

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 12, 2009

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

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

Caution Regarding Forward-Looking Statements

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

Use of Non-GAAP Terms

In our financial reporting, we refer to Imputed Revenue or Total Revenue, including Imputed Revenue, EBITDA, Adjusted EBITDA and Adjusted Earnings all of which are non-GAAP terms. None of these terms 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"). Total Revenue, including Imputed Revenue reflects Imputed Revenue, plus reported revenue, less any agency fees included in reported revenue. Microsoft pays Softchoice an agency fee or commission for EA sales, and therefore Softchoice does not record the total revenue for these transactions. Imputed Revenue allows for better comparability between fiscal periods since an increase in the product mix of EAs would make it appear that Softchoice is selling less, when that would not be the case. The use of Imputed Revenue also aids in comparison with our competitors. This measure is not likely to be used by any competitors in the industry for two reasons:

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

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

<i>US \$000s, except per share amounts</i>	2008	2007	Y/Y%
Reported Revenue	\$ 1,244,295	\$ 777,082	60.1%
Agency Fees	(57,193)	(51,285)	11.5%
Imputed Revenue	771,339	535,336	44.1%
Total Imputed Revenue	<u>\$ 1,958,441</u>	<u>\$ 1,261,133</u>	<u>55.3%</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. This measure is used by the Company's bankers in establishing and measuring certain financial covenants. In addition, valuation metrics in our industry are based on multiples of EBITDA, and therefore management uses this measurement when evaluating potential acquisition targets. We use our own EBITDA results to compare our own valuation multiples to those of our competitors to evaluate how we might improve shareholder performance. We believe that our shareholders and potential investors use EBITDA in making investment decisions about the Company and measuring the operating results compared to others in our industry and other potential investments.

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	<u>2008</u>	<u>2007</u>	
<i>US \$000s, except per share amounts</i>			Y/Y %
Operating Income	\$ (18,373)	\$ 36,394	(150.5)%
Amortization of property and equipment	3,849	3,173	21.3%
Amortization of intangible assets	6,964	1,948	257.5%
Goodwill Impairment	<u>43,624</u>	<u>-</u>	
EBITDA	36,064	41,515	(13.1)%

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

	<u>2008</u>	<u>2007</u>	
<i>US \$000s, except per share amounts</i>			Y/Y %
EBITDA	36,064	41,515	(13.1)%
Resizing and refinancing charges	2,771	-	
Unrealized foreign exchange loss (gain)	<u>2,333</u>	<u>(1,175)</u>	(298.5)%
Adjusted EBITDA	41,168	40,340	2.1%

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

	Q4	2008
<i>US \$000s, except per share amounts</i>		
Net Loss	(21,875)	(14,388)
After-tax Goodwill impairment	<u>26,638</u>	<u>26,638</u>
Adjusted Earnings	4,763	12,250

Selected Annual Information

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

	Year ended December 31, 2008	Year ended December 31, 2007	Year ended December 31, 2006
<i>U.S. \$000s, except per share amounts</i>			
Revenue	\$ 1,244,295	\$ 777,082	\$ 703,237
Total Revenue, including Imputed Revenue	1,958,441	1,261,133	1,061,973
Gross profit	171,803	125,117	98,554
<i>Gross profit as a percentage of revenue</i>	13.8%	16.1%	14.0%
<i>Gross profit as a percentage of Total Revenue, including Imputed Revenue</i>	8.8%	9.9%	9.3%
Adjusted EBITDA	41,168	40,340	29,590
Earnings before income taxes	(24,830)	36,950	26,085
Net Earnings	(14,388)	21,997	15,930
Earnings per share			
Basic	\$ (0.82)	\$ 1.27	\$ 0.93
Fully diluted	\$ (0.82)	\$ 1.25	\$ 0.92
Total Assets	355,761	319,826	187,254
Shareholders' Equity	67,438	74,700	56,127
Dividends	5,199	6,546	6,044

2008 Highlights

- Fourth quarter: In spite of a tough economy, revenue grows by 26 percent in the quarter and Adjusted EBITDA grows by 39 percent compared to the same quarter in 2007.
- Revenue of \$1.2 billion represents growth of 60 percent over the prior year.
- Hardware revenue grows by 121 percent for the year compared to prior year.
- Successful integration of three acquisitions is completed, expanding the Company's range of solutions to offer customers.
- Cost synergies from the acquisitions and aggressive cost actions in the fourth quarter result in a lower cost base in the fourth quarter and position the Company well for 2009.

