softchoice

Delivering on our vision.

2008 ANNUAL REPORT

Who we are

Softchoice is a leading North American provider of IT solutions and services. With a network of more than 40 local sales offices supported by five regional call centres, we manage the technology needs of more than 19,000 small, mid-market, enterprise and public-sector organizations across Canada and the United States. From in-person consultations to advanced solution design and delivery, we're helping organizations everywhere maximize the efficiency of their technology and harness the power of innovation.

On the cover: Braden Staranchuk, Telesales Manager

Our Values

We've Got Customer Passion
Our passion for providing exceptional service is the cornerstone of our success. We make every effort to put the customer first. As we seek to simplify the complicated and bring our knowledge of our business and IT to bear, we go above and beyond.

We Get it Done... Differently
Our customers count on us to own the end result. We recognize that delivering on our promises is critical to their personal success and the success of the organizations they represent.

We Take Care of Each Other
We put a premium on "nice" because, at the end of the day, our customers aren't systems or companies – they're people. We've built our entire company around the idea of people helping people get things done. It's what makes Softchoice unique.

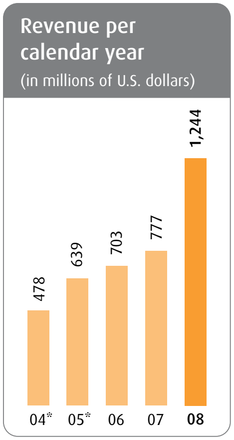
We're in it for the Growth
Personally, professionally and as a business, our commitment to growth is an exciting journey and one without a finish line. Fuelled by individuals who live to learn, we set the bar high and reach for it every day.

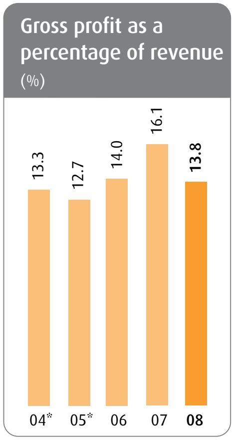
what's inside

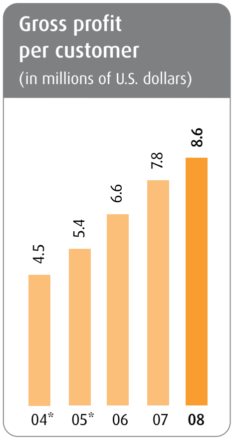
2008 Financial Highlights

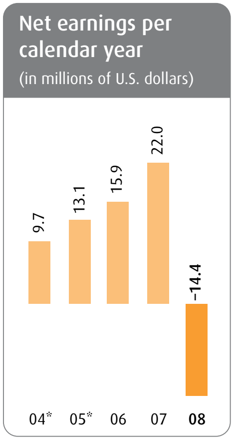
(in thousands of U.S. dollars, except per share amounts)	2008	2007
Revenue	**$1,244,295**	$ 777,082
EPS (basic)	**$ (0.82)**	$ 1.27
Cash flow from operations	**$ 30,880**	$ 35,064
Adjusted EBITDA per share (basic)	**$ 2.36**	$ 2.33

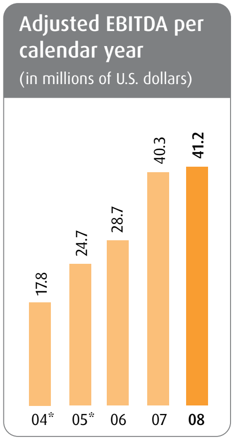
(in thousands of U.S. dollars, except per share amounts)	2008	2007	2006	2005*	2004*
Revenue	**$1,244,295**	$ 777,082	$ 703,237	$ 639,482	$ 477,935
Gross profit as a percentage of revenue	**13.8%**	16.1%	14.0%	12.7%	13.3%
Gross profit per customer	**$ 8.6**	$ 7.8	$ 6.6	$ 5.4	$ 4.5
Net (loss) earnings	**$ (14,388)**	$ 21,997	$ 15,930	$ 13,108	$ 9,731
Goodwill impairment	**$ 43,624**	$ –	$ –	$ –	$ –
Resizing and refinancing charges, and software write-down	**$ 2,771**	$ –	$ –	$ –	$ 925
Unrealized foreign exchange loss (gain)	**$ 2,333**	$ (1,175)	$ (861)	$ (1,044)	$ (1,516)
Depreciation and amortization	**$ 10,813**	$ 5,121	$ 3,933	$ 4,044	$ 2,830
Interest and other (income) expenses	**$ 6,457**	$ (556)	$ (428)	$ 86	$ (61)
Provision for (recovery of) income taxes	**$ (10,442)**	$ 14,953	$ 10,155	$ 8,461	$ 5,884
Adjusted EBITDA	**$ 41,168**	$ 40,340	$ 28,729	$ 24,655	$ 17,793







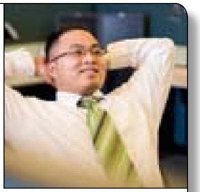




* All figures have been restated in U.S. dollars and are unaudited.

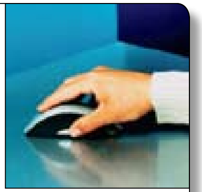
National scale. Local touch. Expert advice.

40-Plus Branch Offices



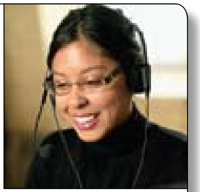
When it comes to earning loyalty and trust, working with customers in person is the best approach. Offering face-to-face service in over 40 markets is a compelling differentiator and one of our most important value-adds. Why? Because getting to know our customers in person means a better understanding of their business, enabling us to provide better advice and better solutions. It's our way of ensuring that every IT investment delivers results.

Virtual Supply Chain



Our core systems are integrated electronically with leading distribution partners. This allows us to provide real-time access to product and pricing information for 30 state-of-the-art warehouses located across North America. This is a highly cost-effective approach since we do not incur the expense associated with managing inventory of our own. It also allows us to offer reliable, next-day delivery for thousands of products anywhere in North America.

Five Call Centres



Guaranteeing a live knowledgeable response to every call is just one example of the exceptional service we provide through our five regional call centres. Working in tandem with their local sales counterparts, our inside sales account managers leverage powerful internal systems to capture detailed information on our customers' IT standards and preferred methods of doing business. This ensures the delivery of an efficient, tailored experience as unique as the individuals we serve.

Professional Services Team

Becoming a leading North American solutions provider means delivering deeper levels of technical expertise. To do this, we have assembled an exceptional team of 75 professional services and solutions architects. By working to refine business processes and implement cutting-edge technologies, we're helping organizations realize new levels of efficiency and enhance their competitive advantage.


EDMONTON
CALGARY
VANCOUVER
REGINA
WINNIPEG
SEATTLE
QUEBEC
HALIFAX
MONTREAL
PORTLAND
OTTAWA
TORONTO
BOSTON
MINNEAPOLIS
NORWALK
NEW YORK
CHICAGO
PHILADELPHIA
COLUMBUS
RESTON & ARLINGTON
SAN FRANCISCO
SALT LAKE CITY
INDIANAPOLIS
DENVER
NORFOLK
KANSAS CITY
ST. LOUIS
CHARLOTTE
LOS ANGELES
IRVINE
ATLANTA
SAN DIEGO
PHOENIX
DALLAS
JACKSONVILLE
AUSTIN
HOUSTON
ORLANDO
TAMPA
MIAMI
BRANCH
CALL CENTRE
HARDWARE CONFIGURATION EQUIPPED

To our shareholders, customers, partners and employees:

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Together we're delivering on our vision of combining the scale and efficiencies of a national, large-volume IT supplier with the personal touch and technical expertise of a local solutions provider.

By almost any measure, 2008 was a transformational year for Softchoice. We integrated three companies. We made major strides in the diversification of our business. And we strengthened our position as one of the most efficient suppliers of technology products in our industry, surpassing US$1.2 billion in annual revenues. At every step we are delivering on our vision of increasing the scale of our business and becoming a full-fledged provider of IT solutions and services.

Under most circumstances these would be considered significant accomplishments. What makes them extraordinary is the environment in which these objectives were achieved. In a year that saw one of the greatest economic upheavals of our time, the Softchoice team remained focused on our customers and moving our business forward.

We are pleased to report that in 2008 we grew our top-line results by 60 percent to US$1.2 billion. This is a noteworthy accomplishment, to be sure. But the most telling evidence of the transformation our business has undergone was in how we finished the year. In the fourth quarter we grew gross profit by 18 percent while we held the growth in expenses to roughly 10 percent. This translated into adjusted EBITDA growth of 39 percent. This is a clear indication of the power and efficiency we have achieved through the expansion of the Softchoice platform. More importantly, these results offer a glimpse of our future potential as we begin to unlock the cross-selling opportunities available to us through our recent acquisitions.

While our operating results for the fourth quarter were strong, the period also saw a broad decline in the value of publicly traded equities. Ours was no exception, and this prompted a

LEFT:
LAWRENCE G. TAPP
CHAIRMAN

RIGHT:
DAVID MACDONALD
PRESIDENT AND CHIEF EXECUTIVE OFFICER

revaluation of the goodwill that we were carrying on our balance sheet. The result was a non-cash adjustment of US$43.6 million that flowed through our income statement in the fourth quarter to recalibrate our goodwill to just over US$10 million. As a result of this charge, Softchoice recorded a net loss in the quarter of US$21.9 million.

Despite some challenges, our work over the past year has led to the creation of one of the most efficient and dynamic businesses in our industry. In so doing, we have strengthened our ability to deliver profitable growth by meeting customer demand for a partner capable of providing end-to-end technology solutions on a national scale.

This confidence in our direction explains our success in securing a new and expanded credit facility in an extremely difficult lending environment. On February 2 of this year, we entered into long-term credit agreements to replace our existing asset-backed loan (ABL) and short-term debt. With new facilities in place, we now have sufficient funding and access to capital to continue the pursuit of our growth objectives.

Successful Integrations Deliver the Vision

In many respects, what defined 2008 for Softchoice was the exceptional day-to-day execution by our people. In addition to serving our customers with distinction, this commitment to excellence was clearly evident in the speed with which we integrated our three acquisitions. In every case we realized cost savings quickly while successfully retaining key customers and employees.

These acquisitions have dramatically increased the scope of our offerings and our reach in the market. Our purchase of NexInnovations has made Softchoice a major provider of hardware

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Thanks to our people, we enter 2009 a much larger, more resilient and more valuable partner than ever before.

infrastructure solutions to the Canadian enterprise sector. It has also given us the project management expertise to support large-scale technology deployments for some of North America's largest corporations. Likewise, our purchase of Software Plus has strengthened our position as the fifth largest provider of Microsoft licensing solutions in the United States by giving us access to new enterprise and public sector customers in this market. Through Optimus Solutions, we have added the technical expertise to support the implementation of even the most advanced IT solutions.

Integrating these organizations has allowed us to combine the scale and efficiency of a national, large-volume IT supplier with the personal touch and technical expertise of a local solution provider. Our work has been transformational to our business, but our motivations are the same as they have always been: to create deeper customer relationships and raise the barriers to entry for our competitors. That means serving as a strategic partner at every stage of the technology life cycle – from assessment and solution design to cost-effective fulfillment, implementation and disposal. By increasing the scope of what we do, we are also diversifying our revenues and creating opportunities to earn a much greater share of our customers' IT spending.

Our local sales model is a key enabler in advancing our strategy. With more than 40 offices across the United States and Canada and five regional call centres, we already have the platform needed to extend our new solutions and services offerings. As we roll out solution architect resources in key markets, our branch network will continue to provide significant advantages over competitors who do not enjoy the same North American-wide footprint.

The ability to deliver comprehensive IT solutions is only part of the equation. Over the past year we augmented our world-class supply chain with the addition of complex project coordination processes needed to support large-scale technology deployments. We have also evolved the use of electronic integration with our largest customers to streamline day-to-day transactions and lower operating expenses on both sides. Just as we have done in the past, we will drive further automation and enhance our e-commerce capabilities to create the scale to support the growing proportion of hardware solutions in our business.

Delivering Growth through a Larger, More Scalable and More Diversified Platform

At no time has our value been clearer or more relevant than it is today. As the economic recession deepens, we recognize that our customers face unprecedented challenges to streamline operations and reduce their expenses. Our award-winning IT asset management offerings and large-volume purchasing expertise are compelling differentiators for organizations seeking to simplify procurement and optimize their IT spending. So, too, is our ability to support the introduction of breakthrough technologies that deliver greater efficiency and almost immediate returns on investment.

While it will take continued discipline to weather the road ahead, we are confident in our direction and in our prospects for delivering profitable growth. With 19,000 small and mid-market, enterprise and public sector customers, we enjoy a natural hedge against declines in spending across any one segment. We also believe the strength of the Canadian economy relative to that of the United States will serve us well. Our Canadian business accounts for 37 percent of our revenues, giving us the advantage of market diversification over industry peers who conduct business in the United States alone.

From where we stand, few organizations offer as much value – or do so as efficiently – as Softchoice. For some customers, that's as simple as great service and the promise of a live knowledgeable response every time they call. For others, it's the ability to drive savings by consolidating the entire IT acquisition and life cycle management process through a single provider. Whether helping a small business reduce costs through software licensing or managing major infrastructure deployments for one of North America's largest financial institutions, we're doing more for customers than ever before.

Continuing to increase our strategic relevance will be essential to our success. Ultimately, though, it is our people who will make the difference. Their passion for our customers is well known. What is equally commendable is their commitment to using technology to make our world a better place. Whether giving those less fortunate the tools to create a better life or showing that innovation and environmental responsibility go hand in hand, our people are a constant source of inspiration. Smart and dedicated, they have made the Softchoice brand synonymous with growth and opportunity.

These past 12 months have clearly been transformational for our organization. We exceeded US$1.2 billion in revenue, we successfully integrated three companies and we solidified our position as the largest solutions provider in Canada. Moreover, we have made major strides in diversifying our business – both in terms of the solutions and services we provide and the customers we serve.

The coming months will require the very best of the entire Softchoice team. But as our history has shown, in being fiscally prudent, in constantly looking ahead and in being relentless in our focus on customers, Softchoice has consistently emerged a stronger and more capable company – in good times and in bad. We expect no less in the year ahead.

David MacDonald
President and Chief Executive Officer

Lawrence G. Tapp
Chairman

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Whether giving those less fortunate the tools to create a better life or showing that innovation and environmental responsibility go hand in hand, our people are a constant source of inspiration.

We deliver it all. The right technology. The right services. The right people.

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From world-class e-commerce capabilities to seamless integration with leading distributors, we're leveraging technology to simplify business and put people first.

Deeper Relationships from the Inside Out

A great customer experience is what Softchoice is all about. At the core are the field sales and call centre representatives who connect customers to a variety of resources – from experts in software licensing to the industry's most experienced solutions architects. But outstanding people are just the beginning. In 2008 we continued to invest in our supply chain. By automating more and more of the fulfillment process, we're reducing per-transaction operating costs and positioning Softchoice for continued growth. This investment also allows our people to spend more time on what they do best: creating deeper customer relationships.

Creating Scale and a Better Customer Experience

Making it even easier to do business with Softchoice was the guiding principle behind the relaunch of our e-commerce site. Our goal? Provide the best search experience in the industry and offer integrated account management tools that put customers squarely in the driver's seat. Judging from the response, the Softchoice team delivered. Over the past 12 months, online transactions have increased by 31 percent while revenues have jumped 56 percent. Customers also tell us that the flexibility and ease of use of www.softchoice.com are making for a better overall experience. Based on recent surveys, organizations that use our site in addition to their dedicated Softchoice account representatives are much more likely to say we offer greater value than our competitors.

"At the heart of a great relationship is trust.

With Softchoice, everything is open and transparent. Whether getting together for monthly account reviews or receiving proactive updates on upcoming contract renewals, we always know where we stand. Softchoice keeps us ahead of the curve, helping us plan effectively and maximize every dollar we spend."

Susan Award, Senior Manager
Procurement and Administration
Scotia Capital

GEOFF WADHAM
ENTERPRISE
ACCOUNT
EXECUTIVE

Going the Distance

As the senior procurement manager for one of Canada's leading investment banks, Susan Award knows the importance of timely, reliable advice. It's one of the reasons she counts on Softchoice to explore all the options. Whether taking into account her organization's future needs or identifying opportunities to consolidate purchases, Susan has been consistently delighted with the thoroughness of her Softchoice account team. This dedication to the details not only gives her peace of mind, it has also translated into significant savings and better line of sight across the purchasing process.

From major infrastructure projects to software licensing – we maximize the impact of IT.

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Through new tools and services we're helping organizations reduce unnecessary costs, eliminate risks and simplify the day-to-day management of IT.

Supporting Large-Scale Rollouts

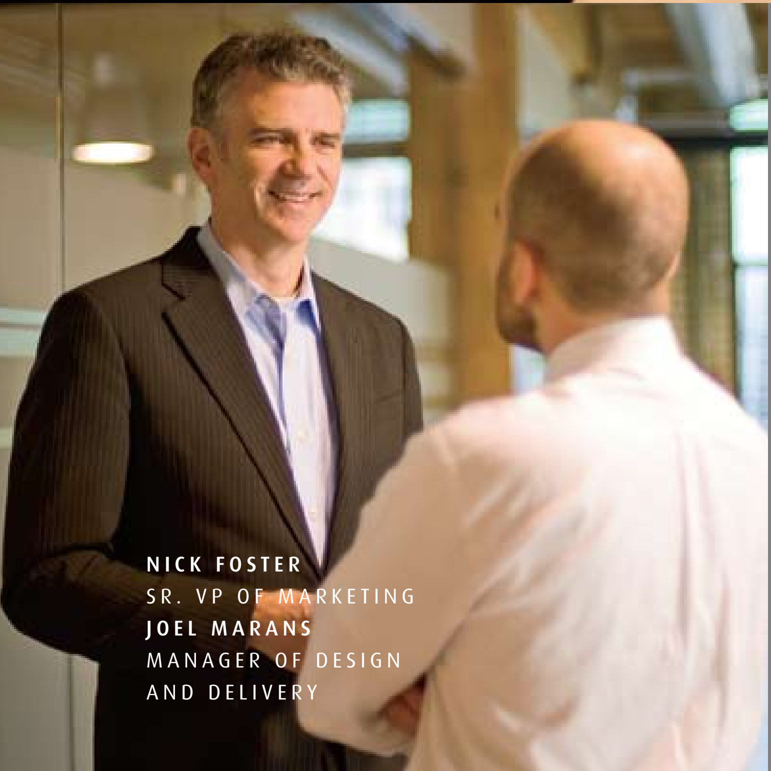
We are always looking to do more for customers. That was the motivating force for broadening our expertise in software licensing to include hardware infrastructure solutions. Six years later, hardware sales account for more than 40 percent of our revenues. They also represent the fastest-growing segment of our business. In 2008 we moved beyond cost-effective fulfillment to offer an array of services designed to add value at every stage of the technology life cycle. This includes supporting major technology deployments for some of North America's largest corporations. From advanced project coordination and systems configuration to just-in-time delivery, we're helping more customers free up their internal IT resources and streamline the deployment process.

