

Absolute[®]Software

Management's Discussion and Analysis

Second Quarter Report

2009

Dated February 2nd, 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 2008 Consolidated Financial Statements and accompanying notes, and annual MD&A. These documents, along with additional information about the Company, including the Annual Report and Annual Information Form, are available at www.absolute.com and 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 of the Company's data protection and theft deterrence products, the ability of the Company to achieve its FY 2009 targets of \$70-75 million Sales Contracts and \$16-18 million Cash from Operations, 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)

	Q2 Fiscal 2009	Q2 Fiscal 2008	YTD Fiscal 2009	YTD Fiscal 2008
Sales Contracts reported*	\$ 16.5	\$ 15.0	\$ 34.7	\$ 36.0
% increase (decrease)	10%	61%	(3%)	76%
Sales Contracts in constant currency**	\$ 13.4	\$ 17.4	\$ 31.6	\$ 39.9
% increase (decrease)	(11%)	86%	(12%)	95%
Cash From Operations*	\$ 3.1	\$ 9.1	\$ 12.2	\$ 18.0
% increase (decrease)	66%	111%	(32%)	101%
Per Share (basic)* ***	\$ 0.06	\$ 0.19	\$ 0.25	\$ 0.39
Per Share (diluted)	\$ 0.06	\$ 0.18	\$ 0.24	\$ 0.36
Revenue	\$ 13.1	\$ 8.9	\$ 25.2	\$ 16.5
% increase	48%	94%	53%	94%
Net loss before stock- based compensation & restructuring charges	(\$ 1.4)	(\$ 0.8)	(\$ 2.0)	(\$ 2.8)
% decrease (increase)	(70%)	5%	30%	(41%)
Net loss after income taxes	(\$ 15.5)	(\$ 1.9)	(\$ 17.6)	(\$ 4.7)
Per share (basic and diluted)	(\$ 0.32)	(\$ 0.04)	(\$ 0.37)	(\$ 0.10)
Total assets			\$107.5	\$ 83.3
Cash, cash equivalents and investments (including long term)			\$71.9	\$ 52.9
Deferred Revenue			\$93.7	\$ 73.7
Long-term debt			\$ -	\$ -

* * Throughout this document we refer to "Sales Contracts" (invoiced sales) as a revenue measure, Cash from Operations as a profitability measure, and "Basic or Diluted Cash from Operations per Share" (Cash from Operations 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 Operations, these are non-standard measures under Generally Accepted Accounting Principals ("GAAP"). We consider these non-standard measures to be our key performance metrics since substantially all Sales Contracts in each quarter are deferred on the balance sheet, while the majority of the related costs are expensed in that same quarter. Refer to the Business Model section below for more details.

** Sales Contracts in constant currency refers to the Canadian dollar sales that would have been reported had the average U.S. dollar exchange rate been unchanged from the rate in the prior comparative periods. With approximately 95% of Sales Contracts in U.S. dollars management believes this to be a more meaningful evaluation of the underlying performance of the business. The average U.S. dollar exchange rate on our sales was \$1.0445 in Q1 Fiscal 2009 and \$1.2148 in Q2 Fiscal 2009, compared to \$1.0409 in Q1 Fiscal 2008 and \$0.9875 in Q2 Fiscal 2008.

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

Computing devices that access and contain data have become more mobile which has increased the demand for ways to access, control and protect those devices, and the information on them. With workforce mobility on the rise, organizations and individuals have become more concerned about the potential exposure of confidential data and networks to the loss or theft of computing assets.

Absolute's mission is to protect our customers' information and mobile computing devices from loss and theft, and to simplify essential tracking and management functions. We established and developed the "Anti-Theft" market category over ten years ago and with a subscriber base of more than 4.0 million customer computers at December 31, 2008, we remain the clear market leader. We have a proven track record for tracking and recovering lost or stolen devices, and for protecting sensitive data. As a result, we have become an important component of the security strategy for many mobile computer users.

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

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

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

From a regulatory compliance perspective, we can provide customers with the data and evidence required to confirm that sensitive data on their computers was protected post-theft. In recovering customer computers, we are often providing valuable information about the likelihood of whether data was accessed. In addition, our data delete solution includes an audit trail to confirm the data was eliminated and identifies whether any files were accessed post-theft. This can often provide customers with enough evidence to comply with privacy legislation and, if sensitive data was not accessed, avoid the triggering of third party notification requirements.

Outlook & Performance Overview – Q2 Fiscal 2009

On October 9, 2008, we issued fiscal 2009 guidance for Sales Contract and Cash From Operations primarily in response to the rapidly deteriorating economic environment. Subsequent to issuing this guidance, the economic downturn revealed itself to be greater than we had anticipated, and we believe has translated to second quarter sales and cash flow performance below our expectations. As a result, we have revised our fiscal 2009 guidance to Sales Contracts to \$70 - \$75 million and to \$16 - \$18 million for Cash from Operations.

Our fiscal 2009 outlook for cash from operations is also impacted by our ongoing investment in the business. We believe we have struck an acceptable balance between our fiscal 2009 cash flow targets and our investment in the business in order to better position Absolute for future growth. We will continue to monitor our sales and expenditure levels closely to ensure we achieve our revised fiscal 2009 guidance. This investment will enable us to expand our sales capability, product portfolio, international presence and worldwide support infrastructure. We believe this expanded capability will strengthen our leadership position in the industry and position us to capitalize on the growing demand for data protection solutions, both now, and in the future.

Operational highlights for the first six months of fiscal 2009 included:

- Ended the period with a subscriber base of 4.0 million customer computers, up 59% from 2.5 million at December 31, 2007.
- Generated Cash From Operations of \$12.2 million, down 32% over last year.
- Reduced net loss excluding stock-based compensation and restructuring charges to \$2.0 million from \$2.8 million.
- Grew deferred revenue to \$93.7 million, up 27% from \$73.7 million at December 31, 2007.
- Ended the quarter with cash, cash equivalents and liquid investments of \$71.9 million, up from \$64.0 million at June 30, 2008.
- Announced cancellation of 2.9 million out-of-the-money stock options following voluntary surrender of options by Absolute employees, resulting in a one-time non-cash stock-based compensation charge of \$12.0 million.
- Purchased 780,400 shares under the company's normal course issuer bid, at a total cost of \$2.3 million.
- Joined forces with Intel Corporation and Lenovo to bring hardware-based anti-theft and computer-theft deterrence technology to business notebook users.
- Launched new features and services, including computer mapping using GPS, and post theft file retrieval, both of which enable customers to better control their mobile assets and data.
- Extended the number of PC OEMs providing embedded firmware support for our Computrace solutions with the addition of Gamma Tech and ASUS Computers.
- Expanded the types of devices we protect, achieving general availability of our Windows Mobile smartphone offerings in July 2008, and releasing a beta version of our Blackberry smartphone solutions in November 2008.
- Reported findings from a Ponemon Institute study indicating employees undermine traditional data protection solutions, like encryption, and that 92% of companies surveyed reported a lost or stolen laptop, with 71% of those resulting in a data breach.

