

\$6.8 million. It increased from \$5.1 million in the Q2 2006 period, and from \$5.2 million in Q3 2005. The Q3 Adjusted Net Income Growth rate was 30% versus Q3 of last year.

This quarter we would like to begin to explain how we think about capital allocation at Constellation. In the table, we have noted Average Invested Capital. This is a non-GAAP measure that began as an estimate of the amount of money that our shareholders had invested in Constellation. Subsequent to that estimate, each period we have kept a running tally, adding Adjusted Net Income, subtracting any dividends, adding any amounts related to share issuances, and making some small adjustments relating to our use of certain incentive programs, the amortization of impaired intangibles, etc. If you follow the math in the table above, you'll see that adding the quarterly Adjusted Net Income and subtracting dividends accounts for the vast bulk of the quarter to quarter changes in Average Invested Capital.

We keenly monitor our ability to put our shareholders' Invested Capital to work. In practice, the way we actually measure this is on a project by project basis using conventional after tax internal rates of return (IRR's). Periodically our board sets a hurdle rate, and we filter both prospective organic growth opportunities and acquisitions based upon those hurdle rates. IRR's are complex, future oriented, require judgement, and at any one time I'd estimate that we are tracking between 50 and 100 individual projects.

There is a simpler but cruder historical measure of the effectiveness of our capital allocation. Although it lacks the future orientation of IRR, it does eliminate some of the optimism that regrettably pervades future looking metrics. We take the sum of ROIC and our Organic Net Revenue Growth, and compare it to the hurdle rate set by our board. We measure ROIC or Return on Invested Capital by taking a ratio of Adjusted Net Income to Average Invested Capital. Our ROIC has bounced around between 15% and 22% (annualised) during the last 7 quarters, with arguably a slight upward trend. In and of itself, that is pretty good. However, there is a unique "kicker" to our business: We use very little capital to grow our business organically. Most of our businesses actually operate with negative tangible net assets. This means that as we grow organically, those businesses consume little or no incremental capital, and may even produce capital in excess of earnings. Unfortunately, organic growth isn't entirely free. We have to invest money in research and development, sales and marketing, etc. to get this growth. These expense items all depress Adjusted Net Income. The logical consequence, is that to get organic growth, we are willing to accept a lower ROIC.

As you can see from the table, the ROIC+OGr (annualised) has varied from 26% to 42% over the last 7 quarters. We are delighted with this level of performance, but are concerned that this metric continues to decline. Senior management has a very large stake in maximising both long term ROIC and Net Revenue Growth, since these two items are entirely responsible for driving their incentive compensation. Most of our other employees have incentive compensation tied to the same metrics. As we explained in our prospectus, we take capital allocation very seriously.

We have previously stated that our objective is to grow, on average, the Net Revenues per share and Adjusted EBITDA per share of Constellation by 20% per annum from January 1, 2006 to December 31, 2010. In the short term there will be economic cycles when growth slows, and others when it accelerates. We continue to believe that our objective is audacious but achievable. The IT industry is maturing, and there will eventually come a time when our targeted growth rates will no longer be achievable at attractive hurdle rates.

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.

Non-GAAP Measures

Net Revenue, Net Maintenance Revenue, Adjusted Net Income and Organic Net Revenue Growth are not recognized measures under GAAP and, accordingly, shareholders are cautioned that Net Revenue, Net Maintenance Revenue, Adjusted Net Income and Organic Net Revenue Growth should not be construed as alternatives to revenue or net income determined in accordance with GAAP as an indicator of the financial performance of the Company or as a measure of the Company's liquidity and cash flows. The Company's method of calculating Net Revenue, Net Maintenance Revenue, Adjusted Net Income and Organic Net Revenue Growth may differ from other issuers and, accordingly, may not be comparable to similar measures presented by other issuers.

Mark Leonard
President
November 8, 2006

CONSTELLATION SOFTWARE INC.

TO OUR SHAREHOLDERS

We had a 1% quarterly decline in Revenue in Q4 compared to Q3, but our profitability improved. The year over year Q4 growth rate in Revenue was 20%, which was composed of approximately 1% Organic Growth and 19% acquired growth. Contraction in our Private Sector Revenue, especially within our software businesses involved in the building products and housing industries, continued to depress our overall Organic Growth rates. The deterioration in the acquired Revenue growth rate was a function of the reduction in our acquisition activity during much of the latter part of 2006. In early March 2007, we closed the acquisition of PG Govern. We expect that it will contribute significantly to our acquired growth in 2007.