- Annual Adjusted EBITDA grows by six percent driven by fourth-quarter performance and cost management actions
- Debt refinancing is completed early in 2009 providing the Company with stable long-term access to funding to support continued growth
- Cash flow from operations in the amount of \$28.7 million was used to pay down debt during the year so that the debt to EBITDA ratio at the end of 2008 was reduced to 1.3 times.

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

Business Outlook*

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

Forecast Growth for the IT Industry

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

Growth and decline in the IT industry can be segmented based on the type of product sold. IDC estimates that on a worldwide basis the PC market is expected to decline by 1 percent and servers by 1.5 percent, but software is expected to grow by 4.6 percent and services to grow by 3.7 percent. Since worldwide IT growth in 2009 is expected to be about 2.6 percent, it is likely that the same areas will show relative strength in the North American economy but that the growth levels will be correspondingly lower.

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

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

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

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

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

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

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

IT Asset Management ("ITAM"): this offering includes product fulfillment, management of project rollouts, complex configurations, etc. Software licensing is also included in this offering as our purchase history reporting and asset analysis services help customers with license

compliance or the harvesting and redistribution of excess or underutilized licenses. We also provide ITAM as a service where multiple sources of data are consolidated to provide one repository of information to solve IT management problems.

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

Each of the predecessor companies had expertise in one or more of these areas. On a combined basis our offerings are more strategically relevant to the customer, and we have an increased ability to save them money and reduce risk. The core Softchoice business had developed well in technology acquisition and some parts of IT asset management – in particular software licensing and ITAM as a service. NexInnovations had a strong technology acquisition business and significant expertise in large-scale hardware roll-outs now offered as part of our IT asset management practice. Software Plus had strong software license skills and Optimus Solutions had a well developed business solutions practice. The integration of the acquisitions has resulted in an expanded and consistent customer offering that takes the competencies of each acquired company and shares them across the integrated entity.

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

Cost Management

At the beginning of 2008 our core infrastructure was designed for a company that expected to grow by about 20 percent per year on an ongoing basis. To that base we added the personnel from the acquisitions. Toward the end of 2008 it became apparent that these growth expectations would not materialize due to the declining economy. We therefore took cost actions and reduced our workforce by about 9 percent and reduced our expense base by about \$6 million. The severance costs related to this action are included in the fourth-quarter results for the Company. In addition, the first quarter included back-office costs related to Software Plus before the integration was completed. We also had costs that were paid to the former owner of Optimus Solutions to provide administrative support to us prior to the completion of the integration of Optimus. Lastly, there were incremental costs, such as travel costs, related to the integration of these companies that we do not expect to occur on an ongoing basis.

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

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

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

Debt Refinancing

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

Foreign Exchange

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

Our income statement is also affected by unrealized gains and losses on U.S.-dollar-denominated debt that is held on the Canadian balance sheet. This debt is owed to the U.S. subsidiary and therefore the debt itself is eliminated when the balance sheets are consolidated, but the income statement impact from the foreign exchange fluctuation is not eliminated. This is an unrealized,

non-cash item but it can have a substantial impact on net income. The expense recognized in 2008 related to this was \$4.8 million, before accounting for hedges, which reduced this expense by \$2.3 million. At the end of the year the inter-company debt was \$38.4 million. If the Canadian dollar declines against the U.S. currency, we will realize further losses in this regard. In prior years, and in the fourth quarter, we have hedged against this exposure to reduce volatility in the earnings statement. We have decided not to hedge this exposure in 2009, but will separately disclose its impact. The hedging process itself is expensive and we have decided not to spend cash on mitigating a foreign exchange exposure where the result is unrealized and does not have an impact on our reported cash position. This decision could increase volatility in the earnings stream and affect earnings per share performance.

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

Liquidity and Capital Resources

At the end of the year the Company had two credit facilities outstanding: an asset-based loan (ABL) and a term debt. The ABL could be drawn to the lesser of 85 percent of eligible accounts receivable and US\$85 million. A portion of the ABL was classified as long-term debt and had a specific repayment requirement of \$1.8 million every six months. Interest on this facility was at prime plus 1 percent. The Company incurred incremental fees on this loan during the refinancing process. These fees were expensed in the fourth quarter, as was \$0.5 million in unamortized deferred financing costs related to this loan.

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

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

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

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

- The ABL can be drawn to the lesser of C\$115 million and 85 percent of eligible accounts receivable. There is an accordion feature to this facility in the amount of \$20.5 million that can be exercised at the Company's discretion and with the agreement of the term debt provider. The ABL incurs interest at prime plus 2 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 has one financial covenant which is a fixed charge ratio; the Company would have met this covenant at the end of 2008.

