Management's Discussion and Analysis

August 12, 2009

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

The following discussion should be read in conjunction with the interim consolidated financial statements for the period ended June 30, 2009, and the Management's Discussion and Analysis prepared for the year ended December 31, 2008. This document and the related financial statements can also be viewed on the Company's website at www.softchoice.com and at www.sedar.com. The Company's Annual Information Form is also available on these websites.

Caution Regarding Forward-Looking Statements

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

Use of Non-GAAP Terms

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

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

1. Public competitors all sell hardware as well as software and, typically, software revenue is only about 20 percent of total revenue. The impact of the EA license is therefore much less significant.

2. Softchoice has sold a greater portion of EA license agreements than our competitors since we believe that the agreement often provides a more cost-effective solution for our customers, particularly in the small and medium business (SMB) market.

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

Unaudited (US $000s)		**Q2 2009**		**Q2 2008**	**Y/Y%**
Reported Revenue	$	279,272	$	334,396	(16.5)%
Agency Fees		(15,290)		(24,195)	(36.8)%
Imputed Revenue^		275,084	$	324,855	(15.3)%
Total Imputed Revenue	$	539,066	$	635,056	(15.1)%

Unaudited (US $000s)		**Q2 YTD 2009**		**Q2 YTD 2008**	**Y/Y%**
Reported Revenue	$	497,631	$	632,949	(21.4)%
Agency Fees		(25,079)		(34,612)	(27.5)%
Imputed Revenue^		412,609		477,342	(13.6)%
Total Revenue, including Imputed Revenue	$	885,161	$	1,075,679	(17.7)%

^Agency fees are included in imputed revenue

EBITDA is defined as operating income less amortization of property and equipment, and amortization of intangible assets. EBITDA, as defined in our loan agreements, is used by the Company's bankers in establishing and measuring certain financial covenants. In addition, valuation metrics in our industry are based on multiples of EBITDA, and therefore management uses this measurement when evaluating potential acquisition targets. We use our own EBITDA results to compare our own valuation multiples to those of our competitors in order to evaluate how we might improve shareholder performance. We believe that our shareholders and potential investors use EBITDA in making investment decisions about the Company and measuring the operating results compared to others in our industry and other potential investments.

Unaudited (US 000's)	Q2 2009	Q2 2008	Y/Y %	YTD 2009	YTD 2008	Y/Y %
Operating Income	$ 12,918	$ 13,838	(7)%	$ 12,519	$ 17,818	(29.7)%
Amortization of property, and equipment	707	634	12%	1,427	1,293	10.4%
Amortization of intangible assets	2,011	1,961	3%	3,953	3,926	0.7%
EBITDA	15,636	16,433	(5)%	17,899	23,037	(22.3)%

Change In Reporting Presentation

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

Selected Financial Information

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

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

US $000s, except per share amounts unaudited	2009		2008		Y/Y %
Total Revenue, including Imputed Revenue*	$ 539,066	193.0%	$ 635,056	189.9%	(15.1)%
Revenue	279,272	100.0%	334,396	100.0%	(16.5)%
Gross profit	41,310	14.8%	53,498	16.0%	(22.8)%
Expenses	25,674	9.2%	37,065	11.1%	(30.7)%
EBITDA	15,636	5.6%	16,433	4.9%	(4.8)%
Amortization, Interest and Other	(1,946)	(0.7)%	4,269	1.3%	(145.6)%
Net earnings before taxes	17,582	6.3%	12,164	3.6%	44.5%
Net earnings	12,642	4.5%	7,401	2.2%	70.8%
EPS (basic)	$ 0.72		$ 0.42		71.4%

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

Net earnings for the quarter were $12.6 million compared to net earnings of $7.4 million in the same quarter of the prior year.

Earnings excluding the impacts of foreign exchange (gains)/losses were $7.7 million compared to $7.5 million in the second quarter of the prior year. Earnings per share (basic and fully diluted), excluding the impacts of foreign exchange (gains)/losses, was $0.44 per share, compared to $0.43 per share a year earlier. In prior years, the Company has hedged against foreign exchange exposures to reduce volatility in the earnings statement. The Company has decided not to hedge this exposure in 2009, but will separately disclose its impact. The hedging process itself is expensive and we have decided not to spend cash on mitigating a foreign exchange exposure where the result is unrealized and does not have an impact on our reported cash position. This decision could increase volatility in reported earnings stream and affect reported earnings per share performance.

