MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR THE THIRD-QUARTER AND FIRST NINE MONTHS OF 2011

To all Shareholders,

We report below on Lectra Group's business activity and consolidated financial statements for the third quarter (Q3) and first nine months of 2011, ending September 30. Financial statements at September 30 have not been the subject of review by the Statutory Auditors.

To make the discussion of revenues and earnings as relevant as possible, detailed comparisons between 2011 and 2010 are based on 2010 exchange rates ("like-for-like") unless stated otherwise. The comparison with figures for 2007, the last year before the onset of the economic and financial crisis, has been maintained in order to measure the progressive return to normal business activity and the strengthening of Lectra's key operating ratios.

1. SUMMARY OF OPERATIONS FOR Q3 2011

With an average parity of $1.41/€1, the U.S. dollar was down 9% compared to Q3 2010 ($1.29/€1). This evolution, and that of other currencies, mechanically decreased revenues for the quarter by 3% and income from operations by €0.7 million at actual exchange rates, compared to like-for-like figures.

Order Level in Line with the Company's Expectations

With a total of €20.6 million, a level essentially equal to that of the first and second quarters (respectively €21.9 million and €21.2 million) of 2011, orders for new software licenses and CAD/CAM equipment booked in Q3 confirm the momentum registered since the beginning of the year.

Orders were up 4% compared to Q3 2010 (€21 million), with software and equipment registering identical gains. Like-for-like, they were down 2%.

Q3 2010 orders were especially high due to the fact that several exceptionally large orders were registered.

Strong Operating Profitability

Revenues totaled €51.2 million, up 9% relative to Q3 2010—up 6% at actual exchange rates.

Revenues from new systems sales (€24.5 million) were up 15%. Recurring revenues (€26.7 million) rose by 4%, resulting from the combination of a 1% decrease in revenues from recurring contracts and a 12% increase in revenues from spare parts and consumables, which continue to grow at a fast pace.

Income from operations amounted to €8.8 million, and the operating margin was 17.2%, representing a respective increase of €1.3 million (+16%) and 1.1 percentage points relative to income from operations before non-recurring items and to the operating margin before non-recurring items for Q3 2010. At actual exchange rates, income from operations increased by €0.5 million (+7%).

It is necessary to recall that every year, Q3 income from operations benefits from the natural reduction in overhead costs occurring over the summer vacation months.

Q3 2010 had benefited from a non-recurring gain of €3.3 million. There were no non-recurring items in the third quarter of 2011.

Net income was €5.8 million, a decrease of €1.8 million at actual exchange rates compared to Q3 2010 (€7.7 million). Excluding non-recurring items, net income rose by €0.5 million.

Free cash flow was €4.5 million (€3.4 million in Q3 2010). Non-recurring disbursements in Q3 2011 amounted to €0.1 million (€0.1 million in Q3 2010).

Net cash totaled €7.3 million, whereas net financial borrowings amounted to €25.4 million one year earlier.

2. CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST NINE MONTHS OF 2011

With an average parity of $1.41/€1, the U.S. dollar was down 6% compared to the first nine months of 2010 ($1.32/€1). This evolution, and that of other currencies, mechanically decreased revenues by 2% and income from operations by €2.2 million at actual exchange rates, compared to like-for-like figures.

Orders

Altogether, orders for new software licenses and CAD/CAM equipment amounted to €63.7 million, up 17% relative to the first nine months of 2010. Orders in the first nine months of 2010 had already significantly increased (+69%) compared to the first nine months of 2009, which had been severely affected by the financial crisis.

The situation throughout the different regions and market sectors remains heterogeneous.

While orders for new software licenses grew by only 1%, those for CAD/CAM equipment were up 24%.

This disparity stems primarily from the market sector mix: while the automotive sector recorded a very strong increase (+89%), after a rise of 220% in the same period in 2010 relative to 2009, the fashion sector was down 11%. The fashion and the automotive markets respectively represented 44% and 43% of total orders. Furniture was up 4%, and the other industries were down 18%.

Orders rose 43% in the Americas, 30% in the Asia-Pacific region, and 4% in Europe; they dropped 39% overall in the rest of the world (Northern Africa, South Africa, Turkey, the Middle East, etc.). Orders in emerging countries (55% of total orders) increased 24%, and in developed countries (45% of total orders) 8%.

