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

Revenue:

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, 2009	2008	2009	2008	Fiscal year ended Dec. 31, 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

	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
	Quarter Ended								
	($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'.