

## **PIVOT TECHNOLOGY SOLUTIONS, INC.**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**April 22, 2015**

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This Management's Discussion and Analysis (the "MD&A") pertains to the financial condition and results of operations of Pivot Technology Solutions, Inc. (TSX-V: PTG) ("Pivot", the "Company", or the "Corporation") for the three and twelve months ended December 31, 2014 and 2013. This MD&A should be read in conjunction with Pivot's consolidated financial statements and the related notes for the years ended December 31, 2014 and 2013, and the unaudited interim condensed consolidated financial statements and related notes for the three and nine months ended September 30, 2014 and 2013, and the related MD&A. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and can be found at [www.sedar.com](http://www.sedar.com) and [www.pivotts.com](http://www.pivotts.com). The three month period ended December 31 is referred herein as "Q4". The three month period ended September 30 is referred herein as "Q3". The three month period ended March 31 is referred herein as "Q1". All dollar amounts, except per share amounts stated in this MD&A, are in thousands of United States dollars unless specified otherwise.

Statements in this document may contain forward-looking information, including statements with respect to the future payment of contingent consideration, possible sources of funding for future growth, results of operations for Q1 2015, declaration of a dividend in Q2 2015 and future periods and the adoption of a normal course issuer bid ("NCIB"). Forward-looking information is based on assumptions of future events and actual results could vary significantly from these estimates. The reader is cautioned that assumptions used in the preparation of such information may prove to be incorrect. These assumptions include estimates of the profitability of its operations and operations of certain acquired businesses, the availability of borrowings under the Company's credit facilities and access to other sources of capital, that the Company will be in a financial position to declare and pay a dividend in Q2 2015 and subsequent periods, and that all approvals will be obtained for an NCIB. Events or circumstances may cause actual results to differ materially from those predicted as a result of numerous known and unknown risks, uncertainties, and other factors, many of which are beyond the control of the Company. Some of the important factors, but certainly not all, that could cause actual results to differ materially from those indicated by such forward-looking statements are: (i) that the information is based on estimated results, (ii) the possible unavailability of financing, (iii) start-up risks, (iv) general operating risks, (v) dependence on third parties, (vi) changes in government regulation, (vii) the effects of competition, (viii) dependence on senior management, (ix) impact of the Canadian and/or United States economic conditions, (x) fluctuations in currency exchange rates and interest rates, (xi) uncertainty with respect to the ability of the Company to pay a quarterly dividend commencing in Q2 2015, (xii) uncertainty with respect to the ability of the Company to obtain approvals for an NCIB, and (xiii) the risks set out in this MD&A under the heading "Risks

and Uncertainties”. The reader is cautioned not to place undue reliance on this forward looking information. The Company expressly disclaims any intention or obligation to update or revise any forward looking information, whether as a result of new information, future events or otherwise, except as required in accordance with applicable securities laws.

## SELECTED FINANCIAL INFORMATION AND OPERATING RESULTS

	Three months ended December 31, <i>(unaudited)</i>		Twelve months ended December 31,	
	2014	2013	2014	2013
Revenues	<b>377,478</b>	338,004	<b>1,359,229</b>	1,240,222
Cost of sales	<b>331,925</b>	301,656	<b>1,199,871</b>	1,100,354
Gross profit	<b>45,553</b>	36,348	<b>159,358</b>	139,868
Selling and administrative expenses	<b>34,521</b>	28,629	<b>125,925</b>	112,580
Adjusted EBITDA*	<b>11,032</b>	7,719	<b>33,433</b>	27,288
Depreciation and amortization	<b>3,239</b>	2,950	<b>12,067</b>	11,375
Transaction costs	<b>37</b>	140	<b>246</b>	2,229
Interest expense	<b>1,987</b>	3,580	<b>6,777</b>	9,190
Goodwill impairment	-	-	-	11,000
Change in fair value of liabilities	<b>729</b>	14	<b>5,965</b>	(9,394)
Other (income) expense	<b>(44)</b>	(26)	<b>(256)</b>	6
Income before income taxes	<b>5,084</b>	1,061	<b>8,634</b>	2,882
Provision for income taxes	<b>2,115</b>	313	<b>4,378</b>	4,639
Net and comprehensive income (loss)	<b>2,969</b>	748	<b>4,256</b>	(1,757)
Net income (loss) per share:				
Basic	\$ <b>0.02</b>	\$ 0.00	\$ <b>0.01</b>	\$ (0.07)
Diluted	\$ <b>0.02</b>	\$ 0.00	\$ <b>0.01</b>	\$ (0.07)
Cash and cash equivalents	<b>8,527</b>	22,020	<b>8,527</b>	22,020
Total assets	<b>473,782</b>	414,049	<b>473,782</b>	414,049
Total long-term financial liabilities	<b>5,000</b>	9,852	<b>5,000</b>	9,852
Cash dividends declared on preferred shares	<b>649</b>	913	<b>2,727</b>	3,062

**Note:** Amounts presented are in thousands of U.S. dollars, except per share amounts

**\* *Non IFRS measures***

In the Company's financial reporting, adjusted EBITDA is a non IFRS measure which is defined as gross profit less selling and administrative expenses, and corresponds to income before income tax, depreciation and amortization, transaction costs, interest expense, change in fair value of liabilities, goodwill impairment, and other (income) expense. Management believes this is an important indicator as adjusted EBITDA excludes items that are either non-cash expenses, items that cannot be influenced by management in the short term, and items that do not impact core operating performance, demonstrating the Company's ability to generate liquidity through operating cash flow to fund working capital needs, service outstanding debt and fund future capital expenditures. Adjusted EBITDA is also used by some investors and analysts for the purposes of valuing an issuer. The intent of adjusted EBITDA is to provide additional useful information to investors and analysts and is also used by management as an internal performance measurement.

Adjusted EBITDA is not a recognized measure under IFRS, has no standardized meaning and is therefore unlikely to be comparable to similar measures used by other companies. Readers are cautioned that this term should not be construed as an alternative to net income determined in accordance with IFRS.

***Key performance indicators***

Pivot measures the success of its strategies using a number of key performance indicators. These include revenues, gross profit and adjusted EBITDA. Gross profit is defined as revenues less cost of sales. Pivot believes these are important measures as they allow the Company to evaluate its operating performance and identify financial and business trends relating to its financial condition and results of operations.

## **Q4 2014 financial and operating highlights**

- Revenues of \$377,478 increased 11.7%, or \$39,474, over Q4 2013, and increased 4.9%, or \$17,762, from Q3 2014, primarily due to an increase in product sales, which were up 11.1%, or \$33,193, over Q4 2013, and up 4.0%, or \$12,785, over Q3 2014. Service revenue was up 19.4%, or \$6,922, from Q4 2013 and up 12.9%, or \$4,851, from Q3 2014. Service revenue comprised 11.3% of total revenue, up from 10.5% in Q4 2013.
  - Gross profit of \$45,553 was up 25.3%, or \$9,205, from Q4 2013 and up 13.5%, or \$5,411, from Q3 2014. Gross profit margin of 12.1% was up from 10.8% in Q4 2013 and 11.2% in Q3 2014.
  - Adjusted EBITDA of \$11,032 increased 42.9% or \$3,313, from Q4 2013, and was up 29.6%, or \$2,519, from Q3 2014.
  - Interest expense of \$1,987 was down 44.5% or \$1,593 from Q4 2013, primarily due to a charge of \$1,907 relating to the termination of the Wells Fargo secured borrowing agreement on November 13, 2013.
  - Net income of \$2,969 was earned, an increase of \$2,221, or 296.9%, from Q4 2013, and increased \$1,664, or 127.5%, from Q3 2014.
- Series A Preferred Share dividends of \$649 were declared during Q4 2014, reflecting a fixed cumulative preferential dividend at the rate of 6% per annum.

