Consolidated Financial Statements
(In U.S. dollars)

# CONSTELLATION SOFTWARE INC.

For the three months ended March 31, 2010 and 2009
(Unaudited)

# CONSTELLATION SOFTWARE INC.

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

| | March 31, 2010 | December 31, 2009 |
|---|---|---|
| | (Unaudited) | |
| **Assets** | | |
| Current assets: | | |
| Cash | $ 26,397 | $ 33,249 |
| Short-term investments and marketable securities available for sale (note 5) | 21,230 | 22,323 |
| Accounts receivable | 103,669 | 99,742 |
| Work in progress | 23,074 | 21,349 |
| Inventory (note 6) | 14,167 | 12,702 |
| Prepaid expenses and other current assets | 21,318 | 19,606 |
| Notes receivable | 3,896 | 3,833 |
| Investment tax credits recoverable | 2,215 | 2,250 |
| Future income taxes (note 14) | 3,860 | 4,445 |
| | 219,826 | 219,499 |
| Restricted cash (note 4) | 2,686 | 2,229 |
| Property and equipment | 11,627 | 10,539 |
| Future income taxes (note 14) | 11,494 | 10,155 |
| Investment tax credits recoverable | 2,415 | 2,133 |
| Other long-term assets (note 7) | 14,804 | 7,169 |
| Intangible assets (note 10) | 193,714 | 187,788 |
| Goodwill | 41,268 | 40,977 |
| | $ 497,834 | $ 480,489 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Bank indebtedness (note 11) | $ 58,565 | $ 43,100 |
| Accounts payable and accrued liabilities | 85,936 | 111,307 |
| Acquisition holdback payments | 5,718 | 3,587 |
| Deferred revenue | 159,476 | 136,857 |
| Income taxes payable (note 14) | 3,280 | 3,751 |
| | 312,975 | 298,602 |
| Future income taxes (note 14) | 28,353 | 28,121 |
| Other long-term liabilities (note 8) | 46,746 | 45,708 |
| Shareholders equity: | | |
| Capital stock | 99,283 | 99,283 |
| Shareholder loans (note 12) | (538) | (646) |
| Accumulated other comprehensive loss (note 18) | 634 | (157) |
| Retained earnings | 10,381 | 9,578 |
| | 109,760 | 108,058 |
| Subsequent event (note 19) | | |
| Contingencies (note 9) | | |
| | $ 497,834 | $ 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 March 31, 2010 | Three months ended March 31, 2009 |
|---|---|---|
| | (Unaudited) | |
| Revenue | $ 143,893 | $ 97,252 |
| Cost of revenue | 60,550 | 35,829 |
| | 83,343 | 61,423 |
| Research and development | 22,190 | 14,701 |
| Sales and marketing | 13,621 | 10,097 |
| General and administration | 23,676 | 16,065 |
| Depreciation | 1,047 | 750 |
| | 60,534 | 41,613 |
| Income before the undernoted | 22,809 | 19,810 |
| Amortization of intangible assets | 15,295 | 14,379 |
| Other (income) expenses (note 13) | (189) | 188 |
| Interest expense, net | 645 | 680 |
| Foreign exchange loss (gain) | 91 | (1,027) |
| Income before income taxes | 6,967 | 5,590 |
| Income taxes (recovery) (note 14): | | |
| Current | 3,595 | 3,152 |
| Future | (2,941) | (1,343) |
| | 654 | 1,809 |
| Net income | $ 6,313 | $ 3,781 |
| Income per share (note 15): | | |
| Basic | $ 0.30 | $ 0.18 |
| Diluted | 0.30 | 0.18 |
| Weighted average number of shares outstanding (note 15): | | |
| Basic | 21,175 | 21,150 |
| Diluted | 21,192 | 21,192 |
| Outstanding at the end of the period | 21,192 | 21,192 |

See accompanying notes to interim consolidated financial statements.

# CONSTELLATION SOFTWARE INC.

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

| | Three months ended March 31, 2010 | 2009 |
|---|---|---|
| | (Unaudited) | |
| Retained earnings, beginning of period | $ 9,578 | $ 3,931 |
| Net income | 6,313 | 3,781 |
| Dividends | (5,510) | (4,577) |
| Retained earnings, end of period | $ 10,381 | $ 3,135 |

