

CONSTELLATION SOFTWARE INC.

TO OUR SHAREHOLDERS

Q2 saw an improvement in our revenue growth rate: Organic Net Revenue growth in Q2 compared to the same period last year, recovered to 0.5%, and acquisitions accounted for the remaining 15% of year over year Net Revenue growth. Our homebuilding and building products related businesses experienced Organic Net Revenue declines. A turnaround in their growth prospects is not yet evident. Organic Net Revenue growth in a number of our other businesses more than offset those declines.

Constellation has an inherently resilient business. During Q2 Net Maintenance Revenue was \$33.3 million, an increase of 24% from \$26.9 million during the same period last year. Net Maintenance grew as a percent of Net Revenues, from 57% to 61%. Constellation has very low attrition rates and good margins associated with this revenue stream. We focus on growing Maintenance revenue because we believe that it is less volatile and more profitable than Professional Service and License revenues.

Constellation's resilience is bolstered further by an employee compensation plan that insulates the company if performance lags, and rewards employees when the business is experiencing both high profits and rapid growth. Accrued bonuses (as a percentage of Net Revenues) in Q2 were 2% lower than in the comparable period last year. This accounted for a large portion of the 5% year over year increase in the EBITDA/Net Revenue margin ("EBITDA Margin") during Q2.

Much of the remaining increase in the Q2 EBITDA Margin was due to the decline in Research & Development and Sales & Marketing ("RDSM") spending as a percentage of Net Revenues (29% in Q2 vs 32% in the prior comparable period). Is this decline in RDSM and the associated increase in EBITDA Margin good for long-term shareholders? Historically, a significant portion of RDSM expense has been invested in new Initiatives. We began tracking the returns from our Initiatives in 2004. Some of the Initiatives were not economic. We sought to improve our returns by culling poor Initiatives, and nurturing those that remained. My fear is that we over-reacted, causing a dearth of new Initiatives. Our challenge is to strike the right balance between Organic Revenue growth and profitability. My current preference would be to see a higher level of investment in attractive Initiatives. If we are successful at rebuilding our portfolio of Initiatives and continue to make acquisitions at the current rate, I anticipate that our EBITDA margins will trend down, but that our Organic growth will improve.

Inserted below is the table of Constellation performance metrics. In addition to the Organic growth, acquired growth, and Net Maintenance Revenue growth discussed above, the metrics that struck me this quarter were:

ROIC (Annualized) – 24%. This was a nice improvement from Q1, and was largely due to the expanding EBITDA Margin.

Tangible Net Assets ("TNA")/ Net Revenues – (66)%. This was not a sterling performance. We pride ourselves in running negative TNA in our businesses. At minus 66% of Net Revenues, this quarter is among the highest levels of TNA that we have seen in the last 10 quarters. Some of the slippage stemmed from the way that our VCG investment is carried in our accounts. Some of the problem is poor management on our part. We are raising awareness of the slippage throughout the Company and are working to reduce it.

	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007
(\$ millions, except percentages)								
Revenue	42.6	44.6	51.2	52.2	53.8	53.5	55.9	60.5
Net Income / (Loss)	2.1	0.8	(8.7)	1.3	2.3	3.8	2.6	3.5
Net Revenue	39.0	39.8	46.0	47.3	48.4	48.6	50.7	54.9
Net Maintenance Revenue	21.7	23.0	26.0	26.9	28.1	29.6	31.2	33.3
Adjusted Net Income	5.2	4.1	5.1	5.1	6.8	9.0	7.0	8.8
Average Invested Capital	105	109	114	119	125	135	143	149
Net Revenue Growth (Y/Y)	47%	35%	33%	28%	24%	22%	10%	16%
Net Maintenance Growth (Y/Y)	48%	52%	35%	30%	30%	29%	20%	24%
Tangible Net Assets / Net Revenue	-68%	-86%	-63%	-63%	-75%	-91%	-88%	-66%
Organic Net Revenue Growth (Y/Y)	22%	13%	14%	12%	5%	3%	-1%	0%
ROIC (Annualized)	20%	15%	18%	17%	22%	27%	20%	24%
ROIC + Organic Net Revenue Growth	42%	28%	32%	29%	26%	30%	19%	24%

