

ABSOLUTE SOFTWARE CORPORATION (TSX: ABT)
Fiscal 2010 Management's Discussion and Analysis
For the years ended June 30, 2010 and 2009
Dated: August 23, 2010

The following Management's Discussion and Analysis ("MD&A") is prepared in accordance with National Instrument 51-102F1, and should be read in conjunction with the Company's Fiscal 2010 Consolidated Financial Statements and accompanying notes. 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.

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

This MD&A, and the documents incorporated by reference, contain forward-looking statements pertaining to expectations which include, but are not limited to: (a) a continuing need for laptop data protection, theft recovery services and computer lifecycle management solutions in difficult economic times; (b) the continued successful integration of recently-acquired products and technologies; (c) an increase in computer refresh/replacement cycles; (d) the attainment of certain sales and cash flow targets and company performance; (e) increased adoption, or attach, rates of the Company's lifecycle management, computer tracking, and computer theft recovery solutions; (f) the ability of the Company to successfully execute on its growth strategies, including attracting new distribution partners; (g) continuation of embedded firmware support from its current and anticipated PC OEM partners; (h) the demand for its products continuing to increase; (i) stable currency valuations and a sufficiently stable and healthy global economic and business environment; (j) the ability of the Company to access and gain traction in international markets and that such markets are growing as anticipated; and (j) other expectations, intentions and plans contained in this document that are not historical fact.

With respect to forward-looking statements contained in this MD&A, the Company has made a number of assumptions. The key assumptions underlying the aforementioned forward-looking statements are that: (a) the data security and endpoint lifecycle management markets will converge, and Absolute will be able to capitalize on this shift as a result of its recent acquisitions and an expanded product and feature set; (b) worldwide computer shipments will continue to grow, and Absolute will benefit from this trend through increased sales as a result of our investments in global sales and marketing and PC OEM partnerships; (c) our expiring subscription ratio will improve as a result of an increase in computer shipments; (d) our investments in future growth of the business will generate returns as the worldwide computer market rebounds; (e) Absolute will be able to continue to add new products and features on a global scale; and (f) Absolute will expand its portfolio of intellectual property, including patents. Certain or all of the forgoing assumptions may prove to be incorrect which could negatively impact the Company's business and the anticipated results discussed herein.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of substantial known and unknown risks and uncertainties, certain of which are beyond the Company's control. Such risks and uncertainties include, without limitation: risks associated with increased competition from other producers; the impact of general, economic conditions in Canada, the United States and overseas; industry conditions, changes in technology, changes in laws and regulations (including the adoption of new privacy and data collection laws and regulations) and changes in how they are interpreted and enforced; changes in federal and provincial tax laws and legislation; the lack of availability of qualified personnel or management; fluctuations in foreign exchange or interest rates; stock market volatility and market valuations of companies with respect to announced transactions and the final valuations thereof; and obtaining required approvals of regulatory authorities. Readers are cautioned that the foregoing list of risks to the Company's performance is not exhaustive and reference is made to the items under "Risk Factors" in this MD&A and the Company's Annual Information Form for the year ended June 30, 2010. All subsequent forward-looking statements, whether written or oral, attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements. Furthermore, the forward-looking statements contained in this MD&A are made as at the date hereof and the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

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

| | Fiscal 2010 | Fiscal 2009 | Fiscal 2008 |
|--|--------------------|-------------|-------------|
| Cash from Operating Activities ⁽¹⁾ | \$ 6.4 | \$ 17.4 | \$ 30.0 |
| % decrease | (63%) | (42%) | 78% |
| Per Share (basic) ^{(1) (3)} | \$ 0.14 | \$ 0.37 | \$ 0.64 |
| Per Share (diluted) | \$ 0.13 | \$ 0.36 | \$ 0.60 |
| Sales Contracts reported ⁽¹⁾ | \$ 69.7 | \$ 71.9 | \$ 72.5 |
| % (decrease) increase | (3%) | (1%) | 53% |
| Sales Contracts in constant currency ⁽²⁾ | \$ 76.7 | \$ 71.9 | \$ 82.7 |
| % increase (decrease) | 7% | (13%) | 69% |
| Revenue | \$ 64.1 | \$ 53.2 | \$ 37.9 |
| % increase | 20% | 41% | 88% |
| Net loss | \$ (8.2) | \$ (2.3) | \$ (8.4) |
| Per share (basic and diluted) ⁽³⁾ | \$ (0.18) | \$ (0.05) | \$ (0.18) |
| Total assets ⁽⁴⁾ | \$ 124.3 | \$ 117.3 | \$ 94.6 |
| Cash, cash equivalents and investments | \$ 58.0 | \$ 68.9 | \$ 64.0 |
| Deferred Revenue ⁽⁴⁾ | \$ 102.8 | \$ 95.9 | \$ 79.5 |

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

(2) 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 F2009. With approximately 95% of Sales Contracts in U.S. dollars, management believes this to be important to consider when evaluating the underlying performance. The average U.S. dollar to Canadian dollar exchange rate on sales was 1.0131 in F2008, 1.1578 in F2009 and 1.0548 in F2010.

(3) Per share figures for F2010 and F2009 reflect a reduced number of outstanding shares following the Company’s purchase and retirement of 238,000 common shares in F2010 and 3,257,000 common shares in F2009 under annual Normal Course Issuer Bids that commenced in November 2009 and 2008.

(4) Total assets and deferred revenue in 2008 are recast for adoption of CICA Section 3064, Goodwill and Intangible Assets. See Note 2 of our Consolidated Financial Statements for additional information.

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

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

BUSINESS OVERVIEW:

Background

Absolute® Software Corporation (“Absolute”, the “Company”, or “we”) helps organizations overcome the security risks and asset management challenges associated with desktop and mobile end devices. The Company’s patented Computrace® technology platform allows Absolute’s products to be delivered in a Software-as-a-Service (“SaaS”) model over the Internet or as licensed software installed at the customer’s site. Customers include corporations, educational institutions, healthcare and government organizations, and individual consumers who use these products to secure and manage their computing assets.

The adoption of mobile computing devices and platforms is growing rapidly, and with it the cost and complexity for organizations to manage and secure multiple device types and platforms, and the amount of confidential data at risk is expanding exponentially. The key drivers for this trend have been convenience, efficiency and the desire for true mobility – that is, to have anywhere and anytime access to critical communication systems and information. Organizations must now support multiple platforms and devices. As a result, they are no longer able to achieve the device control, management efficiencies, and compliance and security levels that they previously maintained in the era of PC standardization and LAN-based computing.

Our Computrace and Absolute Manage solutions provide organizations and individuals with the ability to regain control of their computing devices and to attain the necessary compliance, security and cost savings required to enable them to confidently embrace these computing trends. With Absolute, organizations can track, manage and protect their mobile and desktop PCs, Mac computers, handheld devices (Blackberry, Windows and Symbian) and Apple iOS 4 smartbook devices (such as iPhone and iPod touch) – all from a single management console.

The core software agent for our technology is firmware embedded in PCs from the world’s leading PC manufacturers (“PC OEMs”), making Absolute’s Computrace and Absolute Manage products tamper-resistant, or “persistent”, which means that the solutions are able to self-heal in the event that the software is disrupted. This is a key competitive advantage for mobile computing, as these devices rarely connect to an organization’s internal network, making them very difficult to track and manage. While most tracking, security and lifecycle management solutions provide only 70% accuracy into their mobile devices, Absolute’s solutions can provide close to 100% accuracy. With the amount of data at risk on these devices and the stringent data privacy regulations with which organizations must comply, our products have a distinct competitive advantage in the marketplace.

We also provide emergency response services that are unique in the market, enabling customers to take immediate action whenever they lose control of a device. These are Absolute’s flagship data and device security services, which remain a significant part of our core value proposition and competitive advantage, and include: data delete, machine lock, persistent device messaging, investigative services, file retrieval, location identification and full theft recovery. Importantly, the location and theft recovery

services are managed by our team of former law enforcement professionals, which we believe is the only viable way to provide such services while also ensuring privacy rights are protected.

