

CONSTELLATION SOFTWARE INC.

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

The following discussion and analysis should be read in conjunction with the Unaudited Consolidated Interim Financial Statements for the three month period ended March 31, 2010 and with our Annual Consolidated Financial Statements for the year ended December 31, 2009, which we prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). 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 the Company, 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 may contain "forward looking" statements that involve known and unknown 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 and speak only as of the date of this MD&A, May 5, 2010. 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 "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-GAAP Measures

This MD&A includes certain measures which have not been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") such as Adjusted EBITDA, Adjusted EBITDA margin, Adjusted net income and Adjusted net income margin.

The term "Adjusted EBITDA" refers to net income before deducting interest, taxes, depreciation, other expenses (income), amortization, and foreign exchange (gain) 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 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 plus non-cash expenses (income) such as amortization of intangible assets, future 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, future income taxes, and certain other non-cash expenses (income) incurred 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 GAAP and, accordingly, shareholders are cautioned that Adjusted EBITDA and Adjusted net income should not be construed as alternatives to net income determined in accordance with GAAP as an indicator of the financial performance of the Company. 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 flow and revenue growth during the past several years.

Our revenue consists primarily of software license fees, maintenance 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 single-year, multiple-year or perpetual arrangements in which the fair value of maintenance and/or professional service fees are determinable. Maintenance 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 combined software/support contracts, transaction revenues, and hosted products. Maintenance fee arrangements generally include ongoing customer support and rights to certain product updates “if and when available” and products sold on a subscription basis. Professional service revenue consists of fees charged for product training, consulting and implementation services. Hardware sales include the resale of third party hardware as well as sales of hardware created internally. Our customers typically purchase a combination of software, maintenance, professional services, and hardware, although the types, mix and quantity of each varies by customer and by product.

Cost of revenue consists primarily of the costs directly related to revenues including third party costs and internal costs related to the delivery of professional services and maintenance. Cost of revenue is generally expected to increase in the future as a result of increases in revenue.

Research and development expenses include personnel and related costs associated with our research and development efforts.

Sales and marketing expenses consist primarily of personnel and related costs associated with our sales and marketing functions, including advertising, commissions, trade shows and other promotional materials.

General and administration expenses include personnel and related costs associated with the administration of our business, rental of office space, legal and professional fees and insurance.

Results of Operations

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

	Three months ended Mar. 31,		Period-Over-Period Change	
	2010	2009	\$	%
Revenue	143,893	97,252	46,641	48%
Cost of Revenue	60,550	35,829	24,721	69%
Gross Profit	83,343	61,423	21,920	36%
Expenses				
Research and development	22,190	14,701	7,489	51%
Sales and marketing	13,621	10,097	3,524	35%
General and administration	23,676	16,065	7,611	47%
Total Expenses (pre amortization)	59,487	40,863	18,624	46%
Adjusted EBITDA	23,856	20,560	3,296	16%
Depreciation	1,047	750	297	40%
Total Expenses	60,534	41,613	18,921	45%
Income before the undernoted	22,809	19,810	2,999	15%
Amortization of intangible assets	15,295	14,379	916	6%
Other (income) expenses	(189)	188	(377)	NA
Interest expense, net	645	680	(35)	-5%
Foreign exchange loss (gain)	91	(1,027)	1,118	NA
Income before income taxes	6,967	5,590	1,377	25%
Income taxes (recovery)				
Current	3,595	3,152	443	14%
Future	(2,941)	(1,343)	(1,598)	119%
	654	1,809	(1,155)	-64%
Net income	6,313	3,781	2,532	67%
Adjusted net income	18,667	16,817	1,850	11%
Weighted avg # of shares outstanding (000's)				
Basic	21,175	21,150		
Diluted	21,192	21,192		
Net income per share				
Basic	\$ 0.30	\$ 0.18	\$ 0.12	67%
Diluted	\$ 0.30	\$ 0.18	\$ 0.12	67%
Adjusted EBITDA per share				
Basic	\$ 1.13	\$ 0.97	\$ 0.16	16%
Diluted	\$ 1.13	\$ 0.97	\$ 0.16	16%
Adjusted net income per share				
Basic	\$ 0.88	\$ 0.80	\$ 0.08	10%
Diluted	\$ 0.88	\$ 0.79	\$ 0.09	11%

Comparison of the first quarter ended March 31, 2010 and 2009

Revenue:

Total revenue for the quarter ended March 31, 2010 was \$144 million, an increase of 48%, or \$47 million, compared to \$97 million for the comparable period in 2009. The increase was entirely attributable to growth from acquisitions, as organic growth was approximately negative 6% for the quarter. 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.

