

Softchoice Corporation

Consolidated Balance Sheets

(IN THOUSANDS OF U.S. DOLLARS)
AS AT DECEMBER 31

	2009	2008
Assets		
Current assets		
Cash	\$ 18,601	\$ 14,098
Accounts receivable (note 4) net of allowance for doubtful accounts of \$3,967 (December 31, 2008 - \$2,759)	185,278	241,581
Inventories	1,151	1,722
Prepays and other assets (note 5)	5,367	8,056
Future income taxes (note 6)	2,270	2,095
Income taxes recoverable	-	254
	212,667	267,806
Restricted cash	500	-
Property and equipment (note 7)	6,894	7,252
Goodwill (note 8)	11,063	10,172
Intangible assets (note 8)	44,866	49,923
Long-term accounts receivable	303	830
Deferred costs	1,676	2,377
Future income taxes (note 6)	16,220	17,401
	\$ 294,189	\$ 355,761
Liabilities		
Current liabilities		
Bank indebtedness (note 9)	\$ -	\$ 466
Accounts payable and accrued liabilities	173,676	227,884
Current portion of deferred revenue	3,309	5,033
Term debt - current (note 9)	4,104	39,910
Income taxes payable	3,288	-
	184,377	273,293
Long-term liabilities		
Deferred lease inducements	480	483
Deferred revenue	303	830
Long-term debt (note 9)	12,671	13,717
	13,454	15,030
Total liabilities	197,831	288,323
Shareholders' Equity		
Capital stock (note 10)	25,842	9,827
Contributed surplus (note 11)	983	2,495
Retained earnings	64,263	42,000
Accumulated other comprehensive income	5,270	13,116
	69,533	55,116
Total shareholders' equity	96,358	67,438
	\$ 294,189	\$ 355,761
Commitments and contingencies (note 12)		
Related party transactions (note 17)		
See accompanying notes to consolidated financial statements.		

Softchoice Corporation
Consolidated Statements of Earnings and Retained Earnings

(IN THOUSANDS OF U.S. DOLLARS, EXCEPT PER SHARE AMOUNTS)
FOR THE YEARS ENDED DECEMBER 31

	<u>2009</u>	<u>2008</u>
Revenue		
Software	\$ 589,983	\$ 675,570
Hardware	369,291	511,532
Agency fees	40,974	57,193
	<u>1,000,248</u>	<u>1,244,295</u>
Cost of sales	<u>857,979</u>	<u>1,072,492</u>
Gross profit	<u>142,269</u>	<u>171,803</u>
Expenses		
Salaries and benefits	76,399	93,648
Selling, general and administrative	30,796	36,508
Amortization of property and equipment	2,907	2,640
Amortization of intangible assets (note 8)	7,949	8,173
Goodwill impairment (note 8)	-	43,624
Resizing and refinancing charges (note 16)	-	2,771
	<u>118,051</u>	<u>187,364</u>
Operating income (loss)	24,218	(15,561)
Foreign currency exchange (gain) loss	(12,649)	2,812
Interest expense	6,050	6,286
Other (income) expense	(1,023)	171
	<u>31,840</u>	<u>(24,830)</u>
Earnings (loss) before income taxes	<u>31,840</u>	<u>(24,830)</u>
Provision for (recovery of) income taxes (note 6)		
Current	8,117	6,758
Future	1,460	(17,200)
	<u>9,577</u>	<u>(10,442)</u>
Net earnings (loss) for the year	22,263	(14,388)
Retained earnings - Beginning of year	42,000	61,587
Dividends (note 15)	-	(5,199)
Retained earnings - End of year	<u>\$ 64,263</u>	<u>\$ 42,000</u>
Net earnings (loss) per common share (note 10)		
basic	\$ 1.26	\$ (0.82)
diluted	\$ 1.26	\$ (0.82)
Basic weighted average number of shares outstanding	17,628,735	17,472,170
Diluted weighted average number of shares outstanding	17,708,738	17,554,049

See accompanying notes to consolidated financial statements.