We believe the addressable market for our solutions to be large and growing, with every computer sold worldwide representing a potential customer. This applies to both commercial and consumer customers, which currently represent 87% and 13% of our sales, respectively. The growing adoption of portable computers continues to outpace traditional desktop computers, a trend which closely aligns with the competitive advantages of our Computrace and LoJack for Laptops solutions.

With the addition of Absolute Manage during the year, we have expanded the potential for attaching our products to existing PC and Apple computer deployments. The computer lifecycle configuration management market is large and mature. According to Gartner's most recent market assessment, sales of PC configuration lifecycle management tools totaled approximately \$2.1 billion and account for approximately 80% of the total configuration market. We believe Absolute Manage is positioned to be disruptive in this market with competitive advantages from its cross-platform and Computrace persistence features.

Globalization

In developing the market for our solutions, we have focused primarily on North America from where we have historically generated more than 95% of our sales. However, we believe that extending our market reach globally offers significant long-term growth opportunities, especially since global computer shipments are expected to grow at much faster rates than those in North America. As such, we continued to increase our efforts to globalize our products and presence in F2010.

During the year, we announced the opening of our Japan office and introduced a Japanese version of our product. We now have offices in Vancouver, Austin, London, Amsterdam, Nuremburg, and Tokyo. Our products and customer support are now available in 13 languages. We now have sales distribution agreements with nine OEMs and a number of other in-country resellers in Europe ("EMEA"), and have also begun to add sales capability in the Asia Pacific and Latin American regions.

As a result of these efforts, our sales outside of North America increased 41% in F2010 to 6% of total sales, compared to 4% of sales in F2009 and 3% of sales in F2008. Nevertheless, while our investments have begun to drive growth, we are still in the foundation building stages of our international expansion.

Partner Ecosystem

Our partner ecosystem is an essential component of our business strategy. Our primary partners are PC OEMs, who are both key collaborative technology partners and key distribution partners. We generate approximately 85% of our total sales through our PC OEM partners using various sales and marketing programs combined with co-engagement from our direct sales force to help identify and close sales opportunities.

We have also been developing relationships with leading market influencers including infrastructure partners (for example, Intel®, Qualcomm® and Microsoft®), telecom internet service providers, and other software vendors and resellers to complement our PC OEM efforts.

From a technology perspective, our PC OEM partners have adopted our Computrace technology as a standard and have embedded it in the firmware of their portable computers. This is an essential collaboration for us, as the embedded support enhances the persistence (ability to survive unauthorized or un-intentional removal attempts) of our software. This is a key value proposition and differentiator for Absolute.

Every year, our software ships embedded in the firmware of millions of computers worldwide. The following table lists the PC OEMs who are currently providing embedded support for Computrace:

| | |
|---|---------------------------------------|
| Acer (since 2009) | GammaTech (since 2008) |
| ASUS (since 2009) | General Dynamics Itronix (since 2008) |
| Dell (since 2005) | Getac (since 2008) |
| Fujitsu US (since 2006) and EMEA (since 2009) | Lenovo (since 2005) |
| HP (since 2005) | Motion Computing (since 2006) |
| Intel (Classmate Computer) (since 2009) | Panasonic (since 2006) |
| | Toshiba (since 2006) |

Solutions and Technology

Solutions:

The following table provides a list of our commercial and consumer solutions. Our Computrace and LoJack® for Laptops products are delivered in a SaaS model. The customer simply deploys our client software, activates Computrace in the firmware, and can immediately begin realizing the benefits. There is no need for servers or complicated deployment schedules. Our Absolute Manage product, which was acquired through our acquisition of LANrev in F2010, is currently deployed on-premise by our customers using a lightweight server deployment model. A small number of Computrace customers, whose internal policies prohibit their computers from accessing third party servers, have purchased our Computrace product using an on-premise model.

| Feature | Computrace | Absolute Manage | LoJack for Laptops (Consumer) |
|------------------------------------|-------------------|------------------------|--------------------------------------|
| Persistence | • | • | • |
| Hardware inventory tracking | • | • | |
| Software inventory tracking | • | • | |
| Software license compliance | • | • | |
| Policy monitoring | • | • | |
| Vulnerability alerting | • | | |
| Geofencing | • | | |
| Geotracking | • | | • |
| Power management | | • | |
| Patch management | | • | |
| Configuration management | | • | |
| Computer imaging (Apple only) | | • | |
| Persistent end user messaging | • | | |
| Operating system level device lock | • | | • |
| Intel AT device lock | • | | • |
| Remote data delete | • | | • |
| Investigative services | • | | • |
| Theft recovery services | • | | • |
| Operating Systems supported: | | | |
| Mac and PC support | • | • | • |
| Smartphone/book Devices supported | | | |
| Netbook devices | • | • | • |
| Blackberry devices | • | | • |
| Windows Mobile devices | • | | • |
| Symbian devices | • | | • |
| Apple iOS4 devices | | • | |

In the coming year, we expect to continue adding new products and features, particularly in the areas of computer lifecycle management, data protection, and mobile device support on a global scale. Some of these are expected to be available as part of existing products and some as separately charged products and modules.

Patent Portfolio

We have a portfolio of 15 issued patents, and currently have 69 new patent applications in process. Several potential competitors have taken licenses to our patent portfolio to enable them to participate in the computer theft recovery space. The royalty revenue from these licensees is currently not material.

By virtue of its patent portfolio, from time to time the Company is involved in assertions and claims of patent infringement as both the initiating party and, from time to time, as a respondent to such claims. Currently, the company is party to the following patent-related matter:

Absolute Software Corporation and Absolute Software, Inc. v. Stealth Signal, Inc., and Computer Security Products, Inc. in the United States District Court for the Southern District of Texas, Case No. H-05-1416. On July 21, 2010 the claim of patent infringement made against Stealth Signal, Inc. by the Company was dismissed and the counterclaim against the Company for patent infringement was also dismissed. Subsequently, both parties filed notices to appeal the dismissal of their respective claim and counterclaim.

In order to establish and defend its proprietary rights and patent portfolio, the Company is also the initiating party in two other patent-related matters. The Company's management believes Absolute will prevail in these cases, however, the potential outcome, timing, and impact on the Company's business and patent portfolio is not determinable at this time.

Competition

Since inception, we have had few direct competitors in our flagship services for computer theft recovery and anti-theft. Most competitors have been small operators with limited resources to widely commercialize their offerings. Based on our proprietary technology and patent protection, several of those competitors have taken licenses to our patents and now pay us royalties on their sales; have ceased offering the potentially infringing offerings; or have abandoned their own applications and become resellers or referral partners of our solutions. In addition, during F2010, we purchased the technology assets for a product called FailSafe.

As we have expanded into the broader computer lifecycle management and security market, we have seen an increased level of established competition. In the computer lifecycle management market, we compete with market leading products such as Altiris (from Symantec), LANdesk, Kace (recently acquired by Dell) and BigFix (recently acquired by IBM), among others. In the data and device security market, we primarily compete with data security companies that offer leading encryption solutions such as Safeboot (from McAfee), Utimaco (from Sophos), Checkpoint and Symantec (previously Guardian Edge and PGP), among others.

We believe that our persistent, cloud-based solutions, our unique anti-theft services and our cross-platform and mobile device capabilities enable us to both complement and effectively compete with these leading offerings and vendors.

Our Computrace solutions are generally purchased as a complement to all of these solutions, with more than half of our customers using encryption and management solutions from other vendors. However, where there are budget constraints, Computrace will often be seen as a second priority to these offerings.

