Management's Discussion and Analysis

March 2, 2011

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 solely of independent directors, has reviewed this document and all other publicly reported financial information for integrity, usefulness, reliability and consistency.

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.

Unless otherwise stated, dollar amounts referred to in this document are expressed in U.S. dollars.

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 Company's current Annual Information Form. They include risks related to economic conditions, bad debts, access to credit and access to capital; risks related to debt financing; exchange rate risk; and the risk of credit card fraud. The Company also faces risks related to the information technology (IT) distribution channel such as dependence on Microsoft, reliance on financial incentives, dependence upon distributors, the inability to respond to changes to the IT distribution channel, technical innovation, competition, the risk of IT product defects and the risk of providing technology solutions offerings. There are additional risks relating to 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 Company's current Annual Information Form.

Change in Accounting Policy

During the quarter ended December 31, 2010, the Company undertook a review of its accounting for third-party maintenance contracts. The goal of this review was to ensure that the Company's accounting for these contracts continued to be appropriate based on the facts and circumstances taking into account the indicators outlined in EIC 123, Reporting Revenue Gross as a Principal versus Net as an Agent. As a result of this review the Company changed its revenue accounting policy from gross revenue reporting to net revenue reporting for hardware and software maintenance and support contracts where the services are performed primarily by third parties. Based on the Company's current interpretation of the relative merits of the various criteria for gross versus net recognition in EIC 123, Reporting Revenue Gross as a Principal versus Net as an Agent, the Company determined that this change better reflects the substance of these transactions between the Company and its clients and is more consistent with industry practice for these arrangements. The change to a more relevant accounting policy had no impact on the gross profit, income from operations or net income amounts previously reported for any period.

The tables below reflect the effect of the change on the amounts previously reported for the year ended December 31, 2009 and the amounts that would have been reported for the year ended December 31, 2010 under the gross revenue reporting method.

2010

(In thousands of U.S. dollars)	Gross Revenue Reporting Method	Reclassification	Net Revenue Reporting Method
Revenue	$ 1,188,260	$ (304,246)	$ 884,014
Cost of sales	1,023,681	(304,246)	719,435
Gross profit	164,579		164,579
Income from operations	31,728		31,728
Net Income	$ 20,242		$ 20,242

2009 - Restated

(In thousands of U.S. dollars)	Gross Revenue Reporting Method	Reclassification	Net Revenue Reporting Method
Revenue	$ 1,000,248	$ (246,104)	$ 754,144
Cost of sales	857,979	(246,104)	611,875
Gross profit	142,269		142,269
Income from operations	24,218		24,218
Net Income	$ 22,263		$ 22,263

Use of Non-GAAP Terms

In our financial reporting, we refer to Imputed Revenue, EBITDA, and Adjusted Net Earnings, all of which are non-GAAP terms. These terms do not have standardized meaning under GAAP and therefore it is unlikely they will be comparable to similar measures used by other companies.

Imputed Revenue

Due to the Company's change in accounting policy the definition of imputed revenue has been revised. Previously imputed revenue was defined as the price paid by the customer to Microsoft for Enterprise Agreements (EAs) that are transacted through Softchoice sales representatives. Total imputed revenue now also includes the difference between what we invoice our customers for software and hardware maintenance contracts and the net amount that is reflected in our financial statements. We now include the amount billed by the Company to the customer for Microsoft software assurance agreements, previously recognized on a gross basis, and have renamed the total Microsoft imputed revenue. Additionally, the Company believes it is important to disclose the amount of gross billings associated with other software and hardware maintenance contracts that we now recognize on a net basis. This amount is included in other imputed revenue in the tables below.

The following tables show the change in Imputed Revenue for 2009 and for the three months ending December 31, 2009, and the amount that would have been reported for the year ended December 31, 2010, and for the three months ending December 31, 2010 under the gross revenue reporting method.

2010

(In thousands of U.S. dollars)	Gross Revenue Reporting Method	Reclassification	Net Revenue Reporting Method
Revenue	$ 1,188,260	$ (304,246)	$ 884,014
Agency fees	(45,187)	-	(45,187)
Microsoft imputed revenue	731,334	99,633	830,967
Other imputed revenue		204,613	204,613
Total revenue, including imputed revenue	$ 1,874,407	-	$ 1,874,407

2009 - Restated

(In thousands of U.S. dollars)	Gross Revenue Reporting Method	Reclassification	Net Revenue Reporting Method
Revenue	$ 1,000,248	$ (246,104)	$ 754,144
Agency fees	(40,974)	-	(40,974)
Microsoft imputed revenue	656,611	54,115	710,726
Other imputed revenue	-	191,989	191,889
Total revenue, including imputed revenue	$ 1,615,785	-	$ 1,615,785

Three months ended December 31, 2010

(In thousands of U.S. dollars)	Gross Revenue Reporting Method	Reclassification	Net Revenue Reporting Method
Revenue	$ 339,134	$ (85,491)	$ 253,643
Agency fees	(11,307)	-	(11,307)
Microsoft imputed revenue	170,843	19,465	190,308
Other imputed revenue	-	66,026	66,026
Total revenue, including imputed revenue	$ 498,670	-	$ 498,670

Three months ended December 31, 2009 – Restated

(In thousands of U.S. dollars)	Gross Revenue Reporting Method	Reclassification	Net Revenue Reporting Method
Revenue	$ 283,889	$ (65,597)	$ 218,292
Agency fees	(10,052)	-	(10,052)
Microsoft imputed revenue	151,062	12,019	163,081
Other imputed revenue	-	53,578	53,578
Total revenue, including imputed revenue	$ 424,899	-	$ 424,899

Microsoft pays Softchoice an agency fee or commission for EA sales, and therefore Softchoice does not reflect the Imputed Revenue in the revenue line for these transactions but records only the agency fees earned within revenue. Microsoft 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 fewer products, when that would not be the case. The use of Microsoft Imputed Revenue also aids in comparison with our competitors. This measure is not likely to be used by our competitors in the industry because Softchoice sells a greater portion of EA licenses than our competitors. We believe that an EA often provides a more cost-effective solution for our customers, particularly in the small and medium business (SMB) market.

The table below shows Total Revenue, including Imputed Revenue, for the fourth quarter compared to the same period of the prior year.

(In thousands of U.S. dollars)	*Three months ended December 31,* 2010	2009 Restated	*% Change*
Net sales, as reported	$ 253,643	$ 218,292	16.2%
Agency fees	(11,307)	(10,052)	12.5%
Microsoft imputed revenue*	190,308	163,081	16.7%
Other imputed revenue	66,026	53,578	23.2%
Total revenue, including imputed revenue	$ 498,670	$ 424,899	17.4%

(In thousands of U.S. dollars)	Year ended December 31, 2010	2009 Restated	% Change
Net sales, as reported	$ 884,014	$ 754,144	17.2%
Agency fees	(45,187)	(40,974)	10.3%
Microsoft imputed revenue*	830,967	710,726	16.9%
Other imputed revenue	204,613	191,889	6.6%
Total revenue, including imputed revenue	$ 1,874,407	$ 1,615,785	16.0%

* Agency fees are included in Imputed Revenue

EBITDA

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

(In thousands of U.S. dollars)	Three months ended December 31, 2010	2009	% Change
Income from operations	$ 10,658	$ 9,564	11.4%
Amortization of property and equipment	693	723	-4.2%
Amortization of intangible assets	1,577	2,018	-21.9%
EBITDA	12,928	$ 12,305	5.1%

(In thousands of U.S. dollars)	Year ended December 31, 2010	2009	% Change
Income from operations	$ 31,728	$ 24,218	31.0%
Amortization of property and equipment	2,797	2,907	-3.8%
Amortization of intangible assets	6,639	7,949	-16.5%
EBITDA	41,164	$ 35,074	17.4%

Adjusted Net Earnings

Adjusted Net Earnings eliminates the after-tax impact related to any foreign exchange gain or loss on the cash, intercompany debt and external debt denominated in a currency other than the Company's functional currency.