Driving Efficiency with IT Asset Management

Over the past five years Softchoice has quickly established itself as a leading expert in IT asset management (ITAM). Through the Softchoice TechCheck™ we've won industry-wide acclaim for helping organizations across North America optimize their IT investments, reducing costs and risk and improving productivity in the process. At the start of this year we took the next step in the evolution of our offerings. Moving beyond "point-in-time" assessments, we've combined all the elements of an enduring IT asset management strategy in a single affordable package. Using the as-a-service model, we're integrating the tools, reporting and expert analysis organizations need to drive measurable, long-term business value.

"**Softchoice's IT Assessment Services have been a valuable part of our planning process.** With respect to Vista, the Softchoice consultant told us exactly which PCs would need to be upgraded to support the new OS, the costs associated and which would need to be replaced. These details were critical in ensuring we knew how to execute a smooth deployment, and Softchoice delivered."

Scott Kissinger
Technical Infrastructure Manager
Boulder Community Hospital



NICK FOSTER
SR. VP OF MARKETING
JOEL MARANS
MANAGER OF DESIGN AND DELIVERY

Delivering Measurable Business Value

Running a state-of-the-art health-care facility requires careful planning, attention to detail and respect for the bottom line. These same principles guide every aspect of Boulder Community Hospital's IT decision-making process. Before entering into a new Microsoft Enterprise Agreement, Technical Infrastructure Manager Scott Kissinger took advantage of a TechCheck™ assessment to get an exact count of the licenses they would need to buy. Impressed with the results, he had Softchoice complete a hardware gap analysis to identify potential stumbling blocks as they evaluated deploying Microsoft Vista. In both cases Softchoice provided comprehensive analysis that helped reduce unnecessary expenditures and eliminate risks. For Scott, the process has meant less time sweating the details and more time innovating.

Spend less. Do more. Delivering complex solutions that move businesses forward.

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Every day we're applying our expertise with leading-edge technologies to help organizations optimize business performance and improve their bottom lines.

Transforming our Value

In 2008 we complemented our strengths as a leading North American IT supplier with the addition of new competencies in the design and delivery of advanced technology solutions. In a single leap we've transformed our strategic relevance, creating new runways for growth and more value for our customers. Building complex solutions means engaging early in the sales cycle. It requires a deeper understanding of our customers' needs and deeper levels of technical expertise. Partners like HP, IBM, EMC and Cisco recognize the value of this work and collaborate closely with us on these projects. Through these efforts we are expanding the foundations for profitable growth, while making Softchoice the partner of choice for those customers seeking a comprehensive IT solutions provider.

Helping Engineer Better Businesses

Innovation is one of the most important levers in helping our customers navigate a tough economy. Through our expertise in unified communications solutions, we're helping organizations enhance collaboration among their employees, partners and suppliers, reducing costs and optimizing business performance. Our work in the data centre is delivering equally impressive gains. Through advances in virtualization and power management, it's now possible for organizations to reduce hardware infrastructure requirements by 50 to 70 percent while substantially decreasing the resources and costs associated with ongoing support, power and cooling. It's just one more way we're increasing the value of what we do.

"**When a vendor relationship becomes a strategic partnership, then you're going places.** Softchoice Optimus Solutions has demonstrated a willingness to dig in and understand our business. It's an approach that has increased their value because it allows them to present solutions that align with our long-term strategic goals."

Tom Bland, Director of Information Services
for Cobb Energy

REGAN PUNCH
TELESALES MANAGER

Delivering Measurable Business Value

For Tom Bland, Director of IS for Cobb Energy, big-picture thinking and the bottom line go hand in hand. When reducing administrative overhead and arresting server sprawl in their environment became a critical priority, Tom turned to Softchoice Optimus Solutions to aid in designing a long-term solution. In partnership with Oracle and IBM, the team was able to reduce the number of physical servers required to support their business. Moreover, by taking a modular approach and implementing virtualization technology, they made it easier to add new capacity to accommodate future growth. The end result has been a more manageable environment designed to scale easily as demand increases.

Making a difference. To our customers, our communities and the planet we love.

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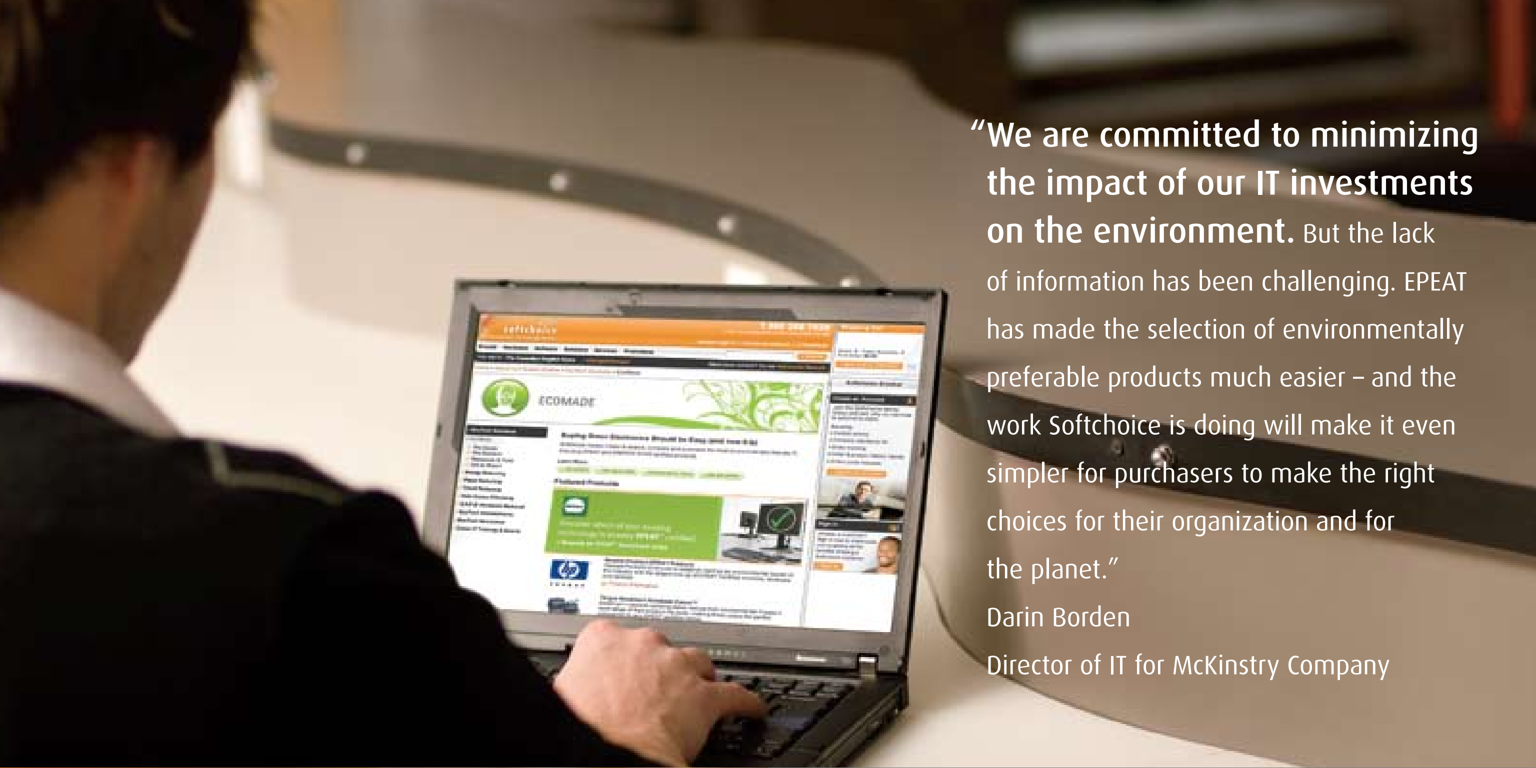
Creating a better future is a team effort. At Softchoice, we are committed to lessening the impact of our operations on the environment and providing the advice and resources to help our customers do the same.

Greening IT – from the Data Centre to the Desktop

As organizations move to reduce costs and drive efficiency, green IT has become more relevant than ever. In 2008, we strengthened our commitment to environmental leadership with the launch of the world's first searchable green IT product listing on www.softchoice.com. By making it simple to find the most environmentally friendly solutions, we're enabling better choices for businesses and our planet. Of course, smart purchasing is only part of the equation. Driving sustainable change requires careful planning. To move our customers forward, we introduced the Softchoice EcoTech Assessment – a free service that helps organizations create detailed action plans for greening their IT operations. As a testament to our accomplishments, Softchoice was recently named one of Canada's Top Five Green IT Solution Providers by *Computer Dealer News* magazine.

Creating Brighter Futures and Strong Leaders

Chili cook-offs. Trivia nights. A curling championship. When it comes to improving the lives of others, the creativity of our people knows no limits. Through dozens of fundraising activities, the Softchoice team has raised thousands of dollars to support computer literacy programs around the world. Aligning our philanthropic outreach with our passion for innovation has allowed us to make a bigger difference and create deeper ties with like-minded partners. With the generous donation of new laptops and software from Lenovo and Microsoft, 15 Softchoice employees undertook a once-in-a-lifetime trip to establish Softchoice's eighth computer lab in Kampala, Uganda. Through projects like this, we're helping thousands of people develop the skills and means for a better life.



"**We are committed to minimizing the impact of our IT investments on the environment.** But the lack of information has been challenging. EPEAT has made the selection of environmentally preferable products much easier – and the work Softchoice is doing will make it even simpler for purchasers to make the right choices for their organization and for the planet."

Darin Borden

Director of IT for McKinstry Company

CATHERINE BRAR
ENTERPRISE INSIDE SALES ACCOUNT MANAGER

Sustainable IT

As the leading mechanical construction and engineering firm in the Pacific Northwest, the McKinstry Company is addressing the environmental challenges of our time from the inside out. By retrofitting local schools and hospitals, they're working to improve energy efficiency while helping customers reduce costs and their carbon emissions. For Darin Borden, Director of IT, this commitment to environmental sustainability includes the management of McKinstry's IT operations. Using searchable green product listings on www.softchoice.com, Darin is incorporating the world's greenest IT solutions into the organization's standard purchasing process. At every step, McKinstry Company is demonstrating that what's good for the planet is also good for business.

Financial review

KAREN BRAR
EVENTS PROGRAM LEAD

Management's Discussion and Analysis

February 11, 2009

This document has been prepared to help investors understand the financial performance of the Company in the broader context of the Company's strategic direction, the risks and opportunities as understood by management and the key metrics that are relevant to the Company's performance. Management has prepared this document in conjunction with its broader responsibilities for the accuracy and reliability of the financial statements, as well as the development and maintenance of appropriate information systems and internal controls to ensure that the financial information is complete and reliable. The Audit Committee of the Board of Directors has reviewed this document and all other publicly reported financial information.

This document and the related financial statements can also be viewed on the Company's website at www.softchoice.com and at www.sedar.com. The Company's latest Annual Information Form is also available on these websites.

Caution Regarding Forward-Looking Statements

This Management's Discussion and Analysis contains certain forward-looking statements based on management's current expectations. Management bases its expectations on current market conditions and forecasts published by experts, on knowledge of observed industry trends and on internal intentions based on developed business plans or budgets. The words "expect," "intend," "anticipate" and similar expressions generally identify forward-looking statements. These forward-looking statements entail various risks and uncertainties that could cause actual results to differ materially from those reflected in these forward-looking statements. Certain of these risks are described in the Annual Information Form. They include risks related to the economy and financial conditions such as the risk that customers will delay purchases causing a downturn in overall revenues, that customers will not be able to obtain sufficient credit to finance their IT purchases, that customers could face bankruptcy or other financial difficulties causing increased bad debt expenses for the Company and loss of ongoing sales and that suppliers could tighten credit terms and credit requirements making it difficult or more expensive to purchase products for resale. The Company also faces risks related to the IT distribution channel such as dependence on Microsoft, reliance on financial incentives, dependence on distributors, the inability to respond to changes in the manner of IT distribution, technical innovation, competition and the risk of IT product defects. There are additional risks regarding the management of the business, including the inability to successfully execute strategies; the integration of acquired companies; customer attrition; productivity; compliance with U.S. federal government procurement processes; sales model risks; debt service risks; the need for additional capital in the future; dividend policy; management of growth; future acquisitions; acquisition integration risks; hiring, training and retention of personnel; variability of quarterly operating results; information systems; damage to Softchoice's computer systems and dependence upon management. These risks are described in full in the Annual Information Form.

Use of Non-GAAP Terms

In our financial reporting, we refer to Imputed Revenue or Total Revenue, including Imputed Revenue, EBITDA, Adjusted EBITDA and Adjusted Earnings, all of which are non-GAAP terms. None of these terms has any standardized meaning under GAAP and they are therefore unlikely to be comparable to similar measures used by other companies.

Imputed Revenue is defined as the price paid by the customer to Microsoft for Enterprise Agreements ("EAs") that are transacted through Softchoice sales representatives (see "Microsoft and Softchoice"). Total Revenue, including Imputed Revenue, reflects Imputed Revenue, plus Reported Revenue, less any agency fees included in Reported Revenue. Microsoft pays Softchoice an agency fee or commission for EA sales, and therefore Softchoice does not record the total revenue for these transactions. Imputed Revenue allows for better comparability between fiscal periods since an increase in the product mix of EAs would make it appear that Softchoice is selling less, when that would not be the case. The use of Imputed Revenue also aids in comparison with our competitors. This measure is not likely to be used by any competitors in the industry for two reasons:

1. Public competitors all sell hardware as well as software and, typically, software revenue is only about 20 percent of total revenue. The impact of the EA license is therefore much less significant.
2. Softchoice has sold a greater portion of EA license agreements than our competitors since we believe that the agreement often provides a more cost-effective solution for our customers, particularly in the Small and Medium Business (SMB) market.

The table below shows the Total Revenue, including Imputed Revenue, tracked by the Company over the last two years.

(in thousands of U.S. dollars)	2008	2007	Y/Y change
Reported revenue	**$ 1,244,295**	$ 777,082	60.1%
Agency fees	**(57,193)**	(51,285)	11.5%
Imputed revenue	**771,339**	535,336	44.1%
Total imputed revenue	**$ 1,958,441**	$ 1,261,133	55.3%

Agency fees are included in Imputed Revenue.

EBITDA is defined as operating income plus amortization of property and equipment and amortization of intangible assets. This measure is used by the Company's bankers in establishing and measuring certain financial covenants. In addition, valuation metrics in our industry are based on multiples of EBITDA, and therefore management uses this measurement when evaluating potential acquisition targets. We use our EBITDA results to compare our valuation multiples to those of our competitors to evaluate how we might improve shareholder performance. We believe that our shareholders and potential investors use EBITDA to make investment decisions about the Company and measure the operating results compared to others in our industry and other potential investments.

(in thousands of U.S. dollars)	2008	2007	Y/Y change
Operating income	$ (18,373)	$ 36,394	(150.5%)
Amortization of property and equipment	3,849	3,173	21.3%
Amortization of intangible assets	6,964	1,948	257.5%
Goodwill impairment	43,624	–	–
EBITDA	$ 36,064	$ 41,515	(13.1%)

Adjusted EBITDA accounts for unusual items that are not expected to recur in the business under the normal course or for specific non-operating items. This term is used to facilitate comparisons of results under more similar circumstances. In 2008, especially the fourth quarter, the adjusting costs include non-cash unrealized foreign exchange losses on intercompany balances, severance costs incurred in the fourth quarter as a result of layoffs and bank fees associated with extending and refinancing the Company's debt.

(in thousands of U.S. dollars)	2008	2007	Y/Y change
EBITDA	$ 36,064	$ 41,515	(13.1%)
Resizing and refinancing charges	2,771	–	–
Unrealized foreign exchange loss (gain)	2,333	(1,175)	(298.5%)
Adjusted EBITDA	$ 41,168	$ 40,340	2.1%

Adjusted Earnings eliminates the after-tax impact of the goodwill impairment.

(in thousands of U.S. dollars)	Q4	2008
Net loss	$ (21,875)	$ (14,388)
After-tax goodwill impairment	26,638	26,638
Adjusted earnings	$ 4,763	$ 12,250

Selected Annual Information

The following information is provided to give a context for the broader comments elsewhere in this report.

(in thousands of U.S. dollars, except per share amounts)	Year ended December 31, 2008	Year ended December 31, 2007	Year ended December 31, 2006
Revenue	**$ 1,244,295**	$ 777,082	$ 703,237
Total revenue, including imputed revenue	**1,958,441**	1,261,133	1,061,979
Gross profit	**171,803**	125,117	98,554
Gross profit as a percentage of revenue	**13.8%**	16.1%	14.0%
Gross profit as a percentage of total revenue, including imputed revenue	**8.8%**	9.9%	9.3%
Adjusted EBITDA	**41,168**	40,340	29,590
Earnings before income taxes	**(24,830)**	36,950	26,085
Net earnings	**(14,388)**	21,997	15,930
Earnings per share			
Basic	**$ (0.82)**	$ 1.27	$ 0.93
Fully diluted	**$ (0.82)**	$ 1.25	$ 0.92
Total assets	**355,761**	319,826	187,254
Shareholders' equity	**67,438**	74,700	56,127
Dividends	**5,199**	6,546	6,044

2008 Highlights

- Fourth quarter: In spite of a tough economy, revenue grows by 26 percent in the quarter and Adjusted EBITDA grows by 39 percent compared to the same quarter in 2007.
- Revenue of $1.2 billion represents growth of 60 percent over the prior year.
- Hardware revenue grows by 121 percent for the year compared to the prior year.
- Successful integration of three acquisitions is completed, expanding the Company's range of solutions to offer customers.
- Cost synergies from the acquisitions and aggressive cost actions in the fourth quarter result in a lower cost base in the fourth quarter and position the Company well for 2009.
- Annual Adjusted EBITDA grows by two percent driven by fourth-quarter performance and cost management actions.
- Debt refinancing is completed early in 2009 providing the Company with stable long-term access to funding to support continued growth.
- Cash flow from operations in the amount of $28.7 million was used to pay down debt during the year, reducing the debt to EBITDA ratio at the end of 2008 to 1.5 times.

