Constellation Software Inc.

INTERIM FINANCIAL REPORT

Second Quarter Fiscal Year 2008

For the three and six month periods ended
June 30, 2008
(UNAUDITED)

CONSTELLATION SOFTWARE INC.
Q2 2008

TO OUR SHAREHOLDERS

Q2 was a good quarter for Constellation, particularly in light of the difficult economic environment. We achieved record levels of Adjusted EBITDA ($14 million) and Adjusted Net Income ($12 million), and 5% Organic Net Revenue growth.

In Q2 of 2006, Constellation became a public company. Net Revenue during that quarter was $47 million. Net Revenue in Q2 of this year was $71 million – a 23% compound annual growth rate since the IPO. While some of this growth was organic, the majority of it was acquired. We issued no new shares during the IPO nor have we issued any since then, so the intervening acquisitions were financed from our earnings (~$73 million), and borrowings/cash reductions (~$26 million).

Until recently, we had avoided using significant amounts of debt. Circumstances, however, may dictate a change in our capital structure. The economy is slow, credit and equity markets are in rough shape, and buyers for vertical market software businesses are increasingly scarce. Concurrently, and for some of the same reasons, quite a number of vertical market software businesses are for sale at attractive prices. We may not be the successful bidders for these assets, but if we are, we will almost certainly be increasing Constellation's financial leverage. In support of our acquisition pursuits, we negotiated an increase in our revolving bank line to $105 million during Q2 and are currently in discussions with our lenders to further increase the size of this facility. We are also examining other financing alternatives.

Rapid acquired growth is not an imperative, it is a choice. For most of the last decade we struggled to find enough attractive acquisitions to consume our operating cash flows. We believe that the situation has now reversed, and we are sorely tempted to buy as many attractive vertical market software businesses as and while we can.

A table containing our quarterly Performance Metrics is appended. We have discussed the definitions and implications of the various metrics in previous letters to shareholders, and a glossary is also provided. This quarter, I was pleased with our performance across all of the metrics but wanted to draw your attention to one in particular. When economic times are tough, and bonuses are tied to financial performance, there's a strong incentive for the managers of any business to aggressively recognise revenue. I believe that our people are largely inured to such temptations, but there's a quick way to cross-check. Aggressive revenue recognition nearly always gives rise to an associated increase in accounts receivable and work in process. We should be able to see any such movements in our Tangible Net Assets/Net Revenue metric. In Q2 of 2008, this metric was -58%, down from -45% and -51% in Q2 of 2007 and 2006 respectively. This improvement over prior years suggests that, if anything, our businesses are being conservative about the earnings that they are reporting.

Mark Leonard
President
Constellation Software Inc.

August 7th, 2008

	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2008	Q2 2008
($ millions, except percentages)									
Revenue	52.2	53.8	53.5	55.9	60.5	60.6	66.1	73.6	77.7
Net Income / (Loss)	1.3	2.3	3.8	2.6	3.5	3.3	1.6	4.3	3.4
Net Revenue	47.3	48.4	48.6	50.7	54.9	55.3	60.2	66.6	71.0
Net Maintenance Revenue	26.9	28.1	29.6	31.2	33.3	34.5	37.8	41.7	43.8
Adjusted Net Income (1)	4.4	7.5	9.0	6.9	8.4	8.5	9.4	11.1	12.0
Average Invested Capital	119	125	135	143	149	158	167	176	188
Net Revenue Growth (Y/Y)	28%	24%	22%	10%	16%	14%	24%	31%	29%
Organic Net Revenue Growth (Y/Y)	12%	5%	3%	-1%	0%	2%	3%	6%	5%
Net Maintenance Growth (Y/Y)	30%	30%	29%	20%	24%	23%	28%	34%	32%
Adjusted Net Income Growth (Y/Y)	5%	49%	115%	43%	91%	13%	5%	62%	43%
Average Invested Capital Growth (Y/Y)	20%	20%	24%	25%	25%	26%	24%	24%	26%
Tangible Net Assets / Net Revenue	-51%	-59%	-73%	-57%	-45%	-53%	-74%	-58%	-58%
ROIC (Annualized)	15%	24%	27%	19%	23%	22%	22%	25%	26%
ROIC + Organic Net Revenue Growth	27%	29%	30%	18%	23%	24%	26%	32%	31%

(1) Historical figures restated to comply with revised definition.

Performance Metrics Glossary

"Net Revenue" means Revenue for GAAP purposes less third party and flow-through expenses. We use Net Revenue since it captures 100% of the license, maintenance and services revenues associated with Constellation's own products, but only includes the margin on our lower value-added revenues such as commodity hardware or third party software.

"Net Maintenance Revenue" is derived from GAAP Maintenance Revenue by subtracting third party maintenance costs. We believe that Net Maintenance Revenue is one of the best indicators of the intrinsic value of a software company and that the operating profitability of a low growth software business should correlate tightly to Net Maintenance Revenues.

Effective Q1 2008, the term ''Adjusted Net Income'' is derived by adjusting GAAP net income for the non-cash amortization of intangibles, future income taxes, and charges related to appreciation in common shares eligible for redemption (a charge that we no longer incur now that Constellation's common shares are publicly traded). Prior to Q1 2008, Adjusted Net Income was derived by adjusting GAAP net income for the non-cash amortization of intangibles and charges related to appreciation in common shares eligible for redemption. The computation was changed to include future income taxes since the majority of future income taxes relate to the amortization of intangible assets, and thus are being added back to more closely match the non-cash future tax recovery with the amortization of intangibles. All previously reported Adjusted Net Income figures have been restated in the table above to reflect the new method of computations. We use Adjusted Net Income because it is generally a better measure of cash flow than GAAP net income and it is closely aligned with the calculation of net income we use for bonus purposes.

"Average Invested Capital" is based on the Company's estimate of the amount of money that our shareholders had invested in Constellation. Subsequent to that estimate, each period we have kept a running tally, adding Adjusted Net Income, subtracting any dividends, adding any amounts related to share issuances and making some small adjustments, including adjustments relating to our use of certain incentive programs and the amortization of impaired intangibles.

"Tangible Net Assets / Quarterly Net Revenue" provides a measure of our Tangible Net Assets as a proportion of Quarterly Net Revenue. Tangible Net Assets is calculated by taking Total Assets for GAAP purposes, and subtracting (i) intangible assets and goodwill, (ii) cash and short term investments, (iii) future income tax assets, (iv) all customer, trade and government liabilities that do not bear a coupon, excluding future income tax liabilities and acquisition holdbacks.

"ROIC (Annualized)" represents a ratio of Adjusted Net Income to Average Invested Capital.

"ROIC + Organic Net Revenue Growth" provides a historical measure of the effectiveness of our capital allocation.

Forward Looking Statements

Certain statements herein may be “forward looking” statements that involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Constellation or the industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These statements reflect current assumptions and expectations regarding future events and operating performance and speak only as of the date hereof. 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. These forward looking statements are made as of the date hereof and Constellation assumes no obligation to update any forward looking statements to reflect new events or circumstances except as required by law.

Non-GAAP Measures

Net Revenue, Net Maintenance Revenue, Adjusted Net Income, Adjusted EBITDA and Organic Net Revenue Growth are not recognized measures under GAAP and, accordingly, shareholders are cautioned that Net Revenue, Net Maintenance Revenue, Adjusted Net Income Adjusted EBITDA and Organic Net Revenue Growth should not be construed as alternatives to revenue or net income determined in accordance with GAAP as an indicator of the financial performance of the Company or as a measure of the Company’s liquidity and cash flows. The Company’s method of calculating Net Revenue, Net Maintenance Revenue, Adjusted Net Income, Adjusted EBITDA and Organic Net Revenue Growth may differ from other issuers and, accordingly, may not be comparable to similar measures presented by other issuers. Please refer to Constellation’s most recently filed Management Discussion and Analysis for a reconciliation, where applicable, between the GAAP and non-GAAP measures referred to above.

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 and six month periods ended June 30, 2008 and the accompanying notes, and with our consolidated annual financial statements and our annual MD&A for the year ended December 31, 2007. 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, August 7, 2008. 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. 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, amortization, and foreign exchange, and before including gain on sale of short-term investments, marketable securities and other assets. 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.

