

CONSTELLATION SOFTWARE INC.

TO OUR SHAREHOLDERS

Net Revenue growth for Q3 2007 was 14%. This is short of our 20% growth objective for the 2006 to 2010 period. Despite having started the period well, with 4 quarters of Net Revenue growth in excess of 20%, we have fallen short of our objective for the last 3 quarters. The primary culprit has been Organic Net Revenue growth. During Q3 2007 our Organic Net Revenue growth rate improved: it increased from -1% in Q1, to 0% in Q2, and to 2% in Q3. While Organic growth appears to be recovering, it is not yet in the 5% to 10% range that we are targeting. Our homebuilding software businesses continued to experienced Organic Net Revenue declines. A recovery in their organic growth prospects is not imminent. We are impressed, however, with the way that the homebuilding team is managing their way through difficult times, and we will invest more capital with this team and in this vertical if good opportunities can be found. Our Government sector companies also had low Organic Net Revenue growth during the quarter. The reasons were several (and are discussed in some more detail in the MD&A), but appear to me to primarily be execution issues, not sector specific issues. We still believe that the Government sector business will eventually recover into the 5% to 10% organic growth rate range.

We have publicly reiterated our revenue growth objective each quarter, and we have a bonus plan that pays for growth. Those factors create a fierce temptation to stretch a bit and make some acquisitions that aren't quite up to par. Counterbalancing hubris and greed, we have a good board and many long-term oriented managers. I believe that we have the judgment to maintain our investment discipline, and the humility to adjust our growth objectives downwards if we don't think that they are achievable. I'm not yet ready to concede that our Net Revenue growth objective is not achievable, but if we have a couple of more quarters of sub-20% growth, achieving the objective will become very difficult.

We have fared much better with our EBITDA growth objective, far exceeding the minimum 20% year over year growth rate in the seven quarters to date. I believe Adjusted Net Income per share is a more useful measure of profitability growth. Quarterly Adjusted Net Income has grown an average of 49% (year over year comparisons) during the last 7 quarters, and we have issued no new shares. This rate of growth in Adjusted Net Income per share is not sustainable, particularly given our exposure to the increasing Canadian dollar, but the performance has been remarkable.

During Q3 2007, Net Maintenance Revenue was \$34.5 million, an increase of 23% from \$28.1 million during the same period last year. Those of you who follow our company closely know that we feel (assuming our cash & debt positions are stable), that Net Maintenance growth is a good proxy for the growth in Constellation's intrinsic value.

Another performance benchmark that we look to, is the sum of ROIC and Organic Net Revenue Growth ("ROIC+OGr"). We believe that long term shareholders will generate a return on their Constellation shares that cannot exceed the sum of long term ROIC plus Organic Net Revenue Growth. We align compensation with this belief, basing our corporate bonus plan upon ROIC and Net Revenue Growth. For Q3, ROIC+OGr was 24%, a respectable number, but not up to the 30% that we have averaged over the last 11 quarters. Achieving even 24% ROIC+OGr is non-trivial. We believe that less than 10% of public companies have been able to achieve this level of performance for an extended period.

Inserted below is a table of Constellation's performance metrics. We've added a new metric to the table - Adjusted Net Income Growth. As discussed, we believe that Adjusted Net Income Growth is a better proxy for the growth in profitability that accrues to shareholders, than EBITDA growth, since it also incorporates foreign exchange, tax and debt costs.

	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007
	(\$ millions, except percentages)								
Revenue	42.6	44.6	51.2	52.2	53.8	53.5	55.9	60.5	60.6
Net Income / (Loss)	2.1	0.8	(8.7)	1.3	2.3	3.8	2.6	3.5	3.3
Net Revenue	39.0	39.8	46.0	47.3	48.4	48.6	50.7	54.9	55.3
Net Maintenance Revenue	21.7	23.0	26.0	26.9	28.1	29.6	31.2	33.3	34.5
Adjusted Net Income	5.2	4.1	5.1	5.1	6.8	9.0	7.0	8.8	8.6
Average Invested Capital	105	109	114	119	125	135	143	149	158
Net Revenue Growth (Y/Y)	47%	35%	33%	28%	24%	22%	10%	16%	14%
Organic Net Revenue Growth (Y/Y)	22%	13%	14%	12%	5%	3%	-1%	0%	2%
Net Maintenance Growth (Y/Y)	48%	52%	35%	30%	30%	29%	20%	24%	23%
Adjusted Net Income Growth (Y/Y)			34%	25%	30%	117%	38%	72%	27%
Tangible Net Assets / Net Revenue	-68%	-86%	-63%	-63%	-75%	-91%	-88%	-66%	-75%
ROIC (Annualized)	20%	15%	18%	17%	22%	27%	20%	24%	22%
ROIC + Organic Net Revenue Growth	42%	28%	32%	29%	26%	30%	19%	24%	24%

During the quarter we engaged in an attempt to help a shareholder sell one million of their Constellation shares. We spent money on lawyers and accountants, and chewed up management time, but didn't manage to complete the offering. Our stock priced dropped by more than 10% after we announced the offering, but has since recovered somewhat. I believe that the intrinsic value of the business continued to increase at an attractive pace, despite the volatility in the stock price.

One of the useful things that we discovered during the marketing of the secondary offering, was that many of our existing shareholders wanted to speak with us. As we have mentioned previously, we would be pleased to meet with any Constellation shareholder at our offices. Please call me or John Billowits, our Chief Financial Officer, if you would like to arrange an appointment.

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.