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

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

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

Contractual Obligations

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

Credit Facilities as at December 31, 2008

	Payment Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
US 000's, except per share amounts					
Long term debt	17,289	3,572	13,717	-	-
Capital lease obligations	-	-	-	-	-
Operating leases	44,486	7,790	20,245	6,172	10,279
Total Contractual Obligations	61,775	11,362	33,962	6,172	10,279

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

New credit facilities on a pro-forma basis

	Payment Due by Period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
US 000's, except per share amounts					
Long term debt	20,513	4,103	12,308	4,103	-
Capital lease obligations	-	-	-	-	-
Operating leases	44,486	7,790	20,245	6,172	10,279
Total Contractual Obligations	64,999	11,892	32,552	10,274	10,279

Cash Flows

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

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

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

Dividends

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

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

Summary of Quarterly Data

US \$000s, except per share amounts	2008				2007			
	Q 1	Q 2	Q 3	Q 4	Q 1	Q 2	Q 3	Q 4
Revenue	\$ 298,554	\$ 334,396	\$ 276,357	\$ 334,988	\$ 168,953	\$ 182,543	\$ 159,395	\$ 266,191
Gross profit	39,211	53,498	35,464	43,630	24,757	38,368	24,983	37,009
Operating income	3,924	13,733	2	(36,032)	6,205	16,758	5,123	8,308
Net earnings (loss)	1,727	7,401	(1,641)	(21,875)	3,658	10,088	3,041	5,210
EPS	\$0.10	\$0.42	\$(0.09)	\$(1.25)	\$0.21	\$0.58	\$0.18	\$0.30

Key Performance Measures

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

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

Revenue or growth indicators:

- Number of Customers
- Gross Profit per Customer

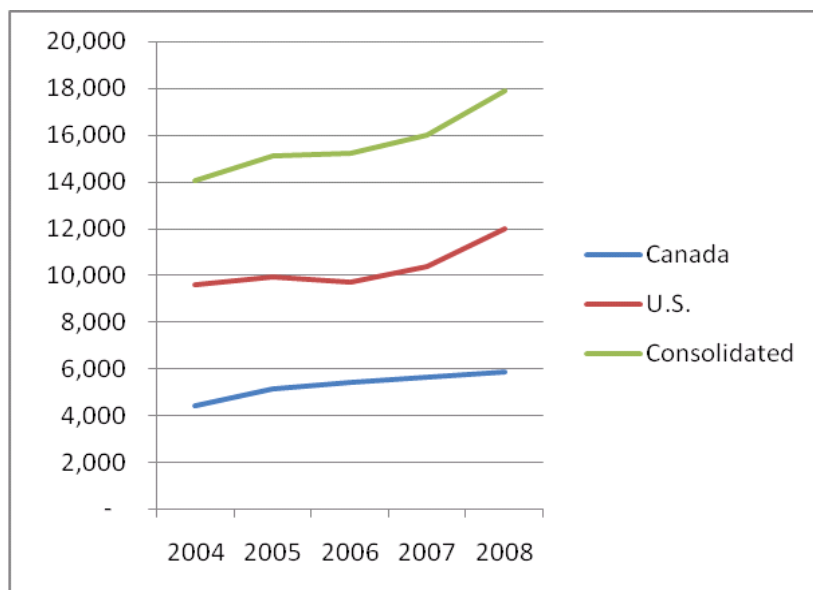
Productivity indicators:

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

Number of Customers

Softchoice sold products and solutions to more than 18,000 customers in 2008, excluding Optimus Solutions customers. The customer base in Canada increased by 10 percent and the customer base in the U.S. increased by 28 percent, for a consolidated increase of 21 percent. The number of hardware customers increased by 18 percent, comprising 28 percent in Canada and 12 percent in the U.S.

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We also segment our customers based on the size of the customers' IT environment. We define the SMB as any company with fewer than 2000 PCs; Enterprise customers have more than 2000 PCs. Revenue from these customers is segmented as follows:

