

**ABSOLUTE SOFTWARE CORPORATION (TSX: ABT)**  
**Fiscal 2014 Management's Discussion and Analysis**  
**For the years ended June 30, 2014 and 2013**  
**Dated: August 18, 2014**

*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 2014 Consolidated Financial Statements and accompanying notes. These documents, along with additional information about the Company, including the Annual Report and Annual Information Form, are available at [www.absolute.com](http://www.absolute.com) and [www.sedar.com](http://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", "scheduled" 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. The Company 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 computer and mobile device data protection, tracking, management, theft management and IT service management services and solutions; (b) the successful integration of 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) 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; (f) the ability of the Company to successfully compete in an increasingly competitive landscape; (g) continuation of embedded firmware support from its current and anticipated OEM partners; (h) the demand for its products and services continuing to increase; (i) the ability of the Company to access and gain sales traction in international markets; (j) the ability of the Company to attract and retain key employees, including the Chief Executive Officer; (k) statements as to any and all future dividend issuances; and (l) other expectations, intentions and plans contained in this document that are not historical facts.*

*The key assumptions underlying the aforementioned forward-looking statements are that: (a) the increasing adoption of mobile computing devices will lead to an increased demand for endpoint data protection and management solutions; (b) the client management and enterprise mobility management markets will converge, and the Company will be able to capitalize on this convergence as a result of an expanded product and feature set; (c) the Company's investments in sales, marketing and product development will lead to growth of the business as the worldwide computer and mobile device market grows; (d) the Company will be able to continue to add new products and features to its product portfolio; and (e) the Company will expand and be able to benefit from its portfolio of intellectual property, including patents. Certain or all of the foregoing 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 technologies, including new device types and operating systems; changes in laws and regulations (including 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, 2014. 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.*

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

*All dollar figures are stated in U.S. dollars unless otherwise indicated.*

## Selected Quarterly Information

(in millions of USD, except percent and per share data, unless otherwise noted)

	Q4 Fiscal 2014	Q4 Fiscal 2013	YTD Fiscal 2014	YTD Fiscal 2013
Sales Contracts <sup>(1)</sup>	\$ 30.7	\$ 26.2	\$ 97.3	\$ 88.3
% increase	18%	10%	10%	(0%)
Cash from Operating Activities <sup>(1)</sup>	\$ 1.9	\$ 3.2	\$ 15.5	\$ 17.5
Per share (basic) <sup>(1)(2)</sup>	\$ 0.04	\$ 0.08	\$ 0.36	\$ 0.41
Per share (diluted) <sup>(1)(2)</sup>	\$ 0.04	\$ 0.07	\$ 0.35	\$ 0.41
Revenue	\$ 23.3	\$ 22.0	\$ 91.0	\$ 83.2
% increase	6%	13%	9%	12%
Adjusted EBITDA <sup>(1)</sup>	\$ 4.3	\$ 3.2	\$ 16.3	\$ 11.7
% increase	34%	58%	39%	(0%)
Net income	\$ 0.8	\$ 0.4	\$ 3.6	\$ 1.7
Per share (basic) <sup>(2)</sup>	\$ 0.02	\$ 0.01	\$ 0.08	\$ 0.04
Per share (diluted) <sup>(2)</sup>	\$ 0.02	\$ 0.01	\$ 0.08	\$ 0.04
Dividends paid	\$ 2.4	\$ 2.0	\$ 9.3	\$ 4.1
Per share (CAD) <sup>(3)</sup>	\$ 0.06	\$ 0.05	\$ 0.23	\$ 0.10
Total assets	\$ 137.8	\$ 126.4	\$ 137.8	\$ 126.4
Cash, cash equivalents and investments	\$ 73.6	\$ 62.9	\$ 73.6	\$ 62.9
Deferred Revenue	\$ 137.0	\$ 130.6	\$ 137.0	\$ 130.6

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

(2) Per share figures for F2014 and F2013 reflect a reduced number of outstanding shares following the Company’s purchase and retirement of 2,812,900 common shares in F2013 under annual Normal Course Issuer Bids that commenced in Q3-F2013 and Q2-F2012.

(3) As part of our strategy to increase shareholder value we began paying a quarterly dividend in F2013. The first quarterly dividend payment was made in Q3-F2013, was increased in Q2-F2014, and is expected to increase in Q2-F2015.

## **Background**

Absolute<sup>®</sup> Software Corporation provides firmware-persistent security and management solutions for endpoint computing devices such as computers, laptops, tablets and smartphones. The Company was founded in 1993 with the vision of enabling businesses to track, manage and secure their mobile computing devices, regardless of user or location. Today, our solutions include remote data security, lifecycle management, enterprise mobility management and IT service management. Our solutions are deployed on more than six million computers and mobile devices worldwide by our customers that include corporations, healthcare organizations, educational institutions, government organizations and individual consumers.

The market opportunity for our products and services is driven by the rapid adoption of mobile computing coupled with an increasing market and regulatory emphasis on information security. From a general perspective, mobile devices are susceptible to loss or theft, and our solutions enable our customers to protect the information on those devices through features such as remote data delete, device locking, geo-technology and proactive alerting capabilities. Enterprises are also increasingly concerned with more sophisticated risk scenarios such as targeted hacking, internal fraud and identity theft. Our solutions help organizations to protect against the latter scenarios through services and features such as remote investigations, computer forensics and reporting of suspicious device behaviour. For example, our remote investigative services can enable a customer to determine whether sensitive information was accessed by an unauthorized user on a lost or stolen device. The results of an investigation can also include device location, unauthorized user identity, actions taken on the device, and other insightful data.

In addition, the increasing diversity of computer and mobile computing device types and platforms entering the enterprise is leading to growing device management challenges and administrative costs for information technology (“IT”) departments. This is driving a market opportunity for our endpoint management solution, Absolute Manage, which customers use to remotely manage laptops, desktops, tablets and smartphones.

Our solutions are designed to enable our customers to maintain control over their mobile computing environments. These solutions are rapidly deployable and are designed to secure and manage multiple mobile device types and platforms, regardless of whether they are corporate or employee owned. Importantly, our solutions are strengthened by our unique, patented Absolute Persistence technology.

Our primary data protection and device tracking product is Absolute Computrace<sup>®</sup>, a unique software-as-a-service (“SaaS”) solution for endpoint computing devices. Computrace provides customers with the ability to track their computer and mobile device inventories on or off the corporate network and protect data through functions such as locating devices, remotely locking devices, deleting sensitive information, remote device messaging, alerting on suspicious device activity, conducting remote investigations and recovering stolen devices. These capabilities enable our customers to achieve best in class governance, risk management and compliance (“GRC”) over their computing devices. Our consumer version of this product is called Absolute LoJack<sup>®</sup>.

Our core patented Absolute Persistence technology is embedded by manufacturers in the firmware of laptop, desktop, tablet and smartphone devices from many of the world's leading manufacturers ("OEMs", see Partner Ecosystem below). By leveraging our Absolute Persistence technology, our Computrace and Absolute Manage® software solutions are highly tamper-resistant. If either software agent is removed from a device, Absolute Persistence technology will trigger an automatic reinstallation. This characteristic allows IT administrators to maintain a connection with a device, regardless of user or location, providing them with an exceptionally high degree of visibility and control over their endpoint computing devices on and off the corporate network. This is a key feature for our customers, as devices without the ability to self-heal are extremely difficult to track or manage when the client software is disrupted. We believe our products have a distinct competitive advantage in the marketplace given the sensitive or confidential data at risk on these devices and the stringent data privacy regulations and internal policies with which organizations must comply.,.

Absolute Manage® is our integrated client management and enterprise mobility management ("EMM") solution. This solution enables IT administrators to manage the full spectrum of endpoint computing device types that connect to corporate networks, including desktops, laptops, tablets and smartphones. For PC and Mac computers, Absolute Manage enables the automation of critical IT tasks such as application and license management, software distribution, patch management, remote imaging, power management, encryption status reporting and other essential systems management functions.

Absolute Manage also incorporates EMM capabilities including mobile device management, mobile application management and secure document distribution for iOS (iPhone® and iPad™), Android and Windows Phone devices. These EMM capabilities support both corporate and employee-owned devices, supporting improved IT productivity and security of corporate data resident on those devices.

Absolute works with and is recognized by leading industry analysts including Gartner Inc. who have placed Absolute Manage both the Client Management Tools and Enterprise Mobility Management Magic Quadrants.

Absolute Service is our IT Service Management ("ITSM") and Help Desk solution enabling the automation of IT workflows such as support incidents, change requests, software releases and service level agreements in order to improve customer assistance, streamline internal costs and prove compliance with policies and regulations. Absolute Service has been designed to integrate seamlessly with Absolute Computrace and Absolute Manage technology. This provides existing Absolute customers with the ability to access select endpoint management and security functions directly from the Absolute Service console. All of this is done through an easy-to-use, highly scalable web-based service platform.

