

First Nine Months of 2009: Income from Operations and Net Income Slightly Positive Despite a 26% Decrease in Revenues

(in millions of euros)	July 1 - Septembre 30		January 1 - September 30	
	2009	2008	2009	2008
Revenues	35.9	48.1	110.6	150.9
<i>Change like-for-like</i> ⁽¹⁾	-26%		-29%	
Income (loss) from operations	0.1	2.2	(5.4)	5.1
<i>Change like-for-like</i> ⁽¹⁾	(2.1)		(11.3)	
Net income (loss)	0.1	1.2	(4.2)	2.8
Free cash flow	(1.0)	(5.8)	7.3	(7.5)
Shareholders' equity ⁽²⁾			24.4	28.6
Net financial borrowing ⁽²⁾			49.5	56.4

⁽¹⁾ Like-for-like: 2009 figures restated at 2008 exchange rates

⁽²⁾ At September 30, 2009 and December 31, 2008

Paris, October 28, 2009. Today, Lectra's Board of Directors, chaired by André Harari, reviewed the unaudited consolidated financial statements for the third quarter and first nine months of 2009.

(Detailed comparisons between 2009 and 2008 are like-for-like.)

Q3 2009

Orders Remain Persistently Weak

Business conditions remained persistently weak in the third quarter. There was continuing uncertainty, and visibility was again limited for many customer firms. In these conditions, customers continued to cut costs and to freeze or postpone investment decisions.

Although a few positive signs emerged in September, they were too isolated for any conclusion to be drawn as to business trends for the coming quarters.

Lectra's sales activity was again sluggish overall, with orders for new software licenses and CAD/CAM equipment amounting to €11.3 million. However, this figure is slightly higher than for the first two quarters of 2009 (€10.4 million and €10.6 million). Orders were down 26% overall compared to Q3 2008. While the decline is smaller than for the first half (-52%), it should be pointed out that orders for Q3 2008, already reflecting the increasing impact of the crisis, were down 34% relative to the same period in 2007, while those for the first half of 2008 were down 22% relative to H1 2007.

At the same time, sales of spare parts and consumables registered a smaller decline (-16%) relative to Q3 2008 than the 24% fall registered in the first half, due to increased production activity among certain customers.

Revenues (€35.9 million) were down 26% at actual exchange rates as well as like-for-like, relative to Q3 2008, which is close to the decline (-30% like-for-like) registered in the first half of 2009.

Revenues from new systems sales (€12.1 million) were down 47%. Recurring revenues (€23.8 million) decreased by 8%.

Key Operating Ratios Improve

In the press release published on July 30, 2009, the company had expected a smaller third-quarter loss from operations than the Q2 loss (–€2.3 million), which had itself been smaller than for Q1 (–€3.2 million). The additional reduction in overheads, combined with the smaller decline in revenues from spare parts and consumables and a more favorable new systems sales mix (with software sales accounting for a greater share), has resulted in a small income from operations.

After including a currency translation gain of €0.6 million and a tax gain of €0.4 million, the company registered a net income of €0.1 million. The company posted net losses for Q1 and Q2 2009 of €3.2 million and €1.2 million.

Free cash flow was negative at –€1 million. Excluding the impact of (French) research tax credits (*crédit d'impôt recherche*) recognized for the period but not received, free cash flow was positive at €0.4 million.

First Nine Months of 2009

Sharp Decline in Revenues from New Systems Sales – Decrease in Recurring Revenues

Overall, orders for new software licenses and CAD/CAM equipment amounted to €32.2 million, down 45% relative to the first nine months of 2008.

Revenues (€110.6 million) are down 27% at actual exchange rates, and 29% like-for-like. The decline was 27% in Europe, 20% in the Americas, and 39% in the Asia-Pacific region.

Revenues from new systems sales (€38.8 million) fell 49%.

Recurring revenues (€71.9 million) decreased by 9%, as a result of a 1% decrease in revenues from recurring contracts (€48.9 million) and a decrease of 22% in revenues from spare parts and consumables (€21.7 million).