While the economic slow-down in housing and building products may account for deteriorating Organic Revenue growth rates in our Private Sector Segment, it doesn't explain why our Public Sector Segment experienced only 5% Organic Revenue Growth in Q4. My sense is that, Constellation-wide, we are experiencing a secular change. We first broke out our Organic Growth Initiatives from our Core operating businesses in 2003. Many of our Initiatives have since experienced rapid Revenue growth, but most of them have required more investment than was originally forecast. Not surprisingly, we are now investing less in the creation of new Initiatives than we did when we first started tracking them. The likely consequence of lower investment levels, is that we will not keep pace with our historical (2002-2005) Organic Revenue Growth rate of 12%. Achieving an Organic Revenue Growth rate of between 5% and 10% for the January 1, 2006, through December 31, 2010, period is more realistic. This is lower than originally contemplated, and we intend to make up the short-fall by increasing our Revenue growth from acquisitions. Theoretically, shifting investment from Organic Growth to acquired growth should generate higher operating margins and Adjusted Net Income margins.

The table below incorporates a number of CSI metrics which we like to use to monitor the performance of our businesses. We have explained how most of these metrics are calculated in our previous quarterly reports to shareholders, but have also included a summary in Schedule A hereto. We have added one new metric: "Tangible Net Assets / Net Revenue", which is explained below.

	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006
(\$ millions, except percentages)								
Revenue	37.5	40.7	42.6	44.6	51.2	52.2	53.8	53.5
Net Revenue	34.5	37.0	39.0	39.8	46.0	47.3	48.4	48.6
Net Maintenance Revenue	19.3	20.7	21.7	23.0	26.0	26.9	28.1	29.6
Adjusted Net Income	3.8	4.1	5.2	4.1	5.1	5.1	6.8	9.0
Net Income / (Loss)	1.1	(3.5)	2.1	0.8	(8.7)	1.3	2.3	3.8
Net Revenue Growth (Y/Y)	62%	51%	47%	35%	33%	28%	24%	22%
Net Maintenance Growth (Y/Y)	72%	57%	48%	52%	35%	30%	30%	29%
Organic Net Revenue Growth (Y/Y)	22%	18%	22%	13%	14%	12%	5%	3%
Average Invested Capital	96	100	105	109	114	119	125	135
Tangible Net Assets / Net Revenue	(76%)	(71%)	(67%)	(66%)	(57%)	(55%)	(54%)	(54%)
ROIC (Annualized)	16%	16%	20%	15%	18%	17%	22%	27%
ROIC + Organic Net Revenue Growth	38%	34%	42%	28%	32%	29%	26%	30%

In Q4 2006, our Net Revenue increased to \$48.6 million compared with \$48.4 million in Q3 2006 and to \$39.8 million in the Q4 2005 period. The Q4 Net Revenue growth rate year over year was 22%. The Net Revenue growth rate has declined for 8 successive quarters, primarily for the reasons outlined above.

Net Maintenance Revenue continued to grow in Q4 2006 at a rate of 29% compared to Q4 of 2005. Measured versus Q3 2006, the annualized growth rate in Q4 2006 Net Maintenance Revenue was 22%. As we have mentioned previously, we believe that Net Maintenance Revenue is one of the best indicators of the intrinsic value of a software company. Despite the decline in Revenue for Q4, we are comforted that Net Maintenance Revenue continues to increase at an attractive rate.

Adjusted Net Income is derived by adjusting GAAP net income for the non-cash amortization of intangibles and charges related to the appreciation in common shares eligible for redemption (a charge

that is no longer incurred now that Constellation's common shares are publicly traded). We use Adjusted Net Income for this shareholders' report because it is usually a better measure of cash flow than GAAP Net Income, and it is closely aligned with the calculation of Net Income that we use for bonus purposes. In Q4, our Adjusted Net Income was \$9.0 million. It increased from \$6.8 million in the Q3 2006 period, and from \$4.1 million in Q4 2005. The Q4 Adjusted Net Income Growth rate was 117% versus Q4 of last year.

Due to our improved Adjusted Net Income, our annualized ROIC + Organic Net Revenue Growth metric continued at acceptable levels despite our declining Organic Growth.

