TECSYS®

TECSYS Inc.
2nd Quarter
Fiscal 2009 Report

Prepared in Accordance with Canadian Generally Accepted Accounting Principles

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Dear Shareholder,

I am pleased to report our continued growth in both revenue and earnings during the second quarter of fiscal 2009, particularly in this business climate. The quarter's achievements included a good mix of contracts from our customer base as well as new accounts, and a significant number of successful deployments of our software at key customers in high-volume distribution and the healthcare industry. As a result, our recurring revenue streams and our backlog have improved. Allow me to go through some of the highlights of the quarter.

Financial highlights of the second quarter include:

- Revenue increased 9% to $10.7M in Q2, 2009 from $9.8M in Q2, 2008.
- Earnings from operations were $771K in Q2, 2009 compared to $970K in Q2, 2008.
- EBITDA increased 37% to $1,018K in Q2, 2009 compared to $741K in Q2, 2008.
- Net earnings increased to $644K or $0.05 per share in the second quarter of this fiscal year compared to $414K or $0.03 per share in the same period of last fiscal year.
- Annualized return-on-equity was equal to 16.5% in Q2 of this fiscal year compared to 10.9% in Q2 of last fiscal year.

Our cash position continues to be strong. During the quarter, we have generated $1.2 million in cash from operations, ending the quarter with cash and cash equivalents of $6.75 million with no significant long term debt.

From a business development perspective, we have signed a substantial number of agreements with existing customers and won seven new accounts during the quarter. As a result, our annualized recurring revenue improved to $13.1 million, and our backlog increased by $3.2 million to $20.1 million at the end of the second quarter of this fiscal year from $16.9 million at the end of the second quarter of last fiscal year. The new customers include:

- A major University in the State of Illinois
- Five industrial distributors and a third-party logistics provider in Canada

Our vertical market strategy continues to pay dividends. Our focus on healthy target markets that are well capitalized and are the right fit for our solutions enable us to replicate our products and services effectively, economically and profitably. This strategy has proven to be successful in several of our verticals, particularly in healthcare, the heavy equipment market and the gas and supplies industry sectors.

In our healthcare vertical, I am pleased to report the go-live of Mercy ROi (Resource Optimization & Innovation) on the latest release of our warehouse management system for healthcare. Mercy, an 18-hospital network based in Saint Louis, Missouri, has been a TECSYS customer since 2003. They are a supply chain innovator and a showcase for our distribution solutions for hospital supply networks. Mercy ROi has hosted visitors from 670 hospitals across the U.S. These organizations are seeking to learn about Mercy's supply chain operation which is primarily powered by TECSYS' software.

Also in healthcare, I would like to report the signing of a major license upgrade of our supply chain system for healthcare with one of the largest pharmaceutical distributors in North America and an existing customer of TECSYS. I am pleased with our continued progress in the healthcare industry sector.

During the quarter, we continued to improve our returns to our shareholders with two initiatives:

- Stock buyback: we purchased 264,000 shares for cancellation.
- Dividend program: paid out our second semi-annual $0.02/share dividend.

Moving forward, we remain optimistic about our business development initiatives in key verticals with our differentiated offerings while continuing to closely manage our spending in light of the changing landscape. We are all cognizant of a general slow down in the economy, and yet we continue to see prospective clients' willingness to invest in most of our verticals. While we continue to watch the economic situation closely, we remain optimistic about the opportunities.

Thank you for your ongoing support.

Sincerely,

Peter Brereton
President and CEO

TECSYS Inc.
Management's Discussion and Analysis of Financial Condition and Results of Operations dated November 25, 2008

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements of TECSYS Inc. ("Company") and Notes thereto, which are included in this document. This discussion and analysis should also be read in conjunction with the annual report for fiscal year 2008. The Company's second quarter for fiscal year 2009 ended on October 31, 2008. Additional information about the Company, including copies of the continuous disclosure materials such as the annual information form and the management proxy circular are available through the SEDAR website at http://www.sedar.com.

These interim unaudited consolidated financial statements have not been reviewed by the Company's auditors.

The Company's consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and all financial data derived therefrom in this interim report are expressed in Canadian dollars. The Company's functional currency is the Canadian dollar as substantially all of the Company's assets, operations and resources are located in Canada. The Company's reporting currency was the U.S. dollar up to April 30, 2008, however in the interest of promoting simplicity and transparency and to facilitate the understanding of the Company's operations and its financial statements, the Company is reporting in Canadian dollars beginning in fiscal 2009. Comparative historical figures have been restated using the current rate method to conform to the Canadian dollar financial statement presentation adopted in the current period. Under the current rate method, the statement of earnings and cash flow items for each period are translated into the reporting currency using the average exchange rates for the periods, and assets and liabilities are translated using the exchange rates in effect at the balance sheet date.