Highlights of the Second Quarter of 2009

- The Company's Canadian operations performed well in the second quarter with results that were consistent with a strong second quarter in 2008. Revenue in Canada during the second quarter declined by 2 percent versus the prior year, and gross profit was flat to the prior year ignoring the impacts of foreign exchange.

- The average currency conversion rate from Canadian to U.S. dollars was $1.1654 in the second quarter compared to $1.0098 in the same period of the prior year. This year-over-year currency decline resulted in a revenue decline from Canadian operations of 15 percent when measured in U.S. dollars, and a gross profit decline of 14 percent when measured in U.S. dollars.

- The Company's U.S. operations continued to be affected by the more severe recession in the United States and by broad-based reductions in spending and deferral of information technology investments due to the weak United States economy. During the second quarter, revenue from U.S. operations declined by 17 percent versus the prior year.

- Total Company performance measured in U.S. dollars was a revenue decline of 17 percent versus a more robust economy in the second quarter of 2008. Eliminating the impacts of foreign exchange (gains)/losses revenues declined by 12 percent during the quarter compared to the same period in the prior year, and gross profit declined by 19 percent.

- The Company has completed the operational integration of the three businesses acquired in late 2007 and early 2008 and in the second quarter has clearly demonstrated the cost-based leverage from this successful integration. Operating expenses, excluding amortization of property and equipment and intangible assets, incurred during the second quarter compared to the same quarter last year declined by 29 percent for Canadian operations and 27 percent for U.S. operations measured in their respective currencies. Operating expenses, on a consolidated basis, declined by 31 percent compared to the same quarter last year and include a reversal of a $1.3 million pre-tax expense accrual the Company booked during the second quarter.

- EBITDA for the quarter of $15.6 million declined by 5 percent compared to the same quarter of the prior year, and operating income declined by 7 percent compared to the same quarter in the prior period.

- Other income and deductions includes interest income and expense and foreign currency gains and losses for the quarter. The strengthening of the Canadian dollar compared to the first quarter of 2009 resulted in a large foreign exchange gain of $6.2 million for the quarter.

- Net income before tax at $17.6 million for the second quarter, was $5.4 million higher than the same quarter last year. The tax provision for the quarter was marginally higher when compared to the provision for the same quarter the prior year as a result of reduced effective tax rates in Canada during the quarter. Net income for the quarter was $12.6 million, or $0.72 per share (basic and fully diluted) compared to net income reported in the same quarter of the prior year of $7.4 million, or $0.42 per share (basic and fully diluted).

- Total debt of the Company was $21.0 million at the end of the quarter and the Company had $17.3 million in cash on hand during the same period. This is a reduction of $85.7 million in debt from debt levels of $106.7 million at the end of the second quarter of the prior year. Debt at the end of December 2008 was $54.1 million. We believe that the level of debt available to Softchoice is sufficient to finance the working capital requirements of the business and the growth that we expect.[†]

Management Comments†

As the economies in both the United States and Canada continued to be in recession during the first half of 2009, IT professionals and published reports suggest IT spending may have bottomed and anticipate it should gradually recover through 2010. Management believes that there are stronger signs of recovery in Canada than there are in the United States.

The Company has reviewed various reports from IDC and from hardware vendors, and has concluded that our hardware sales results in the first half of the year are directionally consistent with overall industry trends when the impacts of consumer-oriented netbook sales are excluded from these results.

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

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

Our government business has shown relative strength. In addition, the strength of our other software business and our Canadian presence has continued to provide a competitive advantage for the Company and will allow our business model to be more resilient than a number of our competitors.

Business Outlook†

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

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

Cost Management

The Company has prioritized the full integration into the Softchoice model of the three businesses acquired in late 2007 and early 2008. Coupling the leverage of this integration and a broader drive for increased productivity levels, we have positioned the Company to remain profitable throughout the recession. These actions have had a strong positive impact on the Company's second-quarter business results, with total operating Expense levels declining by 31 percent compared to the same quarter in the prior year.

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

The successful integration of the three acquired businesses has positioned the Company with stronger sales and delivery capacity, with a lower cost model that is capable of driving strong revenue growth as

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

we come out of the current recession. Management believes that the year-over-year revenue and gross profit declines experienced during the first half of the year for revenue and gross profit will be the most severe for the year,[†] and that our streamlined sales and delivery capacity will allow us to grow and respond to the opportunities as they arise.