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

| | Three months ended March 31, 2010 | 2009 |
|---|---|---|
| | (Unaudited) | |
| Net Income | $ 6,313 | $ 3,781 |
| Other comprehensive net income, net of tax: | | |
| Net unrealized mark-to-market adjustment gain (loss) on available-for-sale financial assets during the period | 2,074 | (1,425) |
| Net unrealized foreign exchange adjustment gain (loss) on available-for-sale financial assets during the period | (351) | (96) |
| Reclassification of unrealized gain from prior periods upon derecognition of available-for-sale investments (note 7(ii)) | (696) | - |
| Amounts reclassified to earnings during the period | - | 210 |
| Future tax expense on unrealized gains | (604) | - |
| Foreign currency translation adjustment | 368 | - |
| Comprehensive income | $ 7,104 | $ 2,470 |

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 March 31, 2010 | 2009 |
|---|---|---|
| | (Unaudited) | |
| Cash flows from operating activities: | | |
| Net income | $ 6,313 | $ 3,781 |
| Adjustments to reconcile net income to net cash flows from operations: | | |
| Depreciation | 1,047 | 750 |
| Amortization of intangible assets | 15,295 | 14,379 |
| Non-cash interest | (71) | (36) |
| Future income taxes | (2,941) | (1,343) |
| Other | (189) | 188 |
| Foreign exchange gain | 91 | (1,101) |
| Change in non-cash operating working capital (note 17) | (11,176) | (15,747) |
| Cash flows from operating activities | 8,369 | 871 |
| Cash flows from (used in) financing activities: | | |
| Increase (decrease) in other long-term liabilities | 53 | (53) |
| Increase (decrease) in bank indebtedness | 15,465 | (5,991) |
| Credit facility financing fees | - | (16) |
| Dividends paid | (5,510) | (3,651) |
| Repayment of shareholder loans (note 12) | 121 | 298 |
| Cash flows from (used in) financing activities | 10,129 | (9,413) |
| Cash flows from (used in) investing activities: | | |
| Acquisition of businesses, net of cash acquired (note 9) | (15,261) | (2,925) |
| Acquisition holdback payments | (947) | (1,939) |
| Earnout payments | (71) | - |
| Additions to short-term investments, marketable securities and other assets | (7,217) | - |
| Increase in restricted cash | (457) | - |
| Decrease (increase) in other assets | 305 | (240) |
| Property and equipment purchased | (1,590) | (921) |
| Cash flows used in investing activities | (25,238) | (6,025) |
| Effect of currency translation adjustment on cash and cash equivalents | (112) | 1,052 |
| Decrease in cash and cash equivalents | (6,852) | (13,515) |
| Cash, beginning of period | 33,249 | 30,405 |
| Cash, end of period | $ 26,397 | $ 16,890 |
| Supplemental cash flow information: | | |
| Income taxes paid | $ 3,627 | $ 5,122 |
| Interest paid | 882 | 848 |
| Investment tax credits received | 479 | 75 |
| Interest received | 43 | 22 |

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. Enities subject to significant influence are accounted for using equity accounting. As at March 31, 2010, the Company's approximate 44% (December 31, 2009 - 30%) interest in Gladstone PLC is accounted for using equity accounting. All significant inter-company transactions and balances have been eliminated. During the three months ended March 31, 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 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 has elected to early adopt this standard and apply to all business combinations with acquisition dates on or after January 1, 2010. There was no material impact to the Company's financial statements as a result of adopting this new standard.

(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 for 2011. Earlier adoption is permitted. The Company has elected to early adopt this standard effective January 1, 2010.

**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.

**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 first quarter ended March 31, 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.

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

**4. Restricted cash:**

At March 31, 2010, the Company has $2,686 (December 31, 2009 - $2,229) held in accordance with escrow agreements related to prior business acquisitions.

**5. Short-term investments and marketable securities:**

At March 31, 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. During the three months ended March 31, 2010, the Company's investment in Gladstone PLC was reclassified as an equity investment.

| | March 31, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | Cost | Market Value | Cost | Market Value |
| Common shares | $ 17,200 | $ 21,230 | $ 19,319 | $ 22,323 |

**6. Inventory:**

| | March 31 2010 | December 31, 2009 |
|---|---|---|
| Raw materials | $ 7,087 | $ 7,537 |
| Work in progress | 327 | 3,510 |
| Finished goods | 6,753 | 1,655 |
| | $ 14,167 | $ 12,702 |

The cost of inventories, including applicable writedowns, included in cost of revenue amounted to $9,277 (Three months ended March 31, 2009 - $2,761).

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

**7. Other long-term assets:**

| | March 31 2010 | December 31, 2009 |
|---|---|---|
| Share purchase warrants | $ 200 | $ 200 |
| Acquired contract assets (i) | 1,825 | 3,364 |
| Equity investment in investee (ii) | 9,479 | - |
| Long term receivables and other | 3,300 | 3,605 |
| | $ 14,804 | $ 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. The current portion which amounts to $5,078 (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 actual costs incurred plus the profit margin recorded in the Statement of Operations.

