

ABSOLUTE SOFTWARE CORPORATION (TSX: ABT)
Second Quarter Fiscal 2011 Interim Report
Management's Discussion and Analysis
For the three and six months ended December 31, 2010
Dated: January 31, 2011

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 and MD&A, as well as the second quarter Fiscal 2011 Interim Consolidated Financial Statements and accompanying notes. These documents, along with additional information about the Company, including the 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) a continuation 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 and successfully launching new products or features and adapting solutions to new platforms; (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.

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 its investments in global sales and marketing and PC OEM partnerships; (c) the Company's investments in future growth of the business will generate returns as the worldwide computer market rebounds; (d) Absolute will be able to continue to add new products and features on a global scale; and (e) 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 new intellectual property and 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 Quarterly Information
(in millions, except percent and per share data)

	Q2 Fiscal 2011	Q2 Fiscal 2010	YTD Fiscal 2011	YTD Fiscal 2010
Sales Contracts ⁽¹⁾	\$ 17.9	\$ 16.1	\$ 39.8	\$ 35.3
% increase (decrease)	12%	(3%)	13%	2%
Sales Contracts in constant currency ⁽¹⁾	\$ 18.7	\$ 16.1	\$ 41.8	\$ 35.3
% increase (decrease)	16%	12%	18%	5%
Cash from Operating Activities ⁽¹⁾	\$ 3.1	\$ 1.8	\$ 6.4	\$ 6.5
Per Share (basic) ⁽¹⁾⁽²⁾	\$ 0.07	\$ 0.04	\$ 0.14	\$ 0.14
Per Share (diluted) ⁽¹⁾⁽²⁾	\$ 0.07	\$ 0.04	\$ 0.14	\$ 0.14
Revenue	\$ 17.9	\$ 15.8	\$ 35.2	\$ 30.9
% increase	13%	21%	14%	22%
Net loss	\$ (1.5)	\$ (2.3)	\$ (2.8)	\$ (4.3)
Per share (basic and diluted) ⁽²⁾	\$ (0.03)	\$ (0.05)	\$ (0.06)	\$ (0.09)
Total assets	\$ 117.9	\$ 127.5	\$ 117.9	\$ 127.5
Cash, cash equivalents, and investments	\$ 53.3	\$ 65.0	\$ 53.3	\$ 65.0
Deferred Revenue	\$ 107.0	\$ 100.5	\$ 107.0	\$ 100.5

(1) Throughout this document, “Cash from Operating Activities” and “Basic or Diluted Cash from Operating Activities per Share” are used as a profitability measures. “Sales Contracts” (invoiced sales) and Sales Contracts in “constant currency” are used as measures of sales performance and as indicators of future cash flows and revenue. Please refer to the “Non-GAAP Measures” and “Subscription Business Model” sections of this MD&A for further discussion on these measures.

(2) Per share figures for F2011 and F2010 reflect a reduced number of outstanding shares following the Company’s purchase and retirement of 238,000 common shares in fiscal 2010 and 2,549,950 common shares in the second quarter of fiscal 2011 under annual Normal Course Issuer Bids that commenced in November 2009 and 2010.

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”) specializes in software and services for the management and security of computers, smart phones, and tablet devices. Absolute was founded in 1993 on the idea that individuals and businesses should be able to manage, track, and protect their mobile computers regardless of their physical location. Today, our solutions manage, track, and protect more than six million computers worldwide and our customers include corporations,

educational institutions, healthcare and government organizations, and individual consumers.

Our most popular offering is Computrace[®], which provides customers with the ability to track and manage their computer and mobile device inventories on or off the corporate network, prove regulatory compliance and protect data through functions such as locating devices, remotely locking devices, deleting sensitive information, and recovering stolen devices. Our consumer version of this product is called Computrace LoJack[®] for Laptops. In December 2009, we expanded our commercial offering with the purchase of Absolute Manage[®] (formerly LANrev). Absolute Manage is a computer lifecycle management product that enables IT administrators to perform application and license management, automated patch management, asset inventory and similar essential systems management functions for both their PC and Mac computers as well as iOS4 devices (iPhone and iPad) from a single platform.

The market opportunity for our products is driven largely by the increased adoption of mobile computers and computing devices such as tablet computers and smart phones (collectively, “mobile devices”). This opportunity arises in part from the fact that mobile devices are susceptible to loss or theft, and corporations and consumers are concerned with the protection of sensitive or confidential data resident on those devices. They are also concerned about the recovery of the devices and the identification of individuals responsible for a theft so they can be prosecuted. In addition, the increased adoption of mobile computing and the concurrent diversification of mobile device types and computing platforms within organizations have resulted in increased costs and management challenges for corporate IT departments. This has led to an opportunity for computer lifecycle management and tracking solutions designed to solve these challenges, enabling organizations to access the competitive advantages that such devices were meant to provide.

The core software agent for our technology is firmware embedded in PCs from leading PC manufacturers (“PC OEMs”) to make 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 devices without the ability to self heal are virtually impossible to track when the agent is disrupted. With sensitive or confidential data at risk on these devices and the stringent data privacy regulations with which organizations must comply, we believe that 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, device freeze, persistent device messaging, investigative services, file retrieval, location identification and the support of managed, full theft recovery by law enforcement. 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 that 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 approximately 85% and 15% 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 solutions.

Globalization

In developing the market for our solutions, we have focused primarily on North America from where we have historically generated the majority of our annual sales. However, we believe that extending our market reach globally offers significant long-term growth opportunities, especially since international computer shipments are expected to grow at much faster rates than those in North America. As a result, we are continuing to invest in our overseas operations.

We currently have offices in Vancouver, Austin, London, Amsterdam, Nuremburg, and Tokyo. Our products and customer support services are available in 13 languages. We currently 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.