Effective Q1 2008, ''Adjusted Net Income'' means net income plus amortization of intangible assets and future income taxes. Prior to Q1 2008, Adjusted Net Income was reported on the basis of net income plus amortization of intangible assets. The computation was changed to include future income taxes since the

majority of future income taxes relate to the amortization of intangible assets, and thus are being added back to more closely match the non-cash future tax recovery with the amortization of intangibles. All previously reported Adjusted Net Income figures have been restated here in Results of Operations to reflect the new method of computations. See "Adjusted Net 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 intangibles and future income taxes as these are non-cash expenses that do not necessarily reflect the economic value of acquisitions. ''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 or as a measure of the Company's liquidity and cash flows. 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, and professional service fees. 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 the license fee is separately determinable from maintenance and/or professional service fees. Maintenance revenue consists of fees charged for customer support on our software products post-delivery. 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. Our customers typically purchase a combination of software, maintenance and professional services, although the types, mix and quantity of each solution 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 Jun. 30,		Period-Over-Period Change		Six months ended Jun. 30,		Period-Over-Period Change	
	2008	2007	$	%	2008	2007	$	%
Revenue	**77,742**	**60,487**	**17,255**	**28.5%**	**151,345**	**116,380**	**34,965**	**30.0%**
Cost of Revenue	28,625	23,020	5,605	24.3%	57,252	44,537	12,715	28.5%
Gross Profit	49,117	37,467	11,650	31.1%	94,093	71,843	22,250	31.0%
Expenses								
Research and development	11,327	8,862	2,465	27.8%	22,957	17,772	5,185	29.2%
Sales and marketing	9,841	7,324	2,517	34.4%	17,882	14,365	3,517	24.5%
General and administration	14,051	10,410	3,641	35.0%	26,850	20,446	6,404	31.3%
Total Expenses (pre amortization)	35,219	26,596	8,623	32.4%	67,689	52,583	15,106	28.7%
Adjusted EBITDA	**13,898**	**10,871**	**3,027**	**27.8%**	**26,404**	**19,260**	**7,144**	**37.1%**
Depreciation	841	855	(14)	-1.6%	1,626	1,548	78	5.0%
Total Expenses	36,060	27,451	8,609	31.4%	69,315	54,131	15,184	28.1%
Income before the undernoted	**13,057**	**10,016**	**3,041**	**30.4%**	**24,778**	**17,712**	**7,066**	**39.9%**
Amortization of intangible assets	9,201	5,209	3,992	76.6%	17,297	9,643	7,654	79.4%
(Gain) loss on sale of short-term investments, marketable securities and other assets	24	(1,119)	1,143	NA	(24)	(1,354)	1,330	-98.2%
Interest expense (income)	234	(34)	268	NA	397	(149)	546	NA
Foreign exchange (gain) loss	(192)	1,345	(1,537)	NA	(663)	1,351	(2,014)	NA
Income before income taxes	3,790	4,615	(825)	-17.9%	7,771	8,221	(450)	-5.5%
Income taxes (recovery)								
Current	991	1,421	(430)	-30.3%	1,952	2,578	(626)	-24.3%
Future	(603)	(348)	(255)	73.3%	(1,912)	(501)	(1,411)	281.6%
	388	1,073	(685)	-63.8%	40	2,077	(2,037)	-98.1%
Net income	**3,402**	**3,542**	**(140)**	**-4.0%**	**7,731**	**6,144**	**1,587**	**25.8%**
Adjusted net income [(1)]	**12,000**	**8,403**	**3,597**	**42.8%**	**23,116**	**15,286**	**7,830**	**51.2%**
Weighted avg # of shares outstanding (000's)								
Basic	21,147	21,111			21,130	21,102		
Diluted	21,192	21,192			21,192	21,192		
Net income per share								
Basic	$ 0.16	$ 0.17	$ (0.01)	-5.9%	$ 0.37	$ 0.29	$ 0.08	27.6%
Diluted	$ 0.16	$ 0.17	$ (0.01)	-5.9%	$ 0.36	$ 0.29	$ 0.07	24.1%
Adjusted EBITDA per share								
Basic	$ 0.66	$ 0.51	$ 0.15	29.4%	$ 1.25	$ 0.91	$ 0.34	37.4%
Diluted	$ 0.66	$ 0.51	$ 0.15	29.4%	$ 1.25	$ 0.91	$ 0.34	37.4%
Adjusted net income per share [(1)]								
Basic	$ 0.57	$ 0.40	$ 0.17	42.5%	$ 1.09	$ 0.72	$ 0.37	51.4%
Diluted	$ 0.57	$ 0.40	$ 0.17	42.5%	$ 1.09	$ 0.72	$ 0.37	51.4%

[(1)] Adjusted net income figures for 2007 have been restated to reflect future income taxes. See "Non-GAAP Measures".

Comparison of the second quarter and six months ended June 30, 2008 and 2007

Revenue:

Total revenue for the second quarter ended June 30, 2008 was $77.7 million, an increase of 29%, or $17.3 million, compared to $60.5 million for the comparable period in 2007. For the first six months of 2008 total revenues were $151.3 million, an increase of 30%, or $35.0 million, compared to $116.4 million for the comparable period in 2007. The increase for both the second quarter and six month periods compared to the same periods in the prior year, was mainly attributable to growth from acquisitions, as organic growth from

our existing businesses was estimated at approximately 5% for the second quarter and 6% for the first six months. The remaining 24% growth for the second quarter and 24% for the first six months is due to acquisitions completed since Q2 2007.

Software license revenue for the quarter ended June 30, 2008 increased by 24%, or $1.8 million to $9.1 million, from $7.3 million for the same period in 2007. During the six months ended June 30, 2008, license revenue increased by 34% or $4.6 million to $17.9 million, from $13.3 million for the same period in 2007. Professional services and other services revenue for the quarter ended June 30, 2008 increased by 25%, or $3.7 million to $18.3 million, from $14.6 million for the same period in 2007. During the six months ended June 30, 2008, professional services and other services revenue increased by 24% or $6.6 million to $34.4 million, from $27.8 million for the same period in 2007. Hardware and other revenue for the quarter ended June 30, 2008 increased by 14%, or $0.6 million to $4.6 million from $4.0 million for the same period in 2007. During the six months ended June 30, 2008, hardware and other revenue increased by 20% or $1.6 million to $9.7 million, from $8.1 million for the same period in 2007. Maintenance revenues for the quarter ended June 30, 2008 increased by 33%, or $11.3 million to $45.9 million, from $34.6 million for the same period in 2007. During the six months ended June 30, 2008, maintenance revenue increased by 33% or $22.2 million to $89.3 million, from $67.1 million for the same period in 2007. The following table displays the breakdown of our revenue according to revenue type:

	Three months ended Jun. 30,				Six months ended Jun. 30,			
	2008	2007	2008	2007	2008	2007	2008	2007
	($000)		(% of total revenue)		($000)		(% of total revenue)	
Licenses	9,057	7,293	11.7%	12.1%	17,930	13,338	11.8%	11.5%
Professional services and other:								
Services	18,257	14,596	23.5%	24.1%	34,367	27,816	22.7%	23.9%
Hardware and other	4,562	3,991	5.9%	6.6%	9,718	8,082	6.4%	6.9%
Maintenance	45,866	34,607	59.0%	57.2%	89,330	67,144	59.0%	57.7%
	77,742	60,487	100.0%	100.0%	151,345	116,380	100.0%	100.0%

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

The following table displays our revenue by reporting segment and the percentage change for the three and six months ended June 30, 2008 compared to the same periods in 2007:

	Three months ended Jun. 30,		Period-Over-Period Change		Six months ended Jun. 30,		Period-Over-Period Change	
	2008	2007	$	%	2008	2007	$	%
	($000, except percentages)				($000, except percentages)			
Public Sector								
Licenses	5,950	4,557	1,393	30.6%	11,391	7,940	3,451	43.5%
Professional services and other:								
Services	14,354	11,125	3,229	29.0%	26,541	20,558	5,983	29.1%
Hardware and other	3,499	2,919	580	19.9%	7,586	5,888	1,698	28.8%
Maintenance	28,965	20,738	8,227	39.7%	55,565	39,720	15,845	39.9%
	52,768	39,339	13,429	34.1%	101,083	74,106	26,977	36.4%
Private Sector								
Licenses	3,107	2,736	371	13.5%	6,539	5,397	1,142	21.1%
Professional services and other:								
Services	3,903	3,470	433	12.5%	7,825	7,258	567	7.8%
Hardware and other	1,063	1,074	(11)	-1.0%	2,133	2,195	(62)	-2.8%
Maintenance	16,901	13,868	3,033	21.9%	33,765	27,424	6,341	23.1%
	24,974	21,148	3,826	18.1%	50,262	42,274	7,988	18.9%

Public Sector

For the quarter ended June 30, 2008, total revenue in the public sector segment increased 34%, or $13.4 million, to $52.8 million, compared to $39.3 million for the quarter ended June 30, 2007. For the six months ended June 30, 2008 total revenue increased by 36% or $27.0 million, to $101.1 million, compared to $74.1 million for the comparable period in 2007. The increases for both the three and six month periods were significant across all revenue types. Revenue growth from acquired businesses was significant for both the three and six month periods as we completed 17 acquisitions since the beginning of 2007 in our public sector segment. It is estimated that these acquisitions contributed approximately $9.2 million to our Q2 2008 revenues and $17.6 million to our revenues in the six months ended June 30, 2008. The remaining $4.2 million of revenue growth for Q2 and $9.4 million of revenue growth for the first six months of 2008 in this sector was generated from organic sources. The organic growth was primarily driven by the following:

- **Trapeze Operating Group** (increase of approximately $2.8 million for Q2 and $6.3 million for the first six months). Trapeze experienced a significant increase in all revenue types in the quarter and year to date in their UK, Continental Europe and North American businesses.

- **Harris Operating Group** (increase of approximately $1.7 million for Q2 and $3.5 million for the first six months). Harris experienced a significant increase in all revenue types in the quarter and year to date primarily due to continued strong sales to existing clients and new customers.

- **Emphasys Operating Group** (decrease of approximately $0.2 million for Q2 and $0.4 million for the first six months). Emphasys experienced a decrease in license and services revenue primarily due to timing of bookings.

