fiscal 2005 to Fiscal 2007	Fiscal 2008	Fiscal 2009
Dell Fujitsu (US) HP Lenovo Motion Computing Panasonic Toshiba (U.S.) Gateway	GammaTech General Dynamics Itronix Getac	Acer ASUS Fujitsu Technologies (EMEA) Intel (Classmate Computer)

We generate approximately 85% of our total sales through our PC OEM partners using various sales and marketing programs and our direct sales force to help identify and close the sales opportunities.

*Infrastructure and other partners:*

In addition to our PC OEM partners, maximizing our market penetration also requires relationships with other infrastructure, distribution and software partners. For example, many customers buy via value added resellers as opposed to direct from PC OEMs; Where that is the case, it is important for us to be engaged at the reseller and customer level as well. In the past year, we have made a concerted effort to develop these other partner channels, including:

- Intel® – In April 2008, we entered into a collaborative agreement with Intel to be a part of their anti-theft program. Since then, this relationship has been instrumental in gaining embedded support from new PC OEMs and shows promise for driving additional awareness and market penetration for Absolute’s solutions. We have already seen much interest in the offering and, in June 2009, completed the first sale of our combined Computrace / Intel Anti-Theft Technology (Intel AT) solution. The chipsets are expected to be widely available on most portable computers by mid-calendar 2010, and we expect to see awareness and adoption building during fiscal 2010.
- Microsoft® – Absolute has had Gold Partner status with Microsoft for a number of years. In June 2009, we were named as a release partner for their Windows 7 upgrade. Windows 7 includes sensor and location capabilities that we have incorporated into our customer interface for asset tracking and mapping. We are encouraged by the number and availability of tools providing location-type information on the market today as it brings awareness to our category. In addition, we do not see these new technologies as directly competitive, nor as direct enablers for other companies to compete with our theft recovery offerings. The technology, while helpful for asset

management features, is a very small component of a robust theft management and recovery solution.

- Encryption Vendors – We believe that encryption is a critical data protection solution, but that more than encryption is required when it comes to lost or stolen computers. While you cannot be certain your encryption was effective when the device has been lost or stolen, Computrace can confirm whether it was effective, can delete the data and can recover the asset to ensure your data stays protected. We encourage our customers to adopt both solutions as the “gold standard” for data protection. Many of our customers realize this and have deployed the solutions together as best practice. We now have encryption bundles available directly with WinMagic and via Lenovo with Utimaco (by Sophos).
- Other Partners – A number of new channel partners were added in the past year, many of which are on the international front to enable us to leverage their capability into new markets. CDW, a leading distributor of technology products and services, is a good example of the importance of these partnerships. In July 2008 we announced Sapphire partner status with CDW. This is a key relationship for attaching to laptop sales of many PC OEMs (such as HP, Lenovo, Panasonic, etc.) who do a significant amount of their sales through CDW. In fiscal 2009, we grew our sales with HP by 26% in part due to our efforts with CDW.

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## Solutions and Technology

### *Solutions:*

The following table provides a list of our commercial and consumer solutions. All are delivered in a SaaS model via cloud computing. The customer simply deploys our client software, activates Computrace in the firmware, and can immediately begin realizing the benefits. There is no need for servers or complicated deployment schedules. Most of these solutions will also be available with Intel Anti-Theft Technology as the chipsets become pervasive in the market.

<b>Product</b>	<b>Description</b>
<b>Commercial Solutions</b>	
Computrace Complete	Full Asset Tracking, Data Delete, Theft Recovery and \$1,000 Service Guarantee (Available in North America only)
Computrace One	Full Asset Tracking, Data Delete and Theft Recovery (Available outside North America only)
Computrace for Netbooks (New in 2009)	Full Asset Tracking, Data Delete and Limited Theft Recovery
Computrace Plus	Data Delete, Theft Recovery and Basic Asset Tracking
Computrace Data Protection	Full Asset Tracking and Data Delete
Absolute Track	Full Asset Tracking
<b>Consumer Solutions</b>	
Computrace LoJack for Laptops - Standard	Theft Recovery
Computrace LoJack for Laptops – Premium (New in 2009)	Theft Recovery, Data Delete, \$1,000 Service Guarantee
Computrace LoJack for Laptops – EMEA (New in 2009)	Theft Recovery and Data Delete for European marketplace
<b>Handheld Solutions</b>	
Computrace Mobile (New in 2009)	Full Asset Tracking and Data Delete for Blackberry® and Windows Mobile platforms

One advantage of our SaaS business model is that as we enhance the features of our products, all customers can immediately obtain access to the new features over the Internet. In addition to the new products added in fiscal 2009, some examples of recently

added features include multi-lingual support, location mapping using GPS and Wi-Fi geolocation, computer disable and lock, Intel AT integration and post theft file retrieval, all of which enable customers to better control and protect their mobile assets and data.

In the coming year, we expect to continue adding new products and features, particularly in the area of end-point asset management and data protection on a global scale. Some of these are expected to be available as part of existing products and some as separately charged products and modules.

The added features and capability are focused on the compliance aspects of end-point management and protection. Our mission is to continually enhance our offerings so they become and remain a must-have component of the computing experience.

### *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. Commercial 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 Application Agent (the “Agent”) is a cross-platform and stealthy software communication technology that 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 capable of being deployed on, and integrated into, the firmware of most computing devices. The agent is installed, activated and managed, by the computer's system administrator.

### *Patent Portfolio*

We have a portfolio of 16 issued patents, and currently have 34 new patent applications in process. Several potential competitors have taken licenses to our patent portfolio to enable them to participate in the computer theft recovery space. The royalty revenue from these licensees is currently not material.

We have initiated action with respect to assertions and claims of patent infringement. There are three cases currently pending.

Our first case is Absolute Software, Inc. v. Stealth Software, Inc., pending in the United States District Court for the 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. Management and its expert advisors believe that the counterclaim is without merit, and accordingly no provision or contingency has been recorded in the financial statements.