Softchoice Corporation
Consolidated Statements of Cash Flows

(IN THOUSANDS OF U.S. DOLLARS)
FOR THE YEARS ENDED DECEMBER 31

	2009	2008
Cash provided by (used in)		
Operating activities		
Net (loss) earnings for the year	\$ 22,263	\$ (14,388)
Items not affecting cash		
Amortization of property and equipment	2,907	2,640
Stock-based compensation (note 11)	(1,420)	1,194
Future income taxes	1,460	(17,200)
Amortization of intangible assets	7,949	8,173
Goodwill impairment	-	43,624
Unrealized foreign currency loss	(9,112)	4,703
Loss (gain) loss on disposal of property and equipment	35	(21)
	24,082	28,725
Net change in non-cash working capital items relating to operations (note 18)	9,049	2,155
	 33,131	 30,880
Financing activities		
(Repayment) increase of bank indebtedness (note 9)	(466)	21,479
Repayment of long-term debt (note 9)	(59,313)	(3,747)
Increase in long-term debt (note 9)	17,683	-
Payment of cash dividend	-	(5,199)
Proceeds from issuance of common shares (note 10)	15,624	565
	(26,472)	13,098
 Investing activities		
Purchase of property and equipment	(1,800)	(4,790)
Purchase of intangible assets	(1,163)	(1,139)
Proceeds on disposal of property and equipment	25	88
Restricted cash	(500)	-
Acquisition, net of cash acquired	-	(34,412)
	(3,438)	(40,253)
 Effect of exchange rate changes on cash		
	1,282	(690)
 Increase in cash		
Cash - Beginning of year	4,503	3,035
	14,098	11,063
 Cash - End of year	 \$ 18,601	 \$ 14,098

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

Softchoice Corporation
Consolidated Statements of Comprehensive Income and
Accumulated Other Comprehensive Income

(IN THOUSANDS OF U.S. DOLLARS)
AS AT DECEMBER 31

	<u>2009</u>	<u>2008</u>
Comprehensive Income		
Net earnings (loss) for the year	\$ 22,263	\$ (14,388)
Foreign currency translation adjustment	(7,846)	10,566
	<u>\$ 14,417</u>	<u>\$ (3,822)</u>
 Accumulated Other Comprehensive Income		
Balance - beginning of year	\$ 13,116	\$ 2,550
Foreign currency translation adjustment	(7,846)	10,566
	<u>\$ 5,270</u>	<u>\$ 13,116</u>

Softchoice Corporation

Notes to Consolidated Financial Statements

December 31, 2009 and 2008

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

1. Nature of operations

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

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

2. Significant accounting policies

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

Principles of consolidation

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

Cash and Restricted cash

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

Restricted cash of \$500 as at December 31, 2009 (nil - 2008) represents funds held in escrow under an escrow agreement related to a non-competition contract with a competitor.

Accounts receivable and allowance for doubtful accounts

Trade accounts receivable are initially measured at fair value and subsequently recognized at amortized cost net of provisions for doubtful accounts.

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

Sales returns allowance

At the end of each period, the Company records an estimate for sales returns based on historical experience. The historical estimate is recalculated multiple times a year to ensure it reflects the most relevant data available.

Deferred revenue

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

Softchoice Corporation

Notes to Consolidated Financial Statements

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

Revenue recognition

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

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

Multiple-element arrangements

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

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

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

Professional services

The Company also generates revenue from providing professional services to end-users such as information technology (IT) data center and business process hosting, data center configuration and the design and development of IT systems (design and build). Time incurred on the contract or project is tracked and billings are processed based on the percentage-of-completion method of accounting. Under the percentage-of-completion method of accounting, the actual hours incurred and the budgeted hours to complete the project are used to measure progress on each contract. Revenue and costs estimates are revised periodically based on changes in circumstances. Any losses on contracts are recognized in the period that such losses become known. Time and material contracts are billed as time is incurred. Professional services revenue are included in hardware revenue.

Cost of sales

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

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Marketing development funds

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

Inventories

Inventory is comprised of finished goods and is valued at the lower of cost and net realizable value. Finished goods inventory consists of goods purchased in advance for resale and goods that are awaiting configuration for customers. Cost is determined on a first-in, first-out basis.