The restatement of the prior year's statement of earnings for fiscal 2008 in Canadian dollars is not very significant as the average exchange rate for fiscal 2008 was CA$1.0221 for every U.S. dollar. The table below presents a quarterly summary statement of earnings for fiscal 2008 in U.S. and Canadian dollars.

(in thousands of dollars, except per share data)
(Quarterly data are unaudited)

	US$					CDN$				
	Q1	Q2	Q3	Q4	2008	Q1	Q2	Q3	Q4	2008
Revenue	7,809	9,732	10,721	10,545	38,807	8,347	9,846	10,690	10,612	39,495
Cost of revenue	4,381	4,935	5,976	5,611	20,903	4,685	5,016	5,950	5,640	21,291
Gross margin	3,428	4,797	4,745	4,934	17,904	3,662	4,830	4,740	4,972	18,204
Operating expenses	3,287	3,804	3,921	3,420	14,432	3,514	3,860	3,898	3,436	14,708
Earnings from operations	141	993	824	1,514	3,472	148	970	842	1,536	3,496
Other	(59)	(566)	(117)	(840)	(1,582)	(71)	(556)	(119)	(846)	(1,592)
Earnings before income taxes	82	427	707	674	1,890	77	414	723	690	1,904
Provision for income taxes	-	-	-	635	635	-	-	-	641	641
Net earnings	82	427	707	39	1,255	77	414	723	49	1,263
Basic and diluted net earnings per common share	$ 0.01	$ 0.03	$ 0.05	$ 0.00	$ 0.09	$ 0.01	$ 0.03	$ 0.06	$ 0.00	$ 0.09

The effect of reporting in Canadian dollars on the prior year's April 30th 2008 balance sheet is not significant as the exchange rate at April 30, 2008 was CA$1.0095 for every U.S. dollar. As such, the Company's assets and liabilities are virtually the same whether expressed in Canadian or U.S. dollars. The shareholders' equity section expressed in Canadian dollars no longer requires the accumulated other comprehensive income account as it exclusively represented all the cumulative gains resulting from the translation of the Canadian dollar consolidated financial statements into U.S. dollars. Capital stock, contributed surplus, and retained earnings are presented at their historical Canadian dollar values on the Canadian dollar financial statements.

Quarterly Selected Financial Data

(Quarterly data are unaudited)
In thousands of Canadian dollars, except per share data

	2009		2008				2007	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Total Revenue	10,711	10,237	10,612	10,690	9,846	8,347	8,955	9,120
Net Earnings (Loss)	644	274	49	723	414	77	(156)	511
Basic & Diluted Net Earnings (Loss) per Common Share	0.05	0.02	-	0.06	0.03	0.01	(0.01)	0.04

Results of Operations

Three and six months ended October 31, 2008 compared to three and six months ended October 31, 2007

Revenue

Total revenue for the second quarter ended October 31, 2008 increased by $865,000 or 9% to $10.7 million compared to $9.8 million for the same period of fiscal 2008. Similarly, total revenue for the first six months of the current fiscal year increased $2.8 million or 15% to $20.9 million compared to $18.2 million in the first half of fiscal 2008.

Streamline, the Company's latest acquisition since November 30, 2007, accounted for $620,000 of the increase in the second quarter and $1.1 million for the first half of fiscal 2009.

Products revenue remained relatively flat in the second quarter at $4.5 million as a $422,000 decrease in the sale of proprietary products was offset by higher third-party product revenues of $389,000. Excluding Streamline, proprietary products revenue decreased $610,000 or 28% in the second quarter compared to the same period last year. In fiscal 2008, significant license revenues were recognized in the second quarter due to the signing of a new significant account.

Product revenue for the first half increased by $1.5 million or $20% to $9.0 million compared to $7.4 million for the first half of the previous year primarily due the increase of third-party products of $1.7 million. Streamline accounted for $352,000 of the increased product revenue. The increase of third-party products revenue is mainly due to higher volumes of radio frequency equipment and IBM servers on a few large orders from base accounts. Proprietary software products decreased $208,000 or 6% in the first six months due to lower license revenues as explained above.

Services increased by $835,000 or 17% to $5.9 million in the second quarter of fiscal 2009 compared to $5.1 million for the same period in the previous fiscal year. The Streamline acquisition accounted for $381,000 of the increase. Services revenue for the first half of fiscal 2009 increased $1.2 million or 11% to $11.4 million including a contribution from Streamline for $683,000. Excluding Streamline, services revenue has increased 5% in the first half of the current year. The increase in revenue is attributable to increased activity for custom enhancements and support in the first two quarters of the current year.