(ii) Equity investment in Gladstone PLC. This investment was previously recognized as a cost investment prior to the acquisition of an additional interest during the period. (refer to note 19)

**8. Other long-term liabilities:**

| | March 31 2010 | December 31, 2009 |
|---|---|---|
| Acquisition holdback payments | $ 2,054 | $ 2,537 |
| Acquired contract liabilities (i) | 32,779 | 34,120 |
| Other (ii) | 2,923 | 2,839 |
| Acquired liabilities (iii) | 8,990 | 6,212 |
| | $ 46,746 | $ 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. The current portion which amounts to $8,430 (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 actual costs incurred plus the profit margin recorded in the Statement of Operations.

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

(iii) These liabilities are a component of the Public Transit Solutions business acquired on November 2, 2009 (note 9(c)). Due to the proximity of the acquisition to period end, management is in the process of determining the fair value of assets and liabilities acquired.

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

**9. Business acquisitions:**

**2010**

(a) During the three months ended March 31, 2010, the Company made five acquisitions for aggregate cash consideration of $17,842 plus cash holdbacks of $2,438 resulting in total consideration of $20,280. The holdbacks are payable over a one-year period ending March 9, 2011 and are adjusted for claims under the representations and warranties of the agreements. The acquisitions include software companies catering to the pulp and paper, tourism and attractions, schools, catalog, and public transit markets. 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 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 | $ 1,227 | $ 1,354 | $ 2,581 |
| Other current assets | 757 | 3,617 | 4,374 |
| Property and equipment | 125 | 273 | 398 |
| Technology assets | 3,244 | 8,950 | 12,194 |
| Customer assets | 2,524 | 5,410 | 7,934 |
| Goodwill | 220 | - | 220 |
| | 8,097 | 19,604 | 27,701 |
| Liabilities assumed: | | | |
| Current liabilities | 953 | 1,479 | 2,432 |
| Deferred revenue | 986 | 2,374 | 3,360 |
| Future income taxes | 1,092 | 506 | 1,598 |
| Other long term liabilities | - | 31 | 31 |
| | 3,031 | 4,390 | 7,421 |
| Total purchase price consideration | $ 5,066 | $ 15,214 | $ 20,280 |

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

**9. Business acquisitions (continued):**

**2009**

(b) During the three months ended March 31, 2009, the Company made one acquisition for aggregate cash consideration of $2,925 plus a cash holdback of $588 resulting in total consideration of $3,513. The holdback has subsequently been paid in full. In addition there is contingent consideration payable in the amount of $900, contingent on the achievement of certain revenue targets. The amount will be recorded if and when it becomes determinable. 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 the acquisition. The following table summarizes the aggregate fair value of the assets acquired and liabilities assumed at the date of the acquisition:

| | | |
|---|---|---|
| Assets acquired: | | |
| Current assets | $ | 463 |
| Property and equipment | | 63 |
| Technology assets | | 3,778 |
| Customer assets | | 1,136 |
| | | 5,440 |
| Liabilities assumed: | | |
| Current liabilities | | 191 |
| Deferred revenue | | 1,736 |
| | | 1,927 |
| Total purchase price consideration | $ | 3,513 |

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

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

**9. Business acquisitions (continued):**

(c) On November 2, 2009, the Company acquired the Public Transit ("PTS") Solutions 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:

| | | |
|---|---|---|
| Assets acquired: | | |
| Cash | $ | 10,527 |
| Other current assets | | 49,754 |
| Property and equipment | | 210 |
| Other long-term assets | | 10,203 |
| | | 70,694 |
| Liabilities assumed: | | |
| Current liabilities | | 20,080 |
| Deferred revenue | | 10,606 |
| Other long-term liabilities | | 37,181 |
| | | 67,867 |
| Total purchase price consideration | $ | 2,827 |

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

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 $6,000 in the aggregate. As the likelihood of loss is not determinable, these amounts have not been recorded in the financial statements.

The Company is in the process of resolving the value of the tangible net assets acquired as part of the acquisition. The resolution may result in a reduction of the purchase price.

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

**9. Business acquisitions (continued):**

The Company determined that restructuring actions were required to improve the overall utilization and reduce overhead costs at PTS. Restructuring actions include consolidating facilities and reducing the workforce. The majority of the employees terminated are development and production employees in Switzerland and the workforce reductions are expected to be complete by June 2010. Management is still in the process of reprioritizing development efforts and assessing customer commitments, the result of which may impact the final restructuring activity. 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 will be recorded as an adjustment to the purchase price allocation.

