Constellation Software Inc.

FINANCIAL REPORT

Fourth Quarter Fiscal Year 2009

For the three and twelve month periods ended
December 31, 2009

CONSTELLATION SOFTWARE INC.

TO OUR SHAREHOLDERS

We had discontinued the quarterly president's letter, but the events of this last quarter warrant an exception. In November 2009, our Trapeze Operating Group purchased the PTS business from Continental Automotive. This is a large and very different business from our core vertical market software businesses: It requires skills in wireless networks, mobile computing hardware, and system integration. The industry has a very spotty history of profitability, and seems to have a voracious appetite for working capital. The contracts are alluringly large and have historically been won by vendors offering to meet stringent performance criteria which are apparently very difficult to achieve in real world situations. PTS is one of the largest competitors in this industry.

We are well aware of the industry's unfortunate history, and as Mark Miller, the general manager of our Trapeze Operating Group explains below, we believe we can avoid repeating that history. In a nutshell, we only intend to take new customer contracts when the contract risks are appropriate, otherwise we will concentrate on providing superior service to the acquired PTS customer base.

Mark Miller, Trapeze Operating Group, re. the PTS Acquisition

PTS develops technology for Vehicle Fleet Management (VFM) for transit agencies primarily in North America, continental Europe, and the United Kingdom.

Trapeze's traditional transit business provides single and multi-departmental software systems for both public and private transit operators in all of the above markets. Specifically, Trapeze's systems deliver planning, scheduling, fleet maintenance, work force and customer relationship management technology to its transit customers.

Since Trapeze's departmental systems both send and receive data to and from VFM systems this has required connecting with several VFM systems for over the last 10 years, including the newly acquired PTS VFM system. These interfaces create duplication of data and business logic that have a high cost to acquire, maintain, and modernize.

To reduce the VFM system integration cost for our customers Trapeze began to internally develop an integrated VFM. This opened up a newly addressable market for Trapeze. The development of this system began 5 years ago and has been implemented at several of our customer sites. This system was developed as an extension to Trapeze's existing departmental systems and was designed to target mid- to low-end transit customers that owned other Trapeze products.

By acquiring PTS, Trapeze has achieved three objectives.

1. VFM systems are complex to develop and implement. With the acquisition of PTS we acquired Intellectual Property that is expected to enhance our ability to deliver increased functionality to our customers and we have engaged an experienced team with the capability of installing and developing VFM systems on a larger scale than we'd previously pursued.

2. In North America and the United Kingdom we share many joint customers with PTS. We intend to improve the integration of our products and to eventually eliminate duplication of effort. In addition, we intend to provide the PTS VFM clients with access to many of Trapeze' other departmental systems.

3. In Europe, PTS has strong share of the DACH (German, Austrian, and Swiss) market for VFM systems. Trapeze has a good market share in Scandinavia in its traditional multi-departmental systems but has only a

limited number of customers in DACH. The acquisition provides a significant presence in the DACH markets with the opportunity to cross-sell other Trapeze systems over time.

With the acquisition of PTS we took over a number of uneconomic contracts that we are working to resolve. Historically PTS has focused on winning large contracts that can be in the ten of millions of dollars in size and sometimes even larger. These contracts often have unattractive contract terms. There are bonds, liquidated damages, penalties, and aggressive timelines. Larger contracts typically have many customization components that make it difficult to predict development timelines. As a result, project delays occur, which can lead to ballooning working capital and cost overruns.

Historically at Trapeze we achieve most of our revenue by continuing to deliver more value to our existing customers through a more integrated system that minimizes data duplication and provides additional functionality. PTS has not focused on this higher margin recurring revenue stream. We plan to provide new or improved functionality to the PTS customer base. We believe this can be achieved by improving PTS' existing products, cross-selling other Trapeze products, developing new products, and acquiring complementary technologies.

A long term relationship with our customers must make sense for both parties. We intend to deliver value and in turn be paid equitably for our efforts. Being more selective with new business opportunities and carefully evaluating the economic terms and conditions prior to establishing the relationship, is necessary.

As we work through the contracts we received as part of the acquisition we anticipate PTS profitability will be depressed and volatile. We also expect the business to shrink in size as we change the strategy to be more customer-centric and selective as to which new projects we decide to bid. As our existing customer base revenue increases at PTS, we expect to be able to reduce working capital and improve our margins. This won't happen quickly, certainly not within this calendar year. Our belief is that PTS will eventually be one of our best acquisitions, providing both a strong return on investment, and products and skills that will allow us to better serve our transit clients.

Mark Miller
President
Trapeze Software Inc.

March 3, 2010

Mark Leonard
President
Constellation Software Inc.

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.

CONSTELLATION SOFTWARE INC.

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

The following discussion and analysis should be read in conjunction with the Annual Consolidated Financial Statements for the year ended December 31, 2009, which we prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Certain information included herein is forward-looking and based upon assumptions and anticipated results that are subject to uncertainties. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected. See "Forward-Looking Statements" and "Risks and Uncertainties".

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

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

Forward Looking Statements

Certain statements in this report may contain "forward looking" statements that involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company or industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Words such as "may", "will", "expect", "believe", "plan", "intend", "should", "anticipate" and other similar terminology are intended to identify forward looking statements. These statements reflect current assumptions and expectations regarding future events and operating performance and speak only as of the date of this MD&A, March 3, 2010. Forward looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to vary significantly from the results discussed in the forward looking statements, including, but not limited to, the factors discussed under "Risks and Uncertainties". Although the forward looking statements contained in this MD&A are based upon what management of the Company believes are reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward looking statements. These forward looking statements are made as of the date of this MD&A and the Company assumes no obligation, except as required by law, to update any forward looking statements to reflect new events or circumstances. This report should be viewed in conjunction with the Company's other publicly available filings, copies of which can be obtained electronically on SEDAR at www.sedar.com.

Non-GAAP Measures

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

The term ''Adjusted EBITDA'' refers to net income before deducting interest, taxes, depreciation, other expenses (income), amortization, and foreign exchange (gain) loss. The Company believes that Adjusted EBITDA is useful supplemental information as it provides an indication of the results generated by the Company's main business activities prior to taking into consideration how those activities are financed and taxed and also prior to taking into consideration asset depreciation and the other items listed above. ''Adjusted EBITDA margin'' refers to the percentage that Adjusted EBITDA for any period represents as a portion of total revenue for that period.

''Adjusted net income'' means net income plus non-cash expenses (income) such as amortization of intangible assets, future income taxes, and certain other expenses (income). The Company believes that Adjusted net

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

Adjusted EBITDA and Adjusted net income are not recognized measures under GAAP and, accordingly, shareholders are cautioned that Adjusted EBITDA and Adjusted net income should not be construed as alternatives to net income determined in accordance with GAAP as an indicator of the financial performance of the Company. The Company's method of calculating Adjusted EBITDA and Adjusted net income may differ from other issuers and, accordingly, Adjusted EBITDA and Adjusted net income may not be comparable to similar measures presented by other issuers. See ''Results of Operations —Adjusted EBITDA'' and ''— Adjusted net income'' for a reconciliation of Adjusted EBITDA and Adjusted net income to net income.

Overview

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

Our revenue consists primarily of software license fees, maintenance fees, 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 maintenance and/or professional service fees are determinable. Maintenance revenue primarily consists of fees charged for customer support on our software products post-delivery and also includes, to a lesser extent, recurring fees derived from combined software/support contracts, transaction revenues, and hosted products. Maintenance fee arrangements generally include ongoing customer support and rights to certain product updates "if and when available" and products sold on a subscription basis. Professional service revenue consists of fees charged for product training, consulting and implementation services. Our customers typically purchase a combination of software, maintenance and professional services, although the types, mix and quantity of each varies by customer and by product.

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

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

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

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

Results of Operations

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

	Three months ended Dec. 31,		Period-Over-Period Change		Fiscal year ended Dec. 31,		Period-Over-Period Change		Fiscal year ended Dec. 31,
	2009	2008	$	%	2009	2008	$	%	2007
Revenue	**131,894**	**98,397**	**33,497**	**34%**	**437,940**	**330,532**	**107,408**	**32%**	**243,023**
Cost of Revenue	53,673	37,716	15,957	42%	166,607	124,690	41,917	34%	92,113
Gross Profit	78,221	60,681	17,540	29%	271,333	205,842	65,491	32%	150,910
Expenses									
Research and development	19,172	13,411	5,761	43%	65,632	48,224	17,408	36%	36,965
Sales and marketing	13,680	10,878	2,802	26%	45,174	37,693	7,481	20%	28,666
General and administration	23,141	14,201	8,940	63%	72,401	55,585	16,816	30%	44,127
Total Expenses (pre amortization)	55,993	38,490	17,503	45%	183,207	141,502	41,705	29%	109,758
Adjusted EBITDA	**22,228**	**22,191**	**37**	**0%**	**88,126**	**64,340**	**23,786**	**37%**	**41,152**
Depreciation	1,105	1,133	(28)	-2%	3,811	3,642	169	5%	3,117
Total Expenses	57,098	39,623	17,475	44%	187,018	145,144	41,874	29%	112,875
Income before the undernoted	**21,123**	**21,058**	**65**	**0%**	**84,315**	**60,698**	**23,617**	**39%**	**38,035**
Amortization of intangible assets	16,317	15,629	688	4%	60,588	42,635	17,953	42%	22,364
Other (income) expense	(445)	288	(733)	NA	996	413	583	NA	(1,355)
Interest expense	794	598	196	33%	2,702	1,115	1,587	142%	(508)
Foreign exchange loss (gain)	1,944	30	1,914	6380%	2,568	(455)	3,023	NA	2,466
Income before income taxes	2,513	4,513	(2,000)	-44%	17,461	16,990	471	3%	15,068
Income taxes (recovery)									
Current	4,172	1,146	3,026	264%	15,635	5,181	10,454	202%	4,273
Future	(1,649)	(603)	(1,046)	173%	(8,398)	(3,185)	(5,213)	164%	(315)
	2,523	543	1,980	365%	7,237	1,996	5,241	263%	3,958
Net income (loss)	**(10)**	**3,970**	**(3,980)**	**-100%**	**10,224**	**14,994**	**(4,770)**	**-32%**	**11,110**
Adjusted net income	**14,658**	**18,996**	**(4,338)**	**-23%**	**62,414**	**54,444**	**7,970**	**15%**	**33,159**
Weighted avg # of shares outstanding (000's)									
Basic	21,172	21,146			21,165	21,140			21,110
Diluted	21,172	21,192			21,192	21,192			21,192
Net income per share									
Basic	$ -	$ 0.19	$ (0.19)	-100%	$ 0.48	$ 0.71	$ (0.23)	-32%	$ 0.53
Diluted	$ -	$ 0.19	$ (0.19)	-100%	$ 0.48	$ 0.71	$ (0.23)	-32%	$ 0.52
Adjusted EBITDA per share									
Basic	$ 1.05	$ 1.05	$ -	0%	$ 4.16	$ 3.04	$ 1.12	37%	$ 1.95
Diluted	$ 1.05	$ 1.05	$ -	0%	$ 4.16	$ 3.04	$ 1.12	37%	$ 1.94
Adjusted net income per share									
Basic	$ 0.69	$ 0.90	$ (0.21)	-23%	$ 2.95	$ 2.58	$ 0.37	14%	$ 1.57
Diluted	$ 0.69	$ 0.90	$ (0.21)	-23%	$ 2.95	$ 2.57	$ 0.38	15%	$ 1.56
Cash dividends declared per share									
Basic	-	-	-	-	$ 0.22	$ 0.18	$ 0.04	22%	$ 0.15
Diluted	-	-	-	-	$ 0.22	$ 0.18	$ 0.04	22%	$ 0.15
Total assets	480,489	385,799	94,690	25%	480,489	385,799	94,690	25%	267,147
Total long-term liabilities	81,481	37,224	44,257	119%	81,481	37,224	44,257	119%	23,946

Comparison of the fourth quarter and twelve months ended December 31, 2009 and 2008

<u>Revenue</u>:

Total revenue for the quarter ended December 31, 2009 was $132 million, an increase of 34%, or $34 million, compared to $98 million for the comparable period in 2008. For the 2009 fiscal year, total revenues were $438 million, an increase of 32%, or $107 million, compared to $331 million for the comparable period in 2008. The increase for both the fourth quarter and the full year compared to the same periods in the prior year was entirely attributable to growth from acquisitions, as organic growth was negative 4% for the fourth quarter and negative 3% for the full year. For acquired companies, organic growth is calculated as the difference between actual revenues achieved by each company in the financial period following acquisition compared to the revenues they achieved in the corresponding financial period preceding the date of acquisition by Constellation.

Constellation acquired the Public Transit Solutions business ('PTS') from Continental Automotive AG ('Continental') on November 2, 2009. Given the substantial amount of non-recurring revenue historically earned by PTS, gross revenue from PTS has fluctuated significantly in the past and may continue to do so in the future. Constellation expects revenue from PTS to decline significantly in the twelve months following acquisition compared to revenue in the corresponding financial period preceding acquisition as PTS recognized substantial non-recurring revenue in the twelve months prior to acquisition that Constellation does not expect to re-occur in the corresponding financial period following acquisition. As such, management has chosen to provide supplemental organic growth disclosure to provide greater clarity regarding the impact of PTS on Constellation's consolidated financial results. Excluding PTS, organic growth for Constellation was 3% in Q4 2009 and was flat for 2009.