Constellation acquired the Public Transit Solutions business ('PTS') from Continental Automotive AG ('Continental') on November 2, 2009. Given the substantial amount of non-recurring revenue historically earned by PTS, gross revenue from PTS has fluctuated significantly in the past and may continue to do so in the future. Constellation expects revenue from PTS to decline significantly in the twelve months following acquisition compared to revenue in the corresponding financial period preceding acquisition as PTS recognized substantial non-recurring revenue in the twelve months prior to acquisition that Constellation does not expect to re-occur in the corresponding financial period following acquisition. As such, management has chosen to provide supplemental organic growth disclosure to provide greater clarity regarding the impact of PTS on Constellation's consolidated financial results. Excluding PTS, organic growth for Constellation was 3% in Q1 2010 compared to the same period in 2009.

The following table provides a summary of the impact of PTS on Constellation's organic revenue growth:

Organic Revenue Growth	
	Q1-10
Constellation	-6%
Constellation excluding PTS	3%

Further details of the PTS acquisition are provided under "Acquisition of PTS from Continental".

Software license revenue for the quarter ended March 31, 2010 was \$11 million, the same as in the comparable period in 2009. Professional services and other services revenue for the quarter ended March 31, 2010 increased by 63%, or \$15 million to \$40 million, from \$25 million for the same period in 2009. Hardware and other revenue for the quarter ended March 31, 2010 increased by 188%, or \$11 million to \$17 million from \$6 million for the same period in 2009. Maintenance revenues for the quarter ended March 31, 2010 increased by 36%, or \$20 million to \$76 million, from \$56 million for the same period in 2009. The following table displays the breakdown of our revenue according to revenue type:

	Three months ended Mar. 31,			
	2010	2009	2010	2009
	(\$000)		(% of total revenue)	
Licenses	11,082	10,857	8%	11%
Professional services and other:				
Services	40,197	24,612	28%	25%
Hardware and other	16,791	5,826	12%	6%
Maintenance	75,823	55,957	53%	58%
	143,893	97,252	100%	100%

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

The following table displays our revenue by reportable segment and the percentage change for the three months ended March 31, 2010 compared to the same period in 2009:

	Three months ended Mar. 31,		Period-Over-Period Change	
	2010	2009	2010	2009
	(\$000, except percentages)			
Public Sector				
Licenses	8,323	9,014	(691)	-8%
Professional services and other:				
Services	34,039	21,697	12,342	57%
Hardware and other	15,483	5,029	10,454	208%
Maintenance	52,379	38,751	13,628	35%
	110,224	74,491	35,733	48%
Private Sector				
Licenses	2,759	1,843	916	50%
Professional services and other:				
Services	6,158	2,915	3,243	111%
Hardware and other	1,308	798	510	64%
Maintenance	23,444	17,205	6,239	36%
	33,669	22,761	10,908	48%

Public Sector

For the quarter ended March 31, 2010, total revenue in the public sector segment increased 48%, or \$36 million, to \$110 million, compared to \$74 million for the quarter ended March 31, 2009. Revenue growth from acquired businesses was significant for the three month period as we completed seven acquisitions since the beginning of 2009 in our public sector segment. It is estimated that acquisitions completed since the beginning of 2009 contributed approximately \$42 million to our Q1 2010 revenues. Revenues decreased organically by 8% or \$6 million in Q1 2010 compared to the same period in 2009. Excluding PTS, organic growth for the Public Sector increased by 3% in Q1 2010 compared to the same period in 2009.

Organic Revenue Growth	
	Q1-10
Public Sector	-8%
Public Sector excluding PTS	3%

The organic revenue change was primarily driven by the following:

- **Trapeze operating group** (decrease of approximately \$8 million in Q1). For Q1, excluding the impact of PTS, Trapeze experienced slight positive organic revenue growth driven from continued

strong bookings in their North American transit business. This growth was offset by organic revenue shrinkage in the PTS business.

- **Harris operating group** (increase of approximately \$2 million in Q1). For Q1, Harris had continued strong sales both to existing clients and to new customers in their utility, local government, and school verticals.

Private Sector

For the quarter ended March 31, 2010, total revenue in the private sector segment increased 48%, or \$11 million, to \$34 million, compared to \$23 million for the quarter ended March 31, 2009. Revenue growth from acquired businesses was significant for the three month period as we completed eleven acquisitions since the beginning of 2009 in our private sector segment. It is estimated that acquisitions completed since the beginning of 2009 contributed approximately \$10 million to our Q1 2010 revenues. Revenues increased organically by 2% or \$0.4 million in Q1 2010 compared to the same period in 2009. The organic revenue change was negligible across each of the private sector operating groups.

