

Management's Discussion and Analysis

November 10, 2009

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

The following discussion should be read in conjunction with the interim consolidated financial statements for the period ended September 30, 2009, and the Management's Discussion and Analysis prepared for the year ended December 31, 2008. 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.

Caution Regarding Forward-Looking Statements

This Management's Discussion and Analysis contains certain forward-looking statements based on management's current expectations. Management bases its expectations on current market conditions and forecasts published by experts, on knowledge of observed industry trends and on internal intentions based on developed business plans or budgets. The words "expect," "intend," "anticipate" and similar expressions generally identify forward-looking statements. These forward-looking statements entail various risks and uncertainties that could cause actual results to differ materially from those reflected in these forward-looking statements. Certain of these risks are described in the Annual Information Form. They include risks related to the economy and financial conditions such as the risk that customers will delay purchases, causing a downturn in overall revenues, the risk that customers will not be able to obtain sufficient credit to finance IT, the risk that customers could face bankruptcy or other financial difficulties, causing increased bad debt expenses for the Company, loss of ongoing sales, the risk that suppliers could tighten credit terms and credit requirements, making it difficult or more expensive to purchase products for resale, risks related to our debt financing, risks of litigation due to the layoffs that occurred, exchange rate risk and the risk of credit card fraud. The Company also faces risks related to the IT distribution channel such as dependence on Microsoft, reliance on financial incentives, dependence on distributors, the inability to respond to changes in the manner of IT distribution, technical innovation, competition, the risk of IT product defects and the risks of providing technology solutions offerings. There are additional risks regarding 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 Annual Information Form.

Use of Non-GAAP Terms

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

Imputed Revenue is defined as the price paid by the customer to Microsoft for Enterprise Agreements ("EAs") that are transacted through Softchoice sales representatives (see "Microsoft and Softchoice" on page 39 of the annual report). Total Revenue, including Imputed Revenue reflects Imputed Revenue, plus reported revenue, less any agency fees included in reported revenue. Microsoft pays Softchoice an agency fee or commission for EA sales, and therefore Softchoice does not record the revenue for these transactions. Imputed Revenue allows for better comparability between fiscal periods since an increase in the product mix of EAs would make it appear that Softchoice is selling less, when that would not be the case. The use of Imputed Revenue also aids in comparison with our competitors. This measure is not likely to be used by any competitors in the industry for two reasons:

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

The chart below shows the Total Revenue, including Imputed Revenue for this third quarter and first nine months of 2009 compared to the same period in the prior year. Year-over-year revenue comparisons will be discussed in the next section of this report.

<i>Unaudited (US \$000s)</i>	Q3 2009	Q3 2008	Y/Y%
Reported Revenue	\$ 218,728	\$ 276,356	(20.9)%
Agency Fees	(5,842)	(9,134)	(36.0)%
Imputed Revenue*	92,843	113,528	(18.2)%
Total Revenue, including Imputed Revenue	<u>\$ 305,729</u>	<u>\$ 380,750</u>	<u>(19.7)%</u>

<i>Unaudited (US \$000s)</i>	Q3 YTD 2009	Q3 YTD 2008	Y/Y%
Reported Revenue	\$ 716,359	\$ 909,306	(21.2)%
Agency Fees	(30,921)	(43,747)	(29.3)%
Imputed Revenue*	505,455	590,871	(14.5)%
Total Revenue, including Imputed Revenue	<u>\$ 1,190,893</u>	<u>\$ 1,456,430</u>	<u>(18.2)%</u>

*Agency fees are included in imputed revenue

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 management uses this measurement when evaluating potential acquisition targets. We use our own 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 the operating results compared to others in our industry and other potential investments.

<i>Unaudited (US 000's)</i>	Q3 2009	Q3 2008	Y/Y %	YTD 2009	YTD 2008
Operating Income	\$ 2,133	\$ 1,086	96%	\$ 14,654	\$ 18,905
Amortization of property, and equipment	762	720	6%	2,185	2,013
Amortization of intangible assets	1,973	1,955	1%	5,930	5,881
EBITDA	4,868	3,761	29%	22,769	26,799

Adjusted (loss) earnings eliminates the after-tax impact related to foreign exchange loss or gain on the cash, inter-company debt and external debt denominated in non-functional currency and subject to mark to market adjustments.

<i>Unaudited (US 000's)</i>	Q3 2009	Q3 2008	Y/Y %	YTD 2009	YTD 2008	Y/Y %
Net earnings (loss)	\$ 4,912	\$ (1,665)	n/a	\$ 15,165	\$ 7,463	103.2%
Foreign exchange gain/losses (tax adjusted)	4,401	(798)	n/a	7,826	(1,038)	n/a
Adjusted (loss) earnings	511	(867)	n/a	7,339	8,501	(13.7)%

Change in Reporting Presentation

In the second quarter, the Company made a change to the reporting presentation of foreign exchange gains and losses, which will now be excluded from reported operating income and will be included in other income and deductions on a prospective basis beginning in the second quarter of 2009. Prior to the second quarter of 2009, foreign exchange gains and losses were included in operating income of the Company. The change was made to simplify portrayal and to eliminate the need to discuss adjusted EBITDA (as operating income less amortization of property and equipment, amortization of intangible assets, unrealized foreign exchange gains or losses). All prior-year comparisons have been adjusted to reflect this change.