In June 2013 we acquired the assets of privately-held Palisade Systems, a provider of enterprise data security and data loss prevention ("DLP") solutions. The Palisade solution portfolio includes web monitoring and filtering, data monitoring and DLP. These solutions enable organizations to monitor and secure sensitive intellectual property and prevent it from leaving company networks and endpoints; define and enforce access to

external networks; and enforce compliance with privacy and security regulations. We are currently integrating the Palisade technology into Absolute Computrace. Doing so will deliver a unique service which will allow our customers to manage their endpoint DLP through our SaaS-based Absolute Customer Center and to utilize our Absolute Persistence technology to ensure their endpoint policies remain in force. We plan to launch the first version of our new endpoint DLP service in the first half of fiscal 2015 (“F2015”).

### **International Expansion**

In developing the market for our solutions, we have focused primarily on North America where we have historically generated the majority of our sales. However, we believe that extending our market reach globally offers significant long-term growth opportunities, especially since international computer and mobile device 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 in the Asia-Pacific region, Latin America and Europe (“EMEA”).

We have offices in Vancouver, Canada; Austin, USA; Ankeny, USA; Reading, UK; Nuremberg, Germany; Melbourne, Australia; Ho Chi Minh City, Vietnam; and Kuala Lumpur, Malaysia. We also service additional geographies through our remote sales force and through our partner network. Our products and customer support services are available in over ten languages. We have sales distribution agreements with global OEMs and a number of other in-country resellers in EMEA, Asia-Pacific and Latin America.

The investments made in our international operations over the past few years have started to drive growth. International markets accounted for 14% of our fiscal 2014 (“F2014”) Sales Contracts, and grew 23% in the same period compared to the prior year. We are still in the early stages of our international expansion, and therefore we expect that our international sales performance will be subject to variability.

### **Vertical Expansion**

Since its inception, we have experienced considerable traction within the Education space and today enjoy a significant market share in North America, doing business with 21 of the 25 largest school districts by enrollment in the United States.

With market focus shifting to data protection versus device protection, we have proactively targeted additional verticals such as healthcare and other corporate markets. These organizations are bound by corporate governance and government regulations specific to data security and recognize the value in our technology. The combined healthcare and corporate markets accounted for 45% of our F2014 Sales Contracts.

## Partner Ecosystem

Our partner ecosystem is an essential component of our business strategy. Our primary partners are OEMs who are both key collaborative technology partners and key distribution partners.

From a technology perspective, our OEM partners have adopted our Computrace technology as a standard and have embedded it in the firmware of laptop, desktop, tablet and smartphone computing devices. This is an important collaboration for Absolute, as the embedded support enhances the persistence (ability to survive unauthorized or unintentional removal attempts) of our software, which is a key differentiator for the Company.

We currently generate approximately 75-80% of our total sales in conjunction with our OEM partners using various sales and marketing programs combined with co-engagement from our direct sales force to help identify and close sales opportunities.

A key element of our growth strategy is to complement our current sales model with the development of an enhanced value added reseller (“VAR”) channel. In early F2014, we increased our investment in VAR channel development resources in order to drive additional sales from this channel. We believe that successful execution of our VAR strategy will enable us to extend the reach of our sales and marketing efforts and drive incremental sales growth with a modest investment.

In fiscal 2012 (“F2012”) we announced the first tablet to ship with embedded Absolute Persistence technology and have subsequently extended our persistence coverage to Android and Windows tablets with many of our OEM partners.

The following table lists the OEMs who are currently providing embedded support for Computrace:

Acer (since 2009)	Intel (Classmate Computer) (since 2009)
ASI Corporation (since 2011)	Lenovo (since 2005)
ASUS (since 2009)	Microsoft (since 2014)
Dell (since 2005)	Motion Computing (since 2006)
Fujitsu (since 2006)	NCS Technologies, Inc. (since 2007)
GammaTech (since 2008)	NEC Personal Products (since 2010)
General Dynamics Itronix (since 2008)	PC Smart SA (since 2013)
Getac (since 2008)	Panasonic (since 2006)
HP (since 2005)	Samsung (since 2011)
IEI Technology (since 2009)	Toshiba (since 2006)
Inforlandia LDA (since 2013)	Xplore Technologies (since 2008)

Our consumer solutions are also distributed through various retail and online partners as well as via our website: [www.lojackforlaptops.com](http://www.lojackforlaptops.com).

## **Solutions and Technology**

### ***Absolute Persistence Technology***

Through our partnership with OEMs, the Absolute Persistence module is embedded into the firmware of desktop, laptop, tablet, and smartphone devices at the factory. Once the Computrace software agent is installed and activated our customers enjoy a level of persistence that is effectively tamper-proof, providing them with a trusted lifeline to each device in their deployment.

The Absolute Persistence module is built to detect when the Computrace and/or Absolute Manage software agents have been removed, ensuring they are automatically reinstalled, even if the firmware is flashed, the device is re-imaged, the hard drive is replaced, or if a tablet or smartphone is reset to factory settings.

### ***Absolute Computrace***

Absolute Computrace is a SaaS-based endpoint security solution for data protection, tracking, software inventory and investigative and device recovery services, that enables customers to centrally secure and track their IT assets using a web-based interface, the Absolute Customer Center. Once installed on each device, the Computrace agent activates Absolute Persistence by making an initial call to the Absolute Monitoring Center. Subsequent contact occurs on a regular basis to ensure the agent remains installed and to provide detailed data from each endpoint.

IT administrators can monitor and manage each device (on or off the network) knowing where it is, who's using it, and what types of software and other applications reside on it. In addition, they can receive alerts if a predefined condition occurs so they can take proactive security measures. Security and information event management ("SIEM") functions can also be performed, such as managing device security settings, establishing alerts for events such as when a corporate security policy is compromised, and securely deleting all drive memory contents prior to decommissioning a device.

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 engaging our investigative services team to conduct remote investigations to understand how a security incident occurred. This team works with local law enforcement to support the recovery of stolen devices. Since inception, we have helped recover more than 31,000 computers for our customers in over 107 countries.

Computrace is offered in several variations, with the two primary variations being Computrace Complete and Computrace Data Protection. Computrace Complete incorporates all Computrace features as well as our unique investigation and device recovery services. Computrace Data Protection excludes investigation and device recovery services but includes all other tracking and data security features. Our consumer versions of these products are branded as Absolute LoJack for Laptops and Absolute Data Protect.

### ***Absolute Manage***

Absolute Manage is our integrated client management and enterprise mobility management technology. IT administrators use it to remotely manage PC, Mac, Android, Windows Phone, and iOS devices from within a single console.

Absolute Manage includes an administrator console and individual agents that are installed on each device and that call throughout the day and provide data from each device. IT administrators use this data to monitor and manage their device inventories. They can also implement actions directly from the administrator server interface to remotely perform actions such as automated patch management, software distribution, computer imaging, asset inventory, power management and encryption status reporting.

Absolute Persistence technology has been extended to support the reinstallation of the Absolute Manage software agent on computers, allowing IT to manage these devices on and off the network.

### ***Absolute Manage MDM***

For mobile devices such as tablets and smartphones, Absolute Manage MDM provides device management, mobile application management, and secure document distribution capabilities. This rapidly growing segment of the IT management and security markets is being driven by the proliferation of mobile device types and platforms as well as the need to support employee-owned devices within the enterprise. We believe we have a distinct competitive advantage in this market as one of the few vendors offering a single solution that supports Windows and Mac computers as well as tablet and smartphone devices.

### ***Absolute Service***

Absolute Service automates IT workflows such as support incidents, change requests, software releases and service level agreements in order to improve customer assistance, streamline internal costs and prove compliance with policies and regulations.

Built on a foundation of data collected from different areas of the organization, Absolute Service enables IT to use best practices to apply precise control over the levels of service they deliver, predicting potential points of failure and making real-time decisions to deliver more efficient and cost-effective outcomes.

Absolute Service is highly customizable, flexible and generally quick to deploy. Customers have the choice of an on-demand or on-premise environment. The Absolute Service console can be customized with more than 140 widgets so that technicians can design their own customized dashboard for an interactive and efficient working environment. To support IT mobility, technicians can access the console on-the-go with native apps for iOS and Android.

Absolute Service integrates with Computrace and Absolute Manage, which provides IT technicians with the ability to access select endpoint management and security functions directly from the Absolute Service console. For example, Computrace alerts can automatically trigger the creation of support incidents so that security responses can be fast-tracked and full audit trails of incident resolution can be provided. Additionally, end users can take advantage of software distribution self-service via the customer portal with no interaction required from the IT department.

There are several editions of Absolute Service available including a Help Desk edition.

### ***Future Products***

Over the next twelve months we plan to focus our product development efforts on adding new features to our existing products, including delivering an integrated web console for our Computrace and Absolute Manage products. We also intend to integrate our recently acquired data loss prevention capabilities into Absolute Computrace to create a unique cloud-based and persistent endpoint DLP feature.

### ***Acquisition Strategy***

Over the past five years we have completed four business acquisitions. These acquisitions have added technology complementary to our core Computrace product, expanded the breadth of our product portfolio and opened up new segments of the software security market. In conjunction with our internal product development efforts, we have an ongoing program to evaluate potential acquisition candidates.

### ***Deployment Models***

Our Computrace solution is primarily delivered in a SaaS model. The customer installs the software agent and can immediately begin realizing the benefits through our web-based console. 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 server model.