In the year to date (“YTD”) period of fiscal 2011, sales outside of North America grew 78% in constant currency, and represented 9% of our total sales, compared to 6% in fiscal 2010. While our investments in our overseas operations have begun to drive growth, we believe that we are still in the formative 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 also have 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. Given the increasing market adoption of smart phones and mobile broadband enabled tablet, laptop and netbook computers, we believe that telecom service providers could become important channel and referral partners for us in the near term and we are working to build relationships in this area.

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)	Getac (since 2008)
ASUS (since 2009)	Lenovo (since 2005)
Dell (since 2005)	Motion Computing (since 2006)
Fujitsu US (since 2006) and EMEA (since 2009)	NEC Personal Products (since 2010)
HP (since 2005)	OQO, Inc. (since 2007)
Intel (Classmate Computer) (since 2009)	Panasonic (since 2006)
GammaTech (since 2008)	Toshiba (since 2006)
General Dynamics Itronix (since 2008)	Xplore Technologies (since 2008)

Solutions and Technology

Computrace

Our Computrace solutions allow customers to centrally secure and track their IT assets within a single web-based interface, the Absolute Customer Center. These solutions incorporate the Computrace® Agent, which is a small software client that is embedded into the firmware of many computers at the factory by our OEM partners or can be installed on the hard drive of the computer or device by the manufacturer or end customer. Once activated, the Agent maintains daily contact with the Absolute Monitoring Center (hosted by Absolute), providing detailed data from each device. By logging into the Absolute Customer Center, IT administrators can monitor their devices (on or off the network), knowing where they are, who is using them, and what types of software and other applications reside on them. They can also manage device security settings and establish alerts for events when a corporate security policy is compromised. In the event of an emergency situation, customers can take protective measures, such as locating the device, remotely locking the device, deleting sensitive information, retrieving important files and supporting the recovery of stolen devices. Computrace is available for laptop and desktop PCs and Macs, and for mobile devices (Blackberry, Symbian and Windows Mobile). Our consumer version of this product is branded as Computrace LoJack for Laptops.

Absolute Manage

Absolute Manage is our computer configuration lifecycle management technology. It allows IT administrators to manage their PC, Mac, and Apple iOS-4 (iPhone or iPad) devices from within a single console. Absolute Manage includes an administrator server and individual agents that are installed onto each device. Agent calls occur throughout the day and provide data from each computer. IT administrators use this data to monitor and manage their computer inventories. They can implement actions directly from the administrator server interface to remotely perform actions such as locating, terminating, removing, or installing applications, licenses, patches and computer images, as well as other management functions such as power management and asset inventory.

Deployment Models

Our Computrace and LoJack® for Laptops products are primarily delivered in a Software as a Service (“SaaS”) model. The customer deploys our client software, activates Computrace in the firmware or as software, and can immediately begin realizing the benefits. Our Absolute Manage product is an on-premise client-server solution that is designed for minimal server infrastructure requirements. Additionally, 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.

Patent Portfolio

We have a portfolio of 20 issued patents, and currently have 76 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 our patent portfolio, from time to time the Company is involved in assertions and claims of patent infringement as both the initiating party and, from time to time, as a respondent to such claims. Currently, the company is party to the following material 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. A mediation hearing set for November 17, 2010 was declined by both parties due to costs and the distance between the parties’ respective positions. Both parties continue to file briefs supporting their claims, and there are currently no hearings scheduled.

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 historically had few direct competitors in our services for mobile device protection and computer theft recovery. Most competitors have been small operators with limited resources to widely commercialize their offerings. However, concurrent with the increased proliferation and adoption of smart phones over the past two years, we have recently seen increased competition, primarily in the consumer market. Based on our proprietary technology and patent protection, we believe that our products maintain a competitive advantage in the market place. Several 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.

With the acquisition of Absolute Manage (formerly LANrev) in December 2009, we have expanded our product portfolio to address the broader computer lifecycle management and security market where there is an increased level of established competition. In the computer lifecycle management market, we compete with products such as Altiris (from Symantec), LANdesk, Kace (from Dell), and BigFix (from IBM), among others. The primary advantages of our solution include our firmware persistent technology, cross-platform capability (PC, Mac, and Apple iOS-4 support), ease of use, and minimal infrastructure requirements.

In the data and device security market, we also compete indirectly with data security companies that offer encryption solutions such as Safeboot (from McAfee), Utimaco (from Sophos), Checkpoint and Symantec, among others. Our Computrace solutions are generally purchased as a complement to all these solutions.

Subscription Business Model

We sell the majority of our solutions under 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 predictability and 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, we believe that cash flow is a better indicator of 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 foreign 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 other SaaS companies often refer to as "bookings".

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 period are incurred to generate Sales Contracts for that 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 Cash from Operating Activities as the key performance metric for the Company. We believe this metric provides a meaningful evaluation of the future of the business, while revenue and operating loss provide a lagging indication of performance. See the Non-GAAP Measures section below for a further discussion of Sales Contracts.

Seasonality

Absolute's strongest quarters tend to be the first and fourth quarter of each fiscal year, as related to our Sales Contracts. This is primarily due to strong activity in the education sector, one of our key markets, during those quarters. The first fiscal quarter also benefits from increased consumer market activity related to students returning to school.

Non-GAAP Measures

Throughout this MD&A, we refer to a number of measures which we believe are meaningful in the assessment of the Company's performance. All these metrics are non-standard measures under Canadian Generally Accepted Accounting Principles ("GAAP"), and may not be identical to similarly titled measures reported by other companies. Readers are cautioned that the disclosure of these items is meant to add to, and not replace, the discussion of financial results or cash flows from operations as determined in accordance with Canadian GAAP.