Customer Base

The customer is the focal point of everything we do. Our objective is to deliver day-to-day management and emergency response services to customers of all sizes, and to do so with reliability and certainty. This is an essential part of building a successful SaaS business, as recurring customer purchases are a critical element of the business model. As shown by the following table, a significant portion of our sales are generated from our existing commercial customer base from a combination of renewals, replacements and increased penetration:

	1H-F2009	1H-F2008
Sales to existing commercial customers	\$ 22.6M	\$ 20.6M
Percent of total sales	65%	58%
Total subscriptions sold in units	458,000	484,000
Total subscriptions expiring in period in units	204,000	109,000
Ratio	2.3:1	4.4:1

The percent of business from existing commercial customers has risen over prior periods and the ratio of new subscriptions to expiring subscriptions has dropped in the 1H-F2009 to 2.3:1 from 4.4:1 in the same period last year. We believe this reflects the current economy, which has resulted in reduced PC shipments and IT spending as consumer and commercial customers have reined in spending. In the coming two quarters a total of 298,000 commercial customer subscriptions are expiring.

In terms of our customer base, for the first six months of fiscal 2009, we generated 80% (72% for 1H-F2008) of our Sales Contracts from commercial customers (corporations, healthcare, educational and government institutions), with the remaining 20% (28% for 1H-F2008) from consumer customers.

Technology

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

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

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

Some of the world's leading PC OEMs provide embedded firmware support for the Agent that increases its persistence, i.e. the ability of the Agent to survive unauthorized attempts to tamper with it. Embedded firmware support for the Agent is built into the BIOS of laptops shipped worldwide by Dell, HP, Lenovo, Toshiba, Fujitsu, Panasonic, Motion Computing, Itronix and, most recently, Gamma Tech and ASUS. In addition, embedded BIOS support for the Agent is also provided with certain desktop lines from Dell, HP and Lenovo.

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

Our forensic investigation tools include software developed by Absolute and other third-party providers. The applications are able to be deployed remotely via the NOC and Computrace Agent communication protocol. The required applications are delivered only when needed and on instruction from our customers. For example, Absolute's forensic investigative tools are only deployed once a computer is reported stolen and the tools are only accessible by Absolute's Investigative Recovery Team.

Sales and Distribution Channels

Absolute's sales and marketing organization focuses on creating product awareness, generating end-user demand, closing business, fulfilling the sale through our PC OEM partner, and customer service. Over 80% of our sales are distributed through the PC OEMs that provide embedded BIOS support (Dell, HP, Lenovo, Toshiba, Fujitsu, Panasonic, Motion Computing, Itronix, Gamma Tech and ASUS), as well as others who do not (such as Apple, Acer and Sony).

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

We support our partner channels to generate customer demand and to close commercial customer business via a team of sales and marketing professionals who work alongside our partners. We have found this to be highly effective and an essential component of our success. For generating consumer sales we rely more on our channel partners through bundle sales programs. Bundle sales from our largest OEM partner represented 11% of total first half sales in fiscal 2009 (19% of 1H-F2008).

Patent Portfolio

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

In order to protect our intellectual property and support our competitive position, in calendar 2005 we commenced a strategy of dealing with potential infringers by either licensing our software to them or commencing legal action. Several competitors have taken licenses to our patent portfolio, and are paying royalties to Absolute for this right, which to date have not been significant, while others have opted to exit the business.

In defending our patent portfolio Absolute has been the initiating party with respect to assertions and claims of patent infringement in two cases. In one case initiated by Absolute, Absolute Software, Inc. v. Stealth Signal, Inc. (USDC Southern District of Texas – Case No. H-05-1416), as a result of a counterclaim in that suit Absolute is also defendant to a patent infringement claim. Stealth Signal, Inc. ("Stealth"), in an attempt to defend against Absolute's action, obtained a license to a third-party patent and has asserted a counterclaim alleging that Absolute is infringing this third-party patent. Management and its expert advisors believe strongly that the counterclaim is without merit, and accordingly no provision or contingency has been recorded in the financial statements. The parties had claim construction hearings in early June, 2007, and supplementary briefings have also been filed. The parties continue to await the Court's ruling regarding claim construction of the asserted patents. A trial date has not been set to hear the merits of our claim or the counterclaim.

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

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

While we believe that Absolute will prevail in these two 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.

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.

Subscriptions to Absolute's solutions are fully invoiced up-front for the purchase term (which varies from one to five years) on ordinary invoice and payment terms. Payments, when received, are non-refundable. However, as the customer pays the full amount on renewal of the contract, or on purchase of a new subscription, the amount invoiced is deferred on the balance sheet and recognized ratably over the contract term. We refer to these subscriptions as "Sales Contracts", which, as previously mentioned, are not a standardized measure prescribed under Canadian GAAP. Sales Contracts are a component of deferred revenue and are calculated by adding revenue to the change in deferred revenue (see Note 8 of the Notes to the Consolidated Financial Statements). Sales Contracts are recorded at the value received by Absolute from either the reseller or directly from the customer. The value received from the reseller is net of reseller discounts.

As our Sales Contracts have traditionally averaged around 30 months in term (27 months in 1H-F2009), there is a significant lag between revenue recognition and the timing of the Sales Contract and non-refundable cash flows. In general, only 15-20% of total Sales Contracts reported for any given fiscal year are also recognized as revenue in the same fiscal year. Conversely, a majority of our operating expenses in each fiscal year are incurred to generate these Sales Contracts for the period. As a result, in times of rapid growth in the business, GAAP earnings will often decrease or losses increase, while operating cash flow accelerates. Should Sales Contract growth slow, it is expected that the GAAP earnings would eventually increase to the point where it aligns with cash flow.

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

Financial Performance Review & Analysis

Sales Contracts and Revenue

Sales Contracts for the first six months of fiscal 2009 declined 3% to \$34.7 million, and for Q2-F2009 increased 10% to \$16.5 million. We believe the year-to-date decline is primarily due to the global economic slowdown which has generally caused a reduction in customer spending. Specifically, government sales are down 27% and consumer sales are down 29% from the first half of fiscal 2008, while education and corporate sales were in line with last year, and international sales were up 50%.

The 10% increase in Q2-F2009 sales contracts compared to Q2-F2008 is due to the U.S. dollar appreciation relative to the Canadian dollar at the end of calendar 2008 as most of Absolute's sales are denominated in U.S. dollars. In U.S. dollar terms, year to date sales are down 12% and Q2-F2009 sales are down 11%.

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

(in millions)	Q2 Fiscal 2009	Q2 Fiscal 2008	YTD Q2 2009*	YTD Q2 2008
Commercial Customers	\$ 13.3	\$ 10.9	\$ 27.8	\$ 26.2
Consumer Customers	3.2	4.1	6.9	9.8
Total Sales Contracts	\$16.5	\$15.0	\$34.7	\$36.0
Closing Subscriber Base			4.0	2.5

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

Revenue for the current year-to-date period increased 53% to \$25.2 million, and for Q2-F2009 increased 48% to \$13.1 million. Revenue is derived almost entirely from the amortization of Sales Contracts through deferred revenue. Since the average contract life is approximately 30 months, a majority of revenue is from Sales Contracts completed during the prior three years. In general, only 15-20% of new and renewal Sales Contracts reported for any given fiscal year are included in revenue for that particular year, with the remainder included in deferred revenue on the balance sheet. See the SaaS Model section of this MD&A for further discussion.