Detailed Review of Operating Results for the Quarter:

Revenue and gross profit trends demonstrate the areas of weakness in the North American economy and our areas of relative strength, as outlined below.

in US $000s, except per share amounts

Unaudited	2009		2008				2007	
	Q 1	Q 2	Q 1	Q 2	Q 3	Q 4	Q 3	Q 4
Revenue	$ 218,358	$ 279,272	$ 298,554	$ 334,396	$ 276,357	$ 334,988	$ 159,395	$ 266,191
Gross profit	30,654	41,310	39,211	53,498	35,464	43,630	24,983	37,009
Operating income	(399)	12,918	3,924	13,838	1,110	(34,490)	4,615	8,579
Net earnings	(2,389)	12,642	1,727	7,401	(1,641)	(21,875)	3,041	5,210
(L)EPS	$(0.14)	$0.72	$0.10	$0.42	$(0.09)	$(1.25)	$0.18	$0.30

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

Product Segment Analysis

Unaudited (US $000's)	**Q2 2009**	**Q2 2008**	**Y/Y %**
Microsoft revenue	$ 108,811	$ 132,471	(17.9)%
Other software	83,278	76,748	8.5%
Hardware	87,183	125,177	(30.4)%
Total revenue	$ 279,272	$ 334,396	(16.5)%
Deduct Agency fees	(15,290)	(24,195)	(36.8)%
Add Microsoft Imputed Revenue	275,084	324,855	(15.3)%
Total Revenue, including Imputed Revenue	$ 539,066	$ 635,056	(15.1)%

Revenue and Gross Profit

Revenue

Total revenue for the quarter was $279.2 million, reflecting a decrease of 17 percent from the revenue of $334.4 million reported in the second quarter of the prior year. Total Revenue, including Imputed Revenue for the quarter was $539 million, for a decline of 15 percent versus the prior year.

Revenue from United States operations was $179.0 million, reflecting a decrease of 17 percent from the prior year. Revenue from Canadian operations, measured in Canadian dollars, was C$117 million in the quarter, reflecting a decrease of 1.7 percent from the prior year.

The Canadian dollar depreciated from 1.0098 in the second quarter of 2008 to 1.1654 in 2009 for a year-over-year change of 15 percent. If the foreign exchange rate had held constant, reported revenue and Total Revenue including Imputed Revenue,[*] would have decreased by 12 percent and 11 percent, respectively, for a total foreign currency impact on revenue of $15.5 and $26.9 million, respectively.

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

Microsoft Imputed Revenue associated with agency fees was $275 million in the quarter, a decline of 15 percent from the same period last year. The amount earned by Softchoice as agency fees was $15.2 million in the quarter, which is a decline of 37 percent from the same quarter last year.

Agency fees represent 37 percent of total gross profit in this quarter compared to 45 percent in the second quarter of 2008.

Significant year-over-year declines occurred in add-on and true-up opportunities as a result of the economic downturn as companies have reduced employees, coupled with a decline in the customer base within the US. As a result, the year-over-year decline in agency fees has been more pronounced in the U.S. than in Canada. Changes in the structure of Microsoft fee program have also contributed to the year-over-year decline.

The lower agency fees reflect a decrease in the fee margin as a percent of Imputed Revenue.* Microsoft Year 2 and 3 renewal licenses represent a larger portion of the agency fee revenue in the second quarter and because they typically earn lower fees in the three-year renewal fee cycle, they have also contributed to the margin decline in the quarter.

Microsoft revenue, excluding agency fees, was $93.5 million in the quarter, which is a decline of 14 percent from the same period last year. This decline is primarily the result of weaker year-over-year performance in Select and Open license sales as clients have reduced employment levels with a subsequent impact on software license placements.

Other software sales were $83 million in the quarter and experienced a 9 percent growth despite the broad-based slow-down in technology spending. Canadian operations experienced double-digit revenue growth when measured in Canadian dollars primarily driven by sales of Adobe, Symantec, VMWare and Trend Micro software products. Other software sales in the United States were essentially flat on a year-over-year basis with IBM, Adobe, Symantec and VMWare products being the strongest revenue contributors in the quarter.