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

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

a) Basic and diluted Cash from Operating Activities per share

As a result of the nature of our revenues (please refer to “Subscription Business Model” in this MD&A), we use Cash from Operating Activities as a measure of profitability. Accordingly, we believe that Cash from Operating Activities per share is a meaningful indicator of profitability per share. Cash from Operating Activities per share is calculated by dividing Cash from Operating Activities by the average number of shares outstanding for the period (basic), or the fully diluted number of shares using the treasury stock method (diluted).

b) Sales Contracts

See the “Subscription Business Model” section of this MD&A for a detailed discussion of why we believe Sales Contracts (“bookings”) provide a meaningful performance metric. Sales Contracts are a component of deferred revenue (see Note 3 of the Notes to the Interim Consolidated Financial Statements), and result from invoiced sales of our products and services.

c) Sales Contracts in constant currency

Approximately 95% of our Sales Contracts are denominated in U.S. dollars, and we believe this is important to consider when evaluating underlying sales performance. Sales Contracts in “constant currency” refers to the Canadian dollar sales that would have been reported had the average U.S. dollar foreign exchange rate been unchanged from the rate in the comparable period(s) of F2010, and is calculated by applying the appropriate U.S. dollar foreign exchange rate from the comparable period to the current period sales denominated in U.S. dollars.

The average U.S. dollar to Canadian dollar exchange rate on sales was 1.0122 in Q2-F2011 compared to 1.0555 in Q2-F2010.

d) Adjusted Operating Expenses

A number of significant non-cash expenses are reported in our Cost of Revenue and Operating Expenses. Management believes that analyzing these expenses exclusive of these non-cash items provides a useful measure of the cash invested in operating the business. Most significantly, these non-cash items include stock-based compensation and amortization of acquired intangible assets.

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

- 1) *Stock-based compensation:* Our compensation strategy includes the use of stock-based awards to attract and retain key employees and executives. It is principally aimed at aligning their interests with those of our shareholders and at long-term employee retention, rather than to motivate or reward operational performance for any particular period. Thus, stock-based compensation expense varies for reasons that are generally unrelated to operational decisions and performance in any particular period.

- 2) *Amortization of Acquired Intangible Assets:* We believe that amortization of acquisition-related intangible assets, such as the amortization of acquired technology and customer relationships, relate to items arising from pre-acquisition activities. These are costs that are determined at the time of an acquisition. While it is continually reviewed for impairment, amortization of the cost is a static expense, one that is typically not affected by operations during any particular period.

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

(in millions)	Three months ended					
	December 31, 2010			December 31, 2009		
	Per interim financial statements	Adjustments	Adjusted	Per interim financial statements	Adjustments	Adjusted
Cost of Revenue ("COR")	\$ 4.7	\$ (1.4) ⁽¹⁾	\$ 3.3	\$ 3.2	\$ (0.3) ⁽¹⁾	\$ 2.9
Total Operating Expenses	14.0	(1.1) ⁽²⁾	12.9	14.1	(0.6) ⁽²⁾	13.5
Total COR and Operating Expenses	\$ 18.7	\$ (2.5)	\$ 16.2	\$ 17.3	\$ (0.9)	\$ 16.4

(in millions)	Six months ended					
	December 31, 2010			December 31, 2009		
	Per interim financial statements	Adjustments	Adjusted	Per interim financial statements	Adjustments	Adjusted
Cost of Revenue ("COR")	\$ 9.6	\$ (2.8) ⁽¹⁾	\$ 6.8	\$ 6.3	\$ (0.3) ⁽¹⁾	\$ 6.0
Total Operating Expenses	28.2	(1.7) ⁽²⁾	26.5	26.7	(1.2) ⁽²⁾	25.5
Total COR and Operating Expenses	\$ 37.8	\$ (4.5)	\$ 33.3	\$ 33.0	\$ (1.5)	\$ 31.5

Notes:

- (1) Amortization of intangible assets per the Statement of Cash Flows in the Interim Consolidated Financial Statements.
- (2) Stock-based compensation per the Statement of Operations and Comprehensive Loss.

e) *Adjusted Operating Income (Loss)*

Management believes that analyzing operating results exclusive of the significant non-cash items noted above provides a useful measure of the Company's performance. The non-cash items excluded in the determination of Adjusted Operating Income (Loss) include stock-based compensation and amortization of acquired intangible assets. See point (d) above for a discussion of these items.

The following tables provide a reconciliation of our GAAP Operating Loss to the Adjusted Operating Income (Loss):

(in millions)	Three months ended					
	December 31, 2010			December 31, 2009		
	Per interim financial statements	Adjustments	Adjusted	Per interim financial statements	Adjustments	Adjusted
Operating Income (Loss)	\$ (0.7)	\$ 2.5 ⁽¹⁾⁽²⁾	\$ 1.7	\$ (1.4)	\$ 0.9 ⁽¹⁾⁽²⁾	\$ (0.5)

(in millions)	Six months ended					
	December 31, 2010			December 31, 2009		
	Per interim financial statements	Adjustments	Adjusted	Per interim financial statements	Adjustments	Adjusted
Operating Income (Loss)	\$ (2.5)	\$ 4.5 ⁽¹⁾⁽²⁾	\$ 2.0	\$ (2.2)	\$ 1.5 ⁽¹⁾⁽²⁾	\$ (0.7)

Notes:

- (1) Amortization of intangible assets per the Statement of Cash Flows in the Interim Consolidated Financial Statements.
- (2) Stock-based compensation per the Statement of Operations and Comprehensive Loss.