Our Absolute Manage product is an on-premise client-server solution that is designed for minimal server infrastructure requirements. We also offer a cloud version of Absolute Manage for the management of mobile devices.

Our Absolute Service product is available in both SaaS and on-premise versions.

### ***Patent Portfolio***

We have a portfolio of 52 issued patents and currently have 116 new patent applications in process.

Due to the nature 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.

In order to establish and defend its proprietary rights and patent portfolio, the Company is currently the initiating party in two 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

We have historically had few direct competitors for our Computrace product line. Most competitors have been small operators with limited resources to widely commercialize their offerings. However, concurrent with the accelerated proliferation and adoption of mobile devices over recent years, we have recently seen increased competition, primarily in the consumer market for device tracking, locking and data deletion. Based on our proprietary technology, patent protection, managed theft recovery approach and OEM relationships, we believe that our products maintain a competitive advantage in the marketplace, particularly within the commercial market.

In the information 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. However, our Computrace solutions are generally purchased as a complement to these solutions.

Absolute Manage, our endpoint client management solution, competes in a market where there is a greater level of established competition. In this market, we compete with products such as Altiris (from Symantec), LANDesk, Kace (from Dell), BigFix (from IBM), Casper (from JAMF software) and others. The primary advantages of our solution include our Absolute Persistence technology, cross-platform capability (Windows, Mac, Apple iOS, Android and Windows Phone support) and lower deployment and ongoing administrative and infrastructure costs as compared to solutions offered by our primary competitors.

In addition, there is a different subset of competitors for Absolute Manage MDM. There are a number of competitors in this space, including Airwatch (from VMware), Good Technology, Mobile Iron, MaaS360 (from IBM) and others. The primary advantage of our solution is that our customers can manage desktop, laptop, tablet, and smartphone devices from a single console, across multiple operating systems (Windows, Mac, Apple iOS, Android and Windows Phone) and with exceptional reliability due to our Absolute Persistence technology.

Our IT service management solution, Absolute Service, competes against Remedy (from BMC), Peregrine (from HP), Unicenter (from CA) and ServiceNow. The primary advantages of our solution include significantly less implementation time, seamless upgrades, a choice of SaaS or on-premise installation and support for most operating systems, including mobile clients for iOS and Android. In addition, Absolute Service provides built-in data integration to Absolute Manage, LDAP, Active Directory and 12 other asset management providers.

Our Computrace DLP functionality competes with products from companies such as WebSense, McAfee and Symantec. Our competitive advantages in the market include our ease of use and lower deployment and ongoing administrative and infrastructure costs as compared to solutions offered by our primary competitors. In the future, we expect to further differentiate our solution as we integrate our DLP technology into our Absolute Computrace infrastructure to create a unique cloud-based persistent endpoint DLP feature.

## **Seasonality**

Absolute's strongest quarters, as related to our Sales Contracts, have historically been the first and fourth quarters of each fiscal year. This has been primarily due to strong activity in the North American education sector, one of our key markets, during those quarters. The first fiscal quarter also normally benefits from increased U.S. federal government activity as well as increased consumer market activity related to students returning to school. As we increase the proportion of our sales into the corporate and healthcare markets, we expect that the seasonal correlation of our Sales Contracts to the education market buying season will become less pronounced.

## **Subscription Business Model**

We sell the majority of our solutions under a pre-paid 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.

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. Once received, payments are normally non-refundable. The amount invoiced is recorded at the foreign exchange rate in effect at the time of sale in deferred revenue on the statement of financial position and is recognized ratably as revenue over the contract term.

We also sell a small portion of our licenses on a perpetual license basis. In these scenarios, customers are invoiced up-front for the cost of the license as well as an annual maintenance and support services fee. From an accounting perspective, perpetual licenses are generally recognized as revenue at the time of delivery (assuming other criteria are met), while annual maintenance and support fees are accounted for in the same manner as subscription license fees. Perpetual licenses have not formed a significant portion of our overall sales historically; however we expect that the proportion of perpetual licenses may increase over time as sales of the Absolute Manage and Absolute Service products increase.

We refer to our total invoiced sales in a period as our total "Sales Contracts" (or "bookings"). As our term Sales Contracts average approximately 29 months in term, there is a significant lag between revenue recognition and the timing of the Sales Contract and our receipt of non-refundable cash flows. In general, only 15-25% 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, earnings under International Financial Reporting Standards ("IFRS") will often decrease or losses increase, while operating cash flow accelerates. Accordingly, we focus on Cash from Operating Activities as a key profitability metric for the Company.

## **Non-IFRS 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. Many of these metrics are non-standard measures under International Financial Reporting Standards and are unlikely to be comparable 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 IFRS.

The purpose of these non-IFRS 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 share-based compensation, depreciation and amortization are 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 share-based awards or to acquire long-term assets, are made to further the Company's long-term strategic objectives and do impact the Company's earnings under IFRS, these items affect multiple periods and management is not able to change or affect these items within any particular period. As such, supplementing IFRS disclosure with non-IFRS disclosure using the non-IFRS 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. Management uses both IFRS and non-IFRS measures when planning, monitoring and evaluating the Company's performance.

These measures, as well as their method of calculation or reconciliation to IFRS 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 believe 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 weighted 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 (also known as "bookings") provide a meaningful performance metric. Sales Contracts are a component of deferred revenue (see Note 10 of the Notes to the F2014 Consolidated Financial Statements) and result from invoiced sales of our products and services.

c) *Adjusted Operating Expenses*

A number of significant non-cash expenses are reported in our Cost of Revenue and Operating Expenses. In addition, restructuring charges and post-retirement benefits are also reported in Operating Expenses. Management defines “Adjusted Operating Expenses” as IFRS Cost of Revenue and Operating Expenses adjusted for these items, as we believe that analyzing these expenses exclusive of these items provides a useful measure of the cash invested in operating the business on an ongoing basis. The non-cash items include share-based compensation, amortization of acquired intangible asset, and amortization of property and equipment.

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

- 1) *Share-based compensation:* Our compensation strategy includes the use of share-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, share-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 acquired intangible assets is not necessarily reflective of current period operational activities. In particular, the amortization of acquired technologies and customer relationships relates to items arising from pre-acquisition activities. These are costs that are determined at the time of an acquisition or when other intangible assets are acquired. While it is continually reviewed for potential impairment, amortization of the cost is a static expense, one that is typically not affected by operations during any particular period.
- 3) *Amortization of Property and Equipment:* We believe that amortization of property and equipment is not necessarily reflective of current period operational activities. In particular, the costs associated with these assets relate to operational decisions made in prior periods. Amortization of these costs is a static expense, one that is typically not affected by operations during any particular period.
- 4) *Restructuring Charges and Post-Retirement Benefits:* We believe that costs incurred in restructuring, and certain significant post-retirement benefits afforded executives upon departure from the Company, are not necessarily reflective of current period operational activities. The magnitude of these expenses is typically determined by contractual law, common law, or by statute, and is unaffected by operations and performance in any particular period.

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

Three months ended June 30,						
(in millions)	2014			2013		
	Per consolidated financial statements	Adjustments	Adjusted	Per consolidated financial statements	Adjustments	Adjusted
Cost of Revenue ("COR")	\$ 5.2	\$ (1.5) <sup>(1)</sup>	\$ 3.7	\$ 4.7	\$ (1.1) <sup>(1)</sup>	\$ 3.6
Total Operating Expenses	16.6	(1.2) <sup>(2)(3)</sup>	15.4	16.0	(0.8) <sup>(2)</sup>	15.2
Adjusted Operating Expenses	<b>\$ 21.8</b>	<b>\$ (2.7)</b>	<b>\$ 19.1</b>	\$ 20.7	\$ (1.9)	\$ 18.8

Year ended June 30,						
(in millions)	2014			2013		
	Per consolidated financial statements	Adjustments	Adjusted	Per consolidated financial statements	Adjustments	Adjusted
Cost of Revenue ("COR")	\$ 19.7	\$ (5.2) <sup>(1)</sup>	\$ 14.5	\$ 19.7	\$ (5.8) <sup>(1)</sup>	\$ 13.9
Total Operating Expenses	65.3	(5.1) <sup>(2)(3)</sup>	60.2	61.1	(3.6) <sup>(2)</sup>	57.5
Adjusted Operating Expenses	<b>\$ 85.0</b>	<b>\$ (10.3)</b>	<b>\$ 74.7</b>	\$ 80.8	\$ (9.4)	\$ 71.4

**Notes:**

- (1) Amortization of acquired intangible assets (excluding contract costs and brand) per the Statement of Cash Flows.
- (2) Share-based compensation and amortization of property and equipment per the Statement of Cash Flows.
- (3) Post-retirement benefits per Note 11 of the Consolidated Financial Statements.

d) *Adjusted Earnings before Interest, Taxes, Depreciation and Amortization (“Adjusted EBITDA”)*

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 term Adjusted EBITDA refers to earnings before deducting interest and investment gains (losses), income taxes, amortization of acquired intangible asset and property and equipment, foreign exchange gain or loss, share-based compensation and restructuring charges and post-retirement benefits. The items excluded in the determination of Adjusted EBITDA include share-based compensation, amortization of acquired intangibles, amortization of property and equipment, and restructuring charges and post-retirement benefits. See point (c) above for a discussion of these items.