As a percentage of total revenue, products accounted for 42% and services for 55% in the second quarter of fiscal 2009 compared to 46% and 51%, respectively, in the second quarter of fiscal 2008.

As a percentage of total revenue, products accounted for 43% and services for 55% in the first half of fiscal 2009 compared to 41% and 56%, respectively, in the first half of fiscal 2008.

Cost of Revenue

Total cost of revenue increased by 22% or $1.1 million to $6.1 million in the second quarter of fiscal 2009 compared to $5.0 million for the same three-month period in fiscal 2008. Streamline accounted for $393,000 of the increase. Excluding Streamline, the increase is mainly due to increase of third-party product costs for $352,000 related to the increase of third-party product revenues mentioned earlier and to the increase in services cost for $245,000.

Total cost of revenue increased by 27% or $2.6 million to $12.3 million in the first half of fiscal 2009 compared to $9.7 million for the same six-month period in fiscal 2008. Streamline accounted for $829,000 of the increase. The increase is mainly due to the increase of third-party product costs for $1.5 million related to the increase of $1.7 million of third-party product revenues mentioned earlier and increases in services cost for $312,000. Excluding Streamline, the services costs increase is primarily as a result of the higher employee-related costs due to a higher headcount of 12. The cost of services includes tax credits of $327,000 for the first half of fiscal 2009 compared to $267,000 for the same period in the previous fiscal year ($211,000 – Q2 FY2009 compared to $138,000 – Q2 FY2008). The increase in tax credits relates to the new e-business tax credits introduced by the Quebec government in March 2008.

Gross Margin

The gross margin decreased by $220,000 or 5% to $4.6 million for the second quarter of fiscal 2009 in comparison to $4.8 million for the same period last year. Total gross margin percentage in the second quarter of fiscal 2009 was 43% compared to 49% in the same period of fiscal 2008. The decrease in the gross margin is attributable to lower proprietary license revenues of $422,000. Although, the third-party product margins have decreased to 25% for the second quarter of fiscal 2009 compared to 29% for the same period last year, the overall contribution margin has been maintained relatively flat through higher sales volumes. Lower margin on third party products is due to competitive price pressures. Services margin during the second quarter of fiscal 2009 has decreased to 36% compared to 39% for the same period of fiscal 2008. The decrease in services margin is primarily due to the addition of Streamline, where margin was considerably lower.

The gross margin increased by $138,000 or 2% to $8.6 million for the first half of fiscal 2009 compared to $8.5 million for the same period last year. The gross margin percentage is 41% for the first half of the current fiscal year compared to 47% for the same period last year. The margin was affected by lower proprietary licenses of $208,000, lower third-party products margin of 24% compared to 27%, and lower services margin percentages of 35% from 38% in comparing the first six month of the current year to same period last year. The services margin decrease is largely attributable to the addition of Streamline and the ramping up of services headcount.

Streamline contributed $229,000 of the gross margin discussed above in the first half of fiscal 2009. The overall gross margin percentage for Streamline is 22% of revenues.

Operating Expenses

Total operating expenses for the second quarter decreased slightly by $21,000 to $3.8 million in comparison to the same three-month period last year although the addition of Streamline did represent $358,000 in additional expenses.

Excluding Streamline, the most notable differences between the second quarter of fiscal 2009 in comparison with the same period in fiscal 2008 are as follows.

- Sales and marketing expenses decreased by $127,000 in the second quarter of fiscal 2009. The decrease is primarily attributable to lower variable selling expenses of $114,000.
- R&D tax credits are higher by $40,000 amounting to $152,000 in the second quarter of fiscal 2009 primarily as a result of the introduction of the e-business tax credit mentioned above.
- Capitalized deferred development costs are higher by $191,000 amounting to $249,000 in the second quarter of fiscal 2009 in comparison with the same period of the previous year. As the Company anticipates accelerating the migration of its existing product onto a Java platform during fiscal 2009, the capitalization of deferred development costs will continue to outpace fiscal 2008.

Total operating expenses for the first half increased by $219,000 or 3% to $7.6 million in comparison to $7.4 million for the same six-month period last year. The acquisition of Streamline accounted for the addition of $644,000, otherwise expenses decreased by $425,000 or 6% in comparison to the same six-month period of the previous fiscal year.

Excluding Streamline, the most notable differences between the first half of fiscal 2009 in comparison with the same period in fiscal 2008 are as follows.

- General and administration expenses have decreased $119,000 or 7% to $1.6 million from $1.7 million for the same six-month period last year as a result of lower professional fees and capital taxes.
- R&D tax credits are higher by $73,000 or 34% amounting to $289,000 in comparison to $216,000 for the first half of fiscal 2008 as a result of the e-business tax credits mentioned above.