Goodwill Impairment: As a result of the decline in the market capitalization in the publicly traded shares of the Company, we evaluated whether a triggering event had occurred that would require us to revalue our goodwill under the goodwill impairment provisions of Canadian GAAP. We concluded that the reduction in the market capitalization below the book value of the Company did constitute a triggering event and therefore we have performed a goodwill impairment test which has resulted in a write-down of goodwill. The amount of the write-down is based on management's best estimates and is expected to be finalized in the first quarter of 2009. This write-down does not reflect our evaluation of the acquisitions that gave rise to the goodwill but is only related to the decline in the public market capitalization of the Company. This write-down does not affect our debt covenants, future cash flows or expectations of future growth. As a result of this charge, the analysis in this document will refer to Adjusted Earnings so that the business can be effectively analyzed compared to industry trends and prior periods.

Business Outlook*

The North American economy worsened substantially throughout the fourth quarter and the impact is now being felt worldwide. This recession is expected to last at least through the second quarter of 2009 if not well beyond that. Economists currently differ as to the expected length and severity of the recession and how it will affect different economies around the world.

Forecast Growth for the IT Industry

There are three main professional organizations that provide forecast data for the IT industry and the IT distribution channel. They are IDC, Forrester and Gartner Group. Published reports by these groups forecast IT industry growth in 2009 in the U.S. of 0.9 percent, 1.5 percent and 0.5 percent respectively. These forecasts were all issued subsequent to the sharp slowdown in the U.S. financial service sector in the fourth quarter of 2008.

Growth and decline in the IT industry can be segmented based on the type of product sold. IDC estimates that on a worldwide basis the PC market is expected to decline by one percent and servers by 1.5 percent, but software is expected to grow by 4.6 percent and services to grow by 3.7 percent. Since worldwide IT growth in 2009 is expected to be about 2.6 percent, it is likely that the same areas will show relative strength in the North American economy but that the growth levels will be correspondingly lower.

The small growth predicted in the IT industry can be compared to the declines predicted in other industries. The relative strength

* This section includes forward-looking statements. See "Caution Regarding Forward-Looking Statements."

of the IT industry has also been shown in prior recessions. In 2001 the IT industry fell by three percent overall, with a hardware decline offset by software growth. Market conditions today are very different from 2001 when the industry was affected by the general recession, but more importantly by the excess capacity in IT due to the over-buying that accompanied the Y2K period. Usually, corporate IT trends show some resilience as IT managers are responsible for maintaining mission-critical applications and look to investment in technology infrastructure as a way to make their companies more productive and efficient.

While we expect that the slowdown in the North American economy will reduce the Company's sales growth in 2009, we also believe that Softchoice is well positioned to moderate the impact of this trend as a result of our Canadian business and our historical focus on software sales. Canada is expected to suffer a less severe recession than the United States, and software sales are expected to grow during 2009 in spite of the recession. We also believe that we will continue to outpace the industry growth results due to the breadth of our product and solutions offerings and the strength of our outbound sales model, which creates deeper customer relationships.

The Impact of Acquisitions: Expanded Product Offerings and Diversified Business Model

In 2008 we completed the integration of the three companies that we acquired at the end of 2007 and early 2008. These companies were NexInnovations, purchased in October 2007; Software Plus, purchased in December 2007; and Optimus Solutions, purchased early in January 2008. The acquisition of these companies significantly broadened the expertise of our staff and expanded the products and solutions that we are able to offer to our customers. Further, the acquisitions increased the scale of our business, giving us additional strength to weather a recession.

We believe that we are the best partner for customers seeking an integrated approach to IT acquisition, business solutions delivery and ongoing IT asset management. Competencies and holistic management practices across each of these categories allow us to help customers realize the greatest value by optimizing their IT spending, maximizing asset utilization and enhancing business and IT performance through innovation. Our relationship with customers tends to be stronger in one of the three areas, and therefore we are working to expand into the other areas with each customer.

Technology Acquisition: This is the core of Softchoice's fulfillment business and it allows customers to identify and purchase their IT assets cost-effectively. Our broad continental reach gives us access to better pricing, our Web capability expedites the purchase process, and our access to the warehouses of major distributors across North America virtually eliminates the need for us to hold inventory and allows customers the flexibility to choose between multiple points of access. This choice can be important when speed of delivery is critical.

IT Asset Management ("ITAM"): This offering includes product fulfillment, management of project rollouts, complex configurations, and so on. Software licensing is also included in this offering as our purchase history reporting and asset analysis services help customers with license compliance or the harvesting and redistribution of excess or underutilized licenses. We also provide ITAM as a service where multiple sources of data are consolidated to provide one repository of information to solve IT management problems.

Business Solutions: Currently our solutions team is focused on three areas of technology most likely to save customers money and solve current business problems. These three areas are work load optimization and virtualization, storage backup and recovery, and unified communications and collaboration.

Each of the predecessor companies had expertise in one or more of these areas. On a combined basis our offerings are more strategically relevant to the customer, and we have an increased ability to save them money and reduce risk. The core Softchoice business had developed well in technology acquisition and some parts of IT asset management – in particular software licensing and ITAM as a service. NexInnovations had a strong technology acquisition business and significant expertise in large-scale hardware rollouts now offered as part of our IT asset management practice. Software Plus had strong software license skills and

Optimus Solutions had a well developed business solutions practice. The integration of the acquisitions has resulted in an expanded and consistent customer offering that takes the competencies of each acquired company and shares them across the integrated entity.

The result of the acquisitions is that Softchoice is more relevant to our customers, and our broader offerings mean that there is less risk to the Company as a whole as we become more diversified. On the other hand, the operating margins of the acquired entities were lower than Softchoice realized on an organic basis. The NexInnovations margins were lower, primarily due to its focus on enterprise customers. Software Plus's gross margins were also lower largely due to its customer base. Optimus Solutions had high gross margins but lower EBITDA margins due to its investment in engineering and other technical support. As a result of the acquisitions, the Company has diversified its product offerings, vendors and customer base but lowered its EBITDA margins. We believe that over time there is an opportunity to increase the EBITDA margins by increasing gross margins, more like Optimus, increasing the efficiency of project management services and taking advantage of the increased scale of the business.

Cost Management

At the beginning of 2008 our core infrastructure was designed for a company that expected to grow by about 20 percent per year on an ongoing basis. To that base we added the personnel from the acquisitions. Toward the end of 2008 it became apparent that these growth expectations would not materialize due to the declining economy. We therefore took cost actions and reduced our workforce by about nine percent and reduced our expense base by about $6 million. The severance costs related to this action are included in the fourth-quarter results for the Company. In addition, the first quarter included back-office costs related to Software Plus before the integration was completed. We also had costs that were paid to the former owner of Optimus Solutions to provide administrative support to us prior to the completion of the integration of Optimus. Lastly, there were incremental costs, such as travel costs, related to the integration of these companies that we do not expect to occur on an ongoing basis.

These cost reductions amounted to $10 million in costs that are not expected to recur in 2009. Somewhat offsetting these cost reductions, we expect to incur incremental expenses in 2009 such as:

- Compensation in 2008 was lower than normal since sales targets were not met in the year, driving incentive compensation to below normal levels.
- The business solutions practice is being expanded in four major areas across North America which will require incremental engineering resources. Expansion of this business group in other areas of the country will also result in increased travel costs.
- While we made aggressive cuts to our employee base, we believe that the remaining staff needs to be compensated appropriately and we are planning for normal increases in compensation levels throughout the year.

As a result of these investments in our employees and our business model, we expect that compensation costs overall in 2009 will be at levels that are relatively similar to 2008.

Debt Refinancing

As announced on February 2, 2009, the Company's credit facilities have been restructured whereby new lenders have superseded the former lenders. The asset base loan has been expanded, offering more flexible borrowing at lower interest rates than are charged on term debt. This element of the Company's borrowing capacity has been increased to C$115 million. The term debt that was incurred to fund the Optimus acquisition has been repaid, and a smaller term loan of $20.5 million has been negotiated. This debt has a term of five years and is to be paid off in quarterly installments. In combination, we believe that these two facilities provide sufficient access to capital to fund the Company's medium-term growth objectives and provide a stable basis for ongoing funding for operations.

Foreign Exchange

The Canadian/U.S. exchange rate has been volatile in 2008, and this could be repeated in 2009. The Company's cash flows are such that we generate profits and cash in the U.S. subsidiary and spend the funds through our operations in the Canadian company in Canadian dollars. We report in U.S. dollars and therefore, as the Canadian dollar declines relative to the U.S. dollar, our Canadian expenses become relatively cheaper when consolidated in the financial statements, thereby increasing earnings. We estimate that for every one percent change in the exchange rate, our earnings are affected by $0.5 million. We plan to hedge our Canadian expenses at the beginning of 2009 to allow predictability of our expense stream. Therefore downward pressure on our earnings will be mitigated if the Canadian dollar rises compared to the U.S. currency. Canadian expenses overall were $80.7 million in 2008, before intercompany allocations and charges.

Our income statement is also affected by unrealized gains and losses on U.S.-dollar-denominated debt that is held on the Canadian balance sheet. This debt is owed to the U.S. subsidiary and therefore the debt itself is eliminated when the balance sheets are consolidated, but the income statement impact from the foreign exchange fluctuation is not eliminated. This is an unrealized, non-cash item but it can have a substantial impact on net income. The expense recognized in 2008 related to this was $4.8 million, before accounting for hedges, which reduced this expense by $2.5 million. At the end of the year the intercompany debt was $38.4 million. If the Canadian dollar declines against the U.S. currency, we will realize further losses in this regard. In prior years, and in the fourth quarter, we have hedged against this exposure to reduce volatility in the earnings statement. We have decided not to hedge this exposure in 2009, but will separately disclose its impact. The hedging process itself is expensive and we have decided not to spend cash on mitigating a foreign exchange exposure where the result is unrealized and does not have an impact on our reported cash position. This decision could increase volatility in the earnings stream and affect earnings per share performance.

In 2008, the weighted average exchange rate appreciated from 1.0740 in 2007 to 1.0658 in 2008. This relatively small average change reduced earnings by $0.5 million compared to what would have been recovered had foreign exchange rates remained constant.

Liquidity and Capital Resources

At the end of the year the Company had two credit facilities outstanding: an asset-based loan (ABL) and a term debt. The ABL could be drawn to the lesser of 85 percent of eligible accounts receivable and US$85 million. A portion of the ABL was classified as long-term debt and had a specific repayment requirement of $1.8 million every six months. Interest on this facility was at prime plus one percent. The Company incurred incremental fees on this loan during the refinancing process. These fees were expensed in the fourth quarter, as was $0.5 million in unamortized deferred financing costs related to this loan.

The total amount drawn on the ABL as at December 31, 2008, including the long-term portion, was $17.3 million. The loan balance under this facility was reduced by $3.6 million in 2008; these repayments were made with cash generated from operations.

A term loan was also outstanding as at December 31, 2008, in the amount of C$44.5 million. This loan had been incurred to finance the Optimus acquisition. This amount was originally due on December 31, 2008, but had been extended until March 30, 2009 while the Company completed its refinancing processes. Interest charges on this debt increased on a sliding scale throughout 2008 and, when it was paid off, it was incurring interest charges of 7.5 percent.

Fees related to the termination of these loans, the extensions of the term debt and the related repayment covenant in the ABL and the write-off of the deferred financing charges for the ABL were all incurred in the fourth quarter of 2008 in the aggregate amount of $1.4 million.

On February 2, 2009, two new loan facilities were obtained:

- The ABL can be drawn to the lesser of C$115 million and 85 percent of eligible accounts receivable. There is an accordion feature to this facility in the amount of $20.5 million that can be exercised at the Company's discretion and with the agreement of the term debt provider. The ABL incurs interest at prime plus two percent on inception; this rate could be reduced to prime plus 1.75 percent if certain financial measures are realized. The ABL has a term of three years. The ABL has one financial covenant which is a fixed charge ratio; the Company would have met this covenant at the end of 2008.

- The term debt is subordinated to the ABL and is in the amount of US$20.5 million. The debt has a five-year term and has quarterly payments of US$1.0 million. Interest on this loan is 17.5 percent per annum; this rate could be reduced to 16 percent after 2009 if certain financial ratios are achieved. The debt is subject to three financial covenants, all of which the Company would have met as at December 31, 2008. This loan can be repaid without penalty or termination fee after 36 months.

Fees and expenses to obtain the new financing were incurred in the first quarter of 2009 in the amount of $2.8 million. These fees will be offset against the debt and amortized using the effective interest rate method.

Management believes that this debt structure is appropriate for the medium-term financial stability and growth of the Company. We have increased the ABL, which offers maximum flexibility with the lowest borrowing rates available. The interest rates on the term debt are high as a result of the current economy and the state of the financial markets, but the overall debt level is lower than past term borrowings and will decline over time through regular amortization payments. We believe that the debt repayment schedule is easily manageable with the expected cash flows of the Company.*

Contractual Obligations

The tables below reflect the contractual obligations of the Company as at December 31, 2008. The second table shows the same information on a pro forma basis, as if the new credit facilities had been in place as at December 31, 2008.

Credit Facilities as at December 31, 2008

	Payment Due by Period				
(in thousands of U.S. dollars)	Total	Less than 1 year	1–3 years	4–5 years	After 5 years
Long-term debt	$ 17,289	$ 3,572	$ 13,717	$ –	$ –
Capital lease obligations	–	–	–	–	–
Operating leases	44,486	7,790	20,245	6,172	10,279
Total contractual obligations	$ 61,775	$ 11,362	$ 33,962	$ 6,172	$ 10,279

New Credit Facilities on a Pro Forma Basis

	Payment Due by Period				
(in thousands of U.S. dollars)	Total	Less than 1 year	1–3 years	4–5 years	After 5 years
Long-term debt	$ 20,513	$ 4,103	$ 12,308	$ 4,103	$ –
Capital lease obligations	–	–	–	–	–
Operating leases	44,486	7,790	20,245	6,172	10,279
Total contractual obligations	$ 64,999	$ 11,892	$ 32,553	$ 10,275	$ 10,279

* This sentence includes forward-looking statements. See "Caution Regarding Forward-Looking Statements."

Cash Flows

The Company generated cash from operating activities in the amount of $28.7 million in 2008 and cash from operations, after investments in working capital, in the amount of $30.9 million. During the year, debt balances were increased as a result of the acquisition in the amount of $34.4 million and the cash generated was used to reduce the debt from the $34.4 million to $21.5 million. In addition, cash was spent on capital asset acquisitions in the amount of $5.9 million and dividends in the amount of $5.2 million. The dividend program was suspended in the fourth quarter of 2008. Capital expenditures in 2008 were at higher than normal levels due to the integration of the acquisitions. We expect capital expenditures to revert to more normal levels in 2009.*

Accounts receivable balances reflect days sales outstanding (DSO) of 43 days as at December 31, 2008, compared with 44 days outstanding as at December 31, 2007. This calculation includes all trade accounts receivable but does not include other receivables. Given the current recession, we are monitoring DSO levels closely, especially among selected industry verticals considered to be at relatively greater risk. We do not have any significant exposure to the U.S. financial services market and DSO levels have remained at levels comparable to prior years.

Days payable outstanding (DPO) were 58 days as at December 31, 2008, compared to 59 days at the end of December 2007. These levels have been relatively consistent during the year, and we expect them to remain at these levels during 2009.*

Dividends

We paid dividends in 2008 aggregating to C$0.30 per common share (C$0.40 per common share in 2007). The dividend was suspended in the fourth quarter of the year as part of our cash management initiatives. We do not expect that the dividend will be reinstated in 2009.*

Summary of Quarterly Data (in thousands of U.S. dollars, except per share amounts)

	2008				2007			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	$ 298,554	$ 334,396	$ 276,357	$ 334,988	$ 168,953	$ 182,543	$ 159,395	$ 266,191
Gross profit	39,211	53,498	35,464	43,630	24,757	38,368	24,983	37,009
Operating income	3,924	13,733	2	(36,032)	6,205	16,758	5,123	8,308
Net earnings (loss)	1,727	7,401	(1,641)	(21,875)	3,658	10,088	3,041	5,210
EPS	$ 0.10	$ 0.42	$ (0.09)	$ (1.25)	$ 0.21	$ 0.58	$ 0.18	$ 0.30

* This sentence includes forward-looking statements. See "Caution Regarding Forward-Looking Statements."

Key Performance Measures

The Company presents four key performance measures to help investors understand the underlying forces of the business. The measures reflect both the growth of the business and our productivity and are consistent with the way that management evaluates the business. We use gross profit measures, instead of a more typical revenue measure, because of the trend among our customer base toward EA license agreements. Therefore the increase in our revenue mix that is recorded on a net basis would make revenue-based analysis misleading.

Most of these measures are presented excluding data from the Optimus Solutions business segment. This acquisition was integrated into the core Softchoice systems at the beginning of 2009, so for 2008 their historical systems are not able to present the data collected for the rest of the business. Where available, we have incorporated this information into the analysis.

Revenue or growth indicators:

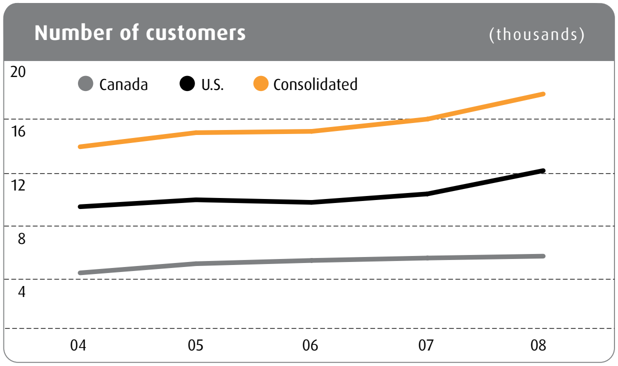
- Number of Customers
- Gross Profit per Customer

Productivity indicators:

- Gross Profit per Order
- Gross Profit per Employee

Number of Customers

Softchoice sold products and solutions to more than 19,000 customers in 2008, excluding Optimus Solutions customers. The customer base in Canada increased by 16 percent and the customer base in the United States increased by 38 percent, for a consolidated increase of 30 percent. The number of hardware customers increased by 18 percent, comprising 28 percent in Canada and 12 percent in the United States.