Conversely, our Absolute Manage offering is a direct competitor of other computer lifecycle management solutions. Despite their larger size and established market position, we have successfully won bids against these larger competitors. The primary advantages in winning these deals include our cross-platform capability (PC and Mac support), ease of use, and minimal infrastructure requirements. In July 2010, we announced persistence for Absolute Manage, which we expect will provide a further competitive advantage as we now offer the only self-healing lifecycle management solution on the market.

Subscription Business Model

We sell our solutions in a subscription model in which customers acquire subscriptions to software-based services for a limited license term. From a financial perspective, this subscription model improves the visibility of revenue streams, enables recurring cash flows and is expected to maximize profitability over time.

However, the accounting treatment for the subscription 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 and subscription companies are generally evaluated based on 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. The amount invoiced is recorded at the exchange rate in effect at the time of sale in deferred revenue on the balance sheet, and is recognized ratably over the contract term. We refer to these subscriptions as "Sales Contracts", which, as previously mentioned, are not a standardized measure prescribed under Canadian GAAP. Sales Contracts are a component of deferred revenue (see Note 10 of the Notes to the Consolidated Financial Statements). Sales Contracts are recorded at the value received by Absolute from either the reseller or directly from the customer. The value received from the reseller is net of reseller discounts.

As our Sales Contracts have traditionally averaged approximately 28 months in term, there is a significant lag between revenue recognition and the timing of the Sales Contract and non-refundable cash flows. In general, only 15-20% of total Sales Contracts reported for any given fiscal year are also recognized as revenue in the same fiscal year. Conversely, a majority of our operating expenses in each fiscal year are incurred to generate these Sales Contracts for the period. As a result, in times of rapid growth in the business, GAAP earnings will often decrease or losses increase, while operating cash flow accelerates.

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

FINANCIAL PERFORMANCE REVIEW AND ANALYSIS

Performance Overview

During F2010, we continued to invest in our infrastructure, services, personnel and go-to-market strategies in order to expand globally and maximize our attach rates. We believe these investments have us well positioned to capitalize on computer refresh cycles as we head into F2011.

Acquisitions were a key component of our F2010 investment strategy.

On December 2, 2009, we acquired Absolute Manage (previously LANrev) for US\$12.5 million in cash and 500,000 common shares of the Company (of which US\$2.5 million in cash and 500,000 common shares are deferred consideration which will be paid in three equal annual installments commencing in December 2010). Having successfully re-branded the product as Absolute Manage and completed some minor integration during F2010, we are excited by the early signs of success of this offering. In July 2010, we announced that we extended our persistence technology to Absolute Manage, making it the only self-healing lifecycle management solution on the market. We also announced iOS 4 support, which enables us to provide remote configuration management, tracking, delete and lock capabilities for most Apple mobile device offerings. With these enhancements, we expect that Absolute Manage will act as a key catalyst for our sales growth in the future.

On April 7, 2010, we announced the acquisition of the technology assets of the FailSafe® and Phoenix® Freeze™ products from Phoenix Technologies Ltd for US\$6.9 million. These were competitive products and as a result, we believe we have increased our competitive advantage in the anti-theft space. We intend to integrate certain components of these products into our existing product suite, with the expectation that it will also help us win embedded firmware support from new PC OEM partners and increase our presence in Asia.

Financial highlights for Fiscal 2010 include:

- Sales Contracts invoiced of \$69.7 million (\$76.7 million in constant currency), compared to \$71.9 million in F2009 (\$71.9 million in constant currency); and \$72.5 million in F2008 (\$82.7 million in constant currency).
- We finished the year with a subscription base of 5.9 million computers, up 43% from 4.1 million at June 30, 2009.
- Sales Contracts consisted of \$51.0 million from existing commercial customers, or \$56.2 million in constant currency, up 7% in constant currency from \$52.5 million in the prior year.
- Deferred revenue was \$102.8 million at June 30, 2010, up 7% from \$95.9 million at June 30, 2009.
- Cash, cash equivalents & investments (including long-term) were \$58.0 million at June 30, 2010, compared to \$68.9 million at June 30, 2009, reflecting cash used for the acquisition of LANrev, FailSafe[®] and Freeze[™] and the Company's share buy-back program.

Sales Contracts of \$69.7 million and Cash from Operating Activities of \$6.4 million for F2010 are within our previously revised guidance range of \$68-72 million in Sales Contracts and \$5-7 million in Cash from Operating Activities. In constant currency terms, this reflects 7% growth in Sales Contracts over F2009. We believe these results are in line with our strategy of maintaining our investment program during the economic downturn in order to firm up our long-term competitive position and expand worldwide.

Guidance:

For fiscal 2011, we are providing guidance that we expect to continue our Sales Contracts growth trend in fiscal 2011, increasing beyond the \$69.7 million achieved in fiscal 2010. At current growth rates, we plan to maintain cash operating costs in line with the run-rate level from the second half of fiscal 2010. Accordingly, we also expect to grow Cash from Operating Activities in fiscal 2011 beyond the \$6.4 million achieved in fiscal 2010. However, we are not providing specific guidance for the growth targets. The Company believes that it is not practical to provide precise guidance with an acceptable degree of reliability, due to the unpredictable economic climate and computer refresh cycle.

Sales Contracts

Fiscal 2010 Sales Contracts decreased 3% to \$69.7 million, compared to \$71.9 million in F2009. In constant currency terms, Sales Contracts have increased from F2009 by 7%. The reduction from F2009 is due to a 12% consumer sales decline (4% in constant currency) and a 2% commercial sales decline (an increase of 8% in constant currency). The constant dollar sales performance indicates that the decline experienced from F2009 was related to the impact of the lower U.S./Canadian dollar exchange rate in F2010 as compared to F2009.

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

| (in Millions) | Fiscal 2010 | Fiscal 2010 Constant Currency | Fiscal 2009 |
|-------------------------|-------------|-------------------------------------|-------------|
| Commercial Customers | \$ 60.7 | \$ 66.8 | \$ 61.8 |
| Percent of total sales | 87% | 86% | 86% |
| Consumer Customers | \$ 9.0 | \$ 9.9 | \$ 10.1 |
| Percent of total sales | 13% | 14% | 14% |
| Total Sales Contracts | \$ 69.7 | \$ 76.7 | \$ 71.9 |
| Closing Subscriber Base | 5.9 | | 4.1 |

Commercial Customer Sales Performance:

In constant currency, commercial invoiced sales increased 8% over F2009. We believe that this increase reflects the impact of our strategic investments in sales and marketing activities during 2009 and 2010, which have led to an increase in invoiced sales despite the fact that, overall, our ability to close commercial customer sales has been negatively impacted by the current economic environment through delayed purchase decisions for new commercial customers and delayed computer refresh cycles for our existing customers. As noted above, the decline in the U.S./Canadian dollar exchange rate negatively impacted our Canadian dollar sales, resulting in the year over year decrease in Sales Contracts when presented in real dollar terms.

Our commercial sales to new customers were \$9.9 million, an increase of 7% (16% in constant currency) from \$9.2 million in F2009. Commercial sales to existing customers declined 3% (but increased 7% in constant currency), to \$51.0 million from \$52.5 million in F2009.

These results are shown in the following table:

| Commercial Customer invoiced sales | Fiscal 2010 | Fiscal 2010 Constant Currency | Fiscal 2009 |
|--|-------------|-------------------------------------|-------------|
| Sales to existing customers | \$ 51.0M | \$ 56.2M | \$ 52.5M |
| Percent of total sales | 73% | 73% | 73% |
| Sales to new commercial customers | \$ 9.9M | \$ 10.7M | \$ 9.2M |
| Percent of total sales | 14% | 14% | 13% |
| Subscriptions sold to existing customers (in units) | 1,107,000 | | 993,000 |
| Total subscriptions expiring in period (in units) | 661,000 | | 501,000 |
| Expiring Subscription Ratio | 1.7: 1 | | 2.0: 1 |

We monitor the ratio of existing customer sales and renewals compared to total subscriptions expiring in the period (the “Expiring Subscription Ratio”) as a measure of customer satisfaction and renewal rates. The expiring subscription ratio is particularly important as we enter a period of substantial expiring subscriptions, with 1,193,000 subscriptions expiring in F2011, up 80% from F2010. Management expects the expiring subscription ratio to decline in fiscal 2011 due to the fact that existing customers are more deeply penetrated on average than in the past. In addition, management expects the average selling price on existing customer sales to decline as the expiring subscriptions in fiscal 2011 have a higher weighting toward non-theft recovery products.

