Softchoice Corporation

Interim Consolidated Balance Sheets

(in thousands of U.S. dollars)
(Unaudited)

	March 31, 2010 [unaudited]	December 31, 2009
ASSETS		
Cash	$ 32,245	$ 18,601
Accounts receivable, net of allowance for doubtful accounts of $4,366 (December 31, 2009 - $3,967)	223,677	185,278
Inventory	2,669	1,151
Prepaid expenses and other assets	5,229	5,367
Future income taxes	2,537	2,270
Total current assets	266,357	212,667
Restricted cash	500	500
Property and equipment	6,457	6,894
Goodwill (note 3)	11,249	11,063
Intangible assets (note 3)	43,531	44,866
Long-term accounts receivable	167	303
Deferred costs	318	1,676
Future income taxes	16,205	16,220
Total non-current assets	78,427	81,522
Total assets	$ 344,784	$ 294,189
LIABILITIES		
Term debt - current (note 4)	$ 4,104	$ 4,104
Accounts payable and accrued liabilities	224,060	173,676
Current portion of deferred revenue	2,435	3,309
Income taxes payable	1,828	3,288
Total current liabilities	232,427	184,377
Deferred lease inducements	490	480
Deferred revenue	-	303
Long-term debt (note 4)	11,645	12,671
Total non-current liabilities	12,135	13,454
Total liabilities	244,562	197,831
Shareholders' equity		
Capital stock (note 5)	26,001	25,842
Contributed surplus (note 6)	978	983
Retained earnings	68,795	64,263
Accumulated other comprehensive income	4,448	5,270
Total shareholders' equity	100,222	96,358
Total liabilities and shareholders' equity	$ 344,784	$ 294,189

See accompanying notes to interim consolidated financial statements.

Softchoice Corporation

Interim Consolidated Statements of Earnings and Retained Earnings

(in thousands of U.S. dollars except per share information)
(Unaudited)

	3 month period ended March 31, 2010	3 month period ended March 31, 2009
Revenue		
Software	$ 173,734	$ 128,993
Hardware	99,987	79,576
Agency fees	9,024	9,789
	282,745	218,358
Cost of sales	246,299	187,704
Gross profit	36,446	30,654
Expenses		
Salaries and benefits	21,562	20,053
Selling, general and administrative	7,546	8,338
Amortization of property and equipment	777	719
Amortization of intangible assets (note 3)	1,834	1,943
	31,719	31,053
Operating income (loss)	4,727	(399)
Foreign exchange (gain) loss	(2,032)	1,616
Interest expense	674	834
Other (gain) loss	(134)	311
Earnings (loss) before income taxes	6,219	(3,160)
Income taxes (recovery)		
Current	1,923	(937)
Future	(236)	166
	1,687	(771)
Net earnings (loss) for the period	4,532	(2,389)
Retained earnings - Beginning of period	64,263	42,000
Retained earnings - End of period	$ 68,795	$ 39,611
Net earnings (loss) per common share (note 7)		
Basic	$ 0.23	$ (0.14)
Diluted	$ 0.23	$ (0.14)
Basic weighted average number of common shares outstanding	19,773,779	17,496,807
Diluted weighted average number of common shares outstanding	19,783,517	17,526,633

See accompanying notes to interim consolidated financial statements.

Softchoice Corporation

Interim Consolidated Statements of Cash Flows

(in thousands of U.S. dollars)
(Unaudited)

	3 month period ended March 31, 2010	3 month period ended March 31, 2009
Cash provided by (used in)		
Operating activities		
Net earnings (loss) for the period	$ 4,532	$ (2,389)
Items not affecting cash		
Amortization of property and equipment	777	719
Stock-based (recovery) compensation (note 6)	57	(277)
Future income taxes	(236)	166
Amortization of intangible assets (note 3)	1,834	1,943
Unrealized foreign currency (gain) loss	(1,510)	1,905
Amortization of capitalized loan fees	330	182
Loss (gain) on disposal of property and equipment	43	(2)
Net change in non-cash working capital items relating to operations (note 11)	9,155	(2,703)
	14,982	(456)
Financing activities		
Repayment of bank indebtedness (note 4)	-	(40,317)
Increase in bank indebtedness (note 4)	-	26,919
Repayment of long-term debt (note 4)	-	(13,688)
Increase in long-term debt (note 4)	-	14,125
(Decrease) in term loan	(1,507)	-
Proceeds from issuance of common shares (note 5)	97	-
	(1,410)	(12,961)
Investing activities		
Purchase of property and equipment	(259)	(508)
Purchase of intangible assets	(148)	-
Proceeds on disposal of property and equipment	-	4
	(407)	(504)
Effect of exchange rate changes on cash	479	(35)
Increase / (Decrease) in cash during the period	13,644	(13,956)
Cash - Beginning of period	18,601	14,098
Cash - End of period	$ 32,245	$ 142
Interest paid	$ 700	$ 834
Income taxes paid	$ 3,396	$ 2,699