(In thousands of U.S. dollars except per share amounts)	***Three months ended December 31,*** **2010**	**2009**	***% Change***
Net income	$ 7,213	$ 7,098	1.6%
Foreign exchange (gain), net of income tax	(1,333)	(1,679)	-20.6%
Adjusted net earnings	$ 5,880	$ 5,418	8.5%
Adjusted net earnings per share	$ 0.30	$ 0.30	0.0%

(In thousands of U.S. dollars except per share amounts)	***Year ended December 31,*** **2010**	**2009**	***% Change***
Net income	$ 20,242	$ 22,263	- 9.1%
Foreign exchange (gain), net of income tax	(2,223)	(9,514)	76.6%
Adjusted net earnings	$ 18,019	$ 12,749	41.3%
Adjusted net earnings per share	$ 0.91	$ 0.72	26.4%

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

Net earnings for the fourth quarter was $ 7.2 million compared to net earnings of $ 7.1 million reported for the same quarter of the prior year.

Adjusted net earnings for the fourth quarter were $5.9 million compared to adjusted net earnings of $5.4 million reported for the same quarter of the prior year. Adjusted net earnings per share (basic and diluted) was $0.30 per share compared to adjusted net earnings of $0.30 per share for the same period of the prior year. The total weighted average number of shares outstanding for the fourth quarter of 2010 was 19.8 million, compared to 18.0 million for the fourth quarter of 2009.

Selected Annual Information

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

(In thousands of U.S. dollars)	2010	2009 Restated	2008
Net sales, as reported*	$ 884,014	$ 754,144	$ 1,244,295
Total revenue (including imputed revenue)	1,874,407	1,615,785	1,958,441
Gross profit	164,579	142,269	171,803
EBITDA	41,164	35,074	38,876
Net income (loss) before income taxes	30,805	31,840	(24,830)
Net income (loss)	20,242	22,263	(14,388)
Earnings (loss) per share			
Basic	$ 1.02	$ 1.26	$ (0.82)
Diluted	1.02	$ 1.26	$ (0.82)
Total assets	351,769	290,366	355,761
Long-term debt	8,568	12,671	13,717
Shareholders' equity	116,543	96,358	67,438
Dividends	-	-	5,199

* Revenue for 2008 was calculated using our previous revenue accounting methodology for maintenance contracts, where these arrangements were recorded on a gross basis, in accordance with EIC 123, Reporting Revenue Gross as a Principal versus Net as an Agent. In the fourth quarter of 2010, the Company changed its accounting policy for maintenance contracts and now records these arrangements on a net basis. The comparative 2009 revenue figures have been restated. For further information refer to the section Change in Accounting Policy on page 2.

The Company experienced a return to growth in 2010 following the global economic downturn that began in late 2008. The integration of the three companies acquired in late 2007 and early 2008, continues to benefit the Company through expansion of the products and services we sell, and the solutions that we can offer our customers. While net income in the current year of $20.2 million declined from 2009 by approximately 9 percent, this decline is largely attributable to a foreign currency gain in 2009 of $12.6 million, compared to a gain of $3.0 million in 2010. The Company's strengthening EBITDA reflects gross profit growth, along with the continuing benefit from cost containment strategies put into place in 2009. Net income in 2008 reflects the effect of a goodwill impairment that was triggered by a decline in the market capitalization of the Company's shares.

Fourth Quarter Highlights

- Total revenue for the quarter was $253.6 million up 16.2 percent from $218.3 million in the same quarter of the previous year. Eliminating the impact of foreign exchange, revenue increased by 8.5 percent during the fourth quarter compared to the same period of the prior year. Total revenue, including imputed revenue for the quarter was $498.7 million, an increase of 17.4 percent compared to the same quarter of the prior year.

- Sales from Microsoft products were up 24.2 percent in the quarter, while sales of hardware and other software grew by 13.2 percent and 13.1 percent respectively, during the quarter.

- Gross profit for the quarter was $45.2 million, an increase of 14.4 percent from $39.5 million in the same quarter of 2009. Eliminating the impact of foreign exchange, gross profit grew by 12.9 percent.

- Adjusted net earnings for the quarter were $5.9 million compared to adjusted earnings of $5.4 million in the fourth quarter of 2010.

- Cash generated from operations was $10.5 million in the quarter, compared to cash used in operations of $6.6 million in the same quarter of 2009

- Total debt of the Company was $12.7 million at December 31, 2010, and the Company had $35.8 million in cash on hand.

- EBITDA increased by 5.1 percent for the quarter to $12.9 million from $12.3 million in the same quarter of 2009.

Management Comments and Business Outlook†

The Company's investments in pre-sales and professional services have enhanced our ability to manage complex data center projects transitioning to private cloud environments, in addition to providing efficient fulfillment on the day-to-day purchase of PCs and business productivity software. This focus on creating a more diversified offering is increasing the Company's profitability and, with it, the depth of relations we have with our customers. Over the past year Softchoice has successfully increased the gross profit derived from our largest, most strategic accounts by 16 percent. With roughly 15,000 active customers, the Company has significant growth opportunities by delivering an ever increasing array of solutions and services to the organizations we already serve.

In 2011, the Company will continue to focus on capturing an ever higher share of customers' IT spending by aligning to the major growth drivers within our industry. Mobility computing, including the proliferation of tablet PCs, is creating new opportunities for business and also greater challenges as IT departments struggle with integrating these devices securely within their operations. Unified communications is another area of opportunity for Softchoice as organizations pursue new ways to improve collaboration across their enterprises.

The Company expects that the greatest area of customer investment in 2011 will be in private cloud infrastructure – or the conversion of data center assets like servers, storage and networking into a single, shareable resource pool. The advent of public cloud offerings, specifically software-as-a-service, is another important opportunity, particularly as the Company looks to the longer term. At present, the Company is participating in the public cloud by selling various Partner offerings in this space. In addition we are in the process of building out a public cloud offering that will allow Softchoice to leverage its relationships with partners like Microsoft, VMware and many others. In this model, Softchoice will act as an agent for our customers, helping to select and deploy the right applications.

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

Detailed Review of Operating Results for the Quarter

Summary of Quarterly Data
(In thousands of U.S. dollars except per share amounts)

	Three months ended							
	March 31, 2009	**June 30, 2009**	**September 30, 2009**	**December 31, 2009**	**March 31, 2010**	**June 30, 2010**	**September 30, 2010**	**December 31, 2010**
	Restated							
Revenue	$ 165,804	$ 206,787	$ 163,261	$ 218,292	$ 201,561	$ 233,326	$ 195,484	$ 253,643
Gross profit	30,654	41,312	30,813	39,490	36,446	47,137	35,832	45,165
Operating income (loss)	(399)	12,920	2,133	9,564	4,727	14,148	2,194	10,658
Net earnings (loss)	(2,389)	12,642	4,912	7,097	4,532	6,388	2,109	7,213
Earnings (loss) per share	$(0.14)	$0.72	$0.28	$0.39	$0.23	$0.32	$0.11	0.36

Seasonality

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

- March 31 is the fiscal year-end for the Canadian government.
- June 30 is Microsoft's year end. Softchoice has historically benefited from the sales and marketing drive that has been generated by Microsoft sales representatives to meet its year-end targets. In the last few years, this has become the largest quarter for Microsoft sales in our fiscal year.
- September 30 is the U.S. federal government year-end. Our business from this segment is not sufficient to overcome the more general reduction in activity due to summer holiday schedules.
- December 31 marks the fiscal year-end for much of corporate North America. Historically, we have experienced an increase in all revenue lines as our customers complete their asset purchases to meet their internal year-end requirements.