FINANCIAL PERFORMANCE REVIEW AND ANALYSIS

Performance Overview

During Q2 F2011, we continued to focus on our corporate and consumer sales execution in North America and EMEA and to build out our product offerings. We believe these initiatives have us well positioned to capitalize on our markets. Financial highlights for the second quarter of F2011 include:

- Sales Contracts invoiced of \$17.9 million (\$18.7 million in constant currency), compared to \$16.1 million in Q2-F2010 (\$16.1 million in constant currency).
- Recorded 22% constant currency growth in commercial sales compared to Q2-F2010.
- We finished the quarter with a subscription base of 6.0 million computers, similar to 5.9 million at June 30, 2010.
- Deferred revenue was \$107.0 million at December 31, 2010, up 4% from \$102.8 million at June 30, 2010.
- Cash, cash equivalents & investments (including long-term) were \$53.3 million at December 31, 2010, compared to \$58.0 million at June 30, 2010, primarily reflecting cash generated from operations offset by cash used for the Company's share buyback program.

Sales Contracts of \$18.7 million in constant currency represents an increase of 16% from Q2-F2010, which we believe is the result of our investment in the business over the past few years as well the impact of generally improved market conditions.

Sales Contracts

In the second quarter of fiscal 2011, we reported record second quarter Sales Contracts of \$17.9 million, a 12% increase compared to \$16.1 million in Q2-F2010. Sales Contracts in constant currency increased from Q2-F2010 by 16%. For the year to date period, Sales Contracts in F2011 were \$39.8 million (\$41.8 million in constant currency), up 13% (18% in constant currency) from \$35.3 million in the comparable period of F2010.

The increase from Q2-F2010 is primarily due to a 17% increase in commercial sales (22% in constant currency), offset by a 14% decrease in consumer sales (11% in constant currency). In the year to date period, both our commercial and consumer businesses increased from F2010, by 11% and 23%, respectively (16% and 30% in constant currency).

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

(in Millions)	Q2 Fiscal 2011		Q2 Fiscal 2010	YTD Fiscal 2011		YTD Fiscal 2010
	Q2 Fiscal 2011	Constant Currency		YTD Fiscal 2011	Constant Currency	
Commercial Customers	\$ 15.4	\$ 16.1	\$ 13.2	\$ 33.0	\$ 34.6	\$ 29.8
Percent of total sales	86%	86%	82%	83%	83%	84%
Consumer Customers	\$ 2.5	\$ 2.6	\$ 2.9	\$ 6.8	\$ 7.2	\$ 5.5
Percent of total sales	14%	14%	18%	17%	17%	16%
Total Sales Contracts	\$ 17.9	\$ 18.7	\$ 16.1	\$ 39.8	\$ 41.8	\$ 35.3
Closing Subscriber Base	6.0		5.0	6.0		5.0

Commercial Customer Sales Performance:

Our commercial business consists of sales of our Computrace and Absolute Manage product suites. We sell these products and related services into four primary market verticals: corporate, education, federal government, and health care. Our primary sales channels for this business are our PC OEM partners, as well as a number of distributors and value-added resellers.

In constant currency, invoiced sales to commercial customers in the second quarter increased 22% over Q2-F2010, and increased 16% in the year to date period of F2011 compared to F2010. We believe that these increases reflect the impact of our strategic investments in sales and marketing activities during F2010 and F2009 as well as improved market conditions.

We analyze our commercial sales performance in respect of sales to new customers and sales to existing customers. We believe that new customer sales provide a measure of our ability to grow our underlying business, while existing customer sales provide a measure of ongoing renewal business and expansion of deployments within our installed base of customers. It should be noted that we expend sales efforts, and incur related sales and marketing expenses, regardless of whether a sale is made to a new or existing customer.

In Q2-F2011, commercial sales to new customers were \$2.1 million, a decrease of 15% (12% in constant currency) from \$2.5 million in Q2-F2010. Commercial sales to existing customers increased 23% (29% in constant currency), to \$13.4 million from \$10.8 million in Q2-F2010. In the year to date period of F2011, commercial sales to new customers were \$6.4 million, an increase of 30% (37% in constant currency) from \$4.9 million in F2010, and sales to existing commercial customers increased 16% (22% in constant currency) to \$29.1 million from \$25.0 million in F2010.

These commercial sales results are shown in the following table:

Commercial Customer invoiced sales (in millions)	Q2 Fiscal 2011		Q2 Fiscal 2010	YTD Fiscal 2011		YTD Fiscal 2010
	Q2 Fiscal 2011	Constant Currency		YTD Fiscal 2011	Constant Currency	
Sales to existing customers	\$ 13.3	\$ 14.0	\$ 10.8	\$ 29.1	\$ 30.6	\$ 25.0
Percent of total sales	74%	75%	67%	72%	72%	71%
Sales to new commercial customers	\$ 2.1	\$ 2.2	\$ 2.4	\$ 6.4	\$ 6.7	\$ 4.8
Percent of total sales	12%	12%	15%	16%	16%	14%
Subscriptions sold to existing customers (in units)	320,000		257,000	682,000		522,000
Total subscriptions expiring in period (in units)	236,000		151,000	468,000		316,000
Expiring Subscription Ratio ⁽¹⁾	1.4: 1		1.7: 1	1.5: 1		1.7: 1

(1) The “Expiring Subscription Ratio” is the ratio of existing customer sales and renewals compared to total subscriptions expiring in the period.

On a quarterly basis, the Expiring Subscription Ratio is expected to be volatile as renewal and expansion sales may not occur in the same quarter. The quarterly and year to date ratios were 1.4:1 and 1.5:1 at December 31, 2010, which were slightly lower than the ratio of 1.7:1 experienced in F2010. The Expiring Subscription Ratio is expected to fluctuate due to the fact that our existing customers are more deeply penetrated, on average, than in past years, and due to the impact of the global economic downturn on customer buying patterns. The average selling price for existing customer sales in U.S. dollars was \$41.31 in Q2-F2011, which was slightly higher than the \$39.95 experienced in Q2-F2010. This measure is expected to decline over the next twelve months, as the expiring subscriptions in F2011 have a higher weighting toward lower-priced, non-theft recovery products. This is a direct reflection of strategies to offer lower featured anti-theft products in order to expand our addressable market.