The hearing to determine the meaning of the patent terms (commonly known as a "Markman hearing" or as a "claim construction hearing") was held in 2007. Claim construction hearings are frequently conducted in U.S. patent cases, because the determination of the proper meaning of the patent terms is a question of law that needs to be decided by a judge before a jury can decide whether the patent claims have been infringed by the accused product or process. A court appointed special master (i.e. an individual appointed by the court to assist the court in determining the proper meaning of the patent claims) has since produced claim construction recommendations, which the court accepted in June 2009. Based on the accepted Markman ruling, we will likely submit motions for summary judgment of infringement of our patents and non-infringement and invalidity of Stealth asserted patent, which if granted, will clarify many issues concerning infringement and validity. Depending upon the outcome of the summary judgment motions, the court may set a date for jury trial.

We also have a patent infringement action pending in the United States District Court for the Southern District of New York against Brigadoon Software, Inc., Case No. 05 CV 3273. The case was stayed pending the Texas court's claim construction ruling in the Stealth litigation referenced above. Now that the Texas court has issued the claim construction ruling, the stay will be lifted and the New York court will resume the case in the coming months.

Finally, we have a patent infringement action pending in the United States District Court for the Western District of Texas against World Computer Security Corporation and Front Door Software Corporation, Case No. 1:09 CV 00142. In response to our complaint, the defendants filed a motion to dismiss for lack of jurisdiction or alternatively to transfer venue. Our opposition to the motion is due in August 2009, after which the court will determine whether to proceed with the action and/or transfer venue.

While we believe that Absolute will prevail in these three cases, the outcome, time to resolution and impact on our 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.

## **Competition**

Since inception, we have had few direct competitors in the computer theft recovery and anti-theft space. Most competitors have been small operators with limited resources to widely commercialize their offerings. Based on our proprietary technology and patent protection, several of those competitors have taken licenses to our patents and now pay us royalties on their sales; have ceased offering the potentially infringing offerings; or have abandoned their own applications and become resellers or referral partners of our solutions.

While Absolute is the creator, innovator and leader in the theft recovery market category, we believe the lack of direct competition has also kept general awareness and adoption rates at low levels. In the past year, several direct competitors have entered the market, some of whom have better resources and market positioning than prior competitors, thus raising the level of competition. This has increased pricing pressure and has required increased investments in certain areas to defend our leadership position. However, we believe this has also helped increase awareness of the category and, in turn, has increased the total addressable market for our solutions.

While competition has emerged, competitors have yet to capture a material share of the market, and we believe our competitive position remains solid. Our PC OEM partnerships, embedded position, proven track record, subscriber base, patent portfolio, growing global footprint and talented theft recovery and customer service teams combine to form a sustainable competitive advantage. These advantages have helped to build our leadership position, and we believe they will enable us to stay in this leadership role as the category grows to its potential.

### **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 prepaid bookings (in our case Sales Contracts) 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, particularly during the growth and market penetration phases of the company's lifecycle.

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. The amount invoiced is recorded at the exchange rate in effect at the time of sale in deferred revenue on the balance sheet, and is 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 9 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 approximately 30 months in term, there is a significant lag between revenue recognition and the timing of the Sales Contract

and non-refundable cash flows. In general, only 15-20% of total Sales Contracts reported for any given fiscal year are also recognized as revenue in the same fiscal year. Conversely, a majority of our operating expenses in each fiscal year are incurred to generate these Sales Contracts for the period. As a result, in times of rapid growth in the business, GAAP earnings will often decrease or losses increase, while operating cash flow accelerates. Should Sales Contract growth slow, it is expected that the GAAP earnings would eventually increase to the point where it aligns with cash flow.

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

## **FINANCIAL PERFORMANCE REVIEW AND ANALYSIS**

### **Performance Overview**

We believe that Absolute has a majority share of the computer theft recovery and anti-theft market today and that our market category is poised to grow rapidly in the coming years. We also believe that consistent and prudent investment in our infrastructure, services, people and go-to-market strategies is required at this stage of our product lifecycle to enable us to maintain our leadership stake as worldwide attach rates accelerate. However, we are tempering this investment to ensure that we remain cash flow profitable as we grow. Our financial results for fiscal 2009, 2008 and 2007, and our outlook for fiscal 2010 reflect this strategic position.

In February 2009, we revised our fiscal 2009 guidance for Sales Contracts to \$70-\$75 million and for Cash from Operating Activities to \$16-\$18 million. Considering the rapid and sustained deterioration of global economic conditions during our fiscal 2009 year, we are pleased to have met our revised guidance figures.

The results reflect flat Sales Contracts and a 42% reduction in Cash from Operating Activities compared to fiscal 2008. The flat sales performance is largely due to the economic downturn, while the reduced cash flow reflects our continued strategic investments for future growth. We believe that we exited fiscal 2009 with improved market positioning and an opportunity to grow our global attach rates.

Financial highlights for Fiscal 2009:

- Sales Contracts of \$71.9 million, down 1% from \$72.5 million in fiscal 2008; and up 53% from \$47.3 million in fiscal 2007.
- Subscriber base grew 26% to 4.1 million customer computers, from 3.3 million at June 30, 2008 and 1.6 million at June 30, 2007.
- Cash from Operating Activities was \$17.4 million, down 42% from \$30 million last year, and up 3% from \$16.9 million in fiscal 2007.
- Deferred revenue grew 21% to \$95.9 million, from \$79.5 million at June 30, 2008, and 101% from \$47.7 million at June 30, 2007.

- Ended the year with cash, cash equivalents and liquid investments of \$68.9 million, up from \$64.0 million at June 30, 2008 and from \$34.9 million at June 30, 2007. This is after share repurchases totaling \$10.6 million under a Normal Course Issuer Bid in fiscal 2009.

For fiscal 2010, we are issuing guidance for Sales Contracts in the range of \$80-\$86 million, and for Cash from Operating Activities in the range of \$12-\$15 million.

The cash flow guidance reflects our intent to re-invest positive operating cash flows into the business to expand our long-term growth potential. Rather than maximizing cash flow at this stage of development, we are instead planning to deploy up to 90% of our incremental Sales Contracts in fiscal 2010 toward our global product and sales strategies. We believe it is imperative to make this investment in fiscal 2010, but we expect to re-invest a lower level of incremental sales in fiscal 2011 and beyond.