## **Full Year 2014 financial and operating highlights**

- Revenues were up 9.6%, or \$119,007, from 2013, to \$1,359,229. Product sales grew 7.7%, or \$86,097, and service revenue grew 28.7%, or \$33,490, on a year over year basis. Service revenue comprised 11.1% of total revenue, up from 9.4% in 2013.
- Gross profit of \$159,358 was up 13.9%, or \$19,490, from 2013. Gross profit margin of 11.7% was up from 11.3% in 2013 due to the higher service revenue concentration.
- Adjusted EBITDA increased 22.5% from 2013, to \$33,433.
- Interest expense of \$6,777 was down \$2,413 from 2013. The prior year figure includes charges of \$1,907 relating to the termination of the Wells Fargo secured borrowing agreement on November 13, 2013 and \$1,152 interest expense with respect to debentures prior to their conversion into Series A Preferred Shares at the end of Q1 2013.
- Net income of \$4,256 was earned. In 2013 a net loss of \$1,757 was incurred.
- Series A Preferred Share dividends of \$2,727 were declared during 2014, reflecting a fixed cumulative preferential dividend at the rate of 6% per annum.

## FINANCIAL AND OPERATING RESULTS

### Three and twelve months ended December 31, 2014 compared to the three and twelve months ended December 31, 2013

#### Revenue

	Three months ended December 31, <i>(unaudited)</i>		Twelve months ended December 31,	
	2014	2013	2014	2013
Product sales	331,910	298,717	1,198,411	1,112,314
Service revenues	42,530	35,608	150,362	116,872
Other revenues	3,038	3,679	10,456	11,036
	377,478	338,004	1,359,229	1,240,222

Note: Amounts presented are in thousands of U.S. dollars

Product sales increased \$33,193 or 11.1% and \$86,097 or 7.7% for the three and twelve months ended December 31, 2014 over the same periods in the prior year, respectively. The increase quarter over quarter was primarily attributable to increased revenues from major customers of \$27,865. The increase year over year was driven by non-major customer growth of \$109,697, offset by a decrease in revenues from major customers of \$23,600. The decline year over year in the major customer accounts is attributable to a number of factors, including, but not limited to, timing of major projects and replenishments, and competitive pressures on pricing.

Service revenues increased \$6,922 or 19.4%, and \$33,490 or 28.7%, for the three and twelve months ended December 31, 2014 over the same periods in the prior year, respectively. Quarter over quarter, New ProSys Corp. (“ProSys”), ARC Acquisition (US) Inc. (“ARC”) and Sigma Technology Solutions, Inc. (“Sigma”) contributed \$7,440 to the service revenues increase, while service revenues from ACS (US) Inc. (“ACS”), were down by \$518. Year over year, all business units continued to penetrate new accounts and provide more service offerings which have higher margins than product sales, all contributing to the increased revenue. ProSys’s contributions were primarily related to a “First Call” enhanced service offering, where customers can elect to add live support via a fully staffed call center, to purchased vendor support contracts, while ARC gained ground in state and local government service offerings. First Call revenues have continually increased each quarter since the product was first offered.

The top ten customers represented approximately 51.2% of total revenues for each of the three months ended December 31, 2014 and 2013, and 49.3% and 48.6% for the twelve months ended December 31, 2014 and 2013, respectively.

### *Cost of sales and gross profit*

Gross profit increased by \$9,205 or 25.3% and \$19,490 or 13.9% for the three and twelve months ended December 31, 2014, over the corresponding periods in 2013, respectively. As a percentage of revenue, gross profit margin increased to 12.1% for the three months ended December 31, 2014 compared with 10.8% for the same period in the prior year. Gross profit margin increased slightly to 11.7% for the twelve months ended December 31, 2014, compared with 11.3% for the same period in the prior year.

### *Selling and administrative expenses*

	Three months ended December 31, (unaudited)		Twelve months ended December 31,	
	2014	2013	2014	2013
Salaries and employee benefits	13,531	12,355	54,764	53,231
Commission and bonus	14,770	11,607	48,581	41,491
Other selling and administrative expenses	6,220	4,667	22,580	17,858
	34,521	28,629	125,925	112,580

**Note:** Amounts presented are in thousands of U.S. dollars

Selling and administrative expenses increased by \$5,892 and \$13,345 for the three and twelve months ended December 31, 2014 over the corresponding periods in 2013. Quarter over quarter and year over year increases in commissions and bonus of \$3,163 and \$7,090, respectively, are directly attributable to the increases in revenue. Other selling and administrative expenses increased \$1,553 and \$4,722, respectively, due primarily to lower marketing development funds provided by vendors, as well as increases in travel expense, offset by lower professional fees.

### *Change in fair value of liabilities*

	Three months ended December 31, (unaudited)		Twelve months ended December 31,	
	2014	2013	2014	2013
Convertible debentures	-	-	-	4,555
Contingent consideration	-	14	3,801	(13,949)
Fixed consideration	263	-	1,148	-
Interest rate swap	466	-	1,016	-
	729	14	5,965	(9,394)

**Note:** Amounts presented are in thousands of U.S. dollars

The change in fair value relates to the application of fair-value accounting to the convertible debentures which were converted to Series A Preferred Shares on March 25, 2013, contingent consideration and other financial liabilities arising from business acquisitions, and the mark to market on an interest rate forward swap agreement (“Swap”). During the first half of 2013, management reduced its estimates related to the contingent consideration for ACS, resulting in the decrease in 2013. During the first quarter of 2014, management increased its estimates related to the contingent consideration for ARC and Sigma based on revised forecasts, resulting in the increase in 2014. Consideration related to the ACS, Sigma and ARC acquisitions was renegotiated to fixed amounts during 2014, and the related fair value adjustments were reported as fixed consideration at the point when they were considered to be fixed. On April 3, 2014 the Company entered into a Swap with PNC to mitigate the risk of fluctuating interest rates.

## SELECTED QUARTERLY FINANCIAL INFORMATION

	Three months ended, (unaudited)							
	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
Revenues	377,478	359,716	302,708	319,327	338,004	326,257	321,677	254,284
Gross profit	45,553	40,142	38,200	35,463	36,348	36,613	37,026	29,881
Adjusted EBITDA	11,032	8,513	7,682	6,206	7,719	8,339	7,821	3,409
Net and comprehensive income (loss)	2,969	1,305	951	(969)	748	1,621	689	(4,815)
Income (loss) per share:								
Basic	\$0.02	\$0.01	\$0.00	(\$0.02)	\$0.00	\$0.01	\$0.00	(\$0.08)
Fully diluted	\$0.02	\$0.00	\$0.00	(\$0.02)	\$0.00	\$0.00	\$0.00	(\$0.08)
Cash dividends declared on preferred shares	649	689	693	696	913	1,017	1,132	nil

**Note:** Amounts presented are in thousands of U.S. dollars, except per share amounts

The above table shows selected financial information on the results of operations of the Company for the periods shown. The financial results are not necessarily indicative of the results that may be expected for any other future comparative period.