Softchoice Corporation
Interim Consolidated Statements of Comprehensive Income
(in thousands of U.S. dollars)
(Unaudited)

	3 month period ended March 31, 2010	3 month period ended March 31, 2009
Net earnings (loss) for the period	$ 4,532	$ (2,389)
Other comprehensive income:		
Foreign currency translation adjustment	(822)	1,483
Total comprehensive income (loss)	$ 3,710	$ (906)

Accumulated other comprehensive income		
Balance - Beginning of period	$ 5,270	$ 13,116
Foreign currency translation adjustment	(822)	1,483
Balance - End of period	$ 4,448	$ 14,599

Softchoice Corporation

Notes to Interim Consolidated Financial Statements

(in thousands of U.S. dollars unless otherwise stated)
(unaudited)

1. Nature of operations

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

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

2. Significant accounting policies

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) for interim financial statements and, accordingly, certain disclosures normally included in annual audited financial statements prepared in accordance with Canadian GAAP are not provided. These interim consolidated financial statements have been prepared following accounting principles consistent with those used in the annual audited consolidated financial statements and should be read in conjunction with the annual audited financial statements of the Company for the year ended December 31, 2009. The results of the operations for the interim period are not necessarily indicative of the results of operations for any other interim period or for a full fiscal year.

Changes in Accounting Estimates

Deferred Revenue

Deferred revenue has historically included revenue that is not yet earned on service sales to customers where performance was not yet complete and maintenance contracts where the contract start date was not yet in effect. Deferred revenue has also included revenue that was not yet earned on sales to customers with initial extended payment terms beyond 180 days.

Effective January 1, 2010, the Company determined that it has sufficient evidence in most instances to conclude that the fee was fixed and determinable when initial payment terms are beyond 180 days and as such, the Company will recognize revenue in such cases when appropriate based on the Company's revenue recognition policy.

Recently Adopted Accounting Pronouncements

Multiple Deliverable Revenue Arrangements

In December 2009, the CICA issued EIC 175, Multiple Deliverable Revenue Arrangements, replacing EIC 142, Revenue Arrangements with Multiple Deliverables. This abstract was amended to (1) exclude from the application of the updated guidance those arrangements that would be accounted for in accordance with Financial Accounting Standards Board Statement (FASB) Statement of Position (SOP) 97-2, Software Revenue Recognition as amended by Accounting Standards Update (ASU) 2009-14; (2) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (3) require in situations where a vendor does not have vendor-specific objective evidence ("VSOE") or third-party evidence of selling price, require that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (4) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (5) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance.

Multiple Deliverable Revenue Arrangements (cont.)

The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the Abstract is adopted early, in a reporting period that is not the first reporting period in the entity's fiscal year, it must be applied retroactively from the beginning of the Company's fiscal period of adoption. The Company adopted EIC 175 effective January 1, 2010.

The Company's revenue arrangements may contain multiple elements; however, to date revenue from multiple elements has not been significant. Accordingly, the adoption of the new EIC 175 did not have a material impact on the Company's financial statements. The Company is still required to determine the appropriate accounting under EIC 175, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes.

In the past, for arrangements involving multiple elements, the Company allocated revenue to each component of the arrangement using the residual value method, based on vendor-specific objective evidence of the fair value of the undelivered elements. EIC 175 has eliminated the use of the residual value method, and therefore, effective January 1, 2010, the Company has allocated revenue using the relative selling price method of the separate units of accounting. The multiple elements in an arrangement typically might include one or more of the following: hardware, software, maintenance, installation, and/or other professional service offerings as described in Note 2 of the Company's Annual Financial Statements for 2009. The Company allocates the arrangement fee, in a multiple element transaction, to the separate elements based on their relative selling prices, as indicated by vendor-specific objective evidence or third-party evidence of selling price, and if both are not available, estimated selling prices is used. The allocated portion of the arrangement which is undelivered is then deferred.