In addition, the cash flow guidance takes into account the impact of the current U.S. dollar exchange rate of \$1.10, which is down from \$1.1630 at June 30, 2009. Generally, cash flow is negatively impacted by U.S. dollar depreciation as substantially all Sales Contracts are U.S. dollar denominated while the majority of operating costs are Canadian dollar denominated. In addition, this would generate a loss on U.S. dollar cash and receivable balances due to their higher valuation at June 30, 2009.

Other factors affecting Cash from Operating Activities guidance are potential income tax payments in fiscal 2010 estimated at up to \$2 million and working capital changes on accounts receivable

### Sales Contracts

Fiscal 2009 Sales Contracts decreased 1% (13% in U.S. dollars) to \$71.9 million, compared to \$72.5 million last year and increased 53% (70% in U.S. dollars) compared to \$47.3 million in fiscal 2007. The reduction from fiscal 2008 is primarily due to the consumer business, which posted a 36% sales decline (43% in U.S. dollars). Conversely, commercial sales (corporate, healthcare, education and government institutions) posted a 9% increase (a decrease of 5% in U.S. dollars).

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

(in Millions)	Fiscal 2009	Fiscal 2008*	Fiscal 2007
Commercial Customers	\$ 61.8	\$ 56.5	\$ 37.8
Consumer Customers	10.1	16.0	9.5
Total Sales Contracts	\$ 71.9	\$ 72.5	\$ 47.3
Closing Subscriber Base	4.1	3.3	1.6

\* In F2009, a \$2.1 million adjustment was made to deferred revenue for reversal of F2008 Sales Contract. See "Deferred Revenue, net" for a discussion of this adjustment.

*Commercial Customer Sales Performance:*

Given the challenging economic conditions of fiscal 2009, we are pleased to report Commercial sales growth of 9% compared to fiscal 2008 and of 64% compared to fiscal 2007. However, the commercial growth was less than we had expected at the beginning of the year. We believe this is primarily due to the global economic slowdown, which negatively impacted sales through delayed purchase decisions for new commercial customers and delayed computer refresh cycles for existing customers. The result was that new commercial customer sales of \$9.3 million declined 34% (41% in U.S. dollars) from \$13.9 million in fiscal 2008 and that existing commercial sales, while growing 23%, generated a reduced expiring subscription ratio as shown in the following table:

	<b>Fiscal 2009</b>	Fiscal 2008	Fiscal 2007
Sales to existing commercial customers	\$52.5M	\$42.6M	\$25.0M
Percent of total sales	73%	59%	52%
Total subscriptions sold in units	993,000	991,000	470,000
Total subscriptions expiring in period in units	501,000	382,000	189,000
Expiring Subscription Ratio	2.0: 1	2.6 : 1	2.5: 1

We closely monitor the ratio of existing customer sales and renewals compared to total subscriptions expiring in the period as a measure of customer satisfaction and renewal rates. In addition, applying this ratio to the 661,000 commercial subscriptions that are expiring in fiscal 2010 gives us an estimation of the existing customer sales opportunity for the coming year. In fiscal 2009, we believe that the reduced ratio is due to customer efforts to delay computer refresh cycles in the weak economy and to workforce reductions. Additionally, the ratio was also impacted by a 67,000 unit financial institution customer that filed for bankruptcy in fiscal 2009.

Turning to market vertical performance, the commercial verticals were impacted by the economic downturn at the beginning of this fiscal year. However, public sector sales (healthcare, education and government) rebounded during the year likely due to government stimulus spending. As a result, public sector sales increased 13% (decreased 29% in U.S. dollars) in fiscal 2009 compared to fiscal 2008. Corporate customer sales did not rebound to the same extent and increased 4% (decreased 9% in U.S. dollars) for the year compared to fiscal 2008.

*Consumer Sales Performance:*

The 36% decline (43% in U.S. dollars) in consumer customer sales in fiscal 2009 is primarily due to changes in a bundling program with one of our PC OEM partners. The program involved the PC OEM including a term of our Computrace LoJack for Laptops offering automatically with certain laptop and extended warranty bundles. Sales from this program declined 54% in fiscal 2009 and represented 48% of total consumer sales, down from 66% in fiscal 2008 and 67% in fiscal 2007. This was primarily due to the economic downturn and a change in the PC OEM's consumer distribution strategy.

Outside of this particular program, our consumer business was flat (down 12% in U.S. dollars) in fiscal 2009 due to the general economic weakness and due to a retail partner

filing for bankruptcy mid way through fiscal 2008. However, we exited fiscal 2009 with a more diversified consumer business and an improved retail presence through channels such as: Apple Stores, Digital River, Best Buy, Costco, McAfee and other PC OEMs. In addition, the consumer product was launched in the Pan-European region in June 2009. Most of these programs remain at early stages of development but have shown promise for the future.

*International Sales Performance:*

By the end of fiscal 2009, we were generating sales in all major international regions of the world (EMEA, LTAM, and APAC), and we believe we are poised to begin accelerating growth. However, we consider all the regions outside of North America to be in a market development phase. A majority of international sales to date have been to commercial customers. In fiscal 2009, regions outside North America generated 4% of Sales Contracts, up from 3% the prior year.

**Revenue**

Revenue for fiscal 2009 increased 41% to \$53.2 million, compared to \$37.9 million last year, and increased 165% compared to \$20.7 million in fiscal 2007. Revenue is derived almost entirely from the amortization of Sales Contracts through deferred revenue. Since the average contract life has remained at approximately 30 months for the past nine years, 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.

Q4-F2009 and fiscal 2009 revenue has not benefited from the increase in U.S. dollar exchange rates. This is because revenue from Sales Contracts is recognized at the historic exchange rates in effect at the time the Sales Contracts were sold, and as a result, the recent increases in the U.S. dollar exchange will benefit revenue in future, rather than current, periods.

