Consolidated Financial Statements
(In U.S. dollars)

CONSTELLATION SOFTWARE INC.

For the three and nine months ended September 30, 2010 and 2009
(Unaudited)

CONSTELLATION SOFTWARE INC.

Interim Consolidated Balance Sheets
(In thousands of U.S. dollars)

	September 30, 2010	December 31, 2009
	(Unaudited)	
Assets		
Current assets:		
Cash	$ 24,654	$ 33,249
Short-term investments and marketable securities available for sale (note 5)	26,025	22,323
Accounts receivable	109,738	99,742
Work in progress	26,679	21,349
Inventory (note 6)	16,050	12,702
Prepaid expenses and other current assets (note 7)	19,844	19,606
Notes receivable	4,022	3,833
Investment tax credits recoverable	1,744	2,250
Future income taxes (note 14)	3,617	4,445
	232,373	219,499
Restricted cash (note 4)	957	2,229
Property and equipment	16,239	10,539
Future income taxes (note 14)	15,179	10,155
Investment tax credits recoverable	3,473	2,133
Other long-term assets (note 7)	4,089	7,169
Intangible assets (note 10)	197,512	187,788
Goodwill (note 9)	47,483	40,977
	$ 517,305	$ 480,489
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 11)	$ 39,629	$ 43,100
Accounts payable and accrued liabilities (note 8)	106,777	111,307
Acquisition holdback payments	3,208	3,587
Deferred revenue	156,018	136,857
Income taxes payable (note 14)	3,875	3,751
	309,507	298,602
Future income taxes (note 14)	34,977	28,121
Other long-term liabilities (note 8)	43,392	45,708
Shareholders equity:		
Capital stock	99,283	99,283
Shareholder loans (note 12)	(469)	(646)
Accumulated other comprehensive income (loss) (note 18)	2,675	(157)
Retained earnings	27,940	9,578
	129,429	108,058
Contingencies (note 9(f))		
Subsequent events (note 19)		
	$ 517,305	$ 480,489

See accompanying notes to interim consolidated financial statements.

CONSTELLATION SOFTWARE INC.

Interim Consolidated Statements of Operations
(In thousands of U.S. dollars, except per share amounts)

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
	(Unaudited)		(Unaudited)	
Revenue	$ 162,814	$ 107,279	$ 459,389	$ 306,046
Cost of revenue	69,347	40,115	190,850	112,934
	93,467	67,164	268,539	193,112
Research and development	20,563	16,478	64,052	46,460
Sales and marketing	14,110	10,714	43,075	31,494
General and administration	26,950	16,968	77,726	49,260
Depreciation	1,671	1,067	4,148	2,706
	63,294	45,227	189,001	129,920
Income before the undernoted	30,173	21,937	79,538	63,192
Amortization of intangible assets	17,544	15,583	50,014	44,271
Other (income) expenses (note 13)	(81)	-	(393)	1,441
Interest expense, net	841	542	2,495	1,908
Foreign exchange (gain) loss	(980)	2,022	41	624
Income before extraordinary gain and income taxes	12,849	3,790	27,381	14,948
Extraordinary gain (taxes - nil) (note 9(e))	3,518	-	3,518	-
Income taxes (recovery) (note 14):				
Current	4,728	4,806	13,034	11,463
Future	(2,572)	(3,722)	(6,007)	(6,749)
	2,156	1,084	7,027	4,714
Net income	$ 14,211	$ 2,706	$ 23,872	$ 10,234
Income per share (note 15):				
Basic	$ 0.67	$ 0.13	$ 1.13	$ 0.48
Diluted	0.67	0.13	1.13	0.48
Weighted average number of shares outstanding (note 15):				
Basic	21,180	21,171	21,178	21,163
Diluted	21,192	21,192	21,192	21,192
Outstanding at the end of the period	21,192	21,192	21,192	21,192

See accompanying notes to interim consolidated financial statements.

CONSTELLATION SOFTWARE INC.

Interim Consolidated Statements of Retained Earnings
(In thousands of U.S. dollars)

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
	(Unaudited)		(Unaudited)	
Retained earnings, beginning of period	$ 13,729	$ 6,882	$ 9,578	$ 3,931
Net income	14,211	2,706	23,872	10,234
Dividends	-	-	(5,510)	(4,577)
Retained earnings, end of period	$ 27,940	$ 9,588	$ 27,940	$ 9,588

Interim Consolidated Statements of Comprehensive Income
(In thousands of U.S. dollars)

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
	(Unaudited)		(Unaudited)	
Net income	$ 14,211	$ 2,706	$ 23,872	$ 10,234
Other comprehensive net income:				
Net unrealized mark-to-market adjustment gain (loss) on available-for-sale financial assets during the period	870	3,720	3,354	4,099
Net unrealized foreign exchange gain (loss) on available-for-sale financial assets during the period	409	(218)	(31)	524
Reclassification of unrealized gain upon derecognition of available-for-sale investments	-	-	(696)	-
Amounts reclassified to net income during the period related to other than temporary losses in available-for-sale investments	-	-	-	1,474
Future tax expense on unrealized net gains	(192)	-	(844)	-
Foreign currency translation adjustment	742	-	1,049	-
Comprehensive income	$ 16,040	$ 6,208	$ 26,704	$ 16,331

See accompanying notes to interim consolidated financial statements.