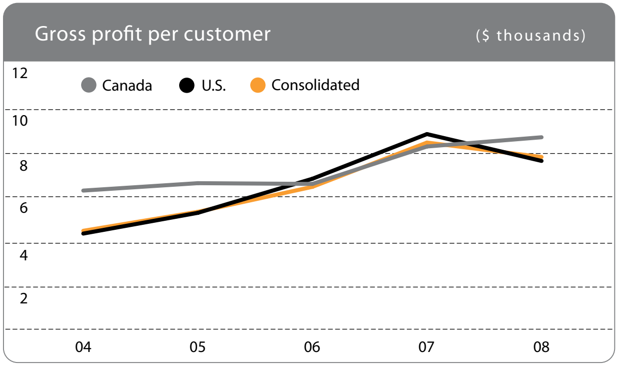
We also segment our customers based on the size of the customers' IT environment. We define the SMB as any company with fewer than 2,000 PCs; enterprise customers have more than 2,000 PCs. Revenue from these customers is segmented as follows:

YTD	**2008**	2007	2006
Small and Medium	**49%**	50%	49%
Enterprise	**29%**	26%	23%
Government	**22%**	24%	28%
Total	**100%**	100%	100%

Sales to enterprise customers have increased in 2008, particularly in the fourth quarter, when 35 percent of sales were to the enterprise customer base, compared with 28 percent in the fourth quarter of 2007. This increase is primarily due to the acquisition of NexInnovations.

Gross Profit per Customer

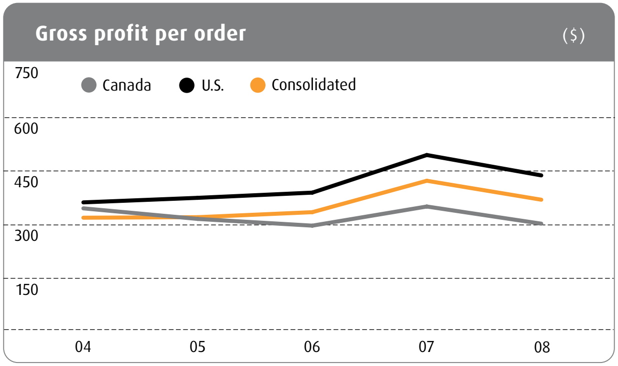
The amount that we sell our customers has increased steadily over the last several years as we increase our penetration of these accounts. Our strategy is to provide a more comprehensive solution for our customers, and we believe that our direct sales force is a significant asset in the execution of this strategy. The gross profit per customer is the most important measure of our success in the execution of this strategy. However, usually the results of this metric are inversely related to the number of new customers since new customers tend to purchase less than those who have been buying from us over time. A balance between the growth of the customer base and the amount that they spend with us is therefore the optimum state.



In 2008, gross profit per customer increased by 4.8 percent in Canada; in the United States gross profit per customer decreased by 13.5 percent for a consolidated decrease of 7.6 percent. These results are consistent with the significant increase in the number of U.S. customers we acquired in 2008 as a result of the Software Plus acquisition. These results do not include the customers or related gross profit associated with the Optimus Solutions business acquisition. The increase in the Canadian customer base reflects the nature of the business purchased from NexInnovations with larger sales to fewer enterprise customers.

Gross Profit per Order

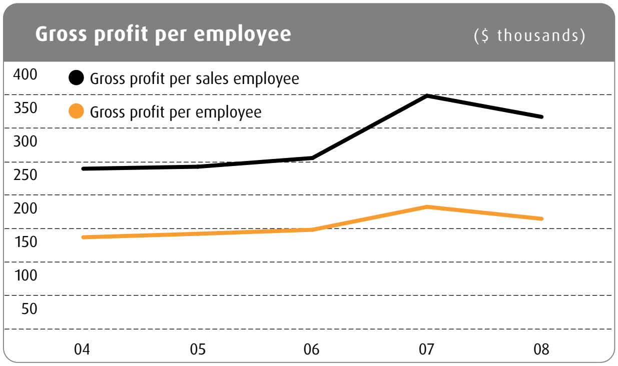
Gross profit per order is an important measure of productivity since increases or decreases affect the number of operational staff required to process the same gross profit. Enterprise Agreements have a gross profit per order that is about seven times higher than our average orders since they tend to be much larger transactions. In 2007, EA fees comprised more than 40 percent of gross profit, and in 2008 that proportion was about 33 percent. This mix change is more responsible than any other factor for the decline in average order size. When the Optimus data is included in these results, we believe that the average order size will rise again since the transactions in this business segment tend to be larger.



Gross profit per order fell by about 13 percent in Canada, in the United States and on a consolidated basis.

Gross Profit per Employee

Gross profit per employee and salesperson both fell by 10 percent in 2008 as a result of the acquisitions. This data is available for the Optimus employees and therefore it has been included in this result. We spent most of 2008 training our new employees and realigning the employee base to ensure that the productivity of our employees will continue to rise as in prior years. There are a number of initiatives used to drive increased productivity; some of them take advantage of the capital investments we have made this year and in prior years and some involve redesigning processes to reduce elements that provide less value to the organization.



Financial Statement Analysis

The accounting for the acquisitions completed in 2007 and 2008 is outlined in Note 3 of the financial statements. A summary is provided below. The purchase equations for all acquisitions have been finalized and include our best estimates for potential claims or reserves. At this time, reserves are not material and are primarily in place in the event that the value of certain accounts receivable will not be realized. The earn-out provision for Optimus Solutions has been estimated and the balance has been accrued in the financial statements.

The acquisitions of Software Plus and Optimus Solutions created goodwill and intangibles of $43.6 million and $40.1 million respectively. As required under generally accepted accounting principles, these assets have been evaluated and, as described above, the goodwill balances have been written off as a result of the decline in the stock price of the Company.

NexInnovations

The total purchase price for NexInnovations was $12.7 million. We acquired very few assets as part of this transaction and no liabilities; therefore, the purchase price equation is as follows:

(in thousands of U.S. dollars)

Total purchase price	$ 12,701
Comprises:	
Intangible assets:	
Customer contracts	$ 12,701

The customer contracts are included in intangibles on the balance sheet and are being amortized into income over a 10-year period, representing the anticipated lifetime of these relationships.

Software Plus

The total purchase price for Software Plus was $44.1 million, including acquisition costs of $2.3 million. The purchase price equation is as follows:

(in thousands of U.S. dollars)

Total purchase price	$ 44,140
Comprises:	
Net working capital	309
Plant and equipment	228
Intangible assets:	
Customer contracts	20,455
Goodwill	23,148
	$ 44,140

The customer contracts have been included in intangibles on the balance sheet and are being amortized into income over a 10-year period, representing the anticipated lifetime of these relationships. The goodwill related to this acquisition was written off in the fourth quarter as a result of the impairment testing, as described above.

Optimus Solutions

The total purchase price of Optimus Solutions was $40.9 million. The purchase price equation is as follows:

(in thousands of U.S. dollars)

Total purchase price	$ 40,898
Comprises:	
Net working capital	428
Plant and equipment	327
Intangible assets:	
Customer contracts	21,694
Goodwill	18,449
	$ 40,898

The goodwill arising on this transaction was also written off as described above.

Results of Operations

The Softchoice annual financial statements include the results of NexInnovations, Software Plus and Optimus Solutions. NexInnovations and Software Plus were fully integrated into the Company during the first quarter, and therefore separate financial results for these entities are not available. The integration of Optimus Solutions was completed early in 2009. During 2008, Optimus generated revenue of $179.8 million, an increase of 15 percent over 2007. Its gross profit was $31.8 million in the period, an increase of 53 percent. EBITDA for the year was $7.8 million, for an increase of 52 percent over the prior year.

As a result of the acquisitions, revenue grew by 60 percent in the year, but operating expenses also grew. During the year we gradually realized cost efficiencies from the acquisitions so that by the end of the year, Adjusted EBITDA grew over the prior year by two percent for the year as a whole. In the fourth quarter alone, Adjusted EBITDA grew by 39 percent compared to the prior year.

	2008		2007		Y/Y change
(in thousands of U.S. dollars, except per share amounts)	$	% of revenue	$	% of revenue	
Total revenue, including imputed revenue	**1,958,441**	**157.4%**	1,261,133	162.3%	55.3%
Revenue	**1,244,295**	**100.0%**	777,082	100.0%	60.1%
Gross profit	**171,803**	**13.8%**	125,117	16.1%	37.3%
Expenses	**130,635**	**10.5%**	84,777	10.9%	54.1%
Adjusted EBITDA	**41,168**	**3.3%**	40,340	5.2%	2.1%
Amortization, interest and other	**65,998**	**5.3%**	3,390	0.4%	1,847.1%
Net income (loss) before taxes	**(24,830)**	**(2.0%)**	36,950	4.8%	(167.2%)
Net income (loss)	**(14,388)**	**(1.2%)**	21,997	2.8%	(165.4%)
EPS (basic)	**(0.82)**		1.27		(164.6%)

Revenue

Revenue in 2008 includes all three acquisitions for the entire year compared to 2007 when the results of NexInnovations were included in the fourth quarter only and Software Plus was included in the last two weeks of the year. Revenue grew by 60 percent in 2008 as a result of the acquisitions. On a pro forma basis, after normalizing NexInnovations' results for 2007, revenue for the year is down by about two percent. We therefore believe that we have largely retained the customers and revenue bases of the companies that we bought, in spite of the tough economic conditions in the last half of the year.

Specific increases in revenue were realized as follows:

- Hardware revenue grew by 121 percent.
- Fees earned on Enterprise Agreements grew by 12 percent.
- Total Revenue, including Imputed Revenue, grew by 55 percent.
- In Canada, revenue grew by 39 percent and Total Revenue, including Imputed Revenue, grew by 38 percent.
- In the United States, revenue grew by 76 percent and Total Revenue, including Imputed Revenue, grew by 66 percent.

The relative weakness in the growth of EA fees is reflective of the stage in the three-year cycle of Microsoft licenses. Softchoice has a disproportionate number of customers who purchased and renewed their agreements in 2004 and 2007, respectively. The impact of this cyclicality is due to the fact that fees earned on these agreements can be three times higher in the year of purchase or renewal than in the intervening two years in the cycle. For more explanations of the EAs and the fees associated with these licenses, see "Microsoft and Softchoice" below.

The growth of hardware sales reflects the acquisitions of NexInnovations and Optimus but, more importantly, serves to demonstrate the strength of the diversification of our business model. We are achieving one of the prime objectives of the acquisition strategy. As a result of this growth, hardware sales now account for 41 percent of Total Revenue compared to 30 percent a year ago and 25 percent the year before that.

The table below outlines the revenue results and EA fees over the last two years.

(in thousands of U.S. dollars)	2008	2007	Y/Y change
Reported revenue	$ **1,244,295**	$ 777,082	60.1%
Agency fees	**(57,193)**	(51,285)	11.5%
Imputed revenue	**771,339**	535,336	44.1%
Total imputed revenue	$ **1,958,441**	$ 1,261,133	55.3%

Agency fees are included in Imputed Revenue.

This table shows the composition and growth of the specific revenue items.

(in thousands of U.S. dollars)	2008	2007	Y/Y change
Microsoft revenue	$ **413,135**	$ 288,044	43.4%
Agency fees	**(57,193)**	(51,285)	11.5%
Microsoft imputed revenue	**771,339**	535,336	44.1%
Other software	**319,628**	257,556	24.1%
Hardware	**511,532**	231,482	121.0%
Total revenue	$ **1,244,295**	$ 777,082	60.1%
Total revenue, including imputed revenue	$ **1,958,441**	$ 1,261,133	55.3%

Sales of Microsoft Products

Softchoice sales of Microsoft products, excluding EA licenses, increased in Canada by 12 percent while Imputed Revenue in Canada grew by 30 percent. In the United States, Microsoft sales, excluding EA licenses, increased by 77 percent and Imputed Revenue increased by 49 percent. Agency fees declined in Canada by two percent primarily as a result of a decline in the number of Select agreements sold compared to the prior year, as customers migrate from Select agreements to EA licenses. The strength in the United States reflects the impact of the Software Plus acquisition. The sale of Microsoft products accounts for 33 percent of revenue, compared to 37 percent in 2007.

Other Software Sales

Sales of other software include products by such publishers as Symantec, McAfee, Adobe, Novell, IBM, etc. Sales of these products increased by 24 percent in Canada, by 28 percent in the United States and by 24 percent on a consolidated basis. This increase reflects the successes that have been earned by our solutions team as the solutions approach to selling other software products is appealing to our customer base. In particular, sales of IBM and McAfee were particularly strong in 2008.

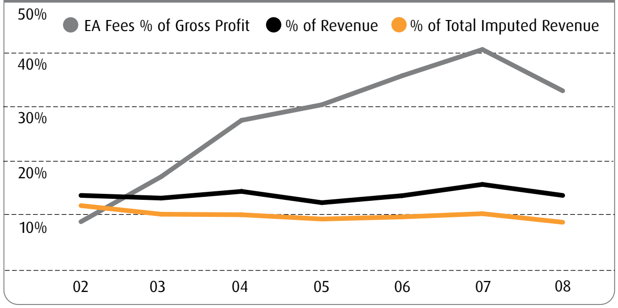
Hardware Sales

Hardware revenue increased by 121 percent in 2008 primarily as a result of the acquisitions of NexInnovations and Optimus. More than 40 percent of the Company's customers have purchased hardware products from the Company this year as the penetration of hardware sales into our existing account base continues to grow.

Gross Profit

Gross profit includes the profit that is earned on the sale of product to the customer, plus any benefits earned as a result of reductions in product costs due to volume rebates and marketing development funds earned in the period. Gross profit as a percentage of reported revenue has decreased from the prior year both due to the decline in EA fees as a percentage of total gross profit, but also due to a decline in the EA fee margin. The chart above shows gross margins over the last seven years. EA fees as a percentage of overall gross profit is also shown here to illustrate the impact of these fees on our business overall.

Gross profit



The gross margin in 2008 declined to 13.8 percent from 16.1 percent in 2007. EA fees as a percentage of total gross profit declined from 41 percent in 2007 to 33 percent in 2008. This decline accounts for 78 percent of the change in gross margin or 1.8 percent of margin. The decline in EA product mix is primarily due to the growth of hardware sales. EA fees themselves grew by 12 percent in the year.

If EA fees are removed from both the revenue and gross profit lines, the margin on non-EA sales has declined from 10.2 percent to 9.7 percent in 2008. This decline is primarily the result of software sales to enterprise and government customers. We have undertaken a number of programs during the year to increase the margins on sales to customers, and in the fourth quarter margins on non-EA sales rose by 20 basis points. We expect to continue this focus in 2009 since our overall gross margins are lower than some of our competitors and we believe that improvements can be made in this area.*

* This sentence includes forward-looking statements. See "Caution Regarding Forward-Looking Statements."

The gross margin as a percentage of Total Revenue, including Imputed Revenue, also declined from 9.9 percent in 2007 to 8.8 percent in 2008. This decline is due to the decline in agency fees as a percentage of Imputed Revenue. This margin has fallen from 9.6 percent in 2007 to 7.4 percent in 2008. This decline is mostly the result of fewer new and renewed agreements in this year as a result of our proportion of new agreements in the 2004/2007-year cycle. However, there has also been a decline in true-ups in 2008 as a result of the slowing economy.

In spite of the low effective gross margin on Enterprise Agreements, these sales remain very profitable for Softchoice. The average order size is large, and our processing of these agreements is very streamlined due to our expertise in this area. As a result, variable operating costs related to these agreements are low, and the overall profitability is higher.

Rebates and marketing development funds also contribute to overall levels of gross profit. Rebates have increased significantly in 2008 primarily as a result of the Software Plus and Optimus business acquisitions. Toward the end of 2008, we noted that a number of vendors were increasing rebates to incent higher sales achievement in a weaker economy. We are hopeful that this trend will continue in 2009.* Marketing development funds were at levels that were consistent with the prior year.

Expenses

Our analysis of expenses in 2008 examines salaries and benefits and selling, general and administrative costs separately to derive an Adjusted EBITDA, as described in non-GAAP terms. There have been many changes to our business in 2008 as a result of the acquisitions so we believe that this disclosure eliminates some of the external features and focuses on the ongoing business operations. For that reason, severance costs related to the resizing of the business have been excluded from salaries and benefits and presented separately. However, all the expenses related to the acquisitions have been included in these results. These costs include contract fees related to operating staff at Software Plus who worked for us for the first quarter only, compensation guarantees provided to some of the acquired employee base, and training and travel costs.

	2008		2007		Y/Y change
(in thousands of U.S. dollars)	$	% of gross profit	$	% of gross profit	
Salaries and benefits	93,648	54.5%	56,661	45.3%	65.3%
Selling, general and administrative	36,987	21.5%	28,116	22.5%	31.6%
	130,635	76.0%	84,777	67.8%	54.1%

* This sentence includes forward-looking statements. See "Caution Regarding Forward-Looking Statements."

Salaries have increased primarily due to a larger employee base. The average number of employees in the year increased by 53 percent compared to the prior year, and the average number of salespeople increased by 52 percent in the year. At the end of the year, the number of salespeople and total employees compared to the prior year had increased by 17 percent and 19 percent, respectively. The decline between the average number of employees in the year and the year-end numbers reflects the efficiencies realized in the acquired companies over the year and the cost measures that were taken in the fourth quarter to resize the business. Productivity, as measured by gross profit per employee, decreased by 10 percent for the employee base and nine percent for the sales staff for the year as a whole.

Selling, general and administrative expenses increased by 32 percent or $8.9 million in the year. These increases are largely due to the expanded employee base. The increases include rent ($2.1 million), travel ($1.9 million), professional fees ($1.6 million) and bad debt expense ($1.6 million). The increase in bad debt expense is consistent with the increase in revenue and does not reflect an increase in the incidence of doubtful accounts. Some of these costs, such as travel and professional fees, are expected to decline in 2009 since they were largely related to integrating the acquired companies or other activities specific to 2008.*

Adjusted EBITDA

Adjusted EBITDA reflects operating income, plus specifically identified costs incurred this year. We believe that this result best reflects the underlying nature of the business that should be reviewed as a basis for future growth. The calculation of Adjusted EBITDA is shown in this table:

(in thousands of U.S. dollars)	2008	2007	Y/Y change
Operating income	$ (18,373)	$ 36,394	(150.5%)
Amortization of property and equipment	3,849	3,173	21.3%
Amortization of intangible assets	6,964	1,948	257.5%
Goodwill impairment	43,624	–	
EBITDA	36,064	41,515	(13.1%)
Resizing and refinancing charges	2,771	–	
Unrealized foreign exchange loss (gain)	2,333	(1,175)	(298.5%)
Adjusted EBITDA	$ 41,168	$ 40,340	2.1%

* This sentence includes forward-looking statements. See "Caution Regarding Forward-Looking Statements."

Amortization of property and equipment increased by 21 percent in 2008, primarily due to the increase in capital assets purchased in the year. Capital expenditures were $5.9 million in 2008, compared to $3.9 million the year before. Assets acquired include computer equipment for the new employee base and leasehold improvements in the expanded facilities.

Amortization of intangible assets increased substantially over 2008 due to the acquisitions.

Goodwill impairment charges have been described above.

