CONSTELLATION SOFTWARE INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")

The following discussion and analysis should be read in conjunction with the Unaudited Condensed Consolidated Interim Financial Statements for the three and six month periods ended June 30, 2013 and with our Annual Consolidated Financial Statements for the year ended December 31, 2012, which we prepared in accordance with International Financial Reporting Standards ("IFRS"). Certain information included herein is forward-looking and based upon assumptions and anticipated results that are subject to uncertainties. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected. See "Forward-Looking Statements" and "Risks and Uncertainties".

Unless otherwise indicated, all dollar amounts are expressed in U.S. dollars. All references to "$" are to U.S. dollars and all references to "C$" are to Canadian dollars.

Additional information about Constellation Software Inc. (the "Company" or "Constellation"), including our most recently filed Annual Information Form ("AIF"), is available on SEDAR at www.sedar.com.

Forward Looking Statements

Certain statements in this report, including those under "Outlook" below, may contain "forward looking" statements that involve risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Words such as "may", "will", "expect", "believe", "plan", "intend", "should", "anticipate" and other similar terminology are intended to identify forward looking statements. These statements reflect current assumptions and expectations regarding future events and operating performance as of the date of this MD&A, July 31, 2013. 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, including, but not limited to, the factors discussed under "Outlook" and "Risks and Uncertainties". Although the forward looking statements contained in this MD&A are based upon what management of the Company believes are reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward looking statements. These forward looking statements are made as of the date of this MD&A and the Company assumes no obligation, except as required by law, to update any forward looking statements to reflect new events or circumstances. This report should be viewed in conjunction with the Company's other publicly available filings, copies of which can be obtained electronically on SEDAR at www.sedar.com.

Non-IFRS Measures

This MD&A includes certain measures which have not been prepared in accordance with IFRS such as Adjusted EBITDA, Adjusted EBITDA margin, Adjusted net income and Adjusted net income margin.

The term ''Adjusted EBITDA'' refers to net income before adjusting for finance income, finance costs, income taxes, equity in net income or loss of equity investees, impairment of non-financial assets, depreciation, amortization, and foreign exchange gain or loss. The Company believes that Adjusted EBITDA is useful supplemental information as it provides an indication of the results generated by the Company's main business activities prior to taking into consideration how those activities are financed and taxed and also prior to taking into consideration asset depreciation and amortization and the other items listed above. ''Adjusted EBITDA margin'' refers to the percentage that Adjusted EBITDA for any period represents as a portion of total revenue for that period.

‘‘Adjusted net income’’ means net income adjusted for non-cash expenses (income) such as amortization of intangible assets, deferred income taxes, and certain other expenses (income). The Company believes that Adjusted net income is useful supplemental information as it provides an indication of the results generated by the Company’s main business activities prior to taking into consideration amortization of intangible assets, deferred income taxes, and certain other non-cash expenses (income) incurred or recognized by the Company from time to time. ‘‘Adjusted net income margin’’ refers to the percentage that Adjusted net income for any period represents as a portion of total revenue for that period.

Adjusted EBITDA and Adjusted net income are not recognized measures under IFRS and, accordingly, readers are cautioned that Adjusted EBITDA and Adjusted net income should not be construed as alternatives to net income determined in accordance with IFRS. The Company’s method of calculating Adjusted EBITDA and Adjusted net income may differ from other issuers and, accordingly, Adjusted EBITDA and Adjusted net income may not be comparable to similar measures presented by other issuers. See ‘‘Results of Operations —Adjusted EBITDA’’ and ‘‘— Adjusted net income’’ for a reconciliation of Adjusted EBITDA and Adjusted net income to net income.

Overview

We acquire, manage and build vertical market software (“VMS”) businesses. Generally, these businesses provide mission critical software solutions that address the specific needs of our customers in particular markets. Our focus on acquiring businesses with growth potential, managing them well and then building them, has allowed us to generate significant cash flows and revenue growth during the past several years.

Our revenue consists primarily of software license fees, maintenance and other recurring fees, professional service fees and hardware sales. Software license revenue is comprised of license fees charged for the use of our software products generally licensed under multiple-year or perpetual arrangements in which the fair value of maintenance and/or professional service fees are determinable, where applicable. Maintenance and other recurring revenue primarily consists of fees charged for customer support on our software products post-delivery and also includes, to a lesser extent, recurring fees derived from software as a service, subscriptions, combined software/support contracts, transaction-related revenues, and hosted products. Maintenance and other recurring fee arrangements generally include ongoing customer support and rights to certain product updates “when and if available” and products sold on a subscription basis. Professional service revenue consists of fees charged for implementation and integration services, customized programming, product training and consulting. Hardware sales include the resale of third party hardware that forms part of our customer solutions, as well as sales of customized hardware assembled internally. Our customers typically purchase a combination of software, maintenance, professional services and hardware, although the type, mix and quantity of each vary by customer and by product.

Expenses consist primarily of staff costs, the cost of hardware, third party licenses, maintenance and professional services to fulfill our customer arrangements, travel and occupancy costs and other general operating expenses.