Consumer Sales Performance:

Our consumer business consists of sales of our consumer-branded product suite, LoJack for Laptops. Our primary sales channels for these products include our PC OEM partners, as well as other distribution channels such as online and traditional retailers. Some of our PC OEM partners bundle our solutions with new PC purchases, which has formed the largest portion of our consumer product sales in prior years and is becoming a less significant portion of our business as we diversify into other retail channels. These bundled sales are typically lower priced and are for a shorter term than our commercial business. Most renewal business is completed directly with our end customers.

Consumer sales in Q2-F2011 decreased 14% (11% in constant currency) from Q2-F2010, primarily due to decreased levels of bundle sales with our PC OEM partners. However, our online and retail strategies continue to produce increasing levels of non-bundled PC OEM sales, which is reflected in our year to date sales performance which has increased 23% to \$6.8 million from \$5.5 million in F2010.

At December 31, 2010, the consumer business has 713,000 subscriptions coming up for renewal in the remainder of F2011. This amount is up 527% from the end of Q2-F2010, when 114,000 expiring subscriptions were up for renewal in the balance of that fiscal

year. Management expects this increased renewal opportunity to be offset by reductions in the aforementioned bundle sales.

Revenue

Revenue for Q2-F2011 increased 13% to \$17.9 million, compared to \$15.8 million in Q2-F2010. For the year to date period, revenue increased 14% to \$35.2 million in F2011 from \$30.9 million in F2010. A majority of revenue is derived from the amortization of Sales Contracts through the prior year's deferred revenue balance. As the average contract life of Sales Contracts has historically averaged 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)	Q2 Fiscal 2011	Q2 Fiscal 2010	YTD Fiscal 2011	YTD Fiscal 2010
Revenue recognized from:				
Prior period Deferred Revenue	\$ 14.6	\$ 13.0	\$ 30.5	\$ 27.3
Current period Sales Contracts	3.3	2.8	4.7	3.6
Total	\$ 17.9	\$ 15.8	\$ 35.2	\$ 30.9
Percent of revenue from current period Sales Contracts	18%	18%	13%	12%

Adjusted Operating Expenses⁽¹⁾

(Millions of dollars)	Q2 Fiscal 2011	Q2 Fiscal 2010	Percentage increase	YTD Fiscal 2011	YTD Fiscal 2010	Percentage increase
Cost of revenue (“COR”) ⁽¹⁾	\$ 3.3	\$ 2.9	12%	\$ 6.8	\$ 6.0	13%
Sales and marketing (“S&M”)	8.1	9.2	(11%)	17.4	17.3	1%
Research and development (“R&D”)	3.0	2.6	14%	6.0	4.8	24%
General and administration (“G&A”)	2.2	1.9	15%	3.9	3.9	1%
Investment tax credits (“ITC”)	(0.4)	(0.2)	64%	(0.8)	(0.5)	61%
Total COR and operating expenses⁽¹⁾	\$ 16.2	\$ 16.4	(1%)	\$ 33.3	\$ 31.5	5%
Number of employees at December 31	362	342	6%	362	342	6%

ADJUSTMENTS:

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

Total Adjusted Operating Expenses decreased 1% in Q2-F2011 compared to Q2-F2010. On a year to date basis, Adjusted Operating Expenses increased 5% in F2011 compared to F2010. On a year-over-year basis, our cost of revenues and operating costs increased consistent with the growth in our recognized revenue and the overall expansion of our employee base.

Overall spending in Q2-F2011 was lower than the \$17.1M experienced in Q1-F2011, primarily due to lower partner marketing costs. For the remainder of F2011 management intends to maintain spending levels consistent with the last half of F2010.

Adjusted Operating Expenses as a Percentage of Sales Contracts⁽¹⁾

As discussed in the “Subscription Business Model” section of this MD&A, a large percentage of total adjusted operating expenses costs relate to efforts to generate Sales Contracts in the same and future periods. Therefore, management focuses on Adjusted Operating Expenses to measure the Company’s operating efficiency and effectiveness. In Q2-F2011, Adjusted Operating Expenses were 90% of Sales Contracts, representing a decrease from 102% in Q2-F2010, and in the year to date period of F2011, were 84% of Sales Contracts, and improvement from 89% in the prior year comparative period.

(percentage of Sales Contracts)	Q2 Fiscal 2011	Q2 Fiscal 2010	YTD Fiscal 2011	YTD Fiscal 2010
Cost of revenue (“COR”) ⁽¹⁾	18%	18%	17%	17%
Sales and marketing (“S&M”)	45%	57%	44%	49%
Research and development (“R&D”)	17%	16%	15%	14%
General and administration (“G&A”)	12%	12%	10%	11%
Investment tax credits (“ITC”)	(2%)	(2%)	(2%)	(1%)
Total COR and operating expenses⁽¹⁾	90%	102%	84%	89%

ADJUSTMENTS:

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

Cost of Revenue and Gross Margin

Cost of revenue is primarily comprised of expenses related to providing customer support, training, and theft recovery activities, the costs of data centre capacity for monitoring, amortization of acquired intangible assets, an allocation of overhead, as well as costs such as product packaging, shipping, and guarantee expenses. Cost of revenue increased 44% from \$3.2 million in Q2-F2010 to \$4.7 million in Q2-F2011. In the year to date period, cost of revenue increased from \$6.4 million in F2010 to \$9.6 million in F2011, representing a 50% increase. These cost increases were primarily a result of amortization of acquired intangible assets and increases in headcount commensurate with the increase in our installed base of customers. Amortization of intangible assets increased to \$1.4 million compared to \$0.3 million in Q2-F2010, as a result of assets acquired from the acquisitions of LANrev and FailSafe and Phoenix Freeze. This increase was larger in the year to date period, with amortization charges of \$2.8 million in F2011 as compared to \$0.3 million in F2010. We exited Q2-F2011 with a headcount of 83 in these areas, as compared to 84 at September 30, 2010 and 89 at December 31, 2009.