Cumulated activity from all customers has still not returned to pre-crisis levels. Orders were still down 19% overall relative to the first nine months of 2007. While the emerging countries have caught up and are now showing a 6% increase, developed countries are 37% behind.

Revenues

Revenues for the first nine months totaled €153.3 million, up 12% like-for-like—up 9% at actual exchange rates—compared to 2010.

Growth was registered at 9% in Europe, 14% in the Americas, and 22% in the Asia-Pacific region. These three regions accounted for 51% (including 10% for France), 21%, and 23% of total revenues respectively. Revenues from the rest of the world, representing 5% of total Group revenues, decreased by 7%.

Revenues from New Systems Sales

Revenues from new software licenses (€19.7 million) increased by 13% and contributed 13% of total revenues (as they did in the first nine months of 2010).

CAD/CAM equipment revenues (€46.8 million) were up 29% and accounted for 31% of total revenues (compared to 27% in 2010).

Revenues from training and consulting (€6.7 million) were up 9%.

Overall, revenues from new systems sales (€73.5 million) increased 22% and represented 48% of total revenues (compared to 44% in 2010). This 4-percentage point increase confirms the continuing return to dynamic sales activity, begun in 2010.

Revenues from Recurring Contracts, Spare Parts and Consumables

Recurring revenues (€79.8 million) increased €2.8 million (+4%). They accounted for 52% of total revenues (compared to 56% in 2010).

Revenues from recurring contracts—which represented 58% of recurring revenues and 30% of total revenues—totaled €46.5 million, down 2% relative to the first nine months of 2010.

Recurring contracts, which concern almost two-thirds of Lectra's 23,000 customers, break down as follows:

- revenues from software evolution contracts (€22.1 million), stable compared to 2010 and representing 14% of total revenues (16% in 2010) ;
- revenues from CAD/CAM equipment maintenance contracts and from subscription contracts to the Group's five International Call Centers (€24.5 million), down 3% and representing 16% of total revenues.

Meanwhile, revenues from spare parts and consumables (€32 million) grew 13%, principally reflecting the increase in the installed base and customers' production volumes.

Order Backlog

Orders for new software licenses and CAD/CAM equipment for the first nine months of 2011 were slightly below the figure for revenues; the order backlog (€17.0 million) is thus down slightly (–€1.5 million) at September 30, 2011, relative to December 31, 2010. However, it was up by €1.3 million relative to September 30, 2010.

The order backlog at September 30, 2011, comprised €15.6 million for shipment in the Q4 2011, and €1.4 million in 2012.

Gross Profit Margin

Like-for-like, gross profit margins for each product line have increased, again demonstrating their strength in the face of heavy pressure from competitors, further exacerbated by the crisis.

The overall gross profit margin worked out to 70.0%. Like-for-like, it came to 70.5%, down 1.5 percentage points relative to the first nine months of 2010 (72.0%).

This variation stems solely from changes in the product mix, characterized by a rise in the share of revenues from CAD/CAM equipment and spare parts and consumables in total revenues, as their margins are lower than those of other revenue components.

It is important to note that personnel expenses and other operating expenses incurred in the execution of service contracts are not included in cost of sales, but are recognized in selling, general, and administrative expenses.

Overhead Costs

Total overhead costs were €85.7 million, up €2.3 million (+3%) compared to the first nine months of 2010. They break down as follows:

- €75.6 million in fixed overhead costs, up €1.2 million (+2%);
- €10.1 million in variable costs, up €1.1 million (+12%); this increase reflects the growth in sales activity and earnings.

Research and development costs are fully expensed in the period and included in fixed overhead costs. Before deducting the (French) research tax credit and certain R&D program grants, R&D costs amounted to €13.4 million and represented 8.8% of revenues (compared to €11.9 million and 8.5% in 2010). This reflects the company's decision to step up its R&D effort. Net R&D costs after deduction of the research tax credit (whose aggregate rate is lower in 2011 as a result of tax changes) and grants amounted to €8.5 million (€7.2 million in 2010).