Hardware sales were $87 million in the quarter, compared to $125 million in the same quarter last year. Measured in Canadian dollars, hardware sales in Canada declined by 15 percent. Translated to U.S. dollars, the decline was 30 percent due to the weaker Canadian dollar in the second quarter this year. Hardware sales in U.S. operations declined by 33 percent, continuing the trend of constrained purchases as corporations extend their technology refresh cycle to preserve capital during the recession.

Gross Profit

Gross profit for the quarter was $41.3 million, reflecting approximately one-point margin erosion and a decrease of 23 percent compared to gross profit of $53.5 million reported in the second quarter of the prior year. Eliminating currency impact, overall gross profit declined by 19 percent compared to the second quarter of the prior year. Gross profit as a percentage of Total Revenue, including Imputed Revenue was 7.7 percent compared to 8.4 percent in the second quarter of the prior year. This is primarily the result of the decrease in the Microsoft agency fees earned in the U.S. compared to the same period in the prior year.

Product line margins are largely unchanged from a year ago. The overall margin decrease in the quarter is primarily driven by the lower mix of higher-margin agency fees compared to the same period in the prior year.

Rebates in the second quarter of 2009 declined by 43 percent compared to the second quarter of 2008 largely due to the declines in the Microsoft sales in the U.S. and changes in the Microsoft rebate program.

Marketing development funds earned in the quarter increased by about 48 percent. This growth reflects an increased focus of our marketing team in this area.

Expenses and EBITDA

Unaudited (U.S. $000's)	Q2				
	2009		2008		Y/Y %
	$	**% of Gross profit**	**$**	**% of Gross profit**	
Salaries and benefits	17,622	42.7%	26,315	49.2%	(33.0)%
Selling, general and administrative	8,052	19.5%	10,750	20.1%	(25.1)%
	25,674	62.1%	37,065	69.3%	(30.7)%
% of Gross profit	62.1%		69.3%		

Total salaries and benefits, and SG&A expenses decreased by 31 percent compared to the same period of the prior year. Despite the gross profit decline in the quarter, these expenses as a percentage of gross profit decreased from 69 percent to 62 percent as a result of cost-reduction actions.

Quarter-end employee levels decreased by 19 percent compared to the second quarter of 2008. The reductions in salaries reflect the lower staff levels and the reduced incentive compensation earnings associated with our lower gross profit levels compared to the prior year. Salary expenses in the second quarter also reflect a reduction of the amount accrued for Long-Term Incentive Plan (LTIP) purposes in prior years in the amount of $1.3 million, reflecting expected LTIP performance in 2009 and 2010 that was partially offset by the introduction of new plans. (Please see the Company’s Management Information Circular dated April 3, 2009 for more information on Softchoice’s LTIP program.)

Selling, general and administrative expenses decreased 25 percent compared to the prior year reflecting the impact from a reduced work force and close monitoring of all expense lines. This decline reflects management’s vigilance about cost management in these economic times and currency impacts.

EBITDA reflects the profits of the Company after salaries and SG&A costs are deducted from gross profit. A gross profit decline of 23 percent, offset by an expense decline of 31 percent, has resulted in an EBITDA decrease from the second quarter of the prior year by 5 percent.

Other

Amortization of property and equipment increased by 12 percent compared to the second quarter of the prior year as a result of capital asset purchases in the last half of 2008. The amortization of intangibles has increased by 3 percent.

Interest expense and other income was $1.5 million in the quarter. A foreign exchange gain of $6.2 million existed in the quarter based on the appreciation of the Canadian dollar from the previous quarter to the second quarter of 2009, with the majority resulting from the revaluation of the Company’s inter-company loan and the term loan, both of which are on the books of the Canadian Company and are denominated in U.S. dollars.

The effective tax rate for the quarter was about 28 percent, which has decreased by 11 percent from the last quarter primarily as a result of a lower effective tax rate in Canada attributable to non-taxable dividends received in the Canadian company, the non-taxable/non-deductible impacts of the LTIP and the non-deductible portion of a foreign exchange capital loss. These impacts were offset by an increase in the U.S. effective rate attributable to a tax true-up recorded in the second quarter of 2009.