In some instances, a group of contracts or agreements with the same customer may be so closely related that they are, in effect, part of a single multiple element arrangement and, therefore, the Company will allocate the corresponding revenue among the various components, as described above.

Recently Issued Accounting Pronouncements

Business combinations

In January 1, 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 standard 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 consolidated financial statements.

Consolidated financial statements

In January 2009, the CICA published Section 1601, Consolidated Financial Statements, and Section 1602, Non-Controlling Interests, which together replace Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011 and should be adopted at the same time as Section 1582. Early adoption is permitted as of the beginning of a fiscal year. The Company is currently evaluating the impact of the adoption of these new Sections on its consolidated financial statements.

(in thousands of U.S. dollars unless otherwise stated)

International Financial Reporting Standards ("IFRS")

In February 2008 the Canadian Accounting Standards Board announced 2011 as the changeover date for publicly-listed companies to use IFRS, replacing Canadian generally accepted accounting principles. The specific implementation is set for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

3. Goodwill and intangible assets

	Goodwill	Intangibles assets
Balance as at December 31, 2009	$ 11,063	$ 44,866
Addition of computer software	-	148
Amortization	-	(1,834)
Foreign currency exchange	186	351
Balance as at March 31, 2010	$ 11,249	$ 43,531

4. Bank indebtedness and term debt

	March 31, 2010	**December 31, 2009**
Asset-Backed Loan ("ABL")	$ -	$ -
Term debt - current	4,104	4,104
	4,104	4,104
Term debt - long-term	11,645	12,671
	$ 15,749	$ 16,775

To finance its acquisitions and the ongoing working capital requirements, the Company established two credit facilities in February 2009. The first is an asset-backed loan (ABL) that can be drawn to the lesser of CA$115 million and 85% of eligible accounts receivable. There is an accordion feature to this facility in the amount of CA$30 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 rate plus 2.25% on inception and can be reduced to prime rate plus 1.75%, depending on certain financial measures being realized. The ABL has a term of three years. The ABL was provided to the Company through a lending syndicate comprising Bank of America (agent), Bank of Montreal and TD Bank.

The term debt is subordinated to the ABL and is in the amount of US$20.5 million. This debt has a five-year term and has quarterly payments of US$1.0 million. Interest on this loan is determined based on certain financial ratios; at March 31, 2010, the rate is 16% per annum (2009 - 17.5%). The term debt was provided by HSBC (Canada) Inc., with 20% participation by the Ontario Teachers' Pension Plan, a related party. 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 borrowing base to outstanding principal ratio and a leverage ratio covenant.

As at March 31, 2010, the Company has also used $2,459 (Dec 31, 2009 - $2,488) of its available credit as security for letters of credit issued to various institutions.

(in thousands of U.S. dollars unless otherwise stated)

5. Capital stock

Authorized
Unlimited number of common shares

Issued
19,778,789 (December 31, 2009 - 19,759,189) common shares

	Shares		Amount
Balance as at December 31, 2009	19,759,189	$	25,842
Issued for options exercised	19,600		97
Transfer from contributed surplus (note 6)	-		62
Balance as at March 31, 2010	19,778,789	$	26,001

In November 2009, the Company entered into a bought-deal financing agreement whereby the Company issued common shares for gross proceeds of C$17,437,500. In conjunction with the financing, the underwriters received a fee and had been granted the option to purchase up to an additional 337,500 Shares at a price of C$7.75 per common share to cover over-allotments. These options remained unexercised and expired on January 10, 2010, which was 30 days following the closing date.

Deferred Share Unit Plan

On May 7, 2007, the shareholders approved the implementation of a deferred share unit plan (DSU) and long term incentive plan (LTIP) for directors and key employees, respectively. The Company offers a DSU for members of the Board of Directors. For each calendar year, the Board of Directors will determine the amount of compensation for non-executive directors that will be paid in deferred share units. Deferred share units are fully vested on issuance. At the beginning of each calendar quarter, the number of deferred share units to be credited to the account of each eligible director will be determined by dividing one quarter of that portion of the annual compensation that is to be paid in DSUs by the fair value of the common shares. The fair value is the volume weighted average trading price per common share of the Company on the Toronto Stock Exchange during the five trading days immediately preceding such quarter if the common shares are then traded on the Toronto Stock Exchange or the fair value as determined by the Board of Directors.