Resizing costs: These expenses include $1.4 million for severance costs related to employees terminated in 2008. As part of our cost management initiatives, we realigned our technical resources to drive stronger solutions delivery capabilities for customers across North America. This process included removing redundant management structures that were a consequence of integrating the acquisitions made over the past year. This cost action eliminated the roles of about nine percent of the employee base.

Refinancing costs: These expenses include $1.4 million related to the credit refinancing process. Of this amount, $0.8 million relates to fees from the existing financial institutions to extend the term facility from December 31, 2008 to March 31, 2009. We have also expensed in the fourth quarter financing costs that had been previously deferred related to the existing ABL.

Unrealized foreign exchange loss: This balance reflects the foreign exchange loss realized on intercompany debt, net of hedging benefits. These costs will be disclosed separately in future periods since we have decided to discontinue hedging this exposure. This cost is non-cash and unrealized. The underlying loan is an intercompany loan so it is eliminated on consolidation, but the related foreign exchange amount is not eliminated. All other foreign exchange gains and losses are included in selling, general and administrative costs and only this intercompany effect has been separately disclosed.

Net Income

Net income reflects operating income less other items and interest expense. Other expenses include bank charges and customer financing charges. Interest expense was incurred on the ABL and term debt as described above. Interest expense as calculated on average balances outstanding during the year was incurred at a blended rate of 7.2 percent. We expect that the average rate will increase during 2009 due to the new credit facilities and as a reflection of the interest rate spreads that are currently being required by lenders. Overall interest expense is not expected to increase since the average levels of debt are expected to decline.* In addition, the term debt, which incurs the higher interest charges, is declining from C$45 million in 2008 to $20.5 million in 2009.

Net income (loss) before taxes was $(24.8) million in 2008, a decline of 167 percent from 2007. Net income (loss) was $(14.4) million for the year, a decline of 165 percent from 2007. Adjusted earnings were $12.3 million for the year, a decline of 44 percent compared to 2007. The effective tax rate has declined from 40 percent in 2007 to 35 percent in 2008. This decline is partly due to a structure that was put into place as part of the acquisitions and partly due to declining statutory rates in Canada.

* This sentence includes forward-looking statements. See "Caution Regarding Forward-Looking Statements."

Fourth Quarter

During the fourth quarter it became evident that the North American economy was in recession and the severity of the slowdown increased as the quarter progressed. Early in the period, we made the decision to resize our business to reflect the current business reality. We had been structured to support a company expecting strong and consistent revenue growth into 2009. In the fourth quarter, this assumption could no longer be supported, and therefore significant cuts were made in our workforce.

As a result of the impairment charge, we recorded a net loss in the fourth quarter of $21.9 million. Adjusted earnings declined by nine percent. The fourth-quarter results in 2007 included NexInnovations for the entire comparable period. Therefore, growth over 2007 in Canada is entirely organic.

	Q4 2008		Q4 2007		Y/Y change
(in thousands of U.S. dollars, except per share amounts)	$	% of revenue	$	% of revenue	
Total revenue, including imputed revenue	502,014	149.9%	406,054	152.5%	23.6%
Revenue	334,988	100.0%	266,191	100.0%	25.8%
Gross profit	43,686	13.0%	37,009	13.9%	18.0%
Expenses	29,500	8.8%	26,791	10.1%	10.1%
Adjusted EBITDA	14,186	4.2%	10,218	3.8%	38.8%
Amortization, interest and other	51,653	15.4%	1,294	0.5%	3,890.3%
Net income (loss) before taxes	(37,467)	(11.2%)	8,924	3.4%	(519.9%)
Net income (loss)	(21,875)	(6.5%)	5,210	2.0%	(519.9%)
EPS (basic)	(1.25)		0.30		(516.7%)

Revenue

Revenue grew by 26 percent in the quarter. In Canada, revenue growth was also 26 percent, and in the United States revenue grew by 46 percent. The consolidated revenue growth has been adversely affected by the weakening Canadian dollar in 2008.

(in thousands of U.S. dollars)	2008	2007	Y/Y change
Reported revenue	$ 334,988	$ 266,191	25.8%
Agency fees	(13,447)	(13,916)	(3.4%)
Imputed revenue	180,473	153,778	17.4%
Total revenue, including imputed revenue	$ 502,014	$ 406,054	23.6%

Microsoft agency fees fell by three percent in the quarter. Imputed Revenue grew by 17 percent, indicating that the overall value of Enterprise Agreements continued to grow over 2007. The decline in agency fees compared to the growth in Imputed Revenue reflects the cyclicality of the Enterprise Agreements. Fees paid to Softchoice by Microsoft in the second and third year of the agreements are about 30 percent of the levels paid in the first year or a year of renewal. Softchoice has more first-year agreements in the 2004/2007-year cycle. This cyclicality is evident in the decline in agency fees as a percentage of Imputed Revenue. In addition, customers' levels of true-ups also declined in the quarter compared to the prior year. This decline is consistent with the current economy.

The table below also shows that revenue from other software grew by 13 percent and hardware grew by 58 percent. The hardware growth number includes revenue from Optimus in the amount of $57.6 million. Other hardware sales therefore declined by nine percent, reflecting the difficulties of the North American economy in the quarter.

(in thousands of U.S. dollars)	Q4 2008	Q4 2007	Y/Y change
Microsoft revenue	$ 108,717	$ 99,051	9.8%
Agency fees	(13,447)	(13,916)	(3.4%)
Microsoft imputed revenue	180,473	153,778	17.4%
Other software	96,249	84,956	13.3%
Hardware	130,022	82,184	58.2%
Total revenue	$ 334,988	$ 266,191	25.8%
Total revenue, including imputed revenue	$ 502,014	$ 406,054	23.6%

Gross Profit

Gross profit in the quarter grew by about 18 percent; in Canada, gross profit declined by two percent and in the United States, gross profit grew by 42 percent compared to the same period in the prior year.

Gross margins in the quarter declined from 13.9 percent in 2007 to 13.0 percent in 2008. If the agency fees are eliminated from the revenue and gross profit calculations, gross margins on all other products other than EAs rose from 9.2 percent to 9.4 percent in the quarter. Therefore the decline in the proportion of EAs in the product mix accounts for more than the overall margin decline in total.

Expenses

(in thousands of U.S. dollars)	2008 $	2008 % of gross profit	2007 $	2007 % of gross profit	Y/Y change
Salaries and benefits	**20,528**	**47.0%**	18,656	50.4%	10.0%
Selling, general and administrative	**8,972**	**20.5%**	8,135	22.0%	10.3%
Amortization of property and equipment	**938**	**2.1%**	895	2.4%	4.8%
Amortization of intangible assets	**1,981**	**4.5%**	791	2.1%	150.4%
Goodwill impairment	**43,624**	**99.9%**	–	0.0%	–
Resizing and refinancing charges	**2,771**	**6.3%**	–	0.0%	–
Unrealized foreign exchange loss	**904**	**2.1%**	224	0.6%	302.7%
	79,718	**46.4%**	28,701	22.9%	177.8%

Salaries and benefits increased by 10 percent over the fourth quarter of 2007, excluding severance costs incurred in the resizing actions. Average headcount in the quarter was about 26 percent higher than the prior year, but by the end of the quarter, headcount was just 17 percent higher than 2007 levels. This decline reflects a much larger decline than is apparent since the employees from Optimus are not included in the 2007 numbers but are included in 2008. Salaries and benefits in the fourth quarter cannot be considered to be indicative of ongoing levels since 2008 results did not meet Company objectives, and therefore commission accelerators and bonus levels were not at normal levels.

Selling, general and administrative costs increased by 10 percent compared to the final quarter of 2007. Increased costs were incurred in rent, professional fees, bad debts and other costs relative to the larger revenue levels recognized in the period.

Amortization costs reflect the increased levels of intangibles that were recognized as a result of the acquisitions. The purchase equations have now been finalized and, as a result, amortization costs should be $1.7 million per quarter until the end of 2009 and will decrease to $1.3 million per quarter in subsequent years.

Resizing and refinancing charges, foreign exchange losses and the goodwill impairment charge in the quarter are explained as part of the annual results outlined above.

EBITDA grew by five percent compared to the fourth quarter of 2007 and Adjusted EBITDA grew by 39 percent. As described above, Adjusted EBITDA eliminates the impact of the resizing and foreign exchange losses from the EBITDA calculation so that the underlying trends can be more easily identified.

Interest expense in the quarter reflects the debt that was incurred a year ago to fund the acquisitions. The average interest rate charged in the period was 6.6 percent. Interest rates are expected to increase in 2009 as a result of the higher rates charged on the new credit facilities. Interest expenses will not necessarily rise, however, since the average borrowing levels have been reduced substantially during 2008 and additional reductions are anticipated in 2009.*

On an adjusted basis, net income before taxes declined by 31 percent in the quarter, and net income declined by 9 percent as a result of the reduction in the effective tax rate from 41.6 percent to 26 percent in the quarter. This reduction is partly due to a tax effective structure that was put in place to finance the acquisitions and partly due to ongoing reductions in statutory tax rates, as described above.

* This sentence includes forward-looking statements. See "Caution Regarding Forward-Looking Statements."

Seasonality

Historically, the Company has followed a quarterly seasonality pattern that is typical of many companies in the information technology industry, with high sales at the end of the second and fourth quarters and low sales in the third quarter due to a lag in corporate spending during the summer months. Within the fourth quarter, a significant level of sales usually occurs in the last two or three weeks of the quarter. The following trends have typically influenced the sales in each quarter:

- March 31 is the Canadian federal government year-end. Historically, the government tended to make purchases toward the end of its fiscal year. The effect of this buying pattern has diminished recently as the government has attempted to spread out its purchasing activities throughout the year. In addition, as the Company's U.S. business has increased, the net impact of these sales has declined. In 2007, the Canadian government represented 15 percent of total sales. With the acquisition of NexInnovations and its revenue generated from the Canadian federal government, the net impact of these sales on the rest of the business is expected to increase somewhat.*
- June 30 is Microsoft's fiscal year-end, and Softchoice has historically benefited from the sales and marketing drive that has been generated by Microsoft sales representatives to meet its year-end targets. In the last few years, this has become the largest quarter in our fiscal year.
- September 30 is the U.S. federal government year-end, but our business from this segment is not sufficient to overcome the more general reduction in activity due to summer vacation schedules.
- December 31 marks the fiscal year-end of much of corporate North America. Historically, there have been increases in all revenue lines as our customers complete their asset purchases to meet their internal year-end requirements.

Microsoft and Softchoice

Microsoft is the ubiquitous provider of infrastructure software worldwide. Approximately 70 percent of Microsoft's revenue is from desktop applications and operating systems such as Windows and Office productivity suites. Microsoft has about 95 percent of the market share in this area, with projected single-digit growth for the next few years. About 33 percent of Softchoice's revenue, or 58 percent of Total Revenue, including Imputed Revenue, is derived from the sale of Microsoft products.

Software Licenses

Software licenses are used across the industry to regulate the use and ownership of all types of software products. For Microsoft products, the customer is able to buy the license alone or with an "insurance" type of product that allows the customer to obtain, free of charge, the most recent versions of the software for the term of the "insurance" product. Microsoft sells this type of product through Software Assurance and Enterprise Agreements. Customers are also able to purchase the license agreement on its own, but this gives them no rights or access to later versions of the product. To upgrade, they must repurchase the software license.

Software Assurance

Software Assurance (SA) is an "insurance" or "maintenance" type of license that allows customers to upgrade to the latest technology if new applications are introduced during the period that SA is in effect. The license also entitles the customer to many different types of training and service benefits. SA licenses are renewed annually; this renewal feature increases the predictability of the Company's revenue stream.

Enterprise Agreements (EAs)

In October 2001, Microsoft began offering Enterprise Agreements (EAs). An EA includes a perpetual license and SA. Customers license every desktop in their environment with a consistent suite of Microsoft products. They are then considered to be compliant with all Microsoft license requirements for the ensuing year, regardless

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of changes to their employee base. EAs have a three-year term whereby the customer pays three equal annual installments for the perpetual license and the SA benefits. Annually they are charged a true-up fee for changes in the number of users over the year. Customers usually like the convenience and risk-mitigation factors associated with the annual evaluation process rather than a constant evaluation of the number of users actually deploying the software compared to the number actually licensed.

After the three-year period, customers may renew the EA for a further three-year period, but this renewal includes the SA benefits only and is cheaper for the customer than the original EA.

With an EA, Microsoft transfers the license and bills the customers directly, paying resellers such as Softchoice an agency fee or commission on these sales. The result of these transactions is that the revenue recorded by Softchoice is reduced but the gross profit remains. Therefore, the Company's margin on these deals is 100 percent and, as a result, they increase the Company's overall gross margin.

The proportion of sales of this product has risen significantly in the past few years. Meaningful year-over-year comparison of Softchoice's revenue requires an adjustment to the EA sales that Microsoft obtains and on which Softchoice is paid an agency fee. Softchoice refers to this revenue line as Imputed Revenue.

Microsoft does not pay rebates on sales of EAs. As a result of the increase of EA sales, rebates have begun to have a smaller impact on the overall profitability of the Company. We anticipate that this trend will continue.*

Changes in Accounting Policies

Goodwill and Intangible Assets

In February 2008, the Canadian Institute of Chartered Accountants (CICA) issued Handbook Section 3064, "Goodwill and Intangible Assets," replacing Section 3062, "Goodwill and Other Intangible Assets," and Section 3450, "Research and Development Costs." New Section 3064 addresses when an internally developed intangible asset meets the criteria for recognition as an asset. These changes are effective for fiscal years beginning on or after October 1, 2008, with earlier adoption permitted, and will be adopted by the Company effective January 1, 2009. These sections are not expected to have any impact on the Company. Collectively, these changes bring Canadian practice closer to International Financial Reporting Standards (IFRS) and U.S. GAAP by eliminating the practice of recognizing as assets a variety of start-up, preproduction and similar costs that do not meet the definition and recognition criteria of an asset.

Accounting Changes

Effective January 1, 2008, the CICA also issued amendments to Section 1000, "Financial Statement Concepts," which establishes criteria for changes in accounting policies along with the accounting treatment and disclosure required upon adoption of new accounting policies, estimates and corrections or errors. The revised standard did not result in a change to the Company's consolidated financial statements.

Financial Statement Presentation

In April 2007, the CICA amended Handbook Section 1400, "General Standards of Financial Statement Presentation." These amendments require management to disclose any uncertainties that cast significant doubt on the entity's ability to continue as a going concern. In assessing whether the going concern assumption is appropriate, management must take into account all available information about the future, which is at least, but is not limited to, 12 months from the balance sheet date. The standard is effective for fiscal years beginning on or after January 1, 2008. The adoption of this section did not result in a change in the Company's consolidated financial statements.

Inventories

In June 2007, the CICA issued the new accounting standard Handbook Section 3031, "Inventories," replacing Handbook Section 3030, "Inventories." This standard is effective for interim and annual consolidated financial statements for reporting periods beginning

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on January 1, 2008. This section prescribes the accounting treatment for inventories and provides guidance on the determination of costs and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. The adoption of this standard did not result in a change from the Company's existing policy or its consolidated financial statements.

Financial Instruments and Capital Disclosures

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, "Capital Disclosures," Handbook Section 3862, "Financial Instruments – Disclosures," and Handbook Section 3863, "Financial Instruments – Presentation." These standards are effective for interim and annual consolidated financial statements for reporting periods beginning on October 1, 2007. The Company adopted these standards effective January 1, 2008.

The new Sections 3862 and 3863 replace Handbook Section 3861, "Financial Instruments – Disclosure and Presentation," revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new standards place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments, including the significance of financial instruments to the Company's position and performance, disclosures regarding the Company's objectives, policies and process for managing capital and what the Company regards as capital. The adoption of these standards did not have a significant impact on its consolidated financial statements or results.

IFRS

In February 2008, the Canadian Accounting Standards Board confirmed that the use of IFRS will be required in Canada for publicly accountable profit-oriented enterprises for fiscal years beginning on or after January 1, 2011. The Company will be required to report using IFRS beginning January 1, 2011. The Company has begun the process of evaluating the impact of the change to IFRS. During 2008, the Company carried out a diagnostic evaluation of all financial statement elements that would be affected by the implementation of IFRS. The elements that will be affected the most by the implementation of IFRS are revenue recognition, income taxes, capital assets, business combinations and stock-based compensation, although we have not quantified that impact as of December 31, 2008.

The impact of the implementation of IFRS on the Company's information systems, internal controls over financial reporting, disclosure controls and procedures or business activities such as foreign currency hedging, debt covenants, capital requirements or compensation arrangements has not been determined at this time.

The Company plans to complete the assessment of the impact of IFRS on the above-noted items and implement such changes as may be required to ensure that IFRS reporting is fully embedded in the Company's operations by the end of 2009.

Critical Accounting Estimates

Preparing financial statements in accordance with Canadian generally accepted accounting principles (GAAP) requires us to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, disclosure of contingent assets and liabilities and reported amounts of revenue and expenses during the reporting period. Significant accounting policies and methods used in preparation of the financial statements are described in Note 2 to the consolidated financial statements. We evaluate our estimates and assumptions on a regular basis, based on historical experience and other relevant factors. Included in our consolidated financial statements are estimates used in determining doubtful accounts, sales returns allowances, rebates receivable, provision for current and future taxes, measurement and classification of financial instruments, impairment of intangible assets and goodwill and various other reserves and accruals for costs incurred in the period. These estimates are made with management's best judgment given the information available at the time and as much relevant historical data as is available. Actual results could differ from these estimates and assumptions. At the date of this report, Softchoice did not have any significant contingent liabilities or large or unusual reserve items that would expose these financial statements to unusual risk regarding estimates.

Financial Instruments

Risk Management Policies

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at the balance sheet date of December 31, 2008.

Credit Risk

The Company's principal financial assets are cash and cash equivalents and accounts receivable, which represent the Company's exposure to credit risk in relation to financial assets. The Company's credit risk is primarily attributable to its trade receivables. The amounts disclosed in the balance sheet are net of allowances for bad debts, estimated by the Company's management based on prior experience and their assessment of the current economic environment. The Company believes that the credit risk of accounts receivable is limited for the following reasons:

- A broad customer base dispersed across varying industries and geographic locations.
- Trade receivables are outstanding typically for less than 60 days.
- Less than 15 percent of the Company's gross income for fiscal 2008 is generated by its top ten clients, and the Company believes that the credit risk associated with most of these clients is limited.

Finally, the Company performs periodic credit reviews of its clients.