In general, the business tends to fluctuate quarter to quarter. This is driven by a variety of factors including timing on capital-related spending at large customers, who try to use budgeted funds before the end of fiscal periods. Additionally, Original Equipment Manufacturer vendors (“OEMs”) tend to drive higher activity at their own year ends as steeper discounts tend to be offered to drive deals.

Further, a small number of large customers can periodically cause significant fluctuations in revenue and associated profits in any given quarter, depending on the timing of key projects. This is particularly noticeable in the first quarter of 2013, when revenues suffered a temporary decline when a major customer transitioned away from an existing proprietary server based configuration.

The Company has historically experienced lower sales volume in Q1, consistent with industry trends. In Q1 2014, the Company benefited from projects that had been delayed from Q4 2013 delivery, as well as additional customer wins, providing for a stronger than normal Q1 for 2014. In comparison, Q1 2015 is expected to fall short of Q1 2014 adjusted EBITDA. The anticipated decline is in line with general as well as industry specific economic data.

## **LIQUIDITY AND CAPITAL RESOURCES**

Pivot's capital requirements consist primarily of working capital necessary to fund operations and capital to finance the cost of strategic acquisitions. Sources of funds available to meet these requirements include existing cash balances, cash flow from operations and secured borrowings. Pivot must generate sufficient earnings and cash flow from operations to satisfy its covenants in order to provide access to additional capital under its secured borrowings. Failure to do so would adversely impact Pivot's ability to pay current liabilities and comply with covenants applicable to its secured borrowings.

Total cash on hand was \$8,527 and \$22,020, while \$125,525 and \$111,624 was borrowed under existing credit facilities, as at December 31, 2014 and 2013, respectively. There were also working capital deficiencies of \$64,229 and \$66,894 as at December 31, 2014 and 2013, respectively. The working capital deficiencies originate from bank financings obtained to fund business acquisitions in previous years. Average undrawn availability on the PNC Bank ("PNC") revolving line of credit for the three month and twelve month periods ended December 31, 2014 was \$26,576 and \$22,288, respectively.

### **Cash flow analysis/movements**

Cash used in operations increased \$41,789 for the three months ended December 31, 2014, compared to the same period in the prior year, due to a net increase in non-cash working capital of \$44,061, offset by a slight increase in underlying cash from operations of \$2,272. The working capital changes quarter over quarter were primarily due to a net increase in accounts receivable of \$29,603, offset by a net decrease in inventory of \$29,096 a net decrease in accounts payable and accrued liabilities of \$29,106, and a net decrease in other liabilities of \$16,778. Cash used in operations increased \$71,200 for the twelve months ended December 31, 2014, as compared to the same period in the prior year, due to a net increase in non-cash working capital of \$77,468, offset by an increase in cash from operations of \$6,268. The working capital changes year over year were primarily due to a net increase in accounts receivable of \$82,890,

net decreases in accounts payable and accrued liabilities of \$19,307, offset by a net decrease in inventories of \$38,929.

Cash used in investing activities decreased by \$4,653 and \$4,645 for the three and twelve months ended December 31, 2014 compared to the same periods in the prior year, respectively. The decrease was primarily driven by earn out payments on acquisitions made in previous years.

Cash provided by financing activities increased by \$30,232 and \$47,595 for the three and twelve months ended December 31, 2014 compared to the same periods in the prior year, respectively. The movement in financing cash outflows was primarily driven by movements in net borrowing associated with Pivot's secured borrowing arrangements and related banking overdrafts, which consist of checks that have been distributed, but have not yet been presented for payment.

### **Net underlying cash flow**

Cash provided by operating activities, excluding non-cash working capital balance movements, increased by \$2,272, or 49.2%, to \$6,892, and by \$6,268, or 44.9%, to \$20,236 for the three and twelve months ended December 31, 2014. This represented 62.5% and 60.5% of adjusted EBITDA for the respective periods.

Cash used in investing activities comprised payments made on contingent/fixed consideration as well as capital and other intangible asset expenditures. For the three and twelve months ended December 31, 2014, payments made on contingent/fixed consideration were \$4,500 and \$10,850, compared to \$9,900 and \$18,290 for the same periods in the prior year. Capital and other intangible asset expenditures were \$1,594 and \$3,932 for the three and twelve months ended December 31, 2014, and \$1,045 and \$3,442 for the same periods in the prior year.

Cash used in financing activities, excluding non-cash working capital borrowings-related movements, comprised dividend payments on Series A Preferred Shares and installment payments on the ABL Term Loan, offset by the net proceeds from the issuance of common shares. For the three and twelve months ended December 31, 2014, dividend payments on Series A Preferred Shares were \$651 and \$2,512, compared to \$662 and \$2,811 for the same periods in the prior year. Installment payments on the \$10,000 term loan from PNC ("ABL Term Loan") were \$500 and \$2,000 for the three and twelve months ended December 31, 2014. No ABL Term Loan installment payments were made in the prior year. Net proceeds from the issuance of common shares in the prior year were \$1,979.

Days sales outstanding (DSO) were 52 and 44 days at December 31, 2014 and 2013, respectively. While the Company closely monitors receivables and collections, the Company's DSO has increased over the prior year, primarily due to increased sales to customers with payment terms of 45 days or greater.

## Secured borrowings

ARC has a secured flooring agreement with IBM Global Finance (“IBM”) which provides short-term accounts payable financing. Certain vendors send invoices directly to IBM for payment and IBM bills the Company monthly for vendor invoices received. After 60 days, the Company incurs interest on the outstanding balance at LIBOR plus 4.5%. As at December 31, 2014, \$11,157 was outstanding under the IBM secured flooring agreement. The Company is required to maintain certain financial ratios, and was in compliance as at December 31, 2014.

On November 13, 2013 (“Closing Date”), Pivot Technology Solutions Ltd, a wholly owned subsidiary of the Company, along with certain of its subsidiaries, ACS, ProSys and Sigma (collectively the “PNC Borrowing Group”), entered into a revolving credit, term loan and security agreement with PNC for the provision of \$185,000 of senior secured asset based credit facilities (“ABL Credit Facility”). The ABL Credit Facility replaced the separate facilities held by ACS, ProSys and Sigma with PNC and Wells Fargo Bank, NA. The ABL Credit Facility originally consisted of a \$10,000 term loan (“ABL Term Loan”) and a senior secured revolving credit facility (“ABL Revolving Credit Facility”) that allows the PNC Borrowing Group to draw up to \$175,000, subject to borrowing base limitations, a portion of which may be used for letters of credit or swing line loans. Simultaneously, as part of the agreement with PNC, the Wells secured borrowing agreement held by ACS was formally terminated, and paid off.