We calculate Tangible Net Assets or "TNA" by taking Total Assets for GAAP purposes, and subtracting 1) Intangible assets, 2) cash, and 3) all customer, trade and government liabilities that do not bear a coupon. In our last quarterly report to shareholders, we maintained that ROIC + Organic Net Revenue Growth was a reasonable proxy for the IRR that we are generating on our Shareholders' Invested Capital. The addition of Organic Growth to this equation assumes that we do not require additional TNA to generate Organic Growth. If this assumption is wrong, and we instead require significant TNA to generate Organic Growth, then Organic Growth becomes much less attractive. As you can see from the table, TNA expressed as a percentage of Net Revenues is negative, which is what we had assumed in the ROIC + Organic Net Revenue Growth discussion. Unfortunately, TNA is not as negative as it used to be, so we need to be wary that our asset intensity is increasing.

We have previously stated that our objective is to grow, on average, the Net Revenues per share and Adjusted EBITDA per share of Constellation by 20% per annum from January 1, 2006 to December 31, 2010. We continue to believe that our objective is achievable, but we now believe that a higher proportion of that growth will need to come from acquired growth than we had originally anticipated.

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.

Non-GAAP Measures

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Mark Leonard
President
March 7th, 2007

SCHEDULE A

PERFORMANCE METRICS

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

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

“Adjusted Net Income” is derived by adjusting GAAP net income for the non-cash amortization of intangibles and charges related to appreciation in common shares eligible for redemption (a charge that is no longer incurred now that Constellation’s common shares are publicly traded). We use Adjusted Net Income because it is generally a better measure of cash flow than GAAP net income and it is closely aligned with the calculation of net income we use for bonus purposes.

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

“Tangible Net Assets / Net Revenue” provides a measure of our Tangible Net Assets as a proportion of Net Revenue. Tangible Net Assets is calculated by taking Total Assets for GAAP purposes, and subtracting (i) Intangible assets, (ii) cash, and (iii) all customer, trade and government liabilities that do not bear a coupon.

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

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

CONSTELLATION SOFTWARE INC.

TO OUR SHAREHOLDERS

As you will read in our interim MD&A, and as you can see in the table of appended Performance Metrics, our year over year Revenue growth rate slowed in Q1 2007 to 9%, a level that concerns us. The primary reason for the low growth in Revenue was a 1% contraction in Organic Revenue compared to the same period in 2006. One of the causes of declining Organic Revenue is outside of our control: U.S. housing starts declined approximately 28% in Q1 2007 compared to the same period in 2006, and that seems to have depressed spending amongst our homebuilding, construction and building products related customers. For the most part, we are pleased with how our homebuilding and related businesses have responded to the tougher operating environment. We continue to seek acquisition prospects among software companies that service these currently depressed markets.

In addition to the downturn in the homebuilding and related sectors, I believe that our Initiative program also contributed to the current decline in Organic Revenue Growth. In 2003, we instituted a program to forecast and track many of the larger Initiatives that were embedded in our Core businesses (we define Initiatives as significant Research & Development and Sales and Marketing projects). Our Operating Groups responded by increasing the amount of investment that they categorized as Initiatives (e.g. a 3 fold increase in 2005, and almost another 50% increase during 2006). Initially the associated Organic Revenue growth was strong. Several of the Initiatives became very successful. Others languished, and many of the worst Initiatives were terminated before they consumed significant amounts of capital. Examined on a portfolio basis (and to do that we still have to use forecasts, as payback in our business generally requires a 5-7 year time frame) we believe that our Initiatives have generated reasonable internal rates of return. However the Initiative returns have not been as attractive as those generated by our acquisitions. Accordingly, many of our Operating Groups have shifted more of their efforts to growth by acquisition, and have launched increasingly fewer new Initiatives over the last couple of years.

The response of our Operating Groups is what you'd like to see: Now that they have tools for tracking Initiative IRR's, they are optimizing capital allocation by pursuing better returns in the acquisition market. In principle, there is nothing wrong with this shift. In practice, dramatically fewer Initiatives could eventually lead to a loss of market share. The software business has significant economies of scale, so conceding market share to well run competitors could lead to deteriorating economics. I'm not yet worried about our declining investment in Initiatives because I believe that it will be self-correcting. As we make fewer investments in new Initiatives, I'm confident that our remaining Initiatives will be the pick of the litter, and that they are likely to generate better returns. That will, in turn, encourage the Operating Groups to increase their investment in Initiatives. This cycle will take a while to play out, so I do not expect to see increased new Initiative investment for several quarters or even years.