Property and equipment

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

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

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

Goodwill

Goodwill is the excess of the fair value over the tangible and identifiable intangible assets and liabilities acquired in a business combination. The Company is required to evaluate goodwill annually or whenever events or changes in circumstances indicate that the fair value of the reporting unit is less than its book value. Impairment is tested by comparing the fair value of the reporting unit, to which goodwill has been assigned, to its carrying value including goodwill. When the carrying value of the reporting unit exceeds the fair value, the excess of the carrying value of the goodwill compared to the implied fair value of the reporting unit's goodwill is recognized as an impairment loss.

Intangible assets

Intangible assets are related to acquisitions and are recorded at their fair value at the acquisition date. These assets include customer relationships, non-compete agreements, and acquired contracts, which have finite lives. These intangible assets are amortized over the estimated economic lives of 5 to 10 years, unless indicated otherwise.

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

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. Section 3064 addresses when an internally developed intangible asset meets the criteria for recognition as an asset. The CICA also issued amendments to Section 1000, "Financial Statement Concepts." These changes are effective for fiscal years beginning on or after October 1, 2008, with earlier adoption permitted, and have been adopted by the Company, effective January 1, 2009. Collectively, these changes bring Canadian practice closer to International Financial Reporting Standards (IFRS) and US 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.

The adoption of this standard required the Company to retroactively reclassify its computer software assets on its consolidated balance sheet from property and equipment to intangible assets. The net carrying value of computer software reclassified as of December 31, 2009 was \$1,757 (December 31, 2008 - \$1,580). In addition, the amortization of computer software has been reclassified from amortization of property and equipment to amortization of intangible assets. The reclassification of amortization for the year-ended December 31, 2009 was \$1,153 (December 31, 2008 - \$1,209), see details in note 8.

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Income taxes

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

Tax reserves are established for uncertain income tax positions based on management's best estimate.

Foreign currency transactions

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

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

Use of estimates and measurement uncertainty

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

Earnings per share

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

Defined contribution plan

The Company has a defined contribution plan providing retirement benefits for its employees. Employees may contribute subject to certain limits based on federal tax laws. The Company contributes 50% of the employee's contribution up to 3% of the employee's total compensation. The Company contributions vest 50% after 2 years but before 3 years, 75% after 3 years but before 4 years, and 100% after 4 years. The total pension expense for 2009 was \$1,146 (2008 - \$741).

Deferred Share Unit Plan and Long Term Incentive Plan

On May 7, 2007 the shareholders approved the implementation of a Deferred Share Unit Plan (DSU) and Long Term Incentive Plan (LTIP) for directors and key employees respectively. The Company is accruing for the costs of the DSU and LTIP programs based on projected payments under the respective plans. The DSUs are recorded in equity and each DSU represents the right to receive one common share of the Company when the holder ceases to be a non-executive director of the Company. The number of DSUs to be credited to the account of each eligible director will be determined by dividing one-quarter of that portion of the annual compensation that is to be paid in DSUs by the Fair Market Value of the Common Shares. The bridge LTIP is recorded in accrued liabilities and consists of the issuance of phantom share grants and phantom option grants, which are payable in cash. The details of the plans are described in note 10.

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December 31, 2009 and 2008

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

Share based compensation

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

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

Capital management

On September 1, 2008, the Company adopted the recommendations included in the Canadian Institute of Chartered Accountants Handbook ("CICA") Section 1535, Capital Disclosures. Section 1535, requires disclosure of information about the entity's objectives, policies and processes for managing capital, as well as quantitative data about capital and whether the entity has complied with any externally imposed capital requirements. These standards impacted the Company's disclosures provided but did not affect the Company's consolidated results or financial position. Refer to note 13.

Financial instruments

Effective January 1, 2008, the Company adopted CICA Handbook Sections 3862 and 3863, which replace CICA Handbook Section 3861 Financial Instruments – Disclosure and Presentation. These sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. Additionally, in June 2009, the CICA modified Section 3862, Financial Instruments - Disclosures, to improve the disclosure of fair value measurements, particularly with respect to the relative reliability of the data on which these measurements are based, and the liquidity risk related to financial instruments. The modifications will apply to the annual financial statements for periods ending after September 30, 2009. Effective October 1, 2009, the Company has applied the modifications prescribed. These standards impacted the Company's disclosures provided but did not affect the Company's consolidated results or financial position. Refer to note 14.