Three Month Period Ended December 31, 2010 Compared to the Three Month Period Ended December 31, 2009

(In thousands of U.S. dollars except per share amounts)	*Three months ended December 31,*				% Change
	2010		*2009* Restated		
		% of revenue		% of revenue	
Total revenue, including imputed revenue	$ 498,670		$ 424,899		17.4%
Revenue	253,643	100.0%	218,292	100.0%	16.2%
Gross profit	45,165	17.8%	39,490	18.1%	14.4%
Expenses	32,236	12.7%	27,185	12.5%	18.6%
EBITDA	12,928	5.1%	12,305	5.6%	5.1%
Amortization, interest and other	3,466	1.4%	3,616	1.7%	-4.2%
Net income before income taxes	11,404	4.5%	10,560	4.8%	8.0%
Net income for the period	$ 7,213	2.8%	$ 7,098	3.3%	1.6%
Net income per common share (basic and fully diluted)	$ 0.36		$ 0.39		

Product Analysis

The following table shows the relative mix of hardware and software sales for the three months ended December 31, 2010 and is discussed in greater detail below.

(In thousands of U.S. dollars)	*Three months ended December 31,* 2010	2009 Restated	*% Change*
Microsoft revenue①	$ 74,425	$ 59,905	24.2%
Agency fees	(11,307)	(10,052)	12.5%
Microsoft imputed revenue	190,308	163,081	16.7%
Total Microsoft revenue, including imputed revenue	$ 253,426	$ 212,934	19.0%
Other software revenue①	69,620	61,580	13.1%
Hardware revenue①	109,598	96,807	13.2%
Other imputed revenue	66,026	53,578	23.2%
Total revenue including imputed revenue	$ 498,670	$ 424,899	17.4%
Total reported revenue	$ 253,643	$ 218,292	16.2%

① These amounts sum to total reported revenue for the period

Revenue

Revenue for the fourth quarter of 2010 was $253.6 million, an increase of 16.2 percent from revenue of $218.3 million reported in the fourth quarter of 2009. Total Revenue, including Imputed Revenue, increased 17.4 percent over the same period of the prior year. Revenue was higher in all product segments with Microsoft showing the largest product increase of 24.2 percent over the same quarter in 2009. This increase in the Microsoft business can be attributed to client investments in Windows 7, Exchange 2010, and SharePoint 2010. The Company has found that our strength in the Microsoft business is advantageous in providing an entry point to sell additional products to existing customers, such as upgrades to desktops, servers and storage, that are often required as customers' invest in software upgrades.

Canada

In Canada, revenue increased 11.1 percent over the same quarter in 2009, to C$108 million (2009 – C$97 million). Sales of software and hardware were higher this quarter with the largest growth coming from sales of other (non Microsoft) software (increased 20.7 percent when measured in Canadian dollars). Higher sales of enterprise software and other software contributed to the increase this quarter.

Agency fees earned on EA licenses were also higher in Canada, increasing 11.7 percent over the same quarter in 2009. Other Microsoft sales were down in the fourth quarter of 2010 compared to 2009 (declined 2.1 percent) due primarily to a 2009 deal that did not repeat in 2010.

Hardware sales were up 9.5 percent in the fourth quarter of 2010, compared to 2009. Higher sales of servers, storage and networking contributed to the increase.

United States

In the United States, revenue increased 20.1 percent over the same quarter in 2009 from $122 million to $147 million. Sales were higher in all product segments with Microsoft sales showing the strongest growth quarter over quarter. Sales of other software and hardware were also higher this quarter.

Agency fees earned from Enterprise Agreements increased 12 percent this quarter, compared to the same quarter in 2009.

Sales of hardware were also strong in the U.S. in the fourth quarter, rising 13.6 percent compared to the equivalent quarter of 2009. Sales of notebooks and desktops continued to grow this quarter, as did sales of storage and networking.

Gross Profit

Gross profit for the fourth quarter was $45.2 million, reflecting an increase of 14.4 percent from gross profit of $39.5 million in the fourth quarter of the prior year. Eliminating the impact of foreign currency, gross profit grew 12.9 percent. Gross profit as a percentage of revenue declined slightly from 18.1 percent in the fourth quarter of 2009 to 17.8 percent in the fourth quarter of 2010. In Canada there was some erosion of margin on sales of hardware. This decline was offset by strong margin growth in other software and the Microsoft business in Canada this quarter. In the United States, margins from hardware and software sales were strong, offset by lower margins on the Microsoft business in the fourth quarter of 2010 compared to the fourth quarter of 2009. The decline in the Microsoft margins in the fourth quarter is attributable to lower margins attained on two large Indirect transactions in the quarter, along with an increase in service provider license agreements (SPLA) where margin is recovered from rebate revenue.

Rebates in the fourth quarter of 2010 grew 24.4 percent compared to the same quarter of the prior year. The growth in rebates is due to new programs introduced by certain vendors in 2010, and the fact that in 2009 certain quarterly target thresholds were not met. Marketing development funds earned in the fourth quarter were also higher, increasing from the same quarter of the prior year by 1.8 percent.

Expenses

(In thousands of U.S. dollars)	Three months ended December 31, 2010		2009		% Change
		% of gross profit		% of gross profit	
Salaries and benefits	$ 24,544	54.3%	$ 19,494	49.4%	26.0%
Selling, general and administrative	7,693	17.0%	7,691	19.5%	-
	32,237	71.4%	$ 27,185	68.8%	18.6%

Total salaries and benefits, and selling, general and administrative (SG&A) expenses increased 18.6 percent compared to the same period of the prior year. When the impact of foreign exchange is removed, total salaries and benefits and SG&A expenses increased by 15.9 percent compared to the same quarter in 2009. Total salaries and benefits as a percentage of gross profit increased to 54.3 percent from 49.4 percent reported in the same period of the previous year, primarily due to an increase in headcount, higher sales commission, and higher performance based compensation consistent with an increase in gross profit compared to the same quarter in 2009. Higher compensation expenses in pre-sales engineering resources this quarter reflects the increased focus on our solutions business.

Average headcount levels for the fourth quarter increased by 4.7 percent compared to the same quarter of the prior year. The increase in salaries and benefits reflects increased headcount particularly in pre-sales engineering resources, higher commission expense as noted above, and increased incentive compensation expense related to the long-term executive compensation plans.

EBITDA

EBITDA reflects the profits of the Company after salaries, SG&A expenses and any unusual items are deducted from gross profit. A gross profit increase of 14.4 percent or $5.7 million, offset by an 18.6 percent increase in salaries and benefits and SG&A expenses has resulted in an overall EBITDA increase from the same quarter of the prior year of 5.1 percent.

Other

Amortization of property and equipment declined by 4.2 percent compared to the fourth quarter of the prior year as a result of fewer capital asset purchases made during the year compared to 2009. Amortization of intangible assets decreased by 21.9 percent. This decrease is resultant from the full amortization in the first quarter of this year, of the intangibles associated with the acquisition of the software division of Groupe 3-Soft Inc.

Interest and other expense was $1.2 million during the fourth quarter of 2010, consisting primarily of interest costs and amortization of deferred financing fees associated with the long-term debt. Interest and other expense have increased by 36.4 percent compared to the fourth quarter of the prior year. In the fourth quarter of 2009 the Company received a sales tax refund of $0.5 million, contributing to lower other expenses in that quarter. A similar refund was not received in 2010.