Selected Financial Information

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

Three-Month Period Ended September 30, 2009, Compared to the Three-Month Period Ended September 30, 2008

<i>US \$000s, except per share amounts</i>	2009		2008		Y/Y %
<i>unaudited</i>	% of revenue		% of revenue		
Total Revenue, including Imputed Revenue*	\$ 305,729	139.8%	\$ 380,750	137.8%	(19.7)%
Revenue	218,728	100.0%	276,356	100.0%	(20.9)%
Gross Profit	30,813	14.1%	35,464	12.8%	(13.1)%
Expenses	25,945	11.9%	31,703	11.5%	(18.2)%
EBITDA	4,868	2.2%	3,761	1.4%	29.4%
Amortization, Interest and Other	(1,990)	(0.9)%	5,981	2.2%	(133.3)%
Net earnings (loss) before taxes	6,858	3.1%	(2,220)	(0.8)%	n/a
Net earnings (loss)	4,912	2.2%	(1,665)	(0.6)%	n/a
(L)EPS (basic)	\$ 0.28		\$ (0.09)		n/a

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

Net earnings for the quarter were \$4.9 million compared to net loss of \$1.7 million in the same quarter of the prior year.

Adjusted earnings were \$0.5 million compared to a loss of \$0.9 million in the third quarter of the prior year. Adjusted earnings per share (basic and fully diluted) was \$0.03 per share, compared to a loss of \$(0.05) per share a year earlier. In prior years, the Company has hedged against foreign exchange exposures to reduce volatility in the earnings statement. The Company has decided not to hedge this exposure in 2009 but will separately disclose its impact. The hedging process itself is expensive, and we have decided not to spend cash on mitigating a foreign exchange exposure where the result is unrealized and does not have an impact on our reported cash position. This decision could increase the volatility in the reported earnings stream and affect reported earnings per share performance.

Highlights of the Third Quarter of 2009

- EBITDA for the quarter of \$4.9 million increased by 29 percent compared to the same quarter of the prior year, and operating income increased by 96 percent compared to the same quarter in the prior period.
- Total debt of the Company was \$14.5 million at the end of the quarter, and the Company had \$11.6 million in cash on hand during the same period. This is a reduction of \$55.2 million in debt from debt levels of \$69.7 million at the end of the third quarter of the prior year. Debt at the end of December 2008 was \$54.1 million.
- Gross profit in Canada improved by 20 percent compared to the same quarter in the prior year, ignoring the impacts of foreign exchange; however, revenue during the third quarter declined by 2 percent versus the prior year.
- Total Company performance measured in U.S. dollars was a revenue decline of 21 percent compared to a more robust economy in the third quarter of 2008. Eliminating the impacts of foreign exchange, revenues declined by 19 percent during the quarter compared to the same period in the prior year, and gross profit declined by 12 percent.
- Operating expenses, excluding amortization of property and equipment and intangible assets, incurred during the third quarter compared to the same quarter last year declined by 16 percent for Canadian operations and 16 percent for U.S. operations measured in their respective currencies. Operating expenses, on a consolidated basis, declined by 17 percent compared to the same quarter last year.
- Other income and deductions includes interest income and expense and foreign currency gains and losses for the quarter. The strengthening of the Canadian dollar compared to the first quarter of 2009 resulted in a large unrealized foreign exchange gain of \$6.2 million for the quarter.
- Earnings before tax at \$6.9 million for the third quarter was \$9.1 million higher than the same quarter last year. The tax provision for the quarter was marginally higher when compared to the provision for the same quarter the prior year as a result of reduced effective tax rates in Canada during the quarter. Net income for the quarter was \$4.9 million, or \$0.28 per share (basic and fully diluted), compared to net loss reported in the same quarter of the prior year of \$1.7 million, or \$(0.09) per share (basic and fully diluted).

Management Comments[†]

As the economies in both the United States and Canada continued to be in recession during the first half of 2009, IT professionals and published reports suggest IT spending may have bottomed and anticipate the IT industry will return to growth in 2010 but not to 2008 levels until 2012. Management believes that there are stronger signs of recovery in Canada than there are in the United States, and the Company has seen elements of this recovery during the third quarter.

The Company has reviewed various reports from IDC, International Data Corporation, and from hardware vendors and has concluded that our hardware sales results in the first nine months of the year are directionally consistent with overall industry trends when the impacts of consumer-oriented netbook sales are excluded from these results. Of all the technology segments, the hardware business seems to be hit the hardest; published reports suggest it is expected to suffer a 16.5 percent decline in global IT spending from 2008. However, Gartner is expecting IT services to grow by 4.5 percent in 2010.

Customers in both our SMB and enterprise business segments have placed extremely tight controls on spending during their 2009 fiscal year. We define SMB as any company with fewer than 2,000 PCs; enterprise customers have more than 2,000 PCs. Until corporations in these two key business segments release funding for technology refresh and for software acquisition, management believes that overall revenue and gross profit results will continue to reflect recessionary conditions.

