2010
FINANCIAL REVIEW

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TO OUR SHAREHOLDERS, CUSTOMERS, PARTNERS AND EMPLOYEES

MESSAGE

DAVID MACDONALD
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

A year ago in my letter to you I pointed to the first signs of a recovery in IT spending. The technology refresh and infrastructure projects many organizations had put on hold during the worst of the recession were just starting to come back online. But beyond this pent-up demand we saw a deeper trend emerging: a new investment cycle fueled by the evolution of the data center into an unfettered platform for innovation.

Advances in mobile computing, desktop virtualization and the development of the cloud are having profound implications for how businesses use technology to serve customers, share information and hone their competitive edge. More than just the greatest wave of transformation in over a decade, these changes are also creating unprecedented growth and innovation. As our 2010 results demonstrate, Softchoice has never been better positioned to help organizations capitalize on these opportunities.

Our commitment to offering deep expertise across a broad and increasingly interconnected array of solutions has translated into a strong return to growth. For fiscal year 2010, our revenues jumped 17.2 percent to US$884 million(1). On a full-year basis, adjusted earnings(2) grew by 41 percent to US$18 million while adjusted earnings per share grew by 26 percent to US$0.91. In addition, we ended the year with US$35.8 million in cash on hand.

Adding value at every stage of the technology life cycle has resulted in robust demand across all the major segments of our business. Backed by one of the most compelling product pipelines in recent memory – including the unprecedented success of Windows 7 – we increased Microsoft sales by 15 percent, furthering our standing as one of North America's most trusted Large Account Resellers.

Software investments have always preceded the purchase of supporting hardware infrastructure. Along with our investments in pre-sales and professional services resources, we continued to leverage this strategic advantage to gain market share, growing hardware sales, including sales of servers, storage, networking and client computing devices, by 20 percent.

Possibilities Unlimited

It is clear that the technology landscape is undergoing remarkable change. Once separate and distinct resources such as server and storage platforms, network connectivity, software and client computing devices are now being united in a virtualized environment. The silos of IT are being dissolved in favor of treating the data center as a single, dynamic resource pool. In this new world of convergence, everything is connected.

This shift is creating enormous complexity and, with it, growing demand for integrated expertise across multiple technology practices. A holistic understanding of how solutions are designed and implemented, as well as their impact on legacy systems, is paramount. So, too, is providing access to volume purchasing programs and asset management services to ensure that every dollar invested is fully maximized. We believe our ability to meet a broad range of requirements is creating significant differentiation for Softchoice. At this time, few competitors offer the breadth of solutions and the technical competency that we do. And fewer still can match the efficiency and flexibility of our supply chain and e-commerce capabilities.

Our Strategy – Be the Single Source

We have never been more confident of our growth strategy: diversify our business and enhance our value by increasing the scope of the solutions and services we provide to our customers. That means delivering the technical expertise of a local solution partner just as efficiently as we do the supply chain and e-commerce efficiencies of a national reseller. In other words, offering customers the best of all possible worlds.

Even with all of our progress, we've only just begun to capitalize on the opportunities before us. Of the more than 14,000 small, mid-market, enterprise and public sector organizations we do business with across North America, many know us as a leader in software licensing solutions and IT asset management, and others for our expertise in complex solution design. As the technology

(1) During the quarter ended December 31, 2010, the Company changed its revenue accounting policy from gross revenue reporting to net revenue reporting for certain arrangements where the hardware and software support services are performed primarily by third parties. These changes are discussed in detail in the "Change in Accounting Policy" section of the Management's Discussion and Analysis and in Note 2 of the consolidated financial statements.
(2) A definition of adjusted earnings can be found in the "Adjusted Net Earnings" section of the Management's Discussion and Analysis.

refresh cycle continues and capital expenditures gain momentum, our growth strategy remains simple: become the single source for IT needs by doing more for the organizations we're already serving today.

Meeting or even exceeding expectations is not enough. We believe in helping organizations realize undiscovered opportunities. Fulfilling this promise begins with managing all lines of business using a single customer relationship management (CRM) platform and tightly integrating our supply chain and e-commerce capabilities with leading distribution partners. This ensures consistent and efficient technology fulfillment. It also helps us understand our customers' buying patterns so we can proactively recommend the most advantageous solutions and purchasing programs.

Of course, technology is ultimately a tool to improve business. Business challenges themselves are solved by people. This is one of the reasons we continue to invest in our four regional call centers. Over the past year, we added resources to provide extra support around order management so our Inside Sales Account Managers can spend more time nurturing the relationships we have with our existing customers. Our call centers are equally important as an engine for new account acquisition. To reach more customers, we have expanded our coverage model with the addition of a new team of Territory Sales Representatives. Their role is to introduce the value of Softchoice to a new generation of customers through phone-based selling and collaboration tools.

Our skilled and dedicated workforce is a fundamental differentiator of our business. Beyond economies of scale and delivering WOW service, our call centers play a critical role in growing our talent from within and allowing our people to achieve their potential. A well-defined career path and great training are key ingredients in retaining exceptional people. It has also been our experience that individuals who follow the path from our call centers into field sales positions quickly achieve high rates of productivity. That's good for our customers and our business.

Naturally, when it comes to tackling mission-critical infrastructure projects, nothing can replace the value and efficiency of face-to-face interaction. Working with customers in person in 46 markets across North America continues to distinguish Softchoice in a competitive market. With the ever-increasing complexity of today's technology environments, this approach is creating new opportunities for growth.

Whether considering desktop virtualization or private cloud infrastructure, all roads lead to the data center. This convergence is placing a premium on technical design and services delivery. Over the past year, we increased our bench of pre-sales and professional services representatives to more than 200 people. Combined with our local presence, Softchoice has the unmatched ability to provide specialized knowledge across a broad range of solutions in person on behalf of any size of organization, anywhere in North America.

Growth Unlimited – Reaching for the Clouds

The extraordinary focus on cloud computing is a strong indication that even in the face of a gradual economic recovery, innovation remains the most potent way to improve business performance. The cloud, of course, is not an "all or nothing" endeavor. Given concerns around security and compliance, most enterprises will likely adopt a hybrid approach. This entails implementing private cloud architectures to create greater internal efficiency while using the public cloud to access dynamically scalable computing power and software-as-a-service offerings. We intend to take a leadership role in each of these areas.

Helping organizations identify the ideal makeup of their IT environment is arguably the most important step. No company is better positioned to do this than Softchoice. Our assessment-led approach has helped hundreds of organizations make informed decisions about desktop and server virtualization, as well as networking and storage optimization. Our data-driven, proprietary process will become even more critical as organizations seek their own unique approaches to the cloud. We will also play a critical role by leveraging our pre-sales resources to help customers design and implement private cloud infrastructure. In addition to supplying the physical components, we will continue to provide the project management expertise to help organizations take advantage of new software-as-a-service offerings like Microsoft's Exchange 2010 and SharePoint 2010.

This is an especially exciting time for Softchoice. In many ways, it is not unlike our earliest beginnings. More than twenty years ago we pointed the way forward by helping organizations unlock the power of the PC through the proliferation of new software applications. The current wave of innovation is every bit as promising, perhaps even more so. So, too, is our ability to help our customers lower costs, reduce risk and transform the way they leverage IT.

Throughout our evolution, we have been blessed with a dedicated group of people committed to making Softchoice a growth company. In January, we were deeply saddened by the loss of Larry Tapp, the Chairman of our Board of Directors. Like so many at Softchoice, Larry embodied a passion for moving our business forward in ways that contribute to the success of our customers, our partners, our people and the communities where we work and live. He will be deeply missed. But through his example, and with the support of our exceptional team, we will continue to seize the opportunities before us.

Sincerely,

David MacDonald
President and Chief Executive Officer

MD+A

MANAGEMENT'S DISCUSSION AND ANALYSIS

March 2, 2011

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, consisting solely of independent directors, has reviewed this document and all other publicly reported financial information for integrity, usefulness, reliability and consistency.

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 Annual Information Form is also available on these websites.

Unless otherwise stated, dollar amounts referred to in this document are expressed in U.S. dollars.

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 Company's current Annual Information Form. They include risks related to economic conditions, bad debts, access to credit and access to capital; risks related to debt financing; exchange rate risk; and the risk of credit card fraud. The Company also faces risks related to the information technology (IT) distribution channel such as dependence on Microsoft, reliance on financial incentives, dependence upon distributors, the inability to respond to changes in the IT distribution channel, technical innovation, competition, the risk of IT product defects and the risk of providing technology solutions offerings. There are additional risks relating to the management of the business, including the inability to successfully execute strategies; customer attrition; productivity; compliance with U.S. federal government procurement processes; sales model 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 Company's current Annual Information Form.

Change in Accounting Policy

During the quarter ended December 31, 2010, the Company undertook a review of its accounting for third-party maintenance contracts. The goal of this review was to ensure that the Company's accounting for these contracts continued to be appropriate based on the facts and circumstances taking into account the indicators outlined in EIC 123, Reporting Revenue Gross as a Principal versus Net as an Agent (EIC 123). As a result of this review the Company changed its revenue accounting policy from gross revenue reporting to net revenue reporting for hardware and software maintenance and support contracts where the services are performed primarily by third parties. Based on the Company's current interpretation of the relative merits of the various criteria for gross versus net recognition in EIC 123, the Company determined that this change better reflects the substance of these transactions between the Company and its clients and is more consistent with industry practice for these arrangements. The change to a more relevant accounting policy had no impact on the gross profit, income from operations or net income amounts previously reported for any period.

The tables below reflect the effect of the change on the amounts previously reported for the year ended December 31, 2009 and the amounts that would have been reported for the year ended December 31, 2010 under the gross revenue reporting method.

Year ended December 31	**2010**		
(In thousands of U.S. dollars)	**Gross Revenue Reporting Method**	**Reclassification**	**Net Revenue Reporting Method**
Revenue	**$ 1,188,260**	**$ (304,246)**	**$ 884,014**
Cost of sales	**1,023,681**	**(304,246)**	**719,435**
Gross profit	**164,579**	**–**	**164,579**
Income from operations	**31,728**	**–**	**31,728**
Net Income	**$ 20,242**	**$ –**	**$ 20,242**

Year ended December 31	2009 – Restated		
(In thousands of U.S. dollars)	Gross Revenue Reporting Method	Reclassification	Net Revenue Reporting Method
Revenue	$ 1,000,248	$ (246,104)	$ 754,144
Cost of sales	857,979	(246,104)	611,875
Gross profit	142,269	–	142,269
Income from operations	24,218	–	24,218
Net Income	$ 22,263	$ –	$ 22,263

Use of Non-GAAP Terms

In our financial reporting, we refer to imputed revenue, EBITDA, and adjusted net earnings, all of which are non-GAAP terms. These terms do not have standardized meaning under GAAP and therefore it is unlikely they will be comparable to similar measures used by other companies.

Imputed Revenue

Due to the Company's change in accounting policy the definition of imputed revenue has been revised. Previously imputed revenue was defined as the price paid by the customer to Microsoft for Enterprise Agreements (EAs) that are transacted through Softchoice sales representatives. Total imputed revenue now also includes the difference between what we invoice our customers for software and hardware maintenance contracts and the net amount that is reflected in our financial statements. We now include the amount billed by the Company to the customer for Microsoft software assurance agreements, previously recognized on a gross basis, and have renamed the total Microsoft imputed revenue. Additionally, the Company believes it is important to disclose the amount of gross billings associated with other software and hardware maintenance contracts that we now recognize on a net basis. This amount is included in other imputed revenue in the tables below.

The following tables show the change in imputed revenue for 2009 and for the three months ended December 31, 2009, and the amount that would have been reported for the year ended December 31, 2010, and for the three months ended December 31, 2010 under the gross revenue reporting method.

Imputed Revenue (continued)

Year ended December 31	2010		
(In thousands of U.S. dollars)	**Gross Revenue Reporting Method**	**Reclassification**	**Net Revenue Reporting Method**
Revenue	**$ 1,188,260**	**$ (304,246)**	**$ 884,014**
Agency fees	**(45,187)**	**–**	**(45,187)**
Microsoft imputed revenue	**731,334**	**99,633**	**830,967**
Other imputed revenue	**–**	**204,613**	**204,613**
Total revenue, including imputed revenue	**$ 1,874,407**	**$ –**	**$ 1,874,407**

Year ended December 31	2009 – Restated		
(In thousands of U.S. dollars)	Gross Revenue Reporting Method	Reclassification	Net Revenue Reporting Method
Revenue	$ 1,000,248	$ (246,104)	$ 754,144
Agency fees	(40,974)	–	(40,974)
Microsoft imputed revenue	656,511	54,115	710,626
Other imputed revenue	–	191,989	191,989
Total revenue, including imputed revenue	$ 1,615,785	$ –	$ 1,615,785

Three months ended December 31	Q4 2010		
(In thousands of U.S. dollars)	**Gross Revenue Reporting Method**	**Reclassification**	**Net Revenue Reporting Method**
Revenue	**$ 339,134**	**$ (85,491)**	**$ 253,643**
Agency fees	**(11,307)**	**–**	**(11,307)**
Microsoft imputed revenue	**656,511**	**19,465**	**710,626**
Other imputed revenue	**–**	**66,026**	**191,989**
Total revenue, including imputed revenue	**$ 498,670**	**$ –**	**$ 498,670**

Three months ended December 31	Q4 2009 – Restated		
(In thousands of U.S. dollars)	Gross Revenue Reporting Method	Reclassification	Net Revenue Reporting Method
Revenue	$ 283,889	$ (65,597)	$ 218,292
Agency fees	(10,052)	–	(10,052)
Microsoft imputed revenue	151,062	12,019	163,081
Other imputed revenue	–	53,578	53,578
Total revenue, including imputed revenue	$ 424,899	$ –	$ 424,899

Microsoft pays Softchoice an agency fee or commission for EA sales, and therefore Softchoice does not reflect the Imputed Revenue in the revenue line for these transactions but records only the agency fees earned within revenue. Microsoft 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 fewer products, when that would not be the case. The use of Microsoft Imputed Revenue also aids in comparison with our competitors. This measure is not likely to be used by our competitors in the industry because Softchoice sells a greater portion of EA licenses than our competitors. We believe that an EA often provides a more cost-effective solution for our customers, particularly in the small and medium business (SMB) market.

The tables below show total revenue, including imputed revenue, for the fourth quarter and year ended December 31, 2010 compared to the same periods of the prior year.

