

# CONSTELLATION SOFTWARE INC.

## TO OUR SHAREHOLDERS

We had discontinued the quarterly president's letter, but the events of this last quarter warrant an exception. In November 2009, our Trapeze Operating Group purchased the PTS business from Continental Automotive. This is a large and very different business from our core vertical market software businesses: It requires skills in wireless networks, mobile computing hardware, and system integration. The industry has a very spotty history of profitability, and seems to have a voracious appetite for working capital. The contracts are alluringly large and have historically been won by vendors offering to meet stringent performance criteria which are apparently very difficult to achieve in real world situations. PTS is one of the largest competitors in this industry.

We are well aware of the industry's unfortunate history, and as Mark Miller, the general manager of our Trapeze Operating Group explains below, we believe we can avoid repeating that history. In a nutshell, we only intend to take new customer contracts when the contract risks are appropriate, otherwise we will concentrate on providing superior service to the acquired PTS customer base.

### Mark Miller, Trapeze Operating Group, re. the PTS Acquisition

PTS develops technology for Vehicle Fleet Management (VFM) for transit agencies primarily in North America, continental Europe, and the United Kingdom.

Trapeze's traditional transit business provides single and multi-departmental software systems for both public and private transit operators in all of the above markets. Specifically, Trapeze's systems deliver planning, scheduling, fleet maintenance, work force and customer relationship management technology to its transit customers.

Since Trapeze's departmental systems both send and receive data to and from VFM systems this has required connecting with several VFM systems for over the last 10 years, including the newly acquired PTS VFM system. These interfaces create duplication of data and business logic that have a high cost to acquire, maintain, and modernize.

To reduce the VFM system integration cost for our customers Trapeze began to internally develop an integrated VFM. This opened up a newly addressable market for Trapeze. The development of this system began 5 years ago and has been implemented at several of our customer sites. This system was developed as an extension to Trapeze's existing departmental systems and was designed to target mid- to low-end transit customers that owned other Trapeze products.

By acquiring PTS, Trapeze has achieved three objectives.

1. VFM systems are complex to develop and implement. With the acquisition of PTS we acquired Intellectual Property that is expected to enhance our ability to deliver increased functionality to our customers and we have engaged an experienced team with the capability of installing and developing VFM systems on a larger scale than we'd previously pursued.
2. In North America and the United Kingdom we share many joint customers with PTS. We intend to improve the integration of our products and to eventually eliminate duplication of effort. In addition, we intend to provide the PTS VFM clients with access to many of Trapeze' other departmental systems.
3. In Europe, PTS has strong share of the DACH (German, Austrian, and Swiss) market for VFM systems. Trapeze has a good market share in Scandinavia in its traditional multi-departmental systems but has only a limited number of customers in DACH. The acquisition provides a significant presence in the DACH markets with the opportunity to cross-sell other Trapeze systems over time.

With the acquisition of PTS we took over a number of uneconomic contracts that we are working to resolve. Historically PTS has focused on winning large contracts that can be in the ten of millions of dollars in size and sometimes even larger. These contracts often have unattractive contract terms. There are bonds, liquidated damages, penalties, and aggressive timelines. Larger contracts typically have many customization components that make it difficult to predict development timelines. As a result, project delays occur, which can lead to ballooning working capital and cost overruns.

Historically at Trapeze we achieve most of our revenue by continuing to deliver more value to our existing customers through a more integrated system that minimizes data duplication and provides additional functionality. PTS has not focused on this higher margin recurring revenue stream. We plan to provide new or improved functionality to the PTS customer base. We believe this can be achieved by improving PTS' existing products, cross-selling other Trapeze products, developing new products, and acquiring complementary technologies.

A long term relationship with our customers must make sense for both parties. We intend to deliver value and in turn be paid equitably for our efforts. Being more selective with new business opportunities and carefully evaluating the economic terms and conditions prior to establishing the relationship, is necessary.

As we work through the contracts we received as part of the acquisition we anticipate PTS profitability will be depressed and volatile. We also expect the business to shrink in size as we change the strategy to be more customer-centric and selective as to which new projects we decide to bid. As our existing customer base revenue increases at PTS, we expect to be able to reduce working capital and improve our margins. This won't happen quickly, certainly not within this calendar year. Our belief is that PTS will eventually be

one of our best acquisitions, providing both a strong return on investment, and products and skills that will allow us to better serve our transit clients.

Mark Miller  
President  
Trapeze Software Inc.

March 3, 2010

Mark Leonard  
President  
Constellation Software Inc.

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