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

Net Revenue, Net Maintenance Revenue, Adjusted Net Income, Organic Net Revenue Growth, Average Invested Capital, Tangible Net Assets and ROIC are not recognized measures under GAAP and, accordingly, shareholders are cautioned that such measures 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, Organic Net Revenue Growth, Average Invested Capital, Tangible Net Assets and ROIC may differ from other issuers and, accordingly, may not be comparable to similar measures presented by other issuers.

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.