Gross margin in Q2 and YTD F2011 was 74% and 73%, respectively, compared to 80% and 79% in the comparable periods of F2010. These decreases resulted primarily from the amortization of acquired intangible assets. Not including these charges, gross margin in Q2 and YTD F2011 would have been 82% and 81%, similar to F2010.

Sales and Marketing

Sales and marketing expenses are our largest cost and consist primarily of salaries and related expenses for our sales and marketing staff, including commissions, payments to partners, marketing programs, and allocated overhead. 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.

Increases in sales and marketing expenditures reflect expansion of the sales team and increased marketing expenditures to support partner and vertical growth strategies, consistent with our overall strategy. In Q2-F2011, S&M expenses decreased 11% to \$8.2 million from \$9.2 million in Q2-F2010. In the year to date period of F2011, S&M expenses were \$17.4 million, similar to the \$17.4 million in F2010. As a percent of Sales Contracts, S&M expenses were lower in both Q2 and YTD F2010 at 45% and 44%, as compared with 57% and 49% in F2010. These decreases have resulted primarily from decreased expenditures in channel marketing, offset by slight increases in payroll-related expenses. We exited Q2-F2011 with a headcount of 141 in sales and marketing, as compared to 139 at September 30, 2010 and 141 at December 31, 2009.

Research and Development

Research and development expenses consist primarily of salaries and related expenses for our research and development staff, outsourcing costs, and allocated overhead. We continue to focus our research and development efforts on adding new features and services, increasing product functionality and enhancing the ease of use of our products and services.

Research and development expenditures increased 14% in Q2-F2011 to \$3.0 million from \$2.6 million in Q2-F2010. In addition, R&D expenses have increased 24% in the year to date period of F2011, from \$4.8 million in F2010 to \$6.0 million in F2011. When measured as a percentage of Sales Contracts, R&D expenses are similar in F2011 and F2010, at 17% and 15% in Q2 and the year to date period, as compared to 16% and 14% in the comparable periods. As compared to F2010, we have expanded our internal headcount commensurate with our expanded product offering. At December 31, 2010, we had a headcount of 95 in this area, as compared to 99 at September 30, 2010 and 90 at December 31, 2009. In addition, we have increased our use of outsourcing for specific product development initiatives in the year to date period.

General and Administration

General and administration expenses consist of salaries and related expenses for finance and accounting, IT, human resources personnel, bad debt expenses, legal costs, professional fees, other corporate expenses and allocated overhead. General and administration expenses increased 15% from 1.9 million in Q2-F2010 to \$2.2 million in Q2-F2011. In the year to date period, G&A expenses have increased 1% from F2010, to \$3.9 million in F2011 as compared to \$3.9 million in the prior year. The increase experienced in the second quarter is primarily due to increased legal fees related to

certain patent litigation. In addition, we have increased our general expenditures, consistent with the growth of our business. At December 31, 2010, we had a headcount of 34 in this area, as compared to 31 at September 30, 2010 and December 31, 2009.

Operating Loss

Absolute generated an Adjusted Operating Income of \$1.7M in Q2-F2011 as compared to an Adjusted Operating Loss of \$0.5M in Q2-F2010. For the year to date period, the Adjusted Operating Income was \$2.0M in F2011 compared to an Adjusted Operating Loss of \$0.7M in the prior year period. The improved adjusted operating results in F2011 are the result of higher revenues in the F2011 periods with relatively smaller increases in adjusted operating costs.

Absolute generated a GAAP operating loss of \$0.7 million in Q2-F2011, compared to an operating loss of \$1.4 million in Q2-F2010, and also experienced operating losses in the year to date periods of \$2.5 million in F2011 and \$2.2 million in F2010. A majority of the operating loss reduction in Q2-F2011 relates to increased revenues as compared with Q2-F2010, offset primarily by the increase in the amortization of acquired intangible assets. In the year to date period, the higher operating loss is related primarily to the aforementioned intangible asset amortization, offset by an increase in revenues

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 Q2-F2011, interest income was lower than Q2-F2010 at \$154,000 as compared to \$195,000, and was \$343,000 in the year to date period as compared to \$353,000 in F2010. The current periods' figures are net of \$32,000 in non-cash interest expense accreted on our acquisition payable liability.

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 Q2-F2011, the foreign exchange loss was \$749,000 compared to a \$487,000 in Q2-F2010, and was \$925,000 in the year to date period compared to \$1.9 million in the comparable period of F2010. These variations are a result of volatility in the foreign exchange rate between the U.S. and Canadian dollar as compared to the prior year. During Q2-F2010, this volatility was unusually high, resulting in the much higher loss experienced in that quarter as compared to the current quarter.

In Q2-F2011, we experienced gain of \$287,000 on disposal of marketable securities, similar to the gain for the year to date period of \$287,000. In F2010, as we were holding these and other securities and investments, we experienced unrealized losses of \$283,000 in Q2 and \$147,000 in the year to date period.

Income Taxes

Our provision for income taxes is based on the application of our expected overall tax rates for the year ended June 30, 2011 to the results from our quarterly operations.