- The Company accounts for a specific bad debt provision when management considers that the expected recovery is less than the actual account receivable.
- The Company's allowance for doubtful accounts is $2,759 (December 31, 2007 – $2,690). Of the Company's accounts receivable approximately 35 percent are greater than 30 days (December 31, 2007 – 20 percent). Any amounts not provided for are considered fully collectible.

Foreign Exchange Risk

The Company's results in its respective functional currencies are subject to fluctuations as a result of exchange rate movements to the extent that transactions are made in currencies other than the functional currencies. The Company operates in both the United States and Canada, which gives rise to a risk that its earnings and cash flows may be adversely impacted by fluctuations in foreign exchange conversion rates. From time to time, the Company may use derivatives to manage this foreign exchange risk. For the parent company's intercompany debt held in U.S. dollars, for every 200 basis points that the Canadian dollar appreciates, the impact on net income would be, on average, an increase of $620. For every 200 basis points that the Canadian dollar depreciates, the impact on net income would be, on average, a decrease of $562.

Interest Rate Risk

On the revolving credit facility and long-term debt, an incremental increase or decrease in the prime rate of 0.25 percent would result in an increase or decrease in interest expense of $155, respectively. In the past, the Company has used an interest rate swap to mitigate the risk of fluctuating interest rates. There is one outstanding derivative financial instrument as at December 31, 2008 relating to an interest rate swap. There were no outstanding derivative financial instruments as at December 31, 2007. This swap is classified as held for trading.

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

The Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed, the disclosure controls and procedures and the internal controls over financial reporting. They have also evaluated the effectiveness of these controls and procedures for the year ended December 31, 2008. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that one control deficiency existed which constitutes a material weakness in the design and operation of these disclosure controls and procedures and internal controls over financial reporting for the year ending December 31, 2008.

A material weakness is defined as a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

In particular, management has determined that controls and procedures for the annual goodwill impairment testing as at December 31, 2008 were not effective. Impairment testing for goodwill is complex and involves significant assumptions and judgment in the determination of the fair values of the Company's reporting units. While management had retained valuation experts to assist in its impairment testing of goodwill, this control deficiency resulted from ineffective monitoring controls over the selection of assumptions and data used to assess whether a potential goodwill impairment loss existed. The deficiency required an adjustment to recognize a goodwill impairment loss of $43.6 million in the financial statements for the year ended December 31, 2008. This is a non-recurring, non-cash charge to the statement of operations.

Management is developing a remediation plan to remediate this material weakness and expects to review the design of its internal controls over the accounting for goodwill impairment during 2009. Management believes the additional reviews by management and its valuation experts completed as part of the audit process for the 2008 fiscal year have mitigated the risk.

Our design, control and evaluation processes did not include an evaluation of any processes at the predecessor companies that were purchased in 2007 and 2008 since our reliance on these control environments was eliminated over the course of the year.

The foregoing discussion should be read in conjunction with the certifications of our Chief Executive Officer and Chief Financial Officer on Forms 52-109F1 to be filed in connection with the annual filings for the 2008 financial year.

Share Capital

The Company had 17,496,807 common shares outstanding at the end of 2008. In addition, a number of employees have stock options outstanding totalling 102,859 options that are exercisable into common shares for prices ranging from $4.75 to $8.10. None of these options were in the money at the end of 2008. All of these options were vested as of December 31, 2007. During 2008, 89,176 options were exercised. The continuity of shares and an explanation of the weighted average number of common shares outstanding in the year are included in Note 10 to the consolidated financial statements.

In 2007, shareholders approved the introduction of a Long-Term Incentive Plan (LTIP) for senior employees involving restricted share units and a Deferred Share Unit Plan (DSU) for the directors of the Company. The details of these plans are provided in the Management Proxy Circular. Shares to be issued under both plans are to be issued at a later date: under the LTIP the issue dates for shares that may be issued under outstanding awards are in 2010 and 2011 following the release of the financial results for 2010, and for the DSU plan the date is upon the retirement of the director from the board. The shares will be provided either through an issuance of treasury shares or through shares purchased on the open market through a normal course issuer bid. If the LTIP shares are issued from treasury, the LTIP expense is not tax-deductible; if the shares are purchased in the market, the expense becomes deductible for tax purposes.

Facilities

Softchoice has 45 offices in North America with operating leases that run from one to 10 years. The Company is obligated to make future minimum annual lease payments under operating leases for office equipment and premises as follows:

(in thousands of U.S. dollars)	Amount
2009	$ 7,790
2010	7,125
2011	6,620
2012	6,500
2013	6,172
Thereafter	10,279
	$ 44,486

Related-Party Transactions

Included in accounts receivable is an amount due from a related party for nil (2007 – $0.5 million) that is due from a major shareholder for product sales with payment terms of net 30 days. Total product sales during the year to this shareholder were $0.3 million (2007 – $0.7 million). This related-party transaction is in the normal course of operations and has been recorded at the exchange amount, which is the amount of consideration established and agreed between the related parties.

The Company offers a Deferred Share Unit Plan (DSU) for members of the Board of Directors. Refer to Note 10 for a description of this plan and the amounts recorded in the financial statements.

The Company contracted with Ernst & Young Orenda Corporate Finance Inc. for assistance during the debt refinancing process. One of the directors of the Company acts as a senior advisor to Ernst & Young. This assignment was in the normal course of operations and conducted under arm's-length terms. Fees paid to Ernst & Young Orenda under this assignment were $0.6 million. Most of these fees were incurred in early 2009 and will be included in deferred financing expenses recorded in the first quarter of 2009.*

Risks

The identification and management of risk are the overall responsibility of management, reporting to the Audit Committee. The mandate of the Audit Committee gives it specific responsibility to review, at least annually, significant risk-management strategies and exposure. At the end of 2008 we increased our focus on risk management as a result of the downturn in the global economy. In particular, we are focusing on aging accounts receivable and credit levels offered by the Company as areas meriting an increased focus on risk. As a result of the economy there are increased risks to the business, including risks that:

- Customers will delay purchases causing a reduction in overall revenues;
- Customers will not be able to obtain sufficient credit to finance IT purchases that they otherwise would have made;
- An increasing number of customers could face bankruptcy or other financial difficulties causing increased bad debt expenses for the Company, and loss of ongoing sales; and
- Suppliers will tighten credit terms and credit requirements making it difficult or more expensive to purchase products for resale.

In addition, there is increased risk of volatility in the Company's quarterly results due to the decision not to hedge certain non-cash foreign exchange exposures as described above.

Management has identified other risks specific to the Company in the upcoming year and has described these risks in the Annual Information Form. This form may be obtained on the Company's website at www.softchoice.com or at www.sedar.com.

* This sentence includes forward-looking statements. See "Caution Regarding Forward-Looking Statements."

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Financial statements are not precise since they include certain amounts based on estimates and judgments. When alternative methods exist, management had chosen those it deems most appropriate in the circumstances in order to ensure that the consolidated financial statements are presented fairly, in all material respects, in accordance with Canadian generally accepted accounting principles. The financial information presented elsewhere in the annual report is consistent with that in the consolidated financial statements.

Softchoice Corporation maintains adequate systems of internal accounting and administrative controls, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant and reliable and that Softchoice Corporation's assets are appropriately accounted for and adequately safeguarded. Our evaluation of these internal controls over financial reporting has been provided in our Management's Discussion and Analysis.

The Board of Directors of the Company is responsible for ensuring that managements fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements and the accompanying Management's Discussion and Analysis. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board, and all of its members are non-executive directors. This committee meets periodically with management and the external auditors to discuss internal controls, auditing matters and financial reporting issues and to satisfy itself that each party is properly discharging its responsibilities. It also reviews the consolidated financial statements, Management's Discussion and Analysis, auditors' report and all other public reporting related to financial matters; and the external services; and considers the engagement or reappointment of the external auditors. The Audit Committee reports its findings to the Board for its consideration when approving the consolidated financial statements for issuance to the shareholders. PricewaterhouseCooopers LLP, the external auditors, have full and free access to the Audit Committee.

David L. MacDonald
President and Chief Executive Officer

Anne Brace
Chief Financial Officer,
Secretary-Treasurer and
Senior Vice President, Finance

Auditors' Report
to the Shareholders of Softchoice Corporation

We have audited the consolidated balance sheets of Softchoice Corporation as at December 31, 2008 and 2007 and the consolidated statements of earnings and retained earnings, cash flows and comprehensive income and accumulated other comprehensive income for each of the years in the two-year period ended December 31, 2008. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2008, in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Ontario
February 11, 2009

Consolidated Balance Sheets

(in thousands of U.S. dollars)

As at December 31	2008	2007
Assets		
Current assets		
Cash	$ 14,098	$ 11,063
Accounts receivable (note 4)	242,411	214,103
Inventories	1,722	172
Prepaids and other assets (note 5)	8,056	5,608
Future income taxes (note 6)	2,095	1,250
Income taxes recoverable	254	–
	268,636	232,196
Property and equipment (note 7)	8,832	8,406
Goodwill (note 8)	10,172	44,720
Intangible assets (note 8)	48,343	31,996
Deferred costs	2,377	1,283
Future income taxes (note 6)	17,401	1,225
	$ 355,761	$ 319,826
Liabilities		
Current liabilities		
Bank indebtedness (note 9)	$ 40,376	$ 29,077
Accounts payable and accrued liabilities	227,884	190,536
Current portion of deferred revenue	5,033	2,637
Income taxes payable	–	61
	273,293	222,311
Long-term liabilities		
Deferred lease inducements	483	591
Deferred revenue	830	327
Long-term debt (note 9)	13,717	21,897
	15,030	22,815
Total liabilities	288,323	245,126
Shareholders' equity		
Capital stock (note 10)	9,827	9,220
Contributed surplus (note 11)	2,495	1,343
Retained earnings	42,000	61,587
Accumulated other comprehensive income	13,116	2,550
	55,116	64,137
Total shareholders' equity	67,438	74,700
	$ 355,761	$ 319,826

Commitments and contingencies (note 12)
Related-party transactions (note 17)
See accompanying notes to consolidated financial statements.

Consolidated Statements of Earnings and Retained Earnings

(in thousands of U.S. dollars, except per share amounts)

For the years ended December 31	2008	2007
Revenue		
Software	$ 675,570	$ 494,315
Hardware	511,532	231,482
Agency fees	57,193	51,285
	1,244,295	777,082
Cost of sales	1,072,492	651,965
Gross profit	171,803	125,117
Expenses		
Salaries and benefits	93,648	56,661
Selling, general and administrative	36,987	28,116
Amortization of property and equipment	3,849	3,173
Amortization of intangible assets (note 8)	6,964	1,948
Goodwill impairment (note 8)	43,624	–
Resizing and refinancing charges (note 13)	2,771	–
Unrealized foreign exchange loss (gain) (note 14)	2,333	(1,175)
	190,176	88,723
Operating (loss) income	(18,373)	36,394
Interest expense	6,286	1,388
Other expense (income) – net	171	(1,944)
(Loss) earnings before income taxes	(24,830)	36,950
Provision for (recovery of) income taxes (note 6)		
Current	6,758	14,770
Future	(17,200)	183
	(10,442)	14,953
Net (loss) earnings for the year	(14,388)	21,997
Retained earnings – Beginning of year	61,587	46,136
Dividends (note 15)	(5,199)	(6,546)
Retained earnings – End of year	$ 42,000	$ 61,587
Net (loss) earnings per common share (note 10)		
Basic	$ (0.82)	$ 1.27
Diluted	$ (0.82)	$ 1.25
Basic weighted average number of shares outstanding	17,472,170	17,311,251
Diluted weighted average number of shares outstanding	17,554,049	17,602,205

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands of U.S. dollars)

For the years ended December 31	2008	2007
Cash provided by (used in)		
Operating activities		
Net (loss) earnings for the year	$ (14,388)	$ 21,997
Items not affecting cash		
Amortization of property and equipment	3,849	3,173
Stock-based compensation (note 11)	1,194	1,166
Future income taxes	(17,200)	183
Amortization of intangible assets	6,964	1,948
Goodwill impairment	43,624	–
Unrealized foreign currency loss	4,703	1,069
(Gain) loss on capital assets	(21)	11
	28,725	29,547
Net change in non-cash working capital items relating to operations (note 18)	2,155	5,517
	30,880	35,064
Financing activities		
Increase in bank indebtedness	21,479	15,392
Increase in long-term debt	–	21,854
Repayment of long-term debt	(3,747)	–
Payment of cash dividend	(5,199)	(6,546)
Proceeds from issuance of common shares (note 10)	565	692
	13,098	31,392
Investing activities		
Purchase of property and equipment	(5,929)	(3,854)
Proceeds on disposal of property and equipment	88	29
Acquisitions, net of cash acquired (note 3)	(34,412)	(59,498)
	(40,253)	(63,323)
Effect of exchange rate changes on cash	(690)	602
Increase in cash	3,035	3,735
Cash – Beginning of year	11,063	7,328
Cash – End of year	$ 14,098	$ 11,063

See accompanying notes to consolidated financial statements.
Supplemental disclosures of cash flow information (note 18)

Consolidated Statements of Comprehensive Income and Accumulated Other Comprehensive Income

(in thousands of U.S. dollars)

As at December 31	2008	2007
Comprehensive income		
Net earnings for the year	$ (14,388)	$ 21,997
Foreign currency translation adjustment	10,566	1,263
Comprehensive income	$ (3,822)	$ 23,260
Accumulated other comprehensive income		
Balance – Beginning of year	$ 2,550	$ 1,287
Foreign currency translation adjustment	10,566	1,263
Balance – End of year	$ 13,116	$ 2,550

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007
(in thousands of U.S. dollars, except per share amounts)

1 Nature of operations

Softchoice Corporation (the "Company") was formed on May 15, 2002 pursuant to an amalgamation with Ukraine Enterprise Corporation (UEC). The Company was incorporated under the *Canada Business Corporations Act*. The Company is a North American business-to-business direct marketer of technology products.

Softchoice's United States operations are carried on by Softchoice Corporation ("Softchoice U.S."), a corporation incorporated under the laws of the state of New York. On December 10, 2007, Softchoice incorporated a wholly-owned subsidiary, Softchoice Holding Corporation ("Holdco"). Holdco is incorporated under the laws of Delaware. Softchoice transferred its ownership in Softchoice U.S. into Holdco in exchange for the common shares of Holdco. Holdco is not an operating company. Softchoice U.S. has also issued preferred shares, which are entirely owned by the Company.

2 Significant accounting policies

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles (GAAP).

Principles of consolidation

These consolidated financial statements include the accounts of Softchoice Corporation and its wholly-owned subsidiary, Holdco, and its wholly-owned subsidiary Softchoice U.S. All intercompany transactions have been eliminated on consolidation.

Cash

Cash consists of cash on hand and cash balances with major financial institutions. Book overdrafts are included in bank indebtedness.

Accounts receivable and allowance for doubtful accounts

Trade accounts receivable are recorded at the fair value net of provisions for doubtful accounts.

The Company maintains an allowance for doubtful accounts at an amount estimated to be sufficient to provide adequate protection against losses resulting from collecting less than the full amount due on its accounts receivable. Individual overdue accounts are reviewed, and allowances are recorded to state accounts receivable at net realizable value when it is known that they are not collectible in full. Additionally, the Company assesses the overall adequacy of the allowance for doubtful accounts by considering various factors including the aging of receivables, historical bad debt experience and the general economic environment. Management's judgment is required when the Company assesses the realization of accounts receivable, including assessing the probability of collection and the current creditworthiness of each customer.

Sales returns allowance

At the end of each period, the Company records an estimate for sales returns based on historical experience. If actual sales returns are greater than those estimated by management, an additional reduction in revenue may be required. The historical estimate is recalculated twice a year to ensure it reflects the most relevant data available.

Deferred revenue

Deferred revenue includes revenue that is not yet earned on sales to customers with extended payment terms beyond 180 days, services sales to customers where performance is not yet complete and maintenance contracts where the contract start date is not yet in effect. Deferred revenue on extended payment terms is recognized as the funds are received from the customer. Revenue on maintenance contracts performed by third-party vendors is recognized once the contract date is in effect. Revenue on maintenance contracts performed by internal resources is recognized ratably over the term of the maintenance period. Internal consulting services are recognized on a per usage basis.

Revenue recognition

The Company generates revenue from selling technology products and licensing the rights to software products to end-users. Sales of product in which the Company acts as a principal are presented on a gross basis. As a principal, the Company obtains and validates a customer order, purchases the product from the supplier at a negotiated price, arranges for shipment of product, collects payment from customers, ensures that product reaches customers, and processes returns. The Company's product is shipped directly to customers using third-party carriers. Sales of product in which the Company acts as an agent are presented on a net basis. As an agent, the Company obtains the order and refers the order to a supplier for a fee.

Revenue is recorded when the product is shipped to customers, Freight on Board shipping point, or when customers acquire the right to use or copy software under license, but in no case prior to the commencement of the term of the software license agreement or service contract, when the price is fixed and determinable and collection is reasonably assured. The Company estimates the level of anticipated sales returns based on historical experience and makes appropriate reserves at the time the revenue is recognized.

Multiple-element arrangements

The Company's business agreements contain multiple elements; however, to date revenue from multiple elements has not been significant. Accordingly, the Company is required to determine the appropriate accounting, including whether the deliverables specified in a multiple-element arrangement should be treated as separate units of accounting for revenue recognition purposes, the fair value of these separate units of accounting and when to recognize revenue for each element.

For arrangements involving multiple elements, the Company allocates revenue to each component of the arrangement using the residual value method, based on vendor-specific objective evidence of the fair value of the undelivered elements. These elements may include one or more of the following: hardware or software maintenance and/or installation. In a multiple-element transaction, the Company first allocates the arrangement fee to the undelivered elements based on the total fair value of those undelivered elements, as indicated by vendor-specific objective evidence. This portion of the arrangement fee is then deferred.

Then the difference between the total arrangement fee and the amount deferred for the undelivered elements is recognized as revenue related to the delivered elements. In some instances, a group of contracts or agreements with the same customer may be so closely related that they are, in effect, part of a single multiple-element arrangement, and therefore, the Company will allocate the corresponding revenue among the various components, as described above.

Professional services

The Company also generates revenue from providing professional services to end-users such as information technology (IT) data centre and business process hosting, data centre configuration and the design and development of IT systems (design and build). Time incurred on the contract or project is tracked and billings are processed based on the percentage-of-completion method of accounting. Under the percentage-of-completion method of accounting, the actual hours incurred and the budgeted hours to complete the project are used to measure progress on each contract.

Revenue and cost estimates are revised periodically based on changes in circumstances. Any losses on contracts are recognized in the period that such losses become known. Time and material contracts are billed as time is incurred.

Cost of sales

Rebates and marketing development funds received from vendors are included in cost of sales and are recorded as earned based on the contractual arrangements with the suppliers.