Weakness existed in the Microsoft business in the third quarter. Management attributes this weakness to a lower Microsoft fee structure and lower true-up activity (true-up is defined on page 39 of the 2008 Annual Report), particularly in the United States, driven by reduced employment levels in the corporate sector and deferred investment in server and software purchases, as well as increased competition in the software sector. The Company is placing a strong emphasis on increased business focus in the Microsoft segment for the balance of 2009.

Business Outlook[†]

The Company continues to believe that many clients have limited capacity to defer technology hardware and software replacement for long periods of time before it begins having an impact on their ability to improve their internal productivity, and we believe there will be some level of catch-up spending when businesses return to their normal technology refresh cycles.

Despite the gross profit decline we experienced in the first nine months of 2009, we expect that the strength of our sales and delivery model and the cost management initiatives we have put in place will result in the Company continuing to close the gap to prior-period operating results going forward.

Cost Management

The Company has prioritized the full integration into the Softchoice model of the three businesses acquired in late 2007 and early 2008. Coupling the leverage of this integration and a broader drive for increased productivity levels and cost reduction strategies, we have positioned the Company to remain profitable throughout the recession. These actions have had a strong positive impact on the Company's third-quarter business results, with total operating expense levels declining by 17 percent compared to the same quarter in the prior year.

The previously announced 4 percent reductions in general employee salaries and 6 percent reduction in executives' salaries went into effect May 1, 2009. While we have not instituted a complete freeze on new hiring, all hiring continues to be subject to additional scrutiny.

The successful integration of the three acquired businesses has positioned the Company with stronger sales and delivery capacity, with a lower cost model that is capable of driving strong revenue growth as we come out of the current recession. Management believes that the year-over-year revenue and gross

[†] This section includes forward-looking statements. See "Caution Regarding Forward-Looking Statements."

profit declines experienced during the first half of the year will be the most severe for the year.[†] This is evident from the improvement in year-over-year gross profit performance for the quarter, showing a 13 percent decline during the quarter, compared to the year-over-year gross profit decline experienced during the first half of 2009 of 23 percent.

Detailed Review of Operating Results for the Quarter:

Summary of Quarterly Data

in US \$000s, except per share amounts

Unaudited	2007		2008				2009		
	Q 4	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3	
Revenue	\$ 266,191	\$ 298,554	\$ 334,396	\$ 276,356	\$ 334,988	\$ 218,358	\$ 279,272	\$ 218,728	
Gross profit	37,009	39,211	53,498	35,464	43,630	30,654	41,310	30,813	
Operating income	8,579	3,924	13,838	1,086	(34,490)	(399)	12,918	2,133	
Net earnings	5,210	1,727	7,401	(1,665)	(21,875)	(2,389)	12,642	4,912	
(L)EPS	\$0.30	\$0.10	\$0.42	\$(0.09)	\$(1.25)	\$(0.14)	\$0.72	\$0.28	

All amounts in thousands of US dollars, except per share amounts

Three-Month Period Ended September 30, 2009, Compared to the Three-Month Period Ended September 30, 2008

<i>US \$000s, except per share amounts unaudited</i>	2009		2008		Y/Y %
	% of revenue		% of revenue		
Total Revenue, including Imputed Revenue*	\$ 305,729	139.8%	\$ 380,750	137.8%	(19.7)%
Revenue	218,728	100.0%	276,356	100.0%	(20.9)%
Gross Profit	30,813	14.1%	35,464	12.8%	(13.1)%
Expenses	25,945	11.9%	31,703	11.5%	(18.2)%
EBITDA	4,868	2.2%	3,761	1.4%	29.4%
Amortization, Interest and Other	(1,990)	(0.9)%	5,981	2.2%	(133.3)%
Net earnings (loss) before taxes	6,858	3.1%	(2,220)	(0.8)%	n/a
Net earnings (loss)	4,912	2.2%	(1,665)	(0.6)%	n/a
(L)EPS (basic)	\$ 0.28		\$ (0.09)		n/a

Revenue

Total revenue for the quarter was \$218.7 million, reflecting a decrease of 21 percent from the revenue of \$276.4 million reported in the third quarter of the prior year. Total Revenue, including Imputed Revenue for the quarter was \$305.7 million, for a decline of 20 percent versus the prior year.

Revenue from United States operations was \$134.2 million, reflecting a decrease of 28 percent from the prior year. Revenue from Canadian operations, measured in Canadian dollars, was C\$92.5 million in the quarter, reflecting a decrease of 2 percent from the prior year.

The Canadian dollar depreciated from 1.0385 in the third quarter of 2008 to 1.0976 in 2009 for a year-over-year change of 5 percent. If the foreign exchange rate had held constant, reported revenue and Total Revenue, including Imputed Revenue, would have decreased by 19 percent and 18 percent, respectively, for a total foreign currency impact on revenue of \$4.6 and \$5.4 million, respectively.

[†] This sentence includes forward-looking statements. See "Caution Regarding Forward-Looking Statements."