On January 20, 2009, the Emerging Issues Committee (EIC) of the Canadian Accounting Standards Board (AcSB) issued EIC Abstract 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, which establishes that an entity's own credit accounting risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. EIC 173 is applied retrospectively without restatement of prior years to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of EIC 173 did not have an impact on the consolidated financial statements of the Company.

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.

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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.

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 is currently assessing the future impact of these amendments on its financial statements and has not yet determined the timing and method of its adoption.

3. Acquisitions

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

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

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

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

This goodwill was written off as part of an impairment charge. Refer to note 8.

4. Accounts receivable

Accounts receivable are comprised of the following:

	2009	2008
Trade accounts receivable - net of provision of \$3,947 (2008 - \$2,409)	\$ 169,218	\$ 222,100
Other receivables - net of provision of \$20 (2008 - \$350)	16,060	19,481
	<u>\$ 185,278</u>	<u>\$ 241,581</u>

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

5. Prepays and other assets

Prepays and other assets include cash deposits and prepaid expenses.

6. Income tax expense and future income taxes

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

	2009	2008
Earnings (loss) before income taxes	\$ 31,840	(\$ 24,830)
Combined basic federal and provincial income tax rate	32.43%	33.00%
Expected income tax expense (recovery)	\$ 10,326	\$ (8,194)
Foreign tax rates differential	966	(2,048)
Items not deductible for tax purposes (permanent differences)	(2,359)	(431)
Adjustments in respect of previous periods	750	-
U.S. state tax deductible for federal purposes	(348)	535
Other	242	(304)
Provision for (recovery of) income taxes	\$ 9,577	\$ (10,442)

The significant components of future income tax assets and liabilities

	2009	2008
Future income tax assets		
Amortization and impairments	\$ 17,348	\$ 17,401
Unrealized foreign exchange gains	(1,128)	-
Reserves	2,270	2,095
Net future income tax assets	\$ 18,490	\$ 19,496

Net future income tax assets are classified as follows:

	2009	2008
Current	\$ 2,270	\$ 2,095
Long-term	16,220	17,401
	\$ 18,490	\$ 19,496

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

7. Property and equipment

	2009		
	Cost	Accumulated amortization	Net
Office equipment	\$ 8,068	\$ 6,967	\$ 1,101
Computer equipment	5,931	3,746	2,185
Leasehold improvements	5,277	1,669	3,608
	\$ 19,276	\$ 12,382	\$ 6,894
	2008		
	Cost	Accumulated amortization	Net
Office equipment	\$ 7,424	\$ 5,835	\$ 1,589
Computer equipment	5,897	3,806	2,091
Leasehold improvements	4,467	895	3,572
	\$ 17,788	\$ 10,536	\$ 7,252

The net carrying value, and related amortization, of computer software has been reclassified to intangible assets as of January 1, 2008, see note 8 for details of computer software assets.

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

8. Goodwill and intangible assets

	Goodwill	Intangibles
Balance as at December 31, 2008	\$ 10,172	\$ 49,923
Addition of computer software	-	1,072
Amortization	-	(7,949)
Foreign exchange	891	1,820
Balance as at December 31, 2009	<u>\$ 11,063</u>	<u>\$ 44,866</u>

	2009		
	Cost	Accumulated amortization	Net
Acquired contracts	\$ 2,144	\$ 2,122	\$ 22
Customer relationships	60,918	17,194	43,724
Favourable lease contract	110	110	-
Computer software	7,832	6,075	1,757
Foreign exchange impact	518	1,155	(637)
	<u>\$ 71,522</u>	<u>\$ 26,656</u>	<u>\$ 44,866</u>
	2008		
	Cost	Accumulated amortization	Net
Acquired contracts	\$ 2,144	\$ 1,996	148
Customer relationships	60,918	10,490	50,428
Favourable lease contract	110	110	-
Computer software	5,708	4,128	1,580
Foreign exchange impact	(2,393)	(160)	(2,233)
	<u>\$ 66,487</u>	<u>\$ 16,564</u>	<u>\$ 49,923</u>

During the fourth quarter of 2008, the Company performed the annual goodwill impairment assessment and, as a result, the Company recognized a non-cash goodwill impairment charge of \$43,624, \$26,638 net of future income taxes. This charge was included in consolidated (loss) earnings for the year ended December 31, 2008. This adjustment was finalized by management during the second quarter of 2009 and did not result in a change to the original impairment assessment.