Organic Growth can also be driven or diminished by acquisitions. When we acquire a rapidly growing company we boost Organic Growth. When we acquire an underperforming company that needs to have some of its unpromising lines of business reduced or removed, Organic Growth suffers. History suggests that we generally grow our acquired businesses, frequently providing additional products for them to sell into their installed base, and bringing our increased scale and best practices to bear upon their business. Occasionally however, the reduction of an acquired business to a profitable Core will leave us with a smaller, but usually more profitable business. Q1 2007 had several instances of declining revenues relating to acquired businesses. These acquisition-related declines in Organic Growth are usually transient, generally reversing after a year or less.

In addition to Organic Growth, we also grow our businesses via acquisition. Since inception Constellation has made 57 acquisitions. Software company acquisitions are becoming increasingly popular amongst both corporate and private equity buyers. As Corum, one of the most active M&A brokers in the software sector put it in their Q1 newsletter:

“Not since the dot-com peak has a year kicked off with as much merger and acquisition activity and value as in 2007”..... “Last year, 1,726 software companies were acquired, which is the highest number since 2000.”

We are currently experiencing intense competition in the large company acquisition market and are increasingly focusing upon those opportunities that are smaller or those that may not have a strong track record of positive cash flow. During 2006, we had a 42% increase in the number of “Non-Disclosure Agreements” that we signed with acquisition prospects, when compared to 2005. These NDA’s resulted in a >200% increase in the number of “Letters of Intent” that we submitted. My interpretation of this data is that we were working harder to see and bid on more of the available market. What did this work at the front end of the acquisition process produce? We had the same number of LOI’s signed back, and we ended up making only 10 acquisitions in 2006, down from the 12 that we made in the prior year. I think two factors were at play in generating the lower close rate in 2006: first, we went further afield (both geographically and strategically) looking for potential investments and second, we ran into more aggressive competition. The same pattern is apparent when we examine the M&A activity by dollar value instead of number of transactions.

In Q1 2007 we increased our M&A activity still further, almost doubling the number of NDA’s that we signed compared with Q1 2006, and achieving a new record high for the value of closed acquisitions in a single quarter. Despite the increased competition for acquisitions, we anticipate that our increased focus and discipline around the M&A process will allow us to generate a record year for acquisitions in ’07.

While we do not provide short-term forecasts, our objective is to generate 20% average annual Revenue growth per share between January 1, 2006 and December 31, 2010 (our “Planning Period”). During 2006 we exceeded this objective, generating 23% Revenue growth per share. In Q1, we fell far short of the objective, generating only 4% Revenue growth per share. Much of the shortfall in Q1 2007 was due to the 1% decline in Organic Revenue as compared to Q1 2006. Organic Revenue Growth is an important component of our overall Revenue growth objective, and we believe that it needs to average between 5% and 10% per annum for us to both achieve our objective and to have a healthy company. Management continue to believe that the Company will achieve both the Revenue growth per share objective and the Organic Growth targets for the Planning Period.

As is our practice, we have inserted below a table containing our quarterly Performance Metrics. In addition to the Organic Net Revenue Growth discussed above, the metrics that struck me were:

ROIC (Annualized) – 20%. We believe that this is an acceptable level, but would prefer to see higher levels if the low Organic Net Revenue Growth persisted.

Net Maintenance Growth (Y/Y) – 20%. We believe that (adjusted for cash and debt) maintenance revenues are the best indicator of Intrinsic Value. 20% is an acceptable increase, but any further slippage could be cause for concern.

	Q1 2005	Q2 2005	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007
(US\$ millions, except percentages)									
Revenue	37.5	40.7	42.6	44.6	51.2	52.2	53.8	53.5	55.9
Net Income / (Loss)	1.1	(3.5)	2.1	0.8	(8.7)	1.3	2.3	3.8	2.6
Net Revenue	34.5	37.0	39.0	39.8	46.0	47.3	48.4	48.6	50.7
Net Maintenance Revenue	19.3	20.7	21.7	23.0	26.0	26.9	28.1	29.6	31.2
Adjusted Net Income	3.8	4.1	5.2	4.1	5.1	5.1	6.8	9.0	7.0
Average Invested Capital	96	100	105	109	114	119	125	135	143
Net Revenue Growth (Y/Y)	62%	51%	47%	35%	33%	28%	24%	22%	10%
Net Maintenance Growth (Y/Y)	72%	57%	48%	52%	35%	30%	30%	29%	20%
Tangible Net Assets / Net Revenue	(76%)	(69%)	(68%)	(86%)	(63%)	(63%)	(75%)	(91%)	(88%)
Organic Net Revenue Growth (Y/Y)	22%	18%	22%	13%	14%	12%	5%	3%	-1%
ROIC (Annualized)	16%	16%	20%	15%	18%	17%	22%	27%	20%
ROIC + Organic Net Revenue Growth	38%	34%	42%	28%	32%	29%	26%	30%	19%