Three months ended December 31 (In thousands of U.S. dollars)	Q4 2010	Q4 2009 – Restated	% Change
Net sales, as reported	**$ 253,643**	$ 218,292	16.2%
Agency fees	**(11,307)**	(10,052)	12.5%
Microsoft imputed revenue*	**190,308**	163,081	16.7%
Other imputed revenue	**66,026**	53,578	23.2%
Total revenue, including imputed revenue	**$ 498,670**	$ 424,899	17.4%

Year ended December 31 (In thousands of U.S. dollars)	2010	2009 – Restated	% Change
Net sales, as reported	**$ 884,014**	$ 754,144	17.2%
Agency fees	**(45,187)**	(40,974)	10.3%
Microsoft imputed revenue*	**830,967**	710,726	16.9%
Other imputed revenue	**204,613**	191,889	6.6%
Total revenue, including imputed revenue	**$ 1,874,407**	$ 1,615,785	16.0%

* Agency fees are included in imputed revenue.

EBITDA

EBITDA is defined as operating income plus amortization of property and equipment and amortization of intangible assets. EBITDA, as defined in our loan agreements, 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 we use this measurement when evaluating potential acquisition targets.

We use our EBITDA results to compare our own valuation multiples to those of our competitors in order to evaluate how we might improve share price performance. We believe that our shareholders and potential investors use EBITDA in making investment decisions about the Company and measuring our operating results compared to others in our industry and other potential investments.

Three months ended December 31 (In thousands of U.S. dollars)	Q4 2010	Q4 2009	% Change
Income from operations	**$ 10,658**	$ 9,564	11.4%
Amortization of property and equipment	**693**	723	(4.2%)
Amortization of intangible assets	**1,577**	2,018	(21.9%)
EBITDA	**$ 12,928**	$ 12,305	5.1%

Year ended December 31 (In thousands of U.S. dollars)	2010	2009	% Change
Income from operations	**$ 31,728**	$ 24,218	31.0%
Amortization of property and equipment	**2,797**	2,907	(3.8%)
Amortization of intangible assets	**6,639**	7,949	(16.5%)
EBITDA	**$ 41,164**	$ 35,074	17.4%

Adjusted Net Earnings

Adjusted Net Earnings eliminates the after-tax impact related to any foreign exchange gain or loss on the cash, intercompany debt and external debt denominated in a currency other than the Company's functional currency.

Three months ended December 31 (In thousands of U.S. dollars, except per share amounts)	**Q4 2010**	Q4 2009	% Change
Net income	**$ 7,213**	$ 7,098	1.6%
Foreign exchange (gain), net of income tax	**(1,333)**	(1,679)	(20.6%)
Adjusted net earnings	**$ 5,880**	$ 5,418	8.5%
Adjusted net earnings per share	**$ 0.30**	$ 0.30	0.0%

Year ended December 31 (In thousands of U.S. dollars, except per share amounts)	**2010**	2009	% Change
Net income	**$ 20,242**	$ 22,263	(9.1%)
Foreign exchange (gain), net of income tax	**(2,223)**	(9,514)	76.6%
Adjusted net earnings	**$ 18,019**	$ 12,749	41.3%
Adjusted net earnings per share	**$ 0.91**	$ 0.72	26.4%

In order to segregate underlying business performance from the impact of currency fluctuations, various sections of this document refer to the impact of currency on financial results.

Net earnings for the fourth quarter was $7.2 million compared to net earnings of $7.1 million reported for the same quarter of the prior year.

Adjusted net earnings for the fourth quarter were $5.9 million compared to adjusted net earnings of $5.4 million reported for the same quarter of the prior year. Adjusted net earnings per share (basic and diluted) was $0.30 per share compared to adjusted net earnings of $0.30 per share for the same period of the prior year. The total weighted average number of shares outstanding for the fourth quarter of 2010 was 19.8 million, compared to 18.0 million for the fourth quarter of 2009.

Selected Annual Information

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

Year ended December 31 (In thousands of U.S. dollars, except per share amounts)	**2010**	2009 – Restated	2008
Net sales, as reported*	**$ 884,014**	$ 754,144	$ 1,244,295
Total revenue (including imputed revenue)	**1,874,407**	1,615,785	1,958,441
Gross profit	**164,579**	142,269	171,803
EBITDA	**41,164**	35,074	38,876
Net income (loss) before income taxes	**30,805**	31,840	(24,830)
Net income (loss)	**20,242**	22,263	(14,388)
Earnings (loss) per share			
Basic	**$ 1.02**	$ 1.26	$ (0.82)
Diluted	**$ 1.02**	$ 1.26	$ (0.82)
Total assets	**351,769**	290,366	355,761
Long-term debt	**8,568**	12,671	13,717
Shareholders' equity	**116,543**	96,358	67,438
Dividends	**–**	–	5,199

* Revenue for 2008 was calculated using our previous revenue accounting methodology for maintenance contracts, where these arrangements were recorded on a gross basis, in accordance with EIC 123, Reporting Revenue Gross as a Principal versus Net as an Agent. In the fourth quarter of 2010, the Company changed its accounting policy for maintenance contracts and now records these arrangements on a net basis. The comparative 2009 revenue figures have been restated. For further information, refer to the section "Change in Accounting Policy."

The Company experienced a return to growth in 2010 following the global economic downturn that began in late 2008. The integration of the three companies acquired in late 2007 and early 2008, continues to benefit the Company through expansion of the products and services we sell, and the solutions that we can offer our customers. While net income in the current year of $20.2 million declined from 2009 by approximately 9 percent, this decline is largely attributable to a foreign currency gain in 2009 of $12.6 million, compared to a gain of $3.0 million in 2010. The Company's strengthening EBITDA reflects gross profit growth, along with the continuing benefit from cost containment strategies put into place in 2009. Net income in 2008 reflects the effect of a goodwill impairment that was triggered by a decline in the market capitalization of the Company's shares.

Fourth Quarter Highlights

- Total revenue for the quarter was $253.6 million, up 16.2 percent from $218.3 million in the same quarter of the previous year. Eliminating the impact of foreign exchange, revenue increased by 8.5 percent during the fourth quarter compared to the same period of the prior year. Total revenue, including imputed revenue for the quarter was $498.7 million, an increase of 17.4 percent compared to the same quarter of the prior year.
- Sales from Microsoft products were up 24.2 percent in the quarter, while sales of hardware and other software grew by 13.2 percent and 13.1 percent, respectively, during the quarter.
- Gross profit for the quarter was $45.2 million, an increase of 14.4 percent from $39.5 million in the same quarter of 2009. Eliminating the impact of foreign exchange, gross profit grew by 12.9 percent.
- Adjusted net earnings for the quarter were $5.9 million compared to adjusted net earnings of $5.4 million in the fourth quarter of 2009.
- Cash generated from operations was $10.5 million in the quarter, compared to cash used in operations of $6.6 million in the same quarter of 2009.
- Total debt of the Company was $12.7 million at December 31, 2010, and the Company had $35.8 million in cash on hand.
- EBITDA increased by 5.1 percent for the quarter to $12.9 million, from $12.3 million in the same quarter of 2009.

Management Comments and Business Outlook*

The Company's investments in pre-sales and professional services have enhanced our ability to manage complex data center projects transitioning to private cloud environments, in addition to providing efficient fulfillment on the day-to-day purchase of PCs and business productivity software. This focus on creating a more diversified offering is increasing the Company's profitability and, with it, the depth of our relationships with our customers. Over the past year, Softchoice has successfully increased the gross profit derived from our largest, most strategic accounts by 16 percent. With more than 14,000 active customers, the Company has significant growth opportunities by delivering an ever increasing array of solutions and services to the organizations we already serve.

In 2011, the Company will continue to focus on capturing an ever higher share of customers' IT spending by aligning to the major growth drivers within our industry. Mobility computing, including the proliferation of tablet PCs, is creating new opportunities for business and also greater challenges as IT departments struggle with integrating these devices securely within their operations. Unified communications is another area of opportunity for Softchoice as organizations pursue new ways to improve collaboration across their enterprises.

The Company expects that the greatest area of customer investment in 2011 will be in private cloud infrastructure – or the conversion of data center assets like servers, storage and networking into a single, shareable resource pool. The advent of public cloud offerings, specifically software-as-a-service, is another important opportunity, particularly as the Company looks to the longer term. At present, the Company is participating in the public cloud by selling various Partner offerings in this space. In addition, we are in the process of building out a public cloud offering that will allow Softchoice to leverage its relationships with partners like Microsoft, VMware and many others. In this model, Softchoice will act as an agent for our customers, helping to select and deploy the right applications.

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

Detailed Review of Operating Results for the Quarter

Summary of Quarterly Data

Three months ended	March 31, 2009	June 30, 2009	Sept. 30, 2009	Dec. 31, 2009	**March 31, 2010**	**June 30, 2010**	**Sept. 30, 2010**	**Dec. 31, 2010**
(In thousands of U.S. dollars, except per share amounts)				**Restated**				
Revenue	$ 165,804	$ 206,787	$ 163,261	$ 218,292	**$ 201,561**	**$ 233,326**	**$ 195,484**	**$ 253,643**
Gross profit	30,654	41,312	30,813	39,490	**36,446**	**47,137**	**35,832**	**45,165**
Operating income (loss)	(399)	12,920	2,133	9,564	**4,727**	**14,148**	**2,194**	**10,658**
Net earnings (loss)	(2,389)	12,642	4,912	7,097	**4,532**	**6,388**	**2,109**	**7,213**
Earnings (loss) per share	$ (0.14)	$ 0.72	$ 0.28	$ 0.39	**$ 0.23**	**$ 0.32**	**$ 0.11**	**$ 0.36**

Seasonality

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

- March 31 is the fiscal year-end for the Canadian government.
- June 30 is Microsoft's year-end. 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 for Microsoft sales in our fiscal year.
- September 30 is the U.S. federal government year-end. Our business from this segment is not sufficient to overcome the more general reduction in activity due to summer holiday schedules.
- December 31 marks the fiscal year-end for much of corporate North America. Historically, we have experienced an increase in all revenue lines as our customers complete their asset purchases to meet their internal year-end requirements.

Three-Month Period Ended December 31, 2010 Compared to the Three-Month Period Ended December 31, 2009

	Q4 2010		Q4 2009 – Restated		% Change
(In thousands of U.S. dollars, except per share amounts)	**$**	**% of revenue**	$	% of revenue	
Total revenue, including imputed revenue	**$ 498,670**		$ 424,899		17.4%
Revenue	**253,643**	**100.0%**	218,292	100.0%	16.2%
Gross profit	**45,165**	**17.8%**	39,490	18.1%	14.4%
Expenses	**32,236**	**12.7%**	27,185	12.5%	18.6%
EBITDA	**12,928**	**5.1%**	12,305	5.6%	5.1%
Amortization, interest and other	**3,466**	**1.4%**	3,616	1.7%	(4.2%)
Net income before income taxes	**11,404**	**4.5%**	10,560	4.8%	8.0%
Net income for the period	**$ 7,213**	**2.8%**	$ 7,098	3.3%	1.6%
Net income per common share (basic and fully diluted)	**$ 0.36**		$ 0.39		

Product Segment Analysis

The following table shows the relative mix of hardware and software sales for the three months ended December 31, 2010 and December 31, 2009, and is discussed in greater detail below.

Three months ended December 31 (In thousands of U.S. dollars)	Q4 2010	Q4 2009 – Restated	% Change
Microsoft revenue*	**$ 74,425**	$ 59,905	24.2%
Agency fees	**(11,307)**	(10,052)	12.5%
Microsoft imputed revenue	**190,308**	163,081	16.7%
Total Microsoft revenue, including imputed revenue	**$ 253,426**	$ 212,934	19.0%
Other software revenue*	**69,620**	61,580	13.1%
Hardware revenue*	**109,598**	96,807	13.2%
Other imputed revenue	**66,026**	53,578	23.2%
Total revenue including imputed revenue	**$ 498,670**	$ 424,899	17.4%
Total reported revenue	**$ 253,643**	$ 218,292	16.2%

* These amounts sum to total reported revenue for the period.

Revenue

Revenue for the fourth quarter of 2010 was $253.6 million, an increase of 16.2 percent from revenue of $218.3 million reported in the fourth quarter of 2009. Total revenue, including imputed revenue, increased 17.4 percent over the same period of the prior year. Revenue was higher in all product segments with Microsoft showing the largest product increase of 24.2 percent over the same quarter in 2009. This increase in the Microsoft business can be attributed to client investments in Windows 7, Exchange 2010, and SharePoint 2010. The Company has found that our strength in the Microsoft business is advantageous in providing an entry point to sell additional products to existing customers, such as upgrades to desktops, servers and storage, that are often required as customers invest in software upgrades.

Canada

In Canada, revenue increased 11.1 percent over the same quarter in 2009, to C$108 million (2009 – C$97 million). Sales of software and hardware were higher this quarter with the largest growth coming from sales of other (non Microsoft) software (increased 20.7 percent when measured in Canadian dollars). Higher sales of enterprise software and other software contributed to the increase in the quarter.

Agency fees earned on EA licenses were also higher in Canada, increasing 11.7 percent over the same quarter in 2009. Other Microsoft sales were down in the fourth quarter of 2010 compared to 2009 (declined 2.1 percent) due primarily to a 2009 deal that did not repeat in 2010.

Hardware sales were up 9.5 percent in the fourth quarter of 2010 compared to 2009. Higher sales of servers, storage and networking contributed to the increase.

United States

In the United States, revenue increased 20.1 percent over the same quarter in 2009, from $122 million to $147 million. Sales were higher in all product segments, with Microsoft sales showing the strongest growth quarter over quarter. Sales of other software and hardware were also higher in the quarter.

Agency fees earned from Enterprise Agreements increased 12 percent this quarter, compared to the same quarter in 2009.

Sales of hardware were also strong in the U.S. in the fourth quarter, rising 13.6 percent compared to the same quarter of 2009. Sales of notebooks and desktops continued to grow this quarter, as did sales of storage and networking.

Gross Profit

Gross profit for the fourth quarter was $45.2 million, reflecting an increase of 14.4 percent from gross profit of $39.5 million in the fourth quarter of the prior year. Eliminating the impact of foreign currency, gross profit grew 12.9 percent. Gross profit as a percentage of revenue declined slightly from 18.1 percent in the fourth quarter of 2009 to 17.8 percent in the fourth quarter of 2010. In Canada there was some erosion of margin on sales of hardware. This decline was offset by strong margin growth in other software and the Microsoft business in Canada this quarter. In the United States, margins from hardware and software sales were strong, offset by lower margins on the

Microsoft business in the fourth quarter of 2010 compared to the fourth quarter of 2009. The decline in the Microsoft margins in the fourth quarter is attributable to lower margins attained on two large Indirect transactions in the quarter, along with an increase in service provider license agreements (SPLA) where margin is recovered from rebate revenue.

Rebates in the fourth quarter of 2010 grew 24.4 percent compared to the same quarter of the prior year. The growth in rebates is due to new programs introduced by certain vendors in 2010, and the fact that in 2009 certain quarterly target thresholds were not met. Marketing development funds earned in the fourth quarter were also higher, increasing from the same quarter of the prior year by 1.8 percent.