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

Organic Revenue Growth

	Q4-09	2009
Constellation	-4%	-3%
Constellation excluding PTS	3%	0%

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

Software license revenue for the quarter ended December 31, 2009 was $12 million, an increase of 23%, or $2 million compared to $10 million for the comparable period in 2008. During the year ended December 31, 2009, license revenue increased by 15%, or $6 million to $43 million, from $37 million for the same period in 2008. Professional services and other services revenue for the quarter ended December 31, 2009 increased by 31%, or $8 million to $35 million, from $27 million for the same period in 2008. During the year ended December 31, 2009, professional services and other services revenue increased by 36%, or $29 million to $110 million, from $81 million for the same period in 2008. Hardware and other revenue for the quarter ended December 31, 2009 increased by 77%, or $5 million to $11 million from $6 million for the same period in 2008. During the year ended December 31, 2009, hardware and other revenue increased by 69%, or $14 million to $34 million, from $20 million for the same period in 2008. Maintenance revenues for the quarter ended December 31, 2009 increased by 33%, or $18 million to $74 million, from $55 million for the same period in 2008. During the year ended December 31, 2009, maintenance revenue increased by 31%, or $59 million to $252 million, from $193 million for the same period in 2008. The following table displays the breakdown of our revenue according to revenue type:

	Three months ended Dec. 31,				Fiscal year ended Dec. 31,			
	2009	2008	2009	2008	2009	2008	2009	2008
	($000)		(% of total revenue)		($000)		(% of total revenue)	
Licenses	12,320	10,004	9%	10%	42,670	36,997	10%	11%
Professional services and other:								
Services	34,982	26,767	27%	27%	109,695	80,883	25%	24%
Hardware and other	10,953	6,193	8%	6%	33,797	19,958	8%	6%
Maintenance	73,639	55,433	56%	56%	251,778	192,694	57%	58%
	131,894	98,397	100%	100%	437,940	330,532	100%	100%

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

The following table displays our revenue by reporting segment and the percentage change for the three and twelve months ended December 31, 2009 compared to the same periods in 2008:

	Three months ended Dec. 31,		Period-Over-Period Change		Fiscal year ended Dec. 31,		Period-Over-Period Change	
	2009	2008	$	%	2009	2008	$	%
	($000, except percentages)				($000, except percentages)			
Public Sector								
Licenses	9,759	7,433	2,326	31%	33,954	25,028	8,926	36%
Professional services and other:								
Services	31,603	23,251	8,352	36%	97,234	65,440	31,794	49%
Hardware and other	9,908	5,419	4,489	83%	30,008	16,114	13,894	86%
Maintenance	51,992	38,224	13,768	36%	175,423	124,187	51,236	41%
	103,262	74,327	28,935	39%	336,619	230,769	105,850	46%
Private Sector								
Licenses	2,561	2,570	(9)	0%	8,716	11,969	(3,253)	-27%
Professional services and other:								
Services	3,379	3,516	(137)	-4%	12,461	15,443	(2,982)	-19%
Hardware and other	1,044	775	269	35%	3,789	3,844	(55)	-1%
Maintenance	21,648	17,209	4,439	26%	76,355	68,507	7,848	11%
	28,632	24,070	4,562	19%	101,321	99,763	1,558	2%

Public Sector

For the quarter ended December 31, 2009, total revenue in the public sector segment increased 39%, or $29 million, to $103 million, compared to $74 million for the quarter ended December 31, 2008. For the year ended December 31, 2009, total revenue increased by 46%, or $106 million, to $337 million, compared to $231 million for the comparable period in 2008. The increases for both the three months and the full year were significant across all revenue types. Revenue growth from acquired businesses was significant for both the three and twelve month periods as we completed eighteen acquisitions since the beginning of 2008 in our public sector segment. It is estimated that acquisitions completed since the beginning of 2008 contributed approximately $31 million to our Q4 2009 revenues and $104 million to our revenues in the year ended December 31, 2009. Revenues decreased organically by 2% or $1 million in Q4 2009 and increased organically by 2% or $5 million in the year ended December 31, 2009 compared to the same periods in 2008. Excluding PTS, organic growth for the Public Sector was 7% in Q4 2009 and 5% for 2009.

Organic Revenue Growth	Q4-09	2009
Public Sector	-2%	2%
Public Sector excluding PTS	7%	5%

The organic revenue change was primarily driven by the following:

- **Trapeze operating group** (decrease of approximately $4 million for Q4 and $2 million for the full year). For Q4 and the full year, Trapeze experienced an organic increase in maintenance revenues primarily due to continued strong bookings in their North American transit business. This growth was offset by organic shrinkage in the PTS business.

- **Harris operating group** (increase of approximately $2 million for Q4 and $6 million for the full year). For Q4 and the full year, Harris had continued strong sales both to existing clients and to new customers as well as a strong increase in maintenance revenues from completed implementations.

Private Sector

For the quarter ended December 31, 2009, total revenue in the private sector segment increased 19%, or $5 million, to $29 million, compared to $24 million for the quarter ended December 31, 2008. For the year ended December 31, 2009 total revenue increased by 2%, or $1 million, to $101 million, compared to $100 million for the comparable period in 2008. Revenue growth from acquired businesses was significant for both the three and twelve month periods as we completed sixteen acquisitions since the beginning of 2008 in our private sector segment. It is estimated that acquisitions completed since the beginning of 2008 contributed approximately $7 million to our Q4 2009 revenues and $15 million to our revenues in the year ended December 31, 2009. Revenues decreased organically by 9% or $2 million in Q4 2009 and 13% or $13 million in the year ended December 31, 2009 compared to the same periods in 2008. The organic revenue decline was primarily driven by the following:

- **Homebuilder and Friedman operating groups** (decrease of approximately $2 million for Q4 and $10 million for the full year). These operating groups continued to feel the effects of the housing slowdown in the U.S. The decline was apparent across all revenue streams as many of our existing and prospective clients have delayed purchasing decisions. Our Homebuilding and Friedman operating groups are significantly affected by decreasing demand for new housing and building products. These groups continue to see decreased demand for their products and services and we are uncertain when demand will improve given the weakness in the underlying industries that they serve.

- **Jonas operating group** (decrease of approximately $0.6 million for Q4 and $3 million for the full year). Jonas experienced decreased demand in their construction, club and food services verticals. The decline was apparent in licenses and services as many existing and prospective clients 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 Dec. 31,				Fiscal year ended Dec. 31,			
	2009	2008	2009	2008	2009	2008	2009	2008
			($000)				($000)	
Gross profit licenses	90%	92%	11,147	9,246	91%	91%	39,041	33,740
Gross profit services & maintenance	60%	61%	64,907	50,481	62%	61%	224,738	168,227
Gross profit hardware & other	20%	15%	2,167	954	22%	19%	7,554	3,875
Gross profit on total revenue	59%	62%	78,221	60,681	62%	62%	271,333	205,842

Gross profit increased for the quarter ended December 31, 2009 to $78 million, or 59% of total revenue, from $61 million, or 62% of total revenue, for the quarter ended December 31, 2008. The increase in gross profit is attributable to the overall increase in total revenue. For the year ended December 31, 2009, our gross profit increased to $271 million or 62% of total revenue, from $206 million or 62% of total revenue for the comparable period in 2008. Our gross profit as a percentage of revenue declined in Q4 from 62% in Q4 2008 to 59% in Q4 2009 due to lower margin revenues acquired in the PTS acquisition during Q4 2009. For the full year, our licenses, services and maintenance margins experienced minimal change compared to 2008. Hardware and other revenue margins can fluctuate significantly, given the relatively small size of this category and its diverse product mix.

Operating Expenses:

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

	Three months ended Dec. 31,		Period-Over-Period Change		Fiscal year ended Dec. 31,		Period-Over-Period Change	
	2009	2008	$	%	2009	2008	$	%
	($000, except percentages)				($000, except percentages)			
Research and development	19,172	13,411	5,761	43%	65,632	48,224	17,408	36%
Sales and marketing	13,680	10,878	2,802	26%	45,174	37,693	7,481	20%
General and administration	23,141	14,201	8,940	63%	72,401	55,585	16,816	30%
Depreciation	1,105	1,133	(28)	-2%	3,811	3,642	169	5%
	57,098	39,623	17,475	44%	187,018	145,144	41,874	29%

Overall operating expenses for the quarter ended December 31, 2009 increased 44%, or $17 million, to $57 million, compared to $40 million during the same period in 2008. As a percentage of total revenue, operating expenses increased from 40% in the quarter ended December 31, 2008 to 43% in the quarter ended December 31, 2009. During the year ended December 31, 2009, operating expenses increased 29%, or $42 million, to $187 million, compared to $145 million during the same period in 2008. As a percentage of total revenue, operating expenses decreased from 44% in the year ended December 31, 2008 to 43% in the year ended December 31, 2009. The growth in expenses for the three month period is primarily due to the growth in the number of employees and due to the appreciation of the Canadian dollar versus the U.S. dollar in 2009 as compared with 2008. Our average employee headcount associated with operating expenses grew 28% from 1,095 in the quarter ended December 31, 2008 to 1,400 in the quarter ended December 31, 2009 primarily due to acquisitions. Appreciation of the Canadian dollar vs. the U.S. dollar has a significant negative impact on operating expenses as a disproportionate amount of our total expenses, including costs of goods sold, are originated in Canadian dollars (See "Foreign Currency Exposure" below). The average exchange rate for the Canadian dollar increased by 14% versus the U.S. dollar in Q4 2009 vs. Q4 2008. The growth in expenses for the full year is primarily due to the growth in the number of employees. During the year ended December 31, 2009, headcount associated with operating expenses was up 27% to an average headcount of 1,220 compared to an average of 957 during the same period in 2008.

Research and development – Research and development expenses increased 43%, or $6 million, to $19 million for the quarter ended December 31, 2009 compared to $13 million for the same period in 2008. During the year ended December 31, 2009, research and development expense increased 36%, or $18 million, to $66 million, compared to $48 million over the same period in 2008. As a percentage of total revenue, research and development expense increased by 1% from 14% in the quarter ended December 31, 2008 to 15% in the quarter ended December 31, 2009. As a percentage of total revenue, research and development expenses remained consistent at 15% for the year ended December 31, 2009 compared to the same period in 2008. The increase in expenses as a dollar amount for the three and twelve month periods is largely attributable to our growth in headcount from both acquisitions and hiring of additional employees. For Q4 2009, we averaged 775 staff compared to 624 in the same period in 2008, representing a 24% increase in headcount. Appreciation of the Canadian dollar vs. the U.S. dollar also has a significant negative impact on research and development expenses as a disproportionate amount of our research and development expenses are originated in Canadian dollars. The average exchange rate for the Canadian dollar increased by 14% versus the U.S. dollar in Q4 2009 vs. Q4 2008. For the year ending December 31, 2009, we averaged 692 staff compared to 536 in the same period in 2008, representing a 29% increase in headcount.

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

Sales and marketing – Sales and marketing expenses increased 26%, or $3 million to $14 million, in the quarter ended December 31, 2009 compared to $11 million for the same period in 2008. As a percentage of total revenue, sales and marketing expenses decreased to 10% in the quarter ended December 31, 2009 from 11% for the same period in 2008. During the year ended December 31, 2009, sales and marketing expense increased 20%, or $7 million, to $45 million, compared to $38 million during the same period in 2008. As a percentage of total revenue, sales and marketing decreased to 10% from 11% in the year ended December 31, 2009 compared to the year ended December 31, 2008. The increase in expenses as a dollar amount during the quarter is largely attributable to our growth in headcount from both acquisitions and hiring of additional employees. For Q4 2009, we averaged 314 staff compared to 240 in the same period in 2008, representing a 31% increase in headcount. For the year ending December 31, 2009, we averaged 273 staff compared to 217 in the same period in 2008, representing a 26% increase in headcount.

General and administration – General and administration ("G&A") expenses increased 63%, or $9 million, to $23 million in the quarter ended December 31, 2009 from $14 million for the same period in 2008. As a percentage of total revenue, G&A expenses increased to 18% in Q4 2009 from 14% in Q4 2008. During the year ended December 31, 2009, G&A expense increased 30%, or $17 million, to $72 million, compared to $56 million during the same period in 2008. As a percentage of total revenue, G&A remained consistent at 17% for the year ended December 31, 2009 compared to the year ended December 31, 2008. The increase in expenses as a dollar amount during the quarter is largely attributable to our growth in headcount from acquisitions and hiring of additional employees, the appreciation of the Canadian dollar versus the U.S. dollar, and an increase in our bonus accrual in Q4 2009 as compared to Q4 2008. For Q4 2009, we averaged 311 staff compared to 231 in the same period in 2008, representing a 35% increase in headcount. The increase in G&A expense as a percentage of revenue for the three month period ended December 31, 2009 compared to the same period in 2008 is largely due to the appreciation of the Canadian dollar versus the U.S. dollar and due to higher bonuses as a percent of revenue in the three month period ended December 31 2009. For the year ending December 31, 2009, we averaged 255 staff compared to 204 in the same period in 2008, representing a 25% increase in headcount.

Depreciation of property and equipment – Depreciation of property and equipment for the quarter and year ended December 31, 2009 did not change materially from the comparable periods in 2008.

Non-Operating Expenses:

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

	Three months ended Dec. 31,		Period-Over-Period Change		Fiscal year ended Dec. 31,		Period-Over-Period Change	
	2009	2008	$	%	2009	2008	$	%
	($000, except percentages)				($000, except percentages)			
Amortization of intangible assets	16,317	15,629	688	4%	60,588	42,635	17,953	42%
Other (income) expense	(445)	288	(733)	NA	996	413	583	NA
Interest expense	794	598	196	33%	2,702	1,115	1,587	142%
Foreign exchange loss (gain)	1,944	30	1,914	6380%	2,568	(455)	3,023	NA
Income taxes	2,523	543	1,980	365%	7,237	1,996	5,241	263%
	21,133	17,088	4,045	24%	74,091	45,704	28,387	62%

Amortization of intangible assets – Amortization of intangible assets was $16 million for both the quarter ended December 31, 2009 and the quarter ended December 31, 2008. For the year ended December 31, 2009, amortization of intangibles increased 42%, to $61 million, compared to $43 million over the same period in 2008. For the year ended December 31, 2009 the increase is attributable to the increase in our intangible asset balance (on a cost basis) as a result of the acquisitions that we completed since the beginning of 2008.

Other expenses (income) – Other income was $0.4 million for the quarter ended December 31, 2009 compared to a $0.3 million expense for the same period in the previous year.