Results of Operations

(In thousands of dollars, except percentages and per share amounts)

Unaudited

	Three months ended June 30, 2013	Three months ended June 30, 2012	Period-Over-Period Change $	Period-Over-Period Change %	Six months ended June 30, 2013	Six months ended June 30, 2012	Period-Over-Period Change $	Period-Over-Period Change %
Revenue	**298,189**	**208,969**	**89,220**	**43%**	**554,620**	**404,247**	**150,373**	**37%**
Expenses	236,485	165,267	71,218	43%	450,318	321,278	129,040	40%
Adjusted EBITDA	**61,704**	**43,702**	**18,002**	**41%**	**104,302**	**82,969**	**21,333**	**26%**
Depreciation	2,422	1,803	619	34%	4,634	3,521	1,113	32%
Amortization of intangible assets	29,800	20,269	9,531	47%	56,261	39,544	16,717	42%
Foreign exchange loss (gain)	361	(217)	578	NM	2,136	(9)	2,145	NM
Equity in net (income) loss of equity investees	(13)	209	(222)	NM	(357)	1,091	(1,448)	NM
Finance income	(10)	(394)	384	NM	(500)	(1,463)	963	-66%
Finance costs	2,151	774	1,377	178%	3,267	1,792	1,475	82%
Profit before income taxes	26,993	21,258	5,735	27%	38,861	38,493	368	1%
Income taxes expense (recovery)								
Current income tax expense	6,687	5,366	1,321	25%	11,667	10,169	1,498	15%
Deferred income tax expense (recovery)	1,074	(1,700)	2,774	NM	(1,237)	(3,192)	1,955	NM
Income tax expense	7,761	3,666	4,095	112%	10,430	6,977	3,453	49%
Net income	**19,232**	**17,592**	**1,640**	**9%**	**28,431**	**31,516**	**(3,085)**	**-10%**
Adjusted net income	**50,106**	**36,161**	**13,945**	**39%**	**83,455**	**67,868**	**15,587**	**23%**
Weighted average number of shares outstanding (000's)								
Basic and diluted	21,192	21,192			21,192	21,192		
Net income per share								
Basic and diluted	$ 0.91	$ 0.83	$ 0.08	9%	$ 1.34	$ 1.49	$ (0.15)	-10%
Adjusted EBITDA per share								
Basic and diluted	$ 2.91	$ 2.06	$ 0.85	41%	$ 4.92	$ 3.92	$ 1.01	26%
Adjusted net income per share								
Basic and diluted	$ 2.36	$ 1.71	$ 0.66	39%	$ 3.94	$ 3.20	$ 0.74	23%
Cash dividends declared per share								
Basic and diluted	$ 1.00	$ 1.00	$ -	0%	$ 2.00	$ 2.00	$ -	0%

NM - Not meaningful

Comparison of the three and six month periods ended June 30, 2013 and 2012

Revenue:

Total revenue for the quarter ended June 30, 2013 was $298 million, an increase of 43%, or $89 million, compared to $209 million for the comparable period in 2012. For the first six months of 2013 total revenues were $555 million, an increase of 37%, or $150 million, compared to $404 million for the comparable period in 2012. The increase for both the three and six month periods compared to the same periods in the prior year is mainly attributable to growth from acquisitions, however, the Company did experience positive organic growth of 8% and 4%, respectively. For acquired companies, organic growth is calculated as the difference between actual revenues achieved by each company in the financial period following acquisition compared to the revenues they achieved in the corresponding financial period preceding the date of acquisition by Constellation. During the quarter ended June 30, 2013, a contract that was previously accounted for on a zero margin basis due to uncertainty regarding profitability was completed, resulting in the recognition of previously deferred profit margin as part of professional services revenue in the amount of $5 million. Excluding this amount, organic growth would have been 6% and 3% for the three and six month periods ended June 30, 2013, respectively. We currently have no other material contracts accounted for on a zero margin basis.

Software license revenue for the quarter ended June 30, 2013 increased by 50%, or $8 million to $24 million, from $16 million compared to the same period in 2012. During the six months ended June 30, 2013, software license revenue increased by 45%, or $14 million to $45 million, from $31 million compared to the same period in 2012. Professional services revenue for the quarter ended June 30, 2013 increased by 46%, or $21 million to $67 million, from $46 million compared to the same period in 2012. During the six months ended June 30, 2013, professional services revenue increased by 39%, or $34 million to $122 million, from $88 million compared to the same period in 2012. Hardware and other revenue for the quarter ended June 30, 2013 increased by 32%, or $7 million to $29 million, from $22 million compared to the same period in 2012. During the six months ended June 30, 2013, hardware and other revenue increased by 16%, or $8 million to $55 million, from $48 million compared to the same period in 2012. Maintenance and other recurring revenues for the quarter ended June 30, 2013 increased by 43%, or $53 million to $178 million, from $125 million compared to the same period in 2012. During the six months ended June 30, 2013, maintenance and other recurring revenues increased by 40%, or $95 million to $333 million, from $238 million compared to the same period in 2012.The following table displays the breakdown of our revenue according to revenue type:

	Three months ended June 30,		Period-Over-Period Change		Six months ended June 30,		Period-Over-Period Change	
	2013	2012	$	%	2013	2012	$	%
	($000, except percentages)				($000, except percentages)			
Licenses	24,057	15,994	8,063	50%	44,725	30,934	13,791	45%
Professional services	66,951	45,935	21,016	46%	122,050	88,062	33,988	39%
Hardware and other	29,477	22,351	7,126	32%	55,285	47,706	7,579	16%
Maintenance and other recurring	177,704	124,689	53,015	43%	332,560	237,545	95,015	40%
	298,189	208,969	89,220	43%	554,620	404,247	150,373	37%

We aggregate our business into two distinct segments for financial reporting purposes: (i) the public sector reportable segment, which includes business units focused primarily on government and government-related customers, and (ii) the private sector reportable segment, which includes business units focused primarily on commercial customers.