Expenses

Three months ended December 31	**Q4 2010**		Q4 2009		% Change
(In thousands of U.S. dollars)	**$**	**% of gross profit**	$	% of gross profit	
Salaries and benefits	**$ 24,544**	**54.3%**	$ 19,494	49.4%	26.0%
Selling, general and administrative	**7,693**	**17.0%**	7,691	19.5%	–
	$ 32,237	**71.4%**	$ 27,185	68.8%	18.6%

Total salaries and benefits, and selling, general and administrative (SG&A) expenses increased 18.6 percent compared to the same period of the prior year. When the impact of foreign exchange is removed, total salaries and benefits and SG&A expenses increased by 15.9 percent compared to the same quarter in 2009. Total salaries and benefits as a percentage of gross profit increased to 54.3 percent from 49.4 percent reported in the same period of the previous year, primarily due to an increase in headcount, higher sales commissions, and higher performance-based compensation consistent with an increase in gross profit compared to the same quarter in 2009. Higher compensation expenses in pre-sales engineering resources this quarter reflects the increased focus on our Solutions business.

Average headcount levels for the fourth quarter increased by 4.7 percent compared to the same quarter of the prior year. The increase in salaries and benefits reflects increased headcount particularly in pre-sales engineering resources, higher commission expense as noted above, and increased incentive compensation expense related to the long-term executive compensation plans.

EBITDA

EBITDA reflects the profits of the Company after salaries, SG&A expenses and any unusual items are deducted from gross profit. A gross profit increase of 14.4 percent or $5.7 million, offset by an 18.6 percent increase in salaries and benefits and SG&A expenses has resulted in an overall EBITDA increase of 5.1 percent from the same quarter of the prior year.

Other

Amortization of property and equipment declined by 4.2 percent compared to the fourth quarter of the prior year as a result of fewer capital asset purchases made during the year compared to 2009. Amortization of intangible assets decreased by 21.9 percent. This decrease is the result of the full amortization in the first quarter of this year, of the intangibles associated with the acquisition of the software division of Groupe 3-Soft Inc.

Interest and other expense was $1.2 million during the fourth quarter of 2010, consisting primarily of interest costs and amortization of deferred financing fees associated with the long-term debt. Interest and other expense has increased by 36.4 percent compared to the fourth quarter of the prior year. In the fourth quarter of 2009 the Company received a sales tax refund of $0.5 million, contributing to lower other expenses in that quarter. A similar refund was not received in 2010.

The effective tax rate for the fourth quarter of 2010 was approximately 36.8 percent, an increase from the rate of 32.8 percent reported in the same period of the prior year. The increase in the effective tax rate is primarily due to higher earnings in the U.S. division compared to the previous year, and a higher effective tax rate in the U.S. compared to the Canadian division.

Net income for the fourth quarter of 2010 was $7.2 million compared to $7.1 million reported in the same period of the prior year (including the foreign exchange impact in both periods). Net income per share was $0.36 (basic and diluted), compared to $0.39 (basic and diluted) reported in the same period of the prior year. On an adjusted basis, net earnings for the quarter were $5.9 million compared to $5.4 million in the same quarter

of 2009. Adjusted net earnings per share was $0.30 per share compared to $0.30 per share in the prior year. The total weighted average number of shares outstanding for the year ended December 31, 2010 was 19.8 million, compared to 17.6 million for the year ended December 31, 2009. At December 31, 2010 there were 19,780,039 common shares of the Company issued and outstanding, compared to 19,759,189 common shares issued and outstanding as at December 31, 2009.

Twelve-Month Period Ended December 31, 2010 Compared to the Twelve-Month Period Ended December 31, 2009

	2010		2009 – Restated		% Change
(In thousands of U.S. dollars, except per share amounts)	**$**	**% of revenue**	$	% of revenue	
Total revenue, including imputed revenue	**$ 1,874,407**	**212.0%**	$ 1,615,785	214.3%	16.0%
Revenue	**884,014**	**100.0%**	754,144	100.0%	17.2%
Gross profit	**164,579**	**18.6%**	142,269	18.9%	15.7%
Expenses	**123,415**	**14.0%**	107,195	14.2%	15.1%
EBITDA	**41,164**	**4.7%**	35,074	4.7%	17.4%
Amortization, interest and other	**13,346**	**1.5%**	15,883	2.1%	(16.0%)
Net income before income taxes	**30,805**	**3.5%**	31,840	4.2%	(3.3%)
Net income for the period	**$ 20,242**	**2.3%**	$ 22,263	3.0%	(9.1%)
Net income per common share (basic and fully diluted)	**$ 1.02**		$ 1.26		

Product Segment Analysis

The following table shows the relative mix of hardware and software sales for the years ended December 31, 2010 and December 31, 2009, and is discussed in greater detail below.

Year ended December 31 (In thousands of U.S. dollars)	**2010**	2009 – Restated	% Change
Microsoft revenue*	**$ 288,626**	$ 250,359	15.3%
Agency fees	**(45,187)**	(40,974)	10.3%
Microsoft imputed revenue	**830,967**	710,726	16.9%
Total Microsoft revenue, including imputed revenue	**$ 1,074,406**	$ 920,111	16.8%
Other software revenue*	**206,609**	178,495	15.8%
Hardware revenue*	**388,779**	325,290	19.5%
Other imputed revenue	**204,613**	191,889	6.6%
Total revenue including imputed revenue	**$ 1,874,407**	$ 1,615,785	16.0%
Total reported revenue	**$ 884,014**	$ 754,144	17.2%

* These amounts sum to total reported revenue for the year.

Revenue

Revenue in 2010 was $884 million compared to $754 million in 2009, an increase of 17.2 percent. Total revenue, including imputed revenue, was up 16.0 percent year over year, from $1.6 billion to $1.9 billion. When adjusted for the impact of foreign exchange, total revenue for 2010 was up 12.0 percent. Revenue was higher in all product segments, with the highest growth achieved in other software (an increase of 15.8 percent).

On a year-to-date basis, Microsoft revenue growth was strong, reflecting our clients' investments in Windows 7, SharePoint 2010 and Exchange 2010. These investments typically affect desktop, server and storage requirements, providing an entry point for our technical architects and professional services personnel to design and implement the necessary infrastructure. We experienced robust demand in 2010 for servers, storage and networking and the technical expertise offered by our professional services team.

Canada

In Canada, revenue increased 26.7 percent in 2010, to $385.3 million (2009 – $304.1 million). Agency fees for EA licenses were up 11.8 percent over the previous year, from $9.9 million to $11.1 million. Hardware sales also experienced double-digit growth this year, up approximately 18 percent over the prior year. Higher sales in servers, storage and networking, along with client computing, contributed to the growth.

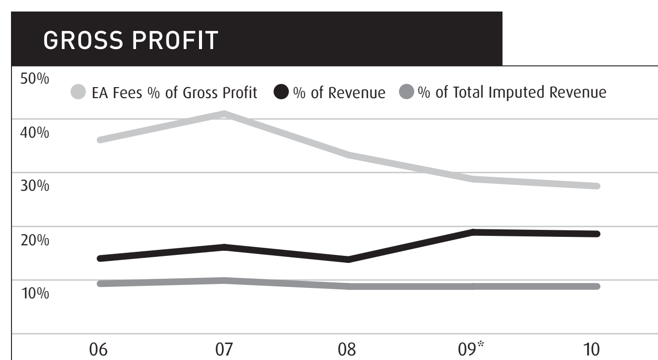
United States

In the United States, revenue increased 10.8 percent in 2010 to $498.8 million, from $450.0 million in 2009. Agency fees for EA licenses were up 6.5 percent, from $32 million to $34 million year over year. Growth in revenue in the United States was most pronounced in hardware sales. Similar to the Canadian division, the U.S. division experienced robust demand for server, storage and networking solutions, as well as client computing.

Gross Profit

Gross profit in 2010 was $164.6 million, an increase of 15.7 percent from the previous year, when gross profit of $142.3 million was achieved. Eliminating the impact of foreign currency, gross profit grew 11.7 percent over the previous year. Gross profit as a percentage of revenue declined slightly from 18.9 percent in 2009 to 18.6 percent in 2010.

Rebates in 2010 grew 71.7 percent compared to 2009. The growth in rebates was due to new programs introduced by certain vendors in 2010, and the fact that in 2009 certain target thresholds were not met. Marketing development funds earned in 2010 were also higher, increasing from the prior year by 22.4 percent. This increase reflects the Company's continued focus on optimizing the marketing development opportunities offered by our many partners.



* Revenue for 2006 – 2008 was calculated using our previous revenue accounting methodology for maintenance contracts, where these arrangements were recorded on a gross basis. In the fourth quarter of 2010 the Company changed its accounting policy for maintenance contracts and now records these arrangements on a net basis. The comparative 2009 revenue figures have been restated.

Expenses

Year ended December 31	2010		2009		% Change
(In thousands of U.S. dollars)	$	% of gross profit	$	% of gross profit	
Salaries and benefits	**$ 91,783**	**55.8%**	$ 76,399	53.7%	20.1%
Selling, general and administrative	**31,632**	**19.2%**	30,796	21.7%	2.7%
	$ 123,415	**75.0%**	$ 107,195	75.4%	15.1%

Total salaries and benefits and selling, general and administrative expenses grew by 15.1 percent compared to the prior year, or 14.0 percent if the foreign exchange rate had held constant year over year. Expenses as a percentage of gross profit held steady at 75 percent.

Average headcount levels for the year increased by 1.5 percent, from 882 in 2009 to 896 in 2010. The increase in salaries and benefits reflects the increase in headcount, higher commission expense consistent with an increase in gross profit during the year, and higher incentive compensation associated with the long-term executive compensation plans.

EBITDA

EBITDA reflects the profits of the Company after salaries, SG&A expenses and any unusual items are deducted from gross profit. On an annual basis, EBIDTA grew 17.4 percent, from $35.1 million in 2009 to $41.2 million in 2010. A focus on cost containment around selling, general and administrative expenses, particularly in the latter part of 2010, contributed to this stronger EBITDA.

Other

Amortization of property and equipment declined by 3.8 percent in 2010 compared to the prior year as a result of fewer capital asset purchases made during the year compared to 2009. Amortization of intangible assets decreased by 16.5 percent. This decrease is the result of the full amortization in the first quarter of this year, of the intangibles associated with the acquisition of the software division of Groupe 3-Soft Inc.

Interest and other expense was $3.9 million in 2010, consisting primarily of interest costs and amortization of deferred financing fees associated with the long-term debt. Interest and other expense decreased from the previous year by 22.2 percent, from $5.0 million, reflecting lower borrowing costs on our long term debt facility and lower outstanding long term debt throughout 2010.

The effective tax rate for 2010 was approximately 34 percent, an increase from the rate of 30 percent reported in the prior year. Despite lower effective tax rates in Canada and the United States in 2010, the consolidated effective tax rate increased due to higher overall revenue from the U.S. division, which has a higher tax rate, and a lower benefit from unrealized foreign exchange gains in 2010 compared to the previous year.

Net income for the year was $20.2 million compared to $22.3 million reported in the prior year (including the foreign exchange impact in both periods). Earnings per share was $1.02 (basic and diluted), compared to $1.26 (basic and diluted) reported in the prior year. On an adjusted basis, annual earnings were $18.0 million compared to $12.7 million reported in 2009. Adjusted net earnings per share were $0.91 per share compared to $0.72 per share in the prior year.

Liquidity and Capital Resources

Management believes that the Company is able to generate sufficient amounts of cash through its normal course operations to settle its financial liabilities as they fall due, to maintain its current operations and to fund its planned growth and development activities.* The Company also has access to a revolving credit facility as described in the "Debt Financing" section below.

Operating Activities

Cash generated from operating activities was $10.5 million during the fourth quarter of 2010 compared to $6.6 million of cash used in operating activities for the same period of the prior year. The increase is primarily due to a larger net change in non-cash working capital items in 2009, reflecting a use of cash of $16.6 million, compared to a source of cash in the fourth quarter of $1.3 million.

Accounts receivable balances reflect days sales outstanding (DSO[1]) of 41 days as at December 31, 2010, and a DSO of 40 days at December 31, 2009. The increase in DSO is due to the extension of payment terms granted to various government and enterprise customers in the year. The Company continues to target DSO levels of 45 days.

Days payable outstanding (DPO[2]) increased from 53 days as at December 31, 2009 to 57 days as at December 31, 2010. We expect that DPO will decrease slightly from this level in 2011.*

The Company's DSO ratio is generally consistent with the prior year and better than our target levels, indicating that accounts receivable are being collected in a timely manner. Management monitors DSO and DPO levels against expected cash flow needs, as well as target levels.

Management believes that the Company will generate sufficient cash from operating activities and has sufficient available credit to finance working capital requirements and to meet obligations as they become due.*

Debt Financing

Debt financing is provided to Softchoice Corporation, and working capital and other financing is provided to the U.S. subsidiary, as required. On February 2, 2009, the Company established two new credit facilities to finance its acquisitions and ongoing working capital requirements:

- An asset-backed loan (ABL) that can be drawn to the lesser of C$115.0 million and 85 percent of eligible accounts receivable. The ABL contains an optional facility in the amount of C$30 million that can be exercised at the Company's discretion and with the agreement of the term debt provider. The ABL currently incurs interest at prime plus 2 percent. The ABL has a term of three years. It was provided to Softchoice through a lending syndicate comprising Bank of America (agent), Bank of Montreal and the Toronto Dominion Bank. This facility is secured by a continuing security interest in and lien against all assets.
- The second credit facility is a term debt loan which is subordinated to the ABL and was initially established in the amount of $20.5 million. This debt has a five-year term and quarterly payments of $1.0 million. Interest on this loan is determined based on certain financial ratios; the rate at December 31, 2010 was 16 percent per annum (2009 – 17.5 percent). The term debt loan was provided by HSBC (Canada) Inc. with 20 percent participation by Ontario Teachers' Pension Plan (OTPP). OTPP is a related party due to its share ownership in the Company. This loan can be repaid without penalty or termination fee after 36 months. The term debt is secured by a general security agreement over all assets of the Company.

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

(1) DSO is calculated based on gross billings for the year, rather than net sales. For further information, refer to the "Change in Accounting Policy" section on page 3.

(2) DPO is calculated based on the total amount billed to us by our vendors. For further information, refer to the "Change in Accounting Policy" section on page 3.

Both loans have certain financial covenants as conditions for continued borrowing. A fixed-charge coverage ratio is required by both loans, and the term debt loan has two additional covenants, including a borrowing base to outstanding principal ratio and a leverage ratio covenant. The fixed-charge ratio is considered to be the most stringent covenant. The Company does not anticipate violating any of the current covenants over the term of the debt.*

On November 20, 2009, the Company entered into a bought-deal financing agreement. Proceeds of the offering were approximately C$17.4 million, and were used by the Company to repay its short-term indebtedness under the ABL and to reduce its dependence on this facility.