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

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

Gross Profit per Customer

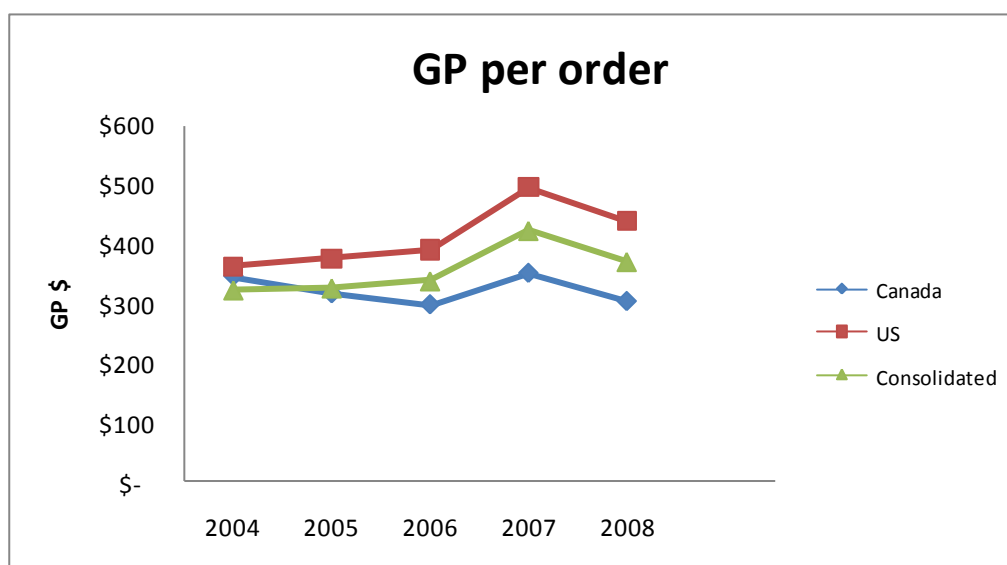
The amount that we sell our customers has increased steadily over the last several years as we increase our penetration of these accounts. Our strategy is to provide a more comprehensive solution for our customers, and we believe that our direct sales force is a significant asset in the execution of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

In 2008, gross profit per customer increased by 4.8 percent in Canada in the U.S gross profit per customer decreased by 13.5 percent for a consolidated decrease of 7.6 percent. These results are consistent with the significant increase in the number of U.S. customers we acquired in 2008 as a result of the Software Plus acquisition. These results do not include the customers or related gross profit associated with the Optimus Solutions business acquisition. The increase in the

Canadian customer base reflects the nature of the business purchased from NexInnovations with larger sales to fewer enterprise customers.

Gross Profit per Order

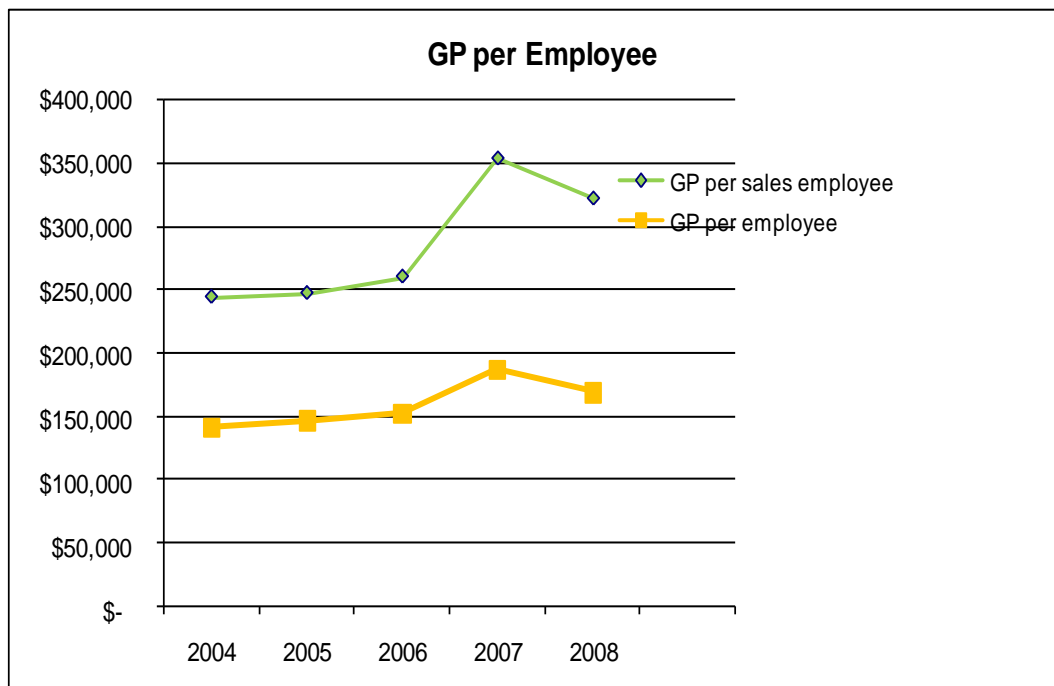
Gross profit per order is an important measure of productivity since increases or decreases affect the number of operational staff required to process the same gross profit. Enterprise agreements have a gross profit per order that is about seven times higher than our average orders since they tend to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



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

Gross Profit per Employee

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



Financial Statement Analysis

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

The acquisitions of Software Plus and Optimus Solutions created goodwill and intangibles of \$41.6 million and \$42.1 million respectively.