Income from Operations and Net Income

Income from operations was €21.7 million. Like-for-like, it amounted to €23.8 million, an increase of €7.2 million (+44%) relative to income from operations before non-recurring items for the first nine months of 2010 (€16.6 million). At actual exchange rates, it increased by €5.1 million (+31%).

Income from operations for the first nine months of 2010 had benefited from a non-recurring gain of €3.3 million. There were no non-recurring items in 2011.

The operating margin was 14.1%. Like-for-like, it worked out to 15.2% and increased by 3.3 percentage points compared to the operating margin before non-recurring items of the first nine months of 2010 (11.9%). This represents an increase of 2.2 percentage points at actual exchange rates.

Financial income and expenses represent a net charge of €1.3 million. The balance of foreign exchange gains and losses was nil.

After an income tax charge of €5.8 million, net income was €14.6 million. Net income increased by €2.6 million at actual exchange rates relative to net income for the first nine months of 2010.

Excluding non-recurring items of 2010 (there were no non-recurring items in 2011), net income was up €4.9 million (+50%) compared to the first nine months of 2010 and already exceeds that of the entire fiscal year 2010.

Net earnings per share on basic capital (€0.51) increased by 19% and on diluted capital (€0.50) by 16% at actual exchange rates (€0.43 per share for both items, in the first nine months of 2010).

Free Cash Flow

Free cash flow amounted to €13.8 million before non-recurring items (€22.8 million in 2010). The 2010 figure included €6.2 million arising from early repayment of the 2009 research tax credit, the French government having rescinded this measure in 2011.

After €1 million in non-recurring disbursements, free cash flow amounted to €12.8 million (€22.2 million in 2010 after €0.6 million in non-recurring disbursements). This figure results from positive cash flow provided by operating activities of €14.9 million (which includes an increase in working capital requirement of €5.4 million) and capital expenditures of €2.1 million. Excluding the research tax credit accounted for but not received (€4 million) and the non-recurring disbursements, the working capital requirement remained stable, despite the increase in revenues *(see note 7 in the notes to this report)*.

If the research tax credit for the first nine months of 2011 had been received, free cash flow before non-recurring items would have amounted to €17.8 million, exceeding net income by €3.2 million. Counterbalancing this, the claim on the French State corresponding to the research tax credit recognized but not received for 2010 and 2011 has increased to € 9.4 million.

Shareholders' Equity

At September 30, 2011, consolidated shareholders' equity amounted to €53.9 million (€42 million at December 31, 2010).

This figure is calculated after deduction of treasury shares held solely within the Liquidity Agreement with SG Securities (Société Générale), carried at cost, i.e., €0.6 million (versus €0.4 million at December 31, 2010). It is also calculated after deduction of the total dividend of €5.2 million paid in May 2011 in respect of fiscal year 2010, as decided by the Ordinary Shareholders' Meeting of April 29, 2011.

Cash and cash equivalents totaled €35.5 million (€30.2 million at December 31, 2010).

Financial borrowings totaled €28.3 million (€32.6 million at December 31, 2010), of which:

- €26.5 million corresponds to the medium-term bank loan put in place to finance the public stock buyback tender offer for 20% of the company's share capital, carried out in May 2007. The first two contractual repayments of €3.8 million each were made on June 30, 2010, and on December 31, 2010. In addition, and at its own initiative, the company repaid €10 million on December 31, 2010, in advance of the scheduled date, this amount being deducted from the contractual half-yearly installments payable in 2011 (leaving a balance outstanding of only €0.6 million on December 31, 2011). The company also made another early repayment of €3.8 million on June 30, 2011, in compliance with the contractual excess cash flow clause;
- €1.8 million corresponds to interest-free government advances to finance R&D programs.

Consequently, the net cash position is positive at €7.3 million at September 30, 2011, whereas the company had a net financial debt of €2.4 million at December 31, 2010, and of €25.4 million at September 30, 2010. The improvement therefore represents €9.7 million for the first nine months and €32.7 million for the last twelve-month period, after payment of the total dividend of €5.2 million in May 2011 (there was no dividend paid between 2008 and 2010).