Six-Month Period Ended June 30, 2009, Compared to the Six-Month Period Ended June 30, 2008

U.S. $000s, except per share amounts	2009		2008		Y/Y %
Total Revenue, including Imputed Revenue	$ 885,161	177.9%	$ 1,075,679	169.9%	(17.7)%
Revenue	497,631	100.0%	632,949	100.0%	(21.4)%
Gross profit	71,966	14.5%	92,708	14.6%	(22.4)%
Expenses	54,067	10.9%	69,671	11.0%	(22.4)%
EBITDA	17,899	3.6%	23,037	3.6%	(22.3)%
Amortization	5,380	1.1%	5,219	0.8%	3.1%
Operating Income	12,519	2.5%	17,818	2.8%	(29.7)%
Foreign Exchange (gains/ Losses and Other Expenses/ (Incon	(1,903)	(0.4)%	2,985	0.5%	(163.7)%
Net earnings before taxes	14,422	2.9%	14,833	2.3%	(2.8)%
Net earnings	10,253	2.1%	9,128	1.4%	12.3%
EPS (basic)	$ 0.59		$ 0.52		13.5%

Revenues

Revenue for the first half was $497.6 million, reflecting a decrease of 21 percent from the revenue of $632.9 million reported in the first half of the prior year. Total Revenue, including Imputed Revenue declined by 18 percent over the period.

Agency fees for EA licenses declined by 28 percent in the first half compared to the decline of Imputed Revenue of 14 percent reported in the same period of the prior year. These agency fees reflect erosion in the fee margin as a percentage of Imputed Revenue from 7.3 percent to 6.1 percent. This decrease is due to the larger proportion of Year 1 opportunities that were renewed during the first half of the prior year which typically earn a higher fee percentage, changes to the Microsoft fee structure and a reduction in true-up and add-on licenses as a result of the downturn in the economic environment.

In Canada, sales in Canadian dollars declined by 5 percent overall and Total Revenue including Imputed Revenue* declined by 1 percent compared to the first half of 2008. The relative strength in other software and Microsoft was offset by a general slowdown in hardware.

In the U.S., sales declined by 22 percent overall and Total Revenue, including Imputed Revenue declined by 18 percent compared to the first half of 2008. The weakest area of performance was in hardware sales as a result of the continued contraction in the U.S. economy. Hardware sales declined by 34 percent compared to the first half of the prior year.

Sales of other software declined by 8 percent in the first half of 2009 compared to the first half of the prior year.

The Canadian dollar depreciated from 1.0074 in the first half of 2008 to 1.2055 in 2009 for a year-over-year change of 20 percent. If the foreign exchange rate had held constant, Reported revenue and Total Revenue including Imputed Revenue,* would have decreased by 15 percent and 13 percent, respectively, for a total foreign currency impact on revenue of $39.5 and $56.3 million, respectively.

Gross Profit

Gross profit for the first half was $72.0 million, reflecting a decrease of 22 percent compared to gross profit of $92.7 million reported in the first half of the prior year. Eliminating currency impact, overall gross profit declined by 18 percent compared to the first half of the prior year. Gross profit as a percentage of Total Revenue, including Imputed Revenue was 8.1 percent, marginally down from the prior year.

Product line margins are largely unchanged from a year ago, with the exception that margins on other software have strengthened somewhat.

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

Marketing development funds earned in the first half increased by 24 percent. This growth reflects the focus of our marketing team in this area.

Product Segment Analysis

Unaudited (US $000's)	**YTD 2009**	**YTD 2008**	**Y/Y %**
Microsoft revenue	$ 180,734	$ 220,938	(18.2)%
Other software	150,137	162,351	(7.5)%
Hardware	166,760	249,660	(33.2)%
Total revenue	$ 497,631	$ 632,949	(21.4)%
Deduct Agency fees	(25,079)	(34,612)	(27.5)%
Add Microsoft Imputed Revenue	412,609	477,342	(13.6)%
Total Revenue, including Imputed Revenue	$ 885,161	$ 1,075,679	(17.7)%

Expenses and EBITDA

unaudited	**Q2 YTD 2009**		**Q2 YTD 2008**		
U.S. $000's	**$**	**% of Gross profit**	**$**	**% of Gross profit**	Y/Y %
Salaries and benefits	37,677	52.4%	50,598	54.6%	(25.5)%
Selling, general and administrative	16,390	22.8%	19,073	20.6%	(14.1)%
	54,067	75.1%	69,671	75.2%	(22.4)%
% of Gross profit	75.1%		75.2%		

Total expenses decreased by 22 percent over the prior year. Expenses as a percentage of gross profit remained relatively flat at 75 percent, primarily as a result of the cost reduction actions taken by the Company, which were offset by declines in the gross profit over the same period. The decline in expenses reflects the Company's focus on cost management and the results of the productivity and cost management activities that were undertaken in 2008.