The current period revenue has not benefited from the recent increase in U.S. dollar exchange rates despite 95% of revenue coming from U.S. denominated Sales Contracts. 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)

	Q2 Fiscal 2009	Q2 Fiscal 2008	YTD Q2 2009	YTD Q2 2008
Cost of goods sold ("COS")	\$ 3.6	\$ 3.0	\$ 6.9	\$ 5.7
Sales and marketing ("S&M")	7.0	4.0	13.9	7.7
Research and development ("R&D")	1.7	1.0	3.4	1.8
General and administration ("G&A")	2.0	1.5	3.7	3.1
Total operating expenses, excluding Investment Tax Credits and stock-based compensation*	\$ 14.4	\$ 9.5	\$ 28.0	\$ 18.4
% increase	51%	57%	52%	61%
% of Sales Contracts	87%	63%	81%	51%
Number of employees at quarter-end			272	217

* Stock-based compensation is excluded as it is a non-cash item which has increased primarily due to changes in the Company's stock price and growth in headcount. Investment tax credits are excluded for fiscal 2009 as it is not meaningful to evaluate relative to prior periods.

Total operating expenses excluding Investment Tax Credits and stock-based compensation have increased 52% over last year is a result of expansion of the employee base, sales and marketing efforts to generate and support current and future sales growth targets, and the increase in the U.S. dollar. In Q2-F2009, the U.S. dollar appreciated by nearly 20%, which resulted in an operating cost increase of approximately 10% (or \$1.3 million), as close to 50% of Absolute's costs are incurred in U.S. dollars. When considering the Operating Loss it is important to bear this in mind as revenue is recorded at historic exchange rates, while the costs are at current rates. Therefore, increases in the U.S. dollar exchange rates, which are generally being positive for cash flow, will have a negative impact on the Operating Loss.

A majority of operating costs relate to current Sales Contracts and therefore, management focuses on total expenses excluding stock-based compensation as a percentage of Sales Contracts to measure the efficiency and effectiveness of this expenditure. We believe due to the current global economic downturn, sales performance has declined and as a result, operating expenses as a percentage of sales contracts has increased significantly during fiscal 2009.

The gross margin has improved to 73% compared to 65% in the first half of fiscal 2008. The increased margin is a result of rapidly growing revenue which is now beginning to reflect the high growth rates in Sales Contracts over the past few years. When considering the gross margin, it is important to recognize that approximately 30% of the cost of goods sold ("COS") in the period is made up of up-front costs related to the Sales Contracts generated in the period as opposed to revenue. These COS items include packaging costs and initial training, delivery and customer support costs associated with new customer subscriptions. The remaining costs relate to monitoring, recovery and guarantee costs.

Increases in sales and marketing (“S&M”) expenditure reflect expansion of the sales team and increased marketing expenditures to support partner and vertical growth strategies. This includes marketing programs designed to accelerate attach rates and support international growth, and expansion of Absolute’s business development team to capitalize on partnering opportunities such as those with Intel and Qualcomm, along with Absolute’s current and new PC OEM partners. As a percentage of Sales Contracts, S&M expenses were 40% for the year-to-date period, compared to 21% in the same period last year, in part due to the increased U.S. dollar exchange rate as a large portion of S&M expenses are U.S. dollar denominated.

Research and development (“R&D”) expenditures increased 86% for the year-to-date period in support of current and future sales targets, partner integration initiatives, new feature development (such as the recent real-time tracking and smartphone launches), and international expansion.

General and administrative (“G&A”) expenses have increased 19% over last year primarily due to higher legal costs, increased rent, and an increase in headcount.

Operating Loss

Absolute’s operating loss, excluding Investment Tax Credits and stock-based compensation, was \$2.8 million for the year-to-date period, a 46% increase from \$1.9 million for the six months ended December 31, 2007. The increased operating loss is primarily due to strategic investments in the areas of sales and marketing, and research and development which were aimed at generating Sales Contract growth in future periods. In addition, the recent appreciation in the U.S. dollar has resulted in an increase in operating costs, while revenue continues to be recognized at historic rates.

Stock-based compensation increased to \$14.7 million for the six months ended December 31, 2008, compared to \$1.9 million in the same period last year. 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 excluding Investment Tax Credits increased to \$17.4 million for this year from \$3.8 million last year.

The option cancellation provides management with the flexibility to issue stock options to new and existing staff in the future, without creating further dilution to our shareholders. This flexibility is critical for Absolute as options are an important element for attracting and retaining valued employees, and for aligning their interests with those of shareholders. In addition, it will lead to a reduced stock-based compensation charge on an ongoing basis. In March 2009, the Company plans to issue annual employee stock option grants to existing employees, including those who surrendered option, as is customary for the Company.

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 and investment grade bonds and commercial paper. For the year-to-date period, interest income increased from \$823,000 to \$965,000.

Other income and expenses include an \$810,000 mark-to-market adjustment for a foreign exchange forward contract that was entered into in October 2008. The forward contract allows Absolute to sell a remaining US\$10 million at an average rate of \$1.14. In addition, a \$417,000 realized loss was recorded for the portion of the forward contract that expired during the quarter. A charge of \$494,000 was recorded to value marketable securities at their market value at December 31, 2008.

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

Other income and expenses also include foreign exchange gains and losses primarily on the translation of U.S. dollar cash, receivable and liability balances. U.S. denominated assets normally exceed liabilities as over 90% of sales are denominated in U.S. dollars, compared to approximately 50% of costs. This generally results in foreign exchange losses (gains) in periods where the U.S. dollar declines (appreciates) relative to the Canadian dollar. For the year-to-date period, the foreign exchange gain was \$2.0 million compared to a \$1.4 million loss last year, as a result of swings in the value of the U.S. dollar in those periods. These gains and losses partially offset the impact the exchange rate swings have on operating expenses and the operating loss.

Net Loss

The Company's net loss after income taxes for the quarter ended December 31, 2008 was \$15.5 million compared to a net loss of \$1.9 million for the quarter ended December 31, 2007. For the year-to-date period, the Company's net loss increased to \$17.6 million from \$4.7 million. The increased loss in the current year is primarily due to the \$12.0 million stock-based compensation charge and the \$989,000 restructuring charge taken in Q2-F2009. Excluding these items, the net loss decreased 30% to \$2.0 million for the six month period ended December 31, 2008, compared to \$2.8 million for the same period last year.