**Operating Expenses**

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

	<b>Fiscal 2009</b>	Fiscal 2008	Fiscal 2007
Cost of sales (“COS”)	<b>\$ 11.7</b>	\$ 11.4	\$ 6.9
Sales and marketing (“S&M”)	<b>29.0</b>	18.1	10.1
Research and development (“R&D”)	<b>7.3</b>	4.8	3.3
General and administration (“G&A”)	<b>9.0</b>	6.7	5.2
Total operating expenses, excluding Investment Tax Credits and stock-based compensation*	<b>\$57.0</b>	\$ 41.0	\$ 25.5
<i>% increase</i>	<b>39%</b>	61%	59%
<i>% of Sales Contracts</i>	<b>79%</b>	57%	54%
Number of employees at June 30	<b>301</b>	248	168

\* Stock-based compensation and investment tax credits are excluded as they are non-cash items.

### *Percent of Sales Contracts*

A majority of total operating costs relate to efforts to generate Sales Contracts in the same and future periods. Therefore, management focuses on total expenses excluding stock-based compensation as a percentage of Sales Contracts to measure its operating efficiency and effectiveness. The increase to 79% of Sales Contracts in fiscal 2009 was to be expected given the current economic climate and management's decision to continue investing in the future growth potential of the business. Management expects this ratio to improve as the market rebounds and its investments begin to generate new sales. However, the levels achieved in fiscal 2007 and 2008 are not considered to be a sustainable long-term, as they reflect R&D expenditures below industry standards, limited international operations and a significant amount of bundle sales which led to reduced S&M requirements.

### *Headcount*

From a functional expenditure perspective, payroll represents approximately 60% of total operating expenses. With headcount up 80% since June 30, 2007, payroll accounts for an approximately 62% of the increase in total operating expenses over the past two fiscal years. To effectively establish a global market leader position it is imperative to have the right people executing on the strategic plan. To that end, the entire team has been enhanced, including our executive leadership team with the addition of Carter McCrary as COO (January 2008), John Sarantakes as VP of Sales (April 2008), Mark Grace as VP of Consumer (April 2008), Bill Pound as VP of Global Operations (July 2007) and Tim Parker as VP of Product Development (December 2008).

### *Global Expansion*

During the past three fiscal years, management has made a concerted effort to globalize the business, and to establish Absolute in foreign markets. The first expansion region was EMEA, followed by APAC and LTAM in fiscal 2009. The expansion costs are included across all expense categories as it is a truly integrated effort, requiring investment in direct sales and marketing presence, customer support, multi-lingual products and international recovery capabilities. With an integrated effort, the business is able to maximize synergies and leverage the expertise and capability already developed to support North America. Estimated total international expansion costs were approximately \$1.5 million in fiscal 2007, \$3.5 million in fiscal 2008 and \$7.0 million in fiscal 2009.

### *Cost of Sales ("COS")*

The operating efficiency has been improving with growth, resulting in gross margin increasing to 78% in fiscal 2009, compared to 70% in fiscal 2008 and 66% in fiscal 2007. Excluding fiscal 2009 warranty adjustments for changes in estimates and for excess accruals on expired contracts, the gross margin in fiscal 2009 was 74%. When considering the gross margin, it is important to recognize that approximately 30% of COS relates to up-front costs to support new Sales Contracts, which are not yet reflected in revenue. Therefore, the gross margin is understated by these COS items, which 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.

#### *Sales and Marketing (“S&M”)*

In fiscal 2009 and 2008, management focused its investments in S&M to expand Absolute’s sales, business development and marketing capability on a global scale. As a result, fiscal 2009 S&M expenses increased 61% over fiscal 2008, and 189% over fiscal 2007.

Approximately half of this increase relates to headcount, which went from 73 people in fiscal 2007 to 102 people in fiscal 2008 and to 125 people in fiscal 2009. As a result, the related payroll, travel and communications expenses went from \$7.8 million in fiscal 2007 to \$12.4 million in fiscal 2008 and to \$17.5 million in fiscal 2009.

The remaining increase relates to general sales and marketing initiatives, including: participation in tradeshow and partner events; market development programs with partners; public and industry analyst relations; and advertising expenditures. These expenditures are incurred to increase awareness with both partners and customers, drive coverage with industry analysts and establish Absolute’s leadership position globally.

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

Fiscal 2009 Research and development (“R&D”) expenditures increased 52% compared to fiscal 2008 and 124% compared to fiscal 2007. A majority of the increase is due to headcount, which has increased to 73 people in fiscal 2009 from 61 in fiscal 2008 and 38 in fiscal 2007, and to several new product launches in fiscal 2009. In addition, third party consulting expenses increased to \$1.3 million in fiscal 2009 compared to \$0.3 million in fiscal 2008 and \$0.1 million in fiscal 2007 due to outsourcing of certain globalization and new product and feature development projects.

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

General and administrative (“G&A”) expenses increased 34% over last year and 73% over fiscal 2007 primarily due to increased legal costs, rent and headcount. Allowance for doubtful accounts increased \$1.0 million over fiscal 2008, and legal costs were \$1.3 million in fiscal 2009, compared to \$0.6 million in fiscal 2008 and \$1.4 million in fiscal 2007. A majority of the legal expense increase over 2008 relates to patents (both defense and filing of new patents), and increased outsourcing of contract administration due to a greater number of new partners and programs from global sales and business development initiatives.

### **Operating Loss**

Absolute’s operating loss, excluding Investment Tax Credits and stock-based compensation, was \$3.8 million for fiscal 2009, an increase of 19% from \$3.2 million last year and a decrease of 29% from \$5.3 million in fiscal 2007. The increased operating loss over last year is primarily the result of higher operating expenses and increased allowances for bad debts, offset by increasing gross margins.

Stock-based compensation increased to \$15.8 million in fiscal 2009 compared to \$4.9 million last year and \$1.0 million in fiscal 2007. The increase was primarily a result of a one-time \$12.0 million non-cash charge for the cancellation of 2.9 million options

following a voluntary surrender by Absolute employees. As a result, the GAAP operating loss including Investment Tax Credits was \$16.6 million compared to \$6.7 million in fiscal 2008.