Microsoft Imputed Revenue associated with agency fees was \$92.8 million in the quarter, a decline of 18 percent from the same period last year. The amount earned by Softchoice as agency fees was \$5.8 million in the quarter, which is a decline of 36 percent from the same quarter last year. The deterioration in fee margin is largely attributable to the a decline in true-up and add-on business, a decrease in annuity or renewal stream and a reduction in the EA fees structure introduced by Microsoft during the second quarter.

Agency fees represent 19 percent of total gross profit in this quarter compared to 26 percent in the third quarter of 2008.

Significant year-over-year declines occurred in add-on and true-up opportunities as a result of the economic downturn as companies have reduced employees, coupled with a decline in the customer base within the U.S. As a result, the year-over-year decline in agency fees has been more pronounced in the U.S. than in Canada. Microsoft Year 2 and 3 renewal licenses represent a larger portion of the agency fee revenue in the third quarter and, because they typically earn lower fees in the three-year renewal fee cycle, this reduction has contributed to the margin decline during the quarter.

Other software sales were \$73.4 million in the quarter and experienced a 9 percent growth despite the broad-based slowdown in technology spending.

Hardware sales were \$93.4 million in the quarter, compared to \$128.1 million in the same quarter last year. Measured in Canadian dollars, hardware sales in Canada declined by 6 percent. Hardware sales in U.S. operations declined by 35 percent, continuing the trend of constrained purchases as corporations extend their technology refresh cycle to preserve capital during the recession.

Product Segment Analysis

<i>Unaudited (US \$000's)</i>	Q3 2009	Q3 2008	Y/Y %
Microsoft revenue	\$ 51,939	\$ 81,116	(36.0)%
Agency Fees	(5,842)	(9,134)	(36.0)%
Microsoft Imputed Revenue	92,843	113,528	(18.2)%
Total Microsoft Revenue, including Imputed Revenue	<u>138,940</u>	<u>185,510</u>	<u>(25.1)%</u>
Other software revenue	73,358	67,103	9.3%
Hardware revenue	93,431	128,137	(27.1)%
Total Revenue, including Imputed Revenue	<u>\$ 305,729</u>	<u>\$ 380,750</u>	<u>(19.7)%</u>
Total reported revenue	<u>\$ 218,728</u>	<u>\$ 276,356</u>	<u>(20.9)%</u>

Gross Profit

Gross profit for the quarter was \$30.8 million, reflecting approximately 130 basis points growth in gross margin percentage and a decrease in gross profit of 13 percent compared to gross profit of \$35.5 million reported in the third quarter of the prior year. Eliminating currency impact, overall gross profit declined by 12 percent compared to the third quarter of the prior year. Gross profit as a percentage of Total Revenue, including Imputed Revenue was 10.1 percent compared to 9.3 percent in the third quarter of the prior year. This is primarily the result of the of margins improvements experienced across other software and hardware that outpaced the decline in Total revenue including Imputed revenue of 20 percent compared to the same period in the prior year.

Product line margins have shown an improvement this quarter compared to the same quarter a year ago. The overall margin increase in the quarter is primarily driven by improvements in margins related to other software as a result of certifications that have been attained during the year and offset slightly by the Microsoft margin erosion experienced during the quarter compared to the same period in the prior year.

Rebates in the third quarter of 2009 declined by 53 percent compared to the third quarter of 2008 largely due to the declines in the Microsoft sales in the U.S., changes in the Microsoft rebate program and a decline in IBM rebates during the quarter compared to the same period of the prior year.

Marketing development funds earned in the quarter decreased by about 43 percent. This decline is primarily the result of a decrease in the number of events conducted during the quarter and vendor incentives as compared to the same period in the prior year.

Expenses and EBITDA

Unaudited (U.S. \$000's)	Q3				Y/Y %
	2009	% of Gross profit	2008	% of Gross profit	
Salaries and benefits	\$ 19,229	62.4%	\$ 22,520	63.5%	(14.6)%
Selling, general and administrative	<u>6,716</u>	<u>21.8%</u>	<u>9,183</u>	<u>25.9%</u>	(26.9)%
	25,945	84.2%	31,703	89.4%	(18.2)%
% of Gross profit	84.2%		89.4%		

Total salaries and benefits and SG&A expenses decreased by 18 percent compared to the same period of the prior year. Despite the gross profit decline in the quarter, these expenses as a percentage of gross profit decreased from 89 percent to 84 percent as a result of cost-reduction actions.

Quarter-end employee levels decreased by 20 percent compared to the third quarter of 2008. The reductions in salaries reflect the lower staff levels and the reduced incentive compensation earnings associated with our lower gross profit levels compared to the prior year. Salary expenses in the third quarter also reflect a provision for a performance incentive program for the 2009 and 2010 years that was introduced in the second quarter in the amount of \$0.7 million, reflecting expected performance under the program. (Please see the Company's Management Information Circular dated April 3, 2009, for more information on Softchoice's LTIP program.)

Selling, general and administrative expenses decreased 27 percent compared to the prior year, reflecting the impact of a reduced workforce. This decline reflects management's vigilance about cost management in these economic times and currency impacts.