The following table provides a breakdown of other expenses (income):

	Three months ended Dec. 31,		Period-Over-Period Change		Fiscal year ended Dec. 31,		Period-Over-Period Change	
	2009	2008	$	%	2009	2008	$	%
	($000, except percentages)				($000, except percentages)			
Loss (gain) on sale of short term investments, marketable securities and other assets	44	0	44	NA	12	(8)	20	-250%
Loss on held for trading investments related to mark to market adjustments	0	288	(288)	-100%	0	421	(421)	-100%
Other than temporary decline in value of available for sale investments	0	0	0	NA	1,474	0	1,474	NA
Other income	(489)	0	(489)	NA	(490)	0	(490)	NA
	(445)	288	(733)	NA	996	413	583	NA

Loss on held for trading investments related to mark to market adjustments – Loss on held for trading investments related to mark to market adjustments was $0.3 million for Q4 2008 and $0.4 million for the year ended December 31, 2008 compared to nil in Q4 2009 and nil for the year ended December 31, 2009. The loss relates to fair value adjustments to warrants held by the Company that are not publicly traded.

Other than temporary decline in value of available for sale investments - Other than temporary decline in value of available for sale investments was $1.5 million for the year ended 2009 compared to nil for the comparable period in 2008. The increase for the year ended December 31, 2009 is primarily due to a non-cash write-down of a UK sterling denominated investment. Although the investment is classified as available for sale, which requires fair value adjustments be recorded in other comprehensive income, it was determined that a holding loss relating to the depreciation of the UK sterling since the investment was made was other than temporary and as such a loss was recorded in the statement of operations.

Other income - Other income in 2009 was $0.5 million for the quarter and year ended December 31, 2009 compared to nil for the comparable periods in 2008. The increase in other income for the quarter and year ended December 31, 2009 is due to a government incentive received in Q4 2009.

Interest expense – Net interest expense was $0.8 million for the quarter ended December 31, 2009 compared to $0.6 million for the same period in the previous year. For the year ended December 31, 2009, interest expense was $2.7 million compared to $1.1 million for the comparable period in 2008. The increase in interest expense for both periods is due to the increase in our borrowings under our existing line of credit to fund acquisitions and due to an increase in the interest rate charged on our line of credit in 2009 compared to 2008. Interest expense on our line of credit is offset by interest income generated from excess cash balances (to the extent we have excess cash) and from other investments. As a result, we expect interest expense to fluctuate significantly in the future depending upon the timing of acquisitions and the amount we borrow against our line of credit to complete them.

Foreign exchange loss (gain) – Most of our businesses are organized geographically so many of our expenses are incurred in the same currency as our revenues, which mitigates some of our exposure to currency fluctuations. For the quarter ended December 31, 2009, our foreign exchange loss was $2.0 million compared to a loss of $30,000 in Q4 2008. For the year ended December 31, 2009, our foreign exchange loss was $2.6 million versus a gain of $0.5 million during the same period in 2008. The foreign exchange loss for the three months ended December 31, 2009 is mainly attributable to an increase in the closing rate for the Canadian dollar vs. the U.S. dollar at December 31, 2009 vs. December 31, 2008. As we generally run our business with negative working capital and we had a portion of our net liabilities denominated in Canadian dollars, when we re-valued Canadian dollar net liabilities to U.S. dollars (our functional currency) at quarter end, we recorded a foreign exchange loss. For the year ended December 31, 2009, the foreign exchange loss due to the revaluation of our foreign denominated liabilities was offset by a gain realized on Canadian dollar liabilities settled in Q1 2009 at an exchange rate that was favourable to the rate used to value the liabilities at December 31, 2008.

Income taxes – We operate globally and we calculate our tax provision in each of the jurisdictions in which we conduct business. Our tax rate is, therefore, affected by the realization and anticipated relative profitability of our operations in those various jurisdictions, as well as different tax rates that apply and our ability to utilize tax losses. For the quarter ended December 31, 2009, the income tax expense was $2.5 million, compared to $0.5 million for the same period in 2008. For the year ended December 31, 2009, the provision for income taxes was $7 million, compared to $2 million in 2008. The significant increase in the tax expense for the quarter and the year ended December 31, 2009 compared to the same periods in 2008 is mainly attributable to an increase in taxable income and due to the utilization of tax losses in certain jurisdictions in 2008 that were not available in the same periods in 2009.

Net Income:

Net income for the quarter ended December 31, 2009 was nil compared to net income of $4 million for the same period in 2008. On a per share basis this translated into a net income per diluted share of nil in Q4 2009 vs. a net income per diluted share of $0.19 in Q4 2008. For the full year 2009, net income was $10 million or $0.48 per diluted share compared to $15 million or $0.71 per diluted share in the full year of 2008. Net income in 2009 was positively impacted by the growth in our Adjusted EBITDA offset by increases in amortization of intangibles, interest expense, foreign exchange loss, and income tax expense.

Adjusted EBITDA:

For Q4 2009, Adjusted EBITDA remained flat at $22 million. Adjusted EBITDA margin was 17% in the fourth quarter of 2009 versus 23% in the comparable period in 2008. For the year ended December 31, 2009, Adjusted EBITDA increased by $24 million to $88 million compared to $64 million in 2008, representing an increase of 37%. Adjusted EBITDA margin was 20% in 2009 compared to 19% in 2008. The decrease in Adjusted EBITDA margin for the three month period ended December 31, 2009 is largely due to the impact of the negative EBITDA in Q4 from the

acquired PTS business and also due to the appreciation of the Canadian dollar vs. the U.S. dollar in Q4 2009 versus Q4 2008 as a significant amount of our operating expenses are originated in Canadian dollars. See "Non-GAAP measures" for a description of Adjusted EBITDA and Adjusted EBITDA margin.

The following table reconciles Adjusted EBITDA to net income:

	Three months ended Dec. 31,		Fiscal year ended Dec. 31,	
	2009	2008	2009	2008
	($000, except percentages)		($000, except percentages)	
Total revenue	$ 131,894	$ 98,397	$ 437,940	$ 330,532
Net income (loss)	(10)	3,970	10,224	14,994
Add back:				
Income taxes	2,523	543	7,237	1,996
Foreign exchange loss (gain)	1,944	30	2,568	(455)
Interest expense	794	598	2,702	1,115
Other (income) expense	(445)	288	996	413
Amortization of intangible assets	16,317	15,629	60,588	42,635
Depreciation	1,105	1,133	3,811	3,642
Adjusted EBITDA	22,228	22,191	88,126	64,340
Adjusted EBITDA margin	17%	23%	20%	19%

Adjusted net income:

For Q4 2009, Adjusted net income decreased by $4 million to $15 million compared to $19 million in Q4 2008, representing a decrease of 23%. Adjusted net income margin was 11% in the fourth quarter of 2009, compared to 19% of total revenue for the same period in 2008. For the year ended December 31, 2009, Adjusted net income increased by $8 million to $62 million compared to $54 million during the same period in 2008, representing an increase of 15%. Adjusted net income margin was 14% in 2009, compared to 16% of total revenue for the same period in 2008. See "Non-GAAP Measures" for a description of Adjusted net income and Adjusted net income margin.

The following table reconciles Adjusted net income to net income:

	Three months ended Dec. 31,		Fiscal year ended Dec. 31,	
	2009	2008	2009	2008
	($000, except percentages)		($000, except percentages)	
Total revenue	$ 131,894	$ 98,397	$ 437,940	$ 330,532
Net income (loss)	(10)	3,970	10,224	14,994
Add back:				
Amortization of intangible assets	16,317	15,629	60,588	42,635
Future income taxes (recovery)	(1,649)	(603)	(8,398)	(3,185)
Adjusted net income	14,658	18,996	62,414	54,444
Adjusted net income margin	11%	19%	14%	16%

Quarterly Results

	Quarter Ended								
	Dec. 31, 2007	Mar. 31, 2008	Jun. 30, 2008	Sep. 30, 2008	Dec. 31, 2008	Mar. 31, 2009	Jun. 30, 2009	Sep. 30 2009	Dec. 31 2009
	($000, except per share amounts)								
Revenue	66,068	73,603	77,742	80,790	98,397	97,252	101,515	107,279	131,894
Net Income (loss)	1,640	4,329	3,402	3,293	3,970	3,781	3,738	2,715	(10)
Net Income per share									
Basic	0.08	0.21	0.16	0.16	0.19	0.18	0.18	0.13	(0.00)
Diluted	0.08	0.20	0.16	0.16	0.19	0.18	0.18	0.13	(0.00)

We do not generally experience significant seasonality in our operating results from quarter to quarter. However, our quarterly results may fluctuate as a result of the various acquisitions which may be completed by the Company in any given quarter. We may experience variations in our net income on a quarterly basis depending upon the timing of certain one-time expenditures or gains which may include loss (gain) on the sale of short-term investments, marketable securities and other assets.

Acquisition of PTS from Continental

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

Management believes cash flow from operations is useful supplemental information about the performance of the underlying business as certain purchase price adjustments and purchase contract accounting under GAAP may result in reported earnings that differ materially from cash flow from operations. A significant amount of working capital was acquired with the PTS business which may have a material positive impact on cash flow from operations should we be able to reduce the level of working capital required in the business.

As of the date of acquisition, Constellation recorded a restructuring provision of $7 million to realign operations with the future prospects of the acquired business. The majority of the restructuring charge relates to severance costs. The restructuring charge is included in accounts payable and accrued liabilities in the December 31, 2009 balance sheet.

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

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

Acquisition of certain software assets and liabilities from MAXIMUS Inc.

On September 30, 2008, Constellation acquired certain assets and liabilities of MAXIMUS Inc.'s Asset, Justice, and Education businesses ('MAJES') for net cash consideration of $34 million.

As part of the MAJES acquisition, Constellation also assumed certain long-term contracts that contain contingent liabilities that may, but in management's opinion are unlikely to, exceed $11 million in the aggregate. As the likelihood of loss is not determinable, these amounts have not been recorded in the interim financial statements.

Supplemental Financial Information for MAJES and PTS

The table below provides certain supplemental income statement and cash flow information regarding MAJES and PTS for the three months and year ended December 31, 2009. MAJES and PTS are not considered reportable operating segments of Constellation; however, management has chosen to provide certain supplemental financial information to provide greater clarity into the operating performance and cash flow from operations of each business. Management believes cash flow from operations is useful supplemental information about the performance of the underlying business as certain purchase price adjustments and contract accounting under GAAP may result in reported earnings that differ materially from cash flow from operations. Certain contracts acquired as part of the MAJES business are being accounted for using the completed contract method of accounting. As a result, the revenue and costs on these contracts will not be reflected in the statement of operations until such contracts are complete. In the interim, the impact on cash flow will be reflected in the statement of cash flow from operating activities.

Statement of Operations
For the three and twelve months ended December 31, 2009

(Unaudited)	For the 3 months ended December 31, 2009				For the 12 months ended December 31, 2009			
	Constellation Software Inc. (excluding MAJES and PTS)	MAJES	PTS	Consolidated	Constellation Software Inc. (excluding MAJES and PTS)	MAJES	PTS	Consolidated
Revenue	$ 95,424	$19,464	$17,006	$ 131,894	$ 345,310	$75,624	$17,006	$ 437,940
Cost of revenue	35,314	6,571	11,788	53,673	127,276	27,543	11,788	166,607
Gross Profit	60,110	12,893	5,218	78,221	218,034	48,081	5,218	271,333
Total Expenses (pre amortization)	42,245	7,262	6,486	55,993	149,626	27,095	6,486	183,207
Adjusted EBITDA	17,865	5,631	(1,268)	22,228	68,408	20,986	(1,268)	88,126
EBITDA as % Total Revenue	19%	29%	-7%	17%	20%	28%	-7%	20%
Depreciation	963	112	30	1,105	3,409	372	30	3,811
Income before the undernoted	16,902	5,519	(1,298)	21,123	64,999	20,614	(1,298)	84,315
Amortization of intangible assets	14,652	1,665	-	16,317	51,847	8,741	-	60,588
Other expenses (income)	2,825	(647)	115	2,293	6,144	7	115	6,266
Income before income taxes	(575)	4,501	(1,413)	2,513	7,008	11,866	(1,413)	17,461
Income taxes	1,880	558	86	2,523	4,178	2,974	86	7,237
Net Income (loss)	$ (2,455)	$ 3,943	$ (1,499)	$ (10)	$ 2,830	$ 8,892	$ (1,499)	$ 10,224

Cash flow from operating activities
For the three and twelve months ended December 31, 2009

	For the 3 months ended December 31, 2009				For the 12 months ended December 31, 2009			
(Unaudited)	Constellation Software Inc. (excluding MAJES and PTS)	MAJES	PTS	Consolidated	Constellation Software Inc. (excluding MAJES and PTS)	MAJES	PTS	Consolidated
Cash flows from operating activities:								
Net income (loss)	$ (2,455)	$ 3,943	$ (1,499)	$ (10)	$ 2,830	$ 8,892	$ (1,499)	$ 10,224
Adjustments to reconcile net income to net cash flows from operations:								
Depreciation	963	112	30	1,105	3,409	372	30	3,811
Amortization of intangible assets	14,652	1,665	-	16,317	51,847	8,741	-	60,588
Future income taxes	(2,259)	610	-	(1,649)	(6,829)	(1,569)	-	(8,398)
Other non-cash items	3,420	(647)	583	3,356	4,427	(2)	583	5,008
Change in non-cash operating working capital	10,656	(2,112)	7,414	15,958	1,067	2,934	7,414	11,415
Cash flows from operating activities	$ 24,977	$ 3,572	$ 6,528	$ 35,077	$ 56,752	$19,368	$ 6,528	$ 82,648

Adjusted EBITDA to net income reconciliation
For the three and twelve months ended December 31, 2009

(Unaudited)	For the 3 months ended December 31, 2009				For the 12 months ended December 31, 2009			
	Constellation Software Inc. (excluding MAJES and PTS)	MAJES	PTS	Consolidated	Constellation Software Inc. (excluding MAJES and PTS)	MAJES	PTS	Consolidated
Total revenue	$ 95,424	$19,464	$17,006	$ 131,894	$ 345,310	$ 75,624	$ 17,006	$ 437,940
Net income (loss)	(2,455)	3,943	(1,499)	(10)	2,830	8,892	(1,499)	10,224
Add back:								
Income tax expense	1,880	558	86	2,523	4,178	2,974	86	7,237
Other expenses (income)	2,825	(647)	115	2,293	6,144	7	115	6,266
Amortization of intangible assets	14,652	1,665	-	16,317	51,847	8,741	-	60,588
Depreciation	963	112	30	1,105	3,409	372	30	3,811
Adjusted EBITDA	17,865	5,631	(1,268)	22,228	68,408	20,986	(1,268)	88,126
Adjusted EBITDA margin	19%	29%	-7%	17%	20%	28%	-7%	20%

Liquidity

Our net cash position (cash less bank indebtedness) at December 31, 2009 increased to negative $10 million, from negative $30 million at December 31, 2008. Borrowings on our line of credit decreased by $17 million and cash increased by $3 million.