- Capitalized deferred development costs are higher by $226,000 amounting to $381,000 in the first half of fiscal 2009 in comparison with the same period of the previous year. As the Company anticipates accelerating the migration of its existing product onto a Java platform during fiscal 2009, the capitalization of deferred development costs will continue to outpace fiscal 2008.

Earnings from Operations

Earnings from operations decreased by $199,000 to $771,000 representing 7% of revenues in the second quarter of fiscal 2009 in comparison to $970,000 representing 10% of revenues for the second quarter of the previous year.

For the first half of fiscal 2009, earnings from operations decreased $81,000 to $1.0 million representing 5% of revenue compared to $1.1 million representing 6% for the same six-month period last year.

Other Income and Expenses

In the second quarter of fiscal 2009, the Company incurred a net interest expense of $12,000 compared to a net income of $24,000 for the comparable period last year. The decrease is primarily attributable to the asset-backed commercial paper (ABCP) for which the Company has stopped accruing interest since the liquidity disruption in the ABCP market in August 2007. The Company also had an exchange loss of $89,000 during the same period compared to $333,000 for the same period of the prior fiscal year ($77,000 loss for the first half of fiscal 2009 compared to $476,000 loss for the corresponding period of fiscal 2008). The improved result of the current year's position is due to the Company's more comprehensive policy to fully protect its U.S. net monetary assets from currency fluctuation by undertaking foreign exchange contracts to sell U.S. dollars forward for amounts covering its net U.S. monetary asset position and coinciding with its anticipated U.S. dollar cash flows. During the second quarter of fiscal 2008, the Company had protected only a portion of its U.S. net monetary asset position and as a result of the weakening U.S. dollar recorded exchange losses.

On October 31, 2008, the Company held outstanding foreign exchange contracts with various maturities to July 31, 2009 to sell US$5,600,000 for Canadian dollars at rates averaging CA$1.0256 to yield CA$5,743,000. The Company recorded unrealized exchange losses of $1.1 million related to these contracts for the period ended October 31, 2008. Subsequent to the current quarter, the Company undertook two additional forward exchange contracts to sell a total of US$800,000 forward at a weighted average rate of CA$1.1823 at various settlement dates ending on October 30, 2009.

Interest income has decreased by $69,000 or 64% amounting to $38,000 in the first half of fiscal 2009 in comparison to $107,000 for the corresponding period of last year. The decrease is primarily attributable to the asset-backed commercial paper (ABCP) for which the Company has stopped accruing interest since the liquidity disruption in the ABCP market in August 2007.

The interest expense has increased to $55,000 in the first half of fiscal 2009 in comparison to $4,000 for the corresponding period in fiscal 2008. The interest expense increase is attributable to the revolving credit facility secured in September 2007 to compensate for the Company's inability to access the liquidity in its ABCP holdings, and to the interest related to the balance payable for the Streamline acquisition.

In the second quarter and the six-month period ending October 31, 2007 of fiscal 2008, due to the liquidity disruption in the third-party asset-backed commercial paper (ABCP) market, the Company recorded a $250,000 write-down in the fair value of the ABCP. Please refer to note 6 of the consolidated financial statements in the 2008 annual report and note 6 to these financial statements for a detailed discussion of this matter.

In reference to the three and six-month periods ending October 31, 2008, and after taking into consideration the changes in the credit market, the additional accrued interest on the ABCP, the appreciation of the face value of the U.S. denominated ABCP, during the three and six-month periods ended October 31, 2008, the Company concluded that there was not enough of a material change in the fair value to warrant a change in the valuation of the ABCP. Hence, no adjustments to the carrying value were recorded during the three and six-month periods ending October 31, 2008.

Net Earnings

The Company recorded net earnings of $644,000 or $0.05 per share in the second quarter of fiscal 2009 compared to net earnings of $414,000 or $0.03 per share for the same period last year.

Similarly, for the first half of fiscal 2009, net earnings amounted to $918,000 or $0.07 per share in comparison to $491,000 or $0.04 per share for the same period last year.

Liquidity and Capital Resources

On October 31, 2008, current assets totaled $20.5 million compared to $17.9 million at the end of fiscal 2008. Cash, restricted cash equivalents, short-term and other investments, and asset-backed commercial paper less the bank advances increased to $6.8 million compared to $6.4 million as at April 30, 2008. Accounts receivable and work in progress totaled $11.5 million on October 31, 2008 compared to $9.7 million as at April 30, 2008. The Company's DSO (days sales outstanding) increased to 97 days at the end the second quarter of fiscal 2009 in comparison to 82 days at the end of fiscal 2008 and 77 days at the end of the second quarter of fiscal 2008. The increase in DSO was mainly due to longer term payments on new contracts, the upward revaluation of US dollar denominated receivables due to a dramatically stronger US dollar at the end of October 2008 in comparison to the end of April 2008, and to the increase of deferred revenues.