CONSTELLATION SOFTWARE INC.

Interim Consolidated Statements of Cash Flows
(In thousands of U.S. dollars)

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
	(Unaudited)		(Unaudited)	
Cash flows from operating activities:				
Net income	$ 14,211	$ 2,706	$ 23,872	$ 10,234
Adjustments to reconcile net income to net cash flows from operations:				
Depreciation	1,671	1,067	4,148	2,706
Amortization of intangible assets	17,544	15,583	50,014	44,271
Extraordinary gain (note 9(e))	(3,518)	-	(3,518)	-
Non-cash interest	(70)	(30)	(211)	(101)
Future income taxes	(2,572)	(3,722)	(6,007)	(6,749)
Other	1	-	(280)	1,441
Foreign exchange (gain) loss	(980)	2,022	41	624
Change in non-cash operating working capital (note 17)	(2,675)	11,918	(4,910)	(4,543)
Cash flows from operating activities	23,612	29,544	63,149	47,883
Cash flows from (used in) financing activities:				
Increase (decrease) in other long-term liabilities	(716)	(135)	(209)	(194)
Increase (decrease) in bank indebtedness, net	(19,825)	17,000	(3,471)	(6,200)
Credit facility financing fees	(13)	(26)	(13)	(54)
Dividends paid	-	-	(5,510)	(4,577)
Repayment of shareholder loans (note 12)	17	2	207	329
Cash flows from (used in) financing activities	(20,537)	16,841	(8,996)	(10,696)
Cash flows from (used in) investing activities:				
Acquisition of businesses, net of cash acquired (note 9)	(3,628)	(38,701)	(43,533)	(44,295)
Acquisition holdback payments	(2,667)	701	(5,489)	(1,871)
Earnout payments	-	-	(71)	-
Acquisitions of short-term investments, marketable securities and other assets, net	(2,163)	(1,521)	(10,411)	(1,411)
Decrease in restricted cash	-	(50)	1,272	(50)
Decrease (increase) in other assets	(149)	(177)	699	(306)
Property and equipment purchased	(1,926)	(978)	(5,149)	(2,907)
Cash flows used in investing activities	(10,533)	(40,726)	(62,682)	(50,840)
Effect of currency translation adjustment on cash and cash equivalents	1,750	(1,132)	(66)	221
Increase (decrease) in cash and cash equivalents	(5,708)	4,527	(8,595)	(13,432)
Cash, beginning of period	30,362	12,446	33,249	30,405
Cash, end of period	$ 24,654	$ 16,973	$ 24,654	$ 16,973
Supplemental cash flow information:				
Income taxes paid	$ 8,911	$ 1,103	$ 13,926	$ 9,917
Interest paid	995	684	3,127	2,331
Investment tax credits received	844	55	1,382	260
Interest received	5	-	84	46

See accompanying notes to interim consolidated financial statements.

1. Basis of presentation:

The accompanying unaudited condensed interim consolidated financial statements (the "Interim Consolidated Financial Statements") include the accounts of the Company and all entities which are controlled by the Company, referred to as subsidiaries. All significant inter-company transactions and balances have been eliminated. During the nine months ended September 30, 2010, the Company completed certain acquisitions as described in note 9 to the Interim Consolidated Financial Statements. The results of operations of these acquired companies have been included in these Interim Consolidated Financial Statements from the dates of acquisition.

These Interim Consolidated Financial Statements are expressed in U.S. dollars and are prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and reflect all adjustments consisting only of normal adjustments which, in the opinion of management, are necessary for a fair presentation of the results of the interim periods presented. These Interim Consolidated Financial Statements are based upon accounting policies and methods of their application that are consistent with those used and described in the Company's annual consolidated financial statements, except as described in note 2. The Interim Consolidated Financial Statements do not include all of the financial statement disclosures included in the annual financial statements prepared in accordance with Canadian GAAP and, therefore, should be read in conjunction with the 2009 annual consolidated financial statements and notes.

2. Changes in accounting policies:

(a) Business combinations:

In January 2009, the CICA issued Handbook Section 1582, "Business combinations," which replaces the existing standards. This section establishes the standards for the accounting of business combinations, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent consideration and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. This standard is applied prospectively to business combinations with acquisition dates on or after January 1, 2011. Earlier adoption is permitted. The Company elected to early adopt this standard and it has been applied to all business combinations with acquisition dates on or after January 1, 2010. The impact to the Company's consolidated financial statements as a result of adopting this new standard for the nine months ended September 30, 2010, was an increase in general and administration expenses of approximately $1,600, attributable to acquisition-related costs and restructuring charges.

(b) Consolidated financial statements:

In January 2009, the CICA issued Handbook Section 1601, "Consolidated financial statements," which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective as of January 1, 2011. Earlier adoption is permitted. The Company has elected to early adopt this standard effective January 1, 2010. There was no material impact to the Company's consolidated financial statements as a result of this new standard.