The table below shows the level of debt available to the Company and the amounts outstanding as at December 31, 2010. Including available cash, the net cash position at the end of 2010 was $23 million. Management believes that the level of debt available to Softchoice is sufficient to finance the working capital requirements of the business and the growth that we expect.*

December 31, 2010 (In thousands of U.S. dollars)	**Available**	**Drawn**
Short-term debt		
ABL	**$ 112,246**	**$ –**
Term debt, current	**4,104**	**4,104**
	116,350	**4,104**
Term debt, long term	**8,568**	**8,568**
Total debt	**$ 124,918**	**$ 12,672**

Contractual Obligations

The following table provides details of the Company's contractual obligations over the next five years:

	2011	2012	2013	2014	2015 and thereafter	Total
Operating lease	$ 6,989	$ 6,740	$ 6,344	$ 5,054	$ 4,780	$ 29,907
Long term debt	4,104	4,104	4,104	360	–	12,672
Total	$ 11,093	$ 10,844	$ 10,448	$ 5,414	$ 4,780	$ 42,579

Cash Flow

In addition to the availability of credit, the Company generated cash of $17.2 million during the year compared to a $4.5 million increase in cash in 2009. Net cash generated from operating activities was $23.4 million for the year ended December 31, 2010. Net cash generated from operating activities included net income of $20.2 million plus adjustments of $9.4 million for non-cash expenses included in net income, offset by $6.2 million of cash due to changes in our non-cash operating working capital.

Net cash used in financing activities was $4.7 million for the year ended December 31, 2010. Debt repayments of $4.8 million were slightly offset by proceeds from the issuance of common shares of $0.1 million.

Net cash used in investing activities was $2.5 million for the year ended December 31, 2010, consisting of the purchase of property and equipment of $1.4 million and intangible assets of $1.1 million.

Share Capital

As of March 2, 2011, 19,780,039 common shares of the Company were issued and outstanding. Options to acquire an aggregate of 48,750 common shares are outstanding under the Company's Employee Stock Option Plan. At the end of 2006, the Board of Directors terminated the 2003 Stock Option Plan so that options could no longer be issued under this plan. This termination was executed without prejudice to the options that were already outstanding under the existing plan. As of December 31, 2010, there were 139,202 deferred share units (DSUs) outstanding under the Company's deferred share unit plan for directors, each of which represents the right to acquire one common share when the holder ceases to be a non-executive director of the Company.

On June 12, 2009, a one-time bridge Long-Term Incentive Plan (LTIP) for executives of the Company was approved; as at December 31, 2010, there were 152,000 phantom shares and 152,000 phantom options outstanding, both payable in cash.

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

On February 11, 2010, the Board of Directors adopted a 2010 Performance Stock Option ("PSO") plan for the executives of the Company, which was approved by shareholders on May 11, 2010. The plan dictates that a minimum share price has to be achieved for any PSO level to vest. The PSO plan has a seven year expiry term and a three year vesting period, dependent on share price attainment. Under the plan, the number of options that ultimately vest is subject to the Company attaining various market share price hurdles on the third anniversary of the grant date, as established by the Board of Directors for each grant.

Off-Balance Sheet Arrangements

As a general practice, the Company does not enter into off-balance sheet financing arrangements. Other than operating leases and letters of credit, all of our commitments are reflected on our balance sheet.

Transactions with Related Parties

As at December 31, 2010, included in trade accounts receivable was $410 thousand due from a major shareholder, Ontario Teachers' Pension Plan (OTPP), for product sales with payment terms of net 30 days (December 31, 2009 – $205 thousand). Total product sales to OTPP during the three-month and twelve-month periods ended December 31, 2010 were $377 thousand and $1.4 million (2009 – $254 thousand and $512 thousand). These related-party transactions are in the normal course of operations and were recorded at the exchange amount, which is the amount of consideration established and agreed upon between the related parties.

In the course of the refinancing that occurred in the first quarter of 2009, a portion of the long-term debt outstanding was purchased by OTPP. During the three-month and twelve-month periods ended December 31, 2010, OTPP received principal repayments of $205 thousand and $821 thousand (2009 – $205 thousand and $748 thousand) and interest payments of $110 thousand and $487 thousand (2009 – $157 thousand and $616 thousand). Refer to "Liquidity and Capital Resources."

Microsoft and Softchoice

Microsoft is the ubiquitous provider of infrastructure software worldwide. During the fourth quarter of 2010, about 29 percent of the Company's revenue, or 50.8 percent of total revenue, including imputed revenue was 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 during 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 the 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

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 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.

A customer may choose to change to a different reseller during the license period. This is known as a change in channel partner. Changes in channel partners may impact the Company's renewals and scheduled billings from EAs.

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 within total sales 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 as Microsoft Imputed Revenue.

Key Performance Measures

The Company presents four key performance measures to help investors understand its 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, an increase in our revenue mix that is recorded on a net basis would distort the results of revenue-based analysis.

Revenue or Growth Indicators:

- Number of Customers

Productivity Indicators:

- Gross Profit per Order
- Gross Profit per Sales Employee
- Gross Profit per Employee

Number of Customers

During the fourth quarter of 2010, the number of customers purchasing from Softchoice decreased by 2.6 percent compared to the same period of the prior year. The decline in the number of purchasing customers, coupled with the increase in gross profit during the fourth quarter of 2010, has resulted in an increase in gross profit per customer of 17.4 percent.

We segment our customers based on the size of the customers' information technology environment. Revenue from these customers is segmented as follows:

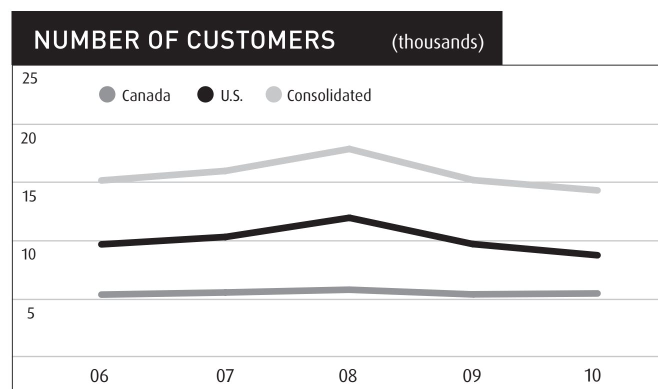
Three months ended December 31	**Q4 2010**	Q4 2009
Small and Medium Business	**47%***	45%*
Enterprise	**40%***	38%*
Government and Education	**13%***	17%*
Total	**100%**	100%

* Estimate

Year ended December 31	**2010**	2009
Small and Medium Business	**43%***	44%*
Enterprise	**35%***	36%*
Government and Education	**22%***	20%*
Total	**100%**	100%

* Estimate

During the fourth quarter, the proportion of sales attributed to the small and medium business segment and to the enterprise segment grew to 47 percent and 40 percent, respectively, compared to the same quarter in 2009. For the year ended December 31, 2010, customer segmentation was relatively consistent with the prior year.



Gross Profit per Order

In Canada, the gross profit per order during the fourth quarter remained relatively consistent, increasing by 1 percent compared to the same period in the prior year.

In the United States, gross profit per order increased by 10 percent during the fourth quarter compared to the same period in the prior year. This increase is the result of an increase in margin percentage received on orders stemming from a change in the mix of products sold compared to the prior year.

Gross Profit per Employee and per Sales Employee

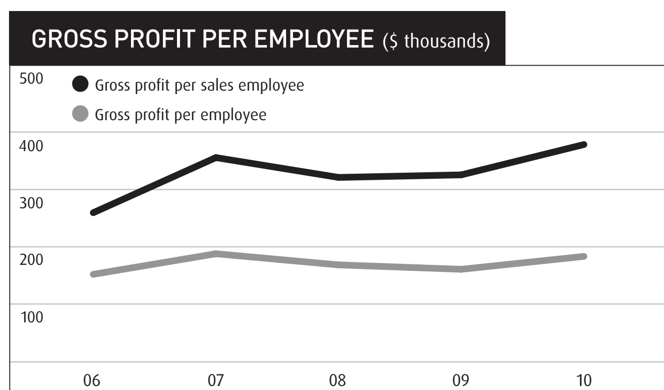
The tables below show the employee base of the Company for the three months and year ended December 31, 2010 compared to the same periods of the prior year.

Three months ended December 31	Q4 2010		Q4 2009		% Change	
(In thousands of U.S. dollars, except headcount amounts)	**Sales**	**Total**	Sales	Total	Sales	Total
Average headcount	**441**	**918**	433	877	1.8%	4.7%
Quarter-end headcount	**441**	**917**	433	874	1.8%	4.9%
Gross profit per person	**$ 102.3**	**$ 49.2**	$ 91.2	$ 45.2	12.2%	8.9%

Year ended December 31	2010		2009		% Change	
(In thousands of U.S. dollars, except headcount amounts)	**Sales**	**Total**	Sales	Total	Sales	Total
Average headcount	**435**	**896**	437	882	(0.5%)	1.5%
Quarter-end headcount	**441**	**917**	433	874	1.8%	4.9%
Gross profit per person	**$ 378.4**	**$ 183.8**	$ 328.6	$ 162.8	15.2%	12.9%

During 2010, the average number of employees increased by 1.5% compared to the prior year.

During the three months ended December 31, 2010, gross profit per sales employee increased by 12.2 percent, primarily the result of improved productivity of the sales team, reflecting our investments in pre-sales resources to drive our Solutions business. Gross profit per employee also increased by 8.9 percent compared to the same period of the prior year. This increase is primarily the result of a combination of the impact of the economic recovery that occurred this quarter compared to the same quarter in 2009, and its effect on gross profit performance, and our increasing Solutions business. We expect both productivity measures to show similar trends in future quarters.*



Critical Accounting Estimates

The Company's accounting policies are described in Note 1 of the annual consolidated financial statements. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. These estimates and assumptions are affected by management's application of accounting policies and historical experience and are believed by management to be reasonable under the circumstances. Such estimates and assumptions are evaluated from time to time and form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ significantly from these estimates.

The Company's critical accounting estimates are described below.

Gross versus Net Assessment

Determining whether the Company acts as a principal in a transaction, and recognizes revenue based on the gross amount billed to a customer, or as an agent, and reports the sales transaction on a net basis, requires that management exercise significant judgment when considering the facts and circumstances in its evaluation. Changes to the assumptions and judgments made by management could materially impact the amount of revenue recognized in a particular period.

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

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts in 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. The Company evaluates the allowance for accounts receivables at both a specific account and a collective level. All individually significant receivables are assessed for specific impairment. 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. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. In assessing specific and collective impairment of receivables, the Company considers various factors including the aging of receivables, historical collection experience, timing of recoveries, and the amount of loss incurred. As part of the collectibility assessment, management makes certain assumptions about current economic and credit conditions to determine whether actual losses are likely to be greater or less than suggested by historical trends. As a result, fluctuations in the aging of accounts receivable will directly impact the reported amount of bad debt expense.

Sales Returns Allowance

At the end of each period, the Company records an estimate for sales returns. The Company estimates the level of anticipated sales returns based on historical experience and makes appropriate reserves at the time the revenue is recognized. The historical estimate is reviewed throughout the year to ensure it reflects the most relevant data available.

Impairment of Long-Lived Assets

The carrying value of property and equipment, and finite-lived intangible assets, are reviewed whenever events or circumstances indicate that the asset might be impaired. An estimate of undiscounted future cash flows produced by the assets, or the appropriate grouping of assets, is compared with the carrying value to determine whether an impairment exists. If the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of the group of assets is less than its carrying amount, it is considered to be impaired. If an impairment is determined to exist, a provision is recorded equal to the amount that the carrying value exceeds fair value.

Impairment of Goodwill

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. The goodwill impairment analysis is comprised of two steps. In the first step, the Company compares the fair value of the reporting unit to which goodwill has been assigned to its carrying value, including goodwill. To determine fair value, management takes a discounted future cash flow approach that incorporates estimates and assumptions about discount rates, EBITDA, and expected growth rates. When the fair value of the reporting unit exceeds the carrying value of the net assets of the reporting unit, goodwill is not considered impaired and the Company is not required to perform further testing. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of the reporting unit's goodwill is determined as the residual amount that results after the fair value of the reporting unit is allocated to the tangible and identifiable intangible assets, less liabilities assumed, based on their fair values. The second step requires that management make certain estimates and assumptions about the fair value of tangible and intangible assets, as well as the tax basis of assets.

Stock-Based Compensation

The Company accounts for the performance stock option plan using the fair value method. This method requires that management make certain judgments and assumptions that, if changed, could produce a significantly different result.

Multiple-Element Arrangements

For arrangements involving multiple elements, the Company allocates revenue to each component of the arrangement using the relative selling price method based on vendor-specific objective evidence or third-party evidence of selling price, and if both are not available, estimated selling prices are used. Management exercises judgment in determining whether vendor-specific objective evidence exists for any undelivered element in the arrangement and when determining whether an element has been delivered. Changes to the assumptions and judgments made by management could materially impact the amount of revenue recognized in a particular period.

Future Income Tax Assets

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 all or a portion of the future tax asset will not be realized. Accruals for income taxes are established for uncertain income tax positions based on management's best estimate.

Financial Instruments

The Company's financial instruments are comprised of cash and restricted cash, accounts receivable, bank indebtedness, accounts payable and term debt. The carrying value of cash, restricted cash, bank indebtedness, accounts receivable, accounts payable and accrued liabilities approximate their respective fair values due to the short-term nature of these instruments. The fair value of the Company's term debt approximates the amortized cost.

The Company is exposed to liquidity risk, credit risk, market risk and supplier risk, all of which could affect the Company's ability to achieve its strategic objectives. The following describes these risks in greater detail.

Liquidity Risk

The Company manages liquidity risk through the management of its capital structure and financial leverage. Please refer to the "Liquidity and Capital Resources" section above.

Credit Risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash, accounts receivable and other receivables. The Company minimizes the credit risk of cash by depositing only with 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 condition to evaluate creditworthiness and to assess impairment of outstanding receivables. Approximately 22 percent of the Company's accounts receivable are past due (December 31, 2009 – 20 percent). The Company's allowance for doubtful accounts is $5.3 million (December 31, 2009 – $4.0 million). Any amounts not provided for are considered fully collectible.

Market Risk

Market risk is the risk that the value of the Company's financial instruments will fluctuate due to changes in foreign exchange rates and interest rates. The Company operates in both the United States and Canada. The parent company maintains its accounts in Canadian dollars while the accounts of the U.S. subsidiaries are maintained in U.S. dollars. For the parent company's intercompany debt and external debt held in U.S. dollars, this may occasionally give rise to a risk that its earnings and cash flows may be affected by fluctuations in foreign exchange rates due to the balance outstanding as of the year-end, as well as debt settlements made during the year. For every 200 basis points that the Canadian dollar appreciates, the translation and revaluation impact for the full year on net earnings would be, on average, an increase of $5,201. For every 200 basis points that the Canadian dollar depreciates, the translation and revaluation impact for the full year on net earnings would be, on average, a decrease of $5,369. The effect of the translation and revaluation of the intercompany and external debt held in U.S. dollars is expected to have minimal cash impact.*

From time to time, the Company may use derivatives to manage this foreign exchange risk. 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. The Company did not enter into any new derivative financial instrument contracts during the year ended December 31, 2010. In addition, there were no outstanding derivative financial instruments as at December 31, 2010.