Private Sector

For the quarter ended June 30, 2008, total revenue in the private sector segment increased 18%, or $3.8 million, to $25.0 million, compared to $21.1 million for the quarter ended June 30, 2007. For the six months ended June 30, 2008 total revenue increased by 19% or $8.0 million, to $50.3 million, compared to $42.3 million for the comparable period in 2007. The increases for both the three and six month periods were primarily due to license, professional services and maintenance revenues. Revenue growth from acquired businesses was significant for both the three and six month periods as we completed 10 acquisitions since the beginning of 2007 in our private sector segment. It is estimated that these acquisitions contributed approximately $5.3 million to our Q2 2008 revenues and $10.2 million to our revenues in the six months ended June 30, 2008. Revenue decreased organically by $1.4 million in Q2 2008 and by $2.3 million in the six months ended June 30, 2008. The organic revenue decline was primarily driven by the following:

- **Jonas Operating Group** (increase of approximately $1.1 million for Q2 and $2.4 million for the first six months). The Jonas organic growth in quarter and year to date was driven by sales to new and existing customers in the construction vertical, increasing customer share in the private club vertical through selling add on products, and by strong license and professional services revenue in the food services vertical.

- **Homebuilder and Friedman Operating Groups** (decrease of approximately $2.5 million for Q2 and $4.6 million for the first 6 months). These Operating Groups continued to feel the effects of the housing slowdown in the U.S. The decline was particularly apparent in licenses and services revenue as many of our clients and prospective clients have delayed purchasing decisions.

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 Jun. 30,				Six months ended Jun. 30,			
	2008	2007	2008	2007	2008	2007	2008	2007
			($000)				($000)	
Gross profit licenses	89.6%	91.3%	8,111	6,661	90.6%	91.6%	16,251	12,216
Gross profit services & maintenance	62.1%	61.4%	39,840	30,189	61.2%	61.1%	75,662	58,019
Gross profit hardware & other	25.6%	15.4%	1,166	616	22.4%	19.9%	2,181	1,609
Gross profit on total revenue	63.2%	61.9%	49,117	37,466	62.2%	61.7%	94,094	71,844

Gross profit increased for the quarter ended June 30, 2008 to $49.1 million, or 63.2% of total revenue, from $37.5 million, or 61.9% of total revenue, for the quarter ended June 30, 2007. The increase in gross margin dollars is attributable to the overall increase in total revenue while the increase in gross margin percentage can be attributed to the revenue mix as we experienced a greater increase in our higher margin maintenance revenue in the quarter. For the first six months of 2008, our gross profit increased to $94.1 million or 62.2% of total revenue, from $71.8 million or 61.7% of total revenue for the comparable period in 2007. The increase in gross margin dollars is attributable to the overall increase in total revenue while the increase in gross margin percentage can be attributed to the revenue mix as we experienced a greater increase in our higher margin maintenance revenue in the first six months. Our licenses, services and maintenance revenue margins experienced minimal change vs. 2007 in both the three and six month periods. Our hardware and other revenue margins continued to strengthen in the three and six month periods as compared to the same periods in 2007 as we realized stronger margins in our hardware and forms businesses. Management believes there could be significant fluctuations in gross profit margins for future periods if we experience a significant shift in our revenue mix.

Operating Expenses:

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

	Three months ended Jun. 30,		Period-Over-Period Change		Six months ended Jun. 30,		Period-Over-Period Change	
	2008	2007	$	%	2008	2007	$	%
	($000, except percentages)				($000, except percentages)			
Research and development	11,327	8,862	2,465	27.8%	22,957	17,772	5,185	29.2%
Sales and marketing	9,841	7,324	2,517	34.4%	17,882	14,365	3,517	24.5%
General and administration	14,051	10,410	3,641	35.0%	26,850	20,446	6,404	31.3%
Depreciation	841	855	(14)	-1.6%	1,626	1,548	78	5.0%
	36,060	27,451	8,609	31.4%	69,315	54,131	15,184	28.1%

Overall operating expenses for the quarter ended June 30, 2008 increased 31%, or $8.6 million, to $36.1 million, compared to $27.5 million over the same period in 2007. As a percentage of total revenue, operating expenses increased from 45% in the quarter ended June 30, 2007 to 46% in the quarter ended June 30, 2008. During the six months ended June 30, 2008, operating expenses increased 28%, or $15.2 million, to $69.3 million, compared to $54.1 million over the same period in 2007. As a percentage of total revenue, operating expenses decreased from 47% in the six months ended June 30, 2007 to 46% in the six months ended June 30, 2008. The growth in expenses for the three and six month periods is primarily due to the growth in the number of employees, an increase in our employee bonus accrual, and the appreciation of the Canadian dollar versus the U.S. dollar. Our average employee count associated with operating expenses grew 23% from 743 in the quarter ended June 30, 2007 to 911 in the quarter ended June 30, 2008 primarily due to acquisitions. During the six months ended June 30, 2008, headcount associated with operating expenses was up 25% to an average headcount of 897 compared to an average of 720 during the same period in 2007. Strengthening of the Canadian dollar versus the US dollar contributed to the growth in operating expenses (as

we estimate that approximately one third of our total expenses, including costs of goods sold, are originated in Canadian dollars). The average exchange rate for the Canadian dollar changed significantly in the periods being measured, as evidenced by a 9% increase in Q2 2008 vs. Q2 2007 and a 13% increase for the comparable six month periods.

Research and development – Research and development expenses increased 28%, or $2.5 million, to $11.3 million for the quarter ended June 30, 2008 compared to $8.9 million for the same period in 2007. As a percentage of total revenue, research and development expense decreased slightly to 14.6% in Q2 2008 from 14.7% in Q2 2007. During the six months ended June 30, 2008, research and development expense increased 29%, or $5.2 million, to $23.0 million, compared to $17.8 million over the same period in 2007. As a percentage of total revenue, research and development decreased slightly to 15.2% in the six months ended June30, 2008 from 15.3% in the six months ended June 30, 2007. The increase in expenses as a dollar amount for the three and six month periods is largely attributable to our growth in headcount from both acquisitions and internal hiring. For Q2 2008, we averaged 512 staff compared to 414 in the same period in 2007, representing a 24% increase in headcount. For the six months ending June 30, 2008, we averaged 501 staff compared to 397 in the same period in 2007.

We currently do not have any capitalized software development costs. All of our software development costs are expensed as incurred unless they meet Canadian generally accepted accounting criteria for deferral and amortization. Software development costs incurred prior to the establishment of technological feasibility do not meet these criteria, and are expensed as incurred. Capitalized costs would be amortized over the estimated benefit period of the software developed. No costs were deferred in the first quarter of 2008 as most projects did not meet the criteria for deferral and, for those projects that met these criteria, the period between achieving technological feasibility and the completion of software development was minimal, and the associated costs immaterial.

Sales and marketing – Sales and marketing expenses increased 34%, or $2.5 million to $9.8 million, in the quarter ended June 30, 2008 compared to $7.3 million for the same period in 2007. As a percentage of total revenue, sales and marketing expenses increased to 13% in the quarter ended June 30, 2008 from 12% for the same period in 2007. During the six months ended June 30, 2008, sales and marketing expense increased 25%, or $3.5 million, to $17.9 million, compared to $14.4 million over the same period in 2007. As a percentage of total revenue, sales and marketing decreased to 11.8% from 12.3% in the six months ended June 30, 2008 compared to the six months ended June 30, 2007. The increase in expenses as a dollar amount during the quarter is largely attributable to our growth in headcount from both acquisitions and internal hiring. For Q2 2008, we averaged 212 staff compared to 172 in the same period in 2007, representing a 23% increase in headcount. For the six months ending June 30, 2008, we averaged 208 staff compared to 163 in the same period in 2007.

General and administration – General and administration ("G&A") expenses increased 35%, or $3.6 million, to $14.1 million in the quarter ended June 30, 2008 from $10.4 million for the same period in 2007. As a percentage of total revenue, G&A expenses increased to 18% in Q2 2008 from 17% in Q2 2007. During the six months ended June 30, 2008, G&A expense increased 31%, or $6.4 million, to $26.9 million, compared to $20.5 million over the same period in 2007. As a percentage of total revenue, G&A increased to 17.7% from 17.6% in the six months ended June 30, 2008 compared to the six months ended June 30, 2007. The increase in expenses as a dollar amount during the quarter is largely attributable to our growth in headcount from both acquisitions and internal hiring. For Q2 2008, we averaged 187 staff compared to 157 in the same period in 2007, representing a 19% increase in headcount. For the six months ending June 30, 2008, we averaged 188 staff compared to 160 in the same period in 2007. In addition to the increased headcount in Q2, there was a higher employee bonus accrual driven by higher period over period revenue growth rates in 2008 versus 2007.

Depreciation of property and equipment – Depreciation of property and equipment for the quarter and six months ended June 30, 2008 did not change materially from the comparable periods in 2007. As a percentage of total revenue, depreciation was 1.1% in Q2 2008 compared to 1.4% in Q2 2007, and 1.1% for the six months ended June 30, 2008 compared to 1.3% in the same period in 2007.

Non-Operating Expenses:

The following table displays the breakdown of our non-operating expenses by category.

	Three months ended Jun. 30,		Period-Over-Period Change		Six months ended Jun. 30,		Period-Over-Period Change	
	2008	2007	$	%	2008	2007	$	%
	($000, except percentages)				($000, except percentages)			
Amortization of intangible assets	9,201	5,209	3,992	76.6%	17,297	9,643	7,654	79.4%
(Gain) loss on sale of short term investments, marketable securities and other assets	24	(1,119)	1,143	-102.1%	(24)	(1,354)	1,330	-98.2%
Interest expense (income)	234	(34)	268	NA	397	(149)	546	NA
Foreign exchange (gain) loss	(192)	1,345	(1,537)	NA	(663)	1,351	(2,014)	NA
Income tax expense	388	1,073	(685)	-63.8%	40	2,077	(2,037)	-98.1%
	9,655	6,474	3,181	49.1%	17,047	11,568	5,479	47.4%

Amortization of intangible assets – Amortization of intangible assets was $9.2 million for the quarter ended June 30, 2008 compared to $5.2 million for the same period in 2007, representing an increase of 77%. For the six months ended June 30, 2008, amortization of intangibles increased 79%, to $17.3 million, compared to $9.6 million over the same period in 2007. Both the three and six month increases are attributable to the increases in our intangible asset balance (on a cost basis) over the twelve month period ended June 30, 2008 as a result of the acquisitions that we completed during this period.