2. Changes in accounting policies (continued):

(c) Noncontrolling interests in consolidated financial statements:

In January 2009, the CICA issued Handbook Section 1602, "Noncontrolling interests in Consolidated Financial Statements". This section specifies that noncontrolling interests be treated as a separate component of equity, not as a liability or other item outside of equity. Section 1602 is effective for periods beginning on or after January 1, 2011 and will be applied prospectively to all noncontrolling interests, including any that arose before the effective date. The Company has elected to early adopt this standard effective January 1, 2010. There has been no material impact to the Company's consolidated financial statements as a result of this new standard.

3. Changes in accounting policies not yet adopted:

The following accounting pronouncements have been released but have not yet been adopted by the Company.

(a) International Financial Reporting Standards ("IFRS"):

In February 2008, the Canadian Accounting Standards Board announced the adoption of IFRS for publicly accountable enterprises in Canada. Effective January 1, 2011, companies must convert from Canadian GAAP to IFRS. IFRS is effective for the Company's quarter ended March 31, 2011, being the first quarter in fiscal 2011, with comparative data also prepared under IFRS.

The Company has initiated an IFRS transition project with a formal and detailed project plan. A project team consisting of senior management from the Company's head office and operating subsidiaries are engaged on the project. The Company has also engaged external IFRS consultants. Regular reporting is provided to the Company's senior executive management and to their Audit Committee on the project’s progress. The project focuses on the key areas impacted by the conversion, including financial reporting, systems and processes, communications and training. The Company's transition plan is progressing according to its implementation schedule.

(b) Revenue arrangements with multiple deliverables:

In December 2009, the CICA issued Emerging Issue Committee Abstract (“EIC”) 175, “Revenue Arrangements with Multiple Deliverables”, an amendment to EIC 142, “Revenue Arrangements with Multiple Deliverables”. EIC 175 provides guidance on certain aspects of the accounting for arrangements under which the Company will perform multiple revenue-generating activities. Under the new guidance, when vendor specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. EIC 175 also includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. EIC 175 is effective prospectively, with retrospective adoption permitted, for revenue arrangements entered into or materially modified in fiscal years beginning on or after January 1, 2011. Early adoption is also permitted; however, early adoption during an interim period requires retrospective application from the beginning of the fiscal year. The Company will not be early adopting.

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

4. Restricted cash:

At September 30, 2010, the Company has $957 (December 31, 2009 - $2,229) held in accordance with escrow agreements related to prior business acquisitions.

5. Short-term investments and marketable securities:

At September 30, 2010, the Company held investments in four (December 31, 2009 - five) public companies listed in the U.K., U.S. and Canada, all of which develop and sell software solutions. All investments have been designated as available for sale in the Company's consolidated financial statements. During the nine months ended September 30, 2010, the Company's accounting basis for its investment in Gladstone PLC was reclassified from an equity investee to a consolidated subsidiary (refer to note 9(b)).

	September 30, 2010		December 31, 2009	
	Cost	Market Value	Cost	Market Value
Common shares	$ 20,262	$ 26,025	$ 19,319	$ 22,323

6. Inventory:

	September 30, 2010	December 31, 2009
Raw materials	$ 7,640	$ 2,955
Work in progress	1,162	499
Finished goods	7,248	9,248
	$ 16,050	$ 12,702

The cost of inventories, including applicable writedowns to net realizable value, included in cost of revenue for the nine months ended September 30, 2010 amounted to $31,574 (Nine months ended September 30, 2009 - $11,176). The cost for the three months ended September 30, 2010 amounted to $14,048 (Three months ended September 30, 2009 - $4,384).

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

7. Other long-term assets:

	September 30, 2010	December 31, 2009
Share purchase warrants	$ 200	$ 200
Acquired contract assets (i)	1,227	3,364
Long term receivables and other	2,662	3,605
	$ 4,089	$ 7,169

(i) Long-term contracts acquired in a business combination are assigned a fair value at the date of acquisition based on the remaining amounts to be billed under the contract, reduced by the estimated costs to complete the contract and an allowance for normal profit related to the activities that will be performed after the acquisition. The resulting amount is recorded as an asset when billings are in excess of costs plus the allowance for normal profit on uncompleted contracts at the date of acquisition. The current portion which amounts to $2,389 (December 31, 2009 - $4,238) is included in Prepaid expenses and other current assets.

Each period subsequent to acquisition, the asset is reduced by actual billings and increased by revenue recognized in the statement of operations.

8. Other long-term liabilities:

	September 30, 2010	December 31, 2009
Acquisition holdback payments	$ 1,577	$ 2,537
Acquired contract liabilities (i)	34,772	34,120
Acquired liabilities (ii)	3,967	6,212
Other (iii)	3,076	2,839
	$ 43,392	$ 45,708

(i) Long-term contracts acquired in a business combination are assigned a fair value at the date of acquisition based on the remaining amounts to be billed under the contract, reduced by the estimated costs to complete the contract and an allowance for normal profit related to the activities that will be performed after the acquisition. The resulting amount is recorded as a liability when costs plus the allowance for normal profit are in excess of billings on uncompleted contracts at the date of acquisition. The current portion which amounts to $9,442 (December 31, 2009 - $7,652) is included in Accounts payable and accrued liabilities.