Each deferred share unit represents the right to receive one common share of the Company when the holder ceases to be a non-executive director of the Company. To satisfy this obligation, the Company will at its option either (i) issue common shares from treasury to the director, or (ii) direct the plan trustee (an independent trust company selected by the Company) to acquire common shares in the market at the direction of the Company for the purpose of share compensation arrangements, including the DSU to deliver common shares to the director. The cost to the Company of the deferred share units granted for the three month period ended March 31, 2010 was $57 (2009 - $51).

Long Term Incentive Plan

On June 12, 2009, a one-time bridge LTIP for the executives of the Company was approved. The bridge LTIP consists of the issuance of phantom share grants and phantom option grants, which are payable in cash. As part of the bridge LTIP, 152,000 phantom shares were granted based on a notional share price of CA$3.22 per unit, with a payout based on the Company's 2009 financial performance benchmarked against a peer group of publicly traded companies.

Participants in the bridge LTIP must remain employed by the Company through the vesting period (February 2011) for an amount to be paid. For the three month period ended March 31, 2010, the Company recorded a liability of $68 (2009 - $ nil) relating to the phantom share component of the bridge LTIP.

The bridge LTIP, also granted 152,000 phantom option grants based on a notional strike price of CA$3.22 per unit. The value of each unit will be derived as the difference between the average closing price of the Company's common shares on the Toronto Stock Exchange for the first ten trading days after the Company's 2009 annual earnings release, which was CA$8.39, and the strike price. All of the phantom options granted will vest in February 2011. The fair value of the liability at any time is equal to the difference between the quoted market price of the Company's shares and the strike price of CA$3.22, after taking into consideration the time elapsed in the vesting period and the probability of achieving the performance criteria, as stipulated in the bridge LTIP. As at March 31, 2010, the Company recorded a liability of $178 (2009 - $ nil) on these phantom options.

On June 12, 2009, the 2009 LTIP for the executives of the Company was approved. The 2009 LTIP consists of a cash payout or the issuance of 50 percent of the DSU shares equivalence upon achievement of a cumulative Net Income target. The Plan has a single element to it, which is cumulative Net Income over the three year period including the 2009, 2010 and 2011 fiscal years. Four levels of payout exist under the Plan based on varying degrees of overachievement defined as Threshold, Target, Superior and Maximum payout gates. Payouts under the Plan will be in February 2012; based on continuing full time employment with the Company through the vesting period (February 2012) for an amount to be paid. The cost to the Company of the LTIP for the three month period ended March 31, 2010 is $126 (2009 - $ nil).

Share Appreciation Rights Plan

On March 11, 2010, the Share Appreciation Rights ("SAR") plan for eligible officers and key employees of the Company was approved by the Board of Directors. On March 31, 2010, the Company granted 160,000 share appreciation rights to eligible participants. The strike price of the units granted is C$9.90. The Company must achieve a threshold share price of C$12.50 following the 3-year vesting period in order for any award to be made. The maturity date price will be determined by the volume weighted average trading price per share on the Toronto Stock Exchange for the ten trading days immediately after the three year vesting period has been completed. Upon maturity, if the threshold share price is met, each SAR entitles the holder to receive an amount equal to the maturity date price less the strike price of C$9.90. The awards granted under this plan are payable in cash.

Softchoice Corporation

Notes to Interim Consolidated Financial Statements

(in thousands of U.S. dollars unless otherwise stated)
(unaudited)

6. Contributed surplus

For stock options granted to employees and directors after January 1, 2002, the Company records compensation expense using the fair value method. Fair values are determined using the Black-Scholes option pricing model. Compensation costs are recognized over the vesting period as an increase to stock-based compensation expense and contributed surplus. When options are exercised, the proceeds received by the Company, together with the fair value amount in contributed surplus, are credited to capital stock. The Company has not granted stock options during the three-month period ended March 31, 2010 (2009 - nil). The employee share option plan was cancelled by the Board of Directors in 2006.