Loss (Gain) on sale of short-term investments, marketable securities and other assets – The loss for the quarter ended June 30, 2008 was $24,000 compared to a gain of $1.1 million for Q2 2007. The gain for the six months ended June 30, 2008 was $24,000 compared to a gain of $1.4 million during the same period in 2007. The gain in 2007 was the result of liquidating a portion of our investment in certain marketable securities. We expect to realize gains or losses on an infrequent basis as our strategic goal is to buy VMS businesses and hold them indefinitely. Occasionally we will acquire an ownership interest that is less than 100% of a publicly traded VMS business and subsequently sell these shares if we cannot acquire the entire business, or cannot achieve a position of influence, generating either gains or losses. As of June 30, 2008, we had three investments that would have the potential to create such gains or losses. For the six months ended June 30, 2008, we had an unrealized loss of $2.0 million relating to the difference between the market value of these investments and the historical cost which is reflected in the Statement of Comprehensive Income. In the future, we may liquidate these holdings if we feel we have a better use for the capital, or if our outlook for the businesses changes.

Interest expense (income) – Net interest expense was $0.2 million for the quarter ended June 30, 2008 compared to interest income of $34,000 for the same period in the previous year. For the six months ended June 30, 2008, interest expense was $0.4 million compared to interest income of $0.2 million for the comparable period in 2007. At the end of the second quarter of 2007, we completed an investment in VCG Inc. which generates approximately $0.1 million per quarter in interest income. Our excess cash balances (to the extent that we have excess cash) also generate interest income. These sources of interest income are offset by periodic borrowings on our line of credit to fund acquisitions. As a result, we expect interest income / 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 that 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, 2008, our foreign exchange gain was $0.2 million compared to a loss of $1.3 million for Q2 2007. For the six months ended June 30, 2008, the gain was $0.7 million versus a loss of $1.4 million during the same period in 2007. The foreign exchange gain for the six months ended June 30, 2008 is mainly attributable to a 3% decrease in the closing rate for the Canadian dollar vs. the US dollar at June 30, 2008 vs. December 31, 2007. 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 US dollars (our functional currency) at quarter end, we recorded a foreign exchange gain.

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, 2008, there was an income tax expense of $0.4 million, compared to an expense of $1.1 million for the same period in 2007. For the six months ended June 30, 2008, the provision for income taxes was $40,000, compared to $2.1 million in 2007. The decrease in the tax provision for the first quarter and six months ended June 30, 2008 compared to the same period in 2007 is mainly due to future income tax recovery primarily arising from the amortization of acquired intangible assets which have a zero basis for tax purposes.

Net Income

Net income for the quarter ended June 30, 2008 was $3.4 million compared to net income of $3.5 million for the same period in 2007. On a per share basis this translated into a net income per diluted share of $0.16 in Q2 2008 vs. a net income per diluted share of $0.17 in Q2 2007. For the first six months of 2008, net income was $7.7 million or $0.36 per diluted share compared to $6.1 million or $0.29 per share in the first six months of 2007. Net income in Q2 and for the first six months of 2008 was positively impacted by the growth in our Adjusted EBITDA and lower tax provision offset by an increase in amortization of intangibles and a smaller gain on short term investments.

Adjusted EBITDA:

For Q2 2008, Adjusted EBITDA increased by $3.0 million to $13.9 million compared to $10.9 million in Q2 2007, representing an increase of 28%. Adjusted EBITDA margin was 18% in the second quarter of 2008 and in the comparable period in 2007. For the first six months of 2008, Adjusted EBITDA increased by $7.1 million to $26.4 million compared to $19.3 million during the same period in 2007, representing an increase of 37.1%. Adjusted EBITDA margin was 17.4% in the first six months of 2008, compared to 16.5% of total revenue for the same period in 2007. 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 Jun. 30,		Six months ended Jun. 30,	
	2008	2007	2008	2007
	($000, except percentages)		($000, except percentages)	
Total revenue	$ 77,742	$ 60,487	$ 151,345	$ 116,380
Net income	3,402	3,542	7,731	6,144
Add back:				
Income tax expense	388	1,073	40	2,077
Foreign exchange (gain) loss	(192)	1,345	(663)	1,351
Interest expense (income)	234	(34)	397	(149)
(Gain) loss on sale of short-term investments, marketable securities and other assets	24	(1,119)	(24)	(1,354)
Amortization of intangible assets	9,201	5,209	17,297	9,643
Depreciation	841	855	1,626	1,548
Adjusted EBITDA	13,898	10,871	26,404	19,260
Adjusted EBITDA margin	17.9%	18.0%	17.4%	16.5%

Adjusted Net Income:

For Q2 2008, Adjusted Net Income increased by $3.6 million to $12.0 million compared to $8.4 million in Q2 2007, representing an increase of 43%. Adjusted Net Income margin was 15% in the second quarter of 2008, compared to 14% of total revenue for the same period in 2007. For the first six months of 2008, Adjusted net income increased by $7.8 million to $23.1 million compared to $15.3 million during the same period in 2007, representing an increase of 51%. Adjusted net income margin was 15% in the first six months of 2008, compared to 13% of total revenue for the same period in 2007. See "Non-GAAP Measures" for a description of Adjusted Net Income and Adjusted Net Income margin.

In Q1 2008, the method of calculating Adjusted Net Income was modified. The change was a result of the large increase in "future tax expense (recovery)" in the first quarter. Future tax recovery primarily relates to the amortization of intangible assets. Adjusted Net Income is now defined to exclude the impact of this non-cash amount. Management believes that excluding the impact of future tax provides a more accurate picture of the company's results as it more closely matches the non cash future tax items with the associated amortization of intangibles. The following table reconciles Adjusted Net Income to net income:

	Three months ended Jun. 30,		Six months ended Jun. 30,	
	2008	2007	2008	2007
	($000, except percentages)		($000, except percentages)	
Total revenue	$ 77,742	$ 60,487	$ 151,345	$ 116,380
Net income	3,402	3,542	7,731	6,144
Add back:				
Appreciation in common shares eligible for redemption	0	0	0	0
Amortization of intangible assets	9,201	5,209	17,297	9,643
Future income taxes (recovery)	(603)	(348)	(1,912)	(501)
Adjusted net income	12,000	8,403	23,116	15,286
Adjusted net income margin	15.4%	13.9%	15.3%	13.1%

The following table provides a reconciliation of our previously reported Adjusted net income figures to include the new adjustment for future income taxes:

	Quarter Ended							
	Sep 30, 2006	Dec 31, 2006	Mar 31, 2007	Jun 30, 2007	Sep 30, 2007	Dec 31, 2007	Mar 31, 2008	Jun 30, 2008
	($000, except per share amounts)							
ANI per previous method	6,776	8,975	7,036	8,751	8,628	9,059	12,426	12,603
Future tax expense (recovery)	727	(15)	(154)	(348)	(115)	302	(1,309)	(603)
ANI per current method	7,503	8,960	6,882	8,403	8,513	9,361	11,117	12,000
Fully diluted shares	21,192	21,192	21,192	21,192	21,192	21,192	21,192	21,192
ANI/share per previous method	0.32	0.42	0.33	0.41	0.41	0.43	0.59	0.59
ANI/share per current method	0.35	0.42	0.32	0.40	0.40	0.44	0.52	0.57

Quarterly Results

	Quarter Ended							
	Sep. 30, 2006	Dec. 31, 2006	Mar. 31, 2007	Jun. 30, 2007	Sep. 30, 2007	Dec. 31, 2007	Mar. 31, 2008	Jun. 30, 2008
	($000, except per share amounts)							
Revenue	53,809	53,519	55,893	60,487	60,574	66,068	73,603	77,742
Net Income (loss)	2,287	3,831	2,602	3,542	3,326	1,640	4,329	3,402
Net Income (loss) per share								
Basic	0.11	0.18	0.12	0.17	0.16	0.08	0.21	0.16
Diluted	0.11	0.18	0.12	0.17	0.16	0.08	0.20	0.16

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 such as: loss (gain) on the sale of short-term investments, marketable securities and other assets.

Liquidity

Our cash and cash equivalents position (net of borrowings on our line of credit) at June 30, 2008 decreased to negative $17.1 million, from $1.2 million at December 31, 2007.

Total assets increased $21.6 million, from $267.1 million at December 31, 2007 to $288.8 million at June 30, 2008. The majority of the increase can be explained by increases in: a) intangible assets and goodwill of $12.4 million due to the completion of several acquisitions b) short term investments and marketable securities of $10.3 million due to the investment made in UK based Gladstone PLC and US based Mediware and c) accounts receivable and work in progress of $5.8 million which is driven by growth in the business. These amounts were partially offset by decrease in cash of $10.5 million (as explained below).

Current liabilities increased from $156.3 million as of December 31, 2007, to $171.3 million at June 30, 2008. From an individual category perspective the increases were driven by a) bank indebtedness up $8.9 million due to acquisitions made in the first six months of 2008 and b) a deferred revenue increase of $12.9 million, consistent with the growth in our maintenance revenues. These increases were partially offset by a decrease of $7.9 million in accounts payable and accrued liabilities due to the payment of 2007 employee bonuses in Q1 2008.