Regarding the facilities consolidation in Switzerland, management needs to finalize the timeline for consolidating employees into the reduced workspace. At the time the plan is finalized, an accrual for the excess portion of future lease payments will be recorded as an adjustment to the purchase price allocation.

The following table details the movement in the restructuring charges that were setup in the above purchase equation.

| | | 2010 | | 2009 |
|---|---|---|---|---|
| Opening balance (January 1, November 2) | $ | 6,290 | $ | 6,977 |
| Cash payments | | (457) | | (567) |
| Reversals | | (4,527) | | - |
| Foreign exchange | | (155) | | (120) |
| Ending balance (March 31, December 31) | $ | 1,151 | $ | 6,290 |

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

**9. Business acquisitions (continued):**

**2008**

(d) On September 30, 2008, the Company acquired certain assets and liabilities of Maximus Inc.'s Justice, Education, and Asset Solutions businesses 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.

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

**10. Intangible assets:**

| | Cost | Accumulated amortization | March 31 2010 Net book value | December 31, 2009 Net book value |
|---|---|---|---|---|
| Technology assets | $ 264,765 | $ 132,501 | $ 132,264 | $ 130,088 |
| Non-compete agreements | 4,547 | 3,461 | 1,086 | 1,425 |
| Customer assets | 94,540 | 35,955 | 58,585 | 54,317 |
| Trademarks | 133 | 115 | 18 | 21 |
| Backlog | 7,788 | 7,788 | - | - |
| Contract related assets | 2,910 | 1,149 | 1,761 | 1,937 |
| | $ 374,683 | $ 180,969 | $ 193,714 | $ 187,788 |

**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 March 31, 2010, $58,565 (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 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 March 31, 2010, the market value of the shares held as collateral was $5,390 (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 | (121) | (298) |
| Interest | 8 | 10 |
| Currency translation adjustment | 5 | (7) |
| Balance, March 31 | $ 538 | $ 636 |

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

**13. Other (income) expenses:**

| | Three months ended March 31, 2010 | Three months ended March 31, 2009 |
|---|---|---|
| Gain on sale of short-term investments, marketable securities and other assets | $ (46) | $ - |
| Other than temporary decline in value of available for sale investments | - | 188 |
| Earnings of equity investee | (143) | - |
| | $ (189) | $ 188 |

**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 March 31, 2010, the Company had total future tax assets of $15,354 (December 31, 2009 - $14,600) and total future tax liabilities of $28,353 (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 March 31, 2010 | 2009 |
|---|---|---|
| Numerator: | | |
| Net income | $ 6,313 | $ 3,781 |
| Denominator: | | |
| Weighted average number of shares (in '000): | | |
| Basic | 21,175 | 21,150 |
| Effect of dilutive securities: | | |
| Shares secured by shareholder loans | 17 | 42 |
| Diluted | 21,192 | 21,192 |
| Net income per share: | | |
| Basic | $ 0.30 | $ 0.18 |
| Diluted | $ 0.30 | 0.18 |

**16.** **Segmented information:**

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 businesses and the Private Sector businesses based on several factors, of which the primary financial measures are revenue and earnings (loss) from operations. The Company defines earnings (loss) from operations as earnings (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):**

(a) Reportable segments:

| Three months ended March 31, 2010 | Public Sector | Private Sector | Other | Total |
|---|---|---|---|---|
| Revenue | $ 110,224 | $ 33,669 | $ - | $ 143,893 |
| Cost of revenue | 49,578 | 10,972 | - | 60,550 |
| | 60,646 | 22,697 | - | 83,343 |
| Research and development | 16,794 | 5,396 | - | 22,190 |
| Sales and marketing | 9,289 | 4,332 | - | 13,621 |
| General and administration | 16,527 | 7,149 | - | 23,676 |
| Depreciation | 758 | 289 | - | 1,047 |
| | 43,368 | 17,166 | - | 60,534 |
| Income before the undernoted | 17,278 | 5,531 | - | 22,809 |
| Amortization of intangible assets | 11,864 | 3,255 | 176 | 15,295 |
| Other income | (10) | (36) | (143) | (189) |
| Interest (income) expense, net | (19) | (9) | 673 | 645 |
| Foreign exchange loss (gain) | 902 | 1,120 | (1,931) | 91 |
| Inter-company expenses (income) | 978 | 962 | (1,940) | - |
| Income before income taxes | 3,563 | 239 | 3,165 | 6,967 |
| Income taxes (recovery): | | | | |
| Current | 3,382 | 955 | (742) | 3,595 |
| Future | (1,443) | (893) | (605) | (2,941) |
| | 1,939 | 62 | (1,347) | 654 |
| Net Income | $ 1,624 | $ 177 | $ 4,512 | $ 6,313 |
| Other selected information: | | | | |
| Goodwill acquired | $ - | $ - | $ - | $ - |
| Property and equipment purchased | $ 1,500 | $ 90 | $ - | $ 1,590 |
| Total assets | $ 335,415 | $ 55,325 | $ 107,094 | $ 497,834 |