The effective tax rate for the fourth quarter of 2010 was approximately 36.8 percent, which increased from the rate of 32.8 percent reported in the same period of the prior year. The increase in the effective tax rate is primarily due to higher earnings in the U.S. division compared to the previous year, and a higher effective tax rate in the U.S. compared to the Canadian division.

Net income for the fourth quarter of 2010 was $7.2 million compared to $7.1 million reported in the same period of the prior year (including the foreign exchange impact in both periods). Net income per share was $0.36 (basic and diluted), compared to $0.39 (basic and diluted) reported in the same period of the prior year. On an adjusted basis, net earnings for the quarter were $5.9 million compared to $5.4 million reported in the same quarter of 2009. Adjusted net earnings per share was $0.30 per share compared to $0.30 per share in the prior year. The total weighted average number of shares outstanding for the year ended December 31, 2010 was 19.8 million, compared to 17.6 million for the year ended December 31, 2009. At December 31, 2010 there were 19,780,039 common shares of the Company issued and outstanding, compared to 19,759,189 common shares issued and outstanding as at December 31, 2009.

Twelve-month period ended December 31, 2010 compared to the twelve-month period ended December 31, 2009

(In thousands of U.S. dollars except per share amounts)	*Year ended December 31,*				*% Change*
	2010		***2009* Restated**		
		% of revenue		% of revenue	
Total revenue, including imputed revenue	1,874,407	212.0%	$1,615,785	214.30%	16.0%
Revenue	884,014	100.0%	754,144	100.0%	17.2%
Gross profit	164,579	18.6%	142,269	18.9%	15.7%
Expenses	123,415	14.0%	107,195	14.2%	15.1%
EBITDA	41,164	4.7%	35,074	4.7%	17.4%
Amortization, interest and other	13,346	1.5%	15,883	2.1%	-16.0%
Net income before income taxes	30,805	3.5%	31,840	4.2%	- 3.3%)
Net income for the period	20,242	2.3%	22,263	3.0%	-9.1%)
Net income per common share (basic and fully diluted)	$ 1.02		$ 1.26		

Product Segment Analysis

The following table shows the relative mix of hardware and software sales for the year ended December 31, 2010 and is discussed in greater detail below.

(In thousands of U.S. dollars)	*Year ended December 31,* **2010**	**2009 Restated**	*% Change*
Microsoft revenue①	$ 288,626	250,359	15.3%
Agency fees	(45,187)	(40,974)	10.3%
Microsoft imputed revenue	830,967	710,726	16.9%
Total Microsoft revenue, including imputed revenue	1,074,406	920,111	16.8%
Other software revenue①	206,609	178,495	15.8%
Hardware revenue①	388,779	325,290	19.5%
Other imputed revenue	204,613	191,889	6.6%
Total revenue including imputed revenue	1,874,407	1,615,785	16.0%
Total reported revenue	884,014	754,144	17.2%

① These amounts sum to total reported revenue for the year

Revenue

Revenue in 2010 was $884 million compared to $754 million, reflecting an increase of 17.2 percent. Total revenue including imputed revenue was up 16.0 percent year over year, from $1.6 billion to $1.9 billion. When adjusted for the impact of foreign exchange, total revenue for 2010 was up 12.0 percent. Revenue was higher in all product segments with the highest growth achieved in other software (increased 15.8 percent).

On a year to date basis, Microsoft revenue growth was strong reflecting our clients' investments in Windows 7, Sharepoint 2010 and Exchange 2010. These investments typically affect desktop, server and storage requirements, providing an entry point for our technical architects and professional services personnel to design and implement the necessary infrastructure. We experienced robust demand in 2010 for servers, storage and networking and the technical expertise offered by our professional services team.

Canada

In Canada, revenue increased 26.7 percent in 2010, to $385.3 million (2009 – $304.1 million). Agency fees for EA licenses were up 11.8 percent over the previous year, from $9.9 million to $11.1 million. Hardware sales also experienced double digit growth this year, up approximately 18 percent over the prior year. Higher sales in servers, storage and networking, along with client computing, contributed to the growth.

United States

In the United States, revenue increased 10.8 percent in 2010 to $498.8 million from $450.0 million in 2009. Agency fees for EA licenses were up 6.5 percent from $32 million to $34 million year over year. Growth in revenue in the U.S. was most pronounced in hardware sales. Similar to the Canadian division, the U.S. experienced robust demand for server, storage and networking solutions, as well as client computing.

Gross Profit

Gross profit in 2010 was $164.6 million an increase of 15.7 percent from the previous year when gross profit of $142.3 million was achieved. Eliminating the impact of foreign currency, gross profit grew 11.7 percent over the previous year. Gross profit as a percentage of revenue declined slightly from 18.9 percent in 2009 to 18.6 percent in 2010.

Rebates in 2010 grew 71.7 percent compared to 2009. The growth in rebates is due to new programs introduced by certain vendors in 2010, and the fact that in 2009 certain target thresholds were not met. Marketing development funds earned in 2010 were also higher, increasing from the prior year by 22.4 percent. This increase reflects the Company's continued focus on optimizing the marketing development opportunities offered by our many partners.

Expenses

(In thousands of U.S. dollars)	Year ended December 31, 2010		2009		% Change
		% of gross profit		% of gross profit	
Salaries and benefits	$ 91,783	55.8%	$ 76,399	53.7%	20.1%
Selling, general and administrative	31,632	19.2%	30,796	21.7%	2.7%
	$ 123,415	75.0%	$ 107,195	75.4%	15.1%

Total salaries and benefits and selling, general and administrative expenses grew by 15.1 percent compared to the prior year, or 14.0 percent if the foreign exchange rate had held constant year over year. Expenses as a percentage of gross profit held steady at 75 percent.

Average headcount levels for the year increased by 1.5 percent, from 882 in 2009 to 896 in 2010. The increase in salaries and benefits reflects the increase in headcount, higher commission expense consistent with an increase in gross profit during the year, and higher incentive compensation associated with the long-term executive compensation plans.

EBITDA

EBITDA reflects the profits of the Company after salaries, SG&A expenses and any unusual items are deducted from gross profit. On an annual basis, EBIDTA grew 17.4 percent, from $35.1 million in 2009 to $41.2 million in 2010. A focus on cost containment around selling, general and administrative expenses, particularly in the latter part of 2010 contributed to this stronger EBITDA.

Other

Amortization of property and equipment declined by 3.8 percent in 2010 compared to the prior year as a result of fewer capital asset purchases made during the year compared to 2009. Amortization of intangible assets decreased by 16.5 percent. This decrease is resultant from the full amortization in the first quarter of this year, of the intangibles associated with the acquisition of the software division of Groupe 3-Soft Inc.

Interest and other expense was $3.9 million in 2010, consisting primarily of interest costs and amortization of deferred financing fees associated with the long-term debt. Interest and other expense decreased from the previous year by 22.2 percent, from $5.0 million, reflecting lower borrowing costs on our long term debt facility and lower outstanding long term debt throughout the current year.

The effective tax rate for 2010 was approximately 34 percent, which increased from the rate of 30 percent reported in the same period of the prior year. Despite lower effective tax rates in Canada and the United States in the current year, the consolidated effective tax rate increased this year due to higher overall revenue from the U.S. division which has a higher tax rate, and a lower benefit from unrealized foreign exchange gains in 2010 compared to the previous year.