Total assets increased $94 million, from $386 million at December 31, 2008 to $480 million at December 31, 2009. The majority of the increase can be explained by increases in: a) accounts receivable, inventory and work in progress by $55 million primarily due to acquisitions, b) short term investments and marketable securities of $12 million due to an increase in the market value of investments and due to further investments made during the period, c) other long term assets of $8 million due to an increase in acquired contract assets and d) future income taxes of $5 million.

Current liabilities increased $38 million, from $253 million at December 31, 2008 to $291 million at December 31, 2009. The majority of the increase can be explained by increases in a) accounts payable and accrued liabilities of $40 million primarily due to liabilities assumed in acquisitions and b) deferred revenue of $21 million primarily due to an increase in maintenance revenue from acquisitions. These increases were offset by decreases in a) acquisition holdback payments of $7 million primarily due to finalizing the holdback associated with acquisition of the MAJES business and b) bank indebtedness of $17 million.

Net Changes in Cash Flow	**Year ended December 31, 2009**
	(in millions of $)
Net cash provided by operating activities	$83
Net cash used by financing activities	(23)
Net cash used in investing activities	(54)
Effect of currency translation	(3)
Net increase in cash and cash equivalents	$3

The net cash flow from operating activities was $83 million for the year ended December 31, 2009. The $83 million provided by operating activities resulted from $10 million in net income, plus adjustments for $61 million of non-cash expenses included in net income, plus $12 million of cash generated by changes in our non-cash operating working capital.

The net cash used in financing activities in the year ended December 31, 2009 was $23 million. The cash was used to reduce our borrowings on our line of credit by $17 million and to pay a dividend of $0.216 per share (cash usage of $5 million).

The net cash used in investing activities in the year ended December 31, 2009 was $54 million. The cash used in investing activities was primarily due to acquisitions for an aggregate of $42 million (including payments for holdbacks relating to prior acquisitions) and due to $7 million in additions to short term investments, marketable securities and other assets.

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

Capital Resources and Commitments

Effective October 2, 2009, we increased the amount of our credit facility from $130 million to $160 million. The credit facility is collateralized by substantially all of our assets including the assets of the majority of our material Canadian and U.S. subsidiaries. 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 December 31, 2009, we had drawn $43 million on this facility.

Commitments include operating leases for office equipment and facilities, bank guarantees, and performance bonds issued on our behalf by financial institutions in connection with facility leases and contracts with public sector customers. Also, occasionally we structure some of our acquisitions with "earn out" payments based on the future performance of the acquired business. Aside from the aforementioned, we do not have any other business arrangements, derivative financial instruments, or any equity interests in unconsolidated companies (aside from our shareholdings in publicly traded companies included in our short term investments and our investment in VCG Inc.) that would have a significant effect on our assets and liabilities as at December 31, 2009.

	Total	< 1 yr	1-3 yrs	3-5 yrs	>5 yrs
Operating and capital leases (note 1)	43,928	11,661	15,566	10,266	6,435
Holdbacks	6,124	3,587	2,537	-	-
Line of credit	43,100	-	43,100	-	-
Total outstanding cash commitments	93,152	15,248	61,203	10,266	6,435

Note 1. Capital leases represent less than 2% of total

Foreign Currency Exposure

We operate internationally and have foreign currency risks related to our revenue, operating expenses, assets and liabilities denominated in currencies other than the U.S. dollar. Consequently, we believe movements in the

foreign currencies in which we transact could significantly affect future net earnings. Currently, we do not use hedging techniques to mitigate such currency risks. We cannot predict the effect of foreign exchange losses in the future; however, if significant foreign exchange losses are experienced, they could have a material adverse effect on our business, results of operations, and financial condition.

The following table provides an approximate breakdown of our revenue and expenses by currency, expressed as a percentage of total revenue/expenses, as applicable, for the three and twelve month periods ending December 31, 2009:

	Three Months Ended 2009		Full Year ended 2009	
Currencies	% of Revenue	% of Expenses	% of Revenue	% of Expenses
USD	71%	56%	79%	63%
CAD	11%	25%	9%	24%
GBP	7%	5%	6%	6%
CHF	5%	12%	1%	3%
EURO	3%	0%	1%	0%
Others	2%	2%	3%	3%
Total	100%	100%	100%	100%

Off-Balance Sheet Arrangements

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

Transactions with Related Parties

Aside from our Key Employee Loan Program (“KELP”), we had no material related party transactions during 2009. The outstanding balance of loans granted under the KELP as of December 31, 2009 was $0.6 million as compared to $0.9 million as of December 31, 2008.

Proposed Transactions

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

Critical Accounting Estimates

General

The preparation of our consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Our estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Our ongoing evaluation of these estimates forms the basis for making judgments about the carrying values of assets and liabilities and the reported amount of revenues and expenses, in cases where they are not readily ascertainable from other sources. Actual amounts may differ from these estimates under different assumptions or conditions.

Our significant accounting policies are fully described in Note 1 to our annual consolidated financial statements which are available on SEDAR (www.sedar.com). We did not change our accounting policies or initially adopt new or different accounting policies during the year ended December 31, 2009, except as follows: On January 1, 2009 we adopted the recommendations of the Canadian Institute of Chartered Accountants Handbook (CICA Handbook) Section 3862, *Financial Instruments – Disclosures,* and Section 3064, *Goodwill and Intangible Assets.*

Certain accounting policies are particularly important to the reporting of our financial position and results of operations, and require the application of significant judgment by our management. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different, estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could have a material impact on the financial statements. Management believes the following critical accounting policies reflect the more significant estimates and assumptions used in the preparation of our consolidated financial statements. We believe that there have been no significant changes in our critical accounting estimates for the years presented in our consolidated financial statements.

Revenue Recognition

Revenue consists primarily of software license fees, maintenance fees, and professional service fees. Maintenance and service revenue is comprised of professional services revenue from consulting, implementation and training services related to our products and maintenance and technical support, which also includes certain software upgrades and enhancements. We recognize revenue in accordance with the current rules of Canadian GAAP. Revenue recognition requirements are very complex and are affected by interpretations of the rules and industry practices, both of which are subject to change. We follow specific and detailed guidelines in measuring revenue; however, certain judgments and current interpretations of rules and guidelines affect the application of our revenue recognition policy.

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. For license arrangements that do not require significant modifications or customization of the software, we recognize software license revenue when persuasive evidence of an arrangement exists, the product has been delivered, the fee is fixed or determinable, and collection of the resulting receivable is probable.

One of the critical judgments we make is our assessment of the probability of collecting the related accounts receivable balance on a customer-by-customer basis. As a result, the timing or amount of revenue recognition may have been different if different assessments of the probability of collection had been made at the time that the transactions were recorded in revenue. In cases where collectibility is not deemed probable, revenue is recognized upon receipt of cash, assuming all other criteria have been met.

When a license agreement includes one or more elements to be delivered at a future date and vendor specific objective evidence (''VSOE'') of the fair value of all undelivered elements exists, we use the residual method to recognize revenue. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is recognized as revenue. If evidence of the fair value of one or more undelivered elements does not exist, all revenue is deferred and recognized when delivery of those elements occurs or when fair value can be established. VSOE for all elements of an arrangement is based upon the normal pricing and discounting practices for those elements when sold separately, and, for maintenance services, may additionally be measured by the renewal rate. We are required to exercise judgment in determining whether VSOE exists for each undelivered element and to determine whether and when each element has been delivered. If we were to change any of these assumptions or judgments, it could cause a material increase or decrease in the amount of revenue that we recognize in a particular period.

Maintenance revenue primarily consists of fees charged for customer support on our software products post-delivery, which are determinable based on VSOE of the fair value, and also includes, to a lesser extent, recurring fees derived from combined software/support contracts, transaction revenues, and hosted products. Maintenance fee arrangements include ongoing customer support and rights to certain product updates ''if and when available''. Customer payments for maintenance are generally received in advance and are non-refundable. Maintenance revenue is deferred and recognized on a straight-line basis over the life of the related period, which is typically one year.

Professional service revenue consists of fees charged for product training and consulting and implementation services, which are determinable based upon VSOE of the fair value. When license arrangements include maintenance and professional services, the license fees are recognized upon delivery, provided that (1) the criteria described above for delivery have been met, (2) payment of the license fees is not dependent upon the performance or acceptance of the services, (3) the services are not essential to the functionality of the software, and (4) VSOE exists on the undelivered services and maintenance. We use VSOE of the fair value for the services and maintenance to account for an arrangement using the residual method, regardless of any separately stated prices within the contract for each element. Revenue for services is recognized as the services are performed. VSOE of their fair value of professional services is based upon the average hourly rate charged when such services are sold separately. When we enter into contracts to provide services only, revenue is recognized as the services are performed. Fixed price professional services contracts are recognized on a proportional performance basis as determined by the relationship of contract costs incurred to date and the estimated total contract costs, which are regularly reviewed during the life of the contract, subject to the achievement of any agreed upon milestones. In the event that a milestone has not been achieved, the associated cost is deferred and revenue is not recognized until the customer has accepted the milestone.

Revenue from fixed price professional service contracts is recognized on a proportional performance basis, which requires us to make estimates and is subject to risks and uncertainties inherent in projecting future events. A number of internal and external factors can affect our estimates, including the nature of the services being performed, the complexity of the customer's environment and the utilization and efficiency of our professional services employees. Recognized revenues and profit are subject to revisions as the contract progresses to completion. Revisions in profit estimates are charged to income in the period in which the facts that give rise to the revision become known. If we do not have a sufficient basis to estimate the progress towards completion, revenue is recognized when the project is complete or when we receive final acceptance from the customer.

For arrangements that do not meet the criteria described above, both license revenues and professional services revenues are recognized using the percentage-of-completion method where reasonably dependable estimates of progress toward completion of a contract can be made. We estimate the percentage-of-completion on contracts utilizing costs incurred to date as a percentage of the total costs at project completion. Recognized revenues and profit are subject to revisions as the contract progresses to completion. Revisions in profit estimates are charged to earnings in the period in which the facts that give rise to the revision become known. It should be noted that the majority of our license and professional services revenue are recognized under the percentage of completion method.

If the estimated costs to complete cannot be reasonably estimated, the completed-contract method of revenue recognition is used. A number of contracts acquired as part of the MAJES acquisition are accounted for using the completed-contract method of accounting.

Valuation of Identifiable Goodwill and Other Intangible Assets

We account for our business acquisitions under the purchase method of accounting. The total cost of an acquisition is allocated to the underlying net assets based on their respective estimated fair values. As part of this allocation process, we must identify and attribute values and estimated lives to the intangible assets acquired. While we may employ experts to assist us with these matters, such determinations involve considerable judgment, and often involve the use of significant estimates and assumptions, including those with respect to future cash inflows and

outflows, discount rates, and asset lives. These determinations will affect the amount of amortization expense recognized in future periods.

Goodwill is initially recorded when the purchase price paid for an acquisition exceeds the fair value assigned to the net identifiable tangible and intangible assets acquired. Goodwill is not amortized but rather it is periodically assessed for impairment. We perform an annual review in the fourth quarter of each fiscal year, or more frequently if indicators of potential impairment exist, to determine if the recorded goodwill is impaired.

Goodwill is tested for impairment at the ''reporting unit level'' (''reporting unit'') in accordance with the CICA Handbook Section 3062, ''Goodwill and Other Intangible Assets.'' A ''reporting unit'' is a group or business for which discrete financial information is available and that has similar economic characteristics. Our impairment review process compares the fair value of the reporting unit to its carrying value, including the goodwill related to the reporting unit. To determine the fair value, our review process uses the cash flow method and is based on a discounted future cash flow approach that utilizes estimates for the reporting units that include the following: revenue, based on expected growth rates; estimated costs; and appropriate discount rates. Significant management judgment is required in the forecasting of future operating results, which are used in the preparation of the projected discounted cash flows. Should different conditions prevail, material write-downs of goodwill could occur.

We also review the carrying value of amortizable intangible assets for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. Any change in estimate which causes the undiscounted expected future cash flows to be less than the carrying value, would result in an impairment loss being recognized equal to the amount by which the carrying value of the asset exceeds the fair value of the asset.

Accounting for Income Taxes

Significant management judgment is required in determining our provision for income taxes, our income tax assets and liabilities, and any valuation allowance recorded against our net income tax assets. We operate in multiple geographic jurisdictions, and to the extent that we have profits in each jurisdiction, these profits are taxed pursuant to the tax laws of their jurisdiction. Our effective tax rate may be affected by changes in, or interpretations of, tax laws in any given jurisdiction, the level of profitability, utilization of net operating losses and tax credit carry forwards, changes in geographical mix of income and expense, and changes in management's assessment of matters, such as the ability to realize future tax assets. As a result of these considerations, we must estimate our income taxes in each of the jurisdictions in which we operate on a quarterly basis. This process involves estimating our actual current tax exposure, together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in future tax assets and liabilities, which are included in our consolidated balance sheet.

