

First Half 2010 Financial Results Rise Sharply, Clearly Exceeding the Company's Expectations

- Orders for new systems: €35.6 million (+67%)^(*)
- Revenues: €91.8 million (+20%)^(*)
- Income from operations: €8.3 million
- Net income: €4.4 million
- Free Cash Flow: €18.8 million

(*) like-for-like

In millions of euros (€M)	April 1 - June 30 ⁽³⁾		January 1 - June 30	
	2010	2009	2010	2009
Revenues	48.9	37.2	91.8	74.8
<i>Change like-for-like (%)</i> ⁽¹⁾	+25%		+20%	
Income (loss) from operations	5.4	(2.3)	8.3	(5.5)
<i>Change like-for-like (in €M)</i> ⁽¹⁾	+ 6.3		+ 12.7	
Net income (loss)	2.7	(1.2)	4.4	(4.4)
Free cash flow	13.8	(3.3)	18.8	8.3
Shareholders' equity ⁽²⁾			28.6	24.7
Net financial borrowing ⁽²⁾			29.4	47.8

⁽¹⁾ Like-for-like: 2010 figures restated at 2009 exchange rates

⁽²⁾ At June 30, 2010 and December 31, 2009

⁽³⁾ Isolated data for Q2 2010 and Q2 2009 have not been reviewed by the Statutory Auditors

Paris, July 29, 2010. Today, Lectra's Board of Directors, chaired by André Harari, reviewed the consolidated financial statements for the first half of 2010, after a limited review by the Statutory Auditors. (Detailed comparisons between 2010 and 2009 are like-for-like.)

Q2 2010: Orders, Revenues and Earnings Rise Sharply, Exceeding the Company's Expectations

After seven consecutive quarters of steep decline resulting from the economic crisis, broken by a first rebound in orders in Q4 2009, the second quarter of 2010 confirmed the very clear rebound in sales activity registered in the first quarter.

At a total of €18.2 million, orders for new software licenses and CAD/CAM equipment were up 65% like-for-like and 73% at actual exchange rates compared to Q2 2009 (€10.6 million).

Revenues totaled €48.9 million overall, up 25% relative to Q2 2009—up 31% at actual exchange rates.

Revenues from new systems sales (€22.1 million) were up 62%. Recurring revenues (€26.8 million) rose by 6%, due to a combination of a 4% decrease in revenues from recurring contracts and a 28% increase in revenues from spare parts and consumables. The latter figure confirms the rise in production volumes at the Group's customer firms, already noted in the two previous quarters.

Income from operations (€5.4 million) is well in excess of the company's expectations due to a greater-than-expected rebound in sales, higher gross profit margins, overhead costs slightly lower than those budgeted, and more favorable exchange rates. Like-for-like, income from operations rose €6.3 million relative to the loss recognized in 2009.

The margin on operations was 11%; in Q2 2009 it was a negative 6.1%.

Net income (€2.7 million) increased by €3.9 million at actual exchange rates, compared to net loss in 2009.

Record Free Cash Flow—Net Financial Borrowings Down Sharply

Free cash flow was positive at €13.8 million (–€3.3 million in Q2 2009). This amount includes the early repayment of the (French) research tax credit (*crédit d'impôt recherche*) in respect of 2009 (€6.2 million). Excluding the impact of the research tax credit (€6.2 million received and €1.5 million recognized in Q2 2010 but not received), free cash flow was positive at €9.1 million.

Beyond the impact of the rise in earnings, this robust performance can be attributed to a further reduction in the working capital requirement.

Since the beginning of the year, net financial borrowings have declined by €18.4 million to total €29.4 million at June 30, 2010, compared to €47.8 million at December 31, 2009.

First Half 2010: Sales Activity in the First Half Bounced Back Faster and More Strongly Than Expected

Overall, orders for new software licenses and CAD/CAM equipment (€35.6 million) were up 67% relative to the first half of 2009.

Orders booked in the Asia-Pacific region jumped 96% (126% in China and 280% in South East Asia); in the Americas they rose 78%; and in Europe, where certain countries are still laboring under the effects of the crisis, they rose 49%. Sales in the rest of the world (Northern Africa, South Africa, Turkey, the Middle East, etc.) advanced 39% overall. All market sectors—fashion, automotive, furniture and other industries—contributed to this rebound in sales. The recovery was strongest in the automotive sector.

Orders were still down 38%, relative to the first half of 2007, the last year before the onset of the economic crisis.

Revenues from new systems sales (€40 million) increased by 46% and represented 44% of total revenues (compared to 36% in 2009). This increase of 8 percentage points of their relative share in total revenues reflects a return to buoyant sales activity. Recurring revenues (€51.8 million) increased by €2.8 million (+6%).

Total revenues for the first half of 2010 (€91.8 million) were up 20% like-for-like, and 23% at actual exchange rates.