An increase or decrease in the prime rate of 0.25 percent would result in an increase or decrease, respectively, of approximately $43 thousand of interest expense on the ABL and long-term debt. In the past, the Company has used an interest rate swap to mitigate the risk of fluctuating interest rates. The Company did not enter into any derivative financial instrument contracts during either 2009 or 2010. In addition, there were no outstanding derivative financial instruments as at December 31, 2010 or December 31, 2009.

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

Supplier Risk

The Company's top five suppliers in 2010 were Microsoft (a software publisher), Ingram Micro Inc. (a distributor), Tech Data Corporation (a distributor), Synnex Corporation (a distributor) and Arrow Enterprise Computing Solutions (a distributor). They accounted for 80 percent of the Company's total purchases in 2010, with the largest portion purchased from Microsoft (29 percent), followed by Ingram Micro (21 percent) and Tech Data (18 percent). While brand names and individual products are important to the business, the Company believes that competitive sources of supply are available in substantially all of the product categories such that, with the exception of Microsoft, the Company is not dependent on any single partner for sourcing products.

Recently Issued Accounting Pronouncements

(a) Business Combinations

In October 2008, the CICA issued Section 1582, Business Combinations ("Section 1582"), concurrently with Section 1601, Consolidated Financial Statements ("Section 1601") and Section 1602, Non-controlling Interests ("Section 1602"). Section 1582 establishes standards for accounting for business combinations and states that all assets and liabilities of an acquired business will be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. Section 1601, which replaces Section 1600, carries forward the existing Canadian guidance on aspects of the preparation of consolidated financial statements subsequent to an acquisition other than non-controlling interests. Section 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination.

These new standards are effective for the Company's interim and annual consolidated financial statements commencing on January 1, 2011 with earlier adoption permitted as of the beginning of a fiscal year. The Company will assess the impact of the new standards on its consolidated financial statements when it completes a business combination.

(b) International Financial Reporting Standards (IFRS)

In February 2008, Canada's Accounting Standards Board confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be fully converged with IFRS, as issued by the International Accounting Standards Board (lASB), for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, Softchoice will report in accordance with IFRS for interim and annual periods commencing January 1, 2011, with comparative information for 2010 restated under IFRS.

The following section provides a summary of the IFRS 1, First-time Adoption of International Financial Reporting Standards, elections that we expect to apply on transition to IFRS; it also describes the IFRS policies that will be adopted that are expected to differ significantly from the Company's current Canadian GAAP policies; and provides an update on the Company's IFRS changeover plan.

(b) International Financial Reporting Standards (IFRS) (continued)

(i) IFRS 1 – First-time Adoption of IFRS

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. Generally, IFRS 1 requires that an entity apply all IFRS effective at the end of a company's first IFRS reporting period retrospectively, with specific mandatory exceptions and a number of optional exemptions.

Management has assessed the exemptions from full retrospective application available under IFRS 1, and their potential impacts on the Company's financial position.

On adoption of IFRS, the significant optional exemptions that have been chosen by the Company relate to the following. The impact of these exemptions is discussed below.

Exemption	Application of Exemption
Business combinations	The Company has elected not to apply IFRS 3, Business Combinations, retrospectively. Therefore, there is no requirement to restate any business combinations that occurred prior to the date of transition, January 1, 2010.
Net book value as deemed cost available for property, plant and equipment (IAS 16), and intangible assets (IAS 38)	The Company has elected to use historical cost accounting at transition to value its property and equipment, which is consistent with the Company's current accounting policy, instead of using fair value accounting. An entity that applies the book value as deemed cost at the IFRS transition date is not required to re-value these assets in subsequent periods.
Leases (IFRIC 4, Determining whether an Arrangement Contains a Lease)	The Company has elected to assess arrangements that may contain a lease that are in existence at the date of transition, based on facts and circumstances in effect at the transition date. The Company did not identify any additional lease agreements that will need to be accounted for under IFRS in its evaluation.
Borrowing costs (IAS 23)	The Company has elected to apply the amendments in IAS 23 prospectively. This means that Softchoice is required to start capitalizing borrowing costs relating to all qualifying assets, effective prospectively on or after the date of transition.
Cumulative translation differences (IAS 21, The Effects of Changes in Foreign Exchange Rates)	The Company has elected to reset all cumulative translation gains and losses to zero in opening retained earnings at January 1, 2010.
Share-based payment transactions	The Company has elected not to apply the optional exemption in IFRS 1 that permits retrospective application, and therefore will apply IFRS 2 to awards that vest subsequent to the transition date.

(ii) Key differences in accounting policies

The Company is in the process of evaluating the expected material differences between IFRS and the current accounting treatment under Canadian GAAP. Based on IFRS standards in effect as of December 31, 2010 and exposure drafts published by the International Accounting Standards Board (IASB), and the work performed to date, the key areas being assessed for their potential impact on the Company's consolidated financial statements are as follows:

Key Accounting Area	Differences with Potential Impact to the Company
Presentation of Financial Statements (IAS 1)	Opening balance sheet and subsequent to transition: • Additional disclosures required in the notes to the financial statements.
Property and Equipment (IAS 16)	IAS 16, Property, Plant and Equipment (PP&E) requires an entity to identify the significant component parts of its items of PP&E and depreciate those parts over their respective useful lives. Canadian GAAP only requires componentization to the extent practicable. Opening balance sheet and subsequent to transition: • All significant components of furniture and fixtures, office equipment and computer hardware have been identified. • The Company's current asset categories and estimated useful lives under Canadian GAAP are reflective of the asset components and useful lives as determined under IFRS. • Useful lives and residual values will be reviewed at least annually. • Management has not identified any significant differences.
Impairment of Assets (IAS 36)	IAS 36 uses a one-step process for impairment testing, which requires the estimated recoverable amount of the cash-generating unit (CGU) to be compared directly with the asset carrying values. The recoverable amount is the greater of fair value less cost to sell and the value in use (which is based on the present value of future cash flows). Canadian GAAP uses a two-step approach for impairment testing, comparing the carrying amount of the asset group to the undiscounted cash flows to determine if impairment exists; and then measuring the impairment as the difference between the carrying value and the fair value. Additionally, under IFRS, a cash-generating unit is the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups. Under Canadian GAAP, an asset group is the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. *(continued on next page)*

Key Accounting Area	Differences with Potential Impact to the Company
Impairment of Assets (IAS 36) *(continued)*	IAS 36 also requires the reversal of any previous impairment losses where circumstances requiring the impairment charge have changed and reversed. Canadian GAAP does not permit the reversal of impairment losses in any circumstance. Opening balance sheet: • The Company performed an assessment on the recoverability of long-lived assets and goodwill on the transition date which did not result in any impairment losses. Subsequent to transition: • Grouping of assets to cash-generating units. • Goodwill is allocated to and tested in conjunction with its related CGU or group of CGUs. • The recoverable amount will be the higher of fair value less cost to sell and the value in use. • An impairment loss will be recognized when a CGU's carrying amount exceeds its recoverable amount. • The impairment loss will be allocated first to goodwill and pro-rata to the remaining assets in the CGU. • Under certain circumstances, a previous impairment taken (other than goodwill) is required to be reversed. • The Company has determined individual CGUs on the basis of the lowest level at which separately independent cash inflows can be identified. • No significant impact is expected.
Share-Based Payments (IFRS 2)	IFRS 2, Share-Based Payments, requires that cash-settled share-based payments are to be measured at fair value by applying an option pricing model. Canadian GAAP requires that a liability is accrued and measured based on the intrinsic value of the awards, with changes recognized in earnings each period. Opening balance sheet: • The Company has performed an assessment of the treatment of share-based payments under IFRS, which did not result in any significant differences. Subsequent to transition: • Cash-settled share-based payment awards are recorded as liabilities and must be measured at fair value by applying an option pricing model. Under Canadian GAAP, the Company recorded a liability based on the intrinsic value of the award. • Forfeiture estimates will be recognized in the period they are estimated, and will be revised for actual forfeitures in subsequent periods, whereas under Canadian GAAP, forfeitures are recognized as they occur. • With respect to the graded vesting of an award, the Company will treat each installment as a separate arrangement. • The Company has determined the quarterly impact of IFRS on the specific cash-settled share-based incentive plans, which did not result in any significant differences. *(continued on next page)*

(ii) Key differences in accounting policies (continued)

Key Accounting Area	Differences with Potential Impact to the Company
Provisions and Contingencies (IAS 37)	Under IFRS, onerous contracts are recognized as provisions. An onerous contract is a contract where the unavoidable costs of meeting obligations exceed the benefits. A provision is recognized based on the net cost to exit the contract; that is, the lower of the cost of fulfilling the contract and any penalties arising from failure to complete it. Opening balance sheet: • The Company has performed an assessment of the treatment of provisions and contingencies under IFRS, which did not result in any significant differences. Subsequent to transition: • The different threshold used for recognition of a contingent liability could have an impact on the timing of when a provision may be recorded. • Onerous contracts identified by the Company will be accrued as liabilities. • The Company has determined the quarterly impact of IFRS on provisions and contingencies which did not result in any significant differences.
Income Taxes (IAS 12) (subject to adoption at transition of a revised IAS 12 standard)	Management is finalizing its determination of the deferred tax impact of each of the accounting changes. Per the requirements of IFRS 1, the deferred tax adjustment will be recorded in opening retained earnings upon transition to IFRS. Opening balance sheet and subsequent to transition: • The Company has determined a preliminary opening balance sheet and quarterly financial statement impact of IFRS on income taxes which did not result in any significant differences.

The differences identified in this document should not be regarded as an exhaustive list; other changes may result from our conversion to IFRS. At this time, the comprehensive impact of the changeover on the Company's future financial position and results of operations is not expected to be significant.

The Company continues to monitor and assess the impact of evolving differences between Canadian GAAP and IFRS, since the IASB is expected to continue issuing new accounting standards during the transition period. As a result, the final impact of IFRS on the Company's consolidated financial statements can only be measured once all the applicable IFRS standards in effect at the conversion date are known.

(iii) IFRS Changeover Plan

The conversion project consists of three phases:
1) Scoping and Diagnostic Phase
2) Design and Solutions Development Phase
3) Implementation and Post-Implementation Review Phase

Below is a summary of the key activities and status updates on the Company's IFRS changeover plan.

Key Activity	Status
1) Scoping and Diagnostic Phase	
• Develop initial project plan • Establish project structure including steering committee and extended teams • Train core project team	As part of the IFRS conversion project, the Company has established an implementation team, which includes a project manager, management from all relevant departments and a steering committee to oversee the project. Appropriate training has been provided to project team members. Quarterly progress updates are provided to the Audit Committee. The Company's external auditors are also consulted throughout the process.
• Detailed review and initial scoping of accounting differences between Canadian GAAP and IFRS • Preliminary evaluation of IFRS 1 exemptions for first-time IFRS adopters • High-level assessment of potential consequences for financial reporting, business processes, internal controls and information systems	Detailed assessments have been completed for all key standards and significant policy changes. Initial assessments of impacts on business processes and systems were made and action plans are in place.
2) Design and Solutions Development Phase	
• Prioritize accounting treatment issues and prepare a conversion plan • Review and approve accounting policy choices • Quantify the impact of selected accounting policies made under conversion to IFRS	We have completed detailed assessments and systematic analysis of IFRS standards and interpretations. Selections of significant IFRS accounting policy choices and IFRS 1 elections have been identified and quantifying impacts have been made and are currently ongoing.
• Create parallel IFRS ledgers for processing of 2010 comparatives	We have created a duplicate IFRS environment in our information systems to track all adjusting IFRS entries for our opening balance sheet and each quarter throughout the dual reporting period. *(continued on next page)*

Key Activity	Status
2) Design and Solutions Development Phase (continued)	
• Perform a detailed impact assessment to business processes • Identify conversion impacts on financial covenants and contracts • Assess impact on budgeting and long-range plans	We are currently analyzing the financial covenant and contractual implications of the new policy choices on financing arrangements and similar obligations. The Company does not expect that significant modifications will be necessary. Budgeting and long-range planning considerations have included the changes in accounting policy choices and no significant modifications were deemed necessary.
• Design and develop changes to information systems • Design and develop changes to internal controls over financial reporting • Design and develop changes to disclosure controls and procedures	The effects on information systems, internal controls and disclosure controls are ongoing; however, the Company does not expect that significant modification will be necessary. Revision of process narratives and reassessment of internal controls over financial reporting and disclosure controls and procedures design and effectiveness is to be completed throughout fiscal year 2011.
3) Implementation and Post-Implementation Review Phase	
• Determine the opening IFRS transition balance sheet and required IFRS 1 disclosures • Prepare the interim and annual consolidated financial statements associated disclosures, including 2010 comparatives, in accordance with IAS 1 • Prepare detailed reconciliations of Canadian GAAP to IFRS financial statements	Preparation of the opening IFRS transition balance sheet, including the impact on retained earnings, is near completion. Preparation of the draft consolidated financial statements and notes, including detailed reconciliations, are near completion. Processes to track additional disclosures under IFRS are ongoing.
• Conversion assessment, evaluating improvements for a sustainable operational IFRS model • Test the internal controls environment	To be performed in fiscal year 2012.

The Company's IFRS conversion project is progressing according to schedule. As the project advances, the Company could alter its intentions and the milestones communicated at the time of reporting as a result of changes to accounting standards currently in development or in light of new information or other external factors that could arise between now and when the changeover is completed.

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

The Chief Executive Officer (CEO) and and the Chief Financial Officer (CFO) are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICFR) as defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings.

Management, under the supervision and with the participation of the CEO and CFO, has evaluated the effectiveness of the Company's DC&P and ICFR as at December 31, 2010. Based on this evaluation, the CEO and CFO concluded that as at December 31, 2010, the design and operation of these internal controls and procedures was effective in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with Canadian GAAP, based on the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting which occurred during the period January 1, 2010 to December 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Softchoice Corporation 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 management 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 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. KPMG LLP, the Company's external auditors, have full and free access to the Audit Committee.