Net income for the year was $20.2 million compared to $22.3 million reported in the same period of the prior year (including the foreign exchange impact in both periods). Earnings per share was $1.02 (basic and diluted), compared to $1.26 (basic and diluted) reported in the same period of the prior year. On an adjusted basis, annual earnings were $18.0 million compared to $12.7 million reported in 2009. Adjusted net earnings per share were $0.91 per share compared to $0.72 per share in the prior year.

Liquidity and Capital Resources

Management believes that the Company is able to generate sufficient amounts of cash through its normal course operations to settle its financial liabilities as they fall due, to maintain its current operations and to fund its planned growth and development activities. † The Company also has access to a revolving credit facility as described in the "Debt Financing" section below.

Operating Activities

Cash generated from operating activities was $10.5 million during the fourth quarter of 2010 compared to $6.6 million in cash used in operating activities for the same period of the prior year. The increase is primarily due to a larger net change in non-cash working capital items in 2009 reflecting a use of cash of $16.6 million, compared to a source of cash in the current quarter of $1.3 million.

Accounts receivable balances reflect days sales outstanding (DSO[1]) of 41 days as at December 31, 2010, and a DSO of 40 days at December 31, 2009. The increase in DSO is due to the extension of payment terms granted to various government and enterprise customers in the year. The Company continues to target DSO levels of 45 days.

Days payable outstanding (DPO[2]) increased from 53 days as at December 31, 2009 to 57 days as at December 31, 2010. We expect that DPO will decrease slightly from this level in the coming year.

The Company's DSO ratio is generally consistent with the prior year and better than our target levels, indicating that accounts receivable are being collected in a timely manner. Management monitors DSO and DPO levels against expected cash flow needs, as well as target levels.

Management believes that the Company will generate sufficient cash from operating activities and has sufficient available credit to finance working capital requirements and to meet obligations as they become due†.

Debt Financing

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

- An asset-backed loan (ABL) that can be drawn to the lesser of C$115.0 million and 85 percent of eligible accounts receivable. The ABL contains an optional facility in the amount of C$30 million that can be exercised at the Company's discretion and with the agreement of the term debt provider. The ABL currently incurs interest at prime plus two percent. The ABL has a term of three years. It was provided to Softchoice through a lending syndicate comprised of Bank of America (agent), Bank of Montreal and the Toronto Dominion Bank. This facility is secured by a continuing security interest in and lien against all assets.

- The second credit facility is a term debt loan which is subordinated to the ABL and was initially established in the amount of $20.5 million. This debt has a five-year term and quarterly payments of $1.0 million. Interest on this loan is determined based on certain financial ratios; the rate at December 31, 2010 was 16 percent per annum (2009 – 17.5 percent. The term debt loan was

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

[1] DSO is calculated based on gross billings for the year, rather than net sales. For further information refer to the Change in Accounting Policy section on page 2.

[2] DPO is calculated based on the total amount billed to us by our vendors. For further information refer to the Change in Accounting Policy section on page 2.

provided by HSBC (Canada) Inc. with 20 percent participation by Ontario Teachers' Pension Plan (OTPP). OTPP is a related party due to its share ownership in the Company. This loan can be repaid without penalty or termination fee after 36 months. The term debt is secured by a general security agreement over all assets of the Company.

Both loans have certain financial covenants as conditions for continued borrowing. A fixed-charge coverage ratio is required by both loans, and the term debt loan has two additional covenants, including a borrowing base to outstanding principal ratio and a leverage ratio covenant. The fixed-charge ratio is considered to be the most stringent covenant. The Company does not anticipate violating any of the current covenants over the term of the debt. †

On November 20, 2009, the Company entered into a bought-deal financing agreement. Proceeds of the offering were approximately C$17.4 million, and were used by the Company to repay its short-term indebtedness under the ABL and to reduce its dependence on this facility.

The table below shows the level of debt available to the Company and the amounts outstanding as at December 31, 2010. Including available cash, the net cash position at the end of the fourth quarter of 2010 was $23 million. Management believes 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.†

(In thousands of U.S. dollars)	December 31, 2010	
	Available	**Drawn**
Short-term debt		
ABL	$ 112,246	-
Term debt, current	4,104	4,104
	116,350	4,104
Term debt, long term	8,568	8,568
Total debt	$ 124,918	$ 12,672

Contractual Obligations

The following table provides details of the Company's contractual obligations over the next five years:

	2011	**2012**	**2013**	**2014**	**2015 and thereafter**	**Total**
Operating Lease	$ 6,989	$ 6,740	$ 6,344	$ 5,054	$ 4,780	$ 29,907
Long-term Debt	$ 4,104	$ 4,104	$ 4,104	$ 360	-	$ 12,672
Total	$ 11,093	$ 10,844	$ 10,448	$ 5,414	$ 4,780	$ 42,579

Cash Flow

In addition to the availability of credit, the Company generated cash of $17.2 million during the year compared to a $4.5 million increase in cash in 2009. Net cash generated from operating activities was $23.4 million for the year ended December 31, 2010. Net cash generated from operating activities included net income of $20.2 million plus adjustments of $9.4 million for non-cash expenses included in net income offset by $6.2 million of cash due to changes in our non-cash operating working capital.

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

Net cash used in financing activities was $4.7 million for the year ended December 31, 2010. Debt repayments of $4.8 million were slightly offset by proceeds from the issuance of common shares of $0.1 million.

Net cash used in investing activities was $2.5 million for the year ended December 31, 2010 consisting of the purchase of property and equipment of $1.4 million and intangible assets of $1.1 million.

Share Capital

As of March 2, 2011, 19,780,039 common shares of the Company were issued and outstanding. Options to acquire an aggregate of 48,750 common shares are outstanding under the Company's Employee Stock Option Plan. At the end of 2006, the Board of Directors terminated the 2003 Stock Option Plan so that options could no longer be issued under this plan. This termination was executed without prejudice to the options that were already outstanding under the existing plan. As of December 31, 2010, there were 139,202 deferred share units (DSUs) outstanding under the Company's deferred share unit plan for Directors, each of which represents the right to acquire one common share when the holder ceases to be a non-executive director of the Company.

On June 12, 2009, a one-time bridge Long-Term Incentive Plan (LTIP) for executives of the Company was approved; as at December 31, 2010, there were 152,000 phantom shares and 152,000 phantom options outstanding, both payable in cash.

On February 11, 2010, the Board of Directors adopted a 2010 Performance Stock Option ("PSO") plan for the executives of the Company, which was approved by the shareholders on May 11, 2010. The plan dictates that a minimum share price has to be achieved for any PSO level to vest. The PSO plan has a seven year expiry term and a three year vesting period, depending on share price attainment. Under the plan, the number of options that ultimately vest is subject to the Company attaining various market share price hurdles on the third anniversary of the grant date, as established by the Board of Directors for each grant.

Off-Balance Sheet Arrangements

As a general practice, the Company does not enter into off-balance sheet financing arrangements. Other than operating leases and letters of credit, all of our commitments are reflected on our balance sheet.

Transactions with Related Parties

As at December 31, 2010, included in trade accounts receivable was $410 thousand due from a major shareholder, Ontario Teachers' Pension Plan (OTPP), for product sales with payment terms of net 30 days (December 31, 2009 - $205 thousand). Total product sales to OTPP during the three-month and twelve-month periods ended December 31, 2010 were $377 thousand and $1.4 million (2009 - $254 thousand and $512 thousand). These related-party transactions are in the normal course of operations and were recorded at the exchange amount, which is the amount of consideration established and agreed between the related parties.

In the course of the refinancing that occurred in the first quarter of 2009, a portion of the long-term debt outstanding was purchased by OTPP. During the three-month and twelve-month periods ended December 31, 2010, OTPP received principal repayments of $205 thousand and $821 thousand (2009 - $205 thousand and $748 thousand) and interest payments of $110 thousand and $487 thousand (2009 - $157 thousand and $616 thousand). Refer to "Liquidity and Capital Resources".