EBITDA reflects the profits of the Company after salaries and SG&A costs are deducted from gross profit. A gross profit decline of 13 percent, offset by an expense decline of 18 percent, has resulted in an EBITDA increase from the third quarter of the prior year of 29 percent.

Other

Amortization of property and equipment increased by 6 percent compared to the third quarter of the prior year as a result of capital asset purchases in the last half of 2008. The amortization of intangibles has increased by 1 percent.

Interest expense and other income was \$1.5 million in the quarter. A foreign exchange gain of \$6.2 million existed in the quarter based on the appreciation of the Canadian dollar from the previous quarter to the third quarter of 2009, with approximately \$4.2 million of the total foreign exchange gain resulting from the revaluation of the Company's inter-company loan and \$1.7 million attributable to the revaluation impacts of the term loan, both of which are on the books of the Canadian company and are denominated in U.S. dollars. The remainder of the foreign exchange impacts related to transactional impacts in currencies different the notional currency of each Company.

The effective tax rate for the quarter was approximately 28 percent, which remained fairly consistent with the same quarter in the prior year. This lower effective tax rate in Canada is attributable to non-taxable

dividends received in the Canadian company, the non-taxable/non-deductible impacts of the Long-Term Incentive Plan and the non-deductible portion of a foreign exchange capital loss.

Nine-Month Period Ended September 30, 2009, Compared to the Nine-Month Period Ended September 30, 2008

U.S. \$000s, except per share amounts	2009		2008		Y/Y %
		% of revenue		% of revenue	
Total Revenue, including Imputed Revenue	\$ 1,190,893	166.2%	\$ 1,456,430	160.2%	(18.2)%
Revenue	716,359	100.0%	909,306	100.0%	(21.2)%
Gross profit	102,779	14.3%	128,173	14.1%	(19.8)%
Expenses	80,010	11.2%	101,374	11.1%	(21.1)%
EBITDA	22,769	3.2%	26,799	2.9%	(15.0)%
Amortization	8,115	1.1%	7,894	0.9%	2.8%
Operating Income	14,654	2.0%	18,905	2.1%	(22.5)%
Foreign exchange loss/(gain)	(10,778)		1,270		(948.7)%
Other expenses / (Income)	4,151		5,022		(17.3)%
Net earnings before taxes	21,281	3.0%	12,613	1.4%	68.7%
Net earnings	15,165	2.1%	7,463	0.8%	103.2%
EPS (basic)	\$ 0.87		\$ 0.43		102.3%

Revenues

Revenue for the first nine months of 2009 was \$716.4 million, reflecting a decrease of 21 percent from the revenue of \$909.3 million reported in the first nine months of the prior year. Total Revenue, including Imputed Revenue declined by 18 percent over the period.

Agency fees for EA licenses declined by 29 percent in the first nine months compared to the decline in Microsoft Revenue of 23 percent reported in the same period of the prior year. These agency fees reflect erosion in the fee margin as a percentage of Imputed Revenue from 7.4 percent to 6.1 percent. This decrease is due to the larger proportion of Year 1 opportunities that were renewed during the first nine months of the prior year, which typically earn a higher fee percentage, changes to the Microsoft fee structure and a reduction in true-up and add-on licenses as a result of the downturn in the economic environment.

In Canada, sales in Canadian dollars declined by 4 percent overall and Total Revenue, including Imputed Revenue declined by 2 percent compared to the first nine months of 2008. The relative strength in other software and Microsoft was offset by a general slowdown in hardware.

In the U.S., sales declined by 24 percent overall, and Total Revenue, including Imputed Revenue declined by 20 percent compared to the first nine months of 2008. The softest area of performance was in hardware sales as a result of the continued contraction in the U.S. economy. Hardware sales declined by 34 percent compared to the first nine months of the prior year.

Sales of other software declined by only 3 percent during the first nine months of 2009 compared to the same period of the prior year.

The Canadian dollar depreciated against the U.S. dollar from 1.0178 in the first nine months of 2008 to 1.1695 in 2009 for a year-over-year change of 15 percent. If the foreign exchange rate had held constant, Reported revenue and Total Revenue, including Imputed Revenue would have decreased by 17 percent and 14 percent, respectively, for a total foreign currency impact on revenue of \$43.3 and \$60.2 million, respectively.

Gross Profit

Gross profit for the first nine months of 2009 was \$102.8 million, reflecting a decrease of 20 percent compared to gross profit of \$128.2 million reported in the first nine months of the prior year. Eliminating currency impact, overall gross profit declined by 16 percent compared to the first nine months of the prior year. Gross profit as a percentage of Total Revenue, including Imputed Revenue was 8.6 percent, marginally down from the prior year.

Rebates in the first nine months of 2009 declined by 52 percent compared to the first nine months of 2008 largely due to the declines in the Microsoft business in the U.S. and changes in the Microsoft rebate program.

Marketing development funds earned in the first nine months decreased by 8 percent. This decline reflects a decrease, compared to the same period of the prior year, primarily impacted by a decline in marketing events and deal incentives.