Each period subsequent to acquisition, the liability is increased by actual billings and decreased by revenue recognized in the statement of operations.

(ii) These liabilities are a component of the Public Transit Solutions business acquired on November 2, 2009 (note 9(e)). The Company believes additional liabilities may exist due to uncertainties associated with costs related to acquired contracts and, as such, has retained on the balance sheet an amount equal to an estimate of these liabilities pending resolution of ongoing reviews of estimated costs to complete these arrangements, which management anticipates will occur during the allowable measurement period. The resolution of these matters may result in the recognition of an extraordinary gain in the event the acquired liabilities are less than the amounts currently accrued.

(iii) Other primarily consists of lease inducements and non-compete accruals to be paid out over the next four years.

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

9. Business acquisitions:

2010

(a) On April 30, 2010, the Company acquired all of the remaining shares, not already held by the Company, of UK-based Gladstone PLC ("Gladstone") for $17,336. As at March 31, the Company had recorded its ownership in Gladstone as an equity investment with a fair value of $9,479. The aggregate fair value determined upon acquistion was $26,870. There was no gain or loss resulting from the difference in equity accounting and fair value on acquisition. Gladstone is a global provider of solutions for the health and leisure and education verticals. The acquisition has been accounted for using the acquisition method with the results of operations included in these consolidated financial statements from the date of acquisition. Due to the size and complexity of the acquisition, the Company is still in the process of resolving the fair value of the assets and liabilities acquired as part of the acquisition. The following table summarizes the aggregate preliminary estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

Assets acquired:		
Cash	$	7,653
Other current assets		4,339
Property and equipment		2,871
Technology assets		12,276
Customer assets		3,791
Backlog		800
Goodwill		2,917
		34,647
Liabilities assumed:		
Current liabilities		42
Deferred revenue		3,012
Future income taxes		4,723
		7,777
Total purchase price consideration	$	26,870

This acquisition has been included in the Private Sector reportable segment.

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

9. Business acquisitions (continued):

(b) During the nine months ended September 30, 2010, the Company made fifteen additional acquisitions for aggregate cash consideration of $39,896 plus cash holdbacks of $3,789 resulting in total consideration of $43,685. The holdbacks are payable over a three-year period ending June 25, 2013 and are adjusted for claims under the representations and warranties of the agreements. In addition, there is contingent consideration payable in the maximum amount of $781 based on the achievement of certain revenue targets. The obligaton for contingent consideration has been recorded at its estimated fair value, determined to be $305 at the acquisition date. The acquisitions include software companies catering to the pulp and paper, tourism and attractions, schools, catalog, public transit, agriculture business, health club, and housing finance agency markets. The acquisitions have been accounted for using the acquisition method with the results of operations included in these consolidated financial statements from the date of each acquisition. Due to the size, complexity, and timing of certain acquisitions, the Company is still in the process of resolving the fair value of the assumed assets and liabilities acquired as part of the acquisitions. The following table summarizes, by reportable segment, the aggregate preliminary estimated fair value of the assets acquired and liabilities assumed at the date of each acquisition:

	Public Sector	Private Sector	Consolidated
Assets acquired:			
Cash	$ 4,692	$ 1,354	$ 6,046
Other current assets	5,280	4,290	9,570
Property and equipment	1,273	374	1,647
Technology assets	13,314	17,168	30,482
Customer assets	5,922	5,388	11,310
Goodwill	3,224	233	3,457
	33,705	28,807	62,512
Liabilities assumed:			
Current liabilities	4,474	2,078	6,552
Deferred revenue	4,331	3,063	7,394
Future income taxes	3,078	1,433	4,511
Other long term liabilities	211	159	370
	12,094	6,733	18,827
Total purchase price consideration	$ 21,611	$ 22,074	$ 43,685

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

9. Business acquisitions (continued):

2009

(c) On September 2, 2009, the Company acquired the Resource Management ("RM") Business from Medisolution Ltd. for aggregate cash consideration of $27,762 plus cash holdbacks of $1,359 resulting in total consideration of $29,121. The holdbacks have subsequently been paid. The RM business provides ERP software, solutions and services to healthcare and service sector customers across North America. The acquisition has been accounted for using the purchase method with the results of operations included in these consolidated financial statements from the date of acquisition. The following table summarizes the aggregate fair value of the assets acquired and liabilities assumed at the date of acquisition:

Assets acquired:		
Current assets	$	6,190
Property and equipment		222
Other long-term assets		72
Technology assets		18,881
Customer assets		8,153
Backlog		1,109
		34,627
Liabilities assumed:		
Current liabilities		2,045
Deferred revenue		3,223
Other long-term liabilities		238
		5,506
Total purchase price consideration	$	29,121

This acquisition has been allocated to the Public Sector.