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

Absolute earns interest income on its cash resources beyond immediate operating requirements. These cash balances are primarily invested in money market funds, investment grade bonds and commercial paper. For fiscal 2009, interest income decreased to \$1.4 million from \$1.9 million in fiscal 2008 due to a significant reduction in market interest rates during the year.

Other expenses for the year include an \$850,000 loss on a foreign exchange forward contract that was entered into in October 2008. The forward contract allowed Absolute to sell US\$15 million at an average rate of \$1.14. As of August 25, 2009 Absolute has no other forward contracts in place.

Offsetting the loss on the forward contracts was a \$1.4 million foreign exchange gain in fiscal 2009, as compared to an \$805,000 foreign exchange loss in fiscal 2008. Foreign exchange gains and losses result from the conversion of U.S. dollars to Canadian dollars and from translation of U.S. dollar cash, receivables and liabilities at the balance sheet date. U.S. dollar denominated assets normally exceed liabilities as substantially all sales are denominated in U.S. dollars, while the majority of operating expenses are denominated in Canadian dollars. This generally results in foreign exchange losses (gains) in periods where the U.S. dollar declines (appreciates) relative to the Canadian dollar.

These foreign exchange gains and losses partially offset the impact of the exchange rate swings on the operating loss. Revenue is recognized at historic exchange rates in effect when the respective Sales Contracts were sold. Conversely, operating expenses are recorded at current exchange rates. Accordingly, in periods of a strengthening U.S. dollar relative to the Canadian dollar (such as in fiscal 2009), operating expenses and the operating loss will increase, and visa versa.

Restructuring charges of \$989,000 include severance and legal costs, a majority of which were related to employee terminations carried out in October 2008.

During fiscal 2009 a charge of \$952,000 was recorded to value marketable securities at their market value at June 30, 2009. In fiscal 2008, long-term investment write-downs of \$1.4 million were also recorded. At June 30, 2009 these investments, which include asset backed commercial paper and other marketable securities, are carried at a book value of \$2.1 million. A majority of Absolute's remaining \$68.9 million in cash balances (cash equivalents, short-term and long-term investments) were held in Treasury Bills, GICs and Money Market funds at June 30, 2009, in accord with Absolute's investment policy.

### **Net Loss**

The net loss before income taxes, ITCs and stock-based compensation was \$3.8 million in fiscal 2009, up 9% from \$3.4 million in fiscal 2008 and down 24% from \$5.0 million in fiscal 2007. The increased net loss is primarily due to the increased operating loss.

After income taxes and including stock-based compensation, the net loss was \$2.3 million (\$0.05 per share) in fiscal 2009, down from \$8.4 million (\$0.18 per share) in fiscal 2008

and \$5.9 million (\$0.26 per share) in fiscal 2007. The reduction in the fiscal 2009 net loss is primarily due to future income tax assets recognized in the year, which resulted in an \$18.9 million future income tax recovery. The income tax benefit was offset by a one-time stock-based compensation charge of \$12.0 million following the cancellation of 2.9 million employee stock options.

### **Cash from Operating Activities**

Cash from Operating Activities for fiscal 2009 of \$17.4 million decreased 42% from \$30.0 million last year and increased 3% from \$16.9 million in fiscal 2007. The reduction from fiscal 2008 reflects management's decision to continue investing in the future growth of the business despite the impact of the economic downturn on current Sales Contract performance.

### **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 June 30, 2009, Absolute's cash, cash equivalents and investments (including long term investments) increased on positive operating cash flows to \$68.9 million, compared to \$64.0 million at June 30, 2008 and \$34.9 million at June 30, 2007. Cash balances have increased from June 30, 2008 despite the \$10.6 million used as part of the stock repurchase plan. Based on current sales and investment plans, management believes that the Company has sufficient capital resources to meet its growth and operating requirements.

The Company has no material capital expenditure commitments for fiscal 2010 beyond normal operating requirements. Given its cash and short term investment balances and operating cash flow, at this time Absolute does not have, nor require, any additional capital resources.

### **Accounts receivable**

Accounts receivable balances decreased to \$15.6 million at June 30, 2009 (77% of fourth quarter Sales Contracts), down from \$18.4 million at June 30, 2008 (86% of fourth quarter Sales Contracts), and \$11.7 million at June 30, 2007 (72% of fourth quarter Sales Contracts). Quarterly Sales Contracts tend to be concentrated toward the end of the quarter; therefore, a high proportion of current quarter sales tend to remain in receivables at the end of each quarter.

Under current economic conditions, which in part resulted in bad debts and reversal provisions taken during fiscal 2009, management believes that receivables credit risk has increased. Accordingly, in addition to increasing its risk mitigation procedures, management has increased the bad debt allowances to \$2.4 million at June 30, 2009, compared to \$715,000 at June 30, 2008 and \$20,000 at June 30, 2007.

At June 30, 2009, 18% of the Company's accounts receivable balance was over 90 days past due as compared to 7% at June 30, 2008. As at June 30, 2009, accounts receivable included two PC OEM partners that represented more than 10% of receivables, with one at 29% and the other at 16%. This compares the same two partners at June 30, 2008 with 29% and 13%.

### **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 are amortized over the life of each contract.

At June 30, 2009, deferred contract costs of \$7.4 million (8% of deferred revenue) are up from \$6.3 million (8% of deferred revenue) at June 30, 2008, and \$4.6 million (9% of deferred revenue) at June 30, 2007. The increases are consistent with the relative increases in deferred revenue, primarily reflecting a relatively stable sales commission rate.

The Company early adopted new Handbook Section 3064 at June 30, 2009, and in accordance with the transitional provisions, retroactively restated deferred contract costs. For further information, see the Accounting Changes section of this MD&A and Note 2(b) of the audited consolidated financial statements.

### **Future income tax assets and tax payable**

The Company recorded an income tax payable for taxes of \$1.6 million, comprised of a provision for income tax expense of \$4.6 million (fiscal 2008: \$1.4 million) offset by a \$3.0 million tax recovery (fiscal 2008: \$1.4 million) for Canadian Investment Tax Credits (“ITC’s”). The ITCs were credited against operating expenses, as the credit is generated by certain eligible research and development expenditures.