Current liabilities on October 31, 2008 totaled $16.7 million compared to $14.6 million at the end of fiscal 2008. Working capital increased to $3.8 million at the end of October 2008 in comparison to $3.3 million at the end of fiscal year 2008.

During the second quarter of fiscal 2009, operating activities generated funds of $1.2 million compared to $1.3 million for the same period last year. Operating activities in the second quarter of fiscal 2009 excluding non-cash working capital items generated $1.7 million and net non-cash working capital used funds of $515,000 primarily to finance increases in accounts receivable. During the second quarter of fiscal 2008, operating activities excluding non-cash working capital items generated $730,000 and net non-cash working capital generated additional funds of $579,000 mainly due to increases of accounts payable and accrued liabilities and deferred revenues.

During the first half of fiscal 2009, operating activities generated funds of $1.2 million compared to $1.3 million for the same period last year. Operating activities in the first half of fiscal 2009 excluding non-cash working capital items generated $2.4 million and net non-cash working capital used funds of $1.1 million primarily to finance increases in accounts receivable, work in progress, and accrued tax credits, and offset partially by increases in accounts payable and accrued liabilities and deferred revenues. During the first half of fiscal 2008, operating activities excluding non-cash working capital items generated $1.1 million, and net non-cash working capital generated additional funds of $202,000 mainly due to increases of accounts payable and accrued liabilities and deferred revenues, and offset partially by increases in accounts receivable and tax credits.

The Company believes that funds on hand at October 31, 2008, together with short term investments and cash flow from operations, and access to the revolving line of credit and the anticipated renewal thereof, will be sufficient to meet its needs for working capital, R&D, capital expenditures and debt repayment for at least the next twelve months.

Financing activities used funds of $662,000 for the second quarter of fiscal 2009 and generated $1.4 million for the same three-month period in fiscal 2008. During the second quarter of fiscal 2009, the Company purchased 264,200 of its outstanding common shares for cancellation at an average price of $1.38 per share under a Normal Course Issuer Bid (NCIB). The total cost related to the purchasing of these shares for the second quarter of fiscal 2008, including other related costs, was $366,000. During the second quarter of the current fiscal year the Company disbursed $255,000 related to the payment of the dividend of $0.02 per share to the shareholders of record at the close of business of September 23, 2008. Lastly, during the second quarter of fiscal 2009, the Company incurred expenditures for $41,000 related to the Streamline acquisition that is being claimed against the outstanding debt owing to former Streamline shareholders. During the second quarter of fiscal 2008, the Company purchased 395,300 shares at an average price of $1.40 per share. The total cost related to the purchasing of these shares, including related costs, was $562,000. During this same period, the Company drew $2.0 million on its new credit facility secured by a first-ranking hypothec of $4.8 million on the third-party ABCP held with the bank to generate cash.

Financing activities used funds of $665,000 for the first half of fiscal 2009 and generated $1.4 million for the same six-month period in fiscal 2008. During the first half of fiscal 2009, the Company purchased 270,300 of its outstanding common shares for cancellation at an average price of $1.38 per share under a Normal Course Issuer Bid (NCIB). The total cost related to the purchasing of these shares, including other related costs, was $376,000. As per note 2 to the consolidated financial statements, the Company may purchase common shares under the NCIB, if it considers it advisable, at any time, and from time to time, to July 20, 2009. During this same period, the Company disbursed $255,000 related to the payment of the dividend and incurred expenditures for $41,000 related to Streamline acquisition that is being claimed against the outstanding debt owing to former Streamline shareholders. During the first half of fiscal 2009, 12,500 options were exercised generating $20,000.

During the first half of fiscal 2008, the Company purchased 401,200 shares at an average price of $1.40 per share. The total cost related to the purchasing of these shares, including related costs, was $571,000. The Company drew $2.0 million on its new credit facility secured by the ABCP and 3,000 options were exercised generating an additional $4,000.

During the second quarter of fiscal 2009, investing activities used funds amounting to $24,000 in comparison to $4.5 million for the comparable period of fiscal 2008. In the second quarter of fiscal 2008, the Company used funds of $4.4 million to increase its short term investments. Net funds of $36,000 and $134,000 were used for the second quarter of fiscal 2009 and 2008 respectively for the acquisition of property, and equipment, and computer software for internal use.