Product Segment Analysis

<i>Unaudited (US \$000's)</i>	YTD 2009	YTD 2008	Y/Y %
Microsoft revenue	\$ 232,673	\$ 302,056	(23.0)%
Agency Fees	(30,921)	(43,747)	(29.3)%
Microsoft Imputed Revenue	505,455	590,871	(14.5)%
Total Microsoft Revenue, including Imputed Revenue	<u>707,207</u>	<u>849,180</u>	<u>(16.7)%</u>
Other software	223,495	229,453	(2.6)%
Hardware	260,191	377,797	(31.1)%
Total Revenue, including Imputed Revenue	<u>\$ 1,190,893</u>	<u>\$ 1,456,430</u>	<u>(18.2)%</u>
Total reported revenue	<u>\$ 716,359</u>	<u>\$ 909,306</u>	<u>(21.2)%</u>

Expenses and EBITDA

unaudited U.S. \$000's	Q3 YTD 2009		Q3 YTD 2008		Y/Y %
	\$	% of Gross profit	\$	% of Gross profit	
Salaries and benefits	56,905	55.4%	73,119	57.0%	(22.2)%
Selling, general and administrative	<u>23,105</u>	22.5%	<u>28,255</u>	22.0%	(18.2)%
	80,010	77.8%	101,374	79.1%	(21.1)%
% of Gross profit		77.8%		79.1%	

Total expenses decreased by 21 percent over the prior year. Expenses as a percentage of gross profit decreased slightly to 78 percent from 79 percent reported in the previous year, primarily as a result of the cost reduction actions taken by the Company, which were offset by declines in the gross profit over the same period. The decline in expenses reflects the Company's focus on cost management and the results of the productivity and cost management activities that were undertaken in 2008 and 2009.

Average headcount levels for the first nine months of the year decreased by 16 percent compared to the first nine months of 2008. The reductions in salaries reflect the lower staff levels and the reduced incentive compensation earnings associated with our lower gross profit levels. Salary expenses in the first nine months also reflect a reversal of an amount accrued in prior years for an LTIP plan in the amount of \$1.8 million, reflecting expected LTIP performance in 2009 and 2010, as well as a provision for the new performance incentive program that was introduced in the second quarter of 2009. (Please see the Company's Management Information Circular dated April 3, 2009 for more information on Softchoice's LTIP program.)

Selling, general and administrative expenses decreased by just over 18 percent compared to the prior year, reflecting a 21 percent reduction in overall expense levels that was partially offset by a one-time benefit in 2008 from the recovery of a sales tax exposure in the amount of \$0.9 million. This decline reflects management's vigilance about cost management in these economic times.

EBITDA reflects the profits of the Company after salaries and selling, general and administrative costs are deducted from gross profit. A gross profit decline of 20 percent, offset by an expense decline of 21 percent, has demonstrated the versatility of the cost model within the Company. As a result, EBITDA decreased from the first nine months of the prior year by 15 percent.

Other

Amortization of property and equipment increased by 9 percent compared to the first nine months of the prior year as a result of capital asset purchases in the last half of 2008. The amortization of intangibles has increased by 1 percent.

Other expenses include interest expense and other income of \$4.2 million in the first nine months of 2009 and a foreign currency gain of \$10.8 million.

The effective tax rate for the first nine months was approximately 29 percent, which has decreased by 12 percent from the prior period primarily as a result of a lower effective tax rate in Canada attributable to non-taxable dividends received in the Canadian company, the non-taxable/non-deductible impacts of the LTIP accrual reversal and the non-deductible portion of a foreign exchange capital gain that acted to lower taxable income for the period. These impacts were offset by an increase in the U.S. effective rate attributable to a tax true-up recorded in the second quarter of 2009.

Net earnings for the first nine months was \$15.2 million compared to net earnings of \$7.5 million in the same period of the prior year. Earnings per share was \$0.87 per share (basic and fully diluted), compared to \$0.43 per share (basic and fully diluted) a year earlier.

Liquidity and Capital Resources

Debt financing is provided to Softchoice in Canada, and the working capital and other financing needs are flowed to the U.S. company 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) can be drawn to the lesser of C\$115 million or 85 percent of eligible accounts receivable. There is an accordion feature to this facility in the amount of C\$30.0 million that can be exercised at the Company's discretion and with the agreement of the term debt provider. The ABL incurs interest at prime plus 2.25 percent on inception and can reduce to prime plus 1.75 percent depending on certain financial measures being realized. The ABL has a term of three years. The ABL was provided to Softchoice through a lending syndicate comprising Bank of America (agent), Bank of Montreal and TD Bank.
- A term debt loan is subordinated to the ABL in the amount of US\$20.5 million. The debt has a five-year term and has quarterly payments of US\$1.0 million. Interest on this loan is 17.5 percent per annum; this rate could be reduced to 16 percent per annum after 2009 if certain financial ratios are achieved. The term debt loan was provided by HSBC (Canada) Inc. with participation by Ontario Teachers' Pension Plan (OTPP), a related party. OTPP is a related party through their purchase of hardware and software products from the Company totaling \$114.6 thousand during the quarter. This loan can be repaid without penalty or termination fee after 36 months.