Net Changes in Cash Flow	Six months ended June 30, 2008
	(in millions of $)
Net cash provided by operating activities	$15.4
Net cash provided by financing activities	5.8
Net cash used in investing activities	(31.8)
Effect of exchange rate changes on cash and cash equivalents	0.1
Net decrease in cash and cash equivalents	($10.5)

The net cash flow from operating activities was $15.4 million for the six months ended June 30, 2008. In the first six months of 2008, we generated cash flows from operating activities of $23.3 million excluding a net increase in operating working capital of $7.9 million most of which can be attributed to the payment of the 2007 employee bonuses. The bonuses were paid in the first quarter however the funds withheld to buy shares were only forwarded to the purchasing agent as the shares were purchased. As at June 30, 2008, all shares required for the 2007 bonus plan have been purchased.

The net cash provided by financing activities was $5.8 million. Borrowings on our line of credit generated cash of $8.9 million and the repayment of shareholder loans a further $0.8 million. This was offset by the payment of our annual dividend of $0.18 per share for cash usage of $3.8 million.

The net cash used in investing activities was due primarily to acquisitions completed in the period ended June 30, 2008 for an aggregate of $16.8 million (including payments for holdbacks relating to prior acquisitions) and the investment of marketable securities of $12.2 million. We also invested approximately $1.5 million in property and equipment.

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 $105 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 June 30, 2008, we had drawn $28.2 million on this facility and issued letters of credit for $8.0 million which limits our borrowing capacity dollar for dollar.

Commitments include operating leases for office equipment and facilities, letters of credit, bank guarantees, and performance bonds that are routinely 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 VMS 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 investment in VCG Inc.) that would have a significant effect on our assets and liabilities as at June 30, 2008.

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.

Off-Balance Sheet Arrangements

As a general practice, we have not entered into off-balance sheet financing arrangements. Except for operating leases, bank guarantees, letters of credit and other low probability and/or contingent liabilities for which we cannot reasonably estimate the outcome (not accrued in accordance with Canadian GAAP), 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 Q2 2008. The outstanding balance of loans granted under the KELP as of June 30, 2008 was $1.1 million as compared to $1.9 million as of December 31, 2007.

Proposed Transactions

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

Critical Accounting Estimates

Details of the critical accounting estimates are available in the management's discussion and analysis for the year ended December 31, 2007.

Changes in Accounting Policies

Effective January 1, 2008, the Company adopted the recommendations included in the Canadian Institute of Chartered Accountants ("CICA") Handbook, Section 1535, *Capital Disclosures*. The new standard requires disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the Company's objectives, policies and processes for managing capital. The adoption of this standard did not have a material impact on the Company's financial statements.

On January 1, 2008, the Company adopted CICA Handbook Section 3862, *Financial Instruments – Disclosures* and Section 3863, *Financial Instruments – Presentation*. Section 3862 requires disclosure about the significance of financial instruments for an entity's financial position, the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. Section 3862 and 3863 replace Section 3861, *Financial Instruments – Disclosure and Presentation*. The adoption of these standards did not have a material impact on the Company's financial statements.

On January 1, 2007, the Company adopted the recommendations of CICA Handbook Section 1530, *Comprehensive Income*; Section 3855, *Financial Instruments - Recognition and Measurement*; Section 3861, *Financial Instruments - Disclosure and Presentation*; Section 3865, *Hedges*; and Section 3251, *Equity*. These sections apply to fiscal years beginning on or after October 1, 2006 and provide standards for recognition, measurement, disclosure and presentation of financial assets, financial liabilities and non-financial derivatives, and describe when and how hedge accounting may be applied. Section 1530 provides standards for the reporting and presentation of comprehensive income, which represents the change in equity from transactions and other events and circumstances from non-owner sources. Other comprehensive income is defined by revenue, expenses, gains and losses that are recognized in comprehensive income, but excluded from net income, in conformity with generally accepted accounting principles.

Under the new standards, all financial assets are classified as held for trading, held-to-maturity investments, loans and receivables or available-for-sale categories. Also, all financial liabilities must be

classified as held for trading or other financial liabilities. All financial instruments are recorded on the consolidated balance sheet at fair value. After initial recognition, the financial instruments should be measured at their fair values, except for held-to-maturity investments, loans and receivables and other financial liabilities, which should be measured at amortized cost. The effective interest related to the financial liabilities and the gain or loss arising from a change in the fair value of a financial asset or financial liability classified as held for trading is included in net income for the period in which it arises. If a financial asset is classified as available for sale, the gain or loss should be recognized in other comprehensive income until the financial asset is derecognized and any cumulative gain or loss is then recognized in net income.

As a result of the implementation of this standard, the Company has classified cash and cash equivalents as held for trading. Short-term investments and marketable securities have been classified as available for sale. Accounts receivable has been classified as loans and receivables. Bank indebtedness, accounts payable and certain accrued liabilities have been classified as other financial liabilities. The Company has not classified any financial asset as held to maturity. The remeasurement on adoption to fair value resulted in an increase of short-term investments and marketable securities of $1,154 and a corresponding increase in other comprehensive income.

Recent Accounting pronouncements

The CICA plans to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011. The impact on the transition to IFRS on the Company's financial statements is not yet determinable.

In 2008, the CICA issued Handbook Section 3064, *"Goodwill and Intangible Assets"*. Section 3064 replaces Section 3062 "*Goodwill and Intangible Assets*", and Section 3450, "*Research and Development Costs*". It establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2009. The Company is currently assessing the impact of the new standard.

Share Capital

As at August 7, 2008, there were 21,191,530 total shares outstanding comprised of 16,903,530 common shares and 4,288,000 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 Multilateral Instrument 52-109. At June 30, 2008, 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:

Management is responsible for the design of its internal controls over financial reporting as defined under Multilateral Instrument 52-109. At December 31, 2007, the President and Chief Financial Officer concluded that the design of these internal controls and procedures was effective in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with Canadian GAAP. The President and CFO have evaluated whether there were changes to internal controls over financial reporting during the interim period ended June 30, 2008 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting. No such changes were identified.

Interim Consolidated Financial Statements
(In U.S. dollars)

CONSTELLATION SOFTWARE INC.

For the three and six month periods ended June 30, 2008 and 2007
(Unaudited)

CONSTELLATION SOFTWARE INC.

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

	June 30, 2008 (Unaudited)	December 31, 2007
Assets		
Current assets:		
Cash	$ 9,316	$ 19,796
Restricted cash	1,747	750
Short-term investments and marketable securities available for sale (note 4)	11,535	1,217
Accounts receivable	49,358	47,177
Work in progress	14,469	10,839
Inventory	2,631	2,069
Prepaid expenses and other current assets	8,565	7,608
Investment tax credit receivable	1,130	661
Future income taxes (note 9)	1,175	1,096
	99,926	91,213
Property and equipment	8,391	8,025
Future income taxes (note 9)	3,330	3,890
Notes receivable	3,547	3,490
Share purchase warrants	571	571
Investment tax credit receivable	2,338	1,779
Other long-term assets	760	643
Intangible assets (note 6)	131,249	128,942
Goodwill	38,661	28,594
	$ 288,773	$ 267,147
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 7)	$ 28,200	$ 19,342
Accounts payable and accrued liabilities	35,989	43,892
Acquisition holdback payments	12,616	10,442
Deferred revenue	91,779	78,870
Income taxes payable	2,551	3,426
Future income taxes (note 9)	197	347
	171,332	156,319
Future income taxes (note 9)	23,555	21,238
Acquisition holdback payments	1,195	1,000
Other long-term liabilities	2,931	1,708
Shareholders equity:		
Capital stock	99,283	99,283
Shareholder loans (note 8)	(1,067)	(1,915)
Accumulated other comprehensive loss (note 15)	(5,124)	(3,237)
Deficit	(3,332)	(7,249)
	89,760	86,882
Subsequent events (note 16)		
	$ 288,773	$ 267,147

See accompanying notes to interim consolidated financial statements.

CONSTELLATION SOFTWARE INC.

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

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
	(Unaudited)		(Unaudited)	
Revenue	$ 77,742	$ 60,487	$ 151,345	$ 116,380
Cost of revenue	28,625	23,020	57,252	44,537
	49,117	37,467	94,093	71,843
Research and development	11,327	8,862	22,957	17,772
Sales and marketing	9,841	7,324	17,882	14,365
General and administration	14,051	10,410	26,850	20,446
Depreciation	841	855	1,626	1,548
	36,060	27,451	69,315	54,131
Income before the undernoted	13,057	10,016	24,778	17,712
Amortization of intangible assets	9,201	5,209	17,297	9,643
(Gain) loss on sale of short-term investments, marketable securities and other assets	24	(1,119)	(24)	(1,354)
Interest expense (income), net	234	(34)	397	(149)
Foreign exchange (gain) loss	(192)	1,345	(663)	1,351
Income before income taxes	3,790	4,615	7,771	8,221
Income taxes (recovery) (note 9):				
Current	991	1,421	1,952	2,578
Future	(603)	(348)	(1,912)	(501)
	388	1,073	40	2,077
Net Income	$ 3,402	$ 3,542	$ 7,731	$ 6,144
Income per share (note 10):				
Basic	$ 0.16	$ 0.17	$ 0.37	$ 0.29
Diluted	0.16	0.17	0.36	0.29
Weighted average number of shares outstanding (note 10):				
Basic	21,147	21,111	21,130	21,102
Diluted	21,192	21,192	21,192	21,192
Outstanding at the end of the period	21,192	21,192	21,192	21,192

See accompanying notes to interim consolidated financial statements.