We record a valuation allowance to reduce our future tax assets recorded on our balance sheet to the amount of future tax benefit that is more likely than not to be realized. The valuation allowance is based on our estimates of taxable income by jurisdiction in which we operate and the period over which our income tax assets will be recoverable. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, there is no assurance that the valuation allowance will not need to be increased to cover additional future tax assets that may not be realizable. Although we believe that our estimates are reasonable, no assurance can be given that the final tax outcome of these matters will not be different from that which is reflected in our historical income tax provisions and accruals. Any increase in the valuation allowance could have a material adverse impact on our income tax provision and net income reflected in our consolidated statement of operations in the period in which such determination is made.

Accounts Receivable

We evaluate the collectibility of our trade receivables based on a combination of factors. We regularly analyze our significant customer accounts, and, when we become aware of a specific customer's inability to meet its financial obligations to us, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position, we record specific bad debt reserves to reduce the related receivable to the amount which we reasonably believe is collectible. We also record reserves for bad debts on a small portion of all other customer balances based on a variety of factors, including the length of time that the receivables are past due, the financial health of the customer, macroeconomic considerations and historical experience. If circumstances related to specific customers change, our estimates of the recoverability of receivables could be further adjusted.

Work In Progress

For revenue arrangements that are accounted for under the percentage of completion method as well as other arrangements and contracts which limit our ability to invoice to certain milestones that do not match the timing of the actual provision of the services, we record such revenue and the related unbilled receivable in work in process. Similar to accounts receivable, we constantly have to evaluate our ability to bill and subsequently collect any amounts contained in the work in progress accounts. We review these balances on a periodic basis to ensure customer balances are prudent based upon a variety of factors, such as the financial health of the customer, macroeconomic considerations and historical experience. If circumstances related to specific customers change, our estimates of the recoverability of work in progress may be further adjusted.

Contingencies

We are currently involved in various claims and legal proceedings. Quarterly, we review the status of each significant matter and assess our potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss. Significant judgment is required in determining whether a loss is probable and, if so, whether an exposure is reasonably estimable. Because of the uncertainties related to these matters, accruals are based only on the best information available at the time. As additional information becomes available, we reassess the potential liability related to our pending claims and litigation and, if necessary, revise our estimates. Such revisions in the estimates of the potential liabilities could have a material impact on our results of operations and financial position.

Changes in Accounting Policies

Effective January 1, 2009, the Company adopted CICA 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. There was no impact to the Company's financial statements as a result of adopting this new standard.

In June 2009, the CICA amended Section 3862, "Financial Instruments - Disclosures", to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. The amendments to Section 3862 apply for annual financial statements relating to fiscal years ending after September 30, 2009. There was no impact to the Company's financial statements as a result of adopting this new standard.

Recent Accounting Pronouncements

International Financial Reporting Standards (IFRS)

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

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

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

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

First-time adoption of IFRS (IFRS 1):

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

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

Cumulative translation differences - IFRS 1 allows cumulative translation differences for foreign operations to be cleared through equity on transition. We have elected to reset cumulative translation differences to zero on transition. At December 31, 2009, our cumulative translation account was a loss of $9.

IFRS to Canadian GAAP differences:

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

Recognizing and measuring goodwill or a gain from a bargain purchase

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

Provisions

Under IFRS a provision is recognized in the financial statements if it is probable. Probable is defined under IFRS as “more likely than not”. This is a lower threshold than “likely” under Canadian GAAP. Currently, we have approximately $17 million in contingent liabilities disclosed in our financial statements. Under IFRS, some of these liabilities may be recorded in our financial statements.

Revenue recognition

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

Income Taxes

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

Information systems:

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

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

In January 2009, the CICA issued Handbook Section 1582, "Business combinations," which replaces the existing standards. This section establishes the standards for the accounting of business combinations, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. This standard is equivalent to the International Financial Reporting Standards on business combinations. This standard is applied prospectively to business combinations with acquisition dates on or after January 1, 2011. Earlier adoption is permitted. We will consider the impact of adopting this standard on future business combinations.

In January 2009, the CICA issued Handbook Section 1601, "Consolidated financial statements," which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for 2011. Earlier adoption is permitted. We will consider the impact of adopting this standard on our consolidated financial statements.

In January 2009, the CICA issued Handbook Section 1602, "Noncontrolling interests in Consolidated Financial Statements'. This section specifies that noncontrolling interests be treated as a separate component of equity, not as a liability or other item outside of equity. Section 1602 is effective for periods beginning on or after January 1, 2011 and will be applied prospectively to all noncontrolling interests, including any that arose before the effective date. We will consider the impact of adopting this standard on our consolidated financial statements.

Share Capital

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

Outlook

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

Risks and Uncertainties

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

Controls and Procedures

Evaluation of disclosure controls and procedures:

Management is responsible for establishing and maintaining disclosure controls and procedures as defined under National Instrument 52-109. At December 31, 2009, 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 designing and maintaining internal controls over financial reporting as defined under National Instrument 52-109. At December 31, 2009, the President and Chief Financial Officer concluded that the design and operation 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 based on the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control — Integrated Framework.

The President and CFO have evaluated whether there were changes to internal controls over financial reporting during the interim period ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting. No such changes were identified.

Exclusion of PTS

Our assessment of and conclusion on the effectiveness of disclosure controls and procedures and internal control over financial reporting did not include the controls or procedures of the operations of PTS, which are included in our fiscal 2009 consolidated financial statements. Certain summary financial information related to PTS has been included above under 'Acquisition of PTS Business from Continental'.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING
December 31, 2009

The accompanying consolidated financial statements of Constellation Software Inc. ("Constellation") and its subsidiaries and all the information in Management's Discussion and Analysis are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP"). The consolidated financial statements include certain amounts that are based on the best estimates and judgements of management and in their opinion present fairly, in all material respects, Constellation's financial position, results of operations and cash flows, in accordance with GAAP. Management has prepared the financial information presented elsewhere in Management's Discussion and Analysis and has ensured that it is consistent with the consolidated financial statements, or has provided reconciliations where inconsistencies exist.

Management of Constellation has developed and maintains a system of internal controls, which is supported by the internal audit function. Management believes the internal controls provide reasonable assurance that material transactions are properly authorized and recorded, financial records are reliable and form a basis for the preparation of consolidated financial statements and that Constellation's material assets are properly accounted for and safeguarded.

The Board of Directors carries out its responsibility for the consolidated financial statements principally through its Audit Committee. This committee meets with management and the Company's independent auditors to review the Company's reported financial performance and to discuss audit, internal controls, accounting policies, and financial reporting matters. The consolidated financial statements were reviewed by the Audit Committee and approved by the Board of Directors.

The consolidated financial statements have been audited by KPMG LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. KPMG LLP has full and free access to the Audit Committee.

March 3, 2010

Mark Leonard	John Billowits
President	Chief Financial Officer

KPMG LLP
Chartered Accountants
Yonge Corporate Centre
4100 Yonge St.
Suite 200
North York, ON M2P 2H3

Telephone (416) 228-7000
Fax (416) 228-7123
Internet www.kpmg.ca

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Constellation Software Inc. as at December 31, 2009 and 2008 and the consolidated statements of operations, retained earnings (deficit), comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

March 3, 2010

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

CONSTELLATION SOFTWARE INC.

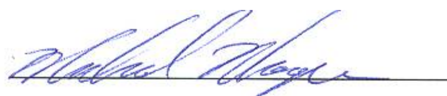
Consolidated Balance Sheets
(In thousands of U.S. dollars)

December 31, 2009 and 2008

	2009	2008
Assets		
Current assets:		
Cash	$ 33,249	$ 30,405
Short-term investments and marketable securities available for sale (note 5)	22,323	9,979
Accounts receivable	99,742	61,079
Work in progress	21,349	15,392
Inventory (note 6)	12,702	2,308
Prepaid expenses and other current assets	15,368	8,395
Notes receivable (note 7)	3,833	-
Investment tax credits recoverable	2,250	1,504
Future income taxes (note 18)	4,445	3,779
	215,261	132,841
Restricted cash (note 4)	2,229	750
Property and equipment (note 11)	10,539	9,381
Future income taxes (note 18)	10,155	5,713
Notes receivable (note 7)	-	3,643
Investment tax credits recoverable	2,133	1,808
Other long-term assets (note 8)	11,407	3,656
Intangible assets (note 12)	187,788	188,070
Goodwill (note 13)	40,977	39,937
	$ 480,489	$ 385,799
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 14)	$ 43,100	$ 60,200
Accounts payable and accrued liabilities	103,655	63,429
Acquisition holdback payments	3,587	10,901
Deferred revenue	136,857	115,466
Income taxes payable (note 18)	3,751	3,197
	290,950	253,193
Future income taxes (note 18)	28,121	26,778
Other long-term liabilities (note 9)	53,360	10,446
Shareholders equity:		
Capital stock (note 15)	99,283	99,283
Shareholder loans (note 16)	(646)	(931)
Accumulated other comprehensive loss (note 24)	(157)	(6,901)
Retained earnings	9,578	3,931
	108,058	95,382
Commitments and contingencies (note 25)		
Subsequent events (note 27)		
	$ 480,489	$ 385,799

See accompanying notes to consolidated financial statements.

On behalf of the Board:



Director

Director

CONSTELLATION SOFTWARE INC.

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

Years ended December 31, 2009 and 2008

	2009	2008
Revenue	$ 437,940	$ 330,532
Cost of revenue	166,607	124,690
	271,333	205,842
Research and development	65,632	48,224
Sales and marketing	45,174	37,693
General and administration	72,401	55,585
Depreciation	3,811	3,642
	187,018	145,144
Income before the undernoted	84,315	60,698
Amortization of intangible assets	60,588	42,635
Other expenses (note 17)	996	413
Interest expense, net	2,702	1,115
Foreign exchange (gain) loss	2,568	(455)
Income before income taxes	17,461	16,990
Income taxes (recovery) (note 18):		
Current	15,635	5,181
Future	(8,398)	(3,185)
	7,237	1,996
Net income	$ 10,224	$ 14,994
Income per share (note 19):		
Basic	$ 0.48	$ 0.71
Diluted	0.48	0.71
Weighted average number of shares outstanding (note 19):		
Basic	21,165	21,140
Diluted	21,192	21,192
Outstanding at the end of the period	21,192	21,192

See accompanying notes to consolidated financial statements.

CONSTELLATION SOFTWARE INC.

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

Years ended December 31, 2009 and 2008

	2009	2008
Retained earnings (deficit), beginning of period	$ 3,931	$ (7,249)
Net income	10,224	14,994
Dividends	(4,577)	(3,814)
Retained earnings, end of period	$ 9,578	$ 3,931

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

Years ended December 31, 2009 and 2008

	2009	2008
Net Income	$ 10,224	$ 14,994
Other comprehensive net income, net of tax:		
Net unrealized mark-to-market adjustment gain (loss) on available-for-sale financial assets during the period (taxes - nil)	4,853	(1,518)
Net unrealized foreign exchange adjustment gain (loss) on available-for-sale financial assets during the period (taxes - nil)	426	(2,107)
Transfer of unrealized gain from prior periods upon derecognition of available-for-sale investments (taxes - nil)	-	(39)
Amounts reclassified to earnings during the period (taxes - nil)	1,474	-
Foreign currency translation adjustment	(9)	-
Comprehensive income	$ 16,968	$ 11,330

See accompanying notes to consolidated financial statements.

CONSTELLATION SOFTWARE INC.

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

Years ended December 31, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Net income	$ 10,224	$ 14,994
Adjustments to reconcile net income to net cash flows from operations:		
Depreciation	3,811	3,642
Amortization of intangible assets	60,588	42,635
Non-cash interest	(167)	(153)
Future income taxes	(8,398)	(3,185)
Other	1,486	413
Foreign exchange (gain) loss	3,689	(423)
Change in non-cash operating working capital (note 23)	11,415	4,845
Cash flows from operating activities	82,648	62,768
Cash flows from (used in) financing activities:		
Increase (decrease) in other long-term liabilities	(661)	297
Increase (decrease) in bank indebtedness	(17,100)	40,858
Credit facility financing fees	(1,070)	(1,268)
Dividends	(4,577)	(3,814)
Repayment of shareholder loans (note 16)	362	959
Cash flows from (used in) financing activities	(23,046)	37,032
Cash flows from (used in) investing activities:		
Acquisition of businesses, net of cash acquired (note 10)	(37,905)	(62,134)
Acquisition holdback payments	(4,166)	(8,736)
Investment in VCG LLC	-	(85)
Additions to short-term investments, marketable securities and other assets	(7,032)	(12,379)
Increase in restricted cash	(1,479)	-
Increase in other assets	(112)	(1,442)
Property and equipment purchased	(3,506)	(2,771)
Cash flows used in investing activities	(54,200)	(87,547)
Effect of currency translation adjustment on cash and cash equivalents	(2,558)	(1,644)
Increase in cash and cash equivalents	2,844	10,609
Cash, beginning of period	30,405	19,796
Cash, end of period	$ 33,249	$ 30,405
Supplemental cash flow information:		
Income taxes paid	$ 15,526	$ 3,791
Interest paid	3,663	1,821
Investment tax credits received	1,780	908
Interest received	752	660

See accompanying notes to consolidated financial statements.

Constellation Software Inc. (the "Company"), through its subsidiaries, is engaged in the development, installation and customization of software relating to: public and para transit operators, school transportation and administration, justice, asset management, utilities, local government, law enforcement, public housing, production homebuilders, private clubs, general construction, healthcare food services, and manufacturing, and in the provision of related professional services and support.

1. Significant accounting policies:

(a) Basis of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All significant intercompany transactions and balances have been eliminated. During the year, the Company completed certain acquisitions as described in note 10 to these consolidated financial statements. The results of operations of these acquired companies have been included in these consolidated financial statements from the date of acquisition.

(b) Revenue recognition:

The Company earns revenue from licencing its products and providing related services, including professional services, maintenance and hardware.