Consumer Sales Performance:

Consumer sales in F2010 decreased 12% (3% in constant currency) from F2009. The main reason for this is a shift in Dell bundle sales from lower volumes of a higher priced, higher term offering to higher volumes of a lower priced, lower term offering. The strategy for consumer has been to diversify the sales and marketing channels for the business, and to build a significant renewal customer base via bundling and other acquisition programs. As a result, the consumer subscriber base has increased significantly. The consumer business has 1,794,000 consumer subscriptions coming up for renewal in F2011, up 237% from 533,000 in F2010. Management expects the increased renewal opportunity to be offset by reductions in bundle sales as we plan to phase out the current bundle programs during the year.

Revenue

Revenue for F2010 increased 20% to \$64.1 million, compared to \$53.2 million last year. A majority of revenue is derived from the amortization of Sales Contracts through the prior years’ deferred revenue balance. As the average contract life of Sales Contracts averages approximately 28 months only 15-20% of new and renewal Sales Contracts reported for any given fiscal year are included in revenue for that particular year. The remainder is included in deferred revenue on the balance sheet. See the “Subscription Business Model” section of this MD&A for further discussion, and the table below for a breakdown of the revenue components:

| (in millions) | Fiscal 2010 | Fiscal 2009 |
|--|--------------------|-------------|
| Revenue recognized from: | | |
| Prior year current portion of Deferred Revenue | \$ 50.5 | \$ 41.6 |
| Current year Sales Contracts | 13.6 | 11.8 |
| Total | \$ 64.1 | \$ 53.2 |

Operating Expenses

(dollar and subscription figures in millions):

| | Fiscal 2010 | Fiscal 2009 |
|--|-------------|-------------|
| Cost of sales ("COS") | \$ 15.7 | \$ 11.7 |
| Sales and marketing ("S&M") | 36.2 | 29.0 |
| Research and development ("R&D") | 8.0 | 7.3 |
| General and administration ("G&A") | 7.7 | 9.0 |
| Total operating expenses, excluding Investment Tax Credits and stock-based compensation ⁽¹⁾ | \$ 67.7 | \$ 57.0 |
| % increase | | |
| % of Sales Contracts | 19% | 39% |
| | 97% | 79% |
| Number of employees at June 30 | 350 | 301 |

(1) Stock-based compensation and investment tax credits are excluded as they are non-cash items.

Total operating expenses excluding stock-based compensation and investment tax credits increased 19% in F2010 compared to F2009, as a result of the expansion of the employee base and sales and marketing efforts to generate and support current and future sales growth targets.

Percent of Sales Contracts

A majority of total operating costs relate to efforts to generate Sales Contracts in the same and future periods. Therefore, management focuses on total expenses excluding stock-based compensation and investment tax credits as a percentage of Sales Contracts to measure the Company's operating efficiency and effectiveness. The increase to 97% of Sales Contracts in F2010 reflects management's decision to invest in sales and marketing and other programs in order to capitalize on expected selling opportunities arising from expected worldwide increases in computer shipments and existing customer renewal opportunities.

Cost of Sales and Gross Margin

Cost of sales is comprised of customer support, training and theft recovery activities as well as product packaging, shipping and guarantee costs. These costs increased year over year primarily as a result of amortization of acquired intangible assets and increases in head count. Amortization of intangible assets increased to \$2.7 million compared to \$0.1 million in F2009 due to assets acquired from the acquisitions of LANrev and FailSafe® and Phoenix® Freeze™. We exited F2010 with a headcount of 98 in these areas, as compared to 81 at June 30, 2009.

Gross margin in F2010 was 75% compared to 78% in the prior year, the decrease primarily the result of the amortization of the intangible assets acquired as part of the LANrev acquisition, which occurred in December 2009. These acquisitions are expected to result in a non-cash intangible asset charge to COS of approximately \$1.4 million per quarter. Not including these charges, gross margin in F2010 would have been 80%, with the increase over F2009 reflecting the higher revenues for the year.

Sales and Marketing

Increases in sales and marketing expenditure reflect expansion of the sales team and increased marketing expenditures to support partner and vertical growth strategies, consistent with our overall strategy. S&M expenses increased in the year by 25% to \$36.2 million from \$29.0 million in F2009. As a percent of Sales Contracts, S&M expenses were 52% for F2010, as compared to 40% F2009. This increase is primarily due to marketing programs to support our consumer business, to accelerate attach rates, and support international growth strategies. In addition, we have added to our sales headcount, as we have increased the number of sales regions in the U.S. market and have also increased the number of salespeople serving each region. Accordingly, F2010 includes the impact of a full year of salaries for employees who were hired over the course of F2009 as well as additional employees who were hired during F2010. We exited F2010 with a headcount of 138 in sales and marketing, as compared to 125 at June 30, 2009.

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

Research and Development

Research and development expenditures increased 11% from last year to \$8.0 million, as compared to \$7.3 million in F2009. In addition, R&D expenses increased to 12% of sales contracts in F2010 as compared to 10% in F2009. In the current year, we have expanded our internal headcount in order to continue to develop new products on a more cost effective basis, while continuing to utilize outsourcing for specific product development initiatives. At June 30, 2010, we had a headcount of 95 in this area, as compared to 73 in the prior year. In addition, we have added additional costs related to development of our recently acquired products.

General and Administration

General and administration expenses decreased 14% from the prior year, to \$7.7 million from \$9.0 million in F2009. The decrease in F2010 is primarily due to decreases in legal fees and bad debt expenses. Significant legal fees were incurred in F2009 related primarily to patent creation and patent defense.

Operating Loss

Absolute generated an operating loss of \$4.4 million in F2010, compared to an operating loss of \$16.6 million in the prior year. A majority of the operating loss reduction relates to stock-based compensation, which included a non-cash charge of \$12.0 million in F2009 due to the voluntary surrender and subsequent cancellation of 2.9 million employee stock options.

Excluding stock-based compensation and investment tax credits, the adjusted operating loss for F2010 was \$3.6 million, compared to \$3.8 million in the prior year. The F2010 operating loss reflects increases in revenue from prior period Sales Contracts offset by increased operating expenses as noted above.

Other Income and Expenses

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. In F2010, interest income decreased to \$699,000 from \$1.3 million in F2009, due primarily to lower interest rates currently available on our investments.

In F2010, we experienced an unrealized loss of \$224,000 related to marketable securities included in investments, as compared to an unrealized loss of \$952,000 in F2009. These investments in marketable securities are marked-to-market at the end of the period. The current year loss was offset by a \$322,000 gain on the disposition of long-term notes.

Other expenses also include foreign exchange gains and losses primarily on the translation of U.S. dollar cash, receivable and liability balances. U.S. denominated assets normally exceed liabilities as over 95% of sales are denominated in U.S. dollars, compared to approximately 50% of costs. This generally results in foreign exchange losses (gains) in periods where the U.S. dollar declines (appreciates) relative to the Canadian dollar. In F2010, the foreign exchange loss was \$1.8 million compared to a \$1.4 million gain in F2009, as a result of the appreciation of the Canadian dollar compared to the U.S. dollar in the current year.

In F2009, the Company entered into foreign exchange forward contracts, and recorded a related loss of \$0.8 million in F2009. No such contracts existed in F2010. In addition, the Company incurred restructuring charges of \$1.0 million in F2009 and did not incur similar charges in F2010.