Cash from Operations

Cash from operations for the year-to-date period is \$12.2 million a 32% decrease from \$18.0 million last year, and for Q2-F2009 totaled \$3.1 million, down 66% from \$9.1 million in Q2-F2008. The decrease is primarily the recent economic downturn which has resulted in reduced 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 December 31, 2008, Absolute's cash, cash equivalents and investments (including long term investments) increased on positive operating cash flows to \$71.9 million, compared to \$72.8 million at September 30, 2008 and \$64.0 million at June 30, 2008. Based on current sales and investment plans, management believes that the Company has sufficient capital resources to meet its growth and operating requirements.

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

Accounts receivable

Accounts receivable balances decreased to \$12.2 million at December 31, 2008 (74% of Q2-F2009 Sales Contracts), down from \$18.4 million at June 30, 2008 (86% of Q4-F2008 Sales Contracts). The decreases reflect lower sales in Q2-F2009, reversal of a \$2.1 million Sales Contract that was included in receivables at June 30, 2008 (see "Deferred Revenue"), and an increase to bad debt allowances. The bad debt allowances were \$1.7 million at December 31, 2008, compared to \$715,000 at June 30, 2008. Management has increased its bad debt provision due to concerns over the current economic climate, and due to the bankruptcy of a PC OEM partner in calendar Q4-2008. As a majority of the related revenue is included in deferred revenue, a majority of the bad debt allowances is charged to deferred revenue and amortized against revenue over the term of the sales to which the allowance relates.

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

Deferred contract costs

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

At December 31, 2008, deferred contract costs of \$15.1 million (16% of deferred revenue) are up from \$14.7 million (17% of deferred revenue) at June 30, 2008.

Accrued warranty

Absolute offers a recovery guarantee, or warranty, with certain of its products whereby customers are eligible for up to a US\$1,000 guarantee payout if they meet the terms and conditions, and Absolute is unable to recover the stolen computer within a specified timeframe. For each Sales Contract that includes the guarantee, Absolute records a

warranty provision for the full value of estimated guarantee payments under the program. The corresponding expense is recorded as deferred contract costs and charged to cost of sales over the term of each contract. Net guarantee payments made to subscribers reduce the warranty accrual.

Accrued warranty increased to \$13.7 million (15% of deferred revenue) at December 31, 2008, compared to \$11.8 million (13% of deferred revenue) at June 30, 2008. Each period, management evaluates its guarantee payment experience and considers whether changes are required to the estimated warranty provision.

Deferred revenue

Deferred revenue represents Sales Contracts invoiced for which the non-refundable payment is received or due to be paid in full, but for which the revenue is not yet recognizable under GAAP. Refer to Note 8 of the Notes to the Consolidated Financial Statements for a reconciliation of deferred revenue to Sales Contracts and revenue.

Deferred revenue was \$93.7 million at December 31, 2008, compared to \$87.8 million at June 30, 2008. Future Sales Contracts will continue to increase this balance and will have a corresponding effect on revenue in future periods. Deferred revenue provides a high degree of visibility for future period revenues, with the current portion showing the amount that will be included in revenue over the next twelve months.

The deferred revenue increase over June 30, 2008 is due to Sales Contracts of \$34.7 million, less revenue of \$25.2 million and other adjustments of \$3.6 million. The other adjustments include approximately \$1.7 million of bad debt provisions, and a \$2.1 million reversal of a Sales Contract that was included in results for Q4-F2008. Given the current economic climate, management has increased its general provision for bad debts.

The \$2.1 million reversal in Q1-F2009 relates to a Q4-F2008 Sales Contract to a reseller for a government-sector customer that was included in accounts receivable and deferred revenue at June 30, 2008. Subsequent to the fiscal 2008 year end, the reseller was advised it would be unable to complete its purchasing process with the end customer, and as a result the reseller was required to cancel its original order with Absolute. The reversal adjustment was recorded in Q1-F2009 and affects the balance sheet only.

Accounting Changes

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 4, "Cash and Cash Equivalents and Investments" and Note 10, "Forward Contract" 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 4, "Cash and Cash Equivalents 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)	Q2-09	Q1-09	Q4-08	Q3-08	Q2-08	Q1-08	Q4-07	Q3-07	Q2-07
Sales Contracts	\$16.5	\$18.2	\$21.5*	\$15.0	\$15.0	\$21.0	\$16.2	\$10.6	\$ 9.3
Revenue	13.1	12.1	11.2	10.1	8.9	7.7	6.3	5.3	4.6
Net Loss (ex-Stock-Based Comp)	(2.3)	(0.6)	(0.7)	0.1	(0.8)	(2.0)	(2.0)	(0.9)	(0.8)
Net (Loss)	(15.5)	(2.2)	(2.3)	(1.3)	(1.9)	(2.9)	(2.4)	(1.2)	(1.0)
Basic and diluted (loss) per share	(0.32)	(0.05)	(0.05)	(0.03)	(0.04)	(0.06)	(0.05)	(0.03)	(0.02)
Cash from operations	3.1	9.1	5.4	6.6	9.1	8.9	4.5	3.5	4.3
Operating cash per share (basic)	0.06	0.19	0.11	0.14	0.19	0.19	0.10	0.08	0.10

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

Shareholder's Deficiency and Outstanding Share Data

As of December 31, 2008, Absolute had shareholder's deficiency of \$7.1 million. In evaluating the shareholder's equity, management believes it is important to consider the \$93.7 million of deferred revenue carried on the balance sheet. This represents prepaid (or due to be paid in full on payment terms) and non-refundable revenue, which management expects to generate high margins when recognized in income as much of the associated contract costs are already included in the operating deficit.

The Company's common shares trade on the TSX (TSX: ABT), and at December 31, 2008 the Company had 47,659,675 (47,529,010 at February 2, 2008) fully issued and outstanding common shares.

The following common share stock options and warrants are issued and outstanding at December 31, 2008:

- Employee Share Option Plan (2007): 2,754,617 common stock options granted and outstanding. The options have a weighted average strike price of \$4.89 per share, and a weighted average term to expiry of 2.6 years. For the year to date in fiscal 2009 a total of 337,000 stock options were granted to employees at an average strike price of \$7.74.
- Employee Share Purchase Plan (2006): Under the Plan, employees may purchase treasury shares at a 15% discount from market during a six month offering period. A total of two million shares have been reserved for grant under the Plan, of which 353,946 had been issued at December 31, 2008, with an additional 130,135 issued on January 2, 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 December 31, 2008. The warrants have an exercise price of \$1.00 per share, vest 20% per year starting June 30, 2006, and expire the earlier of two years after vesting, June 30, 2010, or upon termination of the agreement (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 December 31, 2008, Absolute had purchased 780,400 shares (1,058,700 million at February 2, 2009) under its Bid. Shareholders may obtain a copy of the Bid documents without charge by contacting info@absolute.com.

On December 19, 2008 Absolute obtained approval from the TSX for an Automatic Share Purchase Plan ("Plan") which enables Absolute's broker of record to continue purchases under the Bid during Absolute's company imposed quarterly trading blackout period. This Plan expires on February 5, 2009, at which time Absolute will continue its normal purchase procedures under the Bid.