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

**16. Segmented information (continued):**

| Three months ended March 31, 2009 | Public Sector | Private Sector | Other | Total |
|---|---|---|---|---|
| Revenue | $ 74,491 | $ 22,761 | $ - | $ 97,252 |
| Cost of revenue | 29,125 | 6,704 | - | 35,829 |
| | 45,366 | 16,057 | - | 61,423 |
| Research and development | 11,038 | 3,663 | - | 14,701 |
| Sales and marketing | 7,254 | 2,843 | - | 10,097 |
| General and administration | 11,478 | 4,587 | - | 16,065 |
| Depreciation | 520 | 230 | - | 750 |
| | 30,290 | 11,323 | - | 41,613 |
| Income before the undernoted | 15,076 | 4,734 | - | 19,810 |
| Amortization of intangible assets | 11,153 | 3,058 | 168 | 14,379 |
| Other expenses | - | - | 188 | 188 |
| Interest (income) expense, net | 17 | (7) | 670 | 680 |
| Foreign exchange loss (gain) | (1,269) | (910) | 1,152 | (1,027) |
| Inter-company expenses (income) | 855 | 851 | (1,706) | - |
| Income before income taxes | 4,320 | 1,742 | (472) | 5,590 |
| Income taxes (recovery): | | | | |
| Current | 2,416 | 845 | (109) | 3,152 |
| Future | (399) | (944) | - | (1,343) |
| | 2,017 | (99) | (109) | 1,809 |
| Net Income | $ 2,303 | $ 1,841 | $ (363) | $ 3,781 |
| Other selected information: | | | | |
| Property and equipment purchased | $ 778 | $ 141 | $ 2 | $ 921 |
| Total assets | $ 275,479 | $ 78,994 | $ 17,191 | $ 371,664 |

(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 March 31, 2010 | | | Three months ended March 31, 2009 | | |
|---|---|---|---|---|---|---|
| Canada | $ | 22,613 | 16% | $ | 10,730 | 11% |
| United States | | 88,142 | 61% | | 74,580 | 77% |
| UK/Europe | | 27,287 | 19% | | 7,676 | 8% |
| Other | | 5,851 | 4% | | 4,266 | 4% |
| Total | $ | 143,893 | 100% | $ | 97,252 | 100% |

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

**17. Change in non-cash operating working capital:**

| | Three months ended March 31, 2010 | | 2009 | |
|---|---|---|---|---|
| Increase in accounts receivable | $ | (424) | $ | (3,731) |
| Increase in work in progress | | (1,331) | | (2,948) |
| Decrease (increase) in inventory | | 228 | | (1,140) |
| Increase in prepaid expenses and other current assets | | (1,508) | | (1,379) |
| Change in acquired contract assets and liabilities | | 155 | | 513 |
| Decrease in accounts payable and accrued liabilities excluding holdbacks from acquisitions | | (23,106) | | (20,781) |
| Increase in deferred revenue | | 15,281 | | 15,569 |
| Decrease in income taxes payable | | (471) | | (1,850) |
| | $ | (11,176) | $ | (15,747) |

(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 | 2,074 | (1,425) |
| Net unrealized foreign exchange adjustment gain (loss) on available-for-sale financial assets during the period | (351) | (96) |
| Transfer of unrealized gain from prior periods upon derecognition of available-for-sale investments | (696) | - |
| Amounts reclassified to earnings during the period | - | 210 |
| Future tax expense on unrealized gains | (604) | - |
| Foreign currency translation adjustment | 368 | - |
| Balance, March 31 | $ 634 | $ (8,212) |

**19. Subsequent event:**

Subsequent to March 31, 2010, the Company purchased an additional 47% of the common shares of UK-based Gladstone PLC ("Gladstone") for $12,340. This purchase increases the Company's ownership in Gladstone to 91%, for a total cost of $22,962. As control has now been obtained, subsequent financial statements will classify Gladstone as a subsidiary, and results will be consolidated with the other subsidiary's of the Company. Gladstone is a provider of software solutions and services to the Health & Leisure and Education verticals.

**20. Comparative figures:**

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