The ABL Term Loan principal is due in four consecutive quarterly installments of \$500 commencing January 1, 2014, ten consecutive quarterly installments of \$750 commencing on January 1, 2015, followed by a final payment of \$500 plus all unpaid principal, accrued and unpaid interest and all unpaid fees and expenses on August 13, 2017. Unless a new credit facility is arranged by PNC, a 2% premium would have applied to any portion of the ABL Term Loan had it been prepaid on or before the one year anniversary of the Closing Date and a 1% premium applies to any prepayment after the first anniversary of the Closing Date and on or before the third anniversary of the Closing Date. The ABL Term Loan may be prepaid without premium or penalty after the third anniversary of the Closing Date.

The ABL Revolving Credit Facility provides for a borrowing rate of Prime plus 1% to 1.5% or LIBOR plus 2% to 2.5% per annum, based on average quarterly undrawn availability, at the Company’s election. The ABL Term Loan bears interest at Prime plus 9% or LIBOR plus 10% per annum at the Company’s election and contains an unused commitment fee of 0.75% per annum. The ABL Revolving Credit Facility also contains an unused commitment fee of 0.375% per annum.

As at December 31, 2014, \$117,525 was outstanding under the ABL Revolving Credit Facility, and the ABL Term Loan had an outstanding balance of \$8,000.

The PNC Borrowing Group had availability to borrow under the ABL Credit Facility of \$56,805 and \$34,888 as at December 31, 2014 and 2013, respectively, after giving effect to the borrowing

base limitations, swing loans and letters of credit issued. The PNC Borrowing Group can use up to \$10,000 of its available borrowing under the ABL Credit Facility for letters of credit which are charged a fronting fee of 0.25% and currently bear interest at prime plus 1.5% per annum. The PNC Borrowing Group can also use up to \$17,500 of its available borrowing under the ABL Credit Facility for swing loans which are currently charged a fee of prime plus 1.5% per annum. \$250 and nil letters of credit were outstanding under the ABL Credit Facility at December 31, 2014 and 2013, respectively. Nil and \$21 swing loans were outstanding under the ABL Credit Facility at December 31, 2014 and 2013, respectively.

Under the terms of the ABL Credit Facility, the PNC Borrowing Group is subject to certain restrictive covenants. The covenants require that the PNC Borrowing Group maintain a Fixed Charge Coverage Ratio (“FCCR”) of at least 1.20 to 1.0 and a Senior Leverage Ratio (“SLR”) of 4.50 to 1.0. Additional restrictive covenants require that distributions from the PNC Borrowing Group to the Company be restricted to the payment of dividends in respect of the Series A Preferred Shares, and to operating expenses incurred by the Company in the ordinary course of business. The covenants also place restrictions on investments, additional indebtedness, distributions (including distributions by the Company’s subsidiaries to the Company), capital expenditures and leases. The credit agreement was amended on August 22 2014, whereby the FCR was increased to 1.20 to 1.00 for the quarters ending September 30, 2014 through March 31, 2015, and 1.15 to 1.00 for each quarter thereafter. An additional amendment on December 31, 2014 increased the SLR to 5.00 to 1.00 for the quarter ended December 31, 2014. The Company was in compliance with these covenants at December 31, 2014 and 2013. The credit agreement was further amended on March 31, 2015, whereby the FCR for March 31, 2015 will be reduced to 0.95 to 1.00, increasing to 1.15 to 1.00 for subsequent quarters, and the SLR will be fixed at 4.50 to 1.00 until the Term Loan is paid in full.

On April 3, 2014 the Company entered into a Swap with PNC to mitigate the risk of fluctuating interest rates. Under the terms of the Swap, the interest rate will vary between 4.655% and 5.155% on \$50,000 of the amount outstanding under the ABL Credit Facility. This range of rates will be in effect from April 7, 2016, through November 13, 2018. The Swap agreement with PNC contains cross covenant restrictions, requiring that the Company be in compliance with the ABL Credit Facility.

### **Unsecured borrowings**

On August 26, 2014, ACS executed a purchase finance agreement with Macquarie Equipment Finance (“Macquarie”) that allows up to \$10,000 in unsecured advances on purchases from approved suppliers. Interest of LIBOR plus 0.7%, (for 30 day advances) or LIBOR plus 1.06% (for 45 day advances) will be applied. As at December 31, 2014, \$8,515 was outstanding under the Macquarie purchase finance agreement. On March 24, 2015, the agreement with Macquarie was amended to allow up to \$15,000 on 60 day unsecured advances from approve suppliers. Interest of LIBOR plus 1.58% will be applied.

## **Future financing**

Management is focused on exploring and executing strategic alternatives to enhance its existing financing structure with options that provide the necessary flexibility to grow the business and meet its future obligations. In addition to the Company's available borrowings under its credit facilities, these options may include an equity raise or other permanent capital injection, in the event the Company undertakes future acquisitions.

## **Share Capital**

### *Authorized*

The Company's authorized capital consisted of an unlimited number of voting common shares and Series A Preferred Shares, with no par value. The Series A Preferred Shares were convertible into common shares at any time, at the option of the Company or the holder.

From January 1, 2014 to March 15, 2015, Series A Preferred shareholders converted 7,167,850 preferred shares into common shares, on a one for one basis. On March 2, 2015, the Company announced it would be exercising its option to convert all outstanding preferred shares to common shares on a one for one basis. On March 16, 2015, 58,094,630 Series A Preferred Shares were converted to common shares of the Company. Subsequent to the conversion, the Company had 167,786,626 common shares issued and outstanding. On April 22, 2015, the Company had 167,719,126 common shares issued and outstanding.

On April 17, 2014, September 30, 2014, and March 30, 2015, respectively, 75,000, 60,000 and 67,500 common shares were cancelled. The cancellation is related to the resignation of Greg Gallagher, the Company's former CEO, which was announced on July 3, 2013. On the date of resignation, 40% (or 300,000) of the 750,000 shares previously granted to Mr. Gallagher pursuant to his service agreement with the Company had vested, and as such, 60% or 450,000 shares are required to be cancelled upon release from escrow. All 750,000 shares had been placed into escrow following the completion of the Qualifying Transaction as described in the Company's filing statement dated March 8, 2013. 60% of the shares will be cancelled as they are released from escrow, until a total of 450,000 shares are cancelled. As at December 31, 2014, 135,000 shares have been cancelled.

As at December 31, 2014, the issued share capital amounted to \$86,125. The changes in issued shares and share capital for the year ended December 31, 2014 were as follows:

	Series A Preferred	Common Shares
	#	#
As at January 1, 2014	65,262,480	102,659,146
Conversion of preferred shares to common shares	(5,099,100)	5,099,100
Cancellations	-	(135,000)
As at December 31, 2014	60,163,380	107,623,246

### Off-balance sheet arrangements and derivative financial instruments

Pivot's off-balance sheet arrangements are comprised of operating leases entered into in the normal course of business. Pivot has no other off-balance sheet. Pivot does not enter into the speculative use of derivatives.

### Financial Instruments and Other Instruments

Other than the Swap agreement described under "Liquidity and Capital Resources – Secured Borrowings", the Company is not a party to financial instruments.