David L. MacDonald
President and Chief Executive Officer

David Long
Chief Financial Officer and
Senior Vice President, Finance

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the accompanying consolidated financial statements of Softchoice Corporation, which comprise the consolidated balance sheet as at December 31, 2010, the consolidated statements of earnings and retained earnings, comprehensive income, accumulated other comprehensive income and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our unqualified audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Softchoice Corporation as at December 31, 2010, and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

The consolidated financial statements of Softchoice Corporation as at and for the year ended December 31, 2009, except for the adjustment related to the change in accounting policy described in note 2, were audited by another auditor who expressed an unmodified opinion on those statements on February 11, 2010. We have also audited the adjustment that was applied to restate the comparative financial statements of Softchoice Corporation as at and for the year ended December 31, 2009 for the change in accounting policy described in note 2. In our opinion such adjustment is appropriate and has been properly applied.

Chartered Accountants, Licensed Public Accountants
February 14, 2011
Toronto, Canada

CONSOLIDATED BALANCE SHEETS

As at December 31 (In thousands of U.S. dollars)	**2010**	2009
Assets		
Current assets		
Cash	**$ 35,752**	$ 18,601
Accounts receivable, net of allowance for doubtful accounts of $5,269 (2009 – $3,967) (note 3)	**224,168**	183,674
Inventories	**881**	766
Deferred costs	**7,082**	385
Prepaid expenses and other assets	**4,706**	5,127
Future income taxes (note 4)	**3,228**	2,270
	275,817	210,823
Restricted cash	**500**	500
Property and equipment (note 5)	**5,748**	6,894
Goodwill (note 6)	**11,383**	11,063
Intangible assets (note 6)	**39,770**	44,866
Long-term accounts receivable	**2,771**	–
Future income taxes (note 4)	**15,780**	16,220
	$ 351,769	$ 290,366
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	**$ 217,925**	$ 172,000
Deferred revenue	**1,899**	1,465
Current portion of deferred lease inducements	**193**	85
Current portion of term debt (note 7)	**4,104**	4,104
Income taxes payable	**2,320**	3,288
	226,441	180,942
Long-term liabilities		
Deferred lease inducements	**217**	395
Term debt (note 7)	**8,568**	12,671
Shareholders' equity		
Capital stock (note 8)	**26,016**	25,842
Contributed surplus (note 11)	**1,894**	983
Retained earnings	**84,505**	64,263
Accumulated other comprehensive income	**4,128**	5,270
	116,543	96,358
	$ 351,769	$ 290,366

Commitments and contingencies (note 12)
See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

Years ended December 31 (In thousands of U.S. dollars, except per share amounts)	2010	2009
		(Restated – note 2)
Net sales	**$ 884,014**	$ 754,144
Cost of sales	**719,435**	611,875
Gross profit	**164,579**	142,269
Expenses		
Salaries and benefits	**91,783**	76,399
Selling, general and administrative	**31,632**	30,796
Amortization of property and equipment	**2,797**	2,907
Amortization of intangible assets (note 6)	**6,639**	7,949
	132,851	118,051
Income from operations	**31,728**	24,218
Other expenses (income)		
Foreign currency exchange gain	**(2,987)**	(12,649)
Interest expense	**2,545**	3,872
Other expense	**1,365**	1,155
	923	(7,622)
Income before income taxes	**30,805**	31,840
Income taxes (recovery) (note 4)		
Current	**11,040**	8,117
Future	**(477)**	1,460
	10,563	9,577
Net income	**20,242**	22,263
Retained earnings, beginning of year	**64,263**	42,000
Retained earnings, end of year	**$ 84,505**	$ 64,263
Net income per share (note 9)		
Basic	**$ 1.02**	$ 1.26
Diluted	**$ 1.02**	$ 1.26
Weighted average number of shares outstanding		
Basic	**19,778,089**	17,628,735
Diluted	**19,822,852**	17,708,738

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME

Years ended December 31 (In thousands of U.S. dollars)	**2010**	2009
Net income	**$ 20,242**	$ 22,263
Other comprehensive loss		
Foreign currency translation adjustment, net of income tax expense of nil	**(1,142)**	(7,846)
Comprehensive income	**$ 19,100**	$ 14,417

Years ended December 31 (In thousands of U.S. dollars)	**2010**	2009
Accumulated other comprehensive income		
Balance – beginning of year	**$ 5,270**	$ 13,116
Foreign currency translation adjustment	**(1,142)**	(7,846)
Balance – end of year	**$ 4,128**	$ 5,270

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31 (In thousands of U.S. dollars)	**2010**	2009
Cash provided by (used in)		
Operating activities		
Net income	**$ 20,242**	$ 22,263
Items not involving cash:		
Amortization of property and equipment	**2,797**	2,907
Stock-based compensation	**979**	(1,420)
Future income taxes	**(477)**	1,460
Amortization of intangible assets	**6,639**	7,949
Unrealized foreign currency loss	**(1,913)**	(9,112)
Amortization of debt issuance costs	**1,319**	1,157
Loss on disposal of property and equipment	**43**	35
Change in non-cash operating working capital (note 16)	**(6,181)**	7,892
	23,448	33,131
Financing activities		
Repayment of bank indebtedness	**–**	(466)
Repayment of long-term debt	**–**	(55,596)
Increase in term debt	**–**	17,683
Repayment of term debt	**(4,805)**	(3,717)
Proceeds from issuance of common shares	**106**	15,624
	(4,699)	(26,472)
Investing activities		
Purchase of property and equipment	**(1,426)**	(1,800)
Purchase of intangible assets	**(1,060)**	(1,163)
Proceeds on disposal of property and equipment	**–**	25
Restricted cash	**–**	(500)
	(2,486)	(3,438)
Effect of exchange rate changes on cash	**888**	1,282
Increase in cash	**17,151**	4,503
Cash – beginning of year	**18,601**	14,098
Cash – end of year	**$ 35,752**	$ 18,601

See accompanying notes to consolidated financial statements.
Supplemental disclosures of cash flows information (note 16).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2010 and 2009
(In thousands of U.S. dollars, unless otherwise stated)

Softchoice Corporation (the “Company”) was formed on May 15, 2002, pursuant to an amalgamation with Ukraine Enterprise Corporation. The Company was incorporated under the Canada Business Corporations Act. The Company is a North American business-to-business direct marketer of information technology (“IT”) hardware, software and services to small, medium and large businesses and public sector institutions.

The Company’s United States operations are carried on by a subsidiary (“Softchoice U.S.”), a corporation incorporated under the laws of the State of New York. On December 10, 2007, the Company incorporated a wholly-owned subsidiary, Softchoice Holdings Corporation (“Holdco”). Holdco is incorporated under the laws of the State of Delaware.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

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

These consolidated financial statements include the accounts of the Company, Holdco and Softchoice U.S. Intercompany transactions and balances are eliminated on consolidation.

(b) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of net sales and expenses during the year. Actual results could differ from those estimates. On an ongoing basis, the Company evaluates its estimates, including the allowance for doubtful accounts; impairment of goodwill and other intangible assets; valuation allowances for future income tax assets; fair value of stock-based transactions; the determination of relative selling prices for multiple element revenue arrangements; and the anticipated achievement levels under the marketing development fund programs.

Management must also make estimates and judgments about future results of operations in assessing recoverability of assets and the value of liabilities.

(c) Revenue recognition

The Company generates revenue from the sale of computer hardware, software and maintenance. The Company also generates revenue from providing professional services to end users, such as data center configuration and the design and development of IT systems. 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 the product, collects payment from the customer 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 (note 2).

(i) Hardware

Revenue from the sale of hardware is recorded when evidence of an arrangement exists, the product is shipped (Freight on Board (“FOB”) shipping point) or received by the customer (FOB destination), depending upon the customer arrangement, the price is fixed and determinable, and collection is reasonably assured.

(ii) Software licenses

Revenue from the sale of software licenses is recorded when evidence of an arrangement exists, customers acquire the right to use or copy software under license, but not prior to the commencement of the license term, the price is fixed and determinable, and collection is reasonably assured.

(iii) Product maintenance

Revenue on maintenance contracts performed by third party vendors is recognized once the contract date is in effect. As the Company is not the primary obligor for the maintenance contracts performed by third parties, these arrangements do not meet the criteria for gross revenue presentation and, accordingly, are recorded on a net basis. As the Company enters into contracts with third party service providers or vendors, the Company evaluates whether subsequent sales of such services should be recorded as gross revenue or net revenue. The Company determines whether it acts as a principal in the transaction and assumes the risks and rewards of ownership, or if it is simply acting as an agent or broker (note 2). Revenue on maintenance contracts performed by internal resources is recognized ratably over the term of the maintenance period.

(iv) Professional services

Revenue for professional services is recognized 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. Revenue from time and material contracts is recognized as time is incurred by the Company.

The Company estimates the level of anticipated sales returns based on historical experience and records a provision for sales returns. The historical estimate is reviewed throughout the year to ensure it reflects the most relevant data available.

The Company's revenue arrangements may contain multiple elements. These elements may include one or more of the following: hardware, software, maintenance and/or installation. For arrangements involving multiple elements, the Company allocates revenue to each component of the arrangement using the relative selling price method based on vendor-specific objective evidence or third-party evidence of selling price, and if both are not available, estimated selling prices are used. The allocated portion of the arrangement which is undelivered is then deferred. 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 arrangement and, therefore, the Company will allocate the corresponding revenue among the various components, as described above.

Deferred revenue includes unearned revenue on sales of professional services to customers where performance is not yet complete and maintenance contracts where the contract start date is not yet in effect.

(d) Cost of sales

Cost of sales include product costs, direct costs associated with delivering the services, outbound and inbound freight costs and provisions for inventory losses. These costs are reduced by rebates and marketing development funds received from vendors, which are recorded as earned based on the contractual arrangements with the vendors.

(e) 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, these funds are recorded as a reduction of the related selling, general and administrative expenses 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. The amount of marketing development funds recorded as a reduction of selling, general and administrative expenses is $2,240 (2009 – $1,550).

(f) Cash and restricted cash

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

Restricted cash of $500 as at December 31, 2010 (2009 – $500) represents funds held in escrow under an escrow agreement related to a non-competition contract with a competitor.

(g) Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using specific identification of individual cost. Inventories comprise spare parts, hardware purchased for resale and goods awaiting configuration for customers.

(h) Deferred costs

Deferred costs comprise non-transferable intangible inventories, including software licenses, software maintenance and hardware warranties where the start date is not yet in effect.

(i) 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	3 years
Computer equipment	3 years
Leasehold improvements	Over term of lease

(j) Intangible assets

Intangible assets comprise computer software and customer relationships and contracts acquired as part of a business combination. Intangible assets are recorded at their fair value at the acquisition date. These intangible assets are amortized on a straight-line basis over the estimated economic lives of 3 to 10 years.

Internally developed, internal-use software is also included in intangible assets and is recorded at cost, which includes materials and direct labour costs.

(k) Goodwill

Goodwill is the excess of the fair value of the tangible and identifiable intangible assets and liabilities acquired in a business combination. When the Company enters into a business combination, the purchase method of accounting is used. At the date of the business combination, the Company assigns goodwill to the reporting units expected to benefit from the business combination.

(l) Impairment of long-lived assets

The carrying value of property and equipment, and finite-lived intangible assets, are reviewed whenever events or circumstances indicate that the asset might be impaired. If an impairment is determined to exist, a provision is recorded equal to the amount that the carrying value exceeds fair value.

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. The goodwill impairment analysis comprises two steps. In the first step, the Company compares the fair value of the reporting unit to which goodwill has been assigned to its carrying value, including goodwill. If the fair value of the reporting unit exceeds the carrying value of the net assets of the reporting unit, goodwill is not considered impaired and the Company is not required to perform further testing. If the carrying value of the net assets of the reporting unit exceeds the fair value of the reporting unit, the Company must perform the second step of the impairment test in order to determine the fair value of the reporting unit's goodwill. If the carrying value of the reporting unit's goodwill exceeds its value, then an impairment loss is recorded equal to the difference.

(m) 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 all, or a portion, of the future tax asset will not be realized.

Income tax accruals are established for uncertain income tax positions based on management's best estimate.

(n) Foreign currency transactions

The functional currency of the Company is the Canadian dollar. The Company's operations in the United States are considered to be self-sustaining and are translated using the current rate method. Under the current rate method, assets and liabilities are translated using year-end exchange rates and revenue and expenses are translated at weighted average exchange rates. Exchange gains and losses arising from the translation of the financial statements are deferred in the foreign currency translation adjustment account included as a component of accumulated other comprehensive income. When there is a reduction in the Company's net investment in its self-sustaining foreign operations, the proportionate amount of the cumulative translation adjustment is recognized in income.

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 the average rates of exchange for the period. Translation gains or losses are included in the determination of income.

The Company's reporting currency is the U.S. dollar. The Company uses the current rate method to translate the consolidated Canadian dollar results into U.S. dollars.

(o) Income per share

Basic income per share is computed by dividing the earnings for the year by the weighted average number of common shares outstanding during the year. Diluted income per share is computed using the treasury stock method, whereby the weighted average number of common shares used in the basic income per share calculation includes the effect of the assumed exercise of stock options at the beginning of the year. The assumed exercise of stock options is excluded from the calculation if their effect is anti-dilutive.

(p) 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 U.S. federal tax laws. The Company contributes 50 percent of the employee's contribution up to 3 percent of the employee's total compensation. The Company's 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 2010 was $1,243 (2009 – $1,146).

(q) Stock-based compensation

The Company offers stock-based compensation to key employees and non-executive directors, as described in note 10. The Company accounts for the performance stock option 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 the options to employees is measured at fair value at the grant date and amortized over the vesting period. Compensation cost is recognized on a straight-line basis over the vesting period.

The Company accounts for deferred share units granted to its non-management directors based on the fair value of the equity instruments. When options are exercised, the proceeds received by the Company, together with the fair value amount in contributed surplus, are credited to capital stock.

The Company accounts for awards that call for settlement in cash (Share Appreciation Rights) ("SARs") as a liability. Compensation cost for these awards is recorded based on the intrinsic value of the award, which is the amount by which the quoted market value of the shares exceeds the option price.

(r) Recently adopted accounting pronouncements

(i) Multiple deliverable revenue arrangements

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

The accounting changes summarized in EIC-175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. The Company adopted EIC-175 effective January 1, 2010.

As described in note 1(c), certain of the Company's revenue arrangements contain multiple elements; however, to date, revenue from multiple elements has not been significant. Accordingly, the adoption of EIC-175 did not have a material impact on the Company's consolidated financial statements.

(ii) Financial instruments

Effective December 31, 2010, the Company adopted CICA amended Section 3862, Financial Instruments – Disclosures ("Section 3862"), to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures.

These amendments require disclosure of the three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The fair value of financial assets and financial liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Financial assets and financial liabilities in Level 2 include valuations using inputs based on observable market data, either directly or indirectly, other than quoted prices. Level 3 valuations are based on inputs that are not based on observable market data. The adoption of these standards did not have any impact on the classification and measurement of the Company's financial instruments or the liquidity risk disclosures. The new disclosures pursuant to this amended section are included in note 14.