Average headcount levels for the first half decreased by 14 percent compared to the first half of 2008. The reductions in salaries reflect the lower staff levels and the reduced incentive compensation earnings associated with our lower gross profit levels. Salary expenses in the first half also reflect a reversal of the amount accrued in prior years for the LTIP purposes in the amount of $1.8 million, reflecting expected LTIP performance in 2009 and 2010. (Please see the Company's Management Information Circular dated April 3, 2009 for more information on Softchoice's LTIP program.)

Selling, general and administrative expenses decreased by just over 14 percent compared to the prior year, reflecting a 22 percent reduction in overall expense levels that was partially offset by a one-time benefit in 2008 from the recovery of a sales tax exposure in the amount of $0.9 million. This decline reflects management's vigilance about cost management in these economic times.

EBITDA reflects the profits of the Company after salaries and selling general and administrative costs are deducted from gross profit. A gross profit decline of 22 percent, offset by an expense decline of 22 percent, has demonstrated the versatility of the cost model within the Company As a result, EBITDA also decreased from the first half of the prior year by 22 percent.

Other

Amortization of property and equipment increased by 10 percent compared to the first half of the prior year as a result of capital asset purchases in the last half of 2008. The amortization of intangibles has increased by 1 percent.

Other expenses include interest expense and other income of $2.6 million in the half and a foreign currency gain of $4.5 million.

The effective tax rate for the first half was about 29 percent, which has decreased by 9 percent from the prior period primarily as a result of a lower effective tax rate in Canada attributable to non-taxable dividends received in the Canadian company, the non-taxable/non-deductible impacts of the LTIP accrual reversal and the non-deductible portion of a foreign exchange capital gain. These impacts were offset by an increase in the U.S. effective rate attributable to a tax true-up recorded in the second quarter of 2009.

Net earnings for the first half was $10.3 million compared to net earnings of $9.1 million in the same period of the prior year. Earnings per share was $0.59 per share (basic) and $0.58 per share (fully diluted), compared to $0.52 per share (basic and fully diluted) a year earlier.

Liquidity and Capital Resources

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

- An asset-backed loan (ABL) can be drawn to the lesser of C$115 million or 85 percent of eligible accounts receivable. There is an accordion feature to this facility in the amount of C$30.0 million that can be exercised at the Company's discretion and with the agreement of the term debt provider. The ABL incurs interest at prime plus 2.25 percent on inception and can reduce to prime plus 1.75 percent depending on certain financial measures being realized. The ABL has a term of three years. The ABL was provided to Softchoice through a lending syndicate comprising Bank of America (agent), Bank of Montreal and TD Bank.

- The term debt loan is subordinated to the ABL and is in the amount of US$20.5 million. The debt has a five-year term and has quarterly payments of US$1.0 million. Interest on this loan is 17.5 percent per annum; this rate could be reduced to 16 percent per annum after 2009 if certain financial ratios are achieved. The term debt loan was provided by HSBC (Canada) Inc. with participation by Ontario Teachers' Pension Plan (OTPP), a related party. OTPP is a related party through their purchase of hardware and software products, from the Company, totaling $48.6 thousand during the quarter. This loan can be repaid without penalty or termination fee after 36 months.

Both loans have certain financial covenants as conditions to continued borrowing. A fixed-charge coverage ratio is required by both loans and the term-debt loan has two additional covenants including a maximum debt leverage covenant and an asset coverage covenant. The fixed-charge ratio is likely to be the most stringent covenant. The Company does not anticipate violating any of the current covenants.[†]

The table below indicates the level of debt available to the Company and the amounts outstanding at the end of the first half. Including available cash, the net debt position at the end of June 2009 is $3.7 million.