During fiscal 2009, the Company recorded Future Income Tax assets of \$18.9 million as management determined that it was more likely than not that it would realize future tax benefits from its U.S. tax assets. This was predicated by a second consecutive year of taxable income in Absolute Software Inc. and deferred revenue that will produce enough taxable income to realize the future income tax assets. Previously, a substantial valuation allowance had been recorded against these assets.

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

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

### **Accrued warranty**

The Company provides for warranty liabilities at the time the related Sales Contract is made for the estimated costs that may be incurred under the warranty and recognizes the warranty cost in cost of goods sold ratably over the contract term as the related revenue is recognized. The warranty liability is estimated based on historic warranty experience and

computer theft and theft recovery rates. The liability balance is drawn down by net guarantee payments and is adjusted on a period basis as required for changes in estimated warranty payment rates and actual experience.

Accrued warranty decreased to \$11.3 million (11% of gross deferred revenue) at June 30, 2009, \$11.8 million (13% of gross deferred revenue) at June 30, 2008, and \$8.0 million (15% of gross deferred revenue) at June 30, 2007. The reduction in fiscal 2009 is due to changes in warranty estimates based on warranty experience and the release of excess warranty provisions on expired contracts.

### **Deferred revenue**

Deferred revenue at June 30, 2009 was \$95.9 million, up 21% from \$79.5 million at June 30, 2008 and up 67% from \$47.7 million at June 30, 2007. Deferred revenue is comprised of the unamortized portion of deferred revenue from Sales Contracts, less the deferred portion of accrued warranty liabilities relating to the Sales Contracts. Following the adoption of new Handbook Section 3064, the balance of deferred warranty costs are now offset against the deferred revenue to which they relate. The deferred revenue balance is amortized to revenue, while the deferred warranty cost is amortized to cost of sales. For further information on this retroactive adjustment, see the Accounting Changes section of this MD&A and Note 2 (b) of the audited consolidated financial statements.

The deferred revenue component of net deferred revenue increased to \$103.2 million at June 30, 2009, up 17% from \$87.8 million at June 30, 2008, and up 62% from \$54.2 million at June 30, 2007. The increase over June 30, 2008 is due to fiscal 2009 Sales Contracts of \$71.9 million, less revenue of \$53.2 million and other adjustments of \$3.3 million. The other adjustments include approximately \$1.1 million of bad debt provisions, and a \$2.1 million reversal of a Sales Contract. The \$2.1 million reversal relates to a fiscal 2008 Sales Contract to a reseller for a government-sector customer that was included in accounts receivable and deferred revenue at June 30, 2008. In October 2008, subsequent to the fiscal 2008 year end, the reseller was unable to complete its purchasing process with the end customer, and as a result the reseller cancelled its original order with Absolute. The reversal adjustment was recorded as a balance sheet adjustment in the first quarter of fiscal F2009. Management has increased its risk mitigation procedures over accounts receivable in light of this transaction and of current economic conditions.

The scheduled recognition of deferred revenue is as follows:

(in millions)	F2010	F2011	F2012	F2013	F2014	Total
Revenue to be recognized	\$50.5	\$32.0	\$15.5	\$4.1	\$1.1	\$103.2
Subscriptions expiring	1.2	1.3	1.3	0.3	0.0	4.1

### **Accounting Changes**

#### *Goodwill and Intangible Assets*

On April 1, 2009, the Company elected to early adopt the Canadian Institute of Chartered Accountants Handbook Section 3064, Goodwill and Intangible Assets, in accordance

with the transition provisions for adoption. The new standard provides guidance on when expenditures qualify for recognition as intangible assets. Under Section 3064, deferred warranty costs, which were previously included in deferred contract costs, do not meet the criteria for recognition as an intangible asset. Accordingly, the portion of the accrued warranty provision on each contract is now net against the total amount of the related deferred revenue (see Note 9). This change only affects the balance sheet and does not impact the statements of operations and cash flows, and therefore does not impact earnings per share.

The effects of adopting the new standard resulted in a retroactive adjustment to the Company's consolidated balance sheet as at June 30, 2009 as follows:

	As Previously Reported 2008	As Currently Reported 2008
Deferred Contract Costs	14,683,804	6,299,660
Deferred Revenue	87,846,477	79,462,333

The other elements of deferred contract costs (Note 4 to the audited consolidated financial statements) and the intangible assets (Note 7 to the audited consolidated financial statements) continue to meet the requirements for presentation as assets.

#### *Financial instruments*

Effective July 1, 2008, the Company adopted two new CICA standards, Handbook Section 3862, Financial Instruments Disclosures, and Section 3863, Financial Instruments Presentation, which replaces Handbook Section 3861, Financial Instruments Disclosure and Presentation. The new presentation standards carry forward the former presentation requirements and increase the emphasis on the disclosure of risks associated with both recognized and unrecognized financial instruments and how those risks are managed. See Note 3, "Cash and Cash Equivalents, Short Term Investments and Investments" of the Notes to the Consolidated Financial Statements. The adoption of this standard did not have a material impact on the Company's financial statements.

#### *Capital disclosures*

Effective July 1, 2008, the Company adopted the new CICA standard, Handbook Section 1535, Capital Disclosures. This section establishes standards for disclosing information about a company's capital and how it is managed in order that a user of the financial statements may evaluate the company's objectives, policies and processes for managing capital. See Note 3, "Cash and Cash Equivalents, Short Term Investments and Investments" of the Notes to the Consolidated Financial Statements. The adoption of this standard did not have a material impact on the Company's financial statements.