### Contractual commitments

The following tables summarize Pivot's contractual obligations as at December 31, 2014:

	On demand	Less than one year	One to two years	Two to five years	Greater than five years	Total
Bank overdraft	43,921	-	-	-	-	43,921
Secured borrowings	117,525	3,000	3,000	2,000	-	125,525
Accounts payable and accrued liabilities	-	219,439	-	-	-	219,439
Operating leases	-	4,934	4,312	7,933	4,746	21,925
Interest rate swap	-	-	1,016	-	-	1,016
Fixed consideration	-	5,500	-	-	-	5,500
	161,446	232,873	8,328	9,933	4,746	417,326

**Note:** Amounts presented are in thousands of U.S. dollars

## **Fixed and contingent consideration**

On December 31, 2010, the Company acquired substantially all of the net assets of Applied Computer Solutions (“Old ACS”). As part of the asset purchase agreement with Old ACS, contingent consideration had been agreed. The consideration was dependent on the profit before tax of the acquired business during the three consecutive 12-month periods ending December 31, 2013. At the date of acquisition, the fair value of the contingent consideration was determined to be \$33,291. The Company recorded a charge of \$212 related to the change in fair value of the consideration for the nine month period ended September 30, 2014. The consideration was to be paid over three years and was due for final measurement and payment to the shareholders of Old ACS on May 1, 2014. On August 19, 2013, the Company reached an agreement with the shareholders of Old ACS to allow up to \$4,000 to be deferred until June 30, 2014, where any outstanding balance after December 31, 2013 would carry interest at 8% per annum. On July 23, 2014, the Company reached an agreement with the shareholders of Old ACS to allow up to \$1,250 of the remaining consideration to be deferred until July 31, 2014, for additional consideration of \$35. Payments of \$4,037, inclusive of the \$35 additional consideration, were made during the nine months ended September 30, 2014. All remaining amounts owed were paid on July 24, 2014.

On January 4, 2011, the Company acquired all of the issued and outstanding share capital of ProSys, a wholly owned subsidiary of Avnet, Inc. As part of the purchase agreement with the shareholders of ProSys, contingent consideration had been agreed. The consideration is dependent on a measure of operating profit before tax of the acquired business during the three consecutive 12-month periods ended December 31, 2013. The fair value of the contingent consideration at the acquisition date was \$4,707 and was paid in full as at June 30, 2014. The Company recorded a charge of \$125 related to the change in fair value of the contingent consideration for the six months ended June 30, 2014. The final payment of \$2,338 was made on May 6, 2014.

On August 12, 2011, the Company acquired substantially all of the assets and liabilities of Austin Ribbon & Computer Supplies, Inc. (“Old ARC”). As part of the asset purchase agreement with the shareholders of Old ARC, contingent consideration had been agreed. The consideration is dependent on a measure of operating profit before tax of the acquired business during the three consecutive 12-month periods ending August 12, 2014. The fair value of the contingent consideration at the acquisition date was \$3,060. At the conclusion of the three year earn out period, the undiscounted consideration was determined to be fixed at \$2,500, and was paid in full November 24, 2014. The Company recorded a charge of \$2,500 related to the change in fair value of the contingent consideration for the twelve months ended December 31, 2014.

On July 1, 2012, the Company acquired substantially all of the net operating assets of Sigma Solutions, LP (“Old Sigma”). As part of the asset purchase agreement with the partners of Old Sigma, contingent consideration had been agreed. The consideration was dependent on a measure of operating profit before tax of the business acquired from Old Sigma during the three consecutive 12-month periods ending July 1, 2015. The purchase agreement was amended on May 7, 2014, whereby the remaining undiscounted consideration was fixed at \$7,500, payable in installments of \$3,500 and \$4,000 on October 31, 2014 and October 31, 2015, respectively. The agreement was further amended on October 28, 2014, whereby the first installment of the fixed consideration was payable in the amount of \$2,000 on October 31, 2014, with the remaining \$1,500 to accrue interest at 8% per annum, and to be paid on or before April 30, 2015. If any of the \$1,500 remains unpaid after April 30, 2015, it will bear interest at 15% per annum. The fair value of the contingent consideration at the acquisition date was estimated to be \$5,719. The present value of the consideration was determined to be \$4,992 as at December 31, 2014. The Company recorded a charge of \$2,112 related to the change in fair value of the consideration for the twelve months ended December 31, 2014. A payment of \$2,000 was made on October 31, 2014.

### **Series A Preferred Shares**

The holders of Series A Preferred Shares were entitled to receive on a monthly basis in cash, out of any funds legally available therefor, a fixed cumulative preferential dividend at the rate of 6% per annum. Following the completion by the Company of any transaction where the Company had raised C\$75,000 in capital, the holders of the Series A Preferred Shares were permitted to require the Company to redeem the Series A Preferred Shares for cash at a per share price that was equal to C\$0.48. The Series A Preferred Shares carried an optional conversion right, where the Series A Preferred Shares could have, at the option of the holder, converted into common shares of the Company on a one for one basis. The Series A Preferred Shares also carried a mandatory conversion right, whereby at any time after June 30, 2013, the Company was permitted to require the holders to convert the Series A Preferred Shares into common shares of the Company.

On March 2, 2015, the Company announced it would be exercising its option to convert all outstanding Series A Preferred Shares to common shares on a one for one basis. The Company’s Board of Directors has also approved the implementation of an NCIB, which will allow Pivot to repurchase the greater of up to 5% of the Company’s issued and outstanding common shares or up to 10% of the Company’s public float, calculated in accordance with TSX Venture regulations, after conversion of the Series A Preferred Shares, over a twelve month period. Implementation of the NCIB is subject to the filing of a formal notice and approval by the TSX Venture Exchange. Concurrent with the approval of the preferred share conversion and the adoption of the NCIB, the Board has also approved the initiation of a C\$0.03 per share annual

dividend, to be paid quarterly. The Company anticipates declaring the initial quarterly dividend of C\$0.0075 per share at the time of the publication of the financial results for the second quarter of 2015, with payment in September 2015. On March 16, 2015, 58,094,630 Series A Preferred Shares were converted to common shares of the Company. Subsequent to the conversion, the Company had 167,786,626 common shares issued and outstanding.

The Board of Directors declared dividends of \$649 and \$913 during the quarters ended December 31, 2014 and 2013, respectively. The Board of Directors declared dividends of \$2,727 and \$3,062 during the years ended December 31, 2014 and 2013, respectively. All declared dividends have been subsequently paid.

## **RELATED PARTIES**

In addition to the asset purchase agreement with Old ACS, a subsidiary of the Company has entered into an administrative services agreement, a license agreement and a distribution agreement with Old ACS commencing with the date of the asset purchase. The administrative services agreement commits the Company to performing certain administrative functions on behalf of Old ACS. The total amount charged to Old ACS for these shared administrative services was \$1,022 and \$395 for the three month periods ended December 31, 2014 and 2013, respectively. The total amount charged to Old ACS for these shared administrative services was \$2,207 and \$1,580 for the twelve month periods ended December 31, 2014 and 2013, respectively. The license agreement permits Old ACS to license from the Company certain of the intellectual property obtained by the Company in the asset purchase. A member of key management of the Company has significant influence over Old ACS, resulting in a related party relationship.