In Q2-F2011, we recorded current income tax expense of \$980,000 and a future income tax recovery of \$550,000. In Q2-F2010, we recorded a current tax expense of \$760,000 million and a future income tax recovery of \$480,000. In the year to date period of F2011, we recorded current tax expense of \$1,050,000 offset by a future income tax recovery of \$1,053,000, as compared to \$2,470,000 and \$2,020,000 in F2010. 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 Q2-F2011, our future income tax recovery is primarily attributable to the benefit of expected tax losses in our U.S. operations, offset by the drawdown of FIT assets related to our deferred revenue balances. In Q2-F2010, 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 and acquired intangible assets.

Net Loss

The Company's net loss in Q2-F2011 was \$1.5 million, as compared to a net loss of \$2.3 million in Q2-F2010. For the year to date period of F2011, we experienced a net loss of \$2.8 million, a decrease from \$4.3 million in F2010. The decreased net losses reflect the net impact of those factors discussed above with the changes in the operating loss and other income, and income tax expense.

The Company earned net income adjusted for Adjusted Operating Expenses of \$0.9 million in Q2-F2011, compared to a loss of \$1.4 million in Q2-F2010. In addition, we earned adjusted net income in the year to date period of \$1.7 million, as compared to a loss of \$2.8 million in F2010. The primary reason for these improvements is the improvement in the adjusted operating loss as noted above, the favorable variance in our investment gains and losses, and the changes in our net income tax expense and recovery.

Cash from Operating Activities

Cash from Operating Activities for Q2-F2011 of \$3.1 million increased 77% from \$1.8 million in the prior year. For the year to date period, cash from Operating Activities was \$6.4 million, a decrease of 3% from \$6.5 million in F2010. However, our net loss adjusted for non-cash items improved by \$5.1 million from the year to date period of F2010 to F2011, indicating an underlying improvement in our business. Cash provided by changes in working capital was lower in the year to date period of F2011, at \$5.2 million as compared to \$10.6 million in F2010.

Liquidity and Capital Resources

Absolute is in a strong financial position, with no debt and the financial resources necessary to fund its operating and capital requirements and to execute on its growth strategies. At December 31, 2010, Absolute's cash, cash equivalents and investments were \$53.3 million, compared to \$58.0 million at June 30, 2010. The Company's cash and investment position has improved on operating cash flows and proceeds from stock option exercises and our employee share purchase plan, less our cash outlay of \$9.7 million related to our share buyback in F2011. 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 individual 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 \$13.7 million at December 31, 2010 (76% of Q2-F2011 Sales Contracts) from \$13.9 million at June 30, 2010 (72% of Q4-F2010 Sales Contracts). This increase is primarily due to lower Sales Contracts recorded in Q2-F2011 as well as the timing of sales incurred within the quarter.

At December 31, 2010, 25% of the Company's accounts receivable balance was aged over 90 days as compared to 18% at June 30, 2010. At December 31, 2010, accounts receivable included two PC OEM partners that represented more than 10% of receivables, with one at 30% and the other at 23%. At June 30, 2010, the same two partners comprised 27% and 20%, respectively, of our total accounts receivable.

Accrued warranty

Accrued warranty is related to a service guarantee with certain of our products. The accrued warranty decreased to \$8.9 million (8% of deferred Sales Contract revenue) at December 31, 2010, compared to \$9.2 million (9% of deferred Sales Contract revenue) at June 30, 2010. The reduction relative to June 30, 2010 reflects warranty experience gains.

Deferred revenue

Deferred revenue was \$107.0 million at December 31, 2010, compared to \$102.8 million at June 30, 2010. 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 \$112.7 million at December 31, 2010, up 4% from \$108.5 million at June 30, 2010.

The scheduled recognition of deferred revenue is as follows:

(in millions)	F2011	F2012	F2013	F2014	F2015	F2016	Total
Revenue to be recognized	\$32.9	\$44.9	\$24.5	\$8.0	\$1.9	\$0.5	\$112.7
Subscriptions expiring	1.4	2.5	1.2	0.7	0.2	0.0	6.0

Future income tax assets and current taxes payable

At December 31, 2010, we had current taxes payable in the amount of \$1.8 million, which primarily 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 those ITC claims are not assessed as filed. The current period’s estimate for current income tax expense was significantly 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 year against income. At December 31, 2010, we had total future income tax assets of \$21.3 million, which are primarily attributable to the future benefit of deferred revenue balances and tax loss carryforwards in our U.S. operations. Management believes these future income tax assets are more likely than not to be realized, and a portion of the asset related to deferred revenue balances was reversed during Q2-F2011.

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 F2011

None.

Quarterly Operating Data

(in millions except per share data)	Q2-11	Q1-11	Q4-10	Q3-10	Q2-10	Q1-10	Q4-09	Q3-09
Sales Contracts	\$17.9	\$21.9	\$19.3	\$15.0	\$16.1	\$19.2	\$20.2	\$16.9
Revenue	17.8	17.3	16.6	16.6	15.8	15.0	14.3	13.7
Net income (loss) adjusted for Adjusted Operating Expenses ⁽¹⁾	0.9	0.7	(1.9) ⁽²⁾	1.4 ⁽³⁾	(1.4)	(1.4)	17.1 ⁽⁴⁾	(0.6)
Net (Loss) Income	(1.5)	(1.3)	(3.8)	(0.0)	(2.3)	(2.0)	16.5	(1.1)
Basic and diluted (loss) income per share	(0.03)	(0.03)	(0.08)	(0.00)	(0.05)	(0.04)	0.36	(0.02)
Cash from Operating Activities	3.1	3.2	0.1	0.6	1.8	4.8	2.8	3.6
Operating cash per share (basic)	0.07	0.07	0.00	0.01	0.04	0.10	0.06	0.08

(1) Please refer to the "Non-GAAP Measures" section of this MD&A.