(s) Accounting pronouncements yet to be adopted

(i) Business combinations

In October 2008, the CICA issued Section 1582, Business Combinations ("Section 1582"), concurrently with Section 1601, Consolidated Financial Statements ("Section 1601"), and Section 1602, Non-controlling Interests ("Section 1602"). Section 1582, which replaces Section 1581, Business Combinations, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. Section 1601, which replaces Section 1600, carries forward the existing Canadian guidance on aspects of the preparation of consolidated financial statements subsequent to acquisition other than non-controlling interests. Section 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination. These new standards are effective for the Company's interim and annual consolidated financial statements commencing on January 1, 2011, with earlier adoption permitted as of the beginning of a fiscal year. The Company will assess the impact of the new standards on its consolidated financial statements when it completes a business combination.

(ii) Adoption of International Financial Reporting Standards ("IFRS")

In February 2008, the Canadian Accounting Standards Board announced that IFRS will be mandatory in Canada for publicly listed companies for fiscal periods beginning on or after January 1, 2011. The Company's first annual IFRS financial statements will be for the year ending December 31, 2011 and will include the comparative period for 2010.

(t) Changes in accounting estimates

Deferred revenue includes unearned revenue on sales of professional services to customers where performance is not yet complete and maintenance contracts where the contract start date is not yet in effect. Historically, deferred revenue also included unearned revenue on sales to customers where extended payment terms were granted. Effective January 1, 2010, the Company determined that for most sales with extended payment terms, sufficient evidence exists to conclude that the fee is fixed and determinable, and therefore, the Company will recognize revenue in such cases when appropriate based on the Company's revenue recognition policy.

2 CHANGE IN ACCOUNTING POLICY

During the quarter ended December 31, 2010, the Company changed its revenue accounting policy from gross revenue reporting to net revenue reporting for certain arrangements where the hardware and software support services are performed primarily by third parties. Based on the Company's current interpretation of the relative merits of the various criteria for gross versus net recognition in EIC 123, Reporting Revenue Gross as a Principal versus Net as an Agent, the Company determined that this change better reflects the substance of these transactions between the Company and its clients and is more consistent with industry practice for these arrangements. This change to a more relevant accounting policy had no impact on the gross profit, income from operations or net income amounts previously reported. The comparative amounts presented for net sales and cost of sales have been restated from $1,000,248 and $857,979, to $754,144 and $611,875, respectively.

3 ACCOUNTS RECEIVABLE

	2010	2009
Trade accounts receivable, net of provision of $5,249 (2009 – $3,947)	**$ 204,189**	$ 167,614
Other receivables, net of provision of $20 (2009 – $20)	**19,979**	16,060
	$ 224,168	$ 183,674

4 INCOME TAX EXPENSE AND FUTURE INCOME TAXES

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

	2010	2009
Income before income taxes	**$ 30,805**	$ 31,840
Combined basic federal and provincial income tax rate	**30.53%**	32.43%
Expected income tax expense	**$ 9,405**	$ 10,326
Foreign tax rates differential	**1,583**	966
Items not deductible for tax purposes (permanent differences)	**(513)**	(2,359)
Adjustments in respect of previous periods	**335**	750
U.S. state tax deductible for federal purposes	**(350)**	(348)
Other	**103**	242
Provision for income taxes	**$ 10,563**	$ 9,577

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

	2010	2009
Future income tax assets:		
Amortization and impairments	**$ 16,714**	$ 17,348
Unrealized foreign exchange gains	**(934)**	(1,128)
Reserves	**3,228**	2,270
Net future income tax assets	**$ 19,008**	$ 18,490

Net future income tax assets are classified as follows:

	2010	2009
Current	**$ 3,228**	$ 2,270
Future	**15,780**	16,220
	$ 19,008	$ 18,490

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.

5 PROPERTY AND EQUIPMENT

	2010		
	Cost	**Accumulated amortization**	**Net book value**
Office equipment	**$ 7,117**	**$ 6,573**	**$ 544**
Computer equipment	**7,173**	**5,186**	**1,987**
Leasehold improvements	**5,624**	**2,407**	**3,217**
	$ 19,914	**$ 14,166**	**$ 5,748**

	2009		
	Cost	Accumulated amortization	Net book value
Office equipment	$ 8,068	$ 6,967	$ 1,101
Computer equipment	5,931	3,746	2,185
Leasehold improvements	5,277	1,669	3,608
	$ 19,276	$ 12,382	$ 6,894

6 GOODWILL AND INTANGIBLE ASSETS

	Goodwill	Intangible assets
Balance, December 31, 2009	$ 11,063	$ 44,866
Addition of computer software	–	1,060
Amortization	–	(6,639)
Foreign exchange impact	320	483
Balance, December 31, 2010	$ 11,383	$ 39,770

	2010		
	Cost	**Accumulated amortization**	**Net book value**
Acquired contracts	**$ 2,144**	**$ 2,144**	**$ –**
Customer relationships	**60,918**	**22,883**	**38,035**
Computer software	**9,281**	**7,370**	**1,911**
Foreign exchange impact	**1,565**	**1,741**	**(176)**
	$ 73,908	**$ 34,138**	**$ 39,770**

	2009		
	Cost	Accumulated amortization	Net book value
Acquired contracts	$ 2,144	$ 2,122	$ 22
Customer relationships	60,918	17,194	43,724
Computer software	7,832	6,075	1,757
Foreign exchange impact	518	1,155	(637)
	$ 71,412	$ 26,546	$ 44,866

During the year ended December 31, 2010, the Company recorded $949 (2009 – $818) in internally developed, internal-use software, which is included in intangible assets.

During the fourth quarter of 2010 and 2009, the Company tested goodwill for impairment and determined that no write-down was necessary.

During the years ended December 31, 2010 and 2009, the Company continually assessed whether any indicators of impairment existed relating to the intangible assets. The Company concluded that a triggering event had not occurred that would more likely than not reduce the fair value of the intangible assets below their carrying value.

7 BANK INDEBTEDNESS AND LONG-TERM DEBT

	2010	2009
Revolving credit facility	**$ –**	$ –
Term debt – current	**4,104**	4,104
	4,104	4,104
Term debt – long-term	**8,568**	12,671
	$ 12,672	$ 16,775

To finance its acquisitions and ongoing working capital requirements, the Company established two credit facilities in February 2009. The first is an asset-backed loan ("ABL") that can be drawn to the lesser of Cdn. $115 million and 85 percent of eligible accounts receivable.

The ABL contains an optional facility in the amount of Cdn. $30 million that can be exercised at the Company's discretion and with the agreement of the term debt provider. The ABL currently incurs interest at prime rate plus 2 percent. The ABL has a term of three years. The ABL was provided to the Company through a lending syndicate, comprising Bank of America, Bank of Montreal and the Toronto Dominion Bank. At December 31, 2010, the amount available on the ABL is approximately Cdn. $112 million. This facility is secured by a continuing security interest in and lien upon all assets.

The second credit facility is the term debt, which is subordinated to the ABL and was initially in the amount of $20.5 million. This debt has a five-year term and has quarterly repayments of $1.0 million. Interest on this loan is determined based on certain financial ratios; the rate at December 31, 2010 is 16 percent per annum (2009 – 17.5 percent). The term debt was provided by HSBC (Canada) Inc., with 20 percent participation by the Ontario Teachers' Pension Plan ("OTPP"), a related party. OTPP is a related party by virtue of its share ownership in the Company. This loan can be repaid without penalty or termination fee after 36 months. The term debt is secured by a general security agreement over all assets of the Company.

Both loans have certain financial covenants as conditions to continued borrowing. A fixed-charge coverage ratio is required by both loans and the term-debt loan has two additional covenants, including a borrowing base to outstanding principal ratio and a leverage ratio covenant. The Company was in compliance with these covenants at December 31, 2010 and 2009.

As at December 31, 2010, the Company has used $2,447 (2009 – $2,488) of its available credit as security for letters of credit issued to various institutions.

Principal repayments over the next four years are as follows:

2011	$ 4,104
2012	4,104
2013	4,104
2014	360
	$ 12,672

8 SHAREHOLDERS' EQUITY

(a) Capital stock

The Company has an unlimited number of authorized common shares. The following table details changes in share capital for the years ended December 31, 2010 and 2009:

	Number of common shares	Amount
Balance, December 31, 2008	17,496,807	$ 9,827
Share financing (i)	2,250,000	15,923
Transfer from contributed surplus (note 10)	12,382	92
Balance, December 31, 2009	19,759,189	25,842
Issued for options exercised	20,850	106
Transfer from contributed surplus (note 10)	–	68
Balance, December 31, 2010	19,780,039	$ 26,016

(i) Share financing

On November 20, 2009, the Company entered into a bought-deal financing agreement, whereby the Company issued 2,250,000 common shares at a price of Cdn. $7.75 for gross proceeds of Cdn. $17,437,500. In connection with the financing, the underwriters received a fee equal to 5 percent of the gross proceeds of the offering. In addition, the underwriters were granted the option to purchase up to an additional 337,500 shares at a price of Cdn. $7.75 per common share to cover over-allotments. These options remained unexercised and expired on January 10, 2010.

(b) Shareholder rights plan

On April 4, 2007, the Board of Directors of the Company adopted a shareholder rights plan (the "Rights Plan"). The Rights Plan is subject to reconfirmation at the third and sixth annual meeting of shareholders following the first confirmation meeting, which was held on May 7, 2007, and will expire at the close of the Company's ninth annual meeting.

Pursuant to the Rights plan, one right ("Right") was issued and attached to each common share outstanding at the close of business on the record date, and will attach to each common share subsequently issued.

The Right will separate from the common shares and will be exercisable on the close of business on the tenth trading day, the separation time, after the earlier of the date on which:

(i) a person has acquired 20 percent or more of the Company's outstanding common shares; or

(ii) a person commences or announces a takeover bid for the Company's outstanding common shares, other than by an acquisition pursuant to a permitted bid or a competing permitted bid.

The Rights Plan is designed to require any person interested in acquiring more than 20 percent of the common shares to do so by way of a permitted bid or a competing permitted bid or to make an offer which the board considers to represent the full and fair value of the common shares. In order to constitute a permitted bid, an offer must be made in compliance with the Rights Plan; it must be made to all shareholders, other than the bidder; it must be open for at least 60 days and be accepted by shareholders holding more than 50 percent of the outstanding voting shares; and, if so accepted, it must be extended for a further 10-business-day period.

A person (a "Grandfathered Person") who was the beneficial owner of more than 20 percent of the outstanding common shares on April 4, 2007 is deemed not to be an acquiring person until it ceases to own more than 20 percent of the common shares or increases its beneficial ownership by more than 1 percent of the outstanding common shares on April 4, 2007, except in specified circumstances. To the knowledge of the directors of the Company, the only Grandfathered Person is the Ontario Teachers' Pension Plan Board.

9 NET INCOME PER COMMON SHARE

The following table sets forth the calculation of the weighted average number of common shares and basic and diluted net income per share:

	2010	2009
Issued and outstanding, beginning of year	**19,759,189**	17,496,807
Weighted average number of shares issued in the year	**18,900**	131,928
Weighted average number of shares used in computing basic income per share	**19,778,089**	17,628,735
Assumed exercise of stock options, net of shares repurchased from proceeds	**44,763**	80,003
Weighted average number of shares used in computing diluted income per share	**19,822,852**	17,708,738
Basic and diluted net income per share	**$ 1.02**	$ 1.26

There were no share redemptions during the years ended December 31, 2010 and 2009.

10 STOCK-BASED COMPENSATION

(a) Employee stock option plan

In November 2006, the Board of Directors canceled the 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 with expiry dates ranging from six to eight years after the date of grant. Under the plan, the exercise price could not be less than 100 percent of the market price of the common shares at the grant date. All options currently outstanding have vested.

For the purposes of calculating the stock option expense, the fair value of each option granted was estimated using the Black-Scholes option pricing model.

The following table summarizes the status of the employee stock option plan (dollar amounts are in Canadian currency):

	2010		2009	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding, beginning of year	**69,684**	**$ 7.21**	102,859	$ 6.47
Expired	**(84)**	**5.20**	(33,175)	4.77
Exercised	**(20,850)**	**5.37**	–	–
Outstanding, end of year	**48,750**	**8.00**	69,684	7.21
Exercisable, end of year	**48,750**	**$ 8.00**	69,684	$ 7.21
Options:				
Held by employees	**–**	**$ –**	19,684	$ 5.20
Held by officers	**48,750**	**8.00**	50,000	8.00
	48,750	**$ 8.00**	69,684	$ 7.21

The remaining options outstanding have a weighted average remaining contractual life of 2.12 years.

(b) Deferred share unit plan

The Company has established a plan to grant deferred share units ("DSUs") to its non-management directors. Each DSU represents the right to receive one common share when the holder ceases to be a director of the Company. To satisfy this obligation, the Company will, at its option, either (i) issue common shares from treasury to the former director, or (ii) direct the plan trustee, an independent trust company selected by the Company, to acquire common shares in the market at the direction of the Company for the purpose of share compensation arrangements.

A summary of the status of the Company's DSU plan is as follows:

	2010	2009
Outstanding, beginning of year	**111,733**	31,730
Granted	**27,469**	92,385
Exercised	**–**	(12,382)
Outstanding and exercisable, end of year	**139,202**	111,733

The cost associated with the DSU plan for the year ended December 31, 2010 was $224 (2009 – $216).

(c) 2009 Bridge Long Term Incentive Plan ("LTIP")

On June 12, 2009, a one-time bridge LTIP for the executives of the Company was approved, consisting of the issuance of phantom shares and phantom options, which are payable in cash.

(i) The phantom shares were granted based on a share price of Cdn. $3.22 per award. The criteria for payout of these awards was based on the Company's 2009 financial performance benchmarked against a peer group of publicly traded companies and the continuing employment of the participants through the vesting period, which occurs in January 2011. The Board of Directors determined on February 11, 2010 that the financial performance condition had been met. As at December 31, 2010, there were 152,000 phantom shares outstanding, of which nil were vested (2009 – 152,000 shares, of which nil were vested).

The expense for the year ended December 31, 2010 relating to the phantom shares was $285 (2009 – $157).

(ii) The phantom options were granted based on a strike price of Cdn. $3.22 per award. In accordance with the terms of the plan, the value of the phantom options was determined as the difference between the average closing price of the Company's common shares on the Toronto Stock Exchange for the first ten trading days after the Company's 2009 annual earnings release, which was Cdn. $8.39, and the strike price, resulting in compensation expense of Cdn. $5.17 per award. The ultimate payout of awards is conditional on the continuing employment of the participants through the vesting period, which occurs in January 2011. As at December 31, 2010, there were 152,000 phantom options outstanding, of which nil were vested (2009 – 152,000 options, of which nil vested).

The expense for the year ended December 31, 2010 relating to the phantom options was $520 (2009 – $192).