N.B. Due to an error, the historical figures included in our report to shareholders for the year ended December 31, 2006 for the Tangible Net Assets / Net Revenue metric for the periods Q2 2005 through Q4 2006 were incorrectly reported as (71%), (67%), (66%), (57%), (55%), (54%), and (54%), respectively. The correct figures have been included in the table above.

I encourage you to study the Performance Metrics, the attrition data that we presented in the annual report, and the M&A activity data mentioned above. Don't hesitate to pose any questions that you may have either on our quarterly conference call, or during the question period following our Annual General Meeting.

Mark Leonard
President
May 8, 2007

Performance Metrics Glossary

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

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CONSTELLATION SOFTWARE INC.

TO OUR SHAREHOLDERS

Q2 saw an improvement in our revenue growth rate: Organic Net Revenue growth in Q2 compared to the same period last year, recovered to 0.5%, and acquisitions accounted for the remaining 15% of year over year Net Revenue growth. Our homebuilding and building products related businesses experienced Organic Net Revenue declines. A turnaround in their growth prospects is not yet evident. Organic Net Revenue growth in a number of our other businesses more than offset those declines.

Constellation has an inherently resilient business. During Q2 Net Maintenance Revenue was \$33.3 million, an increase of 24% from \$26.9 million during the same period last year. Net Maintenance grew as a percent of Net Revenues, from 57% to 61%. Constellation has very low attrition rates and good margins associated with this revenue stream. We focus on growing Maintenance revenue because we believe that it is less volatile and more profitable than Professional Service and License revenues.

Constellation's resilience is bolstered further by an employee compensation plan that insulates the company if performance lags, and rewards employees when the business is experiencing both high profits and rapid growth. Accrued bonuses (as a percentage of Net Revenues) in Q2 were 2% lower than in the comparable period last year. This accounted for a large portion of the 5% year over year increase in the EBITDA/Net Revenue margin ("EBITDA Margin") during Q2.

Much of the remaining increase in the Q2 EBITDA Margin was due to the decline in Research & Development and Sales & Marketing ("RDSM") spending as a percentage of Net Revenues (29% in Q2 vs 32% in the prior comparable period). Is this decline in RDSM and the associated increase in EBITDA Margin good for long-term shareholders? Historically, a significant portion of RDSM expense has been invested in new Initiatives. We began tracking the returns from our Initiatives in 2004. Some of the Initiatives were not economic. We sought to improve our returns by culling poor Initiatives, and nurturing those that remained. My fear is that we over-reacted, causing a dearth of new Initiatives. Our challenge is to strike the right balance between Organic Revenue growth and profitability. My current preference would be to see a higher level of investment in attractive Initiatives. If we are successful at rebuilding our portfolio of Initiatives and continue to make acquisitions at the current rate, I anticipate that our EBITDA margins will trend down, but that our Organic growth will improve.

Inserted below is the table of Constellation performance metrics. In addition to the Organic growth, acquired growth, and Net Maintenance Revenue growth discussed above, the metrics that struck me this quarter were:

ROIC (Annualized) – 24%. This was a nice improvement from Q1, and was largely due to the expanding EBITDA Margin.

Tangible Net Assets ("TNA")/ Net Revenues – (66)%. This was not a sterling performance. We pride ourselves in running negative TNA in our businesses. At minus 66% of Net Revenues, this quarter is among the highest levels of TNA that we have seen in the last 10 quarters. Some of the slippage stemmed from the way that our VCG investment is carried in our accounts. Some of the problem is poor management on our part. We are raising awareness of the slippage throughout the Company and are working to reduce it.