During the first half of fiscal 2009, investing activities used funds of $275,000 primarily for the acquisition of property and equipment and software for internal use for $276,000 compared to $242,000 for the same period last year. During this same period, the Company used funds of $23,000 for increasing its investments classified as restricted cash equivalents and other investments in comparison to using funds for $2.4 million for the same period last year to increase short-term investments. Lastly, during the first half of the current fiscal year, the Company collected $24,000 on previously advanced loans to TECSYS Latin America (TLA), whereas in the first half of fiscal 2008, the Company had advanced an additional loan and collected payments related to previous loans for a net disbursement of $34,000.

Change in Accounting Policies

2009 Accounting Changes

Effective with the commencement of its 2009 fiscal year beginning May 1, 2008, the Company adopted the new CICA accounting standards presented hereunder.

Capital disclosures

In December 2006, the CICA issued Section 1535, Capital Disclosures. This section established standards for disclosing information about an entity's capital and how it is managed. The purpose is to enable users of the financial statements to evaluate the entity's objectives, policies and processes for managing capital. These new standards relate to disclosure only and do not impact the financial results (see note 3).

Financial instruments – disclosure and presentation

In December 2006, the CICA issued Section 3862, Financial Instruments – Disclosure, and Section 3863, Financial Instruments – Presentation. These sections replace existing Section 3861, Financial Instruments – Disclosure and Presentation. Disclosure standards are enhanced and expanded to complement the changes in accounting policy adopted in accordance with Section 3855, Financial Instruments – Recognition and Measurement. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks. These new standards relate to disclosure and presentation only and do not impact the financial results (see notes 5 and 6).

Inventories

In June 2007, the CICA issued Section 3031, Inventories, which replaces Section 3030 and harmonizes the Canadian standards related to inventories with International Financial Reporting Standards (IFRS). This section provides changes to the measurement and more extensive guidance on the determination of cost, including allocation of overhead; narrows the permitted cost formulas; requires impairment testing; and expands the disclosure requirements to increase transparency. The Company has determined that the impact of adopting these standards is immaterial on its consolidated financial statements.

Future Accounting Changes

Goodwill and intangible assets

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets, which will replace Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. The standards provide guidance on the recognition, measurement, presentation and disclosure of intangible assets and goodwill in accordance with the definition of an asset and the criteria for asset recognition as well as clarifying the application of the concept of matching revenues and expenses, whether these assets are separately acquired or internally developed. These new standards are applicable for fiscal years beginning on or after October 1, 2008. The Company will adopt these standards effective May 1, 2009 and has not yet assessed the impact of their adoption.

International Financial Reporting Standards

In 2005, the Accounting Standards Board of Canada (AcSB) announced that accounting standards in Canada are to converge with IFRS. In May 2007, the CICA published an updated version of its "Implementation Plan for Incorporating International Financial Reporting Standards into Canadian GAAP". This plan includes an outline of the key decisions that the CICA will need to make as it implements the Strategic Plan for publicly accountable enterprises that will converge Canadian generally accepted accounting standards with IFRS. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences in accounting policy which must be addressed. The CICA has confirmed the changeover date from current Canadian GAAP to IFRS to be January 1, 2011. The Company is currently assessing the future impact of these new standards on its consolidated financial statements.

Critical Accounting Policies

The Company's critical accounting policies are those that it believes are the most important in determining its financial condition and results. A summary of the Company's significant accounting policies, including the critical accounting policies discussed below, is set out in the notes to the consolidated financial statements in the annual report for the year ended April 30, 2008.

Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Significant areas requiring the use of management estimates include the fair value of asset-backed commercial paper, revenue recognition relating to multiple element arrangements, determining the percentage-of-completion of projects for purposes of revenue recognition, establishing the fair value of assets and liabilities, intangible assets, and goodwill related to business combinations, determining estimates and assumptions related to impairment tests for all long-lived assets and goodwill, estimating stock-based compensation, assessing the recoverability of research and development and multimedia tax credits, establishing provisions related to doubtful accounts, and future income taxes. Consequently, actual results could differ from those estimates.

As the Company's software implementation period may typically span from six to twelve months, a significant area requiring judgement and estimation is revenue recognition relating to multiple element arrangements, where the resulting revenue recognition per element and the related timing must be assessed in relation to contract terms, Statement of Position ("SOP") 97-2 criteria, future services, and other criteria as discussed later. The estimates and assumptions are based on past experience and other factors that the Company considers reasonable. As this involves varying degrees of judgement and uncertainty, actual results could differ from those estimates.