The following table displays our revenue by reportable segment and the percentage change for the three and six months ended June 30, 2013 compared to the same periods in 2012:

	Three months ended June 30,		Period-Over-Period Change		Six months ended June 30,		Period-Over-Period Change	
	2013	2012	$	%	2013	2012	$	%
	($000, except percentages)				($000, except percentages)			
Public Sector								
Licenses	15,703	10,864	4,839	45%	28,878	20,654	8,224	40%
Professional services	53,180	35,489	17,691	50%	96,359	67,791	28,568	42%
Hardware and other	25,319	18,756	6,563	35%	47,490	41,045	6,445	16%
Maintenance and other recurring	107,197	82,613	24,584	30%	204,802	156,464	48,338	31%
	201,399	147,722	53,677	36%	377,529	285,954	91,575	32%
Private Sector								
Licenses	8,354	5,130	3,224	63%	15,847	10,280	5,567	54%
Professional services	13,771	10,446	3,325	32%	25,691	20,271	5,420	27%
Hardware and other	4,158	3,595	563	16%	7,795	6,661	1,134	17%
Maintenance and other recurring	70,507	42,076	28,431	68%	127,758	81,081	46,677	58%
	96,790	61,247	35,543	58%	177,091	118,293	58,798	50%

Public Sector

For the quarter ended June 30, 2013, total revenue in the public sector reportable segment increased by 36%, or $54 million to $201 million, compared to $148 million for the quarter ended June 30, 2012. For the six months ended June 30, 2013, total revenue increased by 32%, or $92 million to $378 million, compared to $286 million for the comparable period in 2012. Revenue growth from acquired businesses contributed approximately $40 million to our Q2 2013 revenues and $80 million to our six months ended June 30, 2013 revenues compared to the same periods in 2012, as we completed 26 acquisitions since the beginning of 2012. Organic revenue growth was 10% in Q2 2013 and 4% for the six months ended June 30, 2013 compared to the same periods in 2012. As mentioned above, during the quarter ended June 30, 2013, a contract that was previously accounted for on a zero margin basis due to uncertainty regarding profitability was completed, resulting in the recognition of previously deferred profit margin as part of professional services revenue in the amount of $5 million. Excluding this amount, organic growth would have been 6% and 2% for the three and six month periods ended June 30, 2013, respectively.

Private Sector

For the quarter ended June 30, 2013, total revenue in the private sector reportable segment increased 58%, or $36 million to $97 million, compared to $61 million for the quarter ended June 30, 2012. For the six months ended June 30, 2013 total revenue increased by 50%, or $59 million to $177 million, compared to $118 million for the comparable period in 2012. Revenue growth from acquired businesses contributed approximately $32 million to our Q2 2013 revenues and $53 million to our six months ended June 30, 2013 revenues compared to the same periods in 2012, as we completed 23 acquisitions since the beginning of 2012. Revenues increased organically by 6% in Q2 2013 and 5% for the six months ended June 30, 2013 compared to the same periods in 2012.

Expenses:

The following table displays the breakdown of our expenses:

	Three months ended June 30,		Period-Over-Period Change		Six months ended June 30,		Period-Over-Period Change	
	2013	2012	$	%	2013	2012	$	%
	($000, except percentages)				($000, except percentages)			
Expenses								
Staff	158,243	113,689	44,554	39%	306,347	219,320	87,027	40%
Hardware	16,246	10,705	5,541	52%	32,257	22,932	9,325	41%
Third party license, maintenance and professional services	25,829	14,715	11,114	76%	44,269	28,961	15,308	53%
Occupancy	6,694	5,039	1,655	33%	13,274	9,664	3,610	37%
Travel	11,125	7,766	3,359	43%	20,631	16,012	4,619	29%
Telecommunications	3,334	2,553	781	31%	6,427	5,050	1,377	27%
Supplies	4,975	3,866	1,109	29%	9,623	7,298	2,325	32%
Professional fees	3,760	2,222	1,538	69%	7,221	4,067	3,154	78%
Other, net	6,279	4,712	1,567	33%	10,269	7,974	2,295	29%
	236,485	165,267	71,218	43%	450,318	321,278	129,040	40%

Overall expenses for the quarter ended June 30, 2013 increased 43%, or $71 million to $236 million, compared to $165 million during the same period in 2012. As a percentage of total revenue, expenses remained consistent at 79% in the quarter ended June 30, 2013 compared to the quarter ended June 30, 2012. During the six months ended June 30, 2013, expenses increased 40%, or $129 million to $450 million, compared to $321 million during the same period in 2012. As a percentage of total revenue, overall expenses increased to 81% in the six months ended June 30, 2013 compared to 79% in the same period in 2012. The increase in expenses as a percentage of total revenue for the six month period is primarily attributed to North American hiring to address backlog and to staff new investments in growth initiatives, as well as the impact of recent European acquisitions. Our average employee headcount grew 39% in 2013 from 4,377 in the quarter ended June 30, 2012 to 6,104 in the quarter ended June 30, 2013 primarily due to acquisitions.

Staff expense – Staff expense can be broken down into five key operating departments: Professional Services, Maintenance, Research and Development, Sales and Marketing, and General and Administrative. Professional Services staff expenses include personnel and related costs associated with our delivery of professional services. Maintenance staff expenses include personnel and related costs associated with providing maintenance services on the products we sell. Research and Development staff expenses include personnel and related costs associated with our research and development efforts. Sales and Marketing staff expenses consist primarily of the personnel and related costs associated with our sales and marketing functions. General and Administrative staff expenses consist primarily of the personnel and related costs associated with the administration of the business. The table below compares the period over period variances.