9. Bank indebtedness and long-term debt

	2009	2008
Revolving credit facility	\$ -	\$ 466
Term debt - current	4,104	39,910
	<u>4,104</u>	<u>40,376</u>
Term debt - long-term	12,671	13,717
	<u>\$ 16,775</u>	<u>\$ 54,093</u>

On January 2, 2008, the Company increased its revolving credit facility to support the acquisitions of Software Plus and Optimus Solutions and the working capital needs of the Company. The credit facility was with a large American financial institution and its Canadian subsidiary and provided for credit to both the Company and its U.S. subsidiary in the combined amount of \$85,000. Of this amount, \$25,000 had been provided under a term loan payable in semi-annual installments over five years with interest payable monthly. Availability under the remaining facility was subject to a formula, based on eligible accounts receivable. The interest charged on the facility fluctuated from prime to prime plus 1 percent.

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

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Subsequent to December 31, 2008, both the revolving credit facility and the term loan were replaced.

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. 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. As at December 31, 2009, the amount available on the ABL is approximately CA\$101 million.

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 17.5% per annum; this rate could be reduced to 16% per annum after December 31, 2009, if certain financial ratios are achieved. 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 maximum debt leverage covenant and an asset coverage covenant. The fixed-charge ratio is likely to be the most stringent covenant. The Company's various debt covenants were met as of December 31, 2009. Additionally, the Company is not subject to any capital requirements imposed by a regulator.

As at December 31, 2009, the Company has used \$2,488 (2008 - \$2,462) of its available credit as security for letters of credit issued to various institutions.

10. Capital stock

Authorized

Unlimited number of common shares

Issued

19,759,189 (December 31, 2008 - 17,496,807)

	Shares	Amount
Balance as at December 31, 2007	17,407,631 \$	9,220
Issued for options exercised	89,176	565
Transfer from contributed surplus (note 11)	-	42
Balance as at December 31, 2008	<u>17,496,807 \$</u>	<u>9,827</u>
Share financing	2,250,000	15,923
Issued for options exercised	-	-
Transfer from contributed surplus (note 11)	<u>12,382</u>	<u>92</u>
Balance as at December 31, 2009	<u>19,759,189 \$</u>	<u>25,842</u>

Share financing

On November 20, 2009, the Company entered into a bought-deal financing agreement whereby the Company issued a total of 2,250,000 common shares at a price of C\$7.75 for gross proceeds of C\$17,437,500. In connection with the financing, the underwriters received a fee equal to 5% of the gross proceeds of the offering. In addition, the underwriters 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.

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Shareholder rights plan

On April 4, 2007 the board of directors of the Company adopted a shareholder rights plan (the "Rights plan"). The Rights plan is subject to reconfirmation at the third and sixth annual meeting of shareholders following the first confirmation meeting, which was held on May 7, 2007, and will expire at the close of the Company's ninth annual meeting (the "Expiration Time"). Pursuant to the Rights plan, one right ("Right") was issued and attached to each Common Share outstanding at the close of business on the Record date, and will attach to each Common Share subsequently issued. The Rights will separate from the Common Shares and will be exercisable on the close of business on the tenth trading day (the "Separation Time") after the earlier of the date on which a person has acquired 20% or more of, or a person commences or announces a take-over bid for, the Corporation's outstanding Common Shares, other than by an acquisition pursuant to a Permitted Bid or a Competing Permitted Bid.

The Rights Plan is designed to require any person interested in acquiring more than 20% of the Common Shares to do so by way of a Permitted Bid or a Competing Permitted Bid or to make an offer which the Board considers to represent the full and fair value of the Common Shares. In order to constitute a "Permitted Bid", an offer must be made in compliance with the Rights plan, it must be made to all shareholders (other than the bidder), it must be open for at least 60 days and be accepted by shareholders holding more than 50% of the outstanding voting shares and, if so accepted, must be extended for a further 10 business day period.