The Company recognizes product revenue when it has an executed licence agreement, the software product has been delivered, the amount of the fee to be paid by the customer is fixed and determinable, and collection of the related receivables is deemed probable.

Typically, software licence agreements are multiple element arrangements as they may also include maintenance, professional services, and hardware. The Company evaluates these contracts to determine whether the professional services are essential to the functionality of the software, and whether the software is essential to the functionality of the hardware. Revenue from arrangements that involve professional services that are not essential to the functionality of the software, or from arrangements where software in not essential to the functionality of the hardware, is allocated to each element based on either their relative fair values or by using the residual method and recognized when the above-noted revenue recognition criteria have been met for each element.

Revenue from the licence of software products involving significant implementation or customization essential to the functionality of the Company's product, or from the sales of hardware where software is essential to its functionality, is recognized under either the percentage-of-completion method or if the estimated costs to complete cannot be reasonably estimated, the completed-contract method. Under the percentage-of-completion method, labour hours or milestones are used as a measure of progress toward completion. Provisions for estimated contract losses are recognized in the year the loss becomes probable and can be reasonably estimated.

Professional services revenue is recognized as such services are performed. Maintenance and warranty revenue is recognized ratably over the term of the related maintenance agreement, which is normally one year.

The timing of revenue recognition often differs from contract payment schedules, resulting in revenue that has been earned but not billed. These amounts are included in work in progress. Amounts billed in accordance with customer contracts, but not yet earned, are recorded as deferred revenue.

1. Significant accounting policies (continued):

(c) Property and equipment:

Property and equipment are recorded at cost. Depreciation is calculated using the following methods and annual rates:

Asset	Basis	Rate
Computer hardware	Declining balance and straight line	25% - 33%
Computer software	Declining balance and straight line	25% - 100%
Furniture and equipment	Declining balance and straight line	20% - 30%
Leasehold improvements	Straight line	Shorter of the estimated useful life and the term of the lease

(d) Translation of foreign currency:

The Company's functional currency is the U.S. dollar. The Company translates transactions denominated in foreign currencies other than the U.S. dollar at the exchange rates in effect on the transaction dates. Monetary assets and liabilities of the Company denominated in foreign currencies are translated into U.S. dollars at the exchange rates prevailing at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates. Exchange gains and losses resulting from transactions denominated in currencies other than the U.S. dollar are included in the results of operations for the year.

Self-sustaining subsidiaries, with economic activities largely independent of the Company, are accounted for using the current rate method. Under this method, assets and liabilities of subsidiaries denominated in a foreign currency are translated into U.S. dollars at exchange rates in effect at the balance sheet date. Revenue and expenses are translated at average exchange rates prevailing during the period. Resulting unrealized gains or losses are reported as net unrealized gains (losses) on translating financial statements of self-sustaining foreign operations in the consolidated statements of comprehensive income.

The accounts of foreign subsidiaries, which are financially or operationally dependent on the Company, are accounted for using the temporal method. Under this method, monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date, and nonmonetary assets and liabilities are translated at historical exchange rates. Revenue and expenses are translated at average rates for the period. Translation exchange gains or losses of such subsidiaries are reflected in the results of operations for the year.

1. Significant accounting policies (continued):

(e) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the year that includes the date of enactment or substantive enactment.

The Company records an income tax expense or recovery based on the income earned or loss incurred in each tax jurisdiction and the substantively enacted tax rate applicable to that income or loss. In ordinary course of business, there are many transactions for which the ultimate tax outcome is uncertain. The final tax outcome of these matters may be different from the estimates originally made by management in determining the Company's income tax provisions. The Company recognizes a tax benefit when it is more-likely-than-not based on the Company's best estimate of the amount that will ultimately be paid. A change to those estimates could impact the income tax provision and net income.

(f) Research and development:

Research expenditures are expensed as incurred. Development costs are expensed in the year incurred unless management believes they meet the criteria set out under Canadian generally accepted accounting principles for deferral and amortization. To date, no development costs have been capitalized.

(g) Investment tax credits:

Investment tax credits are accounted for as a reduction of the related expenditure for items of a current expense nature or as a reduction of property and equipment for items of a capital nature when the Company has reasonable assurance that the credit will be realized. As at December 31, 2009, investment tax credits recoverable totalled $4,383 (2008 - $3,312) and for the year ended December 31, 2009 investment tax credits received totalled $1,780 (2008 - $908).

(h) Investments:

Investments over which the Company does not have significant influence are classified as available-for-sale and are recorded at fair value.

1. Significant accounting policies (continued):

(i) Goodwill:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the tangible and intangible assets acquired, less liabilities assumed, based on their fair values. When the Company enters into a business combination, the purchase method of accounting is used. Goodwill is assigned as of the date of the business combination to reporting units that are expected to benefit from the business combination.

Goodwill is not amortized but instead is tested for impairment annually or more frequently, if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit, including goodwill, is compared with its fair value. When the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case, the implied fair value of the reporting unit's goodwill, determined in the same manner as the value of goodwill as determined in a business combination, is compared with its carrying amount to measure the amount of the impairment loss, if any.

The Company has tested goodwill for impairment at December 31, 2009 and 2008, and determined that no impairment in the carrying value of these assets existed.

(j) Intangible assets:

Intangible assets acquired individually or as part of a group of other assets are initially recognized and measured at cost. The cost of a group of intangible assets acquired in a transaction, including those acquired in a business combination that meet the specified criteria for recognition apart from goodwill, is allocated to the individual assets acquired based on their relative fair values.

Intangible assets with finite useful lives are amortized on a straight-line basis over their useful lives. The estimated useful lives of intangible assets, which are reviewed annually, are as follows:

Technology assets	4 to 12 years
Non-compete agreements	Life of agreement
Customer assets	3 to 12 years
Trademarks	15 years
Backlog	Life of agreement
Contract related assets	Life of agreement

1. Significant accounting policies (continued):

(k) Impairment of long-lived assets:

Long-lived assets, which comprise property and equipment and intangible assets, are amortized over their useful lives. The Company reviews long-lived assets for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of a group of assets is less than its carrying amount, it is considered to be impaired. An impairment loss is measured as the amount by which the carrying amount of the group of assets exceeds its fair value. At December 31, 2009 and 2008, no such impairment had occurred.

(l) Inventory:

Inventory is valued on a first-in, first-out basis at the lower of cost and net realizable value. Cost includes direct materials, labor and overhead. In determining the net realizable value, the Company considers factors such as shrinkage, the aging of and future demand for the inventory, contractual arrangements with customers, and its ability to redistribute inventory to other programs or return inventory to suppliers.

(m) Deferred charges:

The direct costs paid to lenders to obtain revolving credit facilities are capitalized as a contract related asset and amortized on a straight-line basis over the life of the debt to which they relate.

(n) Guarantees:

The Company is required to disclose significant information about certain types of guarantees that it has provided, including certain types of indemnities and indirect guarantees of indebtedness to others, without regard to the likelihood of whether it will have to make any payments under the guarantees.

(o) Deferred leasehold inducements:

Leasehold inducements are deferred and amortized against rent expense on a straight-line basis over the terms of the lease.

1. Significant accounting policies (continued):

(p) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

Accounts receivable are reported after evaluation as to their collectibility, and an appropriate allowance for doubtful accounts is provided where considered necessary.

In connection with revenue recognition and work in progress, the Company is required to make ongoing estimates of the amount of revenue and costs of long-term projects to customize and install software. The Company makes these assessments by measuring labour costs incurred to date and estimating the labour costs to be incurred over the life of the project.

The Company determines its provision for inventory obsolescence based upon historical experience, expected inventory turnover, inventory aging and current condition, and current and future expectations with respect to product offerings.

The Company is required to make ongoing estimates of the results of future operations as part of its assessment of the recoverability of goodwill, intangible assets, property and equipment and future income tax assets and liabilities. Significant changes in the assumptions with respect to future business plans and cash flows could result in impairment of goodwill, intangible assets, property and equipment, and future tax assets.

By their nature, these estimates are subject to measurement uncertainty and actual results could differ from these estimates.

(q) Transaction costs:

Transaction costs associated with marketable securities classified as available for sale, are added to the carrying amount of the related financial asset on initial recognition.

2. Changes in accounting policies:

(a) Financial Instruments - Disclosures:

In June 2009, the CICA amended Section 3862, "Financial Instruments - Disclosures", to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair value of assets and liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. The amendments to Section 3862 apply to the Company's December 31, 2009 financial statements and did not have a material impact.

2. Changes in accounting policies (continued):

(b) Goodwill and intangible assets:

On January 1, 2009, the Company adopted CICA Handbook Section 3064, Goodwill and Intangible Assets (Section 3064). Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. The amendments did not have a material impact on the Company's December 31, 2009 financial statements.

3. Changes in accounting policies not yet adopted:

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

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

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

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

(b) Business combinations:

In January 2009, the CICA issued Handbook Section 1582, "Business combinations," which replaces the existing standards. This section establishes the standards for the accounting of business combinations, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent consideration and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. This standard is applied prospectively to business combinations with acquisition dates on or after January 1, 2011. Earlier adoption is permitted. The Company has elected to early adopt this standard and apply to all business combinations with acquisition dates on or after January 1, 2010.

3. Changes in accounting policies not yet adopted (continued)

(c) Consolidated financial statements:

In January 2009, the CICA issued Handbook Section 1601, "Consolidated financial statements," which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for 2011. Earlier adoption is permitted. The Company will early adopt this standard effective January 1, 2010.

(d) Noncontrolling interests in consolidated financial statements:

In January 2009, the CICA issued Handbook Section 1602, "Noncontrolling interests in Consolidated Financial Statements". This section specifies that noncontrolling interests be treated as a separate component of equity, not as a liability or other item outside of equity. Section 1602 is effective for periods beginning on or after January 1, 2011 and will be applied prospectively to all noncontrolling interests, including any that arose before the effective date. The Company will early adopt this standard effective January 1, 2010.

(e) Multiple deliverable revenue arrangements:

In December 2009, the CICA issued EIC 175, "Multiple deliverable revenue arrangements". EIC 175 is effective for periods beginning on or after January 1, 2011 and will be applied prospectively to all arrangements, including any that arose before the effective date. Earlier adoption is permitted. The Company will consider the impact of adopting this standard on its future consolidated financial statements.

4. Restricted cash:

At December 31, 2009, the Company has $2,229 (December 31, 2008 - $750) held in accordance with escrow agreements.

5. Short-term investments and marketable securities:

At December 31, 2009, the Company held investments in five (December 31, 2008 - three) public companies listed in the U.K., U.S. and Canada, all of which develop and sell software solutions.

	2009		2008	
	Cost	Market Value	Cost	Market Value
Common shares	$ 19,319	$ 22,323	$ 13,728	$ 9,979

6. Inventory:

	2009	2008
Raw materials	$ 7,537	$ 1,908
Work in progress	3,510	-
Finished goods	1,655	400
	$ 12,702	$ 2,308

The cost of inventories included in ‘cost of revenue’ amounted to $11,414 (2008 - $5,751).

7. Notes receivable:

On June 18, 2007, the Company entered into an agreement with VCG Inc. (subsequently VCG LLC) to purchase $4,000 senior subordinated secured notes, and then on September 22, 2008 purchased an additional $85. These notes bear interest at 12% per annum payable annually in arrears and originally matured on June 18, 2012. A note extension agreement was entered into on April 13, 2009 which extended the June 18, 2009 and June 18, 2010 interest payment dates to December 31, 2009 and December 31, 2010, respectively. The agreement also accelerated the maturity date of the principal amount of each note (together with the accrued interest on the principal amount) from June 18, 2012 to December 31, 2010 resulting in the principal amount being reclassified to current receivables at December 31, 2009.

In conjunction with these notes, the Company received share purchase warrants (the "Warrants") having the right to purchase Preferred Series C-1 shares convertible into 8.9% of the fully diluted equity interest of VCG Inc. as of September 22, 2008, subject to the terms of the Warrants. The exercise price for the Warrants is $0.00007 per share. The Warrants can be exercised at the option of the holder anytime until the expiration date of June 18, 2017.

The Warrant component of this instrument constitutes a derivative, and thus under Canadian GAAP must be valued separately from the value of the notes. The Company allocated the total consideration paid to the notes and warrants using the residual method. The fair value of the Warrants was determined using the Black-Scholes option-pricing model. On June 18, 2007, the following assumptions were used to value the Warrants: risk-free interest rate of 4.53%, volatility of 89%, share price of $0.51, expected life of 10 years and zero dividend yield. This resulted in the allocation of $571 to the Warrants and $3,429 to the notes receivable. The value assigned to the Warrants acquired on September 22, 2008 was $50. Canadian GAAP requires the warrants to be carried at fair value with changes recorded in the Statement of Operations. At December 31, 2008, the Black-Scholes assumptions were updated as follows: risk-free interest rate of 2.97%, volatility of 84%, share price of $0.16, expected life of 8.5 years and zero dividend yield. The revised assumptions resulted in a $421 reduction in the value assigned to the Warrants and a charge to the Statement of Operations. At December 31, 2009, the Black-Scholes assumptions were updated as follows: risk-free interest rate of 3.55%, volatility of 84%, share price of $0.16, expected life of 8.25 years and zero dividend yield. The revised assumptions resulted in no change to the value assigned to Warrants as at December 31, 2009.

The note component is recorded at amortized cost with an effective interest rate of 16.55% (2008 - 15.30%). For the year ended December 31, 2009, the Company recorded interest income related to carrying value accretion of $190 (2008 - $118).

As at December 31, 2009, there has been no change in the fair value of the notes receivable other than the adjustment for accretion interest.

8. Other long-term assets:

		2009		2008
Share purchase warrants (note 7)	$	200	$	200
Acquired contract assets (i)		7,602		1,450
Other (ii)		3,605		2,006
	$	11,407	$	3,656

(i) Long-term contracts acquired in a business combination are assigned a fair value at the date of acquisition based on the remaining amounts to be billed under the contract, reduced by the estimated costs to complete the contract and an allowance for normal profit related to the activities that will be performed after the acquisition. The resulting amount is recorded as an asset when billings are in excess of costs plus the allowance for normal profit on uncompleted contracts.