Marketing development funds

The Company receives funds from vendors to support the marketing and sale of their products. When these funds represent the reimbursement of a specific, incremental and identifiable cost, the related costs are netted against these funds and excess profits, if any, are recorded as a reduction of cost of sales. When the funds are not related to specific, incremental and identifiable costs, the amounts received are recorded as a reduction of cost of sales. Funds are recorded at the later of the date that the vendor is invoiced, according to the terms of the agreement with the vendor, or when the marketing effort is completed.

Inventories

Effective January 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3031, "Inventories." This did not have an impact on the Company's method of accounting for inventory. Inventory is comprised of finished goods and is valued at the lower of cost and net realizable value. Finished goods inventory consists of goods purchased in advance for resale and goods that are awaiting configuration for customers. Cost is determined on a first-in, first-out basis.

Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over their estimated useful lives as follows:

Office equipment	three years
Computer equipment	three year
Computer software	three years
Leasehold improvements	over the term of the related lease

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An estimate of undiscounted future cash flows produced by assets, or the appropriate grouping of assets, is compared with the carrying value to determine whether an impairment exists. If an impairment is determined to exist, the assets are written down to their fair value.

Goodwill

Goodwill is the excess of the fair value over the tangible and identifiable intangible assets and liabilities acquired in a business combination. The Company is required to evaluate goodwill annually or whenever events or changes in circumstances indicate that the fair value of the reporting unit is less than its book value. Absent any triggering events during the year, we conduct a goodwill assessment in the fourth quarter of the year to correspond with our planning cycle. We test impairment, using the two-step method, at the reporting unit level by comparing the reporting unit's carrying amount to its fair value. To the extent a reporting unit's carrying amount exceeds its fair value, we may have an impairment of goodwill. Any permanent impairment in the value of goodwill is written off against income. All of our goodwill is allocated to the Company's two reporting divisions.

Intangible assets

Intangible assets are related to acquisitions and are recorded at their fair value at the acquisition date. These assets include customer relationships, non-compete agreements, and acquired contracts, which have finite lives. These intangible assets are amortized over the estimated economic lives of five to 10 years, unless indicated otherwise.

Management reviews the carrying value of its intangible assets annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. If an impairment is determined to exist, the assets are written down to fair value.

Income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are determined based on the differences between the financial reporting and income tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws. Income taxes are calculated based on management's best estimates and realized tax assets and liabilities may differ from the amounts provided for. The Company provides a valuation allowance for future tax assets when it is more likely than not that some portion or all of the future tax assets will not be realized.

Foreign currency transactions

Assets and liabilities denominated in currencies other than the respective functional currency are translated into the functional currency at exchange rates in effect at the balance sheet date. Revenue and expense items are translated at average rates of exchange for the period. Translation gains or losses are included in the determination of earnings.

The parent company maintains its accounts in Canadian dollars; therefore its functional currency varies from the reporting currency. The accounts of the U.S. subsidiaries are maintained in U.S. dollars. The parent company's financial results are translated using the current rate, under which all assets and liabilities are translated at the exchange rate prevailing at the balance sheet date, and revenues and expenses are translated at average rates of exchange during the period. Resulting translation gains and losses are included in the foreign currency translation adjustment in the consolidated statements of comprehensive income and accumulated other comprehensive income.

Capital management

The Company's objective in managing capital is to ensure a sufficient liquidity position to ensure financial flexibility is present to: increase shareholder value through organic growth and selective acquisitions, allow the Company to respond to changes in economic and/or marketplace conditions, and to finance general and administrative expenses, working capital and overall capital expenditures, as well as expenditures on capital assets deployed. Management defines capital as the Company's shareholders' equity excluding accumulated other comprehensive income. The Company has financed its operating activities primarily through revolver credit facilities with major financial institutions and has always strived to maintain a minimal level of debt. As a result of the acquisitions, the Company's debt levels have increased over historical norms.

Use of estimates and measurement uncertainty

Financial statements prepared in conformity with Canadian generally accepted accounting principles require management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, disclosure of contingent assets and liabilities, and amounts of revenue and expenses reported during the reporting period. Management must also make estimates and judgments about future results of operations, and related specific elements of the business and operations, in assessing recoverability of assets and recorded value of liabilities. Significant areas requiring the use of estimates and assumptions include the determination of the fair value of assets and liabilities acquired in a business combination, the determination of the allowance for doubtful accounts, the determination of impairment of goodwill and other intangible assets, the determination of future income taxes and the determination and classification of stock-based transactions. Actual results could differ from those estimates.

Earnings per share

Basic earnings per share are computed by dividing the earnings for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share are computed using the treasury stock method whereby the weighted average number of common shares used in the basic earnings per share calculation is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued at the beginning of the period. Potential common shares represent the common shares issuable upon the exercise of stock options. Potential common shares are excluded from the calculation if their effect is anti-dilutive.

Pension plan

The Company has a defined contribution plan providing retirement benefits for its employees. Employees may contribute subject to certain limits based on federal tax laws. The Company contributes 50 percent of the employee's contribution up to three percent of the employee's total compensation. The Company contributions vest 50 percent after two years but before three years, 75 percent after three years but before four years, and 100 percent after four years.

Financial instruments

Effective January 1, 2008, the Company adopted CICA Handbook Sections 3862 and 3863, which replace CICA Handbook Section 3861, "Financial Instruments – Disclosure and Presentation." These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. These standards impacted the Company's required disclosures but did not affect the Company's consolidated results or financial position.

(a) Financial assets and financial liabilities

Financial assets and financial liabilities are initially recognized on the trade date at fair value and are subsequently measured based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. The classification generally cannot be changed subsequent to designation at initial recognition of the instruments.

Held for trading

Financial assets that are purchased and held with the intention of generating profits in the near term are classified as held for trading. These instruments are accounted for at fair value with the change in fair value recognized in net earnings during the period. Cash is classified as held for trading.

Held-to-maturity

Securities that have a fixed maturity date and which the Company has positive intention and the ability to hold to maturity are classified as held-to-maturity and accounted for at amortized cost using the effective interest rate method. No investments are classified as held-to-maturity on December 31, 2008.

Loans and receivables

Accounts receivable are classified under this category and are carried at amortized cost using the effective interest rate method.

Available-for-sale

Financial assets designated to be available-for-sale or not designated as one of the above categories are classified as available-for-sale. These assets are accounted for at fair value, with changes in fair value recognized in other comprehensive income. When a decline in fair value is determined to be other than temporary, the cumulative loss included in accumulated other comprehensive income is removed and recognized in net earnings. Gains and losses realized on disposal of available-for-sale securities are recognized in other income in net earnings. No investments are classified as available-for-sale on December 31, 2008.

Financial Liabilities

Bank indebtedness, accounts payable and long-term debt have been classified as other financial liabilities. Financial liabilities are initially recognized on the trade date at fair value and are subsequently measured at amortized cost.

(b) Embedded derivatives

Derivatives may be embedded in other financial and non-financial instruments (the "host instrument"). Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not held for trading or designated at fair value. These embedded derivatives are measured at fair value with subsequent changes recognized in the statement of earnings and retained earnings as an element of administrative expenses.

From time to time, the Company enters into certain contracts for the purchase or sale of non-financial items that are denominated in currencies other than the Canadian or U.S. dollar. In cases where the foreign exchange component is not leveraged and does not contain an option feature and the contract is denominated in the functional currency of the counter-party, the embedded derivative is considered to be closely related and is not accounted for separately.

If the contract is neither in Canadian or U.S. currency nor the functional currency of the counter-party, the embedded foreign currency derivative is separated unless the non-functional item delivered under the contract is routinely denominated in the currency of the contract in international commerce or the currency the contract is denominated in is commonly used in the economic environment in which the transaction takes place.

As of December 31, 2008, the fair market value of embedded derivatives was not material and did not have a significant impact on earnings.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash. The ability to do this relies on the Company collecting its accounts receivable in a timely manner and by maintaining sufficient cash in excess of anticipated needs. At December 31, 2008, the Company's accounts payable and accrued liabilities were $227,884, all of which is current.

Credit risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, accounts receivable and other receivables. The Company minimizes the credit risk of cash and cash equivalents by depositing with only reputable financial institutions. The Company's objective with regard to credit risk in its operating activities is to reduce its exposure to losses. As such, the Company performs ongoing credit evaluations of its customers' financial conditions to evaluate creditworthiness and to assess impairment of outstanding receivables. The Company's allowance for doubtful accounts is $2,759 (December 31, 2007 – $2,690). Of the Company's accounts receivable approximately 23 percent are greater than 30 days (December 31, 2007 – 20 percent). Any amounts not provided for are considered fully collectible.

Foreign exchange and interest rate risk

The Company operates in both the United States and Canada, which gives rise to a risk that its earnings and cash flows may be adversely impacted by fluctuations in foreign exchange conversion rates. From time to time, the Company may use derivatives to manage this foreign exchange risk. For the parent company's intercompany debt held in U.S. dollars, for every 200 basis points that the Canadian dollar appreciates, the impact on net income before tax would be, on average, an increase of $620. For every 200 basis points that the Canadian dollar depreciates, the impact on net income before tax would be, on average, a decrease of $562.

The Company's policy is to use derivatives for risk management purposes only, and it does not enter into such contracts for trading purposes. The Company enters into derivatives only with high credit quality financial institutions.

On the revolving credit facility and long-term debt, an incremental increase or decrease in the prime rate of 0.25 percent would result in an increase or decrease in interest expense of $155, respectively. In the past, the Company has used an interest rate swap to mitigate the risk of fluctuating interest rates. There is one outstanding derivative financial instrument as at December 31, 2008 relating to an interest rate swap (see Note 9). This swap is classified as held for trading. There were no outstanding derivative financial instruments as at December 31, 2007.

Fair value of financial instruments

The book values of cash, bank indebtedness, accounts receivable and accounts payable and accrued liabilities approximate their respective fair values due to the short-term nature of these instruments. The fair value of long-term debt approximates the amortized cost due to floating interest rates inherent in the lending facilities.

Deferred Share Unit Plan and Long-Term Incentive Plan

On May 7, 2007 the shareholders approved the implementation of a Deferred Share Unit Plan (DSU) and Long-Term Incentive Plan (LTIP) for directors and key employees respectively. The Company is accruing for the costs of the DSU and LTIP programs based on projected payments under the respective plans. The details of the plans are described in Note 10.

Stock-based compensation

The Company has a stock-based compensation plan. The Company accounts for this plan, which calls for settlement by the issuance of equity instruments, using the fair value-based method. Under the fair value-based method, compensation cost attributed to options issued to employees is measured at fair value at the grant date and amortized over the vesting period. Compensation cost attributable to awards to employees that call for settlement in cash, which is measured at the intrinsic value between the grant date and measurement date, results in a change in compensation cost.

For options that vest at the end of a vesting period, compensation cost is recognized on a straight-line basis over the vesting period. No compensation cost is recognized for options that employees forfeit if they fail to satisfy the service requirement for vesting.

Recently issued accounting pronouncements

In February 2008, the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets," which will replace Handbook Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs." This revision establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This section applies to fiscal years beginning on or after October 1, 2008 and will be adopted by the Company effective January 1, 2009.

3 Acquisitions

NexInnovations Inc.

On October 12 and 26, 2007, the Company completed the acquisition of the technology solutions and professional services division of NexInnovations Inc., in exchange for total cash consideration of $12,701, including acquisition costs of $898. Under the terms of the agreement, Softchoice acquired the records, authorizations and certifications related to NexInnovations' technology solutions and professional services division. The agreement did not include NexInnovations' break-fix services division.

The acquisition has been accounted for using the purchase method of accounting and, accordingly, the operations of NexInnovations have been included in the consolidated financial statements since the date of acquisition. The Company finalized the allocation of the purchase price during 2008. The intangibles arising from this acquisition will be amortized into earnings over their estimated useful life of 10 years.

The following is the fair value of the assets and liabilities acquired at the date of acquisition:

Intangible assets		
Customer relationships	$	12,701
Total purchase consideration	$	12,701

Software Plus Ltd.

On December 11, 2007, the Company completed the share purchase of Software Plus Ltd. ("Software Plus") in exchange for total cash consideration of $44,140, including acquisition costs of $2,302. Software Plus was the largest corporate reseller of computer software in the U.S. Midwest and the industry's ninth largest Microsoft Large Account Reseller (LAR).

The acquisition has been accounted for using the purchase method of accounting and, accordingly, the operations of Software Plus have been included in the consolidated financial statements since the date of acquisition. The Company finalized the allocation of the purchase price during 2008. The intangibles arising from this acquisition will be amortized into earnings over their estimated useful life of 10 years.

The following is the fair value of the assets and liabilities acquired at the date of acquisition:

Net assets acquired		
Accounts receivable	$ 24,341	
Other current assets	2,374	
Property and equipment	228	
Accounts payable and accrued liabilities	(24,513)	
Other current liabilities	(1,893)	537
Intangible assets		
Customer relationships		20,455
Goodwill		23,148
Total purchase consideration, net of cash acquired		$ 44,140

This goodwill was written off as part of the impairment charge. Refer to Note 8.

Optimus Solutions LLC

On January 2, 2008, the Company completed the share purchase of Optimus Solutions in exchange for total cash consideration of $40,898, including acquisition costs of $1,750. Included in this purchase price is the earn-out portion of $5,949, which was calculated based on the performance of Optimus Solutions in 2008, and a net working capital adjustment of $3,933. Optimus Solutions is a comprehensive IT products and solutions company focused on helping enterprise and mid-market clients plan, build and maintain their information technology infrastructure, with headquarters in Norcross, Georgia and nine offices in the United States.

The acquisition has been accounted for using the purchase method of accounting and, accordingly, the operations of Optimus Solutions have been included in the consolidated financial statements since the date of acquisition. The Company finalized the allocation of the purchase price during 2008. The intangibles arising from this acquisition will be amortized into earnings over their estimated useful life of 10 years.

The following is the fair value of the assets and liabilities acquired at the date of acquisition:

Net assets acquired		
Accounts receivable	$ 29,460	
Other current assets	267	
Property and equipment	327	
Accounts payable and accrued liabilities	(27,291)	
Other current liabilities	(2,008)	755
Intangible assets		
Customer relationships		21,694
Goodwill		18,449
Total purchase consideration, net of cash acquired		$ 40,898

This goodwill was written off as part of the impairment charge. Refer to Note 8.

4 Accounts receivable

Accounts receivable are comprised of the following:

	2008	2007
Trade accounts receivable – net of provision of $2,409 (2007 – $2,099)	$ 222,930	$ 193,439
Other receivables – net of provision of $350 (2007 – $591)	19,481	20,664
	$ 242,411	$ 214,103

5 Prepaids and other assets

Prepaids and other assets include cash deposits and prepaid expenses.

6 Income tax expense and future income taxes

The Company's income tax provision has been determined as follows:

	2008	2007
(Loss) earnings before income taxes	$ (24,830)	$ 36,950
Combined basic federal and provincial income tax rate	33.00%	35.47%
Expected income tax (recovery) expense	$ (8,194)	$ 13,106
Foreign tax rates differential	(2,048)	1,671
Items not deductible for tax purposes (permanent differences)	(431)	668
U.S. state tax deductible for federal purposes	535	(626)
Other	(304)	134
(Recovery of) provision for income taxes	$ (10,442)	$ 14,953

The significant components of future income tax assets and liabilities are:

	2008	2007
Future income tax assets		
Amortization	$ 17,401	$ 1,225
Reserves	2,095	1,250
Net future income tax assets	$ 19,496	$ 2,475

Net future income tax assets are classified as follows:

	2008	2007
Current	$ 2,095	$ 1,250
Long-term	17,401	1,225
	$ 19,496	$ 2,475

The Company has not recorded a valuation allowance against its future income tax assets because it believes it is more likely than not that sufficient taxable income will be realized during future periods to utilize the future tax assets. Realization of the future tax benefit is dependent upon many factors including the Company's ability to generate taxable income in the applicable jurisdictions in future periods.

7 Property and equipment

	2008		
	Cost	Accumulated amortization	Net
Office equipment	$ 7,424	$ 5,835	$ 1,589
Computer equipment	5,897	3,806	2,091
Computer software	5,708	4,128	1,580
Leasehold improvements	4,467	895	3,572
	$ 23,496	$ 14,664	$ 8,832

	2007		
	Cost	Accumulated amortization	Net
Office equipment	$ 7,387	$ 5,669	$ 1,718
Computer equipment	4,891	2,792	2,099
Computer software	5,850	3,802	2,048
Leasehold improvements	3,197	656	2,541
	$ 21,325	$ 12,919	$ 8,406

At December 31, 2008, there was approximately $1,200 in leasehold improvements that was unamortized. These assets were not yet put into service as of December 31, 2008.

8 Goodwill and intangible assets

		Goodwill		Intangibles
Balance as at December 31, 2007	$	44,720	$	31,996
Adjustments – NexInnovations (note 3)		–		273
Adjustments – Software Plus (note 3)		(8,119)		4,058
Additions – Optimus (note 3)		18,449		21,694
Goodwill impairment		(43,624)		–
Amortization		–		(6,964)
Foreign exchange		(1,254)		(2,714)
Balance as at December 31, 2008	$	10,172	$	48,343

			2008			
		Cost		Accumulated amortization		Net
Acquired contracts	$	**2,144**	$	**1,996**	$	**148**
Customer relationships		**60,918**		**10,490**		**50,428**
Favourable lease contract		**110**		**110**		**–**
Foreign exchange impact		**(2,393)**		**(160)**		**(2,233)**
	$	**60,779**	$	**12,436**	$	**48,343**

			2007			
		Cost		Accumulated amortization		Net
Acquired contracts	$	2,144	$	1,907	$	237
Customer relationships		34,893		4,171		30,722
Favourable lease contract		110		110		–
Foreign exchange impact		1,709		672		1,037
	$	38,856	$	6,860	$	31,996

During the fourth quarter of 2008, we performed our annual goodwill impairment assessment. The first step of this assessment indicated an impairment to the value of the goodwill due to the decline in the market value of the Company's stock compared to the book value of the equity.

As a result, the Company performed the second step of the assessment to quantify the amount of impairment. We calculated the implied fair value of the goodwill in the Company's reporting units (Canada and the United States) and compared it to the carrying value of the goodwill. We allocated the fair value of the reporting unit to all of its assets and liabilities. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. This analysis resulted in no implied fair value of goodwill for the U.S. company and no impairment of goodwill in Canada. As a result, we recognized a non-cash goodwill impairment charge of $43,624, $26,638 net of future income taxes. This charge is included in consolidated (loss) earnings for the year ended December 31, 2008. The goodwill impairment charge is non-cash in nature and does not affect our liquidity, cash flows from operating activities, or our compliance with debt covenants. The goodwill impairment is based on management's best estimate and is expected to be finalized in the first quarter of 2009.