The following tables provide a reconciliation of our IFRS Operating Income to the Adjusted EBITDA:

		<b>Three months ended June 30,</b>				
		<b>2014</b>			<b>2013</b>	
(in millions)		<b>Per consolidated financial statements</b>	<b>Adjustments</b>	<b>Adjusted EBITDA</b>	<b>Per consolidated financial statements</b>	<b>Adjusted EBITDA</b>
Operating Income		\$ 1.6	\$ 2.7 <sup>(1)(2)</sup>	\$ 4.3	\$ 1.3	\$ 1.9 <sup>(1)(2)</sup>

		<b>Year ended June 30,</b>				
		<b>2014</b>			<b>2013</b>	
(in millions)		<b>Per consolidated financial statements</b>	<b>Adjustments</b>	<b>Adjusted EBITDA</b>	<b>Per consolidated financial statements</b>	<b>Adjusted EBITDA</b>
Operating Income		\$ 6.0	\$ 10.3 <sup>(1)(2)(3)</sup>	\$ 16.3	\$ 2.3	\$ 9.4 <sup>(1)(2)</sup>

**Notes:**

- (1) Amortization of acquired intangible assets (excluding contract costs and brand) per the Statement of Cash Flows.
- (2) Share-based compensation and amortization of property and equipment per the Statement of Cash Flows.
- (3) Post-retirement benefits per Note 11 of the Consolidated Financial Statements.

## **FINANCIAL PERFORMANCE REVIEW AND ANALYSIS**

### **Performance Overview**

During fiscal 2014, we continued to execute on our strategic and operational objectives, including sales expansion into the corporate and healthcare verticals, international expansion and increased sales of our device management and data security category of products.

Operational highlights for Q4-F2014 included:

#### ***Sales Contracts***

- Record total Sales Contracts of \$30.7 million, representing 18% year-over-year growth
- Commercial Sales Contracts of \$29.9 million, representing 20% year-over-year growth
- 35% year-over-year growth in Device Management and Data Security product sales
- 13% year-over-year growth in Theft Management product sales
- 8% year-over-year growth in International commercial sales

#### ***Operations and Corporate***

- \$1.9 million in Cash from Operating Activities (\$2.4 million prior to the payment of post-retirement benefits) compared to \$3.2 million in Q4-F2013
- \$2.4 million (CAD\$0.06 per common share) dividend paid during the quarter
- Geoff Haydon appointed as Chief Executive Officer and as a member of the Company's Board of Directors

#### ***Technology***

- Absolute persistence technology embedded in the Microsoft Surface Pro 3 tablet
- Positive movement in the Visionaries Quadrant of the Gartner Magic Quadrant for Client Management Tools
- Maintained positioning in the Niche Quadrant of the Gartner Magic Quadrant for Enterprise Mobility Management Software.
- Absolute is one of only four vendors who are positioned in both of the above Magic Quadrants
- Integration of additional Computrace and Absolute Manage features within the Absolute Service console
- First to market with BYOD support of Windows and Mac computers

Operational highlights for F2014 included:

***Sales Contracts***

- Total Sales Contracts of \$97.3 million, representing 10% year-over-year growth
- Commercial Sales Contracts of \$92.4 million, representing 12% year-over-year growth
- 15% year-over-year growth in sales of Device Management and Data Security products
- 11% year-over-year growth in sales of Theft Management products
- 23% year-over-year growth in International commercial sales

***Operations and Corporate***

- \$15.5 million in Cash from Operating Activities (\$17.3 million prior to the payment of post-retirement benefits) compared to \$17.5 million in Q4-F2013
- \$9.3 million (CAD\$0.23 per common share) in dividends paid during the fiscal year
- Appointed Sal Visca to the Company's Board of Directors

***Technology***

- Absolute persistence technology embedded in additional Samsung Galaxy devices including the Galaxy S5, NotePRO, and TabPRO
- Absolute Service version 8.0 achieved certification in 10 ITIL 2011 processes
- Absolute Manage version 6.4.2 support for the Apple streamlined device enrollment program
- Achieved inclusion in the Gartner Magic Quadrant for Content-Aware Data Loss Prevention

***Services***

- Absolute Safe Schools was launched, a program for Computrace Education customers to support them in the training and safety of student end users

## Sales Contracts

Sales Contracts in F2014 were \$97.3 million, up 10% from \$88.3 million in F2013. In Q4-F2014, Sales Contracts were \$30.7 million, representing an 18% increase compared to \$26.2 million in Q4-F2013. Our sales performance in F2014 reflected particular strength in the North American corporate, education and government verticals, while the healthcare and consumer verticals were down compared to the prior year.

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

(in millions)	Q4 F2014	Q4 F2013	Increase (decrease)	YTD F2014	YTD F2013	Increase (decrease)
Commercial products						
Theft management <sup>(1)</sup>	\$ 18.9	\$ 16.8	13%	\$ 58.4	\$ 52.8	11%
Device management and data security <sup>(2)</sup>	11.0	8.2	35%	34.0	29.6	15%
Total Commercial Sales	29.9	25.0	20%	92.4	82.4	12%
Consumer Sales	0.8	1.2	(31%)	4.9	5.9	(18%)
Total Sales Contracts	\$ 30.7	26.2	18%	\$ 97.3	\$ 88.3	10%

(1) **“Theft Management”** products are defined as Computrace products that include an investigation and recovery service component.

(2) **“Device Management and Data Security”** products are defined as our Absolute Manage and Absolute Service products, as well as Computrace products that do not include an investigation and recovery service component (for example, Computrace Data Protection).

### *Commercial Product Sales Performance:*

Our commercial product line consists of sales of our Computrace, Absolute Manage (including MDM) and Absolute Service product solutions. We sell these products and related services into four primary market verticals: corporate, healthcare, education and government. Our primary sales channels for this business are our OEM partners, as well as a number of distributors and value-added resellers. The rate of growth is expected to fluctuate across our product lines and industry verticals depending on the natural timing of sales and, accordingly, it is not unusual for quarterly growth rates for individual product lines and verticals to be significantly different than those for the annual period.

Invoiced sales to commercial customers increased 12% in F2014 compared to F2013, and increased 20% in Q4-F2014. Invoiced sales in F2014 were positively impacted by strength in our North American corporate, education, and government market verticals, which were partially offset by a decline in the healthcare vertical.

North American commercial sales increased 10% in F2014 compared to F2013, and increased 21% in Q4-F2014. International commercial sales increased 23% in F2014 compared to the prior year and increased 8% in Q4-F2014 compared to Q4-F2013. International commercial sales represented 14% of total F2014 Sales Contracts and represented 10% of total Q4-F2014 Sales Contracts. The reduction in the growth rate of international sales relative to the first half of F2014 reflects variability associated with the early stage of development of this business unit.

When evaluating Sales Contract performance for the year, consideration should be given to our significant, multi-million dollar deal with a healthcare customer in the Device

Management and Data Security product line in Q2-F2013. Excluding the impact of this large deal, commercial sales increased 17% year-over-year in F2014 and the Company generated 16% year-over-year growth in North American commercial sales contracts.

Included in F2014 commercial Sales Contracts is an amount of \$0.7 million related to a non-recurring engineering fee received from one of our technology partners.

*Theft Management Products and Services:* Commercial Sales Contracts from our theft management products and services line increased 11% in F2014 compared to F2013 and increased 13% in Q4-F2014. This increase reflects growth across all industry verticals.

*Device Management and Data Security Products and Services:* Commercial Sales Contracts for our device management and data security products and services increased 15% in F2014 as compared to F2013 and increased 35% in Q4-F2014. Excluding the multi-million dollar healthcare deal recorded in Q2-F2013, sales of device management and data security products increased 31% for the year.

The growth in this product category reflects strong sales of our Computrace Data Protection, Absolute Manage and Absolute Manage MDM products. In F2014, our Absolute Manage and Absolute Manage MDM sales were particularly strong, reflecting successful new customer acquisition and cross-selling efforts, particularly to our North American education customers. Device Management and Data Security products and services represented 37% of Q4 and annual F2014 commercial Sales Contracts, which is up marginally from 33% and 36% in the Q4 and annual periods of F2013.

*Consumer Sales Performance:*

Our consumer business consists of sales of our consumer-branded product suite: Absolute LoJack and Absolute Data Protect. Our primary sales channels for these products include our OEM partners, as well as other distribution channels such as online and traditional retailers. Most renewal business is completed directly with our end customers.

Sales of our consumer product have been impacted in recent years by sluggish consumer PC purchases and a reduction in bundle sales with our PC OEM partners. Consumer sales in F2014 decreased 18% compared to F2013, and decreased 31% in Q4-F2014. Consumer sales accounted for 5% of total F2014 sales compared to 7% in the prior year and accounted for 3% of Q4-F2014 Sales Contracts compared to 6% in the prior year period.

## Revenue

Revenue for F2014 increased 9% to \$91.0 million compared to \$83.2 million in F2013, and Q4-F2014 revenue increased 6% to \$23.3 million from \$22.0 million in Q4-F2013.