Income Taxes

In F2010, we recorded current income tax expense of \$1.3 million and a future income tax expense of \$1.5 million. In F2009, we recorded a current tax expense of \$4.6 million and a future income tax recovery of \$18.9 million. In both years, our current tax expense was largely offset by Scientific Research and Development Investment Tax Credits claimed, which are presented as a reduction of operating expenses. In F2010, our future income tax expense is primarily attributable to the effect of the USD/CAD foreign exchange rate on our USD denominated future income tax assets. In F2009, the future income tax recovery was primarily attributable to the recognition of future income tax assets related to deferred revenues in our U.S. operations.

Net Loss

The Company's net loss in F2010 was \$8.2 million, compared to \$2.3 million in the prior year. The changes in the net loss reflect the net impact of those factors discussed above with the changes in the operating loss and other income.

Excluding stock-based compensation, amortization of intangible assets, and income taxes, we experienced a net loss in F2010 of \$561,000, as compared to the net loss of \$636,000 in F2009. The similar adjusted net loss between years is due to higher revenues in F2010, offset by higher operating expenses and foreign exchange losses.

Cash from Operating Activities

Cash from Operating Activities for F2010 of \$6.4 million decreased 63% from \$17.4 million last year. The reduction from F2009 reflects lower cash flows as a result of the Company's strategy to continue investing for future growth despite the impact of the economic downturn on current Sales Contract performance.

Liquidity and Capital Resources

Absolute is in a strong financial position, with no debt and the financial resources necessary to fund its operating and capital requirements and to execute on its growth strategies. At June 30, 2010, Absolute's cash, cash equivalents and investments were \$58.0 million, compared to \$68.9 million at June 30, 2009. The Company's cash and investment position has improved on operating cash flows, with the lower overall balance reflecting the Company's cash outlay of \$10.3 million related to the LANrev acquisition and \$7.2 million related to the FailSafe® and Phoenix® Freeze™ acquisition. Based on current sales and investment plans, management believes that the Company has sufficient capital resources to meet its growth and operating requirements.

The Company has no material capital expenditure commitments for fiscal 2011. Given our strong cash and investment balances and operating cash flow, at this time management does not believe we require any additional capital resources.

Accounts receivable

Accounts receivable balances decreased to \$13.9 million at June 30, 2010 (72% of fourth quarter F2010 Sales Contracts), down from \$15.6 million at June 30, 2009 (77% of fourth quarter F2009 Sales Contracts). The decrease relative to the prior year is due to lower Sales Contracts recorded in the fourth quarter and improved collections on outstanding receivables.

At June 30, 2010, 18% of the Company's accounts receivable balance was over 90 days past due as compared to 20% at June 30, 2009. At June 30, 2010, accounts receivable included two PC OEM partners that represented more than 10% of receivables, with one at 27% and the other at 20%. At June 30, 2009, the same two partners comprised 25% and 16%, respectively, of our total accounts receivable.

Deferred contract costs

Certain direct contract costs are capitalized as deferred contract costs on the balance sheet and are charged to income over the term of the contract to which they relate. Capitalized direct contract costs are primarily comprised of prepaid employee commissions. At June 30, 2010, deferred contract costs of \$7.8 million are relatively consistent with the \$7.4 million at June 30, 2009. These costs historically comprise approximately 7% of deferred Sales Contract revenue. The increase is consistent with the relative increases in deferred revenue, primarily reflecting a relatively stable sales commission rate.

Accrued warranty

Accrued warranty is related to a service guarantee with certain of our products. The accrued warranty decreased to \$9.2 million (9% of deferred Sales Contract revenue) at June 30, 2010, compared to \$11.3 million (11% of deferred Sales Contract revenue) at June 30, 2009. The reduction relative to F2009 as a percent of deferred revenue reflects warranty experience gains. Each period, management evaluates its guarantee payment experience and considers whether changes are required to the estimated warranty provision. In F2010, we determined that an adjustment of \$3.7 million was required in order to bring our warranty accrual in line with our estimates for future payments, as compared to a similar adjustment in F2009 of \$5.9 million.

Deferred revenue

Deferred revenue was \$102.8 million at June 30, 2010, compared to \$95.9 million at June 30, 2009. Deferred revenue is comprised of the unamortized portion of deferred revenue from Sales Contracts, less the deferred portion of accrued warranty liabilities relating to the Sales Contracts. The deferred revenue balance is amortized to revenue, while the deferred warranty cost is amortized to cost of sales.

The deferred Sales Contract revenue component of deferred revenue increased to \$108.5 million at June 30, 2010, up 5% from \$103.2 million at June 30, 2009.

The scheduled recognition of deferred revenue is as follows:

| (in millions) | F2011 | F2012 | F2013 | F2014 | F2015 | Total |
|--------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Revenue to be recognized | \$55.6 | \$32.9 | \$15.1 | \$3.9 | \$0.8 | \$108.5 |
| Subscriptions expiring | 3.0 | 1.5 | 1.1 | 0.3 | 0.0 | 5.9 |

Future income tax assets and current taxes payable

At June 30, 2010, we had current taxes payable in the amount of \$1.6 million, which represents an accrual made in respect of taxes filed in F2008 and F2009. Our filings for these years included income taxes payable offset by claims for Scientific Research and Expenditure Investment Tax Credits ("ITC"s). Portions of the F2008 and F2009 claims remain under review, and as such, we have retained a risk-adjusted estimate of the liability that may be due if that ITC claim is not assessed as filed. The current year's estimate for current income tax expense was fully offset by ITC claims recoverable.

In fiscal 2010, we generated future tax assets through the purchase of LANrev and Failsafe, both of which are deductible in the current and future years against income. At

June 30, 2010, we had total future income tax assets of \$20.2 million, which are primarily attributable to the future benefit of deferred revenue balances in our U.S. operations. Management believes these future income tax assets are more likely than not to be realized.

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

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

Accounting Changes adopted in F2010

Financial instruments

On July 1, 2009, the Company adopted the changes made by the Canadian Institute of Chartered Accountants ("CICA") to Handbook Section 3862, "*Financial Instruments - Disclosures*", whereby an entity is required to classify and disclose the fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:

- Level 1 – Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); or
- Level 3 – Valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value. The required disclosures are included in Note 16(e) of the consolidated financial statements.

Quarterly Operating Data

| (in millions except per share data) | Q4-10 | Q3-10 | Q2-10 | Q1-10 | Q4-09 | Q3-09 | Q2-09 | Q1-09 |
|---|----------------------|--------------------|--------|--------|---------------------|--------|--------|--------|
| Sales Contracts | \$19.3 | \$15.0 | \$16.1 | \$19.2 | \$20.2 | \$16.9 | \$16.5 | \$18.2 |
| Revenue | 16.6 | 16.6 | 15.8 | 15.0 | 14.3 | 13.7 | 13.1 | 12.1 |
| Net income (loss) (ex-Stock-Based Comp) | (3.4) ⁽¹⁾ | 0.5 ⁽²⁾ | (1.7) | (1.5) | 17.1 ⁽³⁾ | (0.6) | (2.3) | (0.6) |
| Net (Loss) Income | (3.8) | (0.0) | (2.3) | (2.0) | 16.5 | (1.1) | (15.5) | (2.2) |
| Basic and diluted (loss) income per share | (0.08) | (0.00) | (0.05) | (0.04) | 0.36 | (0.02) | (0.32) | (0.05) |
| Cash from Operating Activities | 0.3 | 0.2 | 1.6 | 4.3 | 2.1 | 3.1 | 3.1 | 9.1 |
| Operating cash per share (basic) | 0.01 | 0.01 | 0.04 | 0.09 | 0.05 | 0.07 | 0.06 | 0.19 |

(1) Q4-10 results included the impact of a \$2.1 million income tax expense.

