

Constellation Software Inc. Announces Results for Second Quarter and First Six Months of 2006

TORONTO, ONTARIO (Aug 9, 2006) -- Constellation Software Inc. (TSX:CSU) (“Constellation” or the “Company”) today announced its unaudited second quarter and six month financial results for the periods ended June 30, 2006.

Second quarter revenue was \$52.2 million, an increase of 28% compared to \$40.7 million reported in the same period last year. Second quarter revenue per share on a fully diluted basis increased 23% compared to the prior year’s second quarter. For the first six months total revenues were \$103.4 million, representing an increase of 32% over the same period last year. The increase for both the second quarter and six-month periods were due to a combination of strong organic growth from our existing businesses, estimated at approximately 12% for the second quarter and 14% for the six months, with the remaining 16% growth for the second quarter and 18% for the six months being attributed to acquisitions completed in the relevant periods.

Adjusted EBITDA for the second quarter was \$7.3 million, a 40% increase compared to the prior year's second quarter Adjusted EBITDA of \$5.2 million. Second quarter Adjusted EBITDA per share on a fully diluted basis increased 35% compared to the prior year’s second quarter. For the first six months Adjusted EBITDA was \$14.5 million, representing an increase of 48% over the same period last year.

Adjusted Net Income for the second quarter was \$5.1 million compared to the prior year's second quarter Adjusted Net Income of \$4.1 million, a 25% increase. Adjusted Net Income in the quarter was negatively impacted by the appreciation of the Canadian Dollar. If the currency had remained stable at Q2 2005 levels, management estimates that quarterly Adjusted Net Income would have been approximately \$0.5 million higher. Second quarter Adjusted Net Income per share on a fully diluted basis increased 20% compared to the prior year’s second quarter. For the first six months Adjusted Net Income was \$10.2 million, representing an increase of 29% over the same period last year.

Net income for the second quarter was \$1.3 million compared to the prior year's second quarter net loss of \$3.5 million. On a fully diluted per share basis this translates into a net income per share of \$0.06 for the second quarter of 2006 compared to a net loss per fully diluted share of \$0.17 in the same period of 2005. For the first six months Constellation incurred a net loss of \$7.4 million or \$0.36 per diluted share. As noted in our first quarter earnings release, the reason for the net loss is the \$10.1 million charge to net income, recorded in Q1, with respect to appreciation in common shares eligible for redemption, an expense that will no longer occur past Q1 2006.

“During the quarter we delivered good results and progress across a number of financial metrics,” said Mark Leonard, President of Constellation. “While our year over year growth rates slowed vs. Q1, this was to be expected as we had a tougher comparable period in Q2 given our stronger Q2 in 2005 vs Q1 2005. Also, it should be noted that both our revenue growth per share and Adjusted EBITDA growth per share rates during the quarter exceeded our five year objective of 20% per annum average growth. In the future, we expect these growth rates to continue to trend closer to the five year average targets.”

During the quarter Constellation made two acquisitions for cash consideration of \$10.3 million. At June 30, 2006 the Company had cash and marketable securities net of bank debt of \$10.4 million, decreasing from \$16.3 million as of March 31, 2006. The Company continues to seek further organic growth opportunities and acquisitions.

Forward Looking Statements

Certain statements herein may be “forward looking” statements that involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Constellation or the industry to be materially different from any future results, performance or achievements

expressed or implied by such forward-looking statements. These statements reflect current assumptions and expectations regarding future events and operating performance and speak only as of the date hereof. Forward looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to vary significantly from the results discussed in the forward looking statements. These forward looking statements are made as of the date hereof and Constellation assumes no obligation to update any forward looking statements to reflect new events or circumstances.