Gross Profit by Source:

The following table displays the breakdown of our gross profit by revenue source and as a percentage of total revenue:

	Three months ended Mar. 31,			
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
			(\$000)	
Gross profit licenses	91%	92%	10,135	10,032
Gross profit services & maintenance	58%	62%	67,828	49,858
Gross profit hardware & other	32%	26%	5,380	1,533
Gross profit on total revenue	58%	63%	83,343	61,423

Gross profit increased for the quarter ended March 31, 2010 to \$83 million from \$61 million for the quarter ended March 31, 2009. The increase in gross profit is attributable to the overall increase in total revenue. Our gross profit as a percentage of revenue declined from 63% in Q1 2009 to 58% in Q1 2010 due to lower margin revenues acquired in the PTS acquisition. Hardware and other revenue margins can fluctuate significantly, given the relatively small size of this category and its diverse product mix.

Operating Expenses:

The following table displays the breakdown of our operating expenses by category:

	Three months ended Mar. 31,		Period-Over-Period Change	
	<u>2010</u>	<u>2009</u>	\$	%
	(\$000, except percentages)			
Research and development	22,190	14,701	7,489	51%
Sales and marketing	13,621	10,097	3,524	35%
General and administration	23,676	16,065	7,611	47%
Depreciation	1,047	750	297	40%
	60,534	41,613	18,921	45%

Overall operating expenses for the quarter ended March 31, 2010 increased 45%, or \$19 million, to \$61 million, compared to \$42 million during the same period in 2009. As a percentage of total revenue, operating expenses decreased from 43% in the quarter ended March 31, 2009 to 42% in the quarter ended March 31, 2010. The growth in expenses for the three month period is primarily due to the growth in the number of employees and due to the appreciation of the Canadian dollar versus the U.S. dollar in Q1 2010 compared to Q1 2009. Our average employee headcount associated with operating expenses grew 32% from 1,123 in the quarter ended March 31, 2009 to 1,480 in the quarter ended March 31, 2010 primarily due to acquisitions. Appreciation of the Canadian dollar vs. the U.S. dollar has a significant negative impact on operating expenses as a disproportionate amount of our total expenses, including costs of revenues, are originated in Canadian dollars (See “Foreign Currency Exposure” below). The average exchange rate for the Canadian dollar increased by 19% versus the U.S. dollar in Q1 2010 vs. Q1 2009.

Research and development – Research and development expenses increased 51%, or \$7 million, to \$22 million for the quarter ended March 31, 2010 compared to \$15 million for the same period in 2009. As a percentage of total revenue, research and development expense remained unchanged at 15% in the quarter ended March 31, 2010 and the quarter ended March 31, 2009. The increase in expenses as a dollar amount for the three month period is largely attributable to our growth in headcount from acquisitions. For Q1 2010, we averaged 811 staff compared to 647 in the same period in 2009, representing a 25% increase in headcount. Appreciation of the Canadian dollar vs. the U.S. dollar also has a significant negative impact on research and development expenses as a disproportionate amount of our research and development expenses are originated in Canadian dollars. The average exchange rate for the Canadian dollar increased by 19% versus the U.S. dollar in Q1 2010 vs. Q1 2009.

We do not have any capitalized software development costs. All of our software development costs are expensed as incurred.

Sales and marketing – Sales and marketing expenses increased 35%, or \$4 million to \$14 million, in the quarter ended March 31, 2010 compared to \$10 million for the same period in 2009. As a percentage of total revenue, sales and marketing expenses remain unchanged at 10% in the quarter ended March 31, 2010 and the quarter ended March 31, 2009. The increase in expenses as a dollar amount during the quarter is largely attributable to our growth in headcount from acquisitions. For Q1 2010, we averaged 336 staff compared to 247 in the same period in 2009, representing a 36% increase in headcount.

General and administration – General and administration (“G&A”) expenses increased 47%, or \$8 million, to \$24 million in the quarter ended March 31, 2010 from \$16 million for the same period in 2009. As a percentage of total revenue, G&A expenses remained unchanged at 17% in the quarter ended March 31, 2010 and the quarter ended March 31, 2009. The increase in expenses as a dollar amount during the quarter is largely attributable to our growth in

headcount from acquisitions. For Q1 2010, we averaged 334 staff compared to 229 in the same period in 2009, representing a 46% increase in headcount.