	Three months ended June 30,		Period-Over-Period Change		Six months ended June 30,		Period-Over-Period Change	
	2013	2012	$	%	2013	2012	$	%
	($000, except percentages)				($000, except percentages)			
Professional services	36,639	25,733	10,906	42%	71,231	49,592	21,639	44%
Maintenance	30,075	23,002	7,073	31%	58,947	44,008	14,939	34%
Research and development	42,160	30,207	11,953	40%	81,176	58,544	22,632	39%
Sales and marketing	23,382	15,619	7,763	50%	44,591	30,158	14,433	48%
General and administration	25,988	19,128	6,860	36%	50,403	37,018	13,385	36%
	158,244	113,689	44,555	39%	306,348	219,320	87,028	40%

The increase in staff expenses across all of our operating departments was primarily due to the growth in the number of employees compared to the same periods in 2012 primarily due to acquisitions.

Professional services – Staff expenses related to our Professional services operating department increased 42%, or $11 million, to $37 million for the quarter ended June 30, 2013 compared to $26 million for the same period in 2012. During the six months ended June 30, 2013 staff expenses related to our Professional services operating department increased 44%, or $21 million to $71 million, compared to $50 million over the same period in 2012.

Maintenance – Staff expenses related to our Maintenance operating department increased 31%, or $7 million, to $30 million for the quarter ended June 30, 2013 compared to $23 million for the same period in 2012. During the six months ended June 30, 2013 staff expenses related to our Maintenance operating department increased 34%, or $15 million to $59 million, compared to $44 million over the same period in 2012.

Research and development – Staff expenses related to our Research and development operating department increased 40%, or $12 million, to $42 million for the quarter ended June 30, 2013 compared to $30 million for the same period in 2012. During the six months ended June 30, 2013 staff expenses related to our Research and development operating department increased 39%, or $23 million to $81 million, compared to $59 million over the same period in 2012.

Sales and marketing – Staff expenses related to our Sales and marketing operating department increased 50%, or $8 million, to $23 million for the quarter ended June 30, 2013 compared to $16 million for the same period in 2012. During the six months ended June 30, 2013 staff expenses related to our Sales and marketing operating department increased 48%, or $14 million to $45 million, compared to $30 million over the same period in 2012.

General and administration – Staff expenses related to our General and administration operating department increased 36%, or $7 million, to $26 million for the quarter ended June 30, 2013 compared to $19 million for the same period in 2012. During the six months ended June 30, 2013 staff expenses related to our General and administration operating department increased 36%, or $13 million to $50 million, compared to $37 million over the same period in 2012.

Hardware expenses – Hardware expenses for the quarter ended June 30, 2013 increased 52%, or $6 million to $16 million, compared to $11 million for the quarter ended June 30, 2012. During the six months ended June 30, 2013 hardware expenses increased 41%, or $9 million to $32 million, from $23 million over the same periods in 2012. Hardware margins for the three and six months ended June 30, 2013 were 45% and 42% respectively, compared to 52% in the same periods in 2012. This decline in hardware margins is primarily driven by the delivery on some large contracts by the European and US PTS businesses in the first half of 2012 that included higher margins than the business typically achieves, and a change in the hardware sales mix.

Third party license, maintenance and professional services expenses – Third party license, maintenance and professional services expenses for the quarter ended June 30, 2013 increased 76% or $11 million to $26 million, compared to $15 million for the quarter ended June 30, 2012. During the six months ended June 30, 2013 Third party license, maintenance and professional services expense increased 53%, or $15 million to $44 million, from $29 million over the same period in 2012. The increases are primarily due to an increase in maintenance revenue for the three and six months ended June 30, 2013 compared to the same periods in 2012.

Occupancy expenses – Occupancy expenses for the quarter ended June 30, 2013 increased 33%, or $2 million to $7 million, compared to $5 million for the quarter ended June 30, 2012. During the six months ended June 30, 2013 Occupancy expenses increased 37%, or $4 million to $13 million, from $10 million over the same period in 2012. The increase is primarily due to the occupancy expenses of acquired businesses.

Travel expenses – Travel expenses for the quarter ended June 30, 2013 increased 43%, or $3 million to $11 million, compared to $8 million for the quarter ended June 30, 2012. During the six months ended June 30, 2013 Travel expenses increased 29%, or $5 million to $21 million, from $16 million over the same period in 2012. The increase is primarily due to increased travel expenses incurred by acquired businesses.

Professional fees – Professional fees for the quarter ended June 30, 2013 increased 69%, or $2 million to $4 million, compared to $2 million for the quarter ended June 30, 2012. During the six months ended June 30, 2013 Professional fees increased 78%, or $3 million to $7 million, from $4 million over the same period in 2012. The increase is primarily due to legal and tax advisory fees associated with acquisitions and tax planning, and fees associated with the implementation of the Company's dividend reinvestment and employee share ownership plans.

Other, net – Other expenses for the quarter ended June 30, 2013 increased 33% or $2 million to $6 million, compared to $5 million for the quarter ended June 30, 2012. During the six months ended June 30, 2013 Other expenses increased 29%, or $2 million to $10 million, from $8 million over the same period in 2012. The increases are primarily due to increased expenses incurred by acquired businesses.