Non-GAAP Measures

The term “Adjusted EBITDA” refers to net income before deducting interest, taxes, depreciation, amortization, appreciation in common shares eligible for redemption, other expenses and foreign exchange, and before including gain on sale of short-term investments, marketable securities and other assets. Constellation believes that Adjusted EBITDA is useful supplemental information as it provides an indication of the results generated by the Company’s main business activities prior to taking into consideration how those activities are financed and taxed and also prior to taking into consideration asset depreciation and the other items listed above. The term “Adjusted Net Income” means net income plus appreciation in common shares eligible for redemption and amortization of intangible assets. The Company believes that Adjusted Net Income is useful supplemental information as it provides an indication of the results generated by the Company’s main business activities prior to taking into consideration appreciation in common shares eligible for redemption (which will no longer be included in net income for periods following the closing of our IPO) and prior to taking into consideration amortization of intangibles as these are non-cash expenses that do not necessarily reflect the economic value of our acquisitions.

Adjusted EBITDA and Adjusted Net Income are not recognized measures under GAAP and, accordingly, shareholders are cautioned that Adjusted EBITDA and Adjusted Net Income should not be construed as alternatives to net income determined in accordance with GAAP as an indicator of the financial performance of the Company or as a measure of the Company’s liquidity and cash flows. The Company’s method of calculating Adjusted EBITDA and Adjusted Net Income may differ from other issuers and, accordingly, Adjusted EBITDA and Adjusted Net Income may not be comparable to similar measures presented by other issuers.

About Constellation

Constellation acquires, manages and builds vertical market software businesses that provide mission critical software solutions. Constellation’s common shares are listed on the Toronto Stock Exchange under the symbol "CSU". Further information about Constellation may be obtained from the Company's web site at www.csisoftware.com.

CONSTELLATION SOFTWARE INC.Consolidated Balance Sheets
(In thousands of U.S. dollars)

	June 30, 2006 (unaudited)	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 10,549	\$ 18,285
Short-term investments (note 2)	2,410	932
Accounts receivable	28,766	27,655
Work in progress	13,920	11,535
Inventory	1,750	528
Prepaid expenses and other current assets	4,467	3,992
Future income taxes	2,587	2,359
	<u>64,449</u>	<u>65,286</u>
Capital assets	7,121	6,446
Future income taxes	2,617	3,986
Other long-term assets	633	787
Goodwill	23,720	23,720
Intangible assets (note 4)	67,830	58,258
	<u>\$ 166,370</u>	<u>\$ 158,483</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 5)	\$ 2,600	\$ —
Accounts payable and accrued liabilities	33,430	34,653
Deferred revenue	47,779	44,939
Deferred compensation (note 9)	—	237
Income taxes payable	1,851	1,276
	<u>85,660</u>	<u>81,105</u>
Future income taxes	7,284	9,267
Other long term liabilities	1,555	1,464
Deferred compensation (note 9)	—	1,020
Common shares eligible for redemption (note 6a)	—	24,182
Shareholders' equity:		
Capital stock (note 6a)	99,283	57,220
Shareholder loans	(2,961)	—
Cumulative translation adjustment	(3,152)	(3,152)
Deficit	(21,299)	(12,623)
	<u>71,871</u>	<u>41,445</u>
Subsequent events (note 12)		
	<u>\$ 166,370</u>	<u>\$ 158,483</u>

See accompanying notes to the unaudited interim consolidated financial statements

CONSTELLATION SOFTWARE INC.