Depreciation of property and equipment – Depreciation of property and equipment for the quarter ended March 31, 2010 did not change materially from the comparable period in 2009.

Non-Operating Expenses:

The following table displays the breakdown of our non-operating expenses:

	Three months ended Mar. 31,		Period-Over-Period Change	
	<u>2010</u>	<u>2009</u>	\$	%
	(\$000, except percentages)			
Amortization of intangible assets	15,295	14,379	916	6%
Other (income) expenses	(189)	188	(377)	NA
Interest expense, net	645	680	(35)	-5%
Foreign exchange loss (gain)	91	(1,027)	1,118	NA
Income taxes	654	1,809	(1,155)	-64%
	16,496	16,029	467	3%

Amortization of intangible assets – Amortization of intangible assets increased to \$15 million for the quarter ended March 31, 2010 from \$14 million for the quarter ended March 31, 2009. The increase is attributable to the increase in our intangible asset balance as a result of acquisitions that we completed since the beginning of 2009.

Other expenses (income) – Other income was \$0.2 million for the quarter ended March 31, 2010 compared to a \$0.2 million expense for the same period in the previous year. The increase of \$0.4 million in other income in Q1 2010 over Q1 2009 is primarily due to the recognition of our equity in net earnings from our investment in Gladstone PLC in Q1 2010. As at March 31, 2010, the Company owned approximately 44% (December 31, 2009 - 30%) of Gladstone PLC.

Interest expense, net – Net interest expense was \$0.7 million for both the quarter ended March 31, 2010 and for the same period in the previous year. Interest expense arises primarily from our borrowings under our existing line of credit. Average borrowings under our existing line of credit increased slightly in Q1 2010 over Q1 2009. Interest expense on our line of credit is offset by interest income generated from excess cash balances (to the extent we have excess cash) and from other investments. As a result, we expect interest expense to fluctuate significantly in the future depending upon the timing of acquisitions and the amount we borrow against our line of credit to complete them.

Foreign exchange loss (gain) – 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 March 31, 2010, our foreign exchange loss was \$0.1 million compared to a gain of \$1 million in Q1 2009. The foreign exchange loss for the three months ended March 31, 2010 is mainly attributable to an increase in the closing rate for the Canadian dollar vs. the U.S. dollar at March 31, 2010 vs. December 31, 2009. As we generally run our business with negative working capital and we had a portion of our net liabilities denominated in Canadian dollars, when we re-valued Canadian dollar net liabilities to U.S. dollars (our functional currency) at quarter end, we recorded a foreign exchange loss. For the quarter ended March 31, 2009, the foreign exchange gain was due to a gain realized on Canadian dollar liabilities settled in Q1 2009 at an exchange rate that was favourable to the rate used to value the liabilities at December 31, 2008.

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 March 31, 2010, the income tax expense was \$0.7 million, compared to \$1.8 million for the same period in 2009. The decrease is entirely attributable to an increase in future tax recovery.

Net Income:

Net income for the quarter ended March 31, 2010 was \$6 million compared to net income of \$4 million for the same period in 2009. On a per share basis this translated into a net income per diluted share of \$0.30 in Q1 2010 vs. a net income per diluted share of \$0.18 in Q1 2009. Net income in the first quarter of 2010 was positively impacted by the growth in our Adjusted EBITDA and a decrease in income tax expense offset by an increase in foreign exchange loss.

Adjusted EBITDA:

For Q1 2010, Adjusted EBITDA was \$24 million compared to \$21 million for the same period in 2009. Adjusted EBITDA margin was 17% in the first quarter of 2010 versus 21% in the comparable period in 2009. The decrease in Adjusted EBITDA margin for the three month period ended March 31, 2010 is largely due to the impact in Q1 2010 of the relatively lower profitability of the PTS business acquired in Q4 2009 and also due to the appreciation of the Canadian dollar vs. the U.S. dollar in Q1 2010 versus Q1 2009 as a significant amount of our operating expenses are originated in Canadian dollars. See “Non-GAAP measures” for a description of Adjusted EBITDA and Adjusted EBITDA margin.