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

maximum debt leverage covenant and an asset coverage covenant. The fixed-charge ratio is likely to be the most stringent covenant. The Company does not anticipate violating any of the current covenants.[†]

The table below indicates the level of debt available to the Company and the amounts outstanding as at September 30, 2009. Including available cash, the net debt position at the end of the third quarter 2009 is \$2.8 million. We believe 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.[†]

Debt levels as at September 30, 2009	Available	Drawn
Unaudited (US \$000s)		
Short term debt		
Revolving credit facility	\$ 104,769	\$ (1,268)
Current portion of term debt	<u>4,103</u>	<u>3,962</u>
	108,872	2,694
Term debt, long term	<u>13,333</u>	<u>11,761</u>
Total debt	\$ 122,205	\$ 14,455

Cash Flow

The Company was able to reduce debt from \$21.0 million at June 30, 2009, to \$14.4 million at September 30, 2009, and during the same period cash balances decreased from \$17 million to \$12 million.

The reduction in debt was primarily a result of \$2.3 million of cash generated from earnings adjusted for non-cash items, partially offset by \$0.8 million of cash used for investing activities.

Accounts receivable balances reflect days sales outstanding (DSO) of 42 days as at September 30, 2009, compared to 46 days outstanding as at September 30, 2008, and 43 days as at December 31, 2008. The Company targets DSO levels of 45 days.

Days payable outstanding (DPO) decreased from 65 days from the same period of the prior year to 63 days at the end of September 30, 2009. The decrease in DPO is primarily the result of the timing of the vendor payments. We expect that DPO levels will decline from this level over the remainder of the year.

Share Capital

As of September 30, 2009, 17,496,807 Common Shares of the Company were issued and outstanding. Options to acquire an aggregate of 69,684 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, without prejudice to the options that were outstanding thereunder, so that no more options will be issued under the 2003 plan. As of September 30, 2009, there were 104,646 Deferred Share Units outstanding under the Company's Deferred Share Unit Plan for Directors, each of which represents the right to acquire one Common Share; refer to Note 5 of the financial statements.

Key Performance Measures

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

Revenue or Growth Indicators:

[†] This sentence includes forward-looking statements. See "Caution Regarding Forward-Looking Statements."

- Number of Customers

Productivity Indicators:

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

For the third quarter in 2008, these performance indicators are presented excluding data related to the Optimus Solutions acquisition. As a result, comparative results will be slightly exaggerated since all data depicted for 2009 includes the results of all acquisitions, which have been fully integrated and cannot be segregated to normalize the effects attributable to the acquisitions.

Number of Customers

During the third quarter of 2009, due to decisions by our customers to defer spending, the number of customers purchasing from Softchoice in the quarter decreased by 10 percent in Canada and by 23 percent in the U.S. compared to the same period in the prior year.

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

	Q3 2009	Q3 2008
Small and Medium	47%	54%
Enterprise	35%	24%
Government and Education	<u>18%</u>	<u>22%</u>
Total	100%	100%

The portion of sales to enterprise customers has increased in 2009, with 35 percent of sales to the enterprise customer base, compared with 24 percent in the third quarter of 2008. This increase is primarily due to the impact of the acquisitions, which added a larger portion of enterprise customers to our business mix.

Gross Profit per Order

In Canada, gross profit per order increased by 46 percent compared to the same period in the prior year due as a result of increase in margin percentage received on orders stemming from a change in the mix of products sold compared to prior year, and the related margin uplift associated with certifications attained in 2009. In the U.S., excluding transactions related to professional services, gross profit per order increased by 36 percent compared to the same period of the prior year due to the mix of large deal orders delivered in the quarter compared to the prior year, which generally earn higher margins, as well as the increased margins realized during the quarter related to the non-Microsoft business as a result of obtaining required certification for specific vendors.

Gross Profit per Employee and per Sales Employee

The table below shows the employee base of the Company for the third quarter in 2009 compared to the third quarter in 2008. Data related to the employees acquired through acquisitions has been included in both reporting periods.

	Q3 2009		Q3 2008		Y/Y	
	Sales	Total	Sales	Total	Sales	Total
Average headcount	436	882	543	1,097	(19.7)%	(19.6)%
Quarter-end headcount	436	883	515	1,107	(15.3)%	(20.2)%
GP/person (\$000's)	70.7	34.9	68.9	32.0	2.6%	8.9%
	Q3 2009 YTD		Q3 2008 YTD		Y/Y	
	Sales	Total	Sales	Total	Sales	Total
Average headcount	438	884	551	1,050	(20.6)%	(15.8)%
Quarter-end headcount	436	883	515	1,107	(15.3)%	(20.2)%
GP/person (\$000's)	235.7	116.4	248.9	115.8	(5.3)%	0.5%

The total number of employees has been reduced by 224 people, or 20 percent, from the third quarter of 2008, reflecting the actions we have taken to drive cost reductions and enhance productivity