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

Net earnings per common share

Weighted average number of common shares:

	2009	2008
Issued and outstanding - Beginning of year	17,496,807	17,407,631
Weighted average number of shares issued in the year - net of share redemptions	<u>131,928</u>	<u>64,539</u>
Weighted average number of shares used in computing basic earnings per share	17,628,735	17,472,170
Assumed exercise of stock options - net of shares repurchased from proceeds	<u>80,003</u>	<u>81,879</u>
Weighted average number of shares used in computing diluted earnings per share	<u>17,708,738</u>	<u>17,554,049</u>

There were no share redemptions in the year ended December 31, 2009 (December 31, 2008 - nil).

Stock option plan

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

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

	2009		2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding - Beginning of year	102,859 \$	6.47	195,446 \$	6.43
Expired	(33,175)	4.77	(3,411)	5.56
Exercised	-	-	(89,176)	6.34
Outstanding - End of year	69,684 \$	7.21	102,859 \$	6.47
Exercisable - End of year	69,684 \$	7.21	102,859 \$	6.47
Options held by employees	19,684 \$	5.20	21,284 \$	5.20
Options held by officers	50,000	8.00	81,575	6.80
	69,684 \$	7.21	102,859 \$	6.47

Options outstanding					Options exercisable		
Range of exercise prices	Number outstanding as at December 31, 2009	Weighted average remaining contractual life (years)	Weighted average exercise price	Number outstanding as at December 31, 2009	Weighted average remaining contractual life (years)	Weighted average exercise price	
\$ 5.20	19,684	0.08	\$ 5.20	19,684	0.08	\$ 5.20	
\$ 8.00	50,000	3.12	8.00	50,000	3.12	8.00	
	69,684	2.36	\$ 7.21	69,684	2.36	\$ 7.21	

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

For the purposes of calculating the stock option expense, the fair value of each option granted for each year was estimated using the Black-Scholes option pricing model. The Company has not granted stock options during the twelve-month period ended December 31, 2009 (2008 - nil). The 2003 stock options were valued using the following assumptions: expected volatility of 75%, risk free interest rates of 5%, expected lives of 4 years; and expected dividend yields of nil percent. The weighted average grant date fair value of the options issued in 2003 is \$5.57, net of cancellations. There have been no additional stock options issued since 2003.

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On May 7, 2007, the shareholders approved the implementation of a Deferred Share Unit Plan (DSU) and Long Term Incentive Plan (LTIP) for directors and key employees respectively, the details of each plan are as follows :

Deferred Share Unit Plan

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

Each 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 year-ended December 31, 2009 was \$216 (2008 - \$214).

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

	2009	2008
	Number of deferred share units	Number of deferred share units
Outstanding - Beginning of year	31,730	16,643
Granted	92,385	15,087
Exercised	(12,382)	-
Outstanding and Exercisable - End of year	<u>111,733</u>	<u>31,730</u>

Long Term Incentive Plan

A review of the performance criteria set for the 2008 LTIP has concluded that it was unlikely that the minimum payout for the LTIP will be achieved. As a result, an adjustment to the LTIP provision was made during the year that reversed \$1.4 million of the amount previously recorded.

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 and continued employment.

Participants in the bridge LTIP must remain employed by the Company through the vesting period (February 2011) for an amount to be paid. As at December 31, 2009, the Company recorded a liability of \$157 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 and the strike price. All of the phantom options granted will vest in February 2011. The Company marks to market the liability each reporting date. 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.

At the end of December 31, 2009, the Company recorded a liability of \$192 on these phantom options.

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A summary of the status of the Company's bridge LTIP plan is as follows in Canadian dollars :

	Phantom Shares - 2009		Phantom Options - 2009	
	Number of phantom shares	Notional share price per unit	Number of phantom options	Weighted average exercise price
Outstanding - Beginning of year	-	-	-	-
Granted	152,000 \$	3.22	152,000 \$	3.22
Outstanding - End of Year	152,000 \$	3.22	152,000 \$	3.22

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 upto 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 by the Company through the vesting period (February 2012) for an amount to be paid. The cost to the Company of the LTIP for the year-ended December 31, 2009 is \$231.