The Company is deemed to have the primary exposure to the significant risks and rewards associated with sales by Old ACS to its third-party customers, and thus the Company is the principal and Old ACS is the agent of the Company with respect to such sales. The Company recognizes these revenues on a gross basis. Total gross sales through the agent are approximately \$25,286 and \$47,108 for the three month periods ended December 31, 2014 and 2013, respectively. Total gross sales through the agent are approximately \$110,732 and \$114,287 for the twelve month periods ended December 31, 2014 and 2013, respectively. The Company's effective cost to the agent in respect of these revenues was approximately \$1,337 and \$1,928 for the three month periods ended December 31, 2014 and 2013, respectively, and approximately \$3,461 and \$4,466 for the twelve month periods ended December 31, 2014 and 2013, respectively, which is included in the Company's cost of sales.

The Company has a similar contractual arrangement with Old ARC, whereby Old ARC is an agent of the Company. Total gross sales through the agent are approximately \$20,336 and \$23,879 for the three month periods ended December 31, 2014 and 2013, respectively. Total

gross sales through the agent were approximately \$91,424 and \$65,758 for the twelve month periods ended December 31, 2014 and 2013, respectively.

Certain subsidiaries lease offices from related entities. One subsidiary of the Company leases two of its offices from a related entity controlled by that subsidiary's chief executive officer. The Company is obligated for repairs, maintenance, insurance and property tax on these leases. Rent paid on these leases was \$426 and \$410 for the three month periods ended December 31, 2014 and 2013, respectively. Rent paid on these leases was \$1,581 and \$1,571 for the twelve month periods ended December 31, 2014 and 2013, respectively. Another subsidiary of the Company leased an office from an entity in which that subsidiary's president and another key management member have an ownership interest. The Company was obligated for repairs, maintenance, insurance and property tax on this lease. Rent paid on this lease was \$66 and \$112 for the twelve month periods ended December 31, 2014 and 2013, respectively. The lease expired in August 2014, and was not renewed.

A subsidiary of the Company incurred nil and \$44 for the three months period ended December 31, 2014 and 2013, and \$352 and \$612 for the twelve month periods ended December 31, 2014 and 2013, respectively, for marketing services provided by related entities controlled by that subsidiary's chief executive officer. The same subsidiary incurred \$145 and \$5 for the three months ended December 31, 2014 and 2013, respectively, and \$160 and \$21 for the twelve months ended December 31, 2014 and 2013, respectively, in expenses for the use of aircraft owned by a related entity controlled by that subsidiary's chief executive officer.

A subsidiary of the Company incurred \$1,211 and \$0 for the years ended December 31, 2014 and 2013, respectively, for research and development provided by a related entity controlled by that subsidiary's president.

The following table sets out the compensation of key management personnel of the Company:

	Three months ended		Twelve months ended	
	December 31,		December 31,	
	<i>(unaudited)</i>			
	2014	2013	2014	2013
Compensation	871	1,238	2,134	3,267
Termination benefits	-	-	-	500
Short-term employee benefits	9	12	36	54
	880	1,250	2,170	3,821

**Note:** Amounts presented are in thousands of U.S. dollars

## **RISKS AND UNCERTAINTIES**

Pivot is subject to risks and uncertainties that could result in a material adverse effect on the Company's business and financial results. The Board of Directors has the overall responsibility and oversight of the Company's risk management practices. The Company's management is responsible for developing and monitoring the Company's risk strategy, and reports to the Board of Directors on its activities. Risk management is incorporated in all levels of strategic and operational planning, and is reviewed regularly to reflect changes in market conditions and the Company's activities. Management has identified the risks below as specific risks to Pivot. The reader is urged to review these risk factors. The markets in which Pivot currently operates are very competitive and change rapidly. New risks may emerge from time to time.

### **Risks relating to the technology supply and distribution channel**

#### ***Dependence on third party suppliers***

Pivot is substantially dependent upon the services of certain key technology distributors and manufacturers, for the successful operation of its business. Pivot's contracts with these suppliers vary in duration and are generally terminable by either party at will or upon notice. A supplier's failure to supply materials or components in a timely manner, or Pivot's inability to obtain substitute sources for these materials and components in a timely manner or on terms acceptable to the Company, could harm the Company's ability to integrate and deliver its products to its customers. Additionally, the loss of the services of any of these suppliers and a failure to obtain an acceptable alternative solution at a similar cost could have a material adverse effect on the business, operations and financial condition of Pivot.

#### ***Dependence on OEMs***

Pivot is an authorized reseller of the products and services of leading IT manufacturers. In many cases Pivot has achieved the highest level of relationship the manufacturer offers. In addition, Pivot's employees hold certifications issued by these manufacturers and by industry associations relating to the configuration, installation and servicing of these products. Pivot differentiates itself from its competitors by the range of manufacturers it represents, the relationship level it has achieved with these manufacturers and the scope of the manufacturer and industry certifications Pivot's employees hold. There can be no assurance that the Company will be able to retain these relationships with the manufacturers, that it will be able to retain the employees holding these manufacturer and industry certifications, or that its employees will maintain their manufacturer or industry certifications. The loss of any of these relationships or certifications could have a material adverse effect on the business of Pivot.

### ***Reliance on financial incentives***

Pivot receives payments and credits from vendors, including consideration pursuant to volume sales incentive programs and marketing development funding programs. Vendor funding is used to offset, among other things, inventory costs, costs of goods sold, marketing costs and other operating expenses. If Pivot is not in compliance with the terms of these programs, there could be a material negative effect on the amount of incentives offered or paid to the Company by its vendors. No assurance can be given that Pivot will continue to receive financial incentives at historical payment levels in the future, or that Pivot will be able to collect outstanding amounts relating to these incentives in a timely manner, or at all. Any sizeable reduction in, the discontinuance of, or a significant delay in receiving or the inability to collect such incentives could have a material adverse effect on Pivot's business, results of operations and financial condition.

### ***Inability to respond to changes in IT distribution***

Distribution methods and practices continually change in the IT industry. Some OEMs distribute their products directly to end users. If this practice proliferates, Pivot would potentially be cut out of the supply chain and revenues may suffer as a result. In addition, companies are increasingly using the Internet to distribute software and a variety of technology services. If this trend continues, Pivot may miss out on revenue opportunities and/or experience a reduction in its existing client base as clients source products through other distribution channels.

### ***Technical innovation***

The growth of the Company's business relies in part on the OEMs' ability to develop new technologies and products that appeal to the customers of Pivot. Should the OEMs' rate of successful innovations decline, Pivot's growth and revenue levels may be materially adversely affected.