Given the improvement in the company's financial ratios, the margin on interest due on the medium-term loan has been reduced from 1.85% in 2010 to 0.95% as at January 1, 2011, in accordance with the loan contract (*see chapter 10.1 of the notes to this report*).

Lectra Obtains *Exequatur* in Spain of the October 2009 Award Rendered by the International Arbitral Tribunal Against Induyco

In a decision of *exequatur* issued on June 27, 2011, the Madrid Court of First Instance recognized the arbitral award rendered against Induyco in October 2009 by an International Arbitral Tribunal seated in London, which had awarded Lectra total damages of €26 million (as at September 30, 2011).

Confirming the validity and enforceability of the award in Spain, this decision represents a major milestone in the settlement of this dispute.

Induyco having appealed the June 27, 2011, decision, this decision does not modify the recognition of the award in the company's financial statements: the company has only recorded the €15.1 million received in 2010 which resulted in a non-recurring gain of €3.3 million in the third quarter. The €10.9 million balance still due by Induyco will only be recorded upon its receipt *(see chapter 8 of the notes to this report.)*

3. SHARE CAPITAL – OWNERSHIP – SHARE PRICE PERFORMANCE

Change in Share Capital

At September 30, 2011, share capital totaled €28,036,501.70, divided into 28,903,610 shares with a par value of €0.97. It was €27,644,043.58, divided into 28,499,014 shares, at December 31, 2010.

Share capital has increased by 404,596 shares since January 1, 2011, resulting from the exercise of stock options (€0.4 million par value together with total additional paid-in capital of €1.4 million).

On April 18, 2011, Société Financière de l'Echiquier (France), on behalf of investment funds managed by it, reported that it had fallen below the threshold of 10% of the company's voting rights, and that at that date it held 10.16% of the capital stock and 9.99% of the voting rights. On June 8, 2011, it reported that it had increased its holding above the 10% threshold of voting rights, and that at that date it held 10.21% of the capital stock and 10.04% of the voting rights.

No other crossing of statutory thresholds has been notified to the company since January 1, 2011.

At the date of publication of this report, to the company's knowledge, the main shareholders are:

- André Harari and Daniel Harari, who together hold 38.5% of the capital and 38% of the voting rights;
- Société Financière de l'Echiquier and Delta Lloyd Asset Management N.V. (Netherlands) which, on behalf of investment funds managed by them, each hold more than 10% (but less than 15%) of the capital and voting rights.

Treasury Shares

At September 30, 2011, the company held 0.3% of its own shares in treasury shares, solely within the framework of the Liquidity Agreement managed by SG Securities (Groupe Société Générale).

Share Price Performance and Trading Volumes

After rising sharply (+86%) in 2010, following two years of substantial falls because of the financial crisis, Lectra's share price continued to increase in 2011, with solid growth, until the recent stockmarket slide beginning July 2011. The company's share price at September 30, 2011, was €4.94, up 18% compared to December 31, 2010 (€4.19). In that same period, the CAC 40 index and the CAC Mid&Small index fell by 22% and 19% respectively. The share price recorded a low of €4.12 on January 3 and a high of €6.81 on April 7.

Trading volumes registered further strong growth. According to Euronext statistics, the number of shares traded (5.7 million) was up 46%, and trading volumes (€32.9 million) rose more than threefold compared to the same period in 2010.

4. POST-CLOSING EVENTS

No significant event has occurred since September 30, 2011.

5. FINANCIAL CALENDAR

The Q4 and fiscal year 2011 financial results will be published on February 9, 2012, after close of trading on NYSE Euronext.

6. BUSINESS TRENDS AND OUTLOOK

Since the beginning of the year, the macroeconomic environment has still not reverted to pre-crisis levels. It was marked by the consequences of the tragic disasters in Japan and geopolitical crises in certain North African and Middle Eastern countries, as well as by rising concern over sovereign debt in the United States and certain European countries, and by renewed turmoil in the financial markets since July.

Growth forecasts for 2011 and 2012 for most countries have been revised downward recently, sharply in some cases, a rapid turnaround in the economy being unlikely.

The recovery therefore remains fragile; risks and uncertainties have increased, and a further deterioration in the economic and monetary situation remains possible demanding continuing caution and vigilance.

Confirmation of the Company's Central Scenario for