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

9. Business acquisitions (continued):

(d) During the nine months ended September 30, 2009, the Company made nine additional acquisitions for aggregate cash consideration of $14,892 plus cash holdbacks of $3,628 resulting in total consideration of $18,520. Holdbacks of $2,135 have subsequently been paid. The remaining holdbacks are payable over a two-year period ending August 3, 2012 and are adjusted for any claims under the representations and warranties of the agreements. In addition, there is contingent consideration payable in the amount of $1,500 based on the achievement of certain revenue and earnings targets. Revenue targets relating to $600 of the total payable amount have subsequently been missed resulting in no payment. The remaining contingent consideration will be recorded if and when it becomes determinable. The acquisitions have been accounted for using the purchase method with the results of operations included in these consolidated financial statements from the date of each acquisition. The following table summarizes by reportable segment the aggregate fair value of the assets acquired and liabilities assumed at the date of each acquisition:

	Public Sector	Private Sector	Consolidated
Assets acquired:			
Cash	$ -	$ 437	$ 437
Other current assets	467	2,347	2,814
Property and equipment	86	646	732
Technology assets	4,365	12,388	16,753
Customer assets	1,349	3,000	4,349
Goodwill	-	900	900
	6,267	19,718	25,985
Liabilities assumed:			
Current liabilities	132	1,407	1,539
Deferred revenue	1,790	2,680	4,470
Future income taxes	-	1,456	1,456
	1,922	5,543	7,465
Total purchase price consideration	$ 4,345	$ 14,175	$ 18,520

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

9. Business acquisitions (continued):

(e) On November 2, 2009, the Company acquired the Public Transit Solutions ("PTS") business of Continental Automotive AG ("Continental") for cash consideration of $1,471 plus transaction costs of $1,356 resulting in total consideration of $2,827. PTS is a global provider of solutions for public urban passenger transport. The division develops, produces and integrates intelligent transportation systems including operation control systems, on-board computers, and passenger information displays. The acquisition has been accounted for using the purchase method with the results of operations included in these consolidated financial statements from the date of acquisition. The following table summarizes the aggregate preliminary estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

	As of June 30, 2010	Purchase Price Adjustments	As of September 30, 2010
Assets acquired:			
Cash	$ 10,527	$ -	$ 10,527
Other current assets	49,338	6,200	55,538
Property and equipment	210	-	210
Other long-term assets	9,493	2,025	11,518
	69,568	8,225	77,793
Liabilities assumed:			
Current liabilities	19,407	(3,237)	16,170
Deferred revenue	11,098	1,033	12,131
Other long-term liabilities	36,236	6,911	43,147
	66,741	4,707	71,448
Excess of fair value of net assets acquired over cost	-	3,518	3,518
Total purchase price consideration	$ 2,827	$ -	$ 2,827

This acquisition has been included in the Public Sector reportable segment.

Adjustments made to the purchase price equation relate to purchase price adjustments made within the allocation period as defined by EIC 14, Adjustment to the Purchase Equation Subsequent to the Acquisition Date.

- During the three month period ended September 30, 2010, the Company received an assessment, from a neutral accounting firm, of the value of certain tangible net assets acquired as part of the PTS acquisition, in order to resolve an existing dispute between the Company and Continental. The findings indicated a reduction in the purchase price of approximately $6,800. The Company received payment from Continental on October 1, 2010. Other current assets were increased by $6,200 during the period primarily as a result of this assessment.
- Revisions to the remaining amounts to be billed and cost to complete estimates for certain long-term contracts resulted in increases to both Other long-term assets and Other long-term liabilities.

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

9. Business acquisitions (continued):

- Negative goodwill has arisen on acquisition because the fair value of the separately identifiable assets and liabilities acquired exceeded the total consideration paid. The excess of fair value of net assets acquired over cost has been recorded in income for the three and nine month periods ended September 30, 2010 and shown separately as an extraordinary gain in the statement of operations.

In addition to the assets acquired and liabilities assumed as noted above, the Company also acquired contingent liabilities related to certain long-term contracts that may, but are unlikely to, exceed $4,000 in the aggregate. As the likelihood of loss is not determinable, these amounts have not been recorded in the financial statements.

The contingent liabilities relate to liquidated damages contractually available to customers for breaches of contracts by PTS. The contingent liabilities represent the difference between the maximum financial liabilities potentially due to customers less the amounts accrued in connection with the contracts assumed on acquisition.

The Company determined that restructuring actions were required to improve the overall utilization and to reduce overhead costs at PTS. Restructuring actions primarily relate to a reduction in the workforce. The majority of the employees terminated are development and production employees in Switzerland and the workforce reductions are expected to be completed by 2011. Management is in the process of reprioritizing development efforts and assessing customer commitments, the result of which may impact the final restructuring assessment. On a quarterly basis, management will conduct an evaluation of the remaining balances relating to the workforce reduction and revise assumptions and estimates as appropriate. Any changes in estimates during the measurement period will be recorded as an adjustment to the purchase price allocation.

The following table details the movement in the restructuring charges that were recognized in the above purchase equation. The reversal resulted from a change in estimate and was recorded as an adjustment to the purchase price allocation.

	2010	2009
Opening balance (January 1, November 2)	$ 6,290	$ 6,977
Reversals	(4,642)	-
Cash payments	(702)	(567)
Foreign exchange	(31)	(120)
Ending balance (September 30, December 31)	$ 915	$ 6,290

The restructuring charges are included in accounts payable and accrued liabilities acquired.