The following table reconciles Adjusted EBITDA to net income:

	Three months ended Mar. 31,	
	<u>2010</u>	<u>2009</u>
	(\$000, except percentages)	
Total revenue	<u>\$ 143,893</u>	<u>\$ 97,252</u>
Net income (loss)	6,313	3,781
Add back:		
Income taxes	654	1,809
Foreign exchange loss (gain)	91	(1,027)
Interest expense, net	645	680
Other (income) expenses	(189)	188
Amortization of intangible assets	15,295	14,379
Depreciation	1,047	750
Adjusted EBITDA	23,856	20,560
Adjusted EBITDA margin	17%	21%

Adjusted net income:

For Q1 2010, Adjusted net income increased by \$2 million to \$19 million compared to \$17 million in Q1 2009, representing an increase of 11%. Adjusted net income margin was 13% in the first quarter of 2010, compared to 17% of total revenue for the same period in 2009. The decrease in Adjusted net income margin is primarily due to the

decrease in Adjusted EBITDA margin. See “Non-GAAP Measures” for a description of Adjusted net income and Adjusted net income margin.

The following table reconciles Adjusted net income to net income:

	Three months ended Mar. 31,	
	<u>2010</u>	<u>2009</u>
	(\$000, except percentages)	
Total revenue	<u>\$ 143,893</u>	<u>\$ 97,252</u>
Net income (loss)	6,313	3,781
Add back:		
Amortization of intangible assets	15,295	14,379
Future income taxes (recovery)	(2,941)	(1,343)
Adjusted net income	18,667	16,817
Adjusted net income margin	13%	17%

Quarterly Results

	Quarter Ended							
	Jun. 30, <u>2008</u>	Sep. 30, <u>2008</u>	Dec. 31, <u>2008</u>	Mar. 31, <u>2009</u>	Jun. 30, <u>2009</u>	Sep. 30 <u>2009</u>	Dec. 31 <u>2009</u>	Mar. 31 <u>2010</u>
	(\$000, except per share amounts)							
Revenue	77,742	80,790	98,397	97,252	101,515	107,279	131,894	143,893
Net Income (loss)	3,402	3,293	3,970	3,781	3,738	2,715	(10)	6,313
Net Income per share								
Basic	0.16	0.16	0.19	0.18	0.18	0.13	(0.00)	0.30
Diluted	0.16	0.16	0.19	0.18	0.18	0.13	(0.00)	0.30

We do not generally experience significant seasonality in our operating results from quarter to quarter. However, our quarterly results may 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 one-time expenditures or gains which may include loss (gain) on the sale of short-term investments, marketable securities and other assets.

Acquisition of PTS from Continental

On November 2, 2009, Constellation acquired PTS from Continental for gross cash consideration of \$3 million. The purchase price was a small percent of PTS’ annualized revenues, reflecting its recent history of negative cash flows. PTS is not considered a reportable operating segment of Constellation, however management has chosen to provide certain supplemental financial information to provide greater clarity into the operating performance and cash flow from operations of PTS until such time as it becomes consistently cash flow positive.

Management believes cash flow from operations is useful supplemental information about the performance of the underlying business as certain purchase price adjustments and purchase contract accounting under GAAP may

result in reported earnings that differ materially from cash flow from operations. A significant amount of working capital was acquired with the PTS business which may have a material positive impact on cash flow from operations should we be able to reduce the level of working capital required in the business.

As of the date of acquisition, Constellation recorded a restructuring provision of \$2 million to realign operations with the future prospects of the acquired business. The majority of the restructuring provision relates to severance costs. The \$1 million balance of the restructuring provision is included in accounts payable and accrued liabilities in the March 31, 2010 balance sheet.

A number of acquired contracts were recorded at their estimated fair value as of the date of acquisition. Under this treatment, excess profits or costs relative to normalized profitability are recorded as contract assets or liabilities and amortized against revenues over the remaining life of the contract. As a result, the revenue and costs of these contracts reflected in the statement of operations will differ from the revenue and costs that would have been recognized under normal course percentage of completion accounting and will differ from the underlying operating cash flow associated with these contracts had we recognized these contracts since their inception. The impact on cash flows will be reflected in the statement of cash flow from operating activities.

In Q1 2010, the Company revised its estimates for progress to completion on a number of acquired long-term contracts that resulted in additional revenue of \$1 million being recognized in the period, which related to work performed and costs incurred over the contract term to date. The revised estimate was based on a detailed project review conducted by management in the post-acquisition period.

As part of the PTS acquisition, Constellation also assumed certain long-term contracts that contain contingent liabilities that may, but in management's opinion are unlikely to, exceed \$6 million in the aggregate. As the likelihood of loss is not determinable, these amounts have not been recorded in the financial statements.

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

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 businesses ('MAJES') for net cash consideration of \$34 million.

As part of the MAJES acquisition, Constellation also assumed certain long-term contracts that contain contingent liabilities that may, but in management's opinion are unlikely to, exceed \$13 million in the aggregate. As the likelihood of loss is not determinable, these amounts have not been recorded in the interim financial statements.