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

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

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

Shareholders' Deficiency and Outstanding Share Data

At December 31, 2010, Absolute had a shareholders' deficiency of \$11.9 million. In evaluating shareholders' deficiency, management believes it is important to consider the \$107.0 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 December 31, 2010 the Company had 44,682,970 (January 31, 2011 – 44,604,163) fully issued and outstanding common shares. The following common share stock options are issued and outstanding at December 31, 2010:

- Employee Share Option Plan: 4,560,075 (January 31, 2011 – 4,560,075) 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 2.9 years. In the year to date period of F2011, a total of 256,500 stock options were granted to employees at an average strike price of \$4.10.
- 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 810,043 have been issued as at December 31, 2010 (January 31, 2011 – 899,636).

Corporate Developments

None.

Critical Accounting Policies and Estimates

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

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

Deferred 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.

Off Balance Sheet Arrangements

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

Related Party Transactions

None.

Subsequent Events

Subsequent to December 31, 2010, through January 31, 2011, the Company has repurchased an additional 168,400 common shares under its Normal Course Issuer Bid for a total cost of \$625,956.

On January 31, 2011, 89,593 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 is converging Canadian GAAP with IFRS over a transition period through calendar 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: 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 completed.</p>	<p>Detailed assessment completed. Policy choices made; currently assessing options with regard to financial statement format.</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 December 1, 2010</p>	<p>Leadership team and resources identified. Further development of expertise completed.</p> <p>Scoping and resource assessment completed. Identified areas for changes include the functional currencies in our accounting systems, and changes in our stock option software system.</p>
<p>Business activity assessment:</p> <ul style="list-style-type: none"> • Effects on compensation arrangements 	<p>Renegotiated compensation arrangements by June 30, 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 Q3-F2011. 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. Detailed assessment of accounting policy choices completed.</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>Determination of draft IFRS opening balance sheet as at June 30, 2010 for Q3-F2011 disclosures.</p> <p>Publication of revised F2011 results and MD&A by October 15, 2011.</p>	<p>Accounting policy choices completed, currently undergoing detailed assessment and calculations for adjustments required.</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, was substantially completed in the first half of F2011, and we now have an evaluation of and recommendations for appropriate accounting policy choices, and an evaluation of accounting changes required and opening balance sheet adjustments that will be required upon IFRS adoption.

We have assessed the Company's current accounting policies, and have identified the following areas where IFRS adoption will significantly alter the Company's accounting policies and methodologies and the resulting form of its consolidated financial statements under IFRS:

- 1) **Share-based payments:** IFRS 2, "*Share-based Payments*", requires that each tranche of vesting stock options be valued separately using dissimilar assumptions in the Black-Scholes Option Pricing model, and further requires that each tranche is expensed over its vesting period. Currently, the Company values all options in a grant using the same set of Black-Scholes assumptions, and expenses the entire fair value over the vesting period of the options.

Upon adoption, the Company expects to claim the exemption available under IFRS 1, "*First Time Adoption of IFRS*", which will allow the Company to not

revalue any stock options which were fully vested prior to the date of IFRS implementation.

We expect that upon IFRS adoption, we will be required to make an adjustment to account for the differences noted above. The effect of this adjustment will be increase our deficit and our contributed surplus, as previously unrecognized stock-based compensation will be required to be recognized. We are currently assessing the magnitude of this adjustment.

- 2) **The Effects of Changes in Foreign Exchange Rates:** IAS 21, *“The Effects of Changes in Foreign Exchange Rates”*, prescribes accounting guidance surrounding transactions in foreign currencies, and how to include the results of foreign operations in an entity’s financial statements.

In regards to foreign exchange translation of subsidiaries, Canadian GAAP requires an assessment of whether or not a subsidiary is integrated, or self-sustaining. IAS 21 does not include this type of assessment, rather, it requires the assessment of each entity’s functional currency based on certain indicators.

Based on our preliminary evaluation, we expect that most of the companies in our group will be assessed as having the US dollar as their functional currency. Currently, our foreign exchange translations are performed in a method that would infer that the Canadian dollar is the functional currency of the entire group.

Based on this preliminary assessment, as we will be required to account for the majority of our entities using the US dollar as their functional currency, we expect that upon IFRS adoption we will begin to report our financial position and our results from operations using the US dollar as the reporting currency.

We are currently working through detailed calculations in order to determine the impact this change will have on our opening balance sheet as at the date of adoption of IFRS. We expect that we will provide an update as this assessment is completed throughout the remainder of fiscal 2011.

- 3) **Income Taxes:** IAS 12, *“Income Taxes”*, prescribes how to account for current and future income taxes.

IAS 12 requires that all deferred income tax assets are to be shown as long-term assets. Currently, we present a portion of our future income tax assets as current.

We expect to continue to refine our accounting policy choices as we continue with our conversion effort and as IFRS standards evolve. Based on our assessment, we do not believe that any other exemption provisions available under IFRS 1 will be applicable to the Company.

Once our policies and accounting methodologies have been finalized, 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 variable 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 variable 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's management, with the participation of its CEO and CFO, are also responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Under the supervision of the CEO and CFO, the Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

There have been no changes in the Company's disclosure controls or internal control over financial reporting during the three and six months ended December 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company's CEO and CFO expect to certify Absolute's quarterly filings with the Canadian securities regulatory authorities.

Risks and Uncertainties

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

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.

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.

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.

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, budget cutbacks 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.

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 nor be able to release new products and features arising from these acquisitions to market in a timely manner. 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.

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.

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. In addition, competitors are continuing to surface as security and management applications for mobile devices are introduced to market.

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.

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.

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 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.