During the fourth quarter of 2008, the Company performed the annual goodwill impairment assessment. As a result of the assessment, the Company recognized a non-cash goodwill impairment of \$43.6 million for the year ended December 31, 2008.

NexInnovations

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

(US \$000s, except per share amounts)

Total purchase price	\$12,701
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Comprises:

Intangible assets:

Customer contracts	\$12,701
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The customer contracts are included in intangibles on the balance sheet and are being amortized into income over a 10-year period, representing the anticipated lifetime of these relationships.

Software Plus

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

(US \$000s, except per share amounts)

Total purchase price	\$44,140
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Comprises:

Net working capital	\$309
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Plant and equipment	228
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Intangible assets:

Customer contracts	20,455
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Goodwill	<u>23,148</u>
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	\$44,140
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The customer contracts have been included in intangibles on the balance sheet and are being amortized into income over a 10-year period, representing the anticipated lifetime of these relationships.

Optimus Solutions

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

(US \$000s, except per share amounts)

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

As a result of the Company's annual goodwill impairment assessment as described above, the entity incurred a goodwill impairment charge of \$43.6 million during the fourth quarter of 2008..

Results of Operations

The Softchoice annual financial statements include the results of NexInnovations, Software Plus and Optimus Solutions. NexInnovations and Software Plus were fully integrated into the Company during the first quarter, and therefore separate financial results for these entities are not available. The integration of Optimus Solutions was completed early in 2009. During 2008, Optimus generated revenue of \$179.8 million, an increase of 15 percent over 2007. Its gross profit was \$31.6 million in the period, also showing an increase of 53 percent. EBITDA for the year was \$7.8 million, for an increase of 54 percent over the prior year.

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

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	2008		2007		Y/Y %		
<i>U.S. \$000s, except per share amounts</i>							
Total Revenue, including Imputed Revenue	\$	1,958,441	157.4%	\$	1,261,133	162.3%	55.3%
Revenue		1,244,295	100.0%		777,082	100.0%	60.1%
Gross profit		171,803	13.8%		125,117	16.1%	37.3%
Expenses		130,635	10.5%		84,777	10.9%	54.1%
Adjusted EBITDA		41,168	3.3%		40,340	5.2%	2.1%
Amortization, Interest and Other		65,998	5.3%		3,390	0.4%	1847.1%
Net Income (loss) before taxes		(24,830)	-2.0%		36,950	4.8%	(167.2)%
Net Income (loss)		(14,388)	-1.2%		21,997	2.8%	(165.4)%
EPS (basic)	\$	(0.82)		\$	1.27	-164.6%	(164.6)%

Revenue

Revenue in 2008 includes all three acquisitions for the entire year compared to 2007 when the results of NexInnovations were included in the fourth quarter only and Software Plus was included in the last two weeks of the year. Revenue grew by 60 percent in 2008, as a result of the acquisitions. On a pro forma basis, after normalizing NexInnovations results for 2007, revenue for the year is down by about 2 percent. We therefore believe that we have largely retained the customers and revenue bases of the companies that we bought, in spite of the tough economic conditions in the last half of the year.

Specific increases in revenue were realized as follows:

- Hardware revenue grew by 121 percent.
- Fees earned on enterprise agreements grew by 12 percent.
- Total Revenue, including Imputed revenue, grew by 55 percent.
- In Canada, revenue grew by 39 percent and Total Revenue, including Imputed Revenue, grew by 38 percent.
- In the U.S., revenue grew by 76 percent and Total Revenue, including Imputed Revenue, grew by 66 percent.

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

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

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

<i>US \$000s, except per share amounts</i>	2008	2007	Y/Y%
Reported Revenue	\$ 1,244,295	\$ 777,082	60.1%
Agency Fees	(57,193)	(51,285)	11.5%
Imputed Revenue	771,339	535,336	44.1%
Total Imputed Revenue	<u>\$ 1,958,441</u>	<u>\$ 1,261,133</u>	55.3%

Agency fees are included in imputed revenue

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

<i>US \$000s, except per share amounts</i>	YTD 2008	YTD 2007	Y/Y %
Microsoft revenue	\$ 413,135	\$ 288,044	43.4%
Agency Fees	(57,193)	(51,285)	11.5%
Microsoft Imputed Revenue	771,339	535,336	44.1%
Other software	319,628	257,556	24.1%
Hardware	<u>511,532</u>	<u>231,482</u>	121.0%
Total revenue	<u>\$ 1,244,295</u>	<u>\$ 777,082</u>	60.1%
Total Revenue, including Imputed Revenue	<u>\$ 1,958,441</u>	<u>\$ 1,261,133</u>	55.3%

Sales of Microsoft Products

Softchoice sales of Microsoft products, excluding EA licenses, increased in Canada by 12 percent while Imputed Revenue in Canada grew by 30 percent. In the U.S., Microsoft sales, excluding EA licenses, increased by 77 percent and Imputed Revenue increased by 49 percent. Agency fees declined in Canada by 2 percent primarily as a the result of a decline in the number of Select agreements sold compared to the prior year, as customers migrate from Select agreements to EA licenses. The strength in the U.S. reflects the impact of the Software Plus acquisition. The sale of Microsoft products accounts for 33 percent of revenue, compared to 37 percent in 2007.