The majority of our revenue is derived from the amortization of Sales Contracts from the prior year's deferred revenue balance. As the average contract life of Sales Contracts is approximately 29 months, historically only 15-25% of reported Sales Contracts for any given fiscal year are included in revenue for that particular year. The remainder is included in deferred revenue on the statement of financial position. As we increase the relative proportion of perpetual versus term license sales with our Absolute Manage and Absolute Service products, we expect that a greater portion of Sales Contracts will be recognized as revenue in the same year as the year the Sales Contract is concluded. See the "Subscription Business Model" section of this MD&A for further discussion, and the table below for a breakdown of revenue recognized from current fiscal year and prior period Sales Contracts:

(in millions)	<b>Fiscal 2014</b>	Fiscal 2013
Revenue recognized from:		
Prior year Deferred Revenue	\$ 68.1	\$ 63.0
Current year Sales Contracts	22.8	20.2
Total	<b>\$ 91.0</b>	\$ 83.2
Percent of revenue from current year Sales Contracts	<b>25%</b>	24%

## Adjusted Operating Expenses<sup>(1)</sup>

(Millions of dollars)	Q4 Fiscal 2014	Q4 Fiscal 2013	Percentage increase	YTD Fiscal 2014	YTD Fiscal 2013	Percentage increase
Cost of revenue ("COR") <sup>(1)</sup>	\$ 3.7	\$ 3.6	3%	\$ 14.5	\$ 13.9	4%
Sales and marketing ("S&M")	10.7	10.0	7%	41.1	38.7	6%
Research and development ("R&D")	2.1	3.0	(30%)	11.0	11.4	(4%)
General and administration ("G&A") <sup>(1)</sup>	2.6	2.2	18%	8.1	7.4	9%
<b>Adjusted Operating Expenses<sup>(1)</sup></b>	<b>\$ 19.1</b>	<b>\$ 18.8</b>	<b>2%</b>	<b>\$ 74.7</b>	<b>\$ 71.4</b>	<b>5%</b>
Number of employees at June 30	<b>413</b>	384	8%	<b>413</b>	384	8%

### ADJUSTMENTS:

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

The increase in Adjusted Operating Expenses in F2014 was primarily attributable to additional sales and marketing headcount in F2014 (including the full year impact of employees hired part-way through F2013). In addition, we experienced higher personnel-related expenses in cost of revenue and research and development. Research and development expense increases were offset as a result of the lower Canadian dollar and an increased amount of Canadian Scientific Research and Experimental Development ("SRED") credits recorded in the year. Adjusted general and administration expenses increased primarily as a result of increased consulting and professional fees incurred late in the year.

## Adjusted Operating Expenses as a Percentage of Sales Contracts<sup>(1)</sup>

As discussed in the "Subscription Business Model" section of this MD&A, a large percentage of total Adjusted Operating Expenses relates to efforts to generate Sales Contracts in the same period. Therefore, management focuses on Adjusted Operating Expenses as a percentage of Sales Contracts to measure the Company's operating efficiency and effectiveness.

(percentage of Sales Contracts)	Q4 Fiscal 2014	Q4 Fiscal 2013	YTD Fiscal 2014	YTD Fiscal 2013
Cost of revenue ("COR") <sup>(1)</sup>	12%	14%	15%	16%
Sales and marketing ("S&M")	35%	38%	42%	44%
Research and development ("R&D")	7%	11%	11%	13%
General and administration ("G&A") <sup>(1)</sup>	8%	8%	8%	8%
<b>Adjusted Operating Expenses<sup>(1)</sup></b>	<b>62%</b>	<b>72%</b>	<b>77%</b>	<b>81%</b>

### ADJUSTMENTS:

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

Total Adjusted Operating Expenses increased 5% in F2014 compared to F2013, while Sales Contracts grew 10%. As a result, our Adjusted Operating Expenses as a percentage of Sales Contracts decreased to 77% of Sales Contracts compared to 81% of Sales Contracts in F2013. In Q4-F2014, Adjusted Operating Expenses were 62% of Sales Contracts, compared to 72% in Q4-F2013. This change reflected an 18% increase in Sales Contracts while Adjusted Operating Expenses increased by 2%.

### *Cost of Revenue and Gross Margin*

Cost of revenue includes the costs of operating our SaaS-hosted infrastructure, customer support, professional services and theft investigation and recovery services as well as product packaging, shipping and service guarantee costs.

In F2014, cost of revenue was consistent with F2013 at \$19.7 million. For Q4-F2014, these costs increased 11% to \$5.2 million from \$4.7 million in Q4-F2013. In F2014, we incurred \$0.6 million less amortization of acquired intangible assets, as certain product-related intangibles are now fully amortized. This decrease was offset by higher levels of employee-related and consulting expenses. On an adjusted basis, cost of revenue in F2014 increased 4% to \$14.5 million from \$13.9 million in F2013, and increased 3% in Q4-F2014 to \$3.7 million from \$3.6 million in the prior year. We exited Q4-F2014 with a headcount of 88 in this area, as compared to 86 at June 30, 2013.

Gross margin in F2014 was 78%, compared to 76% in F2013, and was 78% in Q4-F2014 compared with 79% in the prior year. When considering Adjusted Cost of Revenue, gross margin was 84% in F2014 compared to 83% in F2013, and was 84% in Q4 of each fiscal year.

### *Sales and Marketing*

Sales and marketing expenses in F2014 were \$41.1 million compared to \$38.7 million in F2013. In Q4-F2014, S&M expenses were \$10.7 million, up from \$10.0 million in Q4-F2013. As a percent of Sales Contracts, S&M expenses were 42% in F2014, down from 44% in F2013, and were 35% in Q4-F2014 compared to 38% in Q4-F2013.

The increase in S&M expense was primarily the result of the expansion of our North American sales force during Q4-F2013 and in Q1-F2014, as well as expansion of our Asia Pacific/Latin American sales force in F2014. In addition, we incurred increased consulting and sales partner marketing expenses, offset by lower levels of certain marketing programs in F2014. We exited Q4-F2014 with a headcount of 180 in sales and marketing, as compared to 166 at June 30, 2013.

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; webinars; and advertising expenditures. These expenditures are incurred to increase awareness with partners and customers, drive coverage with industry analysts and establish Absolute's global leadership position.

### *Research and Development*

Research and development expenses decreased 4% to \$11.0 million in F2014 compared to \$11.4 million in F2013. R&D expenses decreased 30% in Q4- F2014, to \$2.1 million from \$3.0 million. When measured as a percentage of Sales Contracts, R&D expenses were lower in F2014 as compared to F2013, at 11% compared to 13%, and were 7% in Q4-F2014, down from 11% in Q4-F2013.

The annual decrease in R&D expense was primarily driven by an increase in the amount of SRED investment tax credits recorded as a result of our experience with certain historical claims. Our expenditures on employees, contactors and other employee-related expenses were up marginally from F2013, a function of increased headcount offset by the impact of foreign exchange, as the majority of these costs are incurred in Canadian dollars. We exited Q4-F2014 with a headcount of 110 in research and development, compared to a closing headcount of 98 at June 30, 2013.

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

### *General and Administration*

General and administration expenses increased 30% in F2014 to \$11.3 million from \$8.7 million in F2013. In Q4-F2014, G&A expenses increased 40% to \$3.4 million from \$2.4 million in Q4-F2013. On an adjusted basis, G&A expenses increased 9% from \$7.4 million to \$8.1 million in F2014 and increased 18% from \$2.2 million to 2.6 million in Q4-F2014. When measured as a percentage of Sales Contracts, adjusted G&A expenses were 8% in both Q4 and the annual periods of both F2013 and F2014.

The increase in G&A expenses in F2014 is primarily due to significant one-time post-retirement benefits in the amount of \$1.8 million paid to two former senior officers. The balance of the increase, which constitutes the increase in adjusted G&A expenses, is primarily owing to increases in employee-related expenses and various other corporate expenses including consulting and professional fees. We exited Q4-F2014 with a headcount of 35 in general and administration, up from 34 at June 30, 2013.

General and administration expenses consist of salaries and related expenses for finance and accounting, human resources and administration, bad debt provisions, legal expenses, professional fees, other corporate expenses and allocated overhead.

## **Operating Income and Adjusted EBITDA**

Absolute generated Adjusted EBITDA of \$16.3 million in F2014, up 39% from \$11.7 million in F2013. In Q4-F2014, Adjusted EBITDA increased 34% to \$4.3 million from \$3.2 million in the prior year. Absolute generated IFRS operating income of \$6.0 million in F2014 compared to \$2.3 million in F2013, and \$1.6 million in Q4-F2014 compared to \$1.3 million in the prior year quarter.

The operating results in the current year are the result of a revenue increase of \$7.8 million, while Adjusted Operating Expenses increased by \$3.4 million compared to F2013.

## **Other Income and Expenses**

Absolute earns interest income on its cash resources beyond immediate operating requirements. In F2014, interest income increased from \$182,000 to \$205,000 owing primarily to a composition of higher-yield short-term investments in the current year. In general, we are experiencing low interest rates on investment and cash balances, as we migrated the majority of our reserve cash and investment balances to U.S. dollar denominated assets, a lower interest rate environment, during Q1-F2013. Prior to Q1-F2013, we maintained legacy Canadian dollar denominated investments.