We believe that the level of debt available to Softchoice is sufficient to finance the working capital requirements of the business and the growth that we expect.†

Debt levels as at June 30, 2009	**Available**	**Drawn**
Unaudited (US $000s)		
Short term debt		
Revolving credit facility	$ 98,925	$ 4,283
Current portion of term debt	4,103	3,963
	103,028	8,246
Term debt, long term	14,359	12,735
Total debt	$ 117,387	$ 20,981

Cash Flow

The Company was able to reduce debt from $40.5 million at March 31, 2009, to $21 million at June 30' 2009, and during the same period cash balances increased from nil to $17 million.

These improvements resulted from $10.0 million of cash generated from earnings adjusted for non-cash items and a $29.8 million reduction in working capital needs, partially offset by $1 million of cash usage for investing activities.

The $29.8 million of working capital improvements in the quarter was based partially on our ongoing improvements in managing the Company's cash cycle and partially on timing of a transaction with a major customer resulting in receipt of a large cash payment at the end of the quarter, with the corresponding payable to a vendor occurring in early July.

Accounts receivable balances reflect days sales outstanding (DSO) of 38 days as at June 30, 2009, compared to 49 days outstanding as at June 30, 2008, and 43 days as at December 31, 2008. The Company targets DSO levels of 45 days, and the decrease in the quarter below this level is primarily the result of receiving the large customer payment on the last work day of the quarter.

Days payable outstanding (DPO) increased from 57 days in the prior year to 59 days at the end of the first half. The increase in DPO is primarily the result of the timing of the vendor payment related to the transaction referenced above.

We expect that DPO levels will decline from this level over the remainder of the year.† In prior periods, we had initiated a policy of paying our suppliers early and getting discounts as a result. Discounts earned as a result of early payments are recorded as a reduction in cost of sales on the statement of earnings. Since we raised debt levels to fund the acquisitions, we have discontinued the practice of paying our suppliers early.

Debt at the end of the second quarter in 2008 was $106.8 million, which was an increase of $1.4 million from the beginning of the quarter. For the second quarter of 2008 cash of $10.6 million was generated from earnings adjusted for non-cash items, $6.0 million of cash was used for working capital needs, $1.5 million of cash was used in investing activities and $2.1 million of cash was on hand at the end of the quarter.

Key Performance Measures

The Company presents four key performance measures to help investors understand the business. The measures reflect both the growth of the business and our productivity and are consistent with the way that management evaluates the business. We use gross profit measures, instead of a more typical revenue

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

measure, because of the trend among our customer base toward EA license agreements. Therefore the increase in our revenue mix that is recorded on a net basis would make revenue-based analysis distorting.

Revenue or Growth Indicators:

- Number of Customers

Productivity Indicators:

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

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

Number of Customers

During the second quarter of 2009, due to decisions by our customers to defer spending, the number of customers purchasing from Softchoice in the quarter decreased by 7 percent in Canada and by 25 percent in the U.S. compared to the same period in the prior year.

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

	Q2 2009	**Q2 2008**
Small and Medium	42%	54%
Enterprise	36%	24%
Government and Education	22%	22%
Total	100%	100%

The portion of sales to enterprise customers has increased in 2009, with 36 percent of sales to the enterprise customer base, compared with 24 percent in the second quarter of 2008. This increase is primarily due to the impact of the acquisitions, which added a larger portion of enterprise customers to our business mix.

Gross Profit per Order

In Canada, gross profit per order increased by 14 percent compared to the same period in the prior year due to customers constraining individual order sizes due to their own internal spending restrictions, offset by an increase in margin received. In the U.S., excluding transactions related to professional services, gross profit per order decreased by 36 percent compared to the same period of the prior year due to the significant decline in the agency fee business and a decline in the margin rate associated with high-volume transactions.

Gross Profit per Employee and per Sales Employee

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

	Q2 2009		Q2 2008		Y/Y	
	Sales	Total	Sales	Total	Sales	Total
Average headcount	438	884	593	1,108	(26.1)%	(20.2)%
Quarter-end headcount	440	886	589	1,095	(25.3)%	(19.1)%
GP/person ($000's)	93.9	46.6	90.8	48.9	3.4%	(4.6)%

	Q2 2009 YTD		Q2 2008 YTD		Y/Y	
	Sales	Total	Sales	Total	Sales	Total
Average headcount	439	885	556	1,026	(21.0)%	(13.8)%
Quarter-end headcount	440	886	589	1,095	(25.3)%	(19.1)%
GP/person ($000's)	163.6	81.2	157.4	84.7	3.9%	(4.1)%

The total number of employees has been reduced by 209 people, or 20 percent, from the second quarter of 2008, reflecting the actions we have taken to drive cost reductions and enhance productivity. We are comfortable that our quarter-end sales headcount at 440 people is in the right range to position us for growth as the economy improves.