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

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

FOURTH QUARTER 2010 MANAGEMENT'S DISCUSSION AND ANALYSIS

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

This seasonality trend continued in the fourth quarter of fiscal 2010 relative to the third quarter, with Q4 Sales Contracts increasing 29% (29% in constant currency) to \$19.3 million.

Compared to the prior year, Sales Contracts for Q4-F2010 were down 4% from Q4-F2009, but were up 7% in constant currency. The increase is primarily due to growth from Absolute Manage. Conversely, our Computrace sales were flat compared to the prior year period.

Q4-F2010 revenue of \$16.6 million increased 16% over \$14.3 million in Q4-F2009 and 0% over Q3-F2010, as a result of the increased Sales Contract levels and deferred revenue balances. Gross margin of 72% in Q4-F2010 was lower than the 91% gross margin in Q4-F2009 due to significant warranty adjustments in the fourth quarter of last year. Excluding these adjustments, gross margin in Q4-F2009 was 75%, in line with Q4-F2010.

In Q4-F2010, Absolute generated an operating loss of \$2.7 million, compared to operating income of \$1.7 million in Q4-F2009. Excluding stock-based compensation and investment tax credits, the adjusted operating loss for Q4-F2010 was \$2.8 million, compared to adjusted operating income of \$101,000 in Q4-F2009. The increased loss compared to Q4-F2009 is primarily due to a large warranty adjustment in the fourth quarter last year, as noted above.

The Company reported net loss of \$3.8 million in Q4-F2010 (\$0.08 per share) compared to net income of \$16.5 million (\$0.36 per share) in Q4-F2009. Excluding stock-based compensation and income taxes, the net loss for Q4-F2010 was \$1.3 million compared to net income of \$2.1 million in Q4-F2009. The additional year-over-year variances in net loss reflect the changes in operating loss, interest income and foreign exchange losses.

The Company reported positive Cash from Operating Activities of \$0.3 million, compared to \$2.1 million in Q4-F2009. The decrease was expected due to increased operating expense levels associated with the Company's continued investment strategy.

Shareholders' Deficiency and Outstanding Share Data

At June 30, 2010, Absolute had shareholders' deficiency of \$2.6 million. In evaluating shareholders' deficiency, management believes it is important to consider the \$102.8 million of deferred revenue carried on the balance sheet. This amount represents prepaid (or due to be paid in full on payment terms) and non-refundable revenue, on which management expects to generate high margins when recognized in income, as much of the associated contract costs are already included in the operating deficit.

The Company's common shares trade on the TSX (TSX:ABT), and at June 30, 2010 the Company had 46,829,090 (46,761,654 at August 23, 2010) fully issued and outstanding common shares. The following common share stock options and warrants are issued and outstanding at June 30, 2010:

- Employee Share Option Plan: 4,707,925 (4,707,925 at August 23, 2010) common stock options granted and outstanding. The options have a weighted average exercise price of \$4.87 per share, and a weighted average term to expiry of 3.2 years. In F2010, a total of 1,910,950 stock options were granted to employees at an average strike price of \$4.70.
- Employee Share Purchase Plan: Under the Plan, employees may purchase treasury shares at a 15% discount from market during two, six month offering periods each year. A total of two million shares have been reserved for grant under the Plan, of which 715,179 have been issued as at June 30, 2010 (August 23, 2010 – 810,043).
- Branding Agreement Warrants: The Company issued 1,000,000 warrants in F2006 to acquire rights to the "LoJack" brand name, of which none remained outstanding at June 30, 2010. The warrants had an exercise price of \$1.00 per share, vested 20% per year starting June 30, 2006, and expired the earlier of two years after vesting, June 30, 2010, or upon termination of the agreement.

Corporate Developments

LANrev Acquisition

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

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

The aggregate purchase price of \$15,474,221 was comprised of cash and 500,000 common shares of the Company, as follows:

| | |
|-------------------|----------------------|
| Cash | \$ 12,624,043 |
| Common shares | 2,630,000 |
| Acquisition costs | 220,178 |
| | <u>\$ 15,474,221</u> |

Of the above, \$2,555,821 (USD \$2,500,000) and the 500,000 common shares are deferred consideration, with each amount payable in equal one-third installments annually on the first three anniversary dates of the acquisition. The fair value of the common shares to be issued of \$5.60 was determined based on the average closing price of the Company's common shares for a reasonable period prior to and following the acquisition date of December 2, 2009. The deferred amount payable in cash has been discounted to present value using a discounted cash flow model.

The total purchase consideration has been allocated to the fair values of the assets acquired and liabilities assumed based on management's best estimates and taking into account all available information at the time of the acquisition. The purchase consideration has been allocated to the net assets acquired as follows:

| | |
|------------------------|----------------------|
| Property and equipment | \$ 16,998 |
| Intangible assets | 15,864,341 |
| Accrued liabilities | (26,801) |
| Deferred revenue | (380,317) |
| | <u>\$ 15,474,221</u> |

Details of the acquired intangible assets are as follows:

| | |
|------------------------|----------------------|
| Acquired software | \$ 15,370,880 |
| Customer relationships | 493,461 |
| | <u>\$ 15,864,341</u> |

These intangible assets have each been determined to have a useful life of 5 years. In the year ended June 30, 2010, the Company recorded \$2,008,720 (2009 - \$nil) of amortization of these acquired intangible assets within cost of revenue.

FailSafe® and Phoenix Freeze™ technology acquisition

On April 7, 2010, the Company acquired the technology assets of the FailSafe® and Phoenix Freeze™ products from Phoenix Technologies Ltd. The Company intends to integrate certain components of the acquired technology into its products to extend its data protection and theft recovery capabilities. Under the terms of the asset purchase agreement, the Company paid \$6,894,250 (US\$6,875,000) in cash for the acquired assets.

The aggregate purchase consideration of \$7,223,287 was comprised of the following:

| | |
|-------------------|---------------------|
| Cash | \$ 6,894,250 |
| Acquisition costs | <u>329,037</u> |
| | <u>\$ 7,223,287</u> |

The total purchase consideration has been allocated to the fair value of the intangible assets acquired, which consist of acquired software, based on management's best estimates and taking into account all available information at the time of the acquisition.

These intangible assets have been determined to have a useful life of 3 years. In the year ended June 30, 2010, the Company recorded \$601,107 (2009 - \$nil) of amortization of these acquired intangible assets within cost of revenue.

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 contract costs represent expenses that are generated or incurred at the start of each service subscription (or Sales Contract) and are primarily comprised of prepaid employee sales commissions. 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 as an offset to deferred revenue and is charged to cost of sales ratably over the contract term. Accrual estimates are established based on Absolute's experience with loss and recovery rates and are reviewed for reasonableness based on actual experience on a regular basis. However, actual experience will likely vary and may require a change in the estimated liability. Should these estimates change, they may require changes to the amount of warranty expense in future periods, in addition to a change in the warranty accrual.

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

Contractual Commitments

The Company's maintains operating leases for premises, and also has commitments under equipment and business service agreements, and a branding agreement. At June 30, 2010, the minimum payments under these commitments are as follows:

| | |
|---------------------|---------------------|
| 2011 | \$ 1,760,013 |
| 2012 | 1,736,964 |
| 2013 | 1,761,837 |
| 2014 | 906,486 |
| 2015 and thereafter | 186,267 |
| | \$ 6,351,587 |

Off Balance Sheet Arrangements

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

Related Party Transactions

The Company generally does not enter into related party transactions, and there were no related party balances at June 30, 2010 and 2009. However, On October 10, 2008, the Company entered into a related party transaction with a member of Absolute's Board of Directors at the time. A secured amount of \$1.1 million was loaned to this

Board member in order to avoid their broker's margin selling of their stock in the Company during a Company imposed trading blackout. The loan carried interest at prime plus 5% and was repaid in full during 2009.

Subsequent Events

Subsequent to June 30, 2010, through August 23, 2010 the Company has repurchased an additional 162,300 common shares under its Normal Course Issuer Bid for a total cost of \$675,300.