(d) Share appreciation rights plan

In March 2010, the Company approved the share appreciation rights ("SARs") plan (the "SARs Plan") for eligible officers and key employees of the Company. The value of a SARs unit is equivalent to the ten-day volume weighted average trading price per share at the date when all conditions attached to the SARs unit are met, less the market value on the date the unit is awarded.

On March 31, 2010, the Company granted 144,000 SARs units at a grant price of Cdn. $9.90. The awards are subject to attaining a threshold price of Cdn. $12.50 calculated based on the volume weighted average trading price per common share on the Toronto Stock Exchange for the ten trading days immediately preceding the three-year vesting period, in order for any award to be made. The Company accounts for SARs awards as a liability and compensation cost is recorded based on the intrinsic value of the award when it is considered virtually certain that the terms and conditions of the SARs Plan that govern the award will be met. For the year ended December 31, 2010, no expense relating to the SARs units has been recorded, as it is not virtually certain that the terms and conditions will be met.

(e) Performance stock option plan

On February 11, 2010, the Board of Directors adopted a Performance Stock Option ("PSO") plan (the "PSO Plan") for the executives of the Company. The PSO Plan was approved by the shareholders on May 11, 2010. Under the PSO Plan, the number of options that ultimately vest is subject to the Company attaining various market share price hurdles on the third anniversary of the grant date, as established by the Board of Directors for each grant. The PSO units vest on the third anniversary of the grant date and are exercisable during a period of seven years from such grant.

On March 3, 2010, the Company granted 640,000 PSOs with an exercise price of Cdn. $8.39. The fair value of the PSO units was estimated on the date of grant using the Monte Carlo Simulation model using the following assumptions: expected volatility – 65 percent, and risk-free interest rate for the expected term of the options – 3.14 percent. The weighted average grant date fair value was Cdn. $5.36.

The estimated fair value of the PSO units is expensed on a straight-line basis over the vesting period. The related expense for the year ended December 31, 2010 was $755 (2009 – nil).

11 CONTRIBUTED SURPLUS

The total of contributed surplus is summarized as follows:

Balance, December 31, 2008	$ 2,495
Stock-based compensation expense	(1,420)
Deferred share units exercised (note 10(b))	(92)
Balance, December 31, 2009	983
Stock-based compensation expense	979
Stock options exercised	(68)
Balance, December 31, 2010	$ 1,894

12 COMMITMENTS AND CONTINGENCIES

The Company is subject to a variety of claims that arise from time to time in the ordinary course of business. Management is not aware 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:

2011	$ 6,989
2012	6,740
2013	6,344
2014	5,054
2015	3,953
Thereafter	827
	$ 29,907

Total lease expense for the year ended December 31, 2010 amounted to $7,716 (2009 – $7,813).

13 CAPITAL DISCLOSURES

The Company's objective in managing capital is to ensure a sufficient liquidity position exists to:

(a) increase shareholder value through organic growth and selective acquisitions;

(b) allow the Company to respond to changes in economic and/or marketplace conditions; and

(c) finance general and administrative expenses, working capital and overall capital expenditures.

Management defines capital as the Company's shareholders' equity comprising primarily issued capital, contributed surplus and earnings less net debt. Net debt consists of interest-bearing debt less cash. When possible, the Company tries to optimize its liquidity needs by non-dilutive sources. The Company's capital management objectives are unchanged from the previous fiscal year.

The Company currently funds its requirements from its internally generated cash flows and the use of credit facilities. The Company has a term loan and ABL facilities with major financial institutions (note 7). The Company was in compliance with all debt covenants as of December 31, 2010 and 2009.

14 FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

(a) Financial assets and financial liabilities

Cash and restricted cash are classified as held-for-trading. Accounts receivable are classified as loans and receivables and are carried at amortized cost using the effective interest rate method. Bank indebtedness, accounts payable and term debt are classified as other financial liabilities.

(b) Fair value measurements

The carrying value of cash, restricted 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 the term debt approximates the amortized cost.

	2010		2009	
	Carrying value	**Fair value**	Carrying value	Fair value
Assets carried at fair value[1]:				
Cash	**$ 35,752**	**$ 35,752**	$ 18,601	$ 18,601
Restricted cash	**500**	**500**	500	500
Total	**$ 36,252**	**$ 36,252**	$ 19,101	$ 19,101
Assets carried at amortized cost:				
Trade and other receivables	**$ 224,168**	**$ 224,168**	$ 183,674	$ 183,674
Long-term accounts receivable	**2,771**	**2,771**	–	–
Total	**$ 226,939**	**$ 226,939**	$ 183,674	$ 183,674
Liabilities carried at amortized cost:				
Accounts payable and accrued liabilities	**$ 217,925**	**$ 217,925**	$ 172,000	$ 172,000
Term debt	**12,672**	**12,226**	16,775	16,270
Total	**$ 230,597**	**$ 230,151**	$ 188,775	$ 188,270

(1) These financial assets are measured using Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets.

(c) Financial risk management

The Company is exposed to liquidity risk, credit risk and market risks, all of which could affect the Company's ability to achieve its strategic objectives. A description of the strategies to manage these risks follows.

(i) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due or can do so only at excessive cost. The Company manages liquidity risk through the management of its capital structure and financial leverage (note 13). The Company currently settles its financial obligations out of cash.

The ability to do this is contingent on the Company maintaining sufficient cash in excess of anticipated needs, by collecting its accounts receivable in a timely manner, and having available funds to draw upon from the credit facilities.

The following are the contractual maturities of financial liabilities as at December 31, 2010:

	On demand	Less than 1 year	1 – 2 years	More than 2 years	Total
Accounts payable and accrued liabilities	$ 42,887	$ 169,998	$ –	$ –	$ 212,885
Term debt	–	4,104	4,104	4,464	12,672
	$ 42,887	$ 174,102	$ 4,104	$ 4,464	$ 225,557

(ii) Credit risk

Credit risk is the risk that a counterparty to a contract fails to meet its obligation to the Company in accordance with contract terms. The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash, accounts receivable and other receivables. The carrying amount of the Company's financial assets represents the Company's maximum credit exposure. The Company minimizes the credit risk of cash 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 condition to evaluate creditworthiness and to assess impairment of outstanding receivables. The Company is not aware of any concentration risk with respect to any particular customer.

Of the Company's accounts receivable, approximately 22 percent are greater than 31 days past due (2009 – 20 percent). The Company's allowance for doubtful accounts is $5,269 (2009 – $3,967). This allowance comprises individually significant exposures deemed at risk and an overall provision established based on historical trends. Any amounts not provided for are considered fully collectible.

As at December 31, 2010, the remaining overdue balances are as follows:

	2010	2009
31 – 60 days past due	**$ 26,436**	$ 19,105
61 – 90 days past due	**7,222**	8,414
Greater than 91 days past due	**15,052**	10,438
	$ 48,710	$ 37,957

The following is a reconciliation of the movements in the allowance for doubtful accounts for the years ended December 31, 2010 and 2009:

	2010	2009
Balance, beginning of year	**$ 3,967**	$ 2,759
Bad debt expense	**1,858**	2,244
Write-off of accounts receivable	**(643)**	(1,213)
Foreign exchange loss	**87**	177
Balance, end of year	**$ 5,269**	$ 3,967

(iii) Market risk

Market risk is the risk that the value of the Company's financial instruments will fluctuate due to changes in foreign exchange rates and interest rates. The Company operates in both the United States and Canada. The parent company maintains its accounts in Canadian dollars and the accounts of the U.S. subsidiaries are maintained in U.S. dollars. For the parent company's intercompany debt and external debt held in U.S. dollars, this may occasionally give rise to a risk that its earnings and cash flows may be impacted by fluctuations in foreign exchange conversion rates due to the balance outstanding as of the year end, as well as debt settlements made during the year. For every 200 basis points that the Canadian dollar appreciates, the translation and revaluation impact for the full year on net earnings would be, on average, an increase of $5,201. For every 200 basis points that the Canadian dollar depreciates, the translation and revaluation impact for the full year on net earnings would be, on average, a decrease of $5,369.

From time to time, the Company may use derivatives to manage this foreign exchange risk. 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. The Company did not enter into any derivative financial instrument contracts during the 2010 and 2009 fiscal years. In addition, there were no outstanding derivative financial instruments as at December 31, 2010 and 2009.

On the ABL and long-term debt, an incremental increase or decrease in the prime rate of 0.25 percent would result in an increase or decrease, respectively, in interest expense of $43. In the past, the Company has used an interest rate swap to mitigate the risk of fluctuating interest rates. The Company did not enter into any derivative financial instrument contracts during the 2010 and 2009 fiscal years. In addition, there were no outstanding derivative financial instruments as at December 31, 2010 and 2009.

(iv) Supplier risk

Purchases from Microsoft (a software publisher), Ingram Micro (a distributor), and Techdata (a distributor) accounted for approximately 29 percent, 21 percent and 18 percent, respectively, of the Company's aggregate purchases for 2010. No other partner accounted for more than 10 percent of the Company's purchases in 2010. The Company's top five suppliers as a group for 2010 were Microsoft, Ingram Micro, Techdata, Synnex (a distributor) and Arrow Electronics Inc. (a distributor). They accounted for 80 percent of the Company's total purchases in 2010. Although brand names and individual products are important to the business, the Company believes that competitive sources of supply are available in substantially all the product categories such that, with the exception of Microsoft, the Company is not dependent on any single partner for sourcing products.

15 RELATED-PARTY TRANSACTIONS

As at December 31, 2010, included in trade accounts receivable is $410 due from a major shareholder for product sales with payment terms of net 30 days (2009 – $205). Total product sales to this shareholder during the year ended December 31, 2010 were $1,403 (2009 – $512). 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 upon between the related parties.

In the course of the refinancing that occurred in the first quarter of 2009, a portion of the long-term debt outstanding was purchased by OTPP. During the year ended December 31, 2010, OTPP received principal repayments of $821 (2009 – $748) and interest repayments of $487 (2009 – $616). Refer to note 7 for a description of this transaction.

16 SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION

	2010	2009
Change in non-cash operating working capital:		
Accounts receivable	**$ (36,266)**	$ 69,141
Inventories	**36**	654
Prepaid expenses and other assets	**(716)**	2,297
Long-term accounts receivable	**(2,771)**	527
Deferred costs	**(6,678)**	892
Accounts payable and accrued liabilities	**40,991**	(66,668)
Deferred lease inducements	**(92)**	(69)
Deferred revenue	**383**	(2,324)
Income taxes payable	**(1,068)**	3,442
	$ (6,181)	$ 7,892

	2010	2009
Interest paid	**$ 2,573**	$ 3,877
Taxes paid	**12,035**	4,657

17 SEGMENTED INFORMATION

The Company has one reportable segment in which the 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:

	2010	2009
Canada[1]	**$ 385,250**	$ 304,147
United States	**498,764**	449,997
	$ 884,014	$ 754,144

(1) Revenue for the years ended December 31, 2010 and 2009 was Cdn. $395,430 and Cdn. $345,970, respectively.

Geographic segments of property and equipment are located as follows:

	2010	2009
Canada	**$ 4,521**	$ 5,170
United States	**1,227**	1,724
	$ 5,748	$ 6,894

Geographic segments of goodwill are located as follows:

	2010	2009
Canada	**$ 6,448**	$ 6,128
United States	**4,935**	4,935
	$ 11,383	$ 11,063

Geographic segments of intangible assets are located as follows:

	2010	2009
Canada	**$ 10,345**	$ 11,217
United States	**29,425**	33,649
	$ 39,770	$ 44,866

18 ECONOMIC DEPENDENCE

Approximately 29 percent (2009 – 32 percent) of the Company's net sales in the year relate to products published by Microsoft.

19 COMPARATIVE FIGURES

Certain 2009 figures have been reclassified to conform with the financial statement presentation adopted in 2010.

TEN-YEAR FINANCIAL SUMMARY

(In thousands of U.S. dollars except per share amounts) Unaudited	**Dec. 31 10**	Dec. 31 09 – Restated [1]	Dec. 31 08	Dec. 31 07	Dec. 31 06	Dec. 31 05	Dec. 31 04	Dec. 31 03	Dec. 31 02	Dec. 31 01 [2]
Revenue	**$ 884,014**	$ 754,144	$1,244,295	$ 777,082	$ 703,237	$ 639,482	$ 477,935	$ 390,793	$ 420,006	$ 254,343
Gross profit as a percentage of revenue	**18.6%**	18.9%	13.8%	16.1%	14.0%	12.7%	13.3%	12.0%	12.6%	12.2%
Gross profit per customer	**11.5**	9.3	8.6	7.8	6.6	5.4	4.5	3.8	4.4	2.7
Net earnings	**20,242**	22,263	(14,388)	21,997	15,930	13,108	9,731	3,118	9,554	3,258
Earnings per share	**$ 1.02**	$ 1.26	$ (0.82)	$ 1.27	$ 0.93	$ 0.76	$ 0.57	$ 0.18	$ 0.56	$ 0.20
Total assets	**351,769**	290,366	355,761	319,826	187,254	173,485	103,523	114,797	103,581	79,681
Cash flow from operations	**23,448**	33,131	30,880	35,064	11,470	4,021	10,232	3,654	11,367	9,844
Number of offices	**46**	44	45	41	34	32	32	33	32	34
Number of employees	**917**	874	897	795	624	604	463	436	456	426

Notes:

(1) In the fourth quarter of 2010, the Company changed its accounting policy for maintenance contracts and now records these arrangements on a net basis. The comparative 2009 figures have been restated. For further information, refer to the "Change in Accounting Policy" section of the Management's Discussion and Analysis.

(2) 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

Keith R. Coogan
Former CEO of Pomeroy I.T. Solutions Inc. and former CEO of Software Spectrum, Inc.

Gilles Lamoureux
Former senior advisor to Ernst & Young Corporate Finance Inc. and a former founding partner of Orenda Corporate Finance Ltd.

William W. Linton
Executive 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 the former chairman of the Information Technology Association of Canada (ITAC).

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.

Officers

David L. MacDonald
President and Chief Executive Officer

William W. Linton
Chairman of the Board

David Long
Chief Financial Officer and Senior Vice President, Finance

Nick Foster
Senior Vice President, Business Development

Steve Johnson
Senior Vice President, Business Solutions, Architecture and Delivery

Steve Leslie
Senior Vice President, Sales and Professional Services

Kevin Wright
Senior Vice President, Operations and Chief Information Officer

Steve Cundill
Vice President, Sales, U.S. East

Josh Greene
Vice President, Telesales and Sales, U.S. West

Linda Millage
Vice President, Finance and Corporate Controller

Maria Odoardi
Vice President, People

Sandy Potter
Vice President, Business Development

Sergio Vettese
Vice President, Finance

Nicole Wengle
Vice President, Sales, Canada

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Annual Meeting of Shareholders
Tuesday, May 10, 2011
10:00 a.m. Eastern Time
Westin Harbour Castle Hotel
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