## Quarterly Operating Data

(in millions except per share data)	Q4-09	Q3-09	Q2-09	Q1-09	Q4-08	Q3-08	Q2-08	Q1-08
Sales Contracts	\$20.2	\$16.9	\$16.5	\$18.2	\$21.5*	\$15.0	\$15.0	\$21.0
Revenue	14.3	13.7	13.1	12.1	11.2	10.1	8.9	7.7
Net Income (loss) (ex-Stock-Based Comp)	17.1	(0.6)	(2.3)	(0.6)	(0.7)	0.1	(0.8)	(2.0)
Net Income (Loss)	16.5	(1.1)	(15.5)	(2.2)	(2.3)	(1.3)	(1.9)	(2.9)
Basic earnings (loss) per share	.36	(0.02)	(0.32)	(0.05)	(0.05)	(0.03)	(0.04)	(0.06)
Diluted earnings (loss) per share	.35	(0.02)	(0.32)	(0.05)	(0.05)	(0.03)	(0.04)	(0.06)
Cash from Operating Activities	2.1	3.1	3.1	9.1	5.4	6.6	9.1	8.9
Operating cash per share (basic)	0.05	0.07	0.06	0.19	0.11	0.14	0.19	0.19

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

### FOURTH QUARTER 2009 MANAGEMENT DISCUSSION AND ANALYSIS

Absolute's strongest quarters tend to be the first and fourth quarter of each fiscal year, primarily due to strong education and U.S. federal government activity during those quarters. The first Fiscal quarter also benefits from increased consumer market activity related to students returning to school. At the same time, operating costs tend to increase during the fourth quarter as the Company prepares to execute on its strategic plan for the following fiscal year.

This seasonality trend continued in the fourth quarter of fiscal 2009 relative to the third quarter, with Q4 Sales Contracts increasing 20% (30% in U.S. dollars) to \$20.2 million.

Compared to the prior year, Sales Contracts for Q4-F2009 were down 6% from Q4-F2008 (17% in U.S. dollars). The reduction is primarily due to reduced sales in the consumer and federal government verticals. In addition to the impact of the current economic conditions, consumer sales were impacted by reduced bundle sales with one PC OEM, and sales to the U.S. federal government were down as the prior year included a large sale. Conversely, Sales Contracts from education, healthcare and general corporate verticals grew 14% (flat in U.S. dollars) over Q4-F2008. Of particular note, Q4-F2008 included the largest single corporate sale of the fiscal year for a 40,000 unit deployment of Absolute Track.

Q4-F2009 revenue of \$14.3 million increased 28% over \$11.2 million in Q4-F2008 and 5% over Q3-F2009, as a result of the increased Sales Contract levels and deferred revenue balances. Gross margin increased to 91% in Q4-F2009 due to warranty adjustments. Excluding these adjustments, gross margin was 75%, compared to 74% in Q4-F2008.

The Company reported net income of \$16.5 million in Q4-F2009, compared to net loss of \$2.3 million in Q4-F2008, primarily due to the recording of \$16.8 million of future income tax assets in the quarter. Excluding income taxes and ITCs, the net loss for Q4-F2009 was \$813,000 compared to \$2.3 million in Q4-F2008. The reduced loss reflects adjustments for positive warranty experience that was recorded in the quarter, offset by an increase in bad debt provisions.

The Company reported positive Cash from Operating Activities of \$2.1 million, compared to \$5.4 million in Q4-F2008. The decrease was expected due to increased operating expense levels associated with management's continued investment in future sales growth.

### **Shareholders' Equity and Outstanding Share Data**

At June 30, 2009, Absolute had shareholders' equity of \$1.9 million. In evaluating the shareholders' equity, management believes it is important to consider the following:

- The Company has \$95.9 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. Management expects to generate high margins when recognized in income, as much of the associated contract costs are already included in the operating deficit.
- The Company has repurchased shares at a cost of \$10.6 million resulting in a decrease to shareholders' equity by this amount.
- The Company recorded a stock based compensation charge of \$12.0 million, as a result of its option cancellation program.

The Company's common shares trade on the TSX (TSX: ABT), and at June 30, 2009 the Company had 45,694,350 (45,842,109 at August 24, 2009) fully issued and outstanding common shares, compared to 47,811,570 at June 30, 2008.

The following common share stock options and warrants are issued and outstanding at June 30, 2009:

- Employee Share Option Plan (2007): 4,127,127 (4,087,327 at August 24, 2009) common stock options granted and outstanding as at June 30, 2009. The options have a weighted average strike price of \$4.57 per share and a weighted average term to expiry of 3.2 years. For the year to date in fiscal 2009, a total of 2,263,650 stock options were granted to new and existing employees at an average strike price of \$4.51.
- 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 484,081 had been issued at June 30, 2009 (631,840 at August 24, 2009).
- 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 June 30, 2009. 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 (June 30, 2015, unless earlier terminated).

### **Corporate Developments**

On November 6, 2008, Absolute received approval from the TSX for a Normal Course Issuer Bid ("Bid) to purchase and cancel up to 4,174,122 of its shares. The Bid allows for the purchase on a daily basis of up to 123,878 shares until March 31, 2009 and 61,939 shares per day until November 5, 2009, except where purchases are made in accordance

with "block purchases" exemptions under applicable TSX policies. As of June 30, 2009, Absolute had purchased 3,257,000 shares (3,257,000 at August 24, 2009) under its Bid. Shareholders may obtain a copy of the Bid documents without charge by contacting [info@absolute.com](mailto:info@absolute.com).

### **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 Absolute's experience with loss and recovery rates and are reviewed for reasonableness based on actual experience on a regular basis. However, actual experience will likely vary and may require a change in the estimated liability. Should these estimates change, they may require changes to the amount of warranty expense in future periods, in addition to a change in the warranty accrual.

The Company has recognized 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. The following table summarizes these commitments:

(\$ thousands)	F2010	F2011	F2012	F2013	F2014	F2015+	Total
Total Commitments	\$1,639,187	\$1,633,005	\$1,657,251	\$1,664,076	\$923,167	\$178,150	\$7,694,836

### **Off Balance Sheet Arrangements**

The Company has not entered into any off balance sheet arrangements other than standard office lease agreements.

### **Related Party Transactions**

The Company generally does not enter into related party transactions, and there were no related party balances at June 30, 2009, June 30, 2008 and June 30, 2007. However, as previously reported, on October 10, 2008, the Company entered into a related party transaction with Mr. Christian Cotichini, who was a member of Absolute's Board of Directors at the time. A secured amount of \$1.1 million was loaned to Mr. Cotichini in order to avoid the broker's margin selling of Mr. Cotichini's Absolute stock during a company imposed trading blackout. The loan carried interest at the rate of prime + 5% and was repaid in full during the quarter ended March 31, 2009.