On July 23, 2010, 94,864 common shares were issued pursuant to the Purchase Plan.

Recent Canadian Accounting Pronouncements

Business Combinations

In January 2009, the CICA issued Section 1582, "*Business Combinations*", Section 1601, "*Consolidated Financial Statements*", and Section 1602, "*Non-controlling Interests*". Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards. Section 1582 is applicable for any business combinations with acquisition dates on or after July 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning July 1, 2011. Early adoption of this Section is permitted. If the Company chooses to early adopt any one of these Sections, the other two sections must also be adopted at the same time. The Company does not expect the adoption of these standards will have a material impact on its consolidated financial statements.

Multiple Deliverable Revenue Arrangements

In December 2009, the CICA issued Emerging Issues Committee Abstract ("EIC") 175, "*Multiple Deliverable Revenue Arrangements*", replacing EIC 142, "*Revenue Arrangements with Multiple Deliverables*". This abstract was amended to (1) exclude from the application of the updated guidance those arrangements that would be accounted for in accordance with ASC 985-605 (formerly Financial Accounting Standards Board Statement of Position 97-2), "*Software Revenue Recognition*" as amended by Accounting Standards Update 2009-14; (2) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (3) require in situations where a vendor does not have vendor-specific objective evidence or third-party evidence of selling price, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (4) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (5) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance.

The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. The Company does not believe the adoption of this standard will have a material impact on its consolidated financial statements.

Adoption of International Financial Reporting Standards (IFRS)

The CICA plans to converge Canadian GAAP with IFRS over a transition period expected to end in 2011. The Company’s first annual financial statements required to be filed using IFRS are for the year ended June 30, 2012 (with comparative financial statements for fiscal 2011). The International Accounting Standards Board continues to evolve IFRS, and as a result, the standards at the transition date are expected to differ from their current form. The Company is currently assessing the future impact of these new standards on its financial statements, as outlined below under “Convergence with International Financial Reporting Standards”.

Convergence with International Financial Reporting Standards

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

| Key Activities | Milestones/Deadlines | Progress made and yet to be completed |
|--|--|---|
| <p>Financial Statement Preparation:</p> <p>Identification of differences between Canadian GAAP and IFRS accounting policies and choices</p> <ul style="list-style-type: none"> • Selection of the Company’s continuing IFRS policies • Selection of IFRS 1 accounting policy choices • Financial statement format • Quantification of effects of change in IFRS 1 disclosures and 2011 financial statements including note disclosure | <p>Assessment phase in progress, to be completed by December 31, 2010.</p> | <p>Preliminary assessment completed. Currently performing detailed assessment of IFRS policy choices; options with regard to financial statement format; and impact of effect of IFRS 1 adoption on financial statements and disclosures.</p> |

| Key Activities | Milestones/Deadlines | Progress made and yet to be completed |
|--|--|--|
| <p>Infrastructure requirements:</p> <p>IFRS expertise identification and development at level of:</p> <ul style="list-style-type: none"> • Finance and accounting personnel • Board level, including audit committee <p>Information technology including:</p> <ul style="list-style-type: none"> • Systematic processing changes • Program upgrades • One-off calculations (IFRS 1) • Disclosure data gathering • Budget and forecast monitoring processes | <p>IT systems ready for parallel processing of F2011 transactions and monitoring processes by October 1, 2010</p> | <p>Leadership team and resources identified. Further development of expertise in F2011.</p> <p>Scoping and resource assessment completed in F2010, specifically with regard to changes required in stock-based compensation and general accounting system.</p> |
| <p>Business activity assessment:</p> <ul style="list-style-type: none"> • Effects on compensation arrangements | <p>Renegotiated compensation arrangements by March 31, 2011, if applicable.</p> | <p>Identification of GAAP-dependent metrics once impact on sales and earnings quantified.</p> |
| <p>Control environment – internal controls over financial reporting:</p> <ul style="list-style-type: none"> • Accounting policy determination, documentation and implementation • Independent review of application | <p>Review and signoff by management, and review by Audit Committee, of all accounting policy changes by March 31, 2011. Implementation review by external auditor by June 30, 2011.</p> <p>CEO/CFO certification process updated by June 30, 2011.</p> | <p>Scoping and resource assessment completed and resources identified. Currently assessing accounting policy choices as noted above.</p> |

| Key Activities | Milestones/Deadlines | Progress made and yet to be completed |
|---|--|---|
| <p>Control environment – disclosure controls and procedures:</p> <ul style="list-style-type: none"> External communication plan development | <p>Publication of draft IFRS opening balance sheet as at June 30, 2010 for Q2-F2011 disclosures.</p> <p>Publication of revised F2011 results and MD&A by October 15, 2011.</p> | <p>Resources identified and scoping assessment completed, resources identified.</p> |

In order to progress the key activities and meet the milestones noted above, we have developed a four-phase approach to transitioning to IFRS as follows:

- Phase 1 – Initial assessment*
- Phase 2 – Detailed assessment*
- Phase 3 – Design*
- Phase 4 – Implementation*

Our preliminary assessment was completed during the year ended June 30, 2010, and consisted of identifying internal resources to complete IFRS conversion, ensuring the appropriate external resources were available, and completing a preliminary assessment of likely areas in which differences from Canadian GAAP will arise. Phase 2, Detailed Assessment, will be completed in conjunction with external resources in the first half of F2011 in order to complete a preliminary evaluation of and recommendations for appropriate accounting policy choices. We expect to continue to refine these accounting policy choices as we continue with our conversion effort and as IFRS standards evolve. Following the detailed assessment, we will develop the form of IFRS financial statements, to help ensure that data required to comply with the more extensive disclosures under IFRS will be adequately captured by our systems. We will also commence designing operational process changes, if any are required, and will develop and maintain two parallel sets of records in 2011.

We have not yet made all necessary changes to our internal controls over financial reporting to address the transition to IFRS. Our detailed assessment will include an assessment of what controls, if any, will need to be amended. It is expected that design changes will be completed and implemented prior to third quarter of F2011, in order to allow appropriate time to test the design changes prior to June 30, 2011. We expect the implementation phase will run through to June 30, 2011.

As IFRS continues to evolve, we have not yet been able to definitively determine what impact, if any, the transition to IFRS will have on our compensation arrangements. However, as a large percentage of our variable compensation is related to Sales

Contracts (as opposed to criteria measured under GAAP), we currently do not expect any changes in compensation arrangements to be substantive in nature.

We believe we have allocated sufficient resources to our conversion project, and have kept our external auditors apprised of our progress. We expect to meet all milestones in our project plan as we complete our conversion effort. This information is provided to allow investors and others to obtain a better understanding of our IFRS changeover plan and the resulting possible effects on, for example, our financial statements and operating performance measures. Readers are cautioned, however, that it may not be appropriate to use such information for any other purpose. This information also reflects our most recent assumptions and expectations; circumstances may arise, such as changes in IFRS, regulations or economic conditions, which could change these assumptions or expectations.

At this time, we are unable to make a final determination of the quantitative and qualitative effects of our future adoption of IFRS; however, they may be material. Additional information will be provided as we move towards the changeover date.

Evaluation of Disclosure Controls and Internal Controls over Financial Reporting

Disclosure controls and procedures

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

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

Internal control over financial reporting

The Company has also designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Absolute's CEO and CFO have assessed the effectiveness of the Company's internal control over financial reporting as at June 30, 2010 in accordance with *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, Absolute's CEO and CFO have determined that the Company's internal control over financial reporting is effective as at June 30, 2010 and expect to certify Absolute's annual filings with the Canadian securities regulatory authorities.