CONSTELLATION SOFTWARE INC.

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

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
	(Unaudited)		(Unaudited)	
Deficit, beginning of period	$ (6,734)	$ (15,757)	$ (7,249)	$ (15,180)
Net income	3,402	3,542	7,731	6,144
Dividends	-	-	(3,814)	(3,179)
Deficit, end of period	$ (3,332)	$ (12,215)	$ (3,332)	$ (12,215)

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

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
	(Unaudited)		(Unaudited)	
Net Income	$ 3,402	$ 3,542	$ 7,731	$ 6,144
Other comprehensive income (loss)	(680)	(746)	(1,972)	86
Comprehensive income	$ 2,722	$ 2,796	$ 5,759	$ 6,230

See accompanying notes to interim consolidated financial statements.

CONSTELLATION SOFTWARE INC.

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

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
	(Unaudited)		(Unaudited)	
Cash flows from operating activities:				
Net income	$ 3,402	$ 3,542	$ 7,731	$ 6,144
Adjustments to reconcile net income to net cash flows from operations:				
Increase in investment tax credit receivable	(724)	(49)	(1,028)	(158)
Depreciation	841	855	1,626	1,548
Amortization of intangible assets	9,201	5,209	17,297	9,643
Accretion interest	28	-	57	-
Interest on shareholder loans	(15)	(24)	(37)	(49)
Future income taxes	(603)	(348)	(1,912)	(501)
(Gain) loss on sale of short-term investments, marketable securities, and other assets	24	(1,119)	(24)	(1,354)
Unrealized foreign exchange (gain) loss	(128)	1,300	(373)	1,283
Change in non-cash operating working capital (note 14)	(710)	(3,228)	(7,921)	(12,041)
Cash flows from operating activities	11,316	6,138	15,416	4,515
Cash flows from financing activities:				
(Decrease) increase in long-term liabilities	361	21	223	(209)
Increase in bank indebtedness	5,558	1,171	8,858	3,593
Credit facility financing fees	(354)	-	(354)	-
Dividends	-	-	(3,814)	(3,179)
Issuance of shareholder loans	-	-	-	(447)
Repayment of shareholder loans, net	416	-	885	809
Cash flows used in financing activities	5,981	1,192	5,798	567
Cash flows from investing activities:				
Acquisition of businesses, net of cash acquired (note 5)	(13,400)	(1,590)	(16,089)	(15,407)
Acquisition holdback payments	(217)	(2,608)	(740)	(3,408)
Reduction (additions) to short-term investments, marketable securities and other assets	(3,753)	3,151	(12,158)	3,952
Decrease (increase) in restricted cash	(997)	-	(997)	858
Decrease (increase) in other assets	(268)	(3,914)	(309)	(4,224)
Property and equipment purchased	(998)	(768)	(1,511)	(1,285)
Cash flows used in investing activities	(19,633)	(5,729)	(31,804)	(19,514)
Effect of currency translation adjustment on cash and cash equivalents	230	(785)	110	(751)
Increase (decrease) in cash and cash equivalents	(2,106)	816	(10,480)	(15,183)
Cash, beginning of period	11,422	9,808	19,796	25,807
Cash, end of period	$ 9,316	$ 10,624	$ 9,316	$ 10,624

See accompanying notes to interim consolidated financial statements.

1. Basis of presentation:

The accompanying unaudited condensed interim consolidated financial statements (the "Interim Consolidated Financial Statements") include the accounts of the Company and its subsidiaries, all of which are wholly owned. All significant inter-company transactions and balances have been eliminated. During the six months ended June 30, 2008, the Company completed certain acquisitions as described in note 5 to the Interim Consolidated Financial Statements. The results of operations of these acquired companies have been included in these Interim Consolidated Financial Statements from the dates of acquisition.

These Interim Consolidated Financial Statements are expressed in U.S. dollars and are prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and reflect all adjustments consisting only of normal adjustments which, in the opinion of management, are necessary for a fair presentation of the results of the interim periods presented. These Interim Consolidated Financial Statements are based upon accounting policies and methods of their application that are consistent with those used and described in the Company's annual consolidated financial statements, except as described in note 2. The Interim Consolidated Financial Statements do not include all of the financial statement disclosures included in the annual financial statements prepared in accordance with Canadian GAAP and, therefore, should be read in conjunction with the 2007 consolidated financial statements and notes.

2. Changes in accounting policies:

(a) Capital disclosures:

Effective January 1, 2008, the Company adopted the recommendations included in the Canadian Institute of Chartered Accountants ("CICA") Handbook, Section 1535, Capital Disclosures. The new standard requires disclosure of qualitative and quantitative information that enables users of financial statements to evaluate the Company's objectives, policies and processes for managing capital.

2. Changes in accounting policies (continued):

(b) Financial instruments - disclosures:

On January 1, 2008, the Company adopted CICA Handbook Section 3862, Financial Instruments - Disclosures and Section 3863, Financial Instruments - Presentation.

Section 3862 requires disclosure about the significance of financial instruments for an entity's financial position, the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives.

Section 3862 and 3863 replace Section 3861, Financial Instruments - Disclosure and Presentation.

The additional disclosures, required as a result of adoption of these standards, have been included in Note 11, Capital risk management and Note 12, Financial risk management and financial instruments.

3. Changes in accounting policies not yet adopted:

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

(a) International Financial Reporting Standards:

The CICA plans to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011. The impact on the transition to IFRS on the Company's financial statements is not yet determinable.

(b) Goodwill and Intangible Assets:

In 2008, the CICA issued Handbook Section 3064 "Goodwill and Intangible Assets". Section 3064 replaces Section 3062 "Goodwill and Intangible Assets", and Section 3450, "Research and Development Costs". It establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Company's interim and annual consolidated financial statements commencing January 1, 2009. The Company is currently assessing the impact of the new standard.

4. Short-term investments and marketable securities:

At June 30, 2008, the Company held investments in three public companies listed in the U.K. and U.S., all of which develop and sell software solutions.

	June 30, 2008		December 31, 2007	
	Cost	Market Value	Cost	Market Value
Common shares	$ 13,507	$ 11,535	$ 1,303	$ 1,217

5. Business acquisitions:

2008

(a) During the six months ended June 30, 2008, the Company made twelve acquisitions for aggregate net cash consideration of $16,089 plus cash holdbacks of $3,545 and earnout arrangements of $960 resulting in total consideration of $20,594. The holdbacks are payable over a two-year period and are adjusted for any claims under the representations and warranties of the agreements. The acquisitions have been accounted for using the purchase method with the results of operations included in these consolidated financial statements from the date of each acquisition. The following table summarizes the aggregate preliminary estimated fair value of the assets acquired and liabilities assumed at the date of each acquisition:

Assets acquired:		
Current assets	$	6,763
Property and equipment		504
Future income taxes		155
Technology assets		18,787
Customer assets		6,390
Non-compete agreements		1,000
Backlog		701
Goodwill		1,674
		35,974
Liabilities assumed:		
Current liabilities		2,016
Deferred revenue		8,417
Future income taxes		4,907
Long-term liabilities		40
		15,380
Total purchase price consideration	$	20,594

5. Business acquisitions (continued):

2007

(b) PG Govern QC Inc. ("PG"):

On March 1, 2007, the Company acquired the assets and shares of PG for net cash consideration of $13,112 on closing plus a holdback of $2,228 resulting in total consideration of $15,340. The holdback is expected to be paid out as assets are converted into cash, subject to no claims under the representations and warranties of the agreement. The acquisition has been accounted for by the purchase method with the results of operations included in these consolidated financial statements from the date of acquisition. The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of acquisition:

Assets acquired:		
Current assets	$	8,115
Property and equipment		1,030
Other long-term assets		2,212
Technology assets		16,694
Customer assets		4,346
Backlog		767
		33,164
Liabilities assumed:		
Current liabilities		8,441
Deferred revenue		7,068
Future income tax liability		1,533
Other long-term liabilities		782
		17,824
Total purchase price consideration	$	15,340

5. Business acquisitions (continued):

(c) Other acquisitions:

During the six months ended June 30, 2007, the Company made four other acquisitions for aggregate net initial cash consideration of $2,295 plus holdbacks of $600 resulting in total consideration of $2,895. Holdbacks of $448 have subsequently been paid ($147 during the six months ended June 30, 2008). The acquisitions have been accounted for using the purchase method with the results of operations included in these consolidated financial statements from the date of each acquisition. The following table summarizes the fair value of the assets acquired and liabilities assumed at the date of each acquisition:

Assets acquired:		
Current assets	$	1,732
Property and equipment		79
Technology assets		2,945
Customer assets		1,330
		6,086
Liabilities assumed:		
Current liabilities		1,000
Deferred revenue		1,637
Future income taxes		554
		3,191
Total purchase price consideration	$	2,895

6. Intangible assets:

	Cost	Accumulated amortization	June 30, 2008 Net book value	December 31, 2007 Net book value
Technology assets	$ 166,690	$ 64,207	$ 102,483	$ 71,866
Non-compete agreements	2,680	1,697	983	91
Customer assets	36,926	10,837	26,089	15,175
Trademarks	133	99	34	40
Backlog	2,268	1,401	867	128
Contract related assets	903	110	793	549
Other	-	-	-	41,093
	$ 209,600	$ 78,351	$ 131,249	$ 128,942

Note: At December 31, 2007, the purchase price allocation of certain intangible amounts was not determinable and recorded as "Other". During the six months ended June 30, 2008, the preliminary purchase price allocation was determined and the amounts were allocated as follows: $24,210 to technology assets, $8,275 to customer assets, $732 to backlog, and $7,876 to goodwill.