Other Software Sales

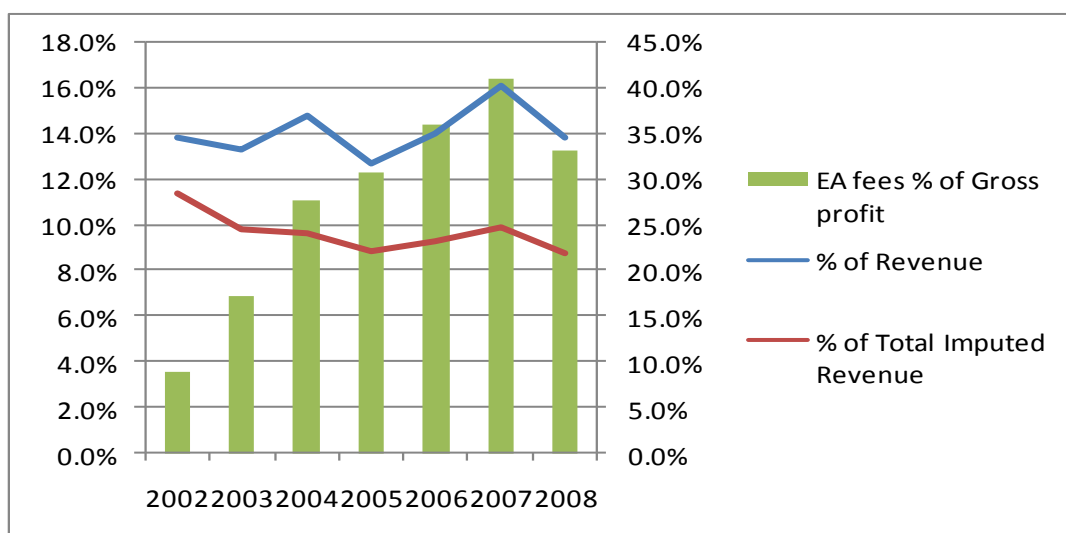
Sales of other software include products by such publishers as Symantec, McAfee, Adobe, Novell, IBM, etc. Sales of these products increased by 24 percent in Canada, by 27 percent in the U.S. and by 24 percent on a consolidated basis. This increase reflects the successes that have been earned by our solutions team as the solutions approach to selling other software products is appealing to our customer base. In particular, sales of IBM and McAfee were particularly strong in 2008.

Hardware Sales

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

Gross Profit

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



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

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

our overall gross margins are lower than some of our competitors and we believe that improvements can be made in this area.*

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

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

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

Expenses

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

	2008		2007		Y/Y %
	\$	% of Gross profit	\$	% of Gross profit	
Salaries and benefits	93,648	54.5%	56,661	45.3% #	65.3%
Selling, general and administrative	<u>36,987</u>	21.5%	<u>28,116</u>	22.5% #	31.6%
	130,635	76.0%	84,777	67.8% #	54.1%

U.S. \$000s, except per share amounts

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

Salaries have increased primarily due to a larger employee base. The average number of employees in the year increased by 53 percent compared to the prior year, and the average number of salespeople increased by 52 percent in the year. At the end of the year, the number of salespeople and total employees compared to the prior year had increased by 17 percent and 19 percent, respectively. The headcount numbers at the end of 2007 included all NexInnovations and Software Plus employees, although not the employees of Optimus Solutions. The decline between the average number of employees in the year and the year-end numbers reflects the efficiencies realized in the acquired companies over the year and the cost measures that were taken in the fourth quarter to resize the business. Productivity, as measured by gross profit per employee, decreased by 10 percent for the employees base and 9 percent for the sales staff for the year as a whole.

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

Adjusted EBITDA

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

	<u>2008</u>	<u>2007</u>	
<i>US \$000s, except per share amounts</i>			Y/Y %
Operating Income	\$ (18,373)	\$ 36,394	(150.5)%
Amortization of property, and equipment	3,849	3,173	21.3%
Amortization of intangible assets	6,964	1,948	257.5%
Goodwill Impairment	<u>43,624</u>	<u>-</u>	
EBITDA	36,064	41,515	(13.1)%
Resizing and refinancing charges	2,771	-	
Unrealized foreign exchange loss (gain)	<u>2,333</u>	<u>(1,175)</u>	(298.5)%
Adjusted EBITDA	41,168	40,340	2.1%

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

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

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

Goodwill impairment charges have been described above.