Other Income and Expenses:

The following tables display the breakdown of our other income and expenses:

	Three months ended June 30,		Period-Over-Period Change		Six months ended June 30,		Period-Over-Period Change	
	2013	2012	$	%	2013	2012	$	%
	($000, except percentages)				($000, except percentages)			
Depreciation	2,422	1,803	619	34%	4,634	3,521	1,113	32%
Amortization of intangible assets	29,800	20,269	9,531	47%	56,261	39,544	16,717	42%
Foreign exchange loss (gain)	361	(217)	578	NM	2,136	(9)	2,145	NM
Equity in net (income) loss of equity investees	(13)	209	(222)	NM	(357)	1,091	(1,448)	NM
Finance income	(10)	(394)	384	-97%	(500)	(1,463)	963	-66%
Finance costs	2,151	774	1,377	178%	3,267	1,792	1,475	82%
Income tax expense	7,761	3,666	4,095	112%	10,430	6,977	3,453	49%
	42,472	26,110	16,362	63%	75,871	51,453	24,418	47%

NM - Not meaningful

Depreciation – Depreciation of property and equipment for the quarter ended June 30, 2013 increased 34% to $2 million compared to the same period in 2012. During the six months ended June 30, 2013, depreciation of property and equipment increased 32% to $5 million compared to the same period in 2012. The increases are primarily attributable to an increase in the carrying amount of our property and equipment asset balance over the twelve month period ended June 30, 2013 as a result of acquisitions completed during this period.

Amortization of intangible assets – Amortization of intangible assets for the quarter ended June 30, 2013 increased by 47%, or $10 million to $30 million, compared to $20 million for the quarter ended June 30, 2012. During the six months ended June 30, 2013, Amortization of intangible assets increased 42%, or $17 million to $56 million, from $40 million over the same period in 2012. The increases are attributable to an increase in the carrying amount of our intangible asset balance over the twelve month period ended June 30, 2013 as a result of acquisitions completed during this period.

Foreign exchange – Most of our businesses are organized geographically so many of our expenses are incurred in the same currency as our revenues, which mitigates some of our exposure to currency fluctuations. For the quarter ended June 30, 2013, we realized a foreign exchange loss of $0.4 million compared to a gain of $0.2 million for the quarter ended June 30, 2012. For the six months ended June 30, 2013 the foreign exchange loss was $2 million compared to no foreign exchange gain or loss for the same period in 2012. The foreign exchange losses are due to realized losses on the settlement of certain non-US denominated liabilities and due to holding, or unrealized, losses on certain non-US denominated liabilities.

Equity in net (income) loss of equity investees – Equity in the net (income) loss of equity investees was nil for the quarter ended June 30, 2013 compared to a loss of $0.2 million for the quarter ended June 30, 2012. For the six months ended June 30, 2013, Equity in net (income) loss of equity investees was income of $0.4 million compared to a loss of $1 million for the same period in 2012. The $1 million loss in 2012 primarily relates to our proportionate share of a loss recorded by an equity investee resulting from an impairment charge on goodwill.

Finance income – Finance income for the quarter ended June 30, 2013 was nil compared to $0.4 million for the quarter ended June 30, 2012. During the six months ended June 30, 2013, Finance income was $0.5 million compared to $1.5 million for the same period in 2012. The decrease in finance income for the three and six months ended June 30, 2013 is due to reduced gains on sales of non-current assets and equity securities available-for-sale as compared to the same periods in the prior year.

Finance costs – Finance costs for the quarter ended June 30, 2013 increased $1.4 million to $2.2 million, compared to $0.8 million for the quarter ended June 30, 2012. During the six months ended June 30, 2013, Finance costs increased $1.5 million to $3.3 million, from $1.8 million over the same period in 2012. The increase in Finance costs primarily relates to increased interest expense on our revolving line of credit resulting from increased average borrowings in 2013 compared to 2012, and a mark to market loss recorded on a forward foreign exchange contract that remained unsettled at June 30, 2013.

Income taxes – We operate globally and we calculate our tax provision in each of the jurisdictions in which we conduct business. Our tax rate is, therefore, affected by the realization and anticipated relative profitability of our operations in those various jurisdictions, as well as different tax rates that apply and our ability to utilize tax losses. For the quarter ended June 30, 2013, income tax expense increased $4 million to $8 million compared to $4 million for the quarter ended June 30, 2012. During the six months ended June 30, 2013, income tax expense increased $3 million to $10 million, from $7 million over the same period in 2012.

Net Income and Earnings per Share:

Net income for the quarter ended June 30, 2013 was $19 million compared to net income of $18 million for the same period in 2012. On a per share basis this translated into a net income per diluted share of $0.91 in the quarter ended June 30, 2013 compared to net income per diluted share of $0.83 in the quarter ended June 30,

2012. For the six months ended June 30, 2013, net income was $28 million or $1.34 per diluted share compared to $32 million or $1.49 per diluted share for the same period in 2012. The decrease in net income for the six months ended June 30, 2013 over the same period in 2012 was primarily due to an increase in the amortization expense attributable to intangible assets as a result of acquisitions completed during 2012 and 2013. There were no changes in the number of shares outstanding.

Adjusted EBITDA:

For the quarter ended June 30, 2013, Adjusted EBITDA increased to $62 million compared to $44 million in the quarter ended June 30, 2012 representing an increase of 41%. Adjusted EBITDA margin was 21% in both the quarter ended June 30, 2013 and the quarter ended June 30, 2012. For the first six months of 2013, Adjusted EBITDA increased to $104 million compared to $83 million during the same period in 2012, representing an increase of 26%. Adjusted EBITDA margin was 19% in the first six months of 2013 and 21% in the first six months of 2012. Excluding the $5 million in deferred profit margin recognized on the contract accounted for using the zero margin basis referred to in the revenue section above, Adjusted EBITDA margins would have been 19% and 18% for the three and six month periods ended June 30, 2013, respectively. The decrease in EBITDA margins (excluding the $5 million deferred profit margin amount) in the three and six months ended June 30, 2013 is primarily attributed to North American hiring to address backlog and to staff new investments in growth initiatives, as well as the impact of recent European acquisitions. See "Non-IFRS Measures" for a description of Adjusted EBITDA and Adjusted EBITDA margin.