7. Credit facilities:

The Company has an operating line-of-credit with a Canadian charter bank in the amount of $105,000 (December 31, 2007 - $50,000). The line-of-credit bears a variable interest rate and is due in full April 28, 2011. It is secured by a general security agreement covering the majority of the assets of the Company and its subsidiaries, and is subject to various standard debt covenants. As at June 30, 2008, $28,200 (December 31, 2007 - $19,342) had been drawn from this credit facility, and letters of credit totalling $8,037 (December 31, 2007 - $7,186) were issued, which limits the borrowing capacity on a dollar-for-dollar basis. Interest expense paid on the line-of-credit for the six months ended June 30, 2008 totalled $866.

8. Shareholder loans:

Share purchase loans receivable of $1,067 (December 31, 2007 - $1,915) under the Company's share purchase plan are included as a reduction of shareholders' equity. Interest rates on these loans range from 5.0% to 6.5% depending on the year the loan was advanced. The balances outstanding are secured by the shares for which they were used to purchase.

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

Balance at December 31, 2007	$	1,915
Repayment of shareholder loans		(885)
Interest		37
Balance, June 30, 2008	$	1,067

9. Income taxes:

The Company operates in various tax jurisdictions, and accordingly, the Company's income is subject to varying rates of tax. Losses incurred in one jurisdiction cannot be used to offset income taxes payable in another. The Company's ability to use income tax losses and future income tax deductions is dependent upon the profitable operations of the Company in the tax jurisdictions in which such losses or deductions arise. As of June 30, 2008, the Company had total net future tax assets of $4,505 (December 31, 2007 - $4,986) and total future tax liabilities of $23,752 (December 31, 2007 - $21,585).

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

CONSTELLATION SOFTWARE INC.

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

Three and six month periods ended June 30, 2008 and 2007
(Unaudited)

10. Income per share:

	Three months ended June, 30		Six months ended June, 30	
	2008	2007	2008	2007
	(Unaudited)		(Unaudited)	
Numerator:				
Net income	$ 3,402	$ 3,542	$ 7,731	$ 6,144
Denominator:				
Weighted average number of shares:				
Basic	21,147	21,111	21,130	21,102
Effect of dilutive securities:				
Shares secured by shareholder loans	45	81	62	90
Diluted	21,192	21,192	21,192	21,192
Net income per share:				
Basic	$ 0.16	$ 0.17	$ 0.37	$ 0.29
Diluted	0.16	0.17	$ 0.36	0.29

11. Capital risk management:

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth combined with strategic acquisitions and to provide returns to its shareholders. The Company manages its capital with the objective of ensuring that there are adequate capital resources while maximizing the return to shareholders through the optimization of the debt and equity balance. The capital structure of the Company consists of cash, credit facilities and components of shareholders' equity including deficit and capital stock.

The Company is subject to certain covenants on it credit facilities. The covenants include a leverage ratio and an interest coverage ratio, as well as a minimum net worth requirement. The Company monitors the ratios on a monthly basis. As at June 30, 2008, the Company is in compliance with the covenants on its credit facilities. Other than the covenants required for the credit facilities, the Company is not subject to any externally imposed capital requirements.

11. Capital risk management (continued):

The Company's policy is to pay annual dividends, subject to Board approval, based on the Company's financial results. The Board of Directors will determine if and when dividends should be declared and paid based on all relevant circumstances, including the desirability of financing further growth of the Company and its financial position at the relevant time. There is no guarantee that dividends will continue to be paid in the future. In addition, the Company is restricted, pursuant to financial covenants under its operating line of credit, from paying dividends of more than 20% of its consolidated adjusted net income as defined in the agreement.

The Company makes adjustments to its capital structure in light of general economic conditions, the risk characteristics of the underlying assets and the Company's working capital requirements. In order to maintain or adjust its capital structure, the Company, upon approval from its Board of Directors, may pay dividends, increase or decrease the line of credit or undertake other activities as deemed appropriate under the specific circumstances. The Board of Directors reviews and approves any material transactions not in the ordinary course of business, including significant acquisitions or other major investments.

12. Financial risk management and financial instruments:

(a) Overview:

The Company is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth. The main objectives of the Company's risk management process are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal financial risks to which the Company is exposed are described below.

12. Financial risk management and financial instruments (continued):

(b) Market risk:

Market risk is the risk that changes in market prices, such as fluctuations in the market prices of the Company's publicly traded investments, foreign exchange rates and interest rates, will affect the Company's income or the value of its financial instruments.

The Company manages risk related to fluctuations in the market prices of its publicly traded investments by regularly conducting financial reviews of publicly available information to ensure that any risks are within established levels of risk tolerance. The Company does not routinely engage in risk management practices such as hedging, derivatives or short selling with respect to its publicly traded investments.

The following table details the Company's sensitivity to a 1% strengthening in the market price of the marketable securities it currently holds. For a 1% weakening in the market price, there would be an equal and opposite impact on net income and comprehensive income.

Net income	$	-
Comprehensive income		115

The Company is exposed to interest rate risk on the utilized portion of its credit facilities and does not currently hold any financial instruments that mitigate this risk. Management does not believe that the impact of interest rate fluctuations on the current level of borrowings will be significant and, therefore, has not provided a sensitivity analysis of the impact of fluctuations on net income and comprehensive income. A breakdown of the components of interest expense (income) amount recorded on the financial statements is as follows:

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Interest expense on credit facilities (Other financial liability)	$ 462	$ 51	$ 866	$ 91
Interest income on notes receivable (Loans and receivables)	(148)	-	(297)	-
Bank interest (Held for trading)	(65)	(61)	(135)	(191)
Interest income on shareholder loans	(15)	(24)	(37)	(49)
	234	(34)	397	(149)

The Company operates internationally, giving rise to exposure to market risks from changes in foreign exchange rates. The Company currently does not use derivative instruments to hedge its exposure to those risks. Most of the Company's businesses are organized geographically so that many of its expenses are incurred in the same currency as its revenues thus mitigating some of its exposure to currency fluctuations.

12. **Financial risk management and financial instruments (continued):**

Foreign currency sensitivity analysis:

The Company is mainly exposed to fluctuations in the Canadian dollar and British pound. The major currency exposures, as of June 30, 2008, are summarized in USD equivalents in the following table. The local currency amounts have been converted to USD equivalents using the period end exchange rates.

	Canadian Dollar	British Pound
Cash	$ 830	$ 1,282
Restricted cash	-	997
Accounts receivable	7,704	8,618
Other financial assets	2,604	3,279
Accounts payable and accrued liabilities	(8,398)	(4,426)
Other financial liabilities	(2,739)	(1,496)
Shareholder loans	222	38
Net financial assets	$ 224	$ 8,293

The following table details the Company's sensitivity to a 1% strengthening of the Canadian dollar and British pound on net income and comprehensive income against the U.S. dollar. The sensitivity analysis includes foreign currency denominated monetary assets and liabilities and adjusts their translation at period end for a 1% change in foreign currency rates. For a 1% weakening of the U.S. dollar, there would be an equal and opposite impact on net income and comprehensive income.

	Canadian Dollar Impact	British Pound Impact
Net income	$ 2	$ 83
Comprehensive income	2	31

(c) Liquidity risk:

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at excessive cost. The Company manages liquidity risk through the management of its capital structure and financial leverage, as outlined in note 11 to the unaudited interim consolidated financial statements. The Company's growth is financed through a combination of the cash flows from operations and borrowing under the existing credit facilities. One of management's primary goals is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as the cash flows. The Company's credit facilities are disclosed in note 7 to the unaudited interim consolidated financial statements. As at June 30, 2008, the undrawn portion of the Company's bank credit facility was $68,763. Utilizations include advances borrowed under the bank credit facility and issuances of letters of credits. The majority of the Company's financial liabilities recorded in accounts payable and accrued liabilities are due within 60 days. Holdbacks payable are due within two years.
Given the Company's available liquid resources as compared to the timing of the payments of liabilities, management assesses the Company's liquidity risk to be low.

12. Financial risk management and financial instruments (continued):

(d) Credit risk:

Credit risk represents the financial loss that the Company would experience if a counterparty to a financial instrument, in which the Company has an amount owing from the counterparty failed to meet its obligations in accordance with the terms and conditions of its contracts with the Company. The carrying amount of the Company's financial assets represents the Company's maximum credit exposure.

The Company manages credit risk related to accounts receivable by maintaining reserves for potential credit losses and returns, but historically has not experienced any significant losses related to individual customers or groups of customers in any particular industry or geographic area. Also, the majority of the accounts receivable balance relates to maintenance invoices to customers that have a history of payment. As at June 30, 2008, 30% of the Company's accounts receivable balance is over 90 days past due. Accounts receivable are net of allowance for doubtful accounts of $2,807 at June 30, 2008 (December 31, 2007 - $2,227).

There is no significant credit risk associated with the Company's short term investments. The Company manages its credit risk related to short-term investments by conducting financial and other assessments of these investments on a regular basis.

The Company manages credit risk related to notes receivable by monitoring the results of the business to which the note relates, and maintaining security over the assets of the business.

The Company manages credit risk related to cash by maintaining bank accounts with Schedule 1 banks.