Consolidated Statements of Operations

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

Unaudited

	Three months ended		Six months ended	
	June 30,		June 30,	
	2006	2005	2006	2005
Revenue	52,211	40,700	103,431	78,163
Cost of revenue	20,276	16,021	40,614	30,748
	31,935	24,679	62,817	47,415
Research and development	8,196	6,287	16,388	12,553
Sales and marketing	6,739	5,739	13,147	10,628
General and administration	9,701	7,441	18,754	14,420
Amortization of capital assets	727	614	1,363	1,168
	25,363	20,081	49,652	38,769
Income before the undernoted	6,572	4,598	13,165	8,646
Appreciation in common shares eligible for redemption (note 6(b))	–	4,528	10,093	4,528
Amortization of intangible assets	3,796	3,017	7,457	5,739
Other expenses	1,087	232	1,970	233
Gain on sale of short-term investments, marketable securities and other assets	–	(440)	(8)	(671)
Interest income, net	(25)	(121)	(84)	(381)
Foreign exchange (gain) loss	(189)	272	74	296
Income (loss) before income taxes	1,903	(2,890)	(6,337)	(1,098)
Income tax expense (recovery) (note 7):				
Current	1,290	484	2,000	1,077
Future	(688)	82	(982)	194
	602	566	1,018	1,271
Net income (loss)	1,301	(3,456)	(7,355)	(2,369)
Net income (loss) per share (note 8):				
Basic	0.06	(0.17)	(0.36)	(0.12)
Diluted	0.06	(0.17)	(0.36)	(0.12)
Weighted average number of shares				
Outstanding (in thousands) (note 8):				
Basic	20,914	19,820	20,574	19,784
Diluted	21,127	20,296	20,935	20,295
Outstanding at the end of the period	21,192	20,281	21,192	20,281

See accompanying notes to the unaudited interim consolidated financial statements.

CONSTELLATION SOFTWARE INC.

Consolidated Statements of Cash Flows

(In thousands of U.S. dollars)

Unaudited

	Three months ended		Six months ended	
	June 30,		June 30,	
	2006	2005	2006	2005
Cash flows from operating activities:				
Net income (loss)	\$ 1,301	\$ (3,456)	\$ (7,355)	\$ (2,369)
Adjustments to reconcile net income to net cash flows from operations:				
Amortization of capital assets	727	614	1,363	1,168
Amortization of intangible assets	3,796	3,017	7,457	5,739
Loss on common shares eligible for redemption	—	4,528	10,093	4,528
Deferred compensation	—	232	400	232
Future income taxes	(688)	83	(982)	194
Gain on sale of short term investments and marketable securities	—	(440)	(8)	(671)
Unrealized exchange loss (gain)	(481)	272	(238)	296
Change in non-cash operating working capital (note 11)	148	(1,845)	(6,821)	1,270
Cash flows from operating activities	4,803	3,005	3,909	10,387
Cash flows from (used in) financing activities:				
Increase (decrease) in long term liabilities	13	(18)	16	(83)
Increase (decrease) in bank debt	1,500	—	2,600	—
Dividends	—	(1,150)	(1,381)	(1,150)
Distributions to common shares eligible for redemption	—	(346)	(471)	(346)
Issue of common shares eligible for redemption	906	5	3,805	197
Redemption of common shares eligible for redemption	(6)	(136)	(20)	(201)
Repayment of shareholder loans	302	682	2,212	769
Repurchase of phantom shares (note 9)	(1,657)	—	(1,657)	—
Return of capital	—	(531)	(637)	(531)
Cash flows from (used in) financing activities	1,058	(1,494)	4,467	(1,345)
Cash flows from (used in) investing activities:				
Acquisition of businesses, net of cash acquired (note 3)	(10,293)	(2,254)	(13,727)	(15,208)
Additions (reductions) to short-term investments, marketable securities and other assets	(313)	1,291	(1,478)	2,124
Other assets	135	—	161	—
Capital asset purchases	(822)	(943)	(1,509)	(1,854)
Cash flows used in investing activities	(11,293)	(1,906)	(16,553)	(14,938)
Effect of currency translation adjustment on cash and cash equivalents	633	(391)	441	(400)
Decrease in cash and cash equivalents	(4,799)	(786)	(7,736)	(6,296)
Cash and cash equivalents, beginning of period	15,348	19,935	18,285	25,445
Cash and cash equivalents, end of period	\$ 10,549	\$ 19,149	\$ 10,549	\$ 19,149

See accompanying notes to the unaudited interim consolidated financial statements.

Constellation Software Inc. (TSX:CSU)

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