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

Contractual Commitments

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

In December 2008, the Company signed a six year lease for approximately 7,500 square feet in Austin, Texas. The cost of the facility is approximately US\$200,000 per year.

The Company has a forward contract to sell US\$5 million US dollars in each of March 2009 and June 2009 at an average exchange rate of \$1.14. An unrealized loss was recorded in the income statement to record the mark-to-market value on this contract.

Off Balance Sheet Arrangements

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

Related Party Transactions

Except in extenuating circumstances, the Company does not enter into related party transactions. 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. An amount of \$1.1 million was loaned to Mr. Cotichini with an original repayment date of November 30, 2008 in order to avoid margin selling of Mr. Cotichini's Absolute stock during a company imposed trading blackout. The loan is now payable on demand as Mr. Cotichini was unable to repay the loan on November 30, 2008.

The loan accrues interest at the rate of prime + 5% and Absolute holds 310,000 of Mr. Cotichini's shares in Absolute as security. The loan is no longer a related party loan as Mr. Cotichini is no longer a Director of Absolute. At December 31, 2008, the remaining loan and interest balance owing was \$725,000 (\$601,000 at February 2, 2009), and is included in Prepaid Expenses and Other Assets in the December 31, 2008 financial statements.

Subsequent Events

None.

Recent Canadian Accounting Pronouncements

Adoption of International Financial Reporting Standards (IFRS)

In January 2006, the Accounting Standards Board (the "AcSB") announced its decision to require all publicly accountable enterprises to report under International Financial Reporting Standards ("IFRS") for years beginning on or after January 1, 2011. On February 13, 2008, the AcSB confirmed that publicly accountable enterprises will be required to use IFRS, as issued by the International Accounting Standards Board, unless modifications or additions to the requirements of IFRS are issued by the AcSB. IFRS must be adopted for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011, with restatement of comparative periods. The Company is currently assessing the future impact of these new standards on its consolidated financial statements.

In 2008, the CICA issued Handbook Section 3064 "Goodwill and Intangible Assets". Section 3064 replaces Section 3062 "Goodwill and Intangible Assets", and Section 3450, "Research and Development Costs". It establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Company's interim and annual consolidated financial statements commencing July 1, 2009. The Company has assessed that the new standard will have no impact on its financial statements.

Evaluation of Disclosure Controls and Internal Controls over Financial Reporting

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

The Company has also designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. During 1H-F2009 there were no changes to internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, these internal controls over financial reporting.

Risks and Uncertainties

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

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.

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 Operations, affect the Company's ability to retain key employees, or increase the exposure to losses from investments and bad debts.

Ability to Predict Rate of Growth and Profitability – Absolute focuses on sales growth and cash from operations as its key performance metrics, and management believes that revenue and GAAP profitability will approach the Company's Cash Margins as the rate of growth slows. However, due to the evolving SaaS business model and the unpredictability of our emerging 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.

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.

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

Foreign Operations – The Company intends to continue to pursue international market growth opportunities, which could result in 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. and the United Kingdom. The Company may not be aware of all the factors that may affect its business in foreign jurisdictions. The Company will be subject to a number of risks associated with international business activities that may increase liability or costs, lengthen sales cycles or require significant management attention. International operations carry certain risks and associated costs, such as: the complexities and expense of administering a business abroad; complications in compliance with, and unexpected changes in legal and regulatory restrictions or requirements; foreign laws, international import and export legislation; trading and investment policies; foreign currency fluctuations; exchange controls; tariffs and other trade barriers; difficulties in collecting accounts receivable; potential adverse tax consequences; uncertainties of laws and enforcement relating to intellectual property

and privacy rights; unauthorized copying of software; difficulty in managing a geographically dispersed workforce in compliance with diverse local laws and customs; and other factors depending upon the country involved. There can be no assurance that the Company will not experience these 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.

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

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

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

Sales Contracts – Management considers Sales Contracts to be one of the key financial performance indicators for the Company. Most Sales Contracts (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.

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

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

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

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

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

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

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.

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.

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.

Financial Statements

The interim unaudited consolidated financial statements should be read in conjunction with the Company’s 2008 Audited Financial Statements, and second quarter fiscal 2009 Management Discussion and Analysis.

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

		As At	
	Notes	December 31, 2008	June 30, 2008
ASSETS			
CURRENT			
Cash and cash equivalents	(Note 4)	\$ 58,412,515	\$ 46,460,299
Short-term investments	(Note 4)	3,549,849	10,488,167
Accounts receivable, net of allowance for doubtful accounts of \$1,652,000 (2008 - \$715,000)		12,193,790	18,396,731
Prepaid expenses and other assets	(Note 5)	1,523,608	906,792
Current portion of deferred contract costs	(Note 6)	7,761,382	7,234,859
Current portion of future income tax assets		1,341,691	1,341,691
		84,782,835	84,828,539
INVESTMENTS	(Note 4)	9,958,132	7,016,074
DEFERRED CONTRACT COSTS	(Note 6)	7,309,118	7,448,945
PROPERTY AND EQUIPMENT		2,431,413	1,971,003
FUTURE INCOME TAX ASSETS		2,812,970	1,512,970
INTANGIBLE ASSET		191,662	255,549
		\$ 107,486,130	\$ 103,033,080
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		\$ 5,914,018	\$ 6,240,941
Income tax payable		1,300,000	-
Current portion of accrued warranty	(Note 7)	6,429,409	5,448,513
Current portion of deferred revenue	(Note 8)	46,678,753	41,675,479
		60,322,180	53,364,933
ACCRUED WARRANTY	(Note 7)	7,229,803	6,396,080
DEFERRED REVENUE	(Note 8)	47,002,653	46,170,998
		114,554,636	105,932,011
SHAREHOLDERS' DEFICIENCY			
Share capital and other equity	(Note 9(a))	42,922,527	41,915,225
Contributed surplus	(Note 9(b))	26,001,062	11,938,462
Deficit		(75,992,095)	(56,752,618)
		(7,068,506)	(2,898,931)
		\$ 107,486,130	\$ 103,033,080

APPROVED ON BEHALF OF THE BOARD:



John Livingston

Director



Ian Reid

Director

See accompanying Notes to the Interim Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION

Consolidated Statements of Operations and Deficit

Three and six months ended December 31, 2008 and 2007

(Expressed in Canadian dollars)