Based on a structured methodology, portions of the purchase price paid in business acquisitions have been assigned to intangible assets acquired, consisting of customer relationships, acquired technology, in-process research and development, reseller agreement and vendor non-solicitation engagements. Determination of the fair values assigned to each of these acquired intangible assets has required management estimates of revenue growth, gross margins, retention of customer base, technology obsolescence, operating expenses, capital requirements and expected future cash flows. Fair values attributed to the intangible assets acquired in each business acquisition were determined based on the specific circumstances of each acquisition together with management's outlook based on past performance, the business plan, and as incorporated in initial operating and capital budgets. The acquired intangible assets are being amortized on a straight-line basis over five years based on the current estimates of technological obsolescence and a projected annual attrition of the existing customer base. The carrying values of the intangible assets acquired in business acquisitions are reviewed annually for impairment as described below.

The Company assesses the carrying value of its long-lived assets, which include property and equipment and definite-life intangible assets, for future recoverability when events or changed circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognized if the carrying value of a long-lived asset exceeds the sum of the estimated undiscounted future cash flows expected from its use. The amount of impairment loss, if any, is determined as the excess of the carrying value of the assets over their fair value. The long-lived assets impairment test entails the use of a number of management estimates including but not limited to revenue growth, gross margins, operating expenses, capital requirements, and future cash flows. The estimates involve varying degrees of judgement and uncertainty. Actual results will differ from those estimates.

Goodwill represents the excess of the purchase price of businesses acquired over the fair value of the underlying net identifiable assets acquired or liabilities assumed. Goodwill is evaluated for impairment annually, or when events or changed circumstances indicate that an impairment may have occurred. In connection with the goodwill impairment test, if the carrying value of the Company's reporting unit to which goodwill relates exceeds its estimated fair value, an impairment loss is recognized in the amount of the excess of the carrying value over the fair value. The goodwill impairment test entails the use of a number of management estimates including but not limited to revenue growth, gross margins, retention of customer base, technology obsolescence, operating expenses, capital requirements and future cash flows. The estimates involve varying degrees of judgement and uncertainty. Actual results will differ from those estimates.

The Company maintains an allowance for doubtful accounts at an amount estimated to be sufficient to provide adequate protection against losses resulting from collecting less than full payment on its receivables. Individual overdue accounts are reviewed and allowance adjustments are recorded when determined necessary to state receivables at the realizable value. If the financial condition of customers deteriorates resulting in their diminished ability or willingness to make payment, additional provisions for doubtful accounts are recorded. Considerable judgement is required to assess the realizable value of the receivables including the probability of collection and the current creditworthiness of each customer. As this involves varying degrees of judgement and uncertainty, actual results could differ from those estimates.

The Company accrues refundable investment tax credit benefits related to qualifying activities, including research and development projects. Considerable judgement is required to assess the various criteria of whether activities qualify. As these activities are audited periodically by the taxation authorities, the actual results attributable to a fiscal period may differ from the accounting estimates posted.

Stock-based compensation costs are accounted for using the fair value based method of accounting for stock options and warrants granted to employees and directors. Under the fair value based method, compensation cost is measured at fair value at the date of grant and is expensed over the award's vesting period with a corresponding credit to contributed surplus. Upon the exercise of the options, any consideration received from plan participants is credited to capital stock and the stock-based compensation cost originally credited to contributed surplus is reclassified to capital stock. Any stock-based compensation costs related to awards to individuals other than employees and directors are accounted for at fair value. Cancellations are accounted for as they occur, with any previously recognized compensation cost related to unvested options being reversed in the period of cancellation. The Company uses the Black-Scholes options pricing model to calculate stock option values, which requires certain assumptions, including the future stock price volatility and expected time to exercise. Changes to any of these assumptions, or the use of a different option pricing model, could produce different fair values for stock-based compensation, which could have a material impact on the Company's earnings.

Income taxes are accounted for under the asset and liability method. Future tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Future tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Management provides valuation allowances against the future tax asset for amounts which are not considered "more likely than not" to be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The Company has determined that a 100% tax valuation allowance is necessary at April 30, 2008 and October 31, 2008. In the event the Company was to determine that it would be able to realize its tax asset, an adjustment to the tax asset would increase income in the period in which such determination is made.

Revenue Recognition

The Company licenses software under non-cancellable license agreements and provides services including training, installation, consulting and maintenance, consisting of product support services and periodic updates. Software licenses sold by the Company are generally perpetual in nature. The Company recognizes revenue in accordance with the guidance set out in Statement of Position ("SOP") 97-2, "Software Revenue Recognition". Revenues generated by the Company include the following:

- **License Fees**

  Revenue from perpetual licenses sold separately are recognized when a non-cancellable license agreement has been signed, the software product has been delivered, there are no uncertainties surrounding product acceptance, the fees are fixed or determinable, and collection is considered probable.