### ***Changes in the IT industry***

The IT industry is characterized by rapid technological innovation, changing client needs, evolving industry standards, frequent introductions of new products, product enhancements, services and distribution methods. The success of Pivot depends on its ability to develop expertise with these new products, product enhancements, services and distribution methods and to implement IT consulting and professional services, technology integration and managed services that anticipate and respond to rapid and continuing changes in technology, industry dynamics and client needs. The introduction of new products, product enhancements and distribution methods could decrease demand for current products or render them obsolete. Sales of products and services can be dependent on demand for specific product categories, and any

change in demand for or supply of such products could have a material adverse effect on net sales and/or cause write-downs of obsolete inventory, if the Company fails to adapt to such changes in a timely manner. As client requirements evolve and competitive pressures increase, Pivot will likely be required to modify, enhance, reposition or introduce new IT solutions and service offerings. Pivot may experience difficulties that could delay or prevent the successful development, introduction and marketing of services and solutions that respond to technological changes or evolving industry standards, or fail to develop services and solutions that adequately meet the requirements of the marketplace or achieve market acceptance. Pivot may not be successful in doing so in a timely, cost-effective and appropriately responsive manner, or at all, which could adversely affect its competitive position and financial condition. All of these factors make it difficult to predict future operating results, which may impair Pivot's ability to manage its business and its investors' ability to assess Pivot's prospects.

### ***Competition***

The industry in which Pivot operates is developing rapidly and related technology trends are constantly evolving. In this environment, Pivot faces significant price competition from its competitors. There is no assurance that Pivot will be able to respond effectively or in a timely manner to the various competitive factors affecting the industries in which it operates. Pivot may be forced to reduce the prices of the products and services it sells in response to offerings made by its competitors. In addition, Pivot may not be able to maintain the level of bargaining power that it has enjoyed in the past when negotiating the prices of its services. Pivot faces substantial competition from other national, multi-regional, regional and local value-added resellers and IT service providers, some of which may have greater financial and other resources than that of the Company, or that may have more fully developed business relationships with clients or prospective clients than Pivot. Many of Pivot's competitors compete principally on the basis of price and may have lower costs or accept lower selling prices and, therefore, Pivot may need to reduce its prices. The Company's profitability is dependent on the rates it is able to charge for its products and services. The rates charged for products and services are affected by a number of factors, including but not limited to:

- customers' perceptions of the Company's ability to add value through its services;
- introduction of new services or products by the Company or its competitors;
- competitors' pricing policies;
- the ability to charge higher prices where market demand or the value of the Company's services justifies it;
- the ability to accurately estimate, attain and sustain contract revenues, margins and cash flows over long contract periods;
- procurement practices of the Company's customers; and
- general economic and political conditions.

If Pivot is not able to maintain favourable pricing for its products and services, its profit margin and profitability may suffer.

### ***Business certifications***

Certain of Pivot's largest intermediary contracting parties are certified as women business enterprises ("WBEs") or historically underutilized businesses ("HUBs") in the United States. Certification as a WBE or HUB enables a company to sell products or provide services to corporations that promote or are required to support supplier diversity. These include a number of major U.S. corporations as well as the federal government and agencies and departments, and numerous state and local governments, agencies and related entities. These contracting parties are annually certified as WBEs or HUBs by qualifying regional organizations. Each has been certified as a WBE or HUB for an extended period of time, and is currently so certified. If any of these contracting parties were to lose its WBE or HUB certification, and therefore not be eligible to provide product or services to its customers, Pivot would likely suffer significant reductions in revenues and profits as a result.

### **Risks relating to the management of Pivot's business**

#### ***Reliance on key personnel***

Pivot is substantially dependent upon the services of its management team for the successful operation of its business. The loss of the services of any of these individuals could have a material adverse effect on the Company's business. If Pivot cannot successfully recruit and retain the employees it needs, or replace key employees following their departure, its ability to develop and manage its business could be impaired.

#### ***Inability to successfully execute strategies***

If the Company fails to execute any element of its strategy in a timely and effective manner, competitors may be able to seize marketing opportunities that Pivot has identified. The Company's business strategy will require that it successfully and simultaneously complete many tasks. In order to be successful, Pivot must: (i) continue to build and operate a highly reliable, complex infrastructure; (ii) attract and retain customers; (iii) hire, train and retain quality employees; and (iv) evolve the business to gain advantages in a competitive environment.

#### ***Acquisition and integration risk***

The Company may in the future acquire additional businesses. Acquisitions involve a number of special risks, including diversion of management's attention, failure to retain key acquired personnel, unanticipated events or circumstances, and legal liabilities, some or all of which could have a material adverse effect on the business, results of operations and financial condition. In

addition, there can be no assurance that Pivot can complete any acquisition it pursues on favourable terms, that any acquired businesses, products or technologies will achieve anticipated revenues and income, or that any acquisitions completed will ultimately benefit the business. An acquisition could also result in a potentially dilutive issuance of equity securities. If a strategy of growth through acquisition is pursued, the failure of Pivot to successfully manage this strategy could have a material adverse effect on its business, results of operations and financial condition.

### ***Customer concentration***

A substantial proportion of Pivot's total revenues are derived from a small number of customers. Given that a significant portion of the Company's revenues will have been derived from a similarly limited customer base, the loss of one or more of these top customers or a reduction in sales to one or more of the top customers may have a material adverse effect on Pivot's business, results of operations or liquidity. The concentration of the Company's sales to a few customers could make it more vulnerable to collection risk if one or more of these customers were unable to pay for the Company's products. Also, having such a large portion of its total revenue concentrated in a few customers may hinder Pivot's negotiating leverage with these customers.

### ***Customer retention/attrition***

Once Pivot's solutions and methodologies are deployed within its customers' IT infrastructure environments, the customers rely on Pivot's support services to resolve any related issues. A high level of client support and service is important for the successful marketing and sale of the services and solutions of the Company. If the Company does not help its customers quickly resolve post-deployment issues and provide effective ongoing support, its ability to sell its IT solutions to existing customers would suffer and its reputation with prospective customers could be harmed.

### ***Information systems***

Pivot's information systems are internally developed, and contain external applications that are linked to the proprietary core. There are continued risks when various departments operate on different systems and the Company must rely on developed interfaces between these systems. There can be no assurance that these systems will continue to expand to meet the needs of the growth of the Company or that the interfaces will be robust enough as Pivot grows.

### ***Service interruptions or failures***

Pivot's success depends, in part, on its ability to provide reliable data centre, technology integration and managed services to its customers. Pivot data centres are susceptible to damage or interruption from human error, fire, flood, power loss, telecommunications failure, terrorist attacks and similar events. The Company may experience failures or interruptions of its systems

and services, or other problems in connection with its operations, as a result of damage to or failure of its computer software or hardware or its connections. Such damage or failure may result from any of the following:

- errors in the processing of data by the Company's systems;
- computer viruses or software defects;
- physical or electronic break-ins, sabotage, intentional acts of vandalism and similar events;
- increased capacity demands or changes in system requirements of Pivot's customers; and
- errors by the Company's employees or third-party service providers.

Any interruptions to the Company's systems or services may damage its reputation, thereby harming its business and the results of operations. While Pivot maintains disaster recovery plans and insurance, claims may exceed insurance coverage limits, may not be covered by insurance, or insurance may not continue to be available on commercially reasonable terms. In addition, the Company's customers may experience a loss in connectivity by its hosted solution as a result of a power loss at its data centre, internet interruption or software defects. Such loss in connectivity may result in lost revenues, delays in client acceptance or unforeseen liabilities which could be detrimental to the Company's reputation and business.