	Notes	Three Months		Six Months	
		2008	2007	2008	2007
REVENUE		13,127,441	8,866,149	25,236,489	16,518,155
COST OF GOODS SOLD		3,600,744	2,981,969	6,924,429	5,734,233
GROSS MARGIN		9,526,697	5,884,180	18,312,060	10,783,922
EXPENSES					
Sales and marketing		6,996,446	4,010,106	13,920,664	7,704,213
Research and development		1,740,668	962,951	3,443,656	1,847,044
General and administration		1,989,333	1,546,295	3,709,096	3,119,567
Investment tax credits		(675,000)	-	(675,000)	-
Stock-based compensation		13,110,373	1,087,194	14,670,700	1,926,547
		23,161,820	7,606,546	35,069,116	14,597,371
OPERATING LOSS		(13,635,123)	(1,722,366)	(16,757,056)	(3,813,449)
OTHER INCOME (EXPENSE)					
Interest and bank charges		512,432	484,488	964,577	822,771
Foreign exchange gain (loss)		1,049,534	(648,401)	1,965,682	(1,434,506)
Loss on forward foreign exchange contracts	(Note 10)	(1,226,120)	-	(1,226,120)	-
Restructuring charges	(Note 11)	(989,132)	-	(989,132)	-
Write-down of investment	(Note 4)	(493,815)	-	(917,904)	(316,200)
		(1,147,101)	(163,913)	(202,897)	(927,935)
LOSS FOR PERIOD BEFORE INCOME TAXES		(14,782,224)	(1,886,279)	(16,959,953)	(4,741,384)
INCOME TAX (EXPENSE) RECOVERY		(1,975,000)	-	(1,975,000)	-
FUTURE INCOME TAX (EXPENSE) RECOVERY		1,300,000	-	1,300,000	-
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD		(15,457,224)	(1,886,279)	(17,634,953)	(4,741,384)
DEFICIT, BEGINNING OF PERIOD		(58,930,347)	(51,216,206)	(56,752,618)	(48,361,101)
ADJUSTMENT RELATED TO SHARE REPURCHASE	(Note 9(d))	(1,604,524)	-	(1,604,524)	-
DEFICIT, END OF PERIOD		\$ (75,992,095)	\$ (53,102,485)	\$ (75,992,095)	\$ (53,102,485)
BASIC AND DILUTED LOSS PER SHARE		\$ (0.32)	\$ (0.04)	\$ (0.37)	\$ (0.10)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED		48,105,228	47,067,720	48,027,394	46,829,564

See accompanying Notes to the Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION**Consolidated Statements of Cash Flows**

Three and six months ended December 31, 2008 and 2007

(Expressed in Canadian dollars)

	Notes	Three Months		Six Months	
		2008	2007	2008	2007
OPERATING ACTIVITIES					
Net loss for the period		\$ (15,457,224)	\$(1,886,279)	\$ (17,634,953)	\$(4,741,384)
Items not involving cash					
Amortization of property and equipment		265,341	188,383	495,149	346,132
Stock-based compensation		13,110,373	1,087,194	14,670,700	1,926,547
Amortization of intangible asset		31,944	31,944	63,888	63,888
Future income taxes		(1,300,000)	-	(1,300,000)	-
Write-down of investment	(Note 4)	493,815	-	917,904	316,200
Realized loss on forward foreign exchange contract	(Note 10)	416,500	-	416,500	-
Change in non-cash operating working capital					
Accounts receivable		387,126	2,774,057	6,202,940	(365,408)
Prepaid expenses and deposits		25,571	32,809	108,558	413,397
Deferred contract costs		(44,495)	(228,457)	(386,696)	(1,932,527)
Accounts payable and accrued liabilities		(50,138)	62,016	(326,924)	250,078
Income tax payable		1,300,000	-	1,300,000	-
Accrued warranty		954,661	837,828	1,814,619	2,302,145
Deferred revenue		2,950,405	6,207,385	5,834,929	19,452,648
CASH FROM OPERATING ACTIVITIES		3,083,879	9,106,880	12,176,614	18,031,716
INVESTING ACTIVITIES					
Property and equipment purchased		(249,660)	(466,291)	(955,559)	(905,691)
Other asset	(Note 5)	(725,374)	-	(725,374)	-
Realized loss on forward foreign exchange contract	(Note 10)	(416,500)	-	(416,500)	-
Proceeds from maturities of short term investments		6,661,000	8,006,180	8,231,571	16,149,106
Purchases of short term investments		(1,190,081)	(2,593,525)	(2,211,157)	(15,347,284)
Proceeds from maturities of investments		961,000	-	961,000	-
Purchases of investments		(1,780,704)	-	(3,903,058)	-
CASH FROM (USED IN) INVESTING ACTIVITIES		3,259,681	4,946,364	980,923	(103,869)
FINANCING ACTIVITIES					
Repurchase of common shares		(2,272,154)	-	(2,272,154)	-
Issuance of common shares		173,171	249,994	1,066,833	1,189,313
CASH FROM FINANCING ACTIVITIES		(2,098,983)	249,994	(1,205,321)	1,189,313
NET CASH INFLOW		4,244,577	14,303,238	11,952,216	19,117,160
CASH AND CASH EQUIVALENTS,					
BEGINNING OF PERIOD		54,167,938	12,593,427	46,460,299	7,779,505
CASH AND CASH EQUIVALENTS,					
END OF PERIOD		\$ 58,412,515	\$26,896,665	\$ 58,412,515	\$26,896,665
COMPOSITION OF CASH AND CASH EQUIVALENTS:					
Cash				\$ 3,381,131	\$ 2,524,075
Cash equivalents				55,031,384	24,372,590
				\$ 58,412,515	\$26,896,665

See accompanying Notes to the Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Interim Consolidated Financial Statements (Unaudited)
 Three months ended December 31st, 2008 and 2007
 (Expressed in Canadian dollars)

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

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

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

(b) Deferred revenue and revenue recognition

A majority of the Company's sales contracts are for subscriptions for computer theft recovery and secure asset tracking services with subscription terms ranging from one to five years. The full value of each sales contract is invoiced and receivable upon signing the contract, and is non-refundable. However, these sales are comprised of multiple elements, including software, monitoring services and maintenance, which are not separable for accounting purposes. As a result, the revenue from these contracts is carried as deferred revenue on the balance sheet and is amortized to revenue ratably over the contract term. Amortization of sales contracts to revenue commences in the month after sale. A portion of the associated direct costs, such as commissions and warranty accruals (Note 6), are also deferred and expensed ratably over the contract term. Despite this partial cost deferral, a majority of period costs relate to generating the period Sales Contracts as opposed to the revenue for the period.

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

Foreign denominated Sales Contracts are recorded at the Canadian dollar equivalent based on the average exchange rate in the month the sale occurred. The average U.S. dollar exchange rates for the Company's Sales Contracts were \$1.0445 for Q1 Fiscal 2009 and \$1.2148 in Q2 Fiscal 2009 and \$1.0409 for Q1 Fiscal 2008 and \$0.9875 in Q2 Fiscal 2008.

2. CHANGES IN ACCOUNTING POLICIES

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.

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.

The additional disclosures, required as a result of adoption of these standards, have been included in Note 12, Capital Risk Management and Note 13, Financial Risk Management and Financial Instruments.

3. CHANGES IN ACCOUNTING POLICIES NOT YET ADOPTED

The following accounting pronouncements have been released but have not yet been adopted by the Company.

(a) International Financial Reporting Standards

The CICA plans to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011. The impact on the transition to IFRS on the Company's financial statements is not yet determinable.