Other income and expenses also include foreign exchange gains and losses incurred primarily on the translation of Canadian dollar and U.K. pound cash, investment and liability balances. Canadian dollar denominated assets historically exceeded Canadian dollar liabilities, as we maintained significant balances in Canadian dollar denominated cash and investments, and therefore we were subject to foreign exchange exposure on this net Canadian dollar position. During F2013, we completed the liquidation of the majority of our Canadian dollar investment balances.

In F2014, our foreign exchange loss was \$14,000 as compared to \$2,000 in F2013. In Q4-F2014, we experienced a foreign exchange loss of \$18,000 compared to \$149,000 in the comparable period of F2013. The loss in F2014 is a result of the appreciation of the U.S. dollar compared to the Canadian dollar, which was substantially offset by the impact of the appreciation of the U.K. pound compared to the U.S. dollar.

## **Income Taxes**

Our overall effective tax rate is impacted by the effect of items such as foreign exchange gains or losses and share-based compensation, which are generally not deductible for income tax purposes. In addition, the allocation of income or losses amongst our subsidiaries can have a significant impact on our effective tax rate as a result of varying tax rates in different jurisdictions. We are also impacted by foreign exchange fluctuations on deferred tax balances originating in foreign jurisdictions, and the non-recognition of deferred tax assets in some jurisdictions.

Our overall effective tax rate in F2014 was 42.6%. This effective tax rate is higher than our expected combined federal and provincial tax rate of 26% largely due to the impact of taxable foreign exchange gains in our Canadian operations and operating profit in our U.S. operations being taxed at a higher jurisdictional tax rate. In F2014, we recorded current income tax expense of \$1.4 million and a deferred income tax expense of \$1.3 million, compared to current tax expense of \$1.3 million and a deferred tax recovery of \$492,000 in F2013. In Q4-F2014, we recorded a current tax expense of \$514,000 and a deferred income tax expense of \$238,000, compared to current income tax expense of \$145,000 and deferred tax expense of \$549,000 in Q4-F2013.

In F2014 and F2013, our current tax expense was substantially offset by Canadian SRED investment tax credits to be claimed, which are presented as a reduction of research and development expenses. As a result, the Company has not incurred cash outlays for income taxes in these periods.

## **Net Income**

The Company recorded net income in F2014 of \$3.6 million as compared to \$1.7 million in F2013, and recorded net income of \$800,000 in Q4-F2014, an increase from \$448,000 in Q4-F2013. The current year net income reflects the impact of higher IFRS operating income, less the impact of increased income tax expense.

## **Cash from Operating Activities**

In F2014, we recorded Cash from Operating Activities of \$15.5 million, down 12% from \$17.5 million in F2013. In Q4-F2014, Cash from Operating Activities was \$1.9 million, a decrease of 38% from \$3.2 million in Q4-F2013. Our Cash from Operating Activities represented 16% of our F2014 Sales Contracts, compared to 20% in the prior year. The decrease in Cash from Operating Activities in F2014 reflects the increases in Sales Contracts and Adjusted Operating Expenses, the impact of \$1.8 million of post-retirement benefits that were paid in F2014, and the effect of changes in working capital.

## **Liquidity and Capital Resources**

Absolute is in a strong financial position, with no debt and the financial resources necessary to fund its operating and capital requirements and to execute on its growth strategies. At June 30, 2014, Absolute's cash, cash equivalents and investments were \$73.6 million, compared to \$62.9 million at June 30, 2013. The Company's cash and investment position has improved in F2014 on operating cash flows, an amount of \$7.5 million on proceeds from stock option exercises, less our cash outlays of \$9.3 million on quarterly dividends and \$2.2 million for capital and intangible additions. 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 F2015. Given our strong cash and investment balances and operating cash flow, at this time management does not believe we require any additional capital resources.

During F2013, we instituted quarterly dividend payments of CAD\$0.05 per share on our common shares. During Q4-F2014 we declared a quarterly dividend of CAD\$0.06 per share on our common shares, which was paid in cash on May 28, 2014.

On August 18, 2014 the Company announced that its Board of Directors has approved a change in the Company's dividend policy. The quarterly dividend will increase from \$0.06 to \$0.07 per common share. This increase is expected to be implemented in the second quarter of fiscal 2015. There is no change to the current \$0.06 per share dividend scheduled to be paid on August 28, 2014 to those persons who were shareholders of record at the close of business on August 7, 2014.

### *Accounts receivable*

Accounts receivable balances increased 21% to \$22.0 million at June 30, 2014 (71% of Q4-F2014 Sales Contracts) from \$18.2 million at June 30, 2013 (69% of Q4-F2013 Sales Contracts). This increase is primarily due to stronger sales in Q4-F2014 as compared to Q4-F2013, which rose 18%.

At June 30, 2014, 9% of the Company's accounts receivable balance was over 90 days past due as compared to 7% at June 30, 2013. At June 30, 2014, accounts receivable included three OEM and reseller partners that represented more than 10% of receivables, at 20%, 19%, and 15%, respectively. At June 30, 2013, the same partners comprised 21%, 20%, and 17% respectively, of our total accounts receivable, with a fourth partner representing 15%.

### *Accrued warranty*

Accrued warranty is related to a service guarantee associated with certain of our products. The accrued warranty was \$0.4 million at June 30, 2014, consistent with \$0.4 million at June 30, 2013. Each period, management evaluates our guarantee payment experience and considers whether changes are required to the estimated warranty provision.

### *Deferred revenue*

Deferred revenue was \$137.0 million at June 30, 2014, compared to \$130.6 million at June 30, 2013, an increase of 5%. Deferred revenue is comprised of the unamortized portion of deferred revenue from Sales Contracts, and is amortized to revenue over time.

The scheduled recognition of deferred revenue is as follows:

(in millions)	<b>F2015</b>	<b>F2016</b>	<b>F2017</b>	<b>F2018</b>	<b>F2019</b>	<b>Total</b>
Revenue to be recognized	\$71.2	\$40.3	\$19.5	\$5.1	\$0.9	\$137.0

### *Deferred income tax assets and current taxes payable*

At June 30, 2014 and June 30, 2013, we had no current taxes payable as our current tax expense is offset by our expected claims for SRED investment tax credits.

At June 30, 2014, we had total deferred income tax assets of \$19.8 million, which are primarily attributable to the future benefit of deferred revenue balances in our U.S. operations. Management believes these deferred income tax assets are more likely than not to be realized.

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

In assessing the recognition of deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will be realized. The ultimate realization of deferred 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 deferred income tax assets does not meet the more likely than not realization criteria, deferred tax assets are not recognized.

### **Corporate Outlook**

We remain confident in the market opportunity for our solutions. For F2015, we expect Sales Contracts and cash from operating activities to increase over F2014 levels.

## Shareholders' Deficiency and Outstanding Share Data

At June 30, 2014, Absolute had a shareholders' deficiency of \$9.8 million. In evaluating shareholders' deficiency, management believes it is important to consider the \$137.0 million of deferred revenue carried on the statement of financial position. 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 the majority of the associated contract acquisition costs are already included in the operating deficit. In addition, any common shares repurchased as part of our Normal Course Issuer Bids are recorded at an historical per share average value, and the difference between these amounts and the amount paid is recorded as part of deficit.

The Company's common shares trade on the TSX (TSX: ABT) and at June 30, 2014 the Company had 43,796,215 (August 18, 2014 – 43,891,695) fully issued and outstanding common shares. The following rights to receive common shares are issued and outstanding at June 30, 2014:

- Stock Option Plan: 3,864,076 (August 18, 2014 – 3,849,826) common stock options granted and outstanding. The options have a weighted average exercise price of \$5.22 per share and a weighted average term to expiry of 2.6 years. There were 5,000 options granted in Q4-F2014.
- Share Purchase Plan: Under the Purchase Plan, employees may purchase treasury shares at a 15% discount from market during two discrete six month offering periods each year. A total of two million shares have been reserved for grant under the Purchase Plan, of which 1,367,375 have been issued as at June 30, 2014 (August 18, 2014 – 1,437,855).

## Contractual Commitments

The Company's minimum payments required under operating leases for premises, equipment and business service agreements, technology purchase agreements, and a branding agreement are as follows as at June 30, 2014:

2015	\$ 2,284,436
2016	1,841,191
2017	1,635,635
2018	1,640,704
2019 and thereafter	544,168
	<hr/>
	<b>\$ 7,946,134</b>

## Off Balance Sheet Arrangements

We have not entered into any off balance sheet arrangements other than standard office lease agreements.

## Corporate Developments

During F2014, two senior officers of the Company tendered their resignations from the Company. Pursuant to the resignations, under the terms of two respective separation agreements, we incurred post-retirement benefits in the amount of \$1.8 million (CAD\$1.9 million).

During Q4-F2014, we announced the appointment of Geoff Haydon as the Company's Chief Executive Officer and a member of the Board of Directors.