In the ordinary course of business the Company and its subsidiaries have provided performance bonds and other guarantees for the completion of certain customer contracts. The Company has not experienced a loss to date and future losses are not anticipated; therefore, no liability has been recorded in the unaudited interim consolidated balance sheets related to these types of indemnifications or guarantees at June 30, 2008.

12. Financial risk management and financial instruments (continued):

(e) Financial instruments:

(i) Classification of financial instruments

	Classification	**Measurement**
Cash	Held for trading	Fair value
Restricted cash	Held for trading	Fair value
Short term investments and marketable securities	Available for sale	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Notes receivable	Loans and receivable	Amortized cost
Share purchase warrants	Held for trading	Fair value
Other long-term assets	Loans and receivables	Amortized cost
Bank indebtedness	Other financial liabilities	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Holdbacks on acquisitions	Other financial liabilities	Amortized cost

(ii) Fair values of financial instruments

The carrying values of cash, restricted cash, accounts receivable, bank indebtedness, accounts payable, accrued liabilities, acquisition holdbacks, and accrued liabilities approximate their fair values due to the short-term nature of these instruments.

The fair values of short-term investments, which are publicly traded, are determined by the quoted market values for each investment (note 4).

Notes receivable are recorded at amortized cost, which approximates the fair value.

Warrants which are not publicly traded are fair valued using valuation techniques and adjusted by the Company after considering the fair value of the underlying security and the strike price of the warrants. As at June 30, 2008, there was no change in the fair value of the warrants as compared to December 31, 2007.

13. Segmented information:

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

The accounting policies of the segments are the same as those described in the significant accounting policies in note 1 of the 2007 annual financial statements. The Company evaluates performance of the Public Sector businesses and the Private Sector businesses based on several factors, of which the primary financial measures are revenue and earnings (loss) from operations. The Company defines earnings (loss) from operations as earnings (loss) prior to: amortization of intangible assets, (gain) loss on sale of short-term investments and marketable securities and other assets, interest expense (income), foreign exchange gains and losses, inter-company expenses and income taxes.

CONSTELLATION SOFTWARE INC.

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

Three and six month periods ended June 30, 2008 and 2007
(Unaudited)

13. Segmented information (continued):

(a) Reportable segments:

Three months ended June 30, 2008	Public Sector	Private Sector	Other	Total
Revenue	$ 52,768	$ 24,974	$ -	$ 77,742
Cost of revenue	20,678	7,947	-	28,625
	32,090	17,027	-	49,117
Research and development	7,293	4,034	-	11,327
Sales and marketing	6,227	3,614	-	9,841
General and administration	9,382	4,669	-	14,051
Depreciation	583	258	-	841
	23,485	12,575	-	36,060
Income before the undernoted	8,605	4,452	-	13,057
Amortization of intangible assets	6,071	3,068	62	9,201
Gain on sale of short-term investments, marketable securities and other assets	24	-	-	24
Interest expense (income), net	(53)	(7)	294	234
Foreign exchange (gain) loss	(95)	56	(153)	(192)
Inter-company expenses (income)	483	871	(1,354)	-
Income before income taxes	2,175	464	1,151	3,790
Income taxes (recovery):				
Current	755	367	(131)	991
Future	(378)	(225)	-	(603)
	377	142	(131)	388
Net Income	$ 1,798	$ 322	$ 1,282	$ 3,402
Other selected information:				
Property and equipment purchased	$ 688	$ 310	$ -	$ 998

CONSTELLATION SOFTWARE INC.

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

Three and six month periods ended June 30, 2008 and 2007
(Unaudited)

13. Segmented information (continued):

Six months ended June 30, 2008	Public Sector	Private Sector	Other	Total
Revenue	$ 101,083	$ 50,262	$ -	$ 151,345
Cost of revenue	41,385	15,867	-	57,252
	59,698	34,395	-	94,093
Research and development	14,867	8,090	-	22,957
Sales and marketing	10,833	7,049	-	17,882
General and administration	17,146	9,704	-	26,850
Depreciation	1,119	507	-	1,626
	43,965	25,350	-	69,315
Income before the undernoted	15,733	9,045	-	24,778
Amortization of intangible assets	11,033	6,154	110	17,297
Gain (loss) on sale of short-term investments, marketable securities and other assets	23	(1)	(46)	(24)
Interest expense (income), net	(103)	(23)	523	397
Foreign exchange gain	(224)	(163)	(276)	(663)
Inter-company expenses (income)	763	1,726	(2,489)	-
Income before income taxes	4,241	1,352	2,178	7,771
Income taxes (recovery):				
Current	1,549	714	(311)	1,952
Future	(762)	(1,150)	-	(1,912)
	787	(436)	(311)	40
Net Income	$ 3,454	$ 1,788	$ 2,489	$ 7,731
Other selected information:				
Property and equipment purchased	$ 1,053	$ 419	$ 39	$ 1,511

CONSTELLATION SOFTWARE INC.

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

Three and six month periods ended June 30, 2008 and 2007
(Unaudited)

13. Segmented information (continued):

Three months ended June 30, 2007	Public Sector	Private Sector	Other	Total
Revenue	$ 39,339	$ 21,148	$ -	$ 60,487
Cost of revenue	15,936	7,084	-	23,020
	23,403	14,064	-	37,467
Research and development	5,718	3,144	-	8,862
Sales and marketing	5,026	2,298	-	7,324
General and administration	6,608	3,802	-	10,410
Depreciation	622	233	-	855
	17,974	9,477	-	27,451
Income before the undernoted	5,429	4,587	-	10,016
Amortization of intangible assets	3,563	1,646	-	5,209
Gain on sale of short-term investments, marketable securities and other assets	-	-	(1,119)	(1,119)
Interest expense (income), net	(21)	(14)	1	(34)
Foreign exchange loss	333	384	628	1,345
Inter-company expenses (income)	475	690	(1,165)	-
Income before income taxes	1,079	1,881	1,655	4,615
Income taxes (recovery):				
Current	654	744	23	1,421
Future	(248)	(100)	-	(348)
	406	644	23	1,073
Net Income	$ 673	$ 1,237	$ 1,632	$ 3,542
Other selected information:				
Property and equipment purchased	$ 483	$ 247	$ 38	$ 768

13. Segmented information (continued):

Six months ended June 30, 2007	Public Sector	Private Sector	Other	Total
Revenue	$ 74,106	$ 42,274	$ -	$ 116,380
Cost of revenue	30,441	14,096	-	44,537
	43,665	28,178	-	71,843
Research and development	11,298	6,474	-	17,772
Sales and marketing	9,476	4,889	-	14,365
General and administration	12,664	7,782	-	20,446
Depreciation	1,083	465	-	1,548
	34,521	19,610	-	54,131
Income before the undernoted	9,144	8,568	-	17,712
Amortization of intangible assets	6,330	3,313	-	9,643
Gain on sale of short-term investments, marketable securities and other assets	-	-	(1,354)	(1,354)
Interest expense (income), net	(100)	(39)	(10)	(149)
Foreign exchange loss	180	440	731	1,351
Inter-company expenses (income)	906	1,129	(2,035)	-
Income before income taxes	1,828	3,725	2,668	8,221
Income taxes (recovery):				
Current	1,212	1,372	(6)	2,578
Future	(202)	(299)	-	(501)
	1,010	1,073	(6)	2,077
Net Income	$ 818	$ 2,652	$ 2,674	$ 6,144
Other selected information:				
Property and equipment purchased	$ 823	$ 395	$ 67	$ 1,285

13. Segmented information (continued):

(b) Geographic information:

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

	Three months ended June 30,				Six months ended June 30,			
	2008		2007		2008		2007	
Canada	$ 12,459	16%	$ 11,210	19%	$ 23,774	16%	$ 16,565	14%
United States	53,265	69%	40,538	67%	105,593	70%	82,692	71%
Other	12,018	15%	8,739	14%	21,978	15%	17,123	15%
Total	$ 77,742	100%	$ 60,487	100%	$ 151,345	100%	$ 116,380	100%

As at June 30, 2008 and December 31, 2007 and for the six months ended June 30, 2008 and 2007, no single customer accounted for more than 10% of the Company's total accounts receivable and total revenues, respectively.

14. Change in non-cash operating working capital:

	Three months ended June 30,		Six months ended June 30,	
	2008	2007	2008	2007
Increase in accounts receivable	$ 7,329	$ (378)	$ 1,649	$ (2,243)
Decrease in work in progress	(4,003)	724	(3,074)	745
Increase in inventory	(150)	(128)	(341)	(288)
Increase in prepaid expenses and other current assets	1,775	(352)	826	(568)
Decrease in accounts payable and accrued liabilities excluding holdbacks from acquisitions	(284)	373	(10,225)	(12,502)
Increase in deferred revenue	(5,188)	(4,404)	4,445	1,315
Increase (decrease) in income taxes payable	(189)	937	(1,201)	1,500
	$ (710)	$ (3,228)	$ (7,921)	$ (12,041)

15. Accumulated other comprehensive loss:

Accumulated other comprehensive loss consists of the following:

Foreign currency translation account	$	(3,152)
Net unrealized loss on available-for-sale investments from prior periods (net of income taxes of nil)		(85)
Net unrealized loss on available-for-sale financial assets during the period (net of income taxes of nil)		(1,848)
Transfer of unrealized gain from prior periods upon derecognition of available-for-sale investments (net of income taxes of nil)		(39)
Balance, June 30, 2008	$	(5,124)

16. Subsequent events:

During July 2008, the Company finalized two acquisitions for net cash consideration of $6,850 on closing plus holdbacks of $1,200.

17. Comparative figures:

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