(b) Goodwill and Intangible Assets

In 2008, the CICA issued Handbook Section 3064 "Goodwill and Intangible Assets". Section 3064 replaces Section 3062 "Goodwill and Intangible Assets", and Section 3450, "Research and Development Costs". It establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Company's interim and annual consolidated financial statements commencing July 1, 2009. The Company has assessed that the new standard will have no impact on its financial statements.

4. CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

	Cost and Recorded Basis			Allocation for Balance Sheet		
	Cost Basis	Unrealized Losses	Recorded Basis	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments
As at December 31, 2008						
Bank balances and term deposits	60,004,996		60,004,996	58,412,515	1,592,481	
Non-government ABCP	2,108,000	(1,032,920)	1,075,080			1,075,080
Investment Grade Securities	9,661,152		9,661,152		778,100	8,883,052
Marketable securities	2,434,037	(1,254,769)	1,179,268		1,179,268	
	74,208,185	(2,287,689)	71,920,496	58,412,515	3,549,849	9,958,132
As at June 30, 2008						
Bank balances and term deposits	46,746,913		46,746,913	46,460,299	286,614	
Non-government ABCP	2,108,000	(843,200)	1,264,800			1,264,800
Investment Grade Securities	14,045,376		14,045,376		8,294,102	5,751,274
Marketable securities	2,434,037	(526,586)	1,907,451		1,907,451	
	65,334,326	(1,369,786)	63,964,540	46,460,299	10,488,167	7,016,074

For the six months ended December 31, 2008, the Company took an additional valuation provisions in the amount of \$190,000 against its holdings of non-government ABCP, and of \$728,000 against its holdings of marketable securities.

5. PREPAID EXPENSES AND OTHER ASSETS

Included in prepaid and other assets is a loan receivable from a former member of Absolute's Board of Directors in the amount of \$725,000. 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. An amount of \$1.1 million was loaned to Mr. Cotichini with a repayment date of November 30, 2008 in order to avoid margin selling of Mr. Cotichini's Absolute stock during a company imposed trading blackout. The loan is now payable on demand as Mr. Cotichini was unable to repay the loan on November 30, 2008.

The loan accrues interest at the rate of prime + 5% and the Company holds 310,000 of Mr. Cotichini's Absolute shares as security. The loan is no longer a related party loan as Mr. Cotichini is no longer a Director of Absolute. At December 31, 2008, the remaining loan and interest balance owing was \$725,000 (\$601,000 at February 2, 2009), and is included in Prepaid Expenses and Other Assets in the December 31, 2008 financial statements.

6. DEFERRED CONTRACT COSTS

	As at	
	December 31, 2008	June 30, 2008
Prepaid sales commissions	\$ 6,310,354	\$ 6,081,205
Accrued warranty and prepaid insurance costs	8,511,476	8,384,144
Other prepaid / accrued contract costs	248,670	218,455
Balance at the end of the period	15,070,500	14,683,804
Less: Current portion	(7,761,382)	(7,234,859)
Long term portion	\$ 7,309,118	\$ 7,448,945

7. ACCRUED WARRANTY AND GUARANTEE

The Company offers a recovery guarantee, or warranty, with certain of its products. Upon signing Sales Contracts that include the recovery guarantee, the Company records accrued warranty for the estimated cost of potential warranty claims during the term of each contract.

	As at	
	December 31, 2008	June 30, 2008
Balance at the beginning of the period	\$ 11,844,593	\$ 8,005,050
Warranty accrual on new sales contracts	* 2,571,129	4,907,939
Warranty claims paid	* (756,510)	(1,068,396)
Balance at the end of the period	13,659,212	11,844,593
Less: Current portion	(6,429,409)	(5,448,513)
Long term portion	\$ 7,229,803	\$ 6,396,080

* For 6 months ended December 31, 2008 and 12 months ended June 30, 2008.

8. DEFERRED REVENUE

	As at	
	December 31, 2008	June 30, 2008
Balance at the beginning of the period	\$ 87,846,477	\$ 54,243,816
Add: Sales contracts during the period	* 34,718,070	72,452,073
Less: Revenue recognized during the period	* (25,236,489)	(37,853,404)
Less: Other adjustments	* (3,646,652)	(996,008)
Balance at the end of the period	93,681,406	87,846,477
Less: Current portion	(46,678,753)	(41,675,479)
Long term portion	\$ 47,002,653	\$ 46,170,998

* For 6 months ended December, 2008 and 12 months ended June 30, 2008.

Other adjustments at December 31, 2008, a majority of which were recorded in Q1-F2009, include approximately \$1.7 million of bad debt provisions and a \$2.1 million reversal of a Sales Contract that was included in results for Q4-F2008. Over one half of the bad debt provisions are due to a second tier PC OEM that declared bankruptcy in late 2008. In addition, given the current economic climate, management has increased its general provision for bad debts.

The \$2.1 million reversal in Q1-F2009 relates to a Q4-F2008 Sales Contract to a reseller for a government-sector customer that was included in accounts receivable and deferred revenue at June 30, 2008. Subsequent to the fiscal 2008 year end, the reseller was advised it would be unable to complete its purchasing process with the end customer, and as a result the reseller was required to cancel its original order with Absolute. The reversal adjustment was recorded in Q1 F2009 and affects balance sheet items only.

9. SHAREHOLDERS' DEFICIENCY

(a) Issued

	Number of Shares	Number of Warrants	Amount
Common shares			
Balance at June 30, 2008	47,811,570	600,000	\$ 41,915,225
Shares issued on options exercised (c)	381,543	-	1,056,195
Shares issued under Employee Share Purchase Plan	46,962	-	418,737
Shares repurchased and cancelled during the year under the Normal Course Issuer Bid (d)	(780,400)		(667,630)
Shares issued on broker warrants exercised	200,000	(200,000)	200,000
Balance December 31, 2008	47,659,675	400,000	\$ 42,922,527

(b) Contributed surplus

	As at	
	December 31, 2008	June 30, 2008
Contributed surplus, beginning of period	\$ 11,938,462	\$ 7,814,428
Stock-based compensation expense recorded on option and purchase plans *	14,670,700	4,948,972
Transfer to share capital on exercise of options and warrants *	(608,100)	(824,938)
Contributed surplus, end of period	\$ 26,001,062	\$ 11,938,462

* For 6 months ended December 31, 2008 and 12 months ended June 30, 2008.

(c) Stock options

The maximum number of shares issuable under the Employee Share Option Plan at December 31, 2008 was 7,148,951. At December 31, 2008, the total share options outstanding were:

Share options outstanding, beginning of period	6,169,410
Exercised during the period	(381,543)
Forfeited during the period	(3,370,250)
Granted during the period	337,000
Outstanding, end of period	2,754,617
Weighted average exercise price	\$ 4.89
Weighted average term remaining	2.6 years
Number of options exercisable at December 31, 2008	1,001,667
Weighted average price of exercisable options	\$ 2.76

On December 17, 2008, the Company cancelled 2.9 million out-of-the-money stock options as a result of voluntary surrender of certain options by Absolute employees. The cancellation resulted in a one-time non-cash stock-based compensation charge of \$12.0 million in Q2-F2009, representing the remaining unamortized value of the cancelled options. The employees who surrendered options had not been granted any options in the three months prior to December 17, 2008, and will not receive any further options within three months following this date.