Microsoft and Softchoice

Microsoft is the ubiquitous provider of infrastructure software worldwide. During the quarter, about 29 percent of the Company's revenue, or 50.8 percent of Total Revenue, including Imputed Revenue was derived from the sale of Microsoft products.

Software Licenses

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

Software Assurance

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

Enterprise Agreements

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

A customer may choose to change to a different reseller during the license period. This is known as a change in channel partner. Change in channel partners may impact the Company's renewals and scheduled billings from EAs.

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

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

Key Performance Measures

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

Revenue or Growth Indicators:

- Number of Customers

Productivity Indicators:

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

Number of Customers

During the fourth quarter of 2010, the number of customers purchasing from Softchoice decreased by 2.6 percent compared to the same period of the prior year. The decline in the number of purchasing customers, coupled with the increase in gross profit during the fourth quarter of 2010, has resulted in an increase in gross profit per customer of 17.4 percent.

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

	Three months ended December 31,	
	2010	**2009**
Small and Medium Business	47%*	45%*
Enterprise	40%*	38%*
Government and Education	13%*	17%*
Total	100%	100%

* Estimate

	Year ended December 31,	
	2010	**2009**
Small and Medium Business	43%*	44%*
Enterprise	35%*	36%*
Government and Education	22%*	20%*
Total	100%	100%

* Estimate

During the fourth quarter, the portion of sales attributed to the small and medium business segment and to the enterprise segment grew to 47 percent and 40 percent respectively, compared to the same quarter in 2009. For the year ended December 31, 2010, customer segmentation was relatively consistent with the prior year.

Gross Profit per Order

In Canada, the gross profit per order during the fourth quarter remained relatively consistent, increasing by one percent compared to the same period in the prior year.

In the United States, gross profit per order increased by 10 percent during the fourth quarter compared to the same period in the prior year. This increase is the result of an increase in margin percentage received on orders stemming from a change in the mix of products sold compared to the prior year.

Gross Profit per Employee and per Sales Employee

The tables below show the employee base of the Company for the three months and year ended December 31, 2010 compared to the same periods of the prior year.

(In thousands of U.S. dollars except headcount amounts)	***Three months ended December 31,*** 2010		2009		% Change	
	Sales	**Total**	**Sales**	**Total**	**Sales**	**Total**
Average headcount	441	918	433	877	1.8%	4.7%
Quarter-end headcount	441	917	433	874	1.8%	4.9%
Gross profit per person	$ 102.3	$ 49.2	$ 91.2	$ 45.2	12.2%	8.9%

(In thousands of U.S. dollars except headcount amounts)	***Year ended December 31,*** 2010		2009		% Change	
	Sales	**Total**	**Sales**	**Total**	**Sales**	**Total**
Average headcount	435	896	437	882	-0.5%	1.5%
Quarter-end headcount	441	917	433	874	1.8%	4.9%
Gross profit per person	$ 378.4	$ 183.8	$ 328.6	$ 162.8	15.2%	12.9%

During 2010 the average number of employees increased by 1.5% compared to the prior year.

During the three months ended December 31, 2010, gross profit per sales employee increased by 12.2 percent, primarily the result of improved productivity of the sales team reflecting our investments in pre-sales resources to drive our Solutions business. Gross profit per employee also increased by 8.9 percent compared to the same period of the prior year. This increase is primarily the result of a combination of the impact of the economic recovery that occurred this quarter, compared to the same quarter in 2009, and its effect on gross profit performance and our increasing Solutions business. We expect both productivity measures to show similar trends in future quarters. [†]

Critical Accounting Estimates

The Company's accounting policies are described in Note 1 of the annual consolidated financial statements. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. These estimates and assumptions are affected by management's application of accounting policies and historical experience and are believed by management to be reasonable under

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

the circumstances. Such estimates and assumptions are evaluated from time to time and form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ significantly from these estimates.

The Company’s critical accounting estimates are described below.

Gross versus Net Assessment

In determining whether the Company acts as a principal in a transaction, and recognizes revenue based on the gross amount billed to a customer, or as an agent, and reports the sales transaction on a net basis, requires that management exercise significant judgment when considering the facts and circumstances in that evaluation. Changes to the assumptions and judgments made by management could materially impact the amount of revenue recognized in a particular period.

Allowance for doubtful accounts

The Company maintains an allowance for doubtful accounts in 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. The Company evaluates the allowance for accounts receivables at both a specific account and collective level. All individually significant receivables are assessed for specific impairment. 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. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. In assessing specific and collective impairment of receivables the Company considers various factors including the aging of receivables, historical collection experience, timing of recoveries, and the amount of loss incurred. As part of the collectability assessment management makes certain assumptions about current economic and credit conditions as to whether actual losses are likely to be greater or less than suggested by historical trends. As a result, fluctuations in the aging of accounts receivable will directly impact the reported amount of bad debt expense.

Sales returns allowance

At the end of each period, the Company records an estimate for sales returns. The Company estimates the level of anticipated sales returns based on historical experience and makes appropriate reserves at the time the revenue is recognized. The historical estimate is reviewed throughout the year to ensure it reflects the most relevant data available.

Impairment of long-lived assets

The carrying value of property and equipment, and finite-lived intangible assets are reviewed whenever events or circumstances indicate that the asset might be impaired. An estimate of undiscounted future cash flows produced by the assets, or the appropriate grouping of assets, is compared with the carrying value to determine whether an impairment exists. If the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of the group of assets is less than its carrying amount, it is considered to be impaired. If impairment is determined to exist, a provision is recorded equal to the amount that the carrying value exceeds fair value.

Impairment of goodwill

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. The goodwill impairment analysis is comprised of two steps. In the first step, the Company compares the fair value of the reporting unit, to which goodwill has been assigned, to its carrying value, including goodwill. To determine fair value, management takes a discounted future cash flow approach that incorporates estimates and assumptions around discount rates, EBITDA, and expected growth rates. When the fair value of the reporting unit exceeds the carrying value of the net assets of the reporting unit, goodwill is not considered impaired and the Company is not required to perform further testing. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case, the implied fair value of the reporting unit’s goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of the reporting unit’s goodwill is determined as the residual amount that results after the fair value of the reporting unit is allocated to the tangible and identifiable intangible assets, less liabilities assumed, based on their fair values. The second step requires that management make certain estimates and assumptions around the fair value of tangible and intangible assets, as well as the tax basis of assets.

Stock-based compensation

The Company accounts for the performance stock option plan using the fair value method. This method requires that management make certain judgments and assumptions that, if changed, could result in a significantly different result.

Multiple-element arrangements

For arrangements involving multiple elements, the Company allocates revenue to each component of the arrangement using the relative selling price method based on vendor specific objective evidence or third-party evidence of selling price, and if both are not available, estimated selling prices are used. Management exercises judgment in determining whether vendor-specific objective evidence exists for any undelivered element in the arrangement and when determining whether an element has been delivered. Changes to the assumptions and judgments made by management could materially impact the amount of revenue recognized in a particular period.

Future income tax assets

Income taxes are calculated based on management’s best estimates and realized tax assets and liabilities may differ from the amounts provided for. The Company provides a valuation allowance for future tax assets when it is more likely than not that all, or a portion, of the future tax asset will not be realized. Accruals for income taxes are established for uncertain income tax positions based on management’s best estimate.

Financial Instruments

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

The Company is exposed to liquidity risk, credit risk, market risks and supplier risk, all of which could affect the Company’s ability to achieve its strategic objectives. The following describes these risks in greater detail.