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

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

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

Net Income

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

Net income (loss) before taxes was \$(24.8) million in 2008, a decline of 167 percent from 2007. Net income (loss) was \$(14.4) million for the year, a decline of 165 percent from 2007. Adjusted earnings were \$12.3 million for the year, a decline of 44 percent compared to 2007.

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

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The effective tax rate has declined from 40 percent in 2007 to 35 percent in 2008. This decline is partly due to a structure that was put into place as part of the acquisitions and partly due to declining statutory rates in Canada.

Fourth Quarter

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

As a result of the impairment charge, we recorded a net loss in the fourth quarter of \$21.9 million. Adjusted earnings declined by 9 percent. The fourth-quarter results in 2007 included NexInnovations for the entire comparable period. Therefore, growth over 2007 in Canada is entirely organic.

<i>US \$000s, except per share amounts</i>	<u>Q4 2008</u>		<u>Q4 2007</u>		Y/Y%		
Total Revenue, including Imputed Revenue	\$	502,014	149.9%	\$	406,054	152.5%	23.6%
Revenue		334,988	100.0%		266,191	100.0%	25.8%
Gross profit		43,686	13.0%		37,009	13.9%	18.0%
Expenses		29,500	8.8%		26,791	10.1%	10.1%
Adjusted EBITDA		14,186	4.2%		10,218	3.8%	38.8%
Amortization, Interest and Other		51,653	15.4%		1,294	0.5%	3890.3%
Net Income (loss) before taxes		(37,467)	-11.2%		8,924	3.4%	(519.9)%
Net Income (loss)		(21,875)	-6.5%		5,210	2.0%	(519.9)%
EPS (basic)	\$	(1.25)		\$	0.30		(516.7)%

Revenue

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

<i>US \$000s, except per share amounts</i>	2008		2007		Y/Y%
Reported Revenue	\$	334,988	\$	266,191	25.8%
Agency Fees		(13,447)		(13,916)	(3.4)%
Imputed Revenue		180,473	\$	153,778	17.4%
Total Imputed Revenue	\$	502,014	\$	406,054	23.6%

Microsoft agency fees fell by three percent in the quarter. Imputed Revenue grew by 17 percent, indicating that the overall value of enterprise agreements continued to grow over 2007. The

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decline in agency fees compared to the growth in Imputed Revenue reflects the cyclicity of the Enterprise Agreements. Fees paid to Softchoice by Microsoft in the second and third year of the agreements are about 30 percent of the levels paid in the first year or a year of renewal.

Softchoice has more first-year agreements in the 2004, 2007 cycle. This cyclicity is evident in the decline in agency fees as a percentage of Imputed Revenue. In addition, customers' levels of true-ups also declined in the quarter compared to the prior year. This decline is consistent with the current economy.

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

<i>US \$000s, except per share amounts</i>	Q4 2008	Q4 2007	Y/Y %
Microsoft revenue	\$ 108,717	\$ 99,051	9.8%
Agency Fees	(13,447)	(13,916)	-3.4%
Microsoft Imputed Revenue	180,473	153,778	17.4%
Other software	96,249	84,956	13.3%
Hardware	<u>130,022</u>	<u>82,184</u>	58.2%
Total revenue	<u>\$ 334,988</u>	<u>\$ 266,191</u>	25.8%
Total Revenue, including Imputed Revenue	<u>\$ 502,014</u>	<u>\$ 406,054</u>	23.6%

Gross Profit

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

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

Expenses

U.S. \$000s, except per share amounts

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

Salaries and benefits increased by 10 percent over the fourth quarter in 2007, excluding severance costs incurred in the resizing actions. Average headcount in the quarter was about 26 percent higher than the prior year, but by the end of the quarter, headcount was 17 percent higher than 2007 levels. This decline reflects a much larger decline than is apparent since the employees from Optimus are not included in the 2007 numbers but are included in 2008.

Salaries and benefits in the fourth quarter cannot be considered to be indicative of ongoing levels since 2008 results did not meet Company objectives, and therefore commission accelerators and bonus levels were not at normal levels.

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

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

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

EBITDA grew by 5 percent compared to the fourth-quarter of 2007 and Adjusted EBITDA grew by 39 percent. As described above, Adjusted EBITDA eliminates the impact of the resizing and foreign exchange losses from the EBITDA calculation so that the underlying trends can be more easily identified.