Supplemental Financial Information for MAJES and PTS

The table below provides certain supplemental statement of operations and cash flow information regarding MAJES and PTS for the three months ended March 31, 2010. MAJES and PTS are not considered reportable operating segments of Constellation; however, management has chosen to provide certain supplemental financial information to provide greater clarity into the operating performance and cash flow from operations of each business. Management believes cash flow from operations is useful supplemental information about the performance of the underlying business as certain purchase price adjustments and contract accounting under GAAP may result in reported earnings that differ materially from cash flow from operations. Certain contracts acquired as part of the MAJES business are being accounted for using the completed contract method of accounting. As a result, the revenue and costs on these contracts will not be reflected in the statement of operations until such contracts are complete. Over the course of the remaining term of the applicable contracts, the impact on cash flows will be reflected in the statement of cash flows from operating activities.

Statement of Operations
For the three months ended March 31, 2010

	For the 3 months ended March 31, 2010			
(Unaudited)	Constellation Software Inc. (excluding MAJES and PTS)	MAJES	PTS	Consolidated
Revenue	\$ 98,615	\$18,271	\$27,007	\$ 143,893
Cost of revenue	36,340	6,734	17,476	60,550
Gross Profit	62,275	11,537	9,531	83,343
Total Expenses (excluding amortization)	45,112	6,969	7,406	59,487
Adjusted EBITDA	17,163	4,568	2,125	23,856
<i>EBITDA as % Total Revenue</i>	17%	25%	8%	17%
Depreciation	897	108	42	1,047
Income before the undernoted	16,266	4,460	2,083	22,809
Amortization of intangible assets	13,844	1,451	-	15,295
Other expenses, net	219	79	249	547
Income before income taxes	2,203	2,930	1,834	6,967
Income taxes	(77)	25	705	654
Net Income	\$ 2,280	\$ 2,905	\$ 1,129	\$ 6,313

Cash flow from operating activities
For the three months ended March 31, 2010

	For the 3 months ended March 31, 2010			
(Unaudited)	Constellation Software Inc. (excluding MAJES and PTS)	MAJES	PTS	Consolidated
Cash flows from operating activities:				
Net income	\$ 2,280	\$ 2,905	\$ 1,129	\$ 6,313
Adjustments to reconcile net income to net cash flows from operations:				
Depreciation	897	108	42	1,047
Amortization of intangible assets	13,844	1,451	-	15,295
Future income taxes	(3,371)	279	151	(2,941)
Other non-cash items	456	2	(627)	(169)
Change in non-cash operating working capital	410	(6,920)	(4,666)	(11,176)
Cash flows from operating activities	\$ 14,515	\$ (2,175)	\$ (3,972)	\$ 8,369

Adjusted EBITDA to net income reconciliation
For the three months ended March 31, 2010

For the 3 months ended March 31, 2010				
(Unaudited)	Constellation Software Inc. (excluding MAJES and PTS)	MAJES	PTS	Consolidated
Total revenue	\$ 98,615	\$ 18,271	\$ 27,007	\$ 143,893
Net income	2,280	2,905	1,129	6,313
Add back:				
Income tax expense	(77)	25	705	654
Other expenses, net	219	79	249	547
Amortization of intangible assets	13,844	1,451	-	15,295
Depreciation	897	108	42	1,047
Adjusted EBITDA	17,163	4,568	2,125	23,856
Adjusted EBITDA margin	17%	25%	8%	17%

Liquidity

Our net cash position (cash less bank indebtedness) at March 31, 2010 decreased to negative \$32 million, from negative \$10 million at December 31, 2009. Borrowings on our line of credit increased by \$15 million and cash decreased by \$7 million.

Total assets increased \$18 million, from \$480 million at December 31, 2009 to \$498 million at March 31, 2010. The majority of the increase can be explained by increases in: a) accounts receivable, inventory and work in progress by \$7 million primarily due to acquisitions, b) investments in short term investments and marketable securities totalling \$7 million and c) intangible assets of \$6 million.

Current liabilities increased \$14 million, from \$299 million at December 31, 2009 to \$313 million at March 31, 2010. The majority of the increase can be explained by increases in a) bank indebtedness of \$15 million b) deferred revenue of \$23 million primarily due to an increase in maintenance revenue from acquisitions and from the timing of billings versus revenue recognized. These increases were offset by decreases in a) accounts payable and accrued liabilities of \$25 million primarily due to the payment of 2009 employee bonuses in Q1 2010.