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

9. Business acquisitions (continued):

2008

(f) On September 30, 2008, the Company acquired certain assets and liabilities of Maximus Inc.'s Justice, Education, and Asset Solutions businesses ("MAJES") for aggregate net cash consideration of $34,176. The Company also acquired certain long-term contracts that contain contingent liabilities that may, but are unlikely to, exceed $13,000 in the aggregate.

The contingent liabilities relate to liquidated damages contractually available to customers for breaches of contracts by MAJES and for estimated damages available to customers for breaches of such contracts by MAJES where such contracts did not contain specified penalties. The contingent liabilities represent the difference between the maximum financial liabilities potentially due to customers less the amounts accrued in connection with the contracts assumed on acquisition.

10. Intangible assets:

			September 30, 2010	December 31, 2009
	Cost	Accumulated amortization	Net book value	Net book value
Technology assets	$ 296,276	$ 157,188	$ 139,088	$ 130,088
Non-compete agreements	2,680	2,147	533	1,425
Customer assets	100,718	44,725	55,993	54,317
Trademarks	133	120	13	21
Backlog	10,458	9,991	467	-
Contract related assets	2,923	1,505	1,418	1,937
	$ 413,188	$ 215,676	$ 197,512	$ 187,788

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

11. Credit facilities:

The Company has an operating line-of-credit with a syndicate of U.S. and Canadian chartered banks in the amount of $160,000 (December 31, 2009 - $160,000). The line-of-credit bears a variable interest rate and is due in full on September 30, 2012. It is secured by a general security agreement covering the majority of the assets of the Company and its subsidiaries, and is subject to various standard debt covenants. As at September 30, 2010, $39,629 (December 31, 2009 - $43,100) had been drawn from this credit facility, and letters of credit totalling nil (December 31, 2009 - nil) were issued, which limits the borrowing capacity on a dollar-for-dollar basis. As the Company consistently generates sufficient cash flows from operating activities to repay the drawn portion of the credit facility within one year, the amount drawn has been classified as a current liability on the balance sheet.

12. Shareholder loans:

Share purchase loans receivable under the Company's share purchase plan are included as a reduction of shareholders' equity. Interest rates on these loans range from 5.0% to 6.5% depending on the year the loan was advanced. The balances outstanding are secured by the shares for which they were used to purchase. At September 30, 2010, the market value of the shares held as collateral was $4,359 (December 31, 2009 - $4,551).

The following table summarizes the shareholder loan activity for the period:

		2010		2009
Balance, January 1	$	646	$	931
Repayment of shareholder loans		(207)		(329)
Interest		21		19
Currency translation adjustment		9		20
Balance, September 30	$	469	$	641

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

13. Other (income) expenses:

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Gain on sale of short-term investments, marketable securities and other assets	$ 1	$ -	$ (81)	$ (33)
Other than temporary decline in value of available for sale investments	-	-	-	1,474
Earnings of equity investee	-	-	(199)	-
Other	(82)	-	(113)	-
	$ (81)	$ -	$ (393)	$ 1,441

14. Income taxes:

The Company operates in various tax jurisdictions, and accordingly, the Company's income is subject to varying rates of tax. Losses incurred in one jurisdiction cannot be used to offset income taxes payable in another. The Company's ability to use income tax losses and future income tax deductions is dependent upon the profitable operations of the Company in the tax jurisdictions in which such losses or deductions arise. As of September 30, 2010, the Company had total future tax assets of $18,796 (December 31, 2009 - $14,600) and total future tax liabilities of $34,977 (December 31, 2009 - $28,121).

In assessing the valuation of future income tax assets, management considers whether it is more likely than not that some portion or all of the future income tax assets will be realized. The ultimate realization of future income tax assets is dependent upon the generation of future taxable income during the years in which the temporary differences are deductible. Management considers the scheduled reversals of future income tax liabilities, the character of the income tax assets, and tax planning strategies in making this assessment. To the extent that management believes that the realization of the future income tax assets does not meet the more likely than not realization criterion, a valuation allowance is recorded against the future tax assets.

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

15. Income per share:

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Numerator:				
Net income	$ 14,211	$ 2,706	$ 23,872	$ 10,234
Denominator:				
Weighted average number of shares (in '000):				
Basic	21,180	21,171	21,178	21,163
Effect of dilutive securities:				
Shares secured by shareholder loans	12	21	14	29
Diluted	21,192	21,192	21,192	21,192
Net income per share:				
Basic	$ 0.67	$ 0.13	$ 1.13	$ 0.48
Diluted	$ 0.67	$ 0.13	$ 1.13	$ 0.48

16. Segmented information:

(a) Reportable segments:

The Company has a number of operating subsidiaries, which have been aggregated into two reportable segments in accordance with CICA Handbook Section 1701. The Company's Public Sector segment develops and distributes software solutions primarily to government and government-related customers. The Company's Private Sector segment develops and distributes software solutions primarily to commercial customers. Unallocated corporate expenses have been classified as Other.