	Amount
Balance as at December 31, 2009	$ 983
Stock-based compensation	57
Stock options exercised (note 5)	(62)
Balance as at December 31, 2009	$ 978

7. Weighted average number of common shares

	3 month period ended March 31, 2010	3 month period ended March 31, 2009
Issued and outstanding - Beginning of period	19,759,189	17,496,807
Net weighted average number of common shares issued during the period	14,590	-
Weighted average number of common shares used in computing basic earnings per share	19,773,779	17,496,807
Assumed exercise of stock options - net of common shares issued	9,738	29,826
Weighted average number of shares used in computing diluted earnings per share	19,783,517	17,526,633

(in thousands of U.S. dollars unless otherwise stated)

8. Segmented information

The Company operates in one reportable segment. Segments are defined as components for which separate financial information is available and is regularly evaluated by the chief operating decision maker. The Company's assets, operations and employees are located in Canada and the United States. Revenues are attributed to customers based on the destination of where the products are shipped to.

Geographic information

Geographic segments of revenue are as follows:

	3 month period ended March 31, 2010	3 month period ended March 31, 2009
Canada	$ 127,833	$ 97,522
United States	154,912	120,836
	$ 282,745	$ 218,358

Geographic segments of property and equipment are located as follows:

	March 31, 2010	December 31, 2009
Canada	$ 4,972	$ 5,170
United States	1,485	1,724
	$ 6,457	$ 6,894

Geographic segments of goodwill are as follows:

	March 31, 2010	December 31, 2009
Canada	$ 6,314	$ 6,128
United States	4,935	4,935
	$ 11,249	$ 11,063

Geographic segments of intangible assets are as follows:

	March 31, 2010	December 31, 2009
Canada	$ 10,918	$ 11,217
United States	32,613	33,649
	$ 43,531	$ 44,866

9. Major suppliers

Approximately 41% of the Company's revenues in the current quarter (2009 - 33%) related to products published by one software publisher.

(in thousands of U.S. dollars unless otherwise stated)

10. Related party transactions

As at March 31, 2010, included in trade accounts receivable is $717 due from a major shareholder for product sales with payment terms of net 30 days (December 31, 2009 - $205). Total product sales to this shareholder during the three month period ended March 31, 2010 were $660 (2009 - $104). 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.

As a result of the refinancing that occurred in the first quarter of 2009, a portion of the long-term debt outstanding is backed by Ontario Teachers' Pension Plan ("OTPP"). During the three month period ended March 31, 2010, OTPP received principal repayments of $205 (2009 - $132) and interest repayments of $132 (2009 - $61). Refer to note 4 for a description of this transaction.

11. Supplemental disclosures of cash flow information

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

	3 month period ended March 31, 2010	3 month period ended March 31, 2009
Accounts receivable	$ (35,545)	$ 61,310
Inventories	(1,492)	191
Prepaid expenses and other assets	(55)	4,779
Long-term accounts receivable	137	347
Deferred costs	1,363	(138)
Accounts payable and accrued liabilities	47,448	(65,033)
Deferred lease inducements	(4)	82
Deferred revenue	(1,184)	(668)
Income taxes recoverable	(1,513)	(3,573)
	$ 9,155	$ (2,703)

12. Subsequent event

Subsequent to March 31, 2010, the Board of Directors adopted a 2010 Performance Stock Option ("PSO") plan for the executives of the Company, which is still subject to shareholder approval. The plan dictates that a minimum share price has to be achieved for any PSO level to vest. This stock option plan has a 7 year expiry term and a 3 year vesting period, depending on share price attainment. The Board will set a price hurdle schedule on the grant date which defines the number of granted PSOs that will vest under various share price appreciation scenarios. The number of PSOs granted will be the maximum number of the stock options that each PSO holder may receive based on the actual level of share price performance on the 3rd anniversary of the grant date. The share price appreciation over the 3 performance years will be compared against the price hurdle schedule to determine how many of the granted PSOs become vested on the 3rd anniversary. The vested PSOs will expire on the 7th anniversary of the grant date, while the unvested PSO’s expire on the 3rd anniversary.

13. Comparative amounts

Certain comparative amounts have been reclassified to conform to the current interim consolidated financial statement presentation.