## Related Party Transactions

### *Key management personnel compensation*

	<b>Year ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
Salaries, bonus, and short-term employment benefits	<b>\$ 2,727,651</b>	\$ 2,205,263
Post-retirement benefits	<b>1,808,597</b>	-
Share-based compensation	<b>490,193</b>	1,108,108
	<b>\$ 5,026,442</b>	<b>\$ 3,313,371</b>

In 2014, 12 individuals (2013 – 11 individuals) were included in key management personnel.

## Subsequent Events

### *Stock options and Performance stock units*

The employment of the Company's new Chief Executive Officer commenced on July 1, 2014. As a component of the CEO's compensation package, the Company committed to issue 500,000 stock options pursuant to the Option Plan, as well as 250,000 performance stock units. The performance stock units, and any associated agreements related thereto, are subject to approval by the Company's Board of Directors.

### *Purchase plan*

On July 15, 2014, 70,480 common shares were issued pursuant to the Purchase Plan.

### *Quarterly dividend*

On July 28, 2014, the Company declared a quarterly dividend of CAD\$0.06 per share on its common shares, payable in cash on August 28, 2014 to shareholders of record at the close of business on August 7, 2014.

## Financial Instruments

### *Overview*

The Company is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth. The main objectives of the Company's risk management process are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal financial risks to which the Company is exposed have not changed from the year ended June 30, 2013.

### *Market risk*

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

The Company operates internationally, primarily in the United States, giving rise to exposure to market risks from foreign exchange rates. The Company's functional currency is the U.S. dollar. However, the Company maintains Canadian dollar net asset positions, and therefore records gains in periods of rising Canadian dollar exchange rates and losses in periods of declining rates. Canadian dollar operating costs are converted at current exchange rates, while revenue is recorded at historic rates from when the sales contracts were recorded into deferred revenue, and as a result the Company's operating loss increases in periods when the Canadian dollar appreciates.

### *Foreign Currency Sensitivity Analysis*

The Company typically does not enter foreign currency hedges. Further appreciation in the Canadian dollar relative to the U.S. dollar could impact the Company's ability to continue at current operating margins as a significant amount of operating costs are denominated in Canadian dollars.

The Company is exposed to fluctuations in the Canadian dollar and the U.K. pound, through Canadian dollar and U.K. pound working capital balances and operating expenses. The Company's sensitivity to a 1% strengthening of the Canadian dollar against the U.S. dollar is an approximate decrease of \$365,000 in annual operating income and a \$375,000 decrease in net income. The Company's sensitivity to a 1% strengthening of the U.K. pound against the U.S. dollar is an approximate decrease of \$85,000 in annual operating income and a \$55,000 decrease in net income. For a 1% weakening of the Canadian dollar or U.K. pound against the U.S. dollar, there would be an equal and opposite impact on operating income and net income.

### *Liquidity Risk*

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at excessive cost. The Company mitigates liquidity risk by holding sufficient cash and cash equivalents to meet its financial obligations. The Company's growth is financed through cash on hand and cash flows from operations. The majority of the Company's financial liabilities recorded in accounts payable and accrued liabilities are due within 60 days.

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

### *Credit Risk*

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

financial assets represents the Company's maximum credit exposure.

The Company manages credit risk related to accounts receivable by carrying out credit investigations for new customers and partners, and by maintaining reserves for potential credit losses. The majority of the accounts receivable balance is due from well-capitalized computer manufacturers who have a history of paying on a timely basis. Accounts receivable are net of allowance for doubtful accounts of \$431,000 (June 30, 2013 - \$401,000).

At June 30, 2014, 9% of the Company's accounts receivable balance is over 90 days past due (June 30, 2013 – 7%). As at June 30, 2014, 20%, 19%, and 15% (June 30, 2013 - 21%, 20%, and 17%) of the receivable balances are owing from three OEM and reseller partners. At June 30, 2013, a fourth reseller partner comprised 15% of the balance.

The Company manages credit risk related to cash, cash equivalents, and investments by maintaining bank and investment accounts with high credit quality financial institutions, including Schedule 1 banks.

#### *Fair Values of Financial Instruments*

The carrying value of cash and cash equivalents, short term investments, accounts receivable, accounts payable and accrued liabilities, and accrued warranty approximate their fair values due to the immediate or short-term nature of these instruments. The carrying value of investments carried at amortized cost approximates their fair value as the interest rate environment has not changed significantly from the date of purchase.

#### **Quarterly Operating Data**

(in millions except per share data)	Q4-14	Q3-14	Q2-14	Q1-14	Q4-13	Q3-13	Q2-13	Q1-13
Sales Contracts <sup>(1)(2)</sup>	\$30.7	\$20.5	\$22.2	\$23.8	\$26.2	\$19.0	\$22.5	\$20.6
Revenue	23.3	24.1	21.9	21.7	22.0	20.9	20.6	19.8
Adjusted EBITDA <sup>(2)</sup>	4.3	5.2	3.5	3.3	3.2	2.9	3.9	1.7
Net income (loss)	0.8	1.4	0.2	1.1	0.4	(0.5)	1.3	0.5
Basic and diluted income (loss) per share	0.02	0.03	0.01	0.03	0.01	(0.01)	0.03	0.01
Cash from Operating Activities	1.9	3.8	4.4	5.4	3.2	4.8	4.2	5.3
Operating cash per share (basic) <sup>(2)</sup>	0.04	0.09	0.10	0.13	0.11	0.12	0.10	0.12
Dividends paid	2.4	2.4	2.5	2.0	2.0	2.0	-	-
Repurchases of common shares	-	-	-	-	-	0.1	10.6	2.8
Number of common shares outstanding	43.8	43.7	43.2	42.7	42.1	41.7	41.2	43.2

(1) Please refer to the "Seasonality" section of this MD&A.

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

### **Critical Accounting Policies and Estimates**

Management considers the Company's accounting for Sales Contracts, intangible assets (relating to deferred contract costs) and deferred taxes 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 the time of sale (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 statement of financial position as a portion of intangible assets and are amortized into sales and marketing 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.

The Company has recognized deferred tax assets on its statement of financial position. Each reporting period, management assesses the likelihood of realizing deferred 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 statement of financial position. The net income or loss after income taxes can vary widely in periods where tax assets are recognized and such variances could result from a material write-down or increase in the estimated value of the Company's deferred tax assets.

### **Recent Accounting Pronouncements**

The International Accounting Standards Board has issued the following amendments and new standards, which have not yet been adopted by the Company. Each of the amendments and new standards is effective for annual periods beginning on or after January 1, 2014, unless otherwise indicated, with early adoption permitted. The Company has not completed the process of assessing the impact that the amended and new standards will have on its consolidated financial statements or whether to early adopt any of the new requirements.

The following is a description of the new or amended standards:

IAS 32 – *“Financial Instruments: Presentation”* (“IAS 32”)

Amendments to IAS 32 provide specific guidance for when an entity can offset financial assets and liabilities by clarifying when a legally enforceable right to do so exists, and when an entity meets the criterion for the intent to settle on a net basis. These amendments are effective for annual periods beginning after January 1, 2014. The Company does not currently believe the amendments to IAS 32 will materially affect its financial performance or its financial position.

IAS 36 – *“Impairment of Assets”* (“IFRS 36”)

Amendments to IAS 36 restrict the requirement to disclose the recoverable amount of an asset or CGU to periods in which an impairment loss has been recognized or reversed. The amendments also expand and clarify the disclosure requirements applicable when an asset or CGU’s recoverable amount has been determined on the basis of fair value less cost of disposal. The Company does not currently believe the amendments to IAS 36 will materially affect its financial performance or its financial position.

IFRS 9 – *“Financial Instruments”* (“IFRS 9”)

IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 Financial Instruments – Recognition and measurement for debt instruments, with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income (loss). Where such equity instruments are measured at fair value through other comprehensive income (loss), dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income (loss) indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income (loss). The effective date of these amendments has not yet been determined. The Company has not yet assessed the impact of the adoption of IFRS 9 on its financial performance or its financial position.

IFRS 15 – *“Revenue from Contracts with Customers”* (“IFRS 15”)

IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company has not yet assessed the the impact of the adoption of this standard on its financial performance or its financial condition.

## Accounting Changes Adopted in F2014

The following amendments and new standards were adopted during F2014. None of these amendments or new standards had a significant impact on our financial performance, financial position, or disclosures in our consolidated financial statements.

### IAS 1 – “*Presentation of Financial Statements*” (“IAS 1”)

Amendments to IAS 1 required that elements of other comprehensive income that may subsequently be reclassified through profit and loss be differentiated from those items that will not be reclassified.

### IAS 19 – “*Employee Benefits*” (“IAS 19”)

Amendments to IAS 19 provided new requirements for the accounting for defined benefit pension plans. These amendments mandated the immediate recognition of actuarial gains and losses, and required the use of the same discount rate for the defined benefit obligation and expected asset return when calculating the interest component of pension expense.

### IAS 27 – “*Separate Financial Statements*” (“IAS 27”)

IAS 27 prescribed the accounting and disclosure requirements for investments in subsidiaries, joint ventures, and associations when an entity prepares separate financial statements.