The accounting policies of the segments are the same as those described in the significant accounting policies in note 1 of the 2009 annual financial statements. The Company evaluates performance of the Public Sector business units and the Private Sector business units based on several factors, of which the primary financial measures are revenue and income (loss) from operations. The Company defines income (loss) from operations as income (loss) prior to: amortization of intangible assets, (gain) loss on sale of short-term investments and marketable securities and other assets, interest expense (income), foreign exchange gains and losses, inter-company expenses and income taxes.

Corporate head office operating expenses are allocated to the Company's segments based on the segment's percentage of total company revenue for the allocation period.

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

16. Segmented information (continued):

Three months ended September 30, 2010	Public Sector	Private Sector	Other	Total
Revenue	$ 120,390	$ 42,424	$ -	$ 162,814
Cost of revenue	54,190	15,157	-	69,347
	66,200	27,267	-	93,467
Research and development	14,073	6,490	-	20,563
Sales and marketing	9,066	5,044	-	14,110
General and administration	18,289	8,661	-	26,950
Depreciation	1,249	422	-	1,671
	42,677	20,617	-	63,294
Income before the undernoted	23,523	6,650	-	30,173
Amortization of intangible assets	12,421	4,943	180	17,544
Other income	2	(1)	(82)	(81)
Interest (income) expense, net	(9)	20	830	841
Foreign exchange loss (gain)	(1,331)	569	(218)	(980)
Inter-company expenses (income)	2,842	1,041	(3,883)	-
Income before income taxes	9,598	78	3,173	12,849
Excess on acquisition of fair value of net assets of subsidiary over cost	3,518	-	-	3,518
Income taxes (recovery):				
Current	4,515	1,001	(788)	4,728
Future	(1,420)	(960)	(192)	(2,572)
	3,095	41	(980)	2,156
Net Income	$ 10,021	$ 37	$ 4,153	$ 14,211
Other selected information:				
Goodwill acquired	$ (324)	$ 41	$ -	$ (283)
Property and equipment purchased	$ 1,701	$ 220	$ 5	$ 1,926
Total assets	$ 336,583	$ 88,211	$ 92,511	$ 517,305

Goodwill acquired for the three months ended September 30, 2010 resulted from the adjustment in the fair value of assets and liabilities acquired in the six months ended June 30, 2010.

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

16. Segmented information (continued):

Nine months ended September 30, 2010	Public Sector	Private Sector	Other	Total
Revenue	$ 343,939	$ 115,450	$ -	$ 459,389
Cost of revenue	150,528	40,322	-	190,850
	193,411	75,128	-	268,539
Research and development	46,236	17,816	-	64,052
Sales and marketing	28,921	14,154	-	43,075
General and administration	52,676	25,050	-	77,726
Depreciation	3,056	1,092	-	4,148
	130,889	58,112	-	189,001
Income before the undernoted	62,522	17,016	-	79,538
Amortization of intangible assets	36,379	13,102	533	50,014
Other income	(81)	(1)	(311)	(393)
Interest (income) expense, net	(12)	(16)	2,523	2,495
Foreign exchange loss (gain)	(621)	1,135	(473)	41
Inter-company expenses (income)	4,842	3,025	(7,867)	-
Income before income taxes	22,015	(229)	5,595	27,381
Excess on acquisition of fair value of net assets of subsidiary over cost	3,518	-	-	3,518
Income taxes (recovery):				
Current	12,958	2,255	(2,179)	13,034
Future	(2,849)	(2,313)	(845)	(6,007)
	10,109	(58)	(3,024)	7,027
Net Income	$ 15,424	$ (171)	$ 8,619	$ 23,872
Other selected information:				
Goodwill acquired	$ 3,295	$ 3,161	$ -	$ 6,456
Property and equipment purchased	$ 4,320	$ 813	$ 16	$ 5,149
Total assets	$ 336,583	$ 88,211	$ 92,511	$ 517,305

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

16. Segmented information (continued):

Three months ended September 30, 2009	Public Sector	Private Sector	Other	Total
Revenue	$ 81,105	$ 26,174	$ -	$ 107,279
Cost of revenue	31,978	8,137	-	40,115
	49,127	18,037	-	67,164
Research and development	12,595	3,883	-	16,478
Sales and marketing	7,290	3,424	-	10,714
General and administration	11,985	4,983	-	16,968
Depreciation	775	292	-	1,067
	32,645	12,582	-	45,227
Income before the undernoted	16,482	5,455	-	21,937
Amortization of intangible assets	11,864	3,552	167	15,583
Other expenses	-	-	-	-
Interest (income) expense, net	63	(5)	484	542
Foreign exchange loss (gain)	2,307	2,213	(2,498)	2,022
Inter-company expenses (income)	719	905	(1,624)	-
Income before income taxes	1,529	(1,210)	3,471	3,790
Income taxes (recovery):				
Current	4,272	464	70	4,806
Future	(2,823)	(899)	-	(3,722)
	1,449	(435)	70	1,084
Net Income	$ 80	$ (775)	$ 3,401	$ 2,706
Other selected information:				
Goodwill acquired	$ -	$ 863	$ -	$ 863
Property and equipment purchased	$ 775	$ 201	$ 2	$ 978
Total assets	$ 279,238	$ 102,099	$ 33,105	$ 414,442