Net Changes in Cash Flow**Quarter ended
March 31, 2010**

(in millions of \$)

Net cash provided by operating activities	\$8
Net cash provided by financing activities	10
Net cash used in investing activities	(25)
Effect of currency translation	(0)
Net decrease in cash and cash equivalents	\$(7)

The net cash flow from operating activities was \$8 million for the quarter ended March 31, 2010. The \$8 million provided by operating activities resulted from \$6 million in net income, plus adjustments for \$13 million of non-cash expenses included in net income, less \$11 million of cash used by changes in our non-cash operating working capital.

The net cash provided by financing activities in the quarter ended March 31, 2010 was \$10 million. \$15 million in additional funds were drawn from our credit facility and \$6 million was used to pay a dividend of \$0.26 per share.

The net cash used in investing activities in the quarter ended March 31, 2010 was \$25 million. The cash used in investing activities was primarily due to acquisitions for an aggregate of \$16 million (including payments for holdbacks relating to prior acquisitions) and due to \$7 million in additions to short term investments, marketable securities and other assets.

We believe we have more than sufficient cash and cash equivalents 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 acquisitions.

Capital Resources and Commitments

We have a \$160 million credit facility that is collateralized by substantially all of our assets including the assets of the majority of our material Canadian and U.S. subsidiaries. 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. As of March 31, 2010, we had drawn \$59 million on this facility.

Commitments include operating leases for office equipment and facilities, bank guarantees, 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 “earn out” payments 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 unconsolidated companies (aside from our shareholdings in publicly traded companies included in our short term investments and our equity investment in Gladstone PLC) that would have a significant effect on our assets and liabilities as at March 31, 2010.

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. Currently, we do not use hedging techniques to mitigate such currency risks. We cannot predict the effect of foreign exchange 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 following table provides an approximate breakdown of our revenue and expenses by currency, expressed as a percentage of total revenue/expenses, as applicable, for the three month period ended March 31, 2010:

Three Months Ended Mar 31, 2010		
Currencies	% of Revenue	% of Expenses
USD	70%	56%
CAD	10%	24%
GBP	9%	7%
CHF	5%	9%
EURO	5%	1%
Others	1%	3%
Total	100%	100%

Off-Balance Sheet Arrangements

As a general practice, we have not entered into off-balance sheet financing arrangements. Except for operating leases, bank guarantees, and letters of credit, all of our commitments are reflected on our balance sheet.

Transactions with Related Parties

Aside from our Key Employee Loan Program (“KELP”), we had no material related party transactions during 2009. The outstanding balance of loans granted under the KELP as of March 31, 2010 was \$0.5 million as compared to \$0.6 million as of December 31, 2009.

Proposed Transactions

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

Changes in Accounting Policies

Effective January 1, 2010, the Company adopted CICA Handbook, Section 1582 “Business Combinations” which replaces 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. This 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. 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.

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

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.

Recent Accounting Pronouncements

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 our first quarter ended March 31, 2011, with comparative data also prepared under IFRS.

We have initiated an IFRS transition project with a formal and detailed project plan. A project team consisting of senior management from our head office and operating subsidiaries are engaged on the project. We have also engaged external IFRS consultants. Regular reporting is provided to our senior executive management and to our Audit Committee on the project's progress. Our project focuses on the key areas impacted by this conversion, including financial reporting, systems and processes, communications and training. Our transition plan is progressing according to our implementation schedule. Effective January 1, 2010, the Company adopted certain accounting policies as part of the transition plan. The next major milestone is scheduled for September 30, 2010.

The review of the potential impacts of IFRS was conducted in phases. In phase 1, we worked with independent consultants to complete a diagnostic of the key financial systems and businesses that would potentially be impacted by our transition to IFRS. In phase 2, we completed our detailed analysis of the potential accounting and reporting differences between Canadian GAAP and IFRS, and made preliminary accounting policy choices. We have identified new reporting requirements and are currently assessing the impact of these changes on our financial systems.

The following are our preliminary significant IFRS policy decisions and significant expected accounting differences, based on our analysis of the current IFRS standards. We will provide formal training to our finance staff and other personnel at each of our sites during 2010. Additional differences between Canadian GAAP and IFRS may be identified once the training is completed and as we conduct the quantification process. As a result, our accounting policy choices may change prior to the adoption of IFRS on January 1, 2011. Although we have identified key accounting policy differences, we cannot at this time determine the impact of these differences to our consolidated financial statements.