Liquidity Risk

The Company manages liquidity risk through the management of its capital structure and financial leverage. Please refer to the “Liquidity and Capital Resources” section above.

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 only with 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 creditworthiness and to assess impairment of outstanding receivables. Approximately 22 percent of the Company's accounts receivable are past due (December 31, 2009 – 20 percent). The Company's allowance for doubtful accounts is $5.3 million (December 31, 2009 - $4.0 million). Any amounts not provided for are considered fully collectible.

Market Risk

Market risk is the risk that the value of the Company's financial instruments will fluctuate due to changes in foreign exchange rates and interest rates. The Company operates in both the United States and Canada. The parent company maintains its accounts in Canadian dollars while 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 affected by fluctuations in foreign exchange 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 translation and revaluation impact for the full year on net earnings would be, on average, an increase of $5,201. For every 200 basis points that the Canadian dollar depreciates, the translation and revaluation impact for the full year on net earnings would be, on average, a decrease of $5,369. The effect of the translation and revaluation of the intercompany and external debt held in U.S. dollars is expected to have minimal cash impact. [†]

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 new derivative financial instrument contracts during the year ended December 31, 2010. In addition, there were no outstanding derivative financial instruments as at December 31, 2010.

An increase or decrease in the prime rate of 0.25 percent would result in an increase or decrease of approximately $43 thousand of interest expense on the ABL and long-term debt. In the past, the Company has used an interest rate swap to mitigate the risk of fluctuating interest rates. The Company did not enter into any derivative financial instrument contracts during either 2009 or 2010. In addition, there were no outstanding derivative financial instruments as at December 31, 2010 or December 31, 2009.

Supplier Risk

The Company's top five suppliers in 2010 were Microsoft (a software publisher), Ingram Micro (a distributor), Techdata (a distributor), Synnex (a distributor) and Arrow Electronics Inc. (a distributor). They accounted for 80 percent of the Company's total purchases in 2010, with the largest portion purchased from Microsoft (29 percent), Ingram Micro (21 percent) and Techdata (18 percent). While brand names and individual products are important to the business, the Company believes that competitive sources of supply are available in substantially all the product categories such that, with the exception of Microsoft, the Company is not dependent on any single partner for sourcing products.

Recently Issued Accounting Pronouncements

(i) Business Combinations

In October 2008, the CICA issued Section 1582, Business Combinations ("Section 1582"), concurrently with Section 1601, Consolidated Financial Statements ("Section 1601"), and Section 1602, Non-controlling Interests ("Section 1602"). Section 1582 establishes standards for accounting for 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. Section

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

1601, which replaces Section 1600, carries forward the existing Canadian guidance on aspects of the preparation of consolidated financial statements subsequent to an acquisition other than non-controlling interests. Section 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination.

These new standards are effective for the Company's interim and annual consolidated financial statements commencing on January 1, 2011 with earlier adoption permitted as of the beginning of a fiscal year. The Company will assess the impact of the new standards on its consolidated financial statements when it completes a business combination.

(ii) International Financial Reporting Standards (IFRS)

In February 2008, Canada's Accounting Standards Board confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be fully converged with IFRS, as issued by the International Accounting Standards Board (lASB) for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Accordingly, Softchoice will report in accordance with IFRS for interim and annual periods commencing January 1, 2011, with comparative information for 2010 restated under IFRS.

The following section provides a summary of the IFRS 1, First-time Adoption of International Financial Reporting Standards, elections we expect to apply on transition to IFRS; describes the IFRS policies that will be adopted that are expected to differ significantly from the Company's current Canadian GAAP policies; and provides an update on the Company's IFRS changeover plan.

(a) IFRS 1 – First-time Adoption of IFRS

IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures. Generally, IFRS 1 requires that an entity apply all IFRS effective at the end of a Company's first IFRS reporting period retrospectively, with specific mandatory exceptions and a number of optional exemptions.

Management has assessed the exemptions from full retrospective application available under lFRS 1, and their potential impacts on the Company's financial position.

On adoption of IFRS, the significant optional exemptions being chosen by the Company relate to the following. The impact of these exemptions is discussed below.

Exemption	Application of Exemption
Business combinations	The Company has elected not to apply IFRS 3, Business Combinations retrospectively. Therefore, there is no requirement to restate any business combinations that occurred prior to the date of transition, January 1, 2010.
Net book value as deemed cost available for property, plant and equipment (IAS 16), and intangible assets (IAS 38)	The Company has elected to use historical cost accounting at transition to value its property and equipment, which is consistent with the Company's current accounting policy, instead of using fair value accounting. An entity that applies the book value as deemed cost at the IFRS transition date is not required to re-value these assets in subsequent periods.
Leases (IFRIC 4,	The Company has elected to assess arrangements that may contain a

"Determining whether an Arrangement Contains a Lease")	lease that are in existence at the date of transition, based on facts and circumstances in effect at the transition date. The Company did not identify any additional lease agreements that will need to be accounted for under IFRS in its evaluation.
Borrowing costs (IAS 23)	The Company has elected to apply the amendments in IAS 23 prospectively. This means that Softchoice is required to start capitalizing borrowing costs relating to all qualifying assets, effective prospectively on or after the date of transition.
Cumulative translation differences (IAS 21, "The Effects of Changes in Foreign Exchange Rates")	The Company has elected to reset all cumulative translation gains and losses to zero in opening retained earnings at January 1, 2010.
Share based payment transactions	The Company has elected not to apply the optional exemption in IFRS 1 that permits retrospective application, and therefore will apply IFRS 2 to awards that vest subsequent to the transition date.

(b) Key differences in accounting policies

The Company is in the process of evaluating the expected material differences between IFRS and the current accounting treatment under Canadian GAAP. Based on IFRS standards in effect as of December 31, 2010 and exposure drafts published by the International Accounting Standards Board (IASB), and the work performed to date, the key areas being assessed for their potential impact on the Company's consolidated financial statements are as follows:

Key Accounting Area	Differences with Potential Impact to the Company
Presentation of Financial Statements (IAS 1)	Opening balance sheet and subsequent to transition: • Additional disclosures required in the notes to the financial statements.
Property and Equipment (IAS 16)	IAS 16, *Property, Plant and Equipment* (IAS 16) requires an entity to identify the significant component parts of its items of PP&E and depreciate those parts over their respective useful lives. Canadian GAAP only requires componentization to the extent practicable. Opening balance sheet and subsequent to transition: • All significant components of furniture and fixtures, office equipment and computer hardware have been identified. • The Company's current asset categories and estimated useful lives under Canadian GAAP are reflective of the asset components and useful lives as determined under IFRS. • Useful lives and residual values will be reviewed at least annually • Management has not identified any significant differences