The order backlog for new software licenses and CAD/CAM equipment (€15.0 million at June 30, 2010) increased by €2.1 million relative to December 31, 2009, and comprised €12.5 million for shipment in the second half of 2010 and €2.5 million in 2011.

Clear Improvement in Key Operating and Financial Ratios

The overall gross profit margin worked out to 72%. Like-for-like, it came to 71.6%, up 0.6 percentage points relative to the first half of 2009.

Changes in the product mix led to a rise in the share of revenues from CAD/CAM equipment and spare parts and consumables in total revenues and should have, mechanically, led to a decrease in the overall gross profit margin. This impact is fully offset by the clear increase in gross profit margins for each product line, demonstrating, once again, the competitiveness and the high added value of Lectra's product offer.

Thanks to cost-cutting measures implemented in 2009, fixed overheads costs (€51.9 million) were down €4.8 million (–9%).

Income from operations (€8.3 million) is up €12.7 million like-for-like relative to the loss (€5.5 million) in the first half of 2009. At actual exchange rates, income from operations improved by €13.8 million, while revenues grew by €17.1 million, a very good performance that should be noted.

The margin on operations was 9.1%, an increase of 15.4 percentage points like-for-like, compared to the negative margin on operations of 7.3% in the first half of 2009.

Net income (€4.4 million) increased by €8.7 million at actual exchange rates compared to a net loss of €4.4 million in 2009.

Free cash flow was positive at €18.8 million. Excluding the impact of the research tax credit, free cash flow was €15.5 million, while income before tax came to €5.9 million. This reflects the capacity of Lectra's business model to generate free cash flow.

The London High Court of Justice dismisses Induyco's action to set aside the award rendered by the international arbitral tribunal on October 21, 2009.

In a decision dated July 1, 2010, the London High Court of Justice dismissed Induyco's action to set aside the arbitral award rendered on October 21, 2009 and awarded Lectra its costs and fees of defending the action.

In its award the arbitral tribunal constituted pursuant to the Rules of the International Chamber of Commerce awarded Lectra € 25.6 million in damages and interest as of June 30, 2010 (secured up to €15.1 million by bank guarantees given to Lectra by Induyco in accordance with the stock purchase agreement).

Induyco opposed to the payment of the award and commenced proceedings in Spain to challenge Lectra's demand under the bank guarantees, and in England to challenge the validity of the award.

The High Court's decision of July 1, 2010 puts an end to the action brought in England to set aside the award and strengthens Lectra's position that the suit brought in Spain—for which hearings are now expected in the second half of 2010—to suspend the execution of the bank guarantees is entirely groundless.

Lectra is reinforced in its commitment to enforce its rights and recovery of the amounts due to it under the award.

At this stage, the company has not recorded the amounts awarded by the arbitral tribunal in its accounts.

Upward Revision of 2010 Outlook

The macroeconomic context improved in the first half of 2010, although there was no return to the pre-crisis situation. The situations in different regions and market sectors remain disparate.

A further deterioration in conditions remains possible, especially in Europe and the United States.

A strong rebound in orders in the first half, the order backlog at June 30, and progress in implementing the 2010 plan, along with a currency situation in which euro/dollar parity would remain close to its present level, provides grounds for expecting earnings to significantly exceed the company's 2010 expectations, announced on February 11, and again on April 29, at the time of publication of its Q1 results.

The main variable for the second half of the year remains revenues from new systems sales.

Assuming activity slackened, all the while showing a slight growth relative to H2 2009, full-year 2010 revenues would be around €180 million and income from operations (excluding non-recurring items, if any) around €15 million. The margin on operations would work out to around 8.3%.

If orders continue with the momentum registered in the first half of the year, each €1 million increase in revenues from new systems sales relative to the hypothesis above would boost income from operations by around €0.4 million.

The rate of growth in new orders in the second half should nevertheless be more moderate relative to H1, due to a higher basis for comparison, the level of orders in H2 2009 having already risen relative to 2008 thanks to the upturn in Q4.

These assumptions are based on an average parity of \$1.35/€1 in H2 2010. On May 4, 2010, the company hedged its estimated net U.S. dollar exposure for the second half of the year by purchasing a series of U.S. dollar puts at a strike price of \$1.35/€1.

In all scenarios, the company expects free cash flow to be positive in the second half.

In addition, receipt of the €25.6 million awarded to the company by the International Arbitration Tribunal would reduce its net financial borrowings to a low amount.

Bolstered by its first-half results, the company remains confident in the strength of its business model and its prospects for growth in the medium term.

Q3 earnings for 2010 will be published on October 28, 2010. The Management Discussion and Analysis of Financial Condition and Results of Operations and the financial statements for the first half of 2010 are available on **lectra.com**.

With nearly 1,400 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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