We made two small acquisitions in the second quarter, as well as a “strategic investment” in VCG Inc., a supplier of staffing and recruiting software solutions. Our preference is to acquire businesses in their entirety, and to own them forever. Occasionally, we have the opportunity to buy a piece of a good business with the prospect of eventually acquiring the rest. While that is by no means guaranteed in the case of VCG, we welcome the opportunity to get to know the business and its managers better, and hope that we will be able to increase our ownership over time.

We have an objective of generating average annual revenue growth per share and average annual EBITDA growth per share of at least 20% for the five year period ending December 31, 2010. I recently ran a screen of public companies with in excess of \$50 million in revenues that met these criteria for the last 5 year period. I discovered that less than 1% of companies qualified. Picking through that list and pulling out anomalies, I was left with an even more exclusive list. We have set ourselves a very high bar.

Constellation experienced only 11% revenue growth per share during the first half of 2007. However, due to our strong revenue growth per share performance in 2006 (25%) and our continued optimism regarding acquired growth, we still believe that our five year revenue growth objective is achievable. Our performance to date against our EBITDA growth per share objective has exceeded our expectations. We continue to believe that we will be able to meet or exceed the EBITDA growth objective.

Mark Leonard
President

Performance Metrics Glossary

“Net Revenue” means Revenue for GAAP purposes less third party and flow-through expenses. We use Net Revenue since it captures 100% of the license, maintenance and services revenues associated with Constellation’s own products, but only includes the margin on our lower value-added revenues such as commodity hardware or third party software.

“Net Maintenance Revenue” is derived from GAAP Maintenance Revenue by subtracting third party maintenance costs. We believe that Net Maintenance Revenue is one of the best indicators of the intrinsic value of a software company and that the operating profitability of a low growth software business should correlate tightly to Net Maintenance Revenues.

“Adjusted Net Income” is derived by adjusting GAAP net income for the non-cash amortization of intangibles and charges related to appreciation in common shares eligible for redemption (a charge that we no longer incur now that Constellation’s common shares are publicly traded). We use Adjusted Net Income because it is generally a better measure of cash flow than GAAP net income and it is closely aligned with the calculation of net income we use for bonus purposes.

“Average Invested Capital” is based on the Company’s estimate of the amount of money that our shareholders had invested in Constellation. Subsequent to that estimate, each period we have kept a running tally, adding Adjusted Net Income, subtracting any dividends, adding any amounts related to share issuances and making some small adjustments, including adjustments relating to our use of certain incentive programs and the amortization of impaired intangibles.

“Tangible Net Assets / Net Revenue” provides a measure of our Tangible Net Assets as a proportion of Net Revenue. Tangible Net Assets is calculated by taking Total Assets for GAAP purposes, and subtracting (i) Intangible assets, (ii) cash, and (iii) all customer, trade and government liabilities that do not bear a coupon.

“ROIC (Annualized)” represents a ratio of Adjusted Net Income to Average Invested Capital.

“ROIC + Organic Net Revenue Growth” provides a historical measure of the effectiveness of our capital allocation.

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

Net Revenue, Net Maintenance Revenue, Adjusted Net Income and Organic Net Revenue Growth are not recognized measures under GAAP and, accordingly, shareholders are cautioned that Net Revenue, Net Maintenance Revenue, Adjusted Net Income and Organic Net Revenue Growth should not be construed as alternatives to revenue or 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 Net Revenue, Net Maintenance Revenue, Adjusted Net Income and Organic Net Revenue Growth may differ from other issuers and, accordingly, may not be comparable to similar measures presented by other issuers.