Changes in internal control over financial reporting

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

Risks and Uncertainties

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

Economic Uncertainty - Many of Absolute's customers are being affected by economic conditions affecting the broader market. Current and future conditions in the domestic and global economies remain uncertain. As a result, it is difficult to estimate the level of growth or contraction for the economy as a whole. It is even more difficult to estimate growth or contraction in various parts, sectors and regions of the economy, including the markets in which the Company participates. Because all components of the Company's budgeting and forecasting are dependent upon estimates of growth or contraction in the markets it serves and demand for its products and services, the prevailing economic uncertainties render estimates of future income and expenditures very difficult to make. Adverse changes may occur as a result of soft economic conditions, wavering consumer confidence, unemployment, declines in stock markets, contraction of credit availability, declines in real estate values, or other factors affecting economic conditions generally. These changes may negatively affect the sales of the Company's products and services, including its ability to meet its guidance for Cash from Operating Activities and Sales Contracts and, 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 Operating Activities as its key performance metrics, and management believes that revenue and GAAP profitability will approach the Company's Cash Margins as the rate of growth slows. However, due to the evolving SaaS business model and the unpredictability of our emerging category of security, Absolute may not be able to accurately forecast the rate of adoption of its services and hence its sales growth. Absolute bases its current and future expense levels and its investment plans on estimates of future sales growth. Absolute may not be able to adjust its spending quickly enough if the rate of new or renewed subscriptions falls short of its expectations. As a result, Absolute's operating results may fluctuate significantly on a quarterly basis. In addition, Absolute's historic Sales Contract, revenue and cash flow growth rates may not be sustainable and may decline in the future. Accordingly, period-to-period comparisons of our operating results may not necessarily be a meaningful indicator of future performance.

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.

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.

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

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 the Company to a risk of loss of this information, litigation and possible liability. Absolute’s technology and security measures have been designed and implemented in order to mitigate risks of this nature. However, if our security measures are 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.

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 and Absolute Manage technology platforms. 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.

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

- difficulties in integrating the operations, technologies, products and personnel of the companies we acquire into our operations;
- potential disruption of our on-going business and diversion of management's attention from normal daily operations of the business;
- insufficient revenues to offset increased expenses associated with acquisitions;
- potential for third party intellectual property infringement claims against the companies we acquire;
- failure to successfully further develop acquired technology, resulting in the impairment of amounts capitalized as intangible assets;
- impairment of relationships with customers and partners of the companies we acquire or in which we invest, or with our customers and partners, as a result of the integration of acquired operations;
- impairment of relationships with employees of the acquired companies or our existing employees as a result of integration of new management personnel;
- impact of known potential liabilities or unknown liabilities associated with the companies we acquire; and
- in the case of foreign acquisitions, uncertainty regarding foreign laws and regulations and difficulty integrating operations and systems as a result of cultural, systems and operational differences.

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

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

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

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

Management of Growth – In prior fiscal years, Absolute has experienced 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. In addition, we may continue to expand our sales teams in an attempt to increase sales growth. Such growth may not match or exceed the increase of

operations costs associated with such hiring, training, managing, and integrating of such employees.

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

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

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

- Revenue or results of operations in any quarter failing to meet the expectations, published or otherwise, of the investment community;

- Changes in recommendations or financial estimates by industry or investment analysts;
- Changes in management or the composition of our board of directors;
- Outcomes of litigation or arbitration proceedings;
- Announcements of technological innovations or acquisitions by us or by our competitors;
- Introduction of new products or significant customer wins or losses by us or by our competitors;
- Developments with respect to our intellectual property rights or those of our competitors;
- Fluctuations in the share prices of other companies in the technology and emerging growth sectors;
- General market conditions; and
- Other risk factors set out in this report.

If the market price of our common shares drops significantly, shareholders could institute securities class action lawsuits against us, regardless of the merits of such claims. Such a lawsuit could cause us to incur substantial costs and could divert the time and attention of our management and other resources from our business.

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

Efforts to Sell to Larger Enterprise Customers – As Absolute targets more sales efforts at larger enterprise customers, the Company could face greater costs, longer sales cycles, less predictability in completing some sales and greater fluctuation in sales and cash flow in quarters where these large deals conclude. In this market segment, the customer’s decision to use Absolute’s service or products 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., United Kingdom, Netherlands, Germany, and Japan. The Company may not be aware of all the factors that may affect its business in foreign jurisdictions. The Company will be subject to a number of risks associated with international business activities that may increase liability or

costs, lengthen sales cycles or require significant management attention. International operations carry certain risks and associated costs, such as: the complexities and expense of administering a business abroad; complications in compliance with, and unexpected changes in legal and regulatory restrictions or requirements; foreign laws, international import and export legislation; trading and investment policies; foreign currency fluctuations; exchange controls; tariffs and other trade barriers; difficulties in collecting accounts receivable; potential adverse tax consequences; uncertainties of laws and enforcement relating to intellectual property and privacy rights; unauthorized copying of software; difficulty in managing a geographically dispersed workforce in compliance with diverse local laws and customs; and other factors depending upon the country involved. There can be no assurance that the Company will not experience these risks in the future. If foreign operations expand to the point where they account for a significant portion of the Company's consolidated revenues, the presence of such risks could have a material adverse effect on the Company's business, operating results and financial condition.

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

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 28 months, although terms can range from one year to as much as five years. As a result, most of the revenue the Company reports in each quarter results from the recognition of deferred revenue relating to 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 the Company's service or products may not be fully reflected in Absolute's results of operations until future periods. The Company's 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 does not commence until the month after sale so there would be no income statement impact as a result of such provision; and the revenue recognition term averages around 30 months compared to industry standard return policies which are generally less than 90 days, so any returns are generally accounted for prior to any material recognition of revenue. Accordingly, the effect of any customer returns may not be fully reflected in 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 the Company is not able to adapt its technology to be compatible with these new operating systems.

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

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

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.

Additional Patent Applications – The Company’s commercial success depends upon its ability to develop new or improved technologies and products, and to successfully obtain patent or other proprietary or statutory protection for these technologies and products in Canada, the United States and other countries. The Company seeks to patent concepts, components, protocols and other inventions that are considered to have commercial value or that will likely yield a technological advantage. The Company owns rights to patented and patent pending technologies in the United States, Canada and other countries. However, the Company may not be able to develop new technology that is patentable, new patents may not be issued in connection with the Company’s pending applications and allowed claims may not be sufficient to protect the Company’s new technology. Furthermore, any patents issued could be challenged, invalidated or circumvented and may not provide proprietary protection or a competitive advantage. New entrants to the field may have been issued patents, and may have filed patent applications or may obtain additional patents and proprietary rights, for technologies similar to those that the Company has made or may make in the future. Since patent applications filed before November 29, 2000 in the United States are maintained in secrecy until issued as patents, and since publication or public awareness of new technologies often lags behind actual discoveries, the Company cannot be absolutely certain that it was the first to develop the technology covered by its pending patent applications or that it was the first to file patent applications for the technology. In addition, the disclosure in the Company’s new patent applications, particularly in respect

of the utility of its claimed inventions, may not be sufficient to meet the statutory requirements for patentability in all cases. As a result, there can be no assurance that the Company's new patent applications will result in enforceable patents, nor can the breadth of allowed claims in the Company's patents, and their enforceability, be predicted. Even if the Company's patents are held to be enforceable, others may be able to design around these patents or develop products similar to the Company's products that are not within the scope of these patents.

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

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

Development of Brand – Absolute believes that developing and maintaining awareness of its proprietary and licensed brands in a cost-effective manner is critical to achieving widespread acceptance of its existing and future services and is an important element in attracting new customers. Furthermore, Absolute believes that the importance of brand recognition will increase if competition in our market develops or intensifies. Successful promotion of our brands will depend largely on the effectiveness of our marketing efforts and on our ability to provide reliable secure and useful services at competitive prices. If Absolute fails to successfully promote and maintain its brands, or incurs substantial

expenses in an unsuccessful attempt to promote and maintain its brands, Absolute may fail to attract enough new customers or retain existing customers to the extent necessary to realize a sufficient return on brand-building efforts.

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

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

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