Interest expense in the quarter reflects the debt that was incurred a year ago to fund the acquisitions. The average interest rate charged in the period was 6.6 percent. Interest rates are expected to increase in 2009 as a result of the higher rates charged on the new credit facilities.

Interest expenses will not necessarily rise, however, since the average borrowing levels have been reduced substantially during 2008 and additional reductions are anticipated in 2009.*

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

Seasonality

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

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

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

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Microsoft and Softchoice

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

Software Licenses

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

Software Assurance

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

Enterprise Agreements (EAs)

In October 2001, Microsoft began offering Enterprise Agreements (EAs). An EA includes a perpetual license and SA. Customers license every desktop in their environment with a consistent suite of Microsoft products. They are then considered to be compliant with all Microsoft license requirements for the ensuing year, regardless of changes to their employee base. EAs have a three-year term whereby the customer pays three equal annual installments for the perpetual license and the SA benefits. Annually they are charged a "true-up" fee for changes in the number of users over the year. Customers usually like the convenience and risk-mitigation factors associated with the annual evaluation process rather than a constant evaluation of the number of users actually deploying the software compared to the number actually licensed.

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

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

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

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

Changes in Accounting Policies

Goodwill and Intangible Assets

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

Accounting Changes

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

Financial Statement Presentation

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

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

Inventories

In June, 2007, the CICA issued the new accounting standard: Handbook Section 3031, Inventories replacing Handbook Section 3030, "Inventories." This standard is effective for interim and annual consolidated financial statements for reporting periods beginning on January 1, 2008. This section prescribes the accounting treatment for inventories and provides guidance on the determination of costs and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. The adoption of this standard did not result in a change from the Company's existing policy or its consolidated financial statements.

Financial Instruments and Capital Disclosures

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

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

IFRS

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

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

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

Critical Accounting Estimates

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

Financial Instruments

Risk Management Policies

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

Credit Risk

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

- A broad customer base dispersed across varying industries and geographic locations.
- Trade receivables are outstanding typically for less than 60 days.

- Less than 15% of the Company's gross income of fiscal 2008 is generated by its top ten clients, the Company believes that the credit risk associated with most of these clients is limited.

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

- The Company accounts for a specific bad debt provision when management considers that the expected recovery is less than the actual account receivable.
- The Company's allowance for doubtful accounts is \$2,759 (December 31, 2007 - \$2,099). Of the Company's accounts receivable approximately 35 percent are greater than 30 days (December 31, 2007 - 20 percent). Any amounts not provided for are considered fully collectible.

Foreign Exchange Risk

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

Interest Rate Risk

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

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

The Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, the disclosure controls and procedures and the internal controls over financial reporting.

The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the disclosure controls and procedures and internal controls over financial reporting as at December 31, 2008. Based on that evaluation, it was determined that a material weakness existed relating to the Company's annual goodwill

impairment testing. As such, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures and internal controls over financial reporting were not effective as at December 31, 2008.

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

The following material weakness has been identified and included in management's assessment 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 Officer and the Chief Financial Officer, is committed to remediating the material weakness in internal control over financial reporting by enhancing the control over the analysis of goodwill impairment. The following remediation plan will be introduced by the Company:

- Developing a goodwill impairment analysis checklist providing guidance on evaluating matters on a quarterly and annual basis
- Establishing a formal review process over the selection of key assumptions and data used in the goodwill analysis by key finance personnel
- Obtaining valuation experts' opinion on the formal analysis

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

Share Capital

The Company had 17,496,807 common shares outstanding at the end of 2008. In addition, a number of employees have stock options outstanding totaling 102,859 options that are exercisable into common shares for prices ranging from \$4.75 to \$8.10. None of these options were in the money at the end of 2008. All of these options were vested as of December 31, 2007.

During 2008, 89,176 options were exercised. The continuity of shares and an explanation of the weighted average number of common shares outstanding in the year are included in Note 10 to the consolidated financial statements.

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

Facilities

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

US \$000s	Amount
2009	\$ 7,790
2010	7,125
2011	6,620
2012	6,500
2013	6,172
Thereafter	<u>10,279</u>
	<u>\$ 44,486</u>

Related-Party Transactions

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

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

The Company contracted with Ernst & Young Orenda Corporate Finance Inc. for assistance during the debt refinancing process. One of the directors of the Company acts as a senior advisor to Ernst & Young. This assignment was in the normal course of operations and conducted under

arms-length terms. Fees paid to Ernst & Young Orenda under this assignment were \$0.6 million. Most of these fees were incurred in early 2009 and will be included in deferred financing expenses recorded in the first quarter of 2009.*

Risks

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

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

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

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

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