During the third quarter, gross profit per sales employee, a key measure of productivity, increased by 3 percent primarily as a result of the increased productivity from the reduced sales team. Gross profit per employee increased by 9 percent compared to the same period in the prior year. This increase is primarily a result of an improvement from the economic downturn that occurred during the first half and its impact on the gross profit performance during the quarter as well as increases in margins from other software and hardware compared to the same period of the prior year. We expect both productivity measures to continue to improve in future quarters. †

Critical Accounting Policies

The Company's accounting policies are described in the "Notes to the Annual Consolidated Financial Statements" (pages 51 to 57 in the Annual Report). These policies are subject to management's judgment in several areas, including the allowance for doubtful accounts, the accrual for rebates earned in the period and various other reserves and accruals for costs incurred in the period. In all cases, these areas of judgment represent management's best estimate. These judgmental areas are similar for most businesses in this industry and should not expose the shareholders to unusual or unexpected trends. In particular, the Company's accounts receivable are not concentrated in any specific industry, and the top 10 customers in the quarter accounted for 18 percent of total revenues.

Our policy for revenue recognition is discussed in more detail in the 2008 Annual Report on pages 52 to 53.

Multiple-Element Arrangements: The professional services business enters into multiple-element revenue arrangements, which may include any combination of services, software, hardware and/or financing. The Company's policy for multiple elements is discussed in more detail in the 2008 Annual Report on page 52.

Changes in Accounting Policies

Goodwill and Intangible Assets

In February 2008, the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets," replacing Section 3062, "Goodwill and Other Intangible Assets," and Section 3450, "Research and Development Costs." The new Section 3064 addresses when an internally developed intangible asset meets the criteria for recognition as an asset. The Company has reflected the impact of this standard on its financial results in 2009, and this is described in more detail in Note 2 to the interim financial statements. The CICA also issued amendments to Section 1000, "Financial Statement Concepts." These changes are effective for fiscal years beginning on or after October 1, 2008, with earlier adoption permitted, and this standard has been adopted by the Company effective January 1, 2009. Collectively, these changes bring Canadian practice closer to International Financial Reporting Standards (IFRS) and U.S. GAAP by eliminating the practice of recognizing as assets a variety of start-up, preproduction and similar costs that do not meet the definition and recognition criteria of an asset.

† This sentence contains forward-looking statements. See "Caution Regarding Forward-Looking Statements."

IFRS

In February 2008, the Canadian Accounting Standards Board confirmed that the use of IFRS will be required in Canada for publicly accountable profit-oriented enterprises for fiscal years beginning on or after January 1, 2011. The Company has begun the process of evaluating the impact of the change to IFRS. The project will have three primary phases as follows:

1. Scoping and diagnostic phase – This phase involves a high-level assessment to identify key areas that may be affected by the transition to IFRS, and ranking these as high, medium or low priority, as well as the creation of a formalized project plan including key milestones and timelines, resources required, education and training requirements.
2. Impact analysis, evaluation and design phase – In this phase, each area identified from the scoping and diagnostic phase will be addressed by performing an in-depth analysis of Canadian GAAP/IFRS differences, evaluation and selection of available accounting policies, quantification of impacts and development of draft IFRS financial statement contents. This phase also includes the identification of operational impacts such as information technology, process and internal control changes.
3. Implementation and review phase – This phase will integrate our new accounting policies and operational impacts into the Company's underlying information systems and business processes.

During the first nine months of 2009, the Company completed Phase 1 of the project. Phase 2 of the project is under way, with potential areas of impact being assessed with consideration to complexity, scope of operational impact, potential magnitude of impact, expected changes to IFRS standards and other matters. The Company anticipates the completion of Phase 2 of the project during fiscal 2009.

As the Company is only at the preliminary stages of Phase 2 of the project, the Company does not have sufficient information at this time to provide meaningful commentary on the anticipated impacts of transitioning to IFRS.

Business Combinations

In January 2009, the CICA issued Section 1582, "Business Combinations," replacing Section 1581, "Business Combinations." This section establishes the standards for the accounting of 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. This new section will be applicable to financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. The Company is currently assessing the future impact of this new standard on its financial statements.

Consolidated Financial Statements

In January 2009, the CICA issued Section 1601, "Consolidated Financial Statements," which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. The Company is currently assessing the future impact of this new standard on its financial statements.

Disclosure Controls and Procedures and Internal Control Over Financial Reporting

The following material weakness, as previously disclosed in the MD&A of the Company's 2008 Annual Report, has been identified and included in management's assessment. Based on management's

evaluation on December 31, 2008 the CEO and CFO concluded that the Company's disclosure controls and procedures and internal controls over financial reporting were not effective as at December 31, 2008.

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

The Company's management, including the Chief Executive Office and the Vice President of Finance, has been committed to remediating the Company's previously disclosed material weakness in internal control over financial reporting by enhancing the control over the analysis of goodwill impairment.

The following remediation plan, as previously disclosed, has been put into place by the Company on January 1, 2009, namely:

- A goodwill impairment analysis checklist providing guidance on evaluating matters has been developed and now utilized on a quarterly basis
- A formal review process over the selection of key assumptions and data used by key finance personnel has been established
- Valuation experts' opinion on the formal analysis will be obtained when required.