Impairment of Assets (IAS 36)	IAS 36 uses a one step process for impairment testing, which requires the estimated recoverable amount of the cash-generating unit (CGU) to be compared directly with the asset carrying values. The recoverable amount is the greater of fair value less cost to sell and the value in use (which is based on the present value of future cash flows). Canadian GAAP however uses a two- step approach to impairment testing, comparing the carrying amount of the asset group to the undiscounted cash flows to determine if impairment exists; and then measuring the impairment as the difference between the carrying value and the fair value. Additionally, under IFRS, a cash-generating unit is the smallest group of assets that generates cash inflows from continuing use that largely are independent of the cash inflows of other assets or groups. Under Canadian GAAP, an asset group is the lowest level for which there are identifiable cash flows that largely are independent of the cash flows of other groups of assets. IAS 36 also requires the reversal of any previous impairment losses where circumstances requiring the impairment charge have changed and reversed. Canadian GAAP does not permit the reversal of impairment losses in any circumstance. Opening balance sheet: • The Company performed an assessment on the recoverability of long-lived assets and goodwill on the transition date which did not result in any impairment losses. Subsequent to transition: • Grouping of assets to cash-generating units • Goodwill is allocated to and tested in conjunction with its related CGU or group of CGUs. • Recoverable amount will be the higher of fair value less cost to sell and the value in use. • Impairment loss will be recognized when a CGU's carrying amount exceeds its recoverable amount. • Impairment loss will be allocated first to goodwill and pro-rata to the remaining assets in the CGU. • Under certain circumstances, previous impairment taken (other than goodwill) is required to be reversed • The Company has determined individual CGUs on the basis of the lowest level at which separately independent cash inflows can be identified • No significant impact is expected.
Share-Based Payments (IFRS 2)	IFRS 2, Share Based Payments, requires that cash-settled stock-based payments to be measured at fair value by applying an option pricing model. Canadian GAAP requires that a liability is accrued and measured based on the intrinsic value of the awards with changes recognized in earnings each period. Opening balance sheet: • The Company has performed an assessment on the treatment of share-based payments under IFRS which did not result in any significant differences.

<table>
<tr><td></td><td>Subsequent to transition:
Cash settled share-based payment awards are recorded as liabilities and must be measured at fair value by applying an option pricing model. Under Canadian GAAP, the Company recorded a liability based on the intrinsic value of the award.
Forfeiture estimates will be recognized in the period they are estimated, and will be revised for actual forfeitures in subsequent periods, whereas, under Canadian GAAP application, forfeitures are recognized as they occur.
With respect to the graded vesting of an award, the Company will treat each installment as a separate arrangement.
The Company has determined the quarterly impact of IFRS on the specific cash settled share-based incentive plans which did not result in any significant differences.</td></tr>
<tr><td>Provisions and Contingencies (IAS 37)</td><td>Under IFRS, onerous contracts are recognized as provisions. An onerous contract is a contract where the unavoidable costs of meeting obligations exceed the benefits. A provision is recognized based on the net cost to exit the contract, that is, the lower of the cost of fulfilling the contract and any penalties arising from failure to complete it.

Opening balance sheet:
The Company has performed an assessment on the treatment of provisions and contingencies under IFRS which did not result in any significant differences.
Subsequent to transition:
Different threshold used for recognition of a contingent liability could have an impact on the timing of when a provision may be recorded.
Onerous contracts identified by the Company will be accrued as liabilities.
The Company has determined the quarterly impact of IFRS on provisions and contingencies which did not result in any significant differences.</td></tr>
<tr><td>Income Taxes (IAS 12) (subject to adoption at transition of a revised IAS 12 standard)</td><td>We are finalizing our determination of the deferred tax impact of each of the accounting changes. Per the requirements of IFRS 1, the deferred tax adjustment will be recorded in opening retained earnings upon transition to IFRS.

Opening balance sheet and subsequent to transition:
The Company has determined a preliminary opening balance sheet and quarterly financial statement impact of IFRS on income taxes which did not result in any significant differences.</td></tr>
</table>

The differences identified in this document should not be regarded as an exhaustive list and other changes may result from our conversion to IFRS. At this time, the comprehensive impact of the changeover on the Company's future financial position and results of operations is not expected to be significant.

The Company continues to monitor and assess the impact of evolving differences between Canadian GAAP and IFRS, since the IASB is expected to continue issuing new accounting standards during the transition period. As a result, the final impact of IFRS on the Company's consolidated financial statements can only be measured once all the applicable IFRS standards in effect at the conversion date are known.

(c) IFRS Changeover Plan

The conversion project consists of three phases:

1) Scoping and Diagnostic Phase
2) Design and Solutions Development Phase
3) Implementation and Post-Implementation Review Phase

Below is a summary of the key activities and status updates on the Company's IFRS changeover plan.

Key Activity	Status
1) Scoping and Diagnostic Phase	
• Develop initial project plan • Establish project structure including steering committee and extended teams • Train core project team	As part of the IFRS conversion project, the Company has established an implementation team, which includes a project manager, management from all relevant departments and a steering committee to oversee the project. Appropriate training has been provided to project team members. Quarterly progress updates are provided to the Audit Committee. The Company's external auditors are also consulted throughout the process.
• Detailed review and initial scoping of accounting differences between Canadian GAAP and IFRS • Preliminary evaluation of IFRS 1 exemptions for first-time IFRS adopters • High-level assessment of potential consequences for financial reporting, business processes, internal controls and information systems.	Detailed assessments have been completed for all key standards and significant policy changes. Initial assessments of impacts on business processes and systems were made and action plans are in place.
2) Design and Solutions Development Phase	
• Prioritize accounting treatment issues and prepare a conversion plan • Review and approve accounting policy choices • Quantify the impact of selected accounting policies made under conversion to IFRS	Completed detailed assessments and systematic analysis of IFRS standards and interpretations. Selections of significant IFRS accounting policy choices and IFRS 1 elections have been identified and quantifying impacts have been made and are currently ongoing.
• Creation of parallel IFRS ledgers for processing of 2010 comparatives	We have created a duplicate IFRS environment in our information systems to track all adjusting IFRS

	entries for our opening balance sheet and each quarter throughout the dual reporting period.
• Perform a detailed impact assessment to business processes • Identify conversion impacts on financial covenants, and contracts • Assess impact on budgeting and long-range plans	We are currently analyzing the financial covenant and contractual implications of the new policy choices on financing arrangements and similar obligations. The Company does not expect that significant modifications will be necessary. Budgeting and long-range planning considerations have included the changes in accounting policy choices and no significant modifications were deemed necessary.
• Design and develop changes to information systems • Design and develop changes to internal controls over financial reporting • Design and develop changes to disclosure controls and procedures	The effects on information systems, internal controls and disclosure controls are ongoing; however, the Company does not expect that significant modification will be necessary. Revision of process narratives and reassessment of Internal Controls over Financial Reporting and Disclosure Controls &Procedures design and effectiveness to be completed throughout Fiscal 2011.
3) Implementation and Post-Implementation Review Phase	
• Determine the opening IFRS transition balance sheet and required IFRS 1 disclosures • Preparation of the interim and annual consolidated financial statements associated disclosures, including 2010 comparatives in accordance with IAS 1 • Preparation of detailed reconciliations of Canadian GAAP to IFRS financial statements.	Preparation of the opening IFRS transition balance sheet, including the impact on retained earnings is near completion. Preparation of the draft consolidated financial statements and notes, including detailed reconciliations, are near completion. Processes to track additional disclosures under IFRS are ongoing.
• Conversion assessment, evaluating improvements for a sustainable operational IFRS model. • Test the internal controls environment.	To be performed in fiscal year 2012.

The Company's IFRS conversion project is progressing according to schedule. As the project advances, the Company could alter its intentions and the milestones communicated at the time of reporting as a result of changes to International standards currently in development or in light of new information or other external factors that could arise between now and when the changeover is completed.

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

The CEO and CFO are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICFR) as defined in National Instrument 52-109 - "*Certification of Disclosure in Issuers' Annual and Interim Filings*".

Management, under the supervision and with the participation of the CEO and CFO has evaluated the effectiveness of the Company's DC&P and ICFR as at December 31, 2010. Based on this evaluation, the CEO and CFO concluded that as at December 31, 2010 the design and operation of these internal controls and procedures was effective in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with Canadian GAAP based on the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting which occurred during the period October 1, 2010 to December 31, 2010 that have materially affected, or reasonably likely to materially affect, the Company's internal control over financial reporting.