11. Contributed surplus

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

	Amount
Balance of Contributed Surplus as at January 1, 2008	\$ 1,343
Stock based compensation expense	1,194
Stock options exercised (note 10)	(42)
Balance of Contributed Surplus as at December 31, 2008	<u>\$ 2,495</u>
Stock based compensation expense	(1,420)
Deferred share unit exercised (note 10)	(92)
Balance of Contributed Surplus as at December 31, 2009	<u>\$ 983</u>

12. Commitments and contingencies

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

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

	Amount
2010	\$ 7,149
2011	6,441
2012	6,290
2013	5,954
2014	4,740
Thereafter	4,558
	<u>\$ 35,132</u>

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13. Capital disclosures

The Company's objective in managing capital is to ensure a sufficient liquidity position to ensure financial flexibility is present to: increase shareholder value through organic growth and selective acquisitions; allow the Company to respond to changes in economic and / or marketplace conditions; and to finance general and administrative expenses, working capital and overall capital expenditures. Management defines capital as the Company's shareholders' equity comprised primarily of issued capital, contributed surplus, and earnings less net debt. Net debt consists of interest-bearing debt less cash. When possible, the Company tries to optimize its liquidity needs by non-dilutive sources. The capital management objectives remain the same as in the previous fiscal year.

The Company currently funds its requirements from its internally-generated cash flows and the use of credit facilities. The Company has a term loan and ABL facilities with major financial institutions. The Company's various debt covenants were met as of December 31, 2009. Refer to note 9.

14. Financial instruments

(a) Financial assets and financial liabilities

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

Held for trading

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

Loans and receivables

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

Financial Liabilities

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

(b) Embedded derivatives

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

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

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

As of December 31, 2009, the fair market value of embedded derivatives was not material and did not have a significant impact on earnings.

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Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash. The ability to do this relies on the Company to maintain sufficient cash in excess of anticipated needs by collecting its accounts receivables in a timely manner, and having available funds to draw upon from the credit facilities.

The following are the contractual maturities of financial liabilities as at December 31, 2009:

	On demand	Less than 1 year	1 to 2 years	> 2 years	Total
Accounts payable and accruals	29,697	137,426	-	-	167,123
Debt	-	4,104	4,104	8,567	16,775
	<u>\$ 29,697</u>	<u>\$ 141,530</u>	<u>\$ 4,104</u>	<u>\$ 8,567</u>	<u>\$ 183,898</u>

Credit risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash, accounts receivable and other receivables. The Company minimizes the credit risk of cash by depositing with only reputable financial institutions. The Company's objective with regard to credit risk in its operating activities is to reduce its exposure to losses. As such, the Company performs ongoing credit evaluations of its customers' financial condition to evaluate credit worthiness and to assess impairment of outstanding receivables. The Company is not aware of any concentration risk with respect to any particular customer. Of the Company's accounts receivable approximately 20 percent are greater than 31 days past due (December 31, 2008 - 21 percent). The Company's allowance for doubtful accounts is \$3,967 (December 31, 2008 - \$2,759). Any amounts not provided for are considered fully collectible.

As at December 31, 2009, the remaining overdue balances are as follows:

	2009	2008
31 to 60 days past due	19,105 \$	18,607
61 to 90 days past due	8,414	14,437
Greater than 91 days past due	10,438	17,746
	<u>\$ 37,957</u>	<u>\$ 50,790</u>

The following is a reconciliation of AFDA movements for the year-ended:

	Amount
Balance as at December 31, 2008	\$ 2,759
Bad debt expense	2,244
Write-off of accounts receivable	(1,213)
Foreign exchange loss	177
Balance as at December 31, 2009	<u>\$ 3,967</u>

Foreign exchange and interest rate risk

The Company operates in both the U.S. and Canada, the parent company maintains its accounts in Canadian dollars and the accounts of the U.S. subsidiaries are maintained in U.S. dollars. For the parent company's intercompany debt and external debt held in U.S. dollars, this may occasionally give rise to a risk that its earnings and cash flows may be impacted by fluctuations in foreign exchange conversion rates due to the balance outstanding as of the year-end, as well as debt settlements made during the year. For every 200 basis points that the Canadian dollar appreciates, the translational and revaluation impact for the full year on net earnings would be, on average, an increase of \$1,372. For every 200 basis points that the Canadian dollar depreciates, the translational and revaluation impact for the full year on net earnings would be, on average, a decrease of \$1,361.