	Q3 2005	Q4 2005	Q1 2006	Q2 2006	Q3 2006	Q4 2006	Q1 2007	Q2 2007
(\$ millions, except percentages)								
Revenue	42.6	44.6	51.2	52.2	53.8	53.5	55.9	60.5
Net Income / (Loss)	2.1	0.8	(8.7)	1.3	2.3	3.8	2.6	3.5
Net Revenue	39.0	39.8	46.0	47.3	48.4	48.6	50.7	54.9
Net Maintenance Revenue	21.7	23.0	26.0	26.9	28.1	29.6	31.2	33.3
Adjusted Net Income	5.2	4.1	5.1	5.1	6.8	9.0	7.0	8.8
Average Invested Capital	105	109	114	119	125	135	143	149
Net Revenue Growth (Y/Y)	47%	35%	33%	28%	24%	22%	10%	16%
Net Maintenance Growth (Y/Y)	48%	52%	35%	30%	30%	29%	20%	24%
Tangible Net Assets / Net Revenue	-68%	-86%	-63%	-63%	-75%	-91%	-88%	-66%
Organic Net Revenue Growth (Y/Y)	22%	13%	14%	12%	5%	3%	-1%	0%
ROIC (Annualized)	20%	15%	18%	17%	22%	27%	20%	24%
ROIC + Organic Net Revenue Growth	42%	28%	32%	29%	26%	30%	19%	24%

We made two small acquisitions in the second quarter, as well as a “strategic investment” in VCG Inc., a supplier of staffing and recruiting software solutions. Our preference is to acquire businesses in their entirety, and to own them forever. Occasionally, we have the opportunity to buy a piece of a good business with the prospect of eventually acquiring the rest. While that is by no means guaranteed in the case of VCG, we welcome the opportunity to get to know the business and its managers better, and hope that we will be able to increase our ownership over time.

We have an objective of generating average annual revenue growth per share and average annual EBITDA growth per share of at least 20% for the five year period ending December 31, 2010. I recently ran a screen of public companies with in excess of \$50 million in revenues that met these criteria for the last 5 year period. I discovered that less than 1% of companies qualified. Picking through that list and pulling out anomalies, I was left with an even more exclusive list. We have set ourselves a very high bar.

Constellation experienced only 11% revenue growth per share during the first half of 2007. However, due to our strong revenue growth per share performance in 2006 (25%) and our continued optimism regarding acquired growth, we still believe that our five year revenue growth objective is achievable. Our performance to date against our EBITDA growth per share objective has exceeded our expectations. We continue to believe that we will be able to meet or exceed the EBITDA growth objective.

Mark Leonard
President

Performance Metrics Glossary

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

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

“Adjusted Net Income” is derived by adjusting GAAP net income for the non-cash amortization of intangibles and charges related to appreciation in common shares eligible for redemption (a charge that we no longer incur now that Constellation’s common shares are publicly traded). We use Adjusted Net Income because it is generally a better measure of cash flow than GAAP net income and it is closely aligned with the calculation of net income we use for bonus purposes.

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

“Tangible Net Assets / Net Revenue” provides a measure of our Tangible Net Assets as a proportion of Net Revenue. Tangible Net Assets is calculated by taking Total Assets for GAAP purposes, and subtracting (i) Intangible assets, (ii) cash, and (iii) all customer, trade and government liabilities that do not bear a coupon.

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

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

Forward Looking Statements

Certain statements herein may be “forward looking” statements that involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Constellation or the industry to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These statements reflect current assumptions and expectations regarding future events and operating performance and speak only as of the date hereof. Forward looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to vary significantly from the results discussed in the forward looking statements. These forward looking statements are made as of the date hereof and Constellation assumes no obligation to update any forward looking statements to reflect new events or circumstances.

Non-GAAP Measures

Net Revenue, Net Maintenance Revenue, Adjusted Net Income and Organic Net Revenue Growth are not recognized measures under GAAP and, accordingly, shareholders are cautioned that Net Revenue, Net Maintenance Revenue, Adjusted Net Income and Organic Net Revenue Growth should not be construed as alternatives to revenue or net income determined in accordance with GAAP as an indicator of the financial performance of the Company or as a measure of the Company’s liquidity

and cash flows. The Company's method of calculating Net Revenue, Net Maintenance Revenue, Adjusted Net Income and Organic Net Revenue Growth may differ from other issuers and, accordingly, may not be comparable to similar measures presented by other issuers.