9 Bank indebtedness and long-term debt

	2008	2007
Revolving credit facility	$ 466	$ 25,505
Term debt – current	39,910	3,572
	40,376	29,077
Term debt – long-term	13,717	21,897
	$ 54,093	$ 50,974

On December 11, 2007 and on January 2, 2008, the Company increased its revolving credit facility to support the acquisitions of Software Plus and Optimus Solutions and the working capital needs of the Company. The credit facility is with a large American financial institution and its Canadian subsidiary and provides for credit to both the Company and its U.S. subsidiary in the combined amount of $85,000. Of this amount, $25,000 is provided under a term loan payable in semi-annual installments over five years with interest payable monthly. Availability under the remaining facility is subject to a formula, based on eligible accounts receivable. The interest charged on the facility fluctuates from prime to prime plus one percent. The facility is subject to various covenant requirements that have been met for the current period.

On January 2, 2008, the Company entered into a term debt facility with a major Canadian chartered bank to support the acquisition of Optimus Solutions. This debt was due on December 31, 2008 but was extended prior to year-end to March 31, 2009. This debt was unsecured and incurred interest rates of prime plus 2.5 percent in the first quarter of 2008, rising by 50 basis points each quarter thereafter.

The Company has also used $2,462 of its available credit as security for letters of credit issued to various institutions.

The Company has entered into an interest rate swap to convert a total of $7,500 of the floating rate credit facility to a fixed rate of interest. Under the terms of the swap, the Company receives interest based on the CAD-BA-CDOR rate and pays a fixed rate of 5.20 percent on a monthly basis. The swap went into effect on July 11, 2007 and will terminate on January 11, 2009. As of December 31, 2008, the interest rate swap had a negative fair market value of $19. This loss has been recorded in consolidated earnings.

Subsequent to year-end, both the revolving credit facility and the term loan were replaced. Refer to Note 21.

10 Capital stock

Authorized

Unlimited number of common shares

Issued

17,496,807 (December 31, 2007 – 17,407,631)

	Shares	Amount
Balance as at December 31, 2006	17,267,446	$ 8,222
Issued for options exercised (a)	140,185	693
Transfer from contributed surplus (note 11)	–	305
Balance as at December 31, 2007	17,407,631	$ 9,220
Issued for options exercised (a)	89,176	565
Transfer from contributed surplus (note 11)	–	42
Balance as at December 31, 2008	17,496,807	$ 9,827

(a) Common shares issued for options vested and exercised in the year were 89,176 (2007 – 140,185) at a weighted average share price of $6.34 (2007 – $4.94).

Net earnings per common share

Weighted average number of common shares:

	2008	2007
Issued and outstanding – Beginning of year	17,407,631	17,267,446
Weighted average number of shares issued in the year – net of share redemptions	64,539	43,805
Weighted average number of shares used in computing basic earnings per share	17,472,170	17,311,251
Assumed exercise of stock options – net of shares repurchased from proceeds	81,879	290,954
Weighted average number of shares used in computing diluted earnings per share	17,554,049	17,602,205

There were no share redemptions in the year ended December 31, 2008 (December 31, 2007 – nil).

Stock option plan

The Board of Directors approved an Employee Stock Option Plan under which 1,706,000 common shares were reserved for issuance to employees. The options' vesting period was determined by the Board of Directors at the time of grant and expired within six to eight years after the date of grant. All options currently outstanding have vested. The Directors cancelled this plan in November 2006.

A summary of the status of the Company's employee stock option plan is as follows (in Canadian dollars):

	2008		2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding – Beginning of year	**195,446**	**$ 6.43**	337,400	$ 5.87
Granted	**–**	**–**	–	–
Expired	**(3,411)**	**5.56**	(1,769)	5.89
Exercised	**(89,176)**	**6.34**	(140,185)	5.08
Outstanding – End of year	**102,859**	**$ 6.47**	195,446	$ 6.43
Exercisable – End of year	**102,859**	**$ 6.47**	195,446	$ 6.43
Options held by employees	**21,284**	**5.20**	92,821	5.80
Options held by officers	**81,575**	**6.80**	102,625	5.93
	102,859	**$ 6.47**	195,446	$ 6.43

	Options outstanding			Options exercisable		
Range of exercise prices	Number outstanding as at December 31, 2008	Weighted average remaining contractual life (years)	Weighted average exercise price	Number outstanding as at December 31, 2008	Weighted average remaining contractual life (years)	Weighted average exercise price
4.75	31,575	0.25	$ 4.75	31,575	0.25	$ 4.75
5.20	21,284	1.08	5.20	21,284	1.08	5.20
8.10	50,000	1.12	8.10	50,000	1.12	8.10
	102,859	0.94	$ 6.47	102,859	0.94	$ 6.47

The exercise price of stock options granted is determined by the Board of Directors, but cannot be less than 100 percent of the market price of the common shares at the date of grant.

For the purposes of calculating the stock option expense, the fair value of each option granted for each year was estimated using the Black-Scholes option pricing model. The Company has not granted stock options during the 12-month period ended December 31, 2008 (2007 – nil). The 2003 stock options were valued using the following assumptions: expected volatility of 75 percent, risk-free interest rate of five percent, expected lives of four years; and expected dividend yields of nil percent. The weighted average grant date fair value of the options issued in 2003 is $5.57, net of cancellations. There have been no additional stock options issued since 2003.

On May 7, 2007, the shareholders approved the implementation of a Deferred Share Unit Plan (DSU) and Long-Term Incentive Plan (LTIP) for directors and key employees respectively. The details of each plan follow.

Deferred Share Unit Plan

The Company offers a Deferred Share Unit Plan (DSU) for members of the Board of Directors. For each calendar year, the Board of Directors shall determine the amount of compensation for non-executive directors that shall be paid in Deferred Share Units. DSUs are fully vested upon issuance. At the beginning of each calendar quarter, the number of DSUs to be credited to the account of each eligible director will be determined by dividing one-quarter of that portion of the annual compensation that is to be paid in DSUs by the fair market value of the common shares. The fair market value is the volume weighted average trading price per common share of the Company on the Toronto Stock Exchange during the five trading days immediately preceding such quarter if the common shares are then traded on the Toronto Stock Exchange, or the fair market value as determined by the Board.

Each DSU represents the right to receive one common share of the Company when the holder ceases to be a non-executive director of the Company. To satisfy this obligation, the Company shall at its option either (i) issue common shares from treasury to the director, or (ii) direct the Plan Trustee (an independent trust company selected by the Company) to acquire common shares in the market for the purpose of share compensation arrangements, including the DSU Plan. The cost to the Company of the DSU's granted for the year ended December 31, 2008 was $213 (December 31, 2007 – $224).

Long-Term Incentive Plan

Under Softchoice's Long-Term Incentive Plan (LTIP), executives and other senior employees are granted awards to receive Softchoice common shares as a portion of their total compensation. For each year, the participating employee shall elect the number of common shares he or she will agree to hold (the "invested shares") between a minimum number and a maximum number determined by the Human Resource and Corporate Governance Committee. At the end of a stipulated performance period (which is December 31, 2009 in the case of the initial grants), the Company will deliver a multiple of the number of invested shares that were owned by the participating employee throughout the period, where the matching multiple depends on several factors.

LTIP awards will not vest until the end of the applicable performance period. The Company may fulfill its obligations to deliver common shares under the LTIP at its option by either (i) issuing common shares from treasury to the participating employee, or (ii) directing the Plan Trustee (an independent trust company selected by the Company) to acquire common shares in the market for the purpose of share compensation arrangements, including the LTIP. There were no awards made under the LTIP program for the year ending December 31, 2008. The cost of the LTIP program for the 12-month period ended December 31, 2008 was $981 (December 31, 2007 – $941).

11 Contributed surplus

For stock options granted to employees and directors after January 1, 2002, the Company records compensation expense using the fair value method. Fair values are determined using the Black-Scholes option pricing model. Compensation costs are recognized over the three-year vesting period as an increase to stock-based compensation expense and contributed surplus. When options are exercised, the proceeds received by the Company, together with the fair-value amount in contributed surplus are credited to capital stock.

	Amount
Balance of contributed surplus as at January 1, 2007	$ 482
Stock-based compensation expense	1,166
Stock options exercised (note 10)	(305)
Balance of Contributed Surplus as at December 31, 2007	$ 1,343
Stock-based compensation expense	1,194
Stock options exercised (note 10)	(42)
Balance of contributed surplus as at December 31, 2008	$ 2,495

12 Commitments and contingencies

During the normal course of business, there have been various claims instituted against the Company. Management is unaware of any matters that have a material adverse effect on the financial position of the Company or its results of operations. No amount has been provided in these financial statements in respect of these claims. A loss, if any, sustained upon their ultimate resolution will be accounted for prospectively in the period of settlement in the consolidated statements of earnings.

The Company is obligated to make future minimum annual lease payments under operating leases for office equipment and premises as follows:

	Amount
2009	$ 7,790
2010	7,125
2011	6,620
2012	6,500
2013	6,172
Thereafter	10,279
	$ 44,486

13 Resizing and refinancing charges

On October 20, 2008, the Company announced a cost-reduction initiative, which included workforce and expense-base reductions. This resulted in resizing charges of $1,381 for severance-related charges. The Company has accrued for all expected severance-related costs, most of which were paid prior to December 31. In addition, refinancing charges and extension fees of $1,390 were incurred in connection with the extension of the term loan facility and the debt refinancing. See Notes 9 and 21.

14 Unrealized foreign exchange loss (gain)

During the year, the Company recorded an unrealized foreign exchange loss on U.S.-dollar-denominated intercompany debt that is owed to the U.S. subsidiary from the Canadian parent. During 2008, the Company hedged against this exposure to reduce the volatility in earnings. The impact on earnings, net of the hedge, was as follows:

	2008	2007
Unrealized foreign exchange loss (gain)	$ 2,333	$ (1,175)

All other foreign exchange gains and losses are included in selling, general and administrative costs and only the intercompany effect has been separately disclosed.

15 Dividends

In 2007 the Company paid an annual dividend of C$0.40 per common share in installments of C$0.10 each quarter. On March 31, 2008, June 30, 2008, and September 30, 2008, the Company paid quarterly dividends of C$0.10 per common share. During the fourth quarter, the Board of Directors suspended the quarterly dividend payment.

16 Defined contribution plan

The Company has a defined contribution plan providing retirement benefits for its employees. Employees may contribute subject to certain limits based on federal tax laws. The Company contributes 50 percent of the employee's contribution up to three percent of the employee's total compensation. The Company contributions vest 50 percent after two years but before three years, 75 percent after three years but before four years, and 100 percent after four years. The total pension expense for 2008 was $741 (2007 – $120).

17 Related-party transactions

Included in accounts receivable is an amount due from a related party.

There was nil due from a major shareholder for product sales with payment terms of net 30 days (December 31, 2007 – $549). Total product sales to this shareholder during the year ended December 31, 2008 were $298 (December 31, 2007 – $721).

The Company offers a Deferred Share Unit Plan (DSU) for members of the Board of Directors. Refer to Note 10 for a description of this plan and the amounts recorded in the financial statements.

The Company contracted with Ernst & Young Orenda Corporate Finance Inc. for assistance during the debt refinancing process. One of the directors of the Company acts as a senior advisor to Ernst & Young Orenda. This assignment was in the normal course of operations and conducted under arm's-length terms. Fees paid to Ernst & Young Orenda under this assignment will be included in deferred financing charges and netted against the long-term debt balance.

These related-party transactions are in the normal course of operations and have been recorded at the exchange amount, which is the amount of consideration established and agreed between the related parties.

18 Supplemental disclosures of cash flow information

	2008	2007
Interest paid	$ 3,420	$ 708
Taxes paid	7,805	15,984

Net change in non-cash working capital items relating to operations is as follows:

	2008	2007
Accounts receivable	$ (18,498)	$ (25,404)
Inventories	(1,529)	112
Prepaids and other assets	(3,730)	(1,643)
Deferred costs	(1,094)	(291)
Accounts payable and accrued liabilities	24,802	31,733
Deferred revenue	2,899	1,809
Deferred lease inducements	(108)	402
Income taxes recoverable	(587)	(1,201)
	$ 2,155	$ 5,517

19 Segmented information

The Company's assets, operations and employees are located in Canada and the United States. Revenues are attributed to customers based on where the products are shipped.

Geographic Information

Geographic segments of revenue are as follows:

	December 31, 2008	December 31, 2007
Canada (1)	$ 463,436	$ 334,451
United States	780,859	442,631
	$ 1,244,295	$ 777,082

(1) Revenue for the year ended December 31, 2008 and 2007 is C$495,238 and C$355,209, respectively.

Geographic segments of property and equipment are located as follows:

	December 31, 2008	December 31, 2007
Canada	$ 6,678	$ 7,166
United States	2,154	1,240
	$ 8,832	$ 8,406

Geographic segments of goodwill are as follows:

	December 31, 2008	December 31, 2007
Canada	$ 5,237	$ 6,491
United States	4,935	38,229
	$ 10,172	$ 44,720

Geographic segments of intangible assets are as follows:

	December 31, 2008	December 31, 2007
Canada	$ 10,487	$ 15,599
United States	37,856	16,397
	$ 48,343	$ 31,996

20 Economic dependence

Approximately 27 percent (December 31, 2007 – 37 percent), of the Company's sales in the year relate to products published by Microsoft.

21 Subsequent event

On February 2, 2009, the Company entered into long-term credit agreements with two major financial institutions. The agreements provide the Company with access to up to C$140 million in debt financing, replacing its existing revolving credit facility and short-term debt. The new capital structure includes a three-year C$115 million revolving asset-backed loan (ABL) facility and a five-year US$20.5 million term loan. A portion of the proceeds from this financing has been used to repay the Company's previous credit facilities, including a C$44.5 million term loan and C$21.2 million outstanding under the revolving credit facility. The ABL incurs interest at prime plus two percent or Banker's Acceptance/Libor plus three percent. The term loan is repayable in equal quarterly installments over the five-year term and incurs interest at 17.5 percent. Interest rates may fall to 16 percent after the first year if certain financial covenants are met.

22 Comparative figures

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.

Ten-Year Financial Summary

(in thousands of U.S. dollars, except per share amounts)

	Dec. 31 08	Dec. 31 07	Dec. 31 06	Dec. 31 05	Dec. 31 04*	Dec. 31 03*	Dec. 31 02*	Dec. 31 01**	Mar. 31 01*	Mar. 31 00*
Revenue	**$ 1,244,295**	$ 777,082	$ 703,237	$ 639,482	$ 477,935	$ 390,793	$ 420,006	$ 254,343	$ 262,575	$ 176,299
Gross profit as a percentage of revenue	**13.8%**	16.1%	14.0%	12.7%	13.3%	12.0%	12.6%	12.2%	11.3%	12.1%
Gross profit per customer	**8.6**	7.8	6.6	5.4	4.5	3.8	4.4	2.7	2.5	2.0
Net earnings	**(14,388)**	21,997	15,930	13,108	9,731	3,118	9,554	3,258	1,583	180
Return on equity	**(0.82)**	1.27	0.93	0.76	0.57	0.18	0.56	0.20	0.10	0.01
Total assets	**355,761**	319,826	187,254	173,485	103,523	114,797	103,581	79,681	73,214	44,087
Cash flow from operations	**30,880**	35,064	11,470	4,021	10,232	3,654	11,367	9,844	(57)	(1,427)
Number of offices	**43**	41	34	32	32	33	32	34	33	33
Number of employees	**897**	795	624	604	463	436	456	426	424	319

Notes:

*All figures have been restated in U.S. dollars and are unaudited.

**In 2001, Softchoice changed its fiscal year-end from March 31 to December 31. As a result, information for the period ended December 31, 2001, is for a nine-month period only.

Directors and Officers

Directors

A. Kevin Francis
President and CEO of CenterBeam, a North-American-managed IT services provider based in San Jose, California, and the former president and CEO of Xerox Canada.

Gilles Lamoureux
Senior advisor to Ernst & Young Corporate Finance Inc. and a former founding partner of Orenda Capital Finance.

William W. Linton
Vice president of finance and CFO of Rogers Communications Inc. and the former president and CEO of Call-Net Enterprises Inc.

Robert W. Luba
President of Luba Financial Inc. and the former president and CEO of Royal Bank Investment Management Inc.

David L. MacDonald
President and CEO of Softchoice and chairman of the Information Technology Association of Canada (ITAC).

N. Frank Potter
Chairman, Emerging Markets Advisors Inc., a consulting firm specializing in foreign direct investment, and the former executive director of The World Bank.

Allan J. Reesor
Former CIO of General Foods (Kraft), Canada Packers (Maple Leaf Foods), TNT Canada and the Ontario Teachers' Pension Plan.

William P. Robinson
President and a director of Manvest Inc., a Calgary-based private-equity investment company.

Lawrence G. Tapp
Chairman and director on the boards of Automation Tooling Systems Inc., Mainstream Equities Inc. and Comcare Health Services and the former dean of the Richard Ivey School of Business at the University of Western Ontario.

Officers

David L. MacDonald
President and Chief Executive Officer

Lawrence G. Tapp
Chairman of the Board

Anne Brace
Chief Financial Officer, Secretary-Treasurer and Senior Vice President, Finance

Nick Foster
Senior Vice President, Marketing

Steve Johnson
Senior Vice President, Solutions

Steve Leslie
Senior Vice President, Sales

Kevin Wright
Senior Vice President, Operations and Chief Information Officer

Josh Greene
Vice President, Telesales

Maria Odoardi
Vice President, People

Rob O'Sullivan
Vice President, Sales, U.S. East

Sandy Potter
Vice President, Business Development

Doug Stabenow
Vice President, Sales, U.S. Central

Sergio Vettese
Vice President, Finance

Nicole Wengle
Vice President, Sales, Canada

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Corporate and Shareholder Information

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Chief Financial Officer,
Secretary-Treasurer and
Senior Vice President, Finance
investor_relations@softchoice.com

Annual Meeting of Shareholders

Wednesday, May 6, 2009
10:00 a.m. to 12:00 p.m. Eastern Time
TSX Broadcast Centre Gallery
The Exchange Tower
130 King Street West
Toronto, Ontario

Registrar and Transfer Agent

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Toronto, Ontario M5J 2Y1
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Exchange Listing

The Toronto Stock Exchange
TSX: SO

Solicitors

Borden Ladner Gervais LLP
Pillsbury Winthrop Shaw Pittman LLP

Auditors

PricewaterhouseCoopers LLP
Chartered Accountants

Bankers

Bank of America, N.A.
BMO Bank of Montreal

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Printed in Canada