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From time-to-time, the Company may use derivatives to manage this foreign exchange risk. The Company's policy is to use derivatives for risk management purposes only, and it does not enter into such contracts for trading purposes. The Company enters into derivatives only with high credit quality financial institutions. The Company did not enter into any derivative financial instrument contracts during the 2009 fiscal year. In addition, there were no outstanding derivative financial instruments as at December 31, 2009.

On the ABL 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 \$87, respectively. In the past, the Company has used an interest rate swap to mitigate the risk of fluctuating interest rates. There was one outstanding derivative financial instruments as at December 31, 2008 which terminated on January 11, 2009. This swap was classified as held for trading in the prior year. The Company did not enter into any derivative financial instrument contracts during the 2009 fiscal year. In addition, there were no outstanding derivative financial instruments as at December 31, 2009.

Fair value of financial instruments

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

15. Dividends

On March 31, 2008, June 30, 2008 and September 30, 2008, the Company paid quarterly dividends of CA\$0.10 per common share. During the fourth quarter of 2008, the Board of Directors suspended the quarterly dividend payment; therefore, there were no dividend payments during the year-ended December 31, 2009.

16. Resizing and refinancing charges

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

17. Related party transactions

As at December 31, 2009, included in trade accounts receivable is \$205 due from a major shareholder for product sales with payment terms of net 30 days (December 31, 2008 - \$nil). Total product sales to this shareholder during the year-ended December 31, 2009 were \$512 (2008 - \$298). 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 a major shareholder. During the year-ended, the shareholder received principal repayments of \$748 and interest repayments of \$616. Refer to note 9 for a description of this transaction.

18. Supplemental disclosures of cash flow information

		2009	2008
Interest paid	\$	3,877	\$ 3,420
Taxes paid		4,657	7,805
Net change in non-cash working capital items relating to operations:			
		2009	2008
Accounts receivable	\$	69,141	\$ (17,995)
Inventories		654	(1,529)
Prepays and other assets		3,454	(3,730)
Long-term accounts receivable		527	(503)
Deferred costs		892	(1,094)
Accounts payable and accrued liabilities		(66,668)	24,802
Deferred lease inducements		(69)	(108)
Deferred revenue		(2,324)	2,899
Income taxes recoverable		3,442	(587)
	\$	<u>9,049</u>	<u>\$ 2,155</u>

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19. Segmented information

The Company has one reportable segment in which the assets, operations and employees are located in Canada and the United States. Revenues are attributed to customers based on where the products are shipped.

Geographic Information

Geographic segments of revenue are as follows :

	December 31, 2009	December 31, 2008
Canada ⁽¹⁾	\$ 404,258	\$ 463,436
United States	595,990	780,859
	<u>\$ 1,000,248</u>	<u>\$ 1,244,295</u>

(1) Revenue for the year ended December 31, 2009 and 2008, is CAD\$ 460,237 and CAD\$495,238, respectively.

Geographic segments of property and equipment are located as follows :

	December 31, 2009	December 31, 2008
Canada	\$ 5,170	\$ 5,133
United States	1,724	2,119
	<u>\$ 6,894</u>	<u>\$ 7,252</u>

Geographic segments of goodwill are as follows :

	December 31, 2009	December 31, 2008
Canada	\$ 6,128	\$ 5,237
United States	4,935	4,935
	<u>\$ 11,063</u>	<u>\$ 10,172</u>

Geographic segments of intangible assets are as follows :

	December 31, 2009	December 31, 2008
Canada	\$ 11,217	\$ 12,032
United States	33,649	37,891
	<u>\$ 44,866</u>	<u>\$ 49,923</u>

20. Economic dependence

Approximately 30% (December 31, 2008 - 27%), of the Company's sales in the year relate to products published by Microsoft.

21. Comparative figures

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