For the second quarter, gross profit per sales employee, a key measure of productivity, increased by 3 percent primarily as a result of the increased productivity from the reduced sales team. Gross profit per employee decreased by 5 percent compared to the same period in the prior year. This decline was primarily as a result of the economic downturn and its impact on the gross profit performance during the quarter. We expect both productivity measures to continue to improve in future quarters. [†]

Critical Accounting Policies

The Company's accounting policies are described in the "Notes to the Annual Consolidated Financial Statements" (pages 51 to 57 in the Annual Report). These policies are subject to management's judgment in several areas, including the allowance for doubtful accounts, the accrual for rebates earned in the period and various other reserves and accruals for costs incurred in the period. In all cases, these areas of judgment represent management's best estimate. These judgmental areas are similar for most businesses in this industry and should not expose the shareholders to unusual or unexpected trends. In particular, the Company's accounts receivable are not concentrated in any specific industry, and the top 10 customers in the quarter accounted for 25 percent of total revenues.

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

On January 3, 2008, Softchoice acquired Optimus Solutions. The Optimus Solutions Professional Services business differs from the core Softchoice business in certain specific ways and, accordingly, there are some differences in revenue recognition for this business. Revenue recognition for the sale of hardware products and software licenses is the same as for the core Softchoice business. Unless a difference is specifically identified, the revenue recognition policies are the same as for Softchoice.

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

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

Changes in Accounting Policies

Goodwill and Intangible Assets

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

IFRS

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

1. Scoping and diagnostic phase - This phase involves a high-level assessment to identify key areas that may be affected by the transition to IFRS, and ranking these as high, medium or low priority, as well as the creation of a formalized project plan including key milestones and timelines, resources required, education and training requirements.

2. Impact analysis, evaluation and design phase – In this phase, each area identified from the scoping and diagnostic phase will be addressed by performing an in-depth analysis of Canadian GAAP/IFRS differences, evaluation and selection of available accounting policies, quantification of impacts and development of draft IFRS financial statement contents. This phase also includes the identification of operational impacts such as information technology, process and internal control changes.

3. Implementation and review phase - This phase will integrate our new accounting policies and operational impacts into the Company's underlying information systems and business processes.

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

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

Business Combinations

In January 2009, the CICA issued Section 1582, *"Business Combinations,"* replacing Section 1581, *"Business Combinations."* This section establishes the standards for the accounting of business combinations and states that all assets and liabilities of an acquired business will be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. This new section will be applicable to financial statements relating to fiscal years beginning on or after January

1, 2011. Earlier adoption is permitted. The Company is currently assessing the future impact of this new standard on its financial statements.

Consolidated Financial Statements

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

Disclosure Controls and Procedures

The Chief Executive Officer and the Vice President of Finance have evaluated the effectiveness of the Company's disclosure controls and procedures for the financial period ended June 30, 2009. Based on that evaluation, the Chief Executive Officer and the Vice President of Finance concluded that the design and operation of these disclosure controls and procedures were effective as at June 30, 2009, to provide reasonable assurance that material information relating to the Company, including its consolidated subsidiaries, would be made known to them by others within those entities.

Internal Control Over Financial Reporting

For the quarter ended June 30, 2009, the Chief Executive Officer and the Vice President of Finance have certified that they have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with GAAP.

During the fourth quarter of 2008, management had determined that control and procedures for the annual goodwill impairment testing as at December 31, 2008 were not effective as discussed in the 2008 MD&A. The resulting analysis required an adjustment to recognize a goodwill impairment loss of $43.6 million in the financial statements for the year ended December 31, 2008. Management has finalized this original estimate in the second quarter of 2009 and did not require any additional adjustments to be made to the original goodwill write-down from previous quarters. Management has developed a remediation plan to address this material weakness and expects to review the design of its internal control over the accounting for goodwill impairment during 2009.

There have been no changes in the Company's internal controls over financial reporting that occurred during the most recent interim period ended June 30, 2009, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.