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

16. Segmented information (continued):

Nine months ended September 30, 2009	Public Sector	Private Sector	Other	Total
Revenue	$ 233,357	$ 72,689	$ -	$ 306,046
Cost of revenue	90,934	22,000	-	112,934
	142,423	50,689	-	193,112
Research and development	35,394	11,066	-	46,460
Sales and marketing	22,414	9,080	-	31,494
General and administration	35,515	13,745	-	49,260
Depreciation	1,958	748	-	2,706
	95,281	34,639	-	129,920
Income before the undernoted	47,142	16,050	-	63,192
Amortization of intangible assets	34,254	9,515	502	44,271
Other expenses	-	-	1,441	1,441
Interest (income) expense, net	83	(17)	1,842	1,908
Foreign exchange loss (gain)	(312)	3,525	(2,589)	624
Inter-company expenses (income)	2,521	2,698	(5,219)	-
Income before income taxes	10,596	329	4,023	14,948
Income taxes (recovery):				
Current	8,976	2,615	(128)	11,463
Future	(4,316)	(2,433)	-	(6,749)
	4,660	182	(128)	4,714
Net Income	$ 5,936	$ 147	$ 4,151	$ 10,234
Other selected information:				
Goodwill acquired	$ -	$ 863	$ -	$ 863
Property and equipment purchased	$ 2,446	$ 438	$ 23	$ 2,907
Total assets	$ 279,238	$ 102,099	$ 33,105	$ 414,442

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

16. Segmented information (continued):

(b) Geographic information:

The Company's external revenue by geographic region is based on the region in which the revenue is transacted.

	Three months ended September 30, 2010		Three months ended September 30, 2009		Nine months ended September 30, 2010		Nine months ended September 30, 2009	
Canada	$ 23,493	14%	$ 16,444	15%	$ 73,384	16%	$ 46,491	15%
United States	95,756	59%	76,816	72%	277,817	60%	221,268	72%
UK/Europe	35,591	22%	8,336	8%	87,421	19%	23,969	8%
Other	7,974	5%	5,683	5%	20,767	5%	14,318	5%
Total	$ 162,814	100%	$ 107,279	100%	$ 459,389	100%	$ 306,046	100%

As at September 30, 2010 and December 31, 2009, no single customer accounted for more than 10% of the Company's total accounts receivable and total revenues.

17. Change in non-cash operating working capital:

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Decrease (increase) in accounts receivable	$ (13,708)	$ (3,839)	$ 6,787	$ (318)
Decrease (Increase) in work in progress	529	(573)	(4,841)	(5,047)
Decrease (increase) in inventory	(286)	(12)	(1,298)	(463)
Decrease in prepaid expenses and other current assets	5,378	4,996	3,892	2,992
Increase (decrease) in accounts payable and accrued liabilities excluding holdbacks from acquisitions	5,974	8,694	(12,367)	(7,162)
Increase (decrease) in deferred revenue	3,265	(388)	3,654	4,527
Increase (decrease) in income taxes payable	(3,827)	3,040	(737)	928
	$ (2,675)	$ 11,918	$ (4,910)	$ (4,543)

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

18. Change in accumulated other comprehensive loss

	2010	2009
Balance, January 1	$ (157)	$ (6,901)
Net unrealized mark-to-market adjustment gain (loss) on available-for-sale financial assets during the period	3,354	4,099
Net unrealized foreign exchange gain (loss) on available-for-sale financial assets during the period	(31)	524
Reclassification of unrealized gain from prior periods upon derecognition of available-for-sale investments (note 9(b))	(696)	-
Amounts reclassified to net income during the period related to other than temporary losses in available-for-sale investments	-	1,474
Future tax expense on unrealized net gains	(844)	-
Foreign currency translation adjustment	1,049	-
Balance, September 30	$ 2,675	$ (804)

19. Subsequent events:

Subsequent to September 30, 2010, the Company completed two acquisitions for aggregate cash consideration of $36,157 (C$37,000) on closing plus holdbacks of $4,396 (C$4,500). In addition there is contingent consideration payable in the maximum amount of $2,912 (C$3,000), based on the achievement of certain revenue targets.

Subsequent to September 30, 2010, the Company entered into agreements with Bond International Software plc ("Bond") to acquire 8,225,641 voting and non-voting convertible treasury shares of Bond for 75p per share, which equates to a total purchase price of approximately $9,751. These shares, combined with the Company's existing Bond shareholding, will raise its economic interest in Bond to 31% of the outstanding shares, and its voting interest to 22% of the outstanding voting shares. Bond will use the proceeds of the sale to purchase VCG, LLC ("VCG"), one of Bond's largest North American competitors. The Company currently holds $4,000 of debentures in VCG, plus accrued interest, all of which will be repaid upon the closing of this transaction. The net cash outlay for the Company will be approximately $5,121.

20. Comparative figures:

Certain comparative figures have been reclassified to conform to the current year's presentation.