### **Subsequent Events**

None.

### **Recent Canadian Accounting Pronouncements**

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

In February 2008, the Canadian Accounting Standards Board confirmed that the use of IFRS will be required in Canada for publicly accountable profit-oriented enterprises for fiscal years beginning on or after January 1, 2011. The Company will be required to prepare its financial statements using IFRS for the fiscal year beginning July 1, 2011.

The Company has begun a diagnostics phase to assess and scope the significant differences between existing Canadian GAAP and IFRS and the impact on the consolidated financial statements. The detailed analysis of the accounting policies impacted by the IFRS convergence is expected to be completed throughout 2010. The elements that may be affected by the implementation of IFRS are revenue recognition, income taxes, capital assets, foreign exchange and stock-based compensation. At this time, management cannot reasonably estimate the impact of adopting IFRS on these elements, the consolidated financial statements, information systems, internal controls over financial reporting, disclosure controls and procedures or business activities such as capital

requirements or compensation arrangements.

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

### *Disclosure controls and procedures*

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

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

### *Internal control over financial reporting*

The Company 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. Absolute's CEO and CFO have assessed the effectiveness of the Company's internal control over financial reporting as at June 30, 2009 in accordance with *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, Absolute's CEO and CFO have determined that the Company's internal control over financial reporting is effective as at June 30, 2009 and expect to certify Absolute's annual filings with the Canadian securities regulatory authorities.

### *Changes in internal control over financial reporting*

There were no changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control 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.

**Economic Uncertainty** - Many of Absolute's customers are being affected by economic conditions affecting the broader market. Current and future conditions in the domestic and global economies remain uncertain. As a result, it is difficult to estimate the level of growth or contraction for the economy as a whole. It is even more difficult to estimate growth or contraction in various parts, sectors and regions of the economy, including the markets in which the Company participates. Because all components of the Company's budgeting and forecasting are dependent upon estimates of growth or contraction in the markets it serves and demand for its products and services, the prevailing economic uncertainties render estimates of future income and expenditures very difficult to make. Adverse changes may occur as a result of soft economic conditions, wavering consumer confidence, unemployment, declines in stock markets, contraction of credit availability, declines in real estate values, or other factors affecting economic conditions generally. These changes may negatively affect the sales of the Company's products and services, including its ability to meet its guidance for Sales Contract and Cash from Operating Activities, affect the Company's ability to retain key employees, or increase the exposure to losses from investments and bad debts.

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

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

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

**Competition** – It is also possible that new competitors will enter the marketplace. Several

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

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

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

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

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

these factors, these sales opportunities may require Absolute to devote greater sales support and professional services resources to individual customers, driving up costs and time required to complete sales and diverting sales and professional services resources to a smaller number of larger transactions.

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

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

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

**The Effect of Amortization of Revenue Over the Term of the Subscription** – Absolute generally recognizes revenue from customer subscriptions ratably over the terms of the Sales Contracts. The average term is approximately 30 months, although terms can range from one year to as much as five years. As a result, most of the revenue we report in each quarter results from the recognition of deferred revenue relating to Sales Contracts entered

into during previous periods. Consequently, a decline in new or renewal subscriptions in any one quarter will not necessarily be fully reflected in the revenue in that quarter but will negatively affect revenue in future quarters. In addition, Absolute may be unable to adjust its cost structure to reflect the changes in Sales Contracts. Accordingly, the effect of significant downturns in sales and market acceptance of our service may not be fully reflected in Absolute's results of operations until future periods. Our subscription model also makes it difficult to rapidly increase revenue through additional sales in any period, as revenue from new customers must be deferred and recognized over the applicable subscription term.

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

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

**Product Errors and Third Party Mischief** – The software technology enabling Absolute's software services is complex and the related application software may contain errors or defects, especially when first introduced or when new versions are released. Any errors that are discovered after commercial release could result in loss of revenues or delay in market acceptance, diversion of development resources, damage to Absolute's reputation, increased service and warranty costs and liability claims. In addition, it is

possible that our product may become the subject of a third party attack or disruption, whether malicious or otherwise. This could adversely affect the persistence of our technology and a materially adverse effect of this kind could materially adversely affect our business.

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

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

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

As part of our current disaster recovery arrangements, redundant hardware is deployed where possible in all production customer environments. Production data is backed up onto encrypted media and taken off-site. The recovery procedures and encryption keys are held remotely by Absolute employees, so that the systems can be restored in the event of a site-wide disaster. Other than contractual assurances and agreed-to controls, Absolute does not control the operation of any of these facilities, and they are vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunications failures and similar events. They may also be subject to break-ins, sabotage, intentional acts of vandalism and similar misconduct. Despite precautions taken at these facilities, the occurrence of a natural disaster or an act of terrorism, a decision to close the facilities

without adequate notice or other unanticipated problems at these facilities could result in lengthy interruptions in our service. Even with the disaster recovery arrangements, our service could be interrupted.

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

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

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

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

**Privacy Law Concerns** – Absolute’s customers use our service to transmit, receive and store identifying information regarding their mobile computing devices, including location information. Our products and monitoring systems are developed to ensure that components or tools that enable personal information to be obtained from host computers are not resident in the products during normal use, and are only implemented by Absolute’s trained experts in the case of emergency and on the instructions of our

customers. While information obtained in normal usage is generally not of a personally identifiable nature, advances in location and tracking technology may evolve such that certain types of information collected in the tracking process could be considered to be personally identifiable information. Federal, provincial, state and foreign government bodies and agencies have adopted or are considering adopting laws and regulations regarding the collection, use and disclosure of personal information obtained from consumers and individuals. The costs of compliance with, and other burdens imposed by, such laws and regulations that are applicable to the businesses of our customers may limit the use and adoption of our service and reduce overall demand for it. Even the perception of privacy concerns, whether or not valid, may inhibit market adoption of our service in certain industries.

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

**Income Taxes** – 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.