Each period subsequent to acquisition, the asset is reduced by actual billings and increased by actual expenses incurred plus the profit margin recorded in the Statement of Operations.

(ii) Other primarily consists of long-term accounts receivables.

9. Other long-term liabilities:

		2009		2008
Acquisition holdback payments	$	2,537	$	772
Acquired contract liabilities (i)		41,772		6,668
Other (ii)		2,839		3,006
Acquired liabilities (iii)		6,212		-
	$	53,360	$	10,446

(i) Long-term contracts acquired in a business combination are assigned a fair value at the date of acquisition based on the remaining amounts to be billed under the contract, reduced by the estimated costs to complete the contract and an allowance for normal profit related to the activities that will be performed after the acquisition. The resulting amount is recorded as a liability when costs plus the allowance for normal profit are in excess of billings on uncompleted contracts.

Each period subsequent to acquisition, the liability is increased by actual billings and decreased by actual expenses incurred plus the profit margin recorded in the Statement of Operations.

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

(iii) These liabilities are a component of the Public Transit Solutions business acquired on November 2, 2009 (note 10(a)). Due to the proximity of the acquisition to year end, management is in the process of determining the fair value of assets and liabilities acquired.

10. Business acquisitions:

2009

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

Assets acquired:		
Cash	$	10,527
Other current assets		48,145
Property and equipment		210
Other long-term assets		9,906
		68,788
Liabilities assumed:		
Current liabilities		24,788
Deferred revenue		7,110
Other long-term liabilities		34,063
		65,961
Total purchase price consideration	$	2,827

This acquisition has been allocated to the Public Sector.

In addition to the assets acquired and liabilities assumed as noted above, the Company also acquired contingent liabilities related to certain long-term contracts that may, but are unlikely to, exceed $6,000 in the aggregate. As the likelihood of loss is not determinable, these amounts have not been recorded in the financial statements.

10. Business acquisitions (continued):

The Company determined that restructuring actions were required to improve the overall utilization and reduce overhead costs at PTS. Restructuring actions include consolidating facilities and reducing the workforce. The majority of the employees terminated are development and production employees in Switzerland and the workforce reductions are expected to be complete by June 2010. Management is still in the process of reprioritizing development efforts and assessing customer commitments, the result of which may impact the final restructuring activity. On a quarterly basis, management will conduct an evaluation of the remaining balances relating to the workforce reduction and revise assumptions and estimates as appropriate. Any changes in estimates will be recorded as an adjustment to the purchase price allocation.

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

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

		Restructuring Liability
Opening balance, November 2, 2009	$	6,977
Cash payments		(567)
Reversals		-
Foreign exchange		(120)
Ending balance, December 31, 2009	$	6,290

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

10. Business acquisitions (continued):

(b) On September 2, 2009, the Company acquired the Resource Management ("RM") Business from Medisolution Ltd. for aggregate cash consideration of $27,762 plus cash holdbacks of $1,359 resulting in total consideration of $29,121. The holdbacks are payable over a one-year period and are adjusted for any claims under the representations and warranties of the agreements. The RM business provides ERP software, solutions and services to healthcare and service sector customers across North America. The acquisition has been accounted for using the purchase method with the results of operations included in these consolidated financial statements from the date of acquisition. The following table summarizes the aggregate preliminary estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

Assets acquired:		
Current assets	$	6,516
Property and equipment		222
Other long-term assets		72
Technology assets		18,416
Customer assets		7,952
Backlog		1,081
		34,259
Liabilities assumed:		
Current liabilities		1,816
Deferred revenue		3,160
Other long-term liabilities		162
		5,138
Total purchase price consideration	$	29,121

This acquisition has been allocated to the Public Sector.

10. Business acquisitions (continued):

(c) During the twelve months ended December 31, 2009, the Company made a further eleven acquisitions for aggregate cash consideration of $18,320 plus cash holdbacks of $4,099 resulting in total consideration of $22,419. The holdbacks are payable over a three-year period ending August 3, 2012 and are adjusted for claims under the representations and warranties of the agreements. In addition there is consideration payable in the amount of $1,500, contingent on the achievement of certain revenue targets. The amount will be recorded if and when it becomes determinable. The acquisitions have been accounted for using the purchase method with the results of operations included in these consolidated financial statements from the date of each acquisition. The following table summarizes by reportable segment the aggregate preliminary estimated fair value of the assets acquired and liabilities assumed at the date of each acquisition:

	Public Sector	Private Sector	Consolidated
Assets acquired:			
Cash	$ 40	$ 437	$ 477
Other current assets	886	3,641	4,527
Property and equipment	131	967	1,098
Future income taxes	-	267	267
Technology assets	6,570	13,828	20,398
Customer assets	2,164	3,349	5,513
Goodwill	201	849	1,050
	9,992	23,338	33,330
Liabilities assumed:			
Current liabilities	490	2,844	3,334
Deferred revenue	2,108	3,134	5,242
Future income taxes	310	2,025	2,335
	2,908	8,003	10,911
Total purchase price consideration	$ 7,084	$ 15,335	$ 22,419

10. Business acquisitions (continued):

2008

(d) On September 30, 2008, the Company acquired certain assets and liabilities of Maximus Inc.'s Justice, Education, and Asset Solutions businesses for aggregate net cash consideration of $34,176. The acquisition has been accounted for using the purchase method with the results of operations included in these consolidated financial statements from the date of acquisition. The following table summarizes the impact of adjustments to the purchase price and the aggregate fair value of the assets acquired and liabilities assumed at the date of acquisition:

	As of Sep. 30, 2008	Purchase Price Adjustments	As of Dec. 31, 2009 (Recast)
Assets acquired:			
Current assets	$ 19,626	$ (2,638)	$ 16,988
Property and equipment	1,172	(30)	1,142
Other long-term assets	-	998	998
Technology assets	-	36,592	36,592
Customer assets	-	28,935	28,935
Backlog	-	3,574	3,574
Intangibles	50,121	(50,121)	-
	70,919	17,310	88,229
Liabilities assumed:			
Current liabilities	7,332	1,813	9,145
Future income taxes	-	1,501	1,501
Deferred revenue	23,387	3,962	27,349
Other long-term liabilities	-	16,058	16,058
	30,719	23,334	54,053
Total purchase price consideration	$ 40,200	$ (6,024)	$ 34,176

This acquisition has been allocated to the Public Sector.

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

- At September 30, 2008, the Company was in the process of determining the fair value of the intangible assets. Amounts were subsequently valued and allocated to Technology assets, Customer assets and Backlog.
- Adjustments to deferred revenue were made based on revisions to cost to complete estimates.
- Revisions to the remaining amounts to be billed under certain contracts plus increases in cost to complete estimates resulted in an increase in other long-term liabilities.
- The actual consideration paid was reduced by $6,000 after adjusting for claims under the representations and warranties of the agreement.

10. Business acquisitions (continued):

In addition to the assets acquired and liabilities assumed as noted above, the Company also acquired contingent liabilities related to certain long-term contracts that may, but are unlikely to, exceed $11,000 in the aggregate. As the likelihood of loss is not determinable, these amounts have not been recorded in the financial statements.

Purchase equation amounts determined as of September 30, 2009 have been recast in the current period for adjustments relating to immaterial errors.

10. Business acquisitions (continued):

(e) During 2008, the Company made a further twenty acquisitions for aggregate net cash consideration of $26,910 plus cash holdbacks of $6,245 and earnout arrangements of $960 resulting in total consideration of $34,115. Holdbacks of $3,450 have subsequently been paid. The remaining holdbacks are payable over a two-year period ending January 31, 2012 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 by reportable segment the aggregate fair value of the assets acquired and liabilities assumed at the date of each acquisition:

	Public Sector	Private Sector	Consolidated
Assets acquired:			
Current assets	$ 8,789	$ 297	$ 9,086
Property and equipment	810	158	968
Future income taxes	950	148	1,098
Technology assets	25,140	4,397	29,537
Customer assets	9,048	1,870	10,918
Non-compete agreements	-	1,000	1,000
Backlog	2,499	-	2,499
Goodwill	2,661	-	2,661
	49,897	7,870	57,767
Liabilities assumed:			
Current liabilities	3,575	80	3,655
Deferred revenue	12,510	722	13,232
Future income taxes	5,949	776	6,725
Long-term liabilities	-	40	40
	22,034	1,618	23,652
Total purchase price consideration	$ 27,863	$ 6,252	$ 34,115

11. Property and equipment:

2009	Cost	Accumulated depreciation	Net book value
Computer hardware	$ 18,612	$ 12,984	$ 5,628
Computer software	6,549	5,242	1,307
Furniture and equipment	7,399	5,320	2,079
Leasehold improvements	3,667	2,142	1,525
	$ 36,227	$ 25,688	$ 10,539

2008	Cost	Accumulated depreciation	Net book value
Computer hardware	$ 14,951	$ 10,663	$ 4,288
Computer software	5,121	4,274	847
Furniture and equipment	6,743	4,294	2,449
Leasehold improvements	3,361	1,564	1,797
	$ 30,176	$ 20,795	$ 9,381

12. Intangible assets:

2009	Cost	Accumulated amortization	Net book value
Technology assets	$ 250,774	$ 120,686	$ 130,088
Non-compete agreements	4,544	3,119	1,425
Customer assets	85,986	31,669	54,317
Trademarks	133	112	21
Backlog	7,714	7,714	-
Contract related assets	2,910	973	1,937
	$ 352,061	$ 164,273	$ 187,788

2008	Cost	Accumulated amortization	Net book value
Technology assets	$ 176,042	$ 78,135	$ 97,907
Non-compete agreements	2,680	1,797	883
Customer assets	43,089	15,719	27,370
Trademarks	133	101	32
Backlog	4,903	3,831	1,072
Contract related assets	1,840	294	1,546
Other	63,071	3,811	59,260
	$ 291,758	$ 103,688	$ 188,070

At December 31, 2008, "Other" includes intangible assets relating to the preliminary purchase price allocation for the acquisition of Maximus Inc.'s Justice, Education, and Asset Solutions businesses. During 2009, in connection with the finalization of the purchase price, the amount was reclassified (see note 10(d)).

13. Goodwill:

	2009	2008
Opening balance	$ 39,937	$ 28,594
Additions due to acquisitions during the year	1,050	2,661
Allocation of intangibles previously classified as "Other"	-	7,876
Adjustments relating to prior period acquisitions	(10)	806
Ending balance	$ 40,977	$ 39,937

14. Credit facilities:

The Company has an operating line-of-credit with a syndicate of Canadian chartered banks and a U.S. bank in the amount of $160,000 (December 31, 2008 - $130,000). The line-of-credit bears a variable interest rate and is due in full on September 30, 2012. It is secured by a general security agreement covering the majority of the assets of the Company and its subsidiaries, and is subject to various standard debt covenants. As at December 31, 2009, $43,100 (December 31, 2008 - $60,200) had been drawn from this credit facility, and letters of credit totalling nil (December 31, 2008 - $7,000) were issued, which limits the borrowing capacity on a dollar-for-dollar basis. As the Company generates sufficient cash flows from operating activities to repay the drawn portion of the credit facility within one year, the amount drawn has been classified as current on the Balance Sheet.

15. Capital stock:

(a) The authorized share capital of the Company consists of an unlimited number of common shares and an unlimited number of Class A non-voting shares. The rights and privileges of the existing Class A non-voting shares entitle the holders of such shares to distributions, if and when declared by the Board of Directors. The holders of the Class A non-voting shares are entitled to convert such shares, at any time into common shares, on a one-for-one basis.

(b) The issued share capital of the Company is as follows:

	Common shares		Class A non-voting		Total	
	Number	Amount	Number	Amount	Number	Amount
Balance, December 31, 2007 and 2008	16,903,530	$ 84,762	4,288,000	$ 14,521	21,191,530	$ 99,283
Conversion of Class A non-voting	600,000	2,032	(600,000)	(2,032)	-	-
Balance, December 31, 2009	17,503,530	$ 86,794	3,688,000	$ 12,489	21,191,530	$ 99,283

During 2009, 600,000 Class A non-voting shares were converted to common shares on a one-for-one basis.

16. Shareholder loans:

Share purchase loans receivable under the Company's share purchase plan are included as a reduction of shareholders' equity. Interest rates on these loans range from 5.0% to 6.5% depending on the year the loan was advanced. The balances outstanding are secured by the shares for which they were used to purchase. At December 31, 2009, the market value of the shares held as collateral was $4,551 (December 31, 2008 - $3,521).

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

	2009	2008
Balance, January 1	$ 931	$ 1,915
Repayment of shareholder loans	(362)	(959)
Interest	36	63
Currency translation adjustment	41	(88)
Balance, December 31	$ 646	$ 931

17. Other (income) expenses:

	2009	2008
Loss (gain) on sale of short-term investments, marketable securities and other assets	$ 12	$ (8)
Loss on held for trading investments related to mark to market adjustments	-	421
Other than temporary decline in value of available for sale investments	1,474	-
Other	(490)	-
	$ 996	$ 413

18. Income taxes:

The income tax effects of temporary differences that give rise to significant components of future income tax assets and liabilities at December 31, 2009 are as follows:

	2009	2008
Future income tax assets:		
Non-capital income tax loss carryforwards	$ 4,106	$ 6,572
Scientific research and experiment development expenditure pool carryforward	1,768	895
Deferred revenue	2,782	2,911
Reserves	2,207	1,003
Property and equipment	571	806
Intangible assets	2,669	904
Corporate minimum tax and foreign tax credits	2,624	1,392
Contract assets	5,578	-
Other, including capital loss carryforwards	1,614	4,152
	23,919	18,635
Less valuation allowance	6,353	7,987
	17,566	10,648
Future income tax liabilities:		
Intangible assets	(23,596)	(25,662)
Property and equipment	(3,441)	(893)
Scientific research and experiment development investment tax credits	(1,091)	(512)
Contract liabilities	(1,057)	-
Other, including foreign exchange gains	(1,902)	(867)
	(31,087)	(27,934)
Net future income taxes	$ (13,521)	$ (17,286)
Current future income tax asset	$ 4,445	$ 3,779
Long-term future income tax asset	10,155	5,713
Current future income tax liability	-	-
Long-term future income tax liability	(28,121)	(26,778)
Net future income taxes	$ (13,521)	$ (17,286)

18. Income taxes (continued):

In assessing the realizability 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.