(d) Normal course issuer bid

On November 6, 2008, Absolute received approval from the TSX for a Normal Course Issuer Bid ("Bid") that enables Absolute 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 December 31, 2008, Absolute had purchased 780,400 shares (1,058,700 shares at February 2, 2009) under its Bid for a total purchase price of \$2.3 million (\$3.2 million at February 2, 2009). All repurchased shares have been retired.

On repurchase of the shares, the difference between the purchase price and the share capital book value is recorded in the accumulated deficit. At December 31, 2008, this amounted to \$1.6 million based on an average share capital book value on issuance of \$0.7 million.

10. FORWARD FOREIGN EXCHANGE CONTRACT

In October 2008, the Company entered into a \$15 million forward foreign exchange contract to sell \$5 million US dollars in each of December 2008, March 2009 and June 2009 at an average exchange rate of \$1.14. A realized loss of \$416,000 was recorded during the quarter ended December 31, 2008 and treated as an investing loss in the Statement of Cash Flows. An unrealized loss of \$810,000 was recorded in the income statement to record the mark-to-market value of the remaining notional \$10 million US forward contract as at December 31, 2008.

11. RESTRUCTURING CHARGES

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

12. CAPITAL RISK MANAGEMENT

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth to provide returns to its shareholders. The capital structure of the Company consists of cash and components of shareholders' equity including deficit, contributed surplus and capital stock. The Company does not pay annual dividends or have any debt.

The Company makes adjustments to its capital structure in light of general economic conditions, the risk characteristics of the underlying assets and the Company's working capital requirements. The Board of Directors reviews and approves any material transactions not in the ordinary course of business, including major investments and forward foreign exchange contracts.

13. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

(a) Overview:

The Company is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth. The main objectives of the Company's risk management process are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal financial risks to which the Company is exposed are described below.

(b) Market risk:

Market risk is the risk that changes in market prices, such as fluctuations in the market prices of the Company's publicly traded investments, foreign exchange rates and interest rates, will affect the Company's income or the value of its financial instruments. The Company does not engage in risk management practices such as hedging, derivatives or short selling with respect to its publicly traded investments.

The Company operates internationally, primarily in the United States, giving rise to exposure to market risks from foreign exchange rates. The Company entered into a forward foreign exchange contract as discussed in Note 10. The Company is in a net U.S. dollar asset position and therefore records gains in periods of rising U.S. dollar exchange rates and losses in periods of decline rates. However, it should also be noted that these gains and losses are effectively offset by the exchange impact on operating income. Operating costs are converted at current exchange rates, while revenue is recorded at historic rates from when the Sales Contracts were booked, and therefore the operating loss is increased when the U.S. dollar appreciates.

Foreign Currency Sensitivity Analysis:

The Company is mainly exposed to fluctuations in the U.S. dollar. The Company's sensitivity to a 1% strengthening of the U.S. dollar against the Canadian dollar is an approximate reduction of \$70,000 on operating income and an approximate \$10,000 increase to net income. For a 1% weakening against the Canadian dollar, there would be an equal and opposite impact on net income. The sensitivity analysis includes foreign currency denominated monetary assets and liabilities and adjusts their translation at period end for a 1% change in foreign currency rates.

(c) Liquidity Risk:

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at excessive cost. The Company mitigates liquidity risk through the management of its capital structure and financial leverage, as outlined in Note 12 to the unaudited interim consolidated financial statements. The Company's growth is financed through cash on hand and cash flows from operations. The majority of the Company's financial liabilities recorded in accounts payable and accrued liabilities are due within 30 days.

Given the Company's available liquid resources as compared to the timing of the payments of liabilities, management assesses the Company's liquidity risk to be low.

(d) Credit Risk:

Credit risk represents the financial loss that the Company would experience if a counterparty to a financial instrument, in which the Company has an amount owing from the counterparty failed to meet its obligations in accordance with the terms and conditions of its contracts with the Company. The carrying amount of the Company's financial assets represents the Company's maximum credit exposure.

The Company manages credit risk related to accounts receivable by maintaining reserves for potential credit losses. The majority of the accounts receivable balance is due from well-capitalized computer manufacturers who have a history of paying on a timely basis. However, over half of the Company's bad debt provisions are due to a second tier PC OEM that declared bankruptcy in late 2008 as discussed in Note 8. As at December 31, 2008, 17% of the Company's accounts receivable balance is over 90 days past due as compared to 11% at June 30, 2008. Accounts receivable are net of allowance for doubtful accounts of \$1.7 million (June 30, 2008 - \$715,000).

The Company manages credit risk related to cash by maintaining bank accounts with Schedule 1 banks.

*(e) Financial Instruments:**(i) Classification of Financial Instruments*

	Classification	Measurement
Cash and cash equivalents	Held for trading	Fair value
Short-term investments - bonds	Held-to-maturity	Amortized cost
Short-term investments - marketable securities	Available for sale	Fair value
Accounts receivables	Loans and receivables	Amortized cost
Investments	Held-to-maturity	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

(ii) Fair Values of Financial Instruments

The carrying value of cash and cash equivalents, short term investments, accounts receivable, accounts payables and accrued liabilities approximate their fair values due to the short-term nature of these instruments.

The carrying value of the marketable securities which are publicly traded (included in short term investments) are determined by the quoted market values for the investment (Note 4).

14. SEGMENTED INFORMATION

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

	Six months ended December 31,	
	2008	2007
Revenue		
United States	\$ 23,502,455	\$ 15,663,658
Canada and International	1,734,034	854,497
Total	<u>\$ 25,236,489</u>	<u>\$ 16,518,155</u>
	As at	
	December 31,	June 30,
	2008	2008
Long Lived Assets		
Canada	\$ 2,434,879	\$ 2,158,666
United States and International	188,195	67,886
Total	<u>\$ 2,623,075</u>	<u>\$ 2,226,552</u>

BOARD OF DIRECTORS

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

Ian Griffin***
Toronto, ON

Terry Libin**
Calgary, AB

Ian Reid*
Vancouver, BC

Phil Gardner
Minnesota, USA

OFFICERS AND SENIOR MANAGEMENT

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Rob Chase
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Carter McCrary
Chief Operations Officer

Rich Cohen
Senior Vice President, Business Development

John Sarantakes
Vice President, North American Sales

Mark Grace
Vice President, Consumer Business

Gareth Mason
Vice President, Service Delivery

Jim MacCallum
Vice President, Finance

Bill Pound
Vice President, International Operations

CORPORATE INFORMATION

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Vancouver, BC

Transfer Agent

CIBC Mellon Trust
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Toronto, ON

Legal Counsel

Lang Michener
Vancouver, BC

Common Shares

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

ADDITIONAL INFORMATION

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* Chairman of Compensation Committee

** Chairman of Strategic Planning Committee

*** Chairman of Audit Committee