The following table reconciles Adjusted EBITDA to net income:

(Unaudited)	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	($000, except percentages)		($000, except percentages)	
Total revenue	$ 298,189	$ 208,969	$ 554,620	$ 404,247
Net income	19,232	17,592	28,431	31,516
Adjusted for:				
Income tax expense	7,761	3,666	10,430	6,977
Foreign exchange loss (gain)	361	(217)	2,136	(9)
Equity in net (income) loss of equity investees	(13)	209	(357)	1,091
Finance income	(10)	(394)	(500)	(1,463)
Finance costs	2,151	774	3,267	1,792
Amortization of intangible assets	29,800	20,269	56,261	39,544
Depreciation	2,422	1,803	4,634	3,521
Adjusted EBITDA	61,704	43,702	104,302	82,969
Adjusted EBITDA margin	21%	21%	19%	21%

Adjusted net income:

For the quarter ended June 30, 2013, Adjusted net income increased to $50 million from $36 million for the quarter ended June 30, 2012, representing an increase of 39%. Adjusted net income margin was 17% in both the quarter ended June 30, 2013 and June 30, 2012. For the first six months of 2013, Adjusted net income increased to $83 million from $68 million during the same period in 2012, representing an increase of 23%.

Adjusted net income margin was 15% in the first six months of 2013, compared to 17% for the same period in 2012. The increase in Adjusted net income for the three and six months ended June 30, 2012 is largely due to an increase in Adjusted EBITDA. See “Non-IFRS Measures” for a description of Adjusted net income and Adjusted net income margin.

The following table reconciles Adjusted net income to net income:

(Unaudited)	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
	($000, except percentages)		($000, except percentages)	
Total revenue	$ 298,189	$ 208,969	$ 554,620	$ 404,247
Net income	19,232	17,592	28,431	31,516
Adjusted for:				
Amortization of intangible assets	29,800	20,269	56,261	39,544
Deferred income tax expense (recovery)	1,074	(1,700)	(1,237)	(3,192)
Adjusted net income	50,106	36,161	83,455	67,868
Adjusted net income margin	17%	17%	15%	17%

Quarterly Results (unaudited)

	Sep. 30 2011	Dec. 31 2011	Mar. 31 2012	Jun. 30 2012	Sep. 30 2012	Dec. 31 2012	Mar. 31 2013	Jun. 30 2013
	Quarter Ended ($000, except per share amounts)							
Revenue	202,253	198,357	195,278	208,969	225,980	260,999	256,431	298,189
Net Income	19,305	19,395	13,924	17,592	21,065	40,051	9,199	19,232
Adjusted Net Income	39,717	40,229	31,707	36,161	42,079	62,251	33,349	50,106
Net Income per share								
Basic & diluted	0.91	0.92	0.66	0.83	0.99	1.89	0.43	0.91
Adjusted Net Income per share								
Basic & diluted	1.87	1.90	1.50	1.71	1.99	2.94	1.57	2.36

We do experience seasonality in our operating results in that Adjusted Net Income margins in the first quarter of every year are typically lower than margins achieved in the second, third and fourth quarters. The key drivers for the lower margins are increased payroll tax costs associated with our annual bonus payments that are made in the month of March, and the fact that there is always a focus at year end to complete sales implementation projects which generally translates into increased professional services revenue in the fourth quarter and decreased professional services in the first quarter. Our quarterly results may also fluctuate as a result of the various acquisitions which may be completed by the Company in any given quarter. We may experience variations in our net income on a quarterly basis depending upon the timing of certain expenses or gains, which may include changes in provisions, acquired contract liabilities, bargain purchase gains and gains or losses on the sale of financial and other assets.

Acquisition of certain software assets and liabilities from MAXIMUS Inc.

On September 30, 2008, Constellation acquired certain assets and liabilities of Maximus Inc.'s Asset, Justice, and Education Solutions businesses ("MAJES"). As part of the acquisition, the Company also acquired certain long-term contracts that contain contingent liabilities which may, but are unlikely to, exceed $16 million 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.

In February 2011, MAXIMUS Inc. ("Maximus") and a subsidiary of Constellation received a letter from a customer initiating a dispute resolution process under the customer's contract. The customer alleged that the subsidiary of Constellation and Maximus failed to provide the services and products required to be delivered under the contract. The subsidiary of the Company, Maximus, and the customer, pursuant to the terms of the contract, entered into arbitration proceedings in respect of the customer's claims. The potential liability was undefined with respect to the claims in arbitration, however, the contract with the customer has a $9 million limitation of liability clause that the Company believes will apply to all of the claims. In October 2012, the customer filed a claim in court alleging no contract existed between the customer and the subsidiary of Constellation and was seeking restitution of a minimum of $12 million. In December 2012, the subsidiary of Constellation obtained an arbitration ruling in relation to the customer dispute. The arbitration ruling concluded that no amounts were owed by the subsidiary to the customer for the various claims made by the customer and that the customer owes the subsidiary approximately $10 million in fees for services provided under the contract and for amounts owing due to a breach of contract by the customer. Constellation sought to obtain a court judgement to enforce the arbitration ruling. The court issued a judgment dated July 18, 2013, reducing the award to the subsidiary from approximately $10 million to approximately $6 million. The gains based on this ruling have been deemed to be contingent in nature and, accordingly, have not been recognized in the condensed consolidated interim financial statements.

Liquidity

Our net borrowings (bank indebtedness excluding capitalized transaction costs less cash) increased by $148 million to $151 million resulting from acquisitions. The amount drawn on our credit facility increased to $185 million from $46 million at the end of 2012, and cash decreased by $9 million to $32 million at June 30, 2013 compared to $41 million at December 31, 2012.