Total income tax expense varies from the amounts that would be computed by applying the statutory income tax rate to income before income taxes for the following reasons:

		2009		2008
Statutory income tax rate		33.00%		33.50%
Income tax expense (recovery) on income (loss) before income taxes	$	5,762	$	5,692
Increase (decrease) in income taxes resulting from:				
Effect of changes in enacted tax rates		(633)		-
Change in the valuation allowance for future tax assets		(373)		1,952
Permanent differences, including foreign exchange		5,374		(4,059)
Adjustment to future tax assets		(1,375)		(101)
Foreign tax rate differential		(4,046)		(1,744)
Other including withholding tax		2,528		256
	$	7,237	$	1,996

As at December 31, 2009, the Company has non-capital income tax losses of $ 8,309 available to reduce future years' income for Canadian income tax purposes. Canadian losses expire as follows: $2,295 in 2015; $690 in 2026; $1,290 in 2027, $3,158 in 2028, and $876 in 2029. In addition, the Company has income tax credits of $1,118 available to offset future Ontario income taxes otherwise payable, which expire as follows: $839 in 2010; $21 in 2012; $27 in 2013; $60 in 2015; and the balance in 2017.

The Company also has approximately $3,306 and $2,004 of tax losses available to reduce future years' income for tax purposes in the United States, and the rest of the world, respectively. The U.S. losses expire as follows: $195 in 2027; $196 in 2028; and the balance in 2029 and beyond; the majority of the rest of the world losses can be carried forward indefinitely.

19. Income per share:

		2009		2008
Numerator:				
Net income	$	10,224	$	14,994
Denominator:				
Weighted average number of shares:				
Basic		21,165		21,140
Effect of dilutive securities:				
Shares secured by shareholder loans		27		52
Diluted		21,192		21,192
Net income per share:				
Basic	$	0.48	$	0.71
Diluted	$	0.48		0.71

20. 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 retained earnings and capital stock.

The Company is subject to certain covenants on its 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 December 31, 2009, 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.

The Board of Directors 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.

21. 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.

21. 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		223

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:

		2009		2008
Interest expense on credit facilities (Other financial liability)	$	3,553	$	1,911
Interest income on notes receivable (Loans and receivables)		(680)		(605)
Bank interest (Held for trading)		(135)		(128)
Interest income on shareholder loans		(36)		(63)
		2,702		1,115

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.

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

Foreign currency sensitivity analysis:

The Company is mainly exposed to fluctuations in the Canadian dollar, British pound, Swiss franc, and Euro. The major currency exposures, as of December 31, 2009, 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	Swiss Franc	Euro
Cash	$ 1,641	$ 4,174	$ 978	$ 6,327
Restricted cash	-	-	-	-
Short-term investments and marketable securities available for sale	1,778	10,663	-	-
Accounts receivable	16,613	7,831	13,914	5,477
Other financial assets	11,309	908	2,602	2,786
Accounts payable and accrued liabilities	(23,319)	(9,306)	-	(2,197)
Other financial liabilities	(14,751)	(245)	(19,757)	-
Shareholder loans	125	35	-	-
Net financial assets	$ (6,604)	$ 14,060	$ (2,263)	$ 12,392

The following table details the Company's sensitivity, with regards to the above net asset position, to a 1% strengthening of the Canadian dollar, British pound, Swiss Franc, and Euro 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 against the U.S. dollar, there would be an equal and opposite impact on net income and comprehensive income.

	Canadian Dollar	British Pound	Swiss Franc	Euro
Net income	$ (84)	$ 34	$ (23)	$ 124
Comprehensive income	(66)	141	(23)	124

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

(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 20 to the 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 14 to the consolidated financial statements. As at December 31, 2009, the undrawn portion of the Company's bank credit facility was $116,900. Utilizations include advances borrowed under the bank credit facility.

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.

(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 majority of the accounts receivable balance relates to maintenance invoices to customers that have a history of payment. In addition a large proportion of the Company's accounts receivable is with government agencies. As at December 31, 2009, 24% of the Company's accounts receivable balance is over 90 days past due versus 32% at December 31, 2008. Accounts receivable are net of allowance for doubtful accounts of $5,618 at December 31, 2009 (December 31, 2008 - $4,202).

There is no concentrations of credit risk because of the Company's diverse number of customers.

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.

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

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 consolidated balance sheets related to these types of indemnifications or guarantees at December 31, 2009.

(e) Financial instruments:

(i) Classification of financial instruments

	Classification	**Measurement**
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
Long-term accounts receivable	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 and acquisition holdbacks, 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).

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 December 31, 2009, there was a decrease of $421 in the fair value of the warrants from the fair value assigned on acquisition.

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

(f) Fair value measurements:

Effective December 31, 2009, the Company adopted the amendment issued by the CICA to Handbook Section 3862, "Financial instruments - disclosures," which requires enhanced disclosures on fair value measurements of financial instruments. The amendment establishes a three-level fair value hierarchy that reflects the significance of the inputs used to measure fair value. The three levels of fair value hierarchy based on the reliability of inputs are as follows:

- level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- level 2 inputs are inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly (i.e. prices) or indirectly (i.e. derived from prices); and
- level 3 inputs are inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

In the table below, the Company has segregated all financial assets and liabilities that are measured at fair value into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date. The Company has no financial assets or liabilities measured using level 3 inputs.

Financial assets measured at fair value as at December 31, 2008 and 2009 in the financial statements are summarized below. The Company has no financial liabilities measured at fair value.

	2009			2008		
	Level 1	Level 2	Total	Level 1	Level 2	Total
Assets:						
Restricted cash	$ 2,229	$ -	$ 2,229	$ 750	$ -	$ 750
Short term investments and marketable securities	22,323	-	22,323	9,979	-	9,979
Share purchase warrants	-	200	200	-	200	200
	$ 24,552	$ 200	$24,752	$ 10,729	$ 200	$ 10,929

There were no transfers of fair value measurements between level 1 and level 2 of the fair value hierarchy in 2008 and 2009.

22. 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 these audited financial statements. The Company evaluates performance of the Public Sector businesses and the Private Sector businesses based on several factors, of which the primary financial measures are revenue and earnings (loss) from operations. The Company defines earnings (loss) from operations as earnings (loss) prior to: amortization of intangible assets, (gain) loss on sale of short-term investments and marketable securities and other assets, interest expense (income), foreign exchange gains and losses, inter-company expenses and income taxes.

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

22. Segmented information (continued):

(a) Reportable segments:

2009	Public Sector	Private Sector	Other	Total
Revenue	$ 336,619	$ 101,321	$ -	$ 437,940
Cost of revenue	135,521	31,086	-	166,607
	201,098	70,235	-	271,333
Research and development	50,363	15,269	-	65,632
Sales and marketing	32,124	13,050	-	45,174
General and administration	52,995	19,406	-	72,401
Depreciation	2,781	1,030	-	3,811
	138,263	48,755	-	187,018
Income before the undernoted	62,835	21,480	-	84,315
Amortization of intangible assets	46,340	13,570	678	60,588
Other (income) expenses	(493)	48	1,441	996
Interest (income) expense, net	(69)	(27)	2,798	2,702
Foreign exchange loss (gain)	2,227	5,122	(4,781)	2,568
Inter-company expenses (income)	3,462	3,631	(7,093)	-
Income before income taxes	11,368	(864)	6,957	17,461
Income taxes (recovery):				
Current	11,014	4,001	620	15,635
Future	(6,354)	(2,044)	-	(8,398)
	4,660	1,957	620	7,237
Net Income (loss)	$ 6,708	$ (2,821)	$ 6,337	$ 10,224
Other selected information:				
Goodwill acquired	$ 201	$ 849	$ -	$ 1,050
Property and equipment purchased	$ 2,865	$ 618	$ 23	$ 3,506
Total assets	$ 333,463	$ 104,254	$ 42,772	$ 480,489

22. Segmented information (continued):

2008	Public Sector	Private Sector	Other	Total
Revenue	$ 230,769	$ 99,763	$ -	$ 330,532
Cost of revenue	93,704	30,986	-	124,690
	137,065	68,777	-	205,842
Research and development	32,973	15,251	-	48,224
Sales and marketing	24,404	13,289	-	37,693
General and administration	36,941	18,644	-	55,585
Depreciation	2,611	1,031	-	3,642
	96,929	48,215	-	145,144
Income before the undernoted	40,136	20,562	-	60,698
Amortization of intangible assets	29,568	12,773	294	42,635
Other expenses	31	7	375	413
Interest (income) expense, net	(129)	14	1,230	1,115
Foreign exchange loss (gain)	705	(2,505)	1,345	(455)
Inter-company expenses (income)	2,043	3,526	(5,569)	-
Income before income taxes	7,918	6,747	2,325	16,990
Income taxes (recovery):				
Current	4,221	1,528	(568)	5,181
Future	(1,130)	(2,055)	-	(3,185)
	3,091	(527)	(568)	1,996
Net Income	$ 4,827	$ 7,274	$ 2,893	$ 14,994
Other selected information:				
Goodwill acquired	$ 2,661	$ -	$ -	$ 2,661
Property and equipment purchased	$ 1,971	$ 737	$ 63	$ 2,771
Total assets	$ 272,892	$ 79,282	$ 33,625	$ 385,799

22. 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. The property and equipment and goodwill and other intangible assets are based on the geographic region in which the Company operates:

2009	Canada	USA	UK/Europe	Other	Total
Revenue	$ 71,440	$ 301,253	$ 45,290	$ 19,957	$ 437,940
Property and equipment	4,517	4,913	1,093	16	10,539
Goodwill and other intangible assets	111,977	84,014	3,594	29,180	228,765

2008	Canada	USA	UK/Europe	Other	Total
Revenue	$ 53,453	$ 233,921	$ 35,646	$ 7,512	$ 330,532
Property and equipment	3,946	4,583	836	16	9,381
Goodwill and other intangible assets	90,981	91,837	15,236	29,953	228,007

23. Change in non-cash operating working capital:

	2009	2008
Decrease (increase) in accounts receivable	$ (3,570)	$ 8,252
Increase in work in progress	(1,450)	(1,895)
Decrease in inventory	854	41
Decrease (increase) in prepaid expenses and other current assets	(1,916)	794
Change in acquired contract assets and liabilities	2,431	(2,348)
Increase in accounts payable and accrued liabilities excluding holdbacks from acquisitions	9,378	3,878
Increase (decrease) in deferred revenue	5,067	(3,424)
Increase (decrease) in income taxes payable	621	(453)
	$ 11,415	$ 4,845

24. Change in accumulated other comprehensive loss

	2009	2008
Balance, January 1	$ (6,901)	$ (3,237)
Net unrealized mark-to-market adjustment gain (loss) on available-for-sale financial assets during the period (taxes - nil)	4,853	(1,518)
Net unrealized foreign exchange adjustment gain (loss) on available-for-sale financial assets during the period (taxes - nil)	426	(2,107)
Transfer of unrealized gain from prior periods upon derecognition of available-for-sale investments (taxes - nil)	-	(39)
Amounts reclassified to earnings during the period (taxes - nil)	1,474	-
Foreign currency translation adjustment	(9)	-
Balance, December 31	$ (157)	$ (6,901)

25. Commitments and contingencies:

Commitments:

The Company and its subsidiaries lease premises and certain equipment and automobiles under operating leases. The operating rental expense in 2009 was $9,133 (2008 - $7,589). The annual minimum lease commitments are as follows:

2010	$ 11,661
2011	8,325
2012	7,241
2013	5,833
2014	4,433
Thereafter	6,435
	$ 43,928

25. Commitments and contingencies (continued):

Contingencies:

In the normal course of operations, the Company is subject to litigation and claims from time to time. The Company may also be subject to lawsuits, investigations and other claims, including environmental, labor, product, customer disputes and other matters. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not always possible to estimate the extent of potential costs, if any, management believes that the ultimate resolution of such contingencies will not have a material adverse impact on the results of operations, financial position or liquidity.

26. Guarantees:

(a) 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 total obligations of the Company pursuant to such bonds total approximately $55,789 (2008 - $31,028). No liability has been recorded in the consolidated financial statements.

(b) As at December 31, 2009, in the normal course of business, the Company and its subsidiaries have outstanding letters of credit totalling nil (2008 - $7,000).

(c) In the normal course of business, some of the Company's subsidiaries entered into lease agreements for facilities. As the joint lessees, the subsidiaries agree to indemnify the lessor for liabilities that may arise from the use of the leased facility. The maximum amount potentially payable under the foregoing indemnity cannot be reasonably estimated. The subsidiaries have liability insurance that relates to the indemnifications.

(d) The Company and its subsidiaries have provided routine indemnifications to some of its customers against liability if the Company's product infringes on a third party's intellectual property rights. The maximum exposure from the indemnifications cannot be reasonably estimated.

27. Subsequent events:

Subsequent to December 31, 2009, the Company completed two acquisitions for cash consideration of $7,042 on closing plus holdbacks of $1,567.

Subsequent to December 31, 2009, the Company purchased an additional 14% of the common shares of UK-based Gladstone PLC ("Gladstone"). This purchase increases the Company's ownership in Gladstone to 44%. The Company is required to make a mandatory cash offer to purchase the remaining share capital of Gladstone.

On March 3, 2010 the Company declared a $0.26 per share dividend payable on March 31, 2010 to all common shareholders and Class A non-voting shareholders of record at close of business on March 17, 2010.

28. Comparative figures:

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