#### ***Damage to the Company's computer systems***

Pivot's operations will be dependent on the continued and uninterrupted performance of its computer systems and, accordingly, on its ability to protect its computer systems against damage from computer viruses, fire, power loss, telecommunications failures, vandalism and other malicious acts, and similar unexpected adverse events. Any system failure, security breach or other damage or unanticipated problem with the Company's computer systems could interrupt or delay its operations, damage its reputation and, if sustained or repeated, reduce the attractiveness of its services and result in the loss of customers.

#### ***Protection of intellectual property***

The Company's ability to secure its intellectual property rights is essential to the success of its ongoing operations and future opportunities. There is no assurance, however, that none of the Company's rights will be challenged, invalidated or circumvented. In addition, the laws of certain countries do not protect proprietary rights to the same extent as do the laws of the United States and Canada, and therefore there can be no assurance that Pivot will be able to adequately protect its proprietary technology against unauthorized third-party copying or use. Such unauthorized copying or use may adversely affect the Company's competitive position. Further, there can be no assurance that the Company will successfully obtain licenses to any technology that it may require to conduct its business or that, if obtainable, such technology can be licensed at a reasonable cost.

### ***Infringement of intellectual property***

From time to time the Company may receive notices from third parties alleging that it has infringed their intellectual property rights. Responding to any such claim, regardless of its merit, may be time-consuming, result in costly litigation, divert management's attention and resources and cause Pivot to incur significant expenses. Any meritorious claim of intellectual property infringement against the Company may potentially result in a temporary or permanent injunction, prohibiting it from marketing or selling certain products or requiring it to pay royalties to a third party. In the event of a meritorious claim, failure of the Company to develop or license substitute technology may materially adversely affect its business and results of operations.

### ***Changes in laws***

Changes to any of the laws, rules, regulations or policies to which Pivot is subject could have a significant impact on its business. There can be no assurance that the Company will be able to comply with any future laws, rules, regulations and policies. Failure by the Company to comply with applicable laws, rules, regulations and policies may subject it to civil or regulatory proceedings, including fines or injunctions, which may have a material adverse effect on the Company's business, financial condition, liquidity and results of operations. In addition, compliance with any future laws, rules, regulations and policies could negatively impact Pivot's profitability and have a material adverse effect on its business, financial condition, liquidity and results of operations.

### **Risks relating to the economy and financial conditions**

#### ***Economic conditions***

The Company is sensitive to the spending patterns of its customers, which are subject to economic and business conditions. It is difficult to estimate the level of growth for the economy as a whole. As all components of Pivot's budgeting and forecasting will be dependent upon estimates of growth in the markets that the Company will serve and economic uncertainties make it difficult to estimate future income and expenditures, downturns in the economy or geopolitical uncertainties may cause clients to reduce or cancel orders. Hence, economic factors could have an effect on Pivot's business. Pivot's customer base is predominantly in the United States, and to the extent that capital investment in IT either declines or increases, the Company may be affected.

#### ***Seasonality of the business***

Pivot's sales are subject to quarterly and seasonal variations that may cause significant fluctuations in operating results. The timing of the Company's revenues may be difficult to

predict. Customers typically undertake a significant evaluation process that has in the past resulted in a lengthy sales cycle. The Company spends substantial time, effort and money on its sales efforts without any assurance that the efforts will produce any sales during a given period.

### ***Adequate liquidity***

Although Pivot generates positive cash flow and the Company may have access to additional credit, there is no guarantee that such positive cash flow position will be maintained, or that such additional credit will be obtained. Under its current capital structure, Pivot must generate sufficient revenue from operations to provide access to additional capital under its secured borrowings. Failure to maintain adequate liquidity would restrict the Company's ability to operate, pay current liabilities, comply with covenants applicable to its secured borrowings, or pursue new business opportunities in the future.

### ***Access to credit***

Pivot's suppliers manage their credit exposure closely. As a result, there is a risk that they could reduce or reorganize the credit available to the Company. From time to time, the Company will rely upon its OEMs, distribution and banking relationships in order to finance sizeable, non-recurring transactions of scale. Moreover, ongoing access to Pivot's credit facilities requires continued compliance with the terms thereof, including financial covenants. There is no certainty that the Company will be in compliance with all covenants at all relevant times. Although the Company obtained a financial covenant waiver, and a financial covenant amendment in respect of the periods ended March 31, 2014, June 30, 2014 and December 31, 2014, there is no certainty that it will be able to obtain waivers or amendments in future if it were to exceed any financial ratio set out in its credit facilities. Access to credit in a challenging economic environment could adversely affect Pivot's ability to successfully meet those requirements.

### ***Additional financing***

Pivot may require additional financing to fund growth in working capital and for other purposes. The ability to source such financing in the future, if needed, will depend in part on prevailing capital market conditions and the Company's ongoing financial success. There can be no assurance the Company will be successful in its efforts to arrange additional financing, if needed, on favourable terms. If additional financing is raised by the issuance of shares or other forms of convertible securities from treasury, control of the Company may change and existing shareholders will suffer dilution. If sufficient funds are not available or are only available on terms which are not acceptable, the Company may not be able to take advantage of certain opportunities or be in a position to adequately respond to competitive pressures, which could materially and adversely affect Pivot's results of operations and financial condition.

### ***Foreign currency risk***

The Company is subject to risks and losses resulting from fluctuations in the relative value of the currencies of different countries where its customers and operations are located. While the Company will attempt to be prudent in managing such foreign exchange risks, there can be no assurance that shareholders will not suffer losses in the future. Any such losses could have a material adverse impact on results of operations and cash available to support operations.

### ***Interest rate risk***

The Company is subject to risks and losses resulting from fluctuations in interest rates on its bank indebtedness, loans and borrowings. Interest rates fluctuate in response to general economic conditions and policies imposed by governmental and regulatory agencies. The Company's principal interest bearing obligations are its borrowings under the ABL Credit Facility. Amounts outstanding under the ABL Credit Facility bear interest based on a floating rate. An increase of 100 basis points to the interest rate applicable to the Company's floating rate obligations under the ABL Credit Facility during the three and nine months ended September 30, 2014 would have resulted in an increase of \$345 and \$1,252 in our interest payments for the respective periods. Sustained increases in interest rates could have a material adverse impact on the Company's financial condition and results of operations. The Company has entered into a Swap agreement with PNC to mitigate the impact of possible increases in interest rates during the period the Swap agreement will be in effect. *See Liquidity and Capital Resources – Secured Borrowings.*

### ***Changes to tax rates or exposure to additional tax liabilities***

Pivot is subject to income taxes in various jurisdictions. Significant judgment may be required in determining the Company's worldwide provision for income taxes and, in the ordinary course of its business, there are many transactions and calculations where the ultimate tax determination may be uncertain. Pivot will be required to estimate what its taxes will be in the future. Although Pivot believes its current tax estimates are reasonable, the estimate process and applicable tax laws are inherently uncertain, and its estimates are not binding on tax authorities. The Company's effective tax rate could be adversely affected by changes in its business, including but not limited to the mix of earnings in countries with differing statutory tax rates, changes in the elections it makes, or changes in applicable tax laws. The Company's tax determinations will be subject to audit by tax authorities, which audits, if any, could adversely affect the Company's income tax provision. Should the Company's ultimate tax liability exceed its estimates, its income tax provision and net income may be materially affected.