Total assets increased $171 million, from $813 million at December 31, 2012 to $984 million at June 30, 2013. The increase is primarily due to an increase in accounts receivable of $43 million, work in progress of $17 million, other current assets of $13 million and intangible assets of $148 million primarily arising from acquisitions made in 2013, offset by a decrease in cash of $9 million and deferred income taxes of $49 million also arising from acquisitions made in 2013.

Current liabilities increased $208 million, from $473 million at December 31, 2012 to $681 million at June 30, 2013. The increase is primarily due to an increase in borrowings on our line of credit of $139 million, and an increase in deferred revenue of $65 million mainly due to acquisitions and the timing of maintenance and other billings versus performance and delivery under those customer arrangements.

Net Changes in Cash Flows

(in $000's)	Three months ended June 30, 2013	Six months ended June 30, 2013
Net cash provided by operating activities	17,972	51,884
Net cash from financing activities	54,427	95,707
Net cash used in acquisition activities	(80,622)	(155,736)
Net cash used in other investing activities	(3,065)	247
Net cash from (used in) investing activities	(83,687)	(155,489)
Effect of foreign currency	(661)	(1,051)
Net increase (decrease) in cash and cash equivalents	**(11,949)**	**(8,949)**

The net cash flows from operating activities were $52 million for the six months ended June 30, 2013. The $52 million provided by operating activities resulted from $28 million in net income, plus $76 million of non-cash adjustments to net income, offset by $38 million of cash used by an increase in our non-cash operating working capital and $14 million in taxes paid.

The net cash flows from financing activities in the six months ended June 30, 2013 was $96 million, which is mainly a result of an increase in bank indebtedness of $139 million, which is offset by dividends paid in the period of $42 million.

The net cash flows used in investing activities in the six months ended June 30, 2013 was $155 million. The cash used in investing activities was primarily due to acquisitions for an aggregate of $155 million (including payments for holdbacks relating to prior acquisitions).

We believe we have sufficient cash and available credit capacity to continue to operate for the foreseeable future. Generally our VMS businesses operate with negative working capital as a result of the collection of maintenance payments and other revenues in advance of the performance of the related services. As such, management anticipates that it can continue to grow the business organically without any additional funding. If we continue to acquire VMS businesses we may need additional external funding depending upon the size and timing of the potential acquisitions.

Capital Resources and Commitments

On March 13, 2012, we entered into a new credit facility with a syndicate of Canadian chartered banks and U.S. banks in the amount of $300 million which replaced our previous $160 million facility. The credit facility is collateralized by substantially all of our assets including the assets of the majority of our material Canadian and U.S. subsidiaries. The credit facility contains standard events of default which if not remedied within a cure period would trigger the repayment of any outstanding balance. Certain other subsidiaries also guarantee this facility. The facility is available for acquisitions, working capital needs, and other general corporate purposes and for the needs of our subsidiaries until 2016. As at June 30, 2013, we had drawn $185 million on this facility. Transaction costs associated with this facility have been included as part of the carrying amount of the liability and are being amortized through profit or loss using the effective interest rate method. As at June 30, 2013, the carrying amount of such costs relating to this facility totalling $1 million has been classified as part of bank indebtedness in the statement of financial position.

Commitments include operating leases for office equipment and facilities, letters of credit and performance bonds issued on our behalf by financial institutions in connection with facility leases and contracts with public sector customers. Also, occasionally we structure some of our acquisitions with contingent consideration, or earn out obligations, based on the future performance of the acquired business. Aside from the aforementioned, we do not have any other business arrangements, derivative financial instruments, or any equity interests in non-consolidated entities that would have a significant effect on our assets and liabilities as at June 30, 2013.

Foreign Currency Exposure

We operate internationally and have foreign currency risks related to our revenue, operating expenses, assets and liabilities denominated in currencies other than the U.S. dollar. Consequently, we believe movements in the foreign currencies in which we transact could significantly affect future net earnings. We cannot predict the effect of foreign exchange gains or losses in the future; however, if significant foreign exchange losses are experienced, they could have a material adverse effect on our business, results of operations, and financial condition. The Company enters into forward foreign exchange contracts from time to time with the objective of mitigating volatility in profit or loss in respect of financial liabilities. In entering into these forward exchange contracts, the Company is exposed to the credit risk of the counterparties to such contracts and the possibility that the counterparties will default on their payment obligations under these contracts. However, given that the counterparties are Schedule 1 banks or affiliates thereof, the Company believes these risks are not material. During the six month period ending June 30, 2013, the Company purchased a single contract of this nature totaling approximately $21 million. At June 30, 2013 the contract remains unsettled and the Company has recorded its fair value at June 30, 2013 based on foreign exchange rates relative to the stated rate in the contract. The fair value loss of $0.7 million has been recorded in interest expense as part of finance costs. The contract was settled on July 2, 2013.

The following table provides an approximate breakdown of our revenue and expenses by currency, expressed as a percentage of total revenue and expenses, as applicable, for the three and six month periods ended June 30, 2013:

	Three Months Ended June 30, 2013		Six Months Ended June 30, 2013	
Currencies	% of Revenue	% of Expenses	% of Revenue	% of Expenses
USD	68%	59%	68%	58%
CAD	8%	16%	9%	17%
GBP	8%	9%	8%	9%
EURO	8%	7%	8%	8%
CHF	3%	4%	3%	4%
Others	5%	5%	4%	4%
Total	100%	100%	100%	100%

Off-Balance Sheet Arrangements

As a general practice, we have not entered into off-balance sheet financing arrangements. Except for operating leases and letters of credit, all of our liabilities and commitments are reflected as part of our statement of financial position.