Given the unprecedented scale of the decrease in revenues from new systems sales, recurring revenues, despite their unusual decline, continued to play their role as a key stabilizing factor in Lectra's business model, acting as a cushion in periods of economic slowdown.

The order backlog for new software licenses and CAD/CAM equipment at September 30, 2009 (€9.6 million) is up by €1.5 million relative to June 30, 2009 and by €0.5 million relative to December 31, 2008.

Gross Margin Improves – Significant Drop in Overhead Costs

The overall gross margin worked out to 71.3%. Like-for-like, it is up 5.1 percentage points relative to the first nine months of 2008 (65.7%). This positive change confirms that sale prices are holding up well, despite increased competitive pressure in the current economic crisis.

Total overhead costs (€84.3 million) were down €11.5 million (–12%).

Income from operations (–€5.4 million) decreased by €11.3 million on a like-for-like basis. After a net foreign exchange gain of €1.1 million and an income tax gain of €2.7 million, net loss was €4.2 million (compared to the net income of €2.8 million in the first nine months of 2008).

Free Cash Flow Highly Positive

Free cash flow was positive at €7.3 million. Free cash flow benefited from the advance repayment in Q1 2009 of €14.1 million corresponding to the research tax credits for the years 2005 through 2008. These advance repayments were a result of measures announced by the French government on December 4, 2008, under its economic stimulus plan.

Excluding the impact of the research tax credits, free cash flow was negative at –€2.7 million, while the loss before tax was €7 million, which represents a satisfactory performance in the circumstances.

Business Trends and Outlook for the Fourth Quarter of 2009

In its financial report of February 12, 2009, on the Q4 and full-year 2008 financial statements, and in its 2008 Annual Report, the company explained that 2009 would be a difficult year for Lectra, as for all companies worldwide, and opted not to formulate any estimates regarding its outlook for 2009, given the total lack of visibility.

Q3 2009 sales activity and results confirm the expectations expressed at the publication of its Q1 and Q2 2009 financial statements on April 29 and July 30. The company stated that macroeconomic conditions remained unchanged and that the current climate called for the utmost vigilance.

On July 30, the company indicated that it expected a smaller loss from operations in Q3 2009 than that registered in Q1 and Q2 2009, and that income from operations should approach breakeven in Q4 2009. It anticipated a decline in orders for new systems of between 35% and 40% for the year (representing a 55% to 60% decline relative to 2007), and a fall of between 8% and 10% in recurring revenues.

At the date of this press release, the company confirms these expectations for the year regarding the decline in orders for new systems and recurring revenues. However, a larger than expected fall in overhead costs, together with improving gross margins and a better sales mix have further lowered the breakeven point and enabled the company to post a slightly positive income from operations and net income for the third quarter of 2009. Fourth-quarter income from operations and net income should be close to breakeven or slightly positive.

In early February, the company hedged approximately 70% of its estimated exposure to the dollar for 2009 through monthly forward dollar sales at an average parity of \$1.30/€1.

Finally, with the benefit of the early receipt of research tax credits in Q1 2009 and a substantial reduction in inventory, free cash flow should remain highly positive in 2009.

Q4 2009 and fiscal year 2009 results will be published on February 11, 2010, after close of trading on Euronext Paris. Management Discussion and Analysis of Financial Conditions and Results of Operations for Q3 2009 are available on lectra.com.

With nearly 1,500 employees worldwide, Lectra is the world leader in software, CAD/CAM equipment and related services specially created for large-scale users of textiles, leather and industrial fabrics. Lectra serves a broad array of major global markets including the fashion (apparel, accessories, and footwear), automotive (car seats and interiors, airbags), and furniture industries, as well as a wide variety of other sectors, such as the aeronautical and marine industries, wind energy, etc.

Lectra (code ISIN FR0000065484) is listed on Euronext Paris (compartment C).

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