First-time adoption of IFRS (IFRS 1):

Upon transition, a company is required to apply IFRS on a retrospective basis. However, IFRS 1 has certain mandatory exceptions, as well as limited optional exemptions, in specific areas of certain standards that do not require retrospective application of IFRS. Based on our analysis to date, we expect to apply the following optional exemptions available under IFRS 1 that may be significant to us in preparing our first consolidated financial statements under IFRS:

Business combinations - IFRS 1 allows us to apply these standards on a prospective or retrospective basis. We have elected to apply IFRS 3(revised), Business combinations, on a prospective basis for all business combinations completed after January 1, 2010.

Cumulative translation differences - IFRS 1 allows cumulative translation differences for foreign operations to be cleared through equity on transition. We have elected to reset cumulative translation differences to zero on transition. At March 31, 2010, our cumulative translation account was a gain of \$0.4 million.

IFRS to Canadian GAAP differences:

In addition to the IFRS 1 exceptions and exemptions, the following are preliminary differences between our Canadian GAAP accounting policies and those under IFRS that we believe are applicable and significant to Constellation based on our analysis to date:

Recognizing and measuring goodwill or a gain from a bargain purchase

Under IFRS, negative goodwill does not result in the proportionate reduction of certain acquired assets, or the inclusion of contingent liabilities. Rather, negative goodwill is recorded in the P&L. We have had acquisitions in the past wherein negative goodwill has resulted in a proportionate reduction of certain acquired assets. Under IFRS, this would result in negative goodwill being recorded in the P&L.

Provisions

Under IFRS a provision is recognized in the financial statements if it is probable. Probable is defined under IFRS as “more likely than not”. This is a lower threshold than “likely” under Canadian GAAP. Currently, we have approximately \$19 million in contingent liabilities disclosed in our financial statements. Under IFRS, some of these liabilities may be recorded in our financial statements.

Revenue recognition

We have certain long term contracts that are being accounted for using the completed contract method of accounting. Completed contract method of accounting is not allowed under IFRS. As such, we will record accumulated profit/loss on these contracts in our opening retained earnings and recognize the remaining billings and expenses using the percentage completion method where we can reliably estimate costs to complete. Where we cannot estimate costs to complete, the zero margin method will be used.

Income Taxes

For integrated subsidiaries and foreign-denominated purchases of capital assets, IFRS requires a deferred tax asset/liability to be recorded based on foreign exchange movements, whereby an amount arises based on the difference between the historical rate and the current rate. Under its current structure, Constellation has a significant number of integrated subsidiaries that could be impacted by this difference.

Information systems:

The accounting processes of the Company are not heavily dependent on information systems and based on the initial scoping exercise no significant modifications to information systems are anticipated. The Company has yet to establish if historical data will have to be regenerated to comply with some of the choices to be made under IFRS 1.

The impact of IFRS at transition will depend on the IFRS standards in effect at the time, accounting elections that have not yet been made and the prevailing business and economic facts and circumstances. The evolving nature of IFRS may also result in additional accounting changes, some of which may be significant. We will continue to monitor changes in the IFRS standards and will adjust our transition plans accordingly.

Share Capital

As at May 5, 2010, there were 21,191,530 total shares outstanding comprised of 17,503,530 common shares and 3,688,000 class A non-voting shares.

Outlook

Although we anticipate that our annual revenue and Adjusted EBITDA will vary from year to year, management's objective is to grow each of our annual revenue per share and Adjusted EBITDA per share at an average rate, in the five year period commencing January 1, 2006 and ending December 31, 2010, in excess of 20% per annum. While the mix of organic growth and growth from acquisitions will change from year to year, we anticipate that approximately one half to three quarters of our growth will be attributable to acquisitions over this five year period. The foregoing objectives are based on various assumptions of management, including, without limitation, that (i) there will be a sufficient number of reasonably-priced acquisitions available, and (ii) we will continue to declare modest dividends. See "Forward-Looking Statements" and "Risks and Uncertainties".

Risks and Uncertainties

The risks and uncertainties affecting the Company are described in the Company's 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.

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 March 31, 2010, 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 respecting certification of disclosure in issuers' interim 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 quarterly 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 whether or not there were changes to its ICFR during the three-month period ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect the Company’s ICFR. No such changes were identified through their evaluation.

Exclusion of PTS

Our assessment of and conclusion on the effectiveness of disclosure controls and procedures and internal control over financial reporting did not include the controls or procedures of the operations of PTS, which are included in our Q1 2010 interim consolidated financial statements. Certain summary financial information related to PTS has been included above under ‘Acquisition of PTS Business from Continental’.