Proposed Transactions

We seek potential acquisition targets on an ongoing basis and may complete several acquisitions in any given fiscal year.

Disposal of Assets

During the six months ended June 30, 2013, the Company sold the Technology and Cloud solution assets of the previously acquired Computer Software Innovations, Inc. to Encore Technology Group for total proceeds of $4 million (which included a hold-back receivable of $0.5 million). No significant gain or loss arose on the transaction.

Recent Accounting Pronouncements

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ending December 31, 2013, and have not been applied in preparing our interim consolidated financial statements. The relevant standards and the anticipated impact are highlighted below.

IFRS 9 Financial Instruments

IFRS 9 (2009) replaces the guidance in IAS 39 Financial Instruments: Recognition and Measurement, on the classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivable.

Financial assets will be classified into one of two categories on initial recognition:

- financial assets measured at amortized cost; or
- financial assets measured at fair value.

Gains and losses on remeasurement of financial assets measured at fair value will be recognized in profit or loss, except that for an investment in an equity instrument which is not held-for-trading, IFRS 9 provides, on initial recognition, an irrevocable election to present all fair value changes from the investment in other comprehensive income (OCI). The election is available on an individual share-by-share basis. Amounts presented in OCI will not be reclassified to profit or loss at a later date.

IFRS 9 (2010) supersedes IFRS 9 (2009) and is effective for annual periods beginning on or after January 1, 2015, with early adoption permitted. For annual periods beginning before January 1, 2015, either IFRS 9 (2009) or IFRS 9 (2010) may be applied.

The Company intends to adopt IFRS 9 (2010) in its financial statements for the annual period beginning on January 1, 2015. The extent of the impact of adoption of IFRS 9 (2010) has not yet been determined.

Amendments to IAS 32, Offsetting Financial Assets and Liabilities

IAS 32 has been amended to include additional presentation requirements for financial assets and liabilities that can be offset in the statement of financial position.

The Company intends to adopt the amendments to IAS 32 in its financial statements for the annual period beginning January 1, 2014. The Company does not expect the amendments to have a material impact on its financial statements.

Share Capital

As at July 31, 2013, there were 21,191,530 common shares outstanding.

Risks and Uncertainties

The Company's business is subject to a number of risk factors, including those set forth below and also those included in our most recently filed AIF. Additional risks and uncertainties not presently known to us or that we currently consider immaterial also may impair our business and operations and cause the price of the common shares to decline. If any of the noted risks actually occur, our business may be harmed and the financial condition and results of operation may suffer significantly. In that event, the trading price of the common shares could decline, and shareholders may lose all or part of their investment.

Canada Revenue Agency Reassessment and Other Tax Uncertainties

In July 2012, a subsidiary of Constellation received a notice of reassessment for the 2004 taxation year from the Canadian tax authorities ("CRA") which increased taxable income of the subsidiary by approximately $20 million relating to a gain on the sale of property between entities under common control. As a result of the notice of reassessment, the CRA has determined that the subsidiary owes approximately $6 million in federal tax and interest and approximately $5 million in provincial tax and interest. In order to appeal the reassessment, the subsidiary paid $8 million in September 2012 representing 50% of the amount owing from the federal reassessment and 100% of the amount owing from the provincial reassessment. At this stage, the Company believes the proposed reassessment is without merit and is challenging the reassessment. During the period, the Company filed an appeal with the Tax Court of Canada. The Company believes that it has adequately provided for the probable outcome in respect of this matter and as such no additional liability has been recorded in these financial statements during the period. There is no assurance, however, that the Company's appeal will be successful and, if unsuccessful, the Company's future financial results and tax expense could be adversely affected. The $8 million payment made in September 2012 has been recorded in other non-current assets, representative of the deposit on account.

The Company is subject to various other income tax audits by various authorities in respect of prior periods that could result in additional tax expense in future periods. While the outcome of such other outstanding audits and claims remains uncertain, it is expected that they will be resolved without a material impact to the Company's financial position.

Controls and Procedures

Evaluation of disclosure controls and procedures:

Management is responsible for establishing and maintaining disclosure controls and procedures as defined under National Instrument 52-109. At June 30, 2013, the President and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective and that material information relating to the Company, including its subsidiaries, was made known to them and was recorded, processed, summarized and reported within the time periods specified under applicable securities legislation.

Internal controls over financial reporting:

In accordance with National Instrument 52-109 which requires certification of disclosure in issuers' annual filings, the President and Chief Financial Officer have designed or caused it to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that (i) information required to be disclosed by the Company in its annual filings or other reports filed or submitted by it under applicable securities legislation is recorded, processed, summarized and reported within the prescribed time periods, and (ii) material information regarding the Company is accumulated and communicated to the Company's management, including its President and Chief Financial Officer in a timely manner.

In addition, the President and Chief Financial Officer have designed or caused it to be designed under their supervision internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes. The control framework the President and the Chief Financial Officer used to design the Company's ICFR is recognized by the Committee of Sponsoring Organizations of the Treadway Commission.

The President and the Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, whether or not there were changes to its ICFR during the six month period ended June 30, 2013 that have materially affected, or are reasonably likely to materially affect the Company's ICFR. No such changes were identified through their evaluation.

An operational control deficiency was identified subsequent to June 30, 2013 and the Company is in the process of implementing new controls to mitigate any future impact. Management does not consider the operational control deficiency or any impact thereof to constitute a material weakness from an ICFR perspective.