### IAS 28 – “*Investments in Associates and Joint Ventures*” (“IAS 28”)

IAS 28 prescribed the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

### IFRS 7 – “*Financial Instruments: Disclosures*” (“IFRS 7”)

Amendments to IFRS 7 introduced enhanced disclosure around any financial instruments which are offset in accordance with IAS 32.

### IFRS 10 – “*Consolidation*” (“IFRS 10”)

IFRS 10 required an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 replaced SIC-12 “*Consolidation—Special Purpose Entities*” and parts of IAS 27, “*Consolidated and Separate Financial Statements*”.

### IFRS 11 – “*Joint Arrangements*” (“IFRS 11”)

IFRS 11 required a venture to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting, whereas for a joint operation, the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. IFRS 11 supersedes IAS 31, “*Interests in Joint Ventures*”, and SIC-13, “*Jointly Controlled Entities—Non-monetary Contributions by Ventures*”.

## IFRS 12 – “*Disclosure of Interests in Other Entities*” (“IFRS 12”)

IFRS 12 established disclosure requirements for interests in other entities, such as joint arrangements, associates, and special purpose or off-balance sheet vehicles. The standard carried forward existing disclosures and also introduced significant additional disclosures that address the risks associated with interests in other entities.

## IFRS 13 – “*Fair Value Measurement*” (“IFRS 13”)

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS. The new standard clarified that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also established disclosures about fair value measurement.

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

### *Disclosure controls and procedures*

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

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

### *Internal control over financial reporting*

The Company has also designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Absolute’s CEO and CFO have assessed the effectiveness of the Company’s internal control over financial reporting as at June 30, 2014 in accordance with *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, Absolute’s CEO and CFO have determined that the Company’s internal control over financial reporting is effective as at June 30, 2014 and expect to certify Absolute’s annual filings with the Canadian securities regulatory authorities.

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

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

## **Risks and Uncertainties**

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

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

**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.

Absolute's products and technologies are not available for all existing and emerging mobile computers and other mobile devices (for example, our Absolute Persistence technology is not embedded in Apple devices) that are or will be available in the marketplace, and some features of Absolute's products are offered for only some devices. Absolute targets its product development efforts towards those devices and operating systems that Absolute believes have the best strategic value to the Company. However, Absolute may not be successful in identifying future trends in the marketplace for these devices on a timely basis, or in creating or adapting Absolute's products and features for enough of the devices that are available. If there is a decline in commercial PC sales, or if Absolute's customers replace their existing mobile computers and mobile devices for which Absolute has not developed products, our revenue may decline and our business may suffer.

**Dependence on Distribution Channels** – Absolute generates a substantial portion of its revenue through OEM channel partners and its sales strategy is built upon Absolute’s ability to continue to maintain its BIOS and firmware positions with these partners and grow its reseller channels. Most of our distribution and reseller arrangements are non-exclusive, and our products may compete with other products. If we fail to manage our sales and distribution channels effectively or if our partners choose to favour, or develop their own, competing products, Absolute will have to change its sales strategy and may not be able to grow at the anticipated rates.

**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 IFRS profitability will approach the Company’s cash margins as the rate of growth slows. However, we 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 Contract and revenue growth. Absolute may not be able to adjust our 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.

**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 Computrace products and monitoring systems are developed to ensure that forensic 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, and used by Absolute’s trained experts. 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. Location information may be obtained as part of normal use, and we rely on our customers to obtain the required notices and consents to geolocation tracking. If a customer fails to give the required notice or obtain the consent required by law, we may not be aware of the breach and could be in violation of applicable privacy laws. Federal, provincial, state and foreign government bodies and agencies are experiencing heightened sensitivity to privacy issues and have adopted or are considering adopting laws and regulations regarding the collection, use and disclosure of personal information obtained from consumers and individuals. For example, recent Canadian anti-spam legislation prohibits the transmission of commercial electronic messages to an email address without consent and includes requirements relating to the form and content of such messages. This regulatory framework also restricts our marketing activities. 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. At the same time, increasing sensitivity to privacy concerns may increase the value of our products to customers.

**Competition** – It is 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 products and 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 products and 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, devote greater resources to the sales and marketing of their services and products than Absolute and place downward pressure on the pricing of Absolute’s products and services. 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. Industry consolidation also may affect prices or demand for our products.

**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 quickly enough and with the skills required to enable Absolute to execute on our business plans. In addition, periodic changes to the organizational structure and compensation plans of our sales organization may be disruptive and may impact our sales cycle or alter the average cost of sales. The inability to obtain key employees or 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.

**Customer Subscription Renewal Rates** – Absolute typically generates 75-80% of its annual sales contracts 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.

**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 the 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 we 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 for 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 may also 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.

**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, at times, 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 and our 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 in operational costs associated with such hiring, training, managing and integrating of such employees.

**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 may adversely affect our revenues. There can be no assurance that declines in shipment volumes in the United States or internationally will not have a material adverse effect on our business.

**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.

**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 the United States, Canada 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, allowed claims may not be sufficient to protect the Company’s new technology, and patents may not be obtained by the Company in every jurisdiction where the Company’s products are sold. 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.

**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 MD&A.

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. There is also no assurance that an active trading market for our common shares will be sustained in the future. If an active public market is not sustained, the liquidity of an investment in the common shares may be limited and the Company's share price may decline.

**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 over time to its international operations as well as to related sales and marketing activities. The Company maintains offices in Canada, the United States, the United Kingdom, Germany, Australia, Malaysia, and Vietnam. 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, including: the complexities and expense of administering a business abroad; complications in complying with, and unexpected changes in legal and regulatory restrictions or requirements; foreign laws, international import and export legislation; trading and investment policies; foreign currency fluctuations; exchange controls; tariffs and other trade barriers; difficulties in collecting accounts receivable; potential adverse tax consequences; uncertainties of laws and enforcement relating to intellectual property and privacy rights; unauthorized copying of software; difficulty in managing a geographically dispersed workforce in compliance with diverse local laws and customs; and other factors depending upon the country involved. There can be no assurance that the Company will not experience these risks in the future. If foreign operations expand to the point where they account for a significant portion of the Company’s consolidated revenues, the presence of such risks could have a material adverse effect on the Company’s business, operating results and financial condition.

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

**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.

**Efforts to Sell to Larger Enterprise Customers** – As Absolute targets more sales efforts at larger enterprise customers, the Company could face greater costs, less favourable terms and conditions, longer sales cycles, less predictability in completing some sales and greater fluctuation in sales and cash flow in quarters where these large transactions 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 services, as well as education regarding privacy and data protection laws and regulations to prospective customers with international operations. As a result of these factors, these sales opportunities may require Absolute to devote greater sales support and professional services resources to individual customers, driving up costs and time required to complete sales and diverting sales and professional services resources to a smaller number of larger transactions.

**Foreign Exchange** – The Company’s reporting and functional currency is the United States dollar. However, a significant portion of operating expenses is denominated in Canadian dollars. As a result, the Company is exposed to fluctuations in the Canadian dollar exchange rate for which it has not entered into foreign exchange hedges. A significant appreciation of the Canadian dollar relative to the U.S. dollar could materially impact the profitability of the Company. In addition, the Company will be exposed to greater foreign exchange risk from other countries as our operations, and our operating expenses, expand in foreign jurisdictions.

**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 29 months, although terms under this model 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 80%) 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 related to 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 approximately 29 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.

**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 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.

**Dividend Policy** – The declaration, timing, amount and payment of dividends is at the discretion of the Company’s Board of Directors. In making a decision on the timing and the amount of the dividends the Board will consider, among other things, cash flow, the results of operations and financial condition of the Company and its subsidiaries, the need for funds to finance ongoing operations and such other considerations as the Board considers relevant. There can be no assurance that the Company will continue to declare a dividend on a quarterly, annual or other basis.

**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 a connection to the Absolute Monitoring Center. If the device is prevented from making, or is not able to make, a connection, Absolute will not have an opportunity to assist in recovering the stolen device. If Absolute is unable to successfully demonstrate to customers that the Computrace Agent will call in to the Absolute Monitoring Centre, 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 third-party hosting facilities located on the west coast of Canada and the United States. 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.

**Legislative Risk** – New laws that restrict the manner in which we conduct forensic investigations, or our ability to track and recover missing devices, could negatively impact our revenue, profit, and cash flows. Certain investigative techniques may become prohibited in certain jurisdictions, or additional and more costly steps or changes to our technology may be required in order to comply with new laws. In addition, our business model may be inadvertently exposed to laws intended to address other problems that are receiving increasing attention from the media, the public and legislators. If these proposed laws do not include inappropriate exemptions for theft recovery, we may incur higher costs for lobbying and education efforts or may need to change our theft recovery methodology. In addition, our recovery success rate may decline and our service guarantee payments may increase.

**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 United States. 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.

**Ability to Successfully Manage and 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. Further, in November 2012, we purchased certain assets of LiveTime Software, Inc. and in June 2013 we purchased the assets of Palisade Systems. 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 successfully integrate our past and future acquisitions, or the technologies associated with such acquisitions, the revenue and operating results of the 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;
- failure to adequately understand and mitigate the risks of new product lines and services; 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.

**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 honoured; 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.

**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.

**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.