Fees from multiple element arrangements are allocated to the various elements based on vendor-specific objective evidence of fair value provided that services, if any, are not essential to the functionality of the software. Revenue from perpetual licenses sold under multiple element arrangements are recognized upon shipment of the software product, provided that all of the above criteria have been met and subject to the following.

Certain of the Company's license agreements require the customer to renew its annual support agreement in order to maintain its right to continue to use the software. In such cases, the perpetual license is effectively transformed into a renewable annual license. An up-front license fee representing a significant and incremental premium over subsequent year renewal fees is deferred and recognized as revenue over the period in which support is expected to be provided, which is generally considered to be the estimated useful life of the software license. Where an up-front fee is not considered to represent a significant and incremental premium over subsequent year renewal fees, the license fee is recognized ratably over the initial contractual support period, which is generally one year.

Where services are considered to be essential to the functionality of the software, fees from licenses and services are aggregated and recognized as revenue as the related services are performed using the percentage-of-completion method. The percentage of completion is generally determined based on the number of hours incurred to date in relation to the total expected hours of services. The cumulative impact of any revision in estimates of the percentage completed is reflected in the period in which the changes become known. Losses on such contracts in progress are recognized when known. Work in progress is established for revenue based on the percentage completed in excess of progress billings as of the balance sheet date. Any excess of progress billings over revenue based on the percentage completed is deferred and included in deferred revenue. Generally, the terms of long-term contracts provide for progress billings based on completion of certain phases of work. Where acceptance criteria are tied to specific milestones, the percentage of completion up to that milestone is recognized upon acceptance.

- **Support Agreements**

  Support agreements generally call for the Company to provide technical support and unspecified software updates to customers. Proprietary licenses support revenues for technical support and unspecified software update rights are recognized ratably over the term of the support agreement. Third-party support revenues and the related costs are generally recognized upon delivery of the third-party products as the Company's direct customer support for these products is generally limited to interface issues between the Company's proprietary products and the third-party products. Customer support for technical issues related to the third-party products is referred to the third-party supplier for resolution.

- **Consulting and Education Services**

  The Company provides consulting and education services to its customers. Revenues from such services are recognized as the services are performed.

Controls and Procedures

The purpose of internal controls over financial reporting is to provide reasonable assurance of the reliability of the Company's financial reporting and of the preparation of its financial statements in accordance with GAAP.

No changes to internal controls over financial reporting have come to management's attention during the three and six months ended October 31, 2008 that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

Related Party Transactions

The company has a subordinated loan for $107,000 from a person related to certain shareholders, bearing interest at 12.67%. The loan is payable on the earlier of demand or on the death of the lender. The same amount was outstanding as at October 31, 2008 and October 31, 2007.

Pursuant to the equity investments in TECSYS Latin America Inc (TLA), as described in note 9 of the 2008 annual report, the Company has committed to advance funds to TLA for an aggregate amount of US$250,000. During 2007 and 2008, the Company provided four loans of US$50,000 each at various dates amounting to US$200,000. These amounts are repayable over four years commencing six months following each advance. The loans bear interest at 5% per annum. The loans outstanding at October 31, 2008 amount to US$131,000. The short-term portion of the loan receivable is included in other accounts receivable.

Outstanding Share Data

On November 25, 2008, the Company has 12,715,084 common shares outstanding as an additional 30,800 shares have been purchased for cancellation under the Normal Course Issuer Bid since the end of the Company's second quarter.

Similarly, on November 25, 2008, outstanding stock options to purchase common shares number 898,390 as the Company has not granted any additional options since the end of the second quarter and no options have either been cancelled or have expired unexercised. Warrants to purchase common shares number 15,000.

Forward-Looking Information

This management's discussion and analysis contains "forward-looking information" within the meaning of applicable securities legislation. Although the forward-looking information is based on what the Company believes are reasonable assumptions, current expectations, and estimates, investors are cautioned from placing undue reliance on this information since actual results may vary from the forward-looking information. Forward-looking information may be identified by the use of forward-looking terminology such as "believe", "intend", "may", "will", "expect", "estimate", "anticipate", "continue" or similar terms, variations of those terms or the negative of those terms, and the use of the conditional tense as well as similar expressions.

Such forward-looking information that is not historical fact, including statements based on management's belief and assumptions cannot be considered as guarantees of future performance. They are subject to a number of risks and uncertainties, including but not limited to future economic conditions, the markets that the Company serves, the actions of competitors, major new technological trends, and other factors, many of which are beyond the Company's control, that could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking information. The Company undertakes no obligation to update publicly any forward-looking information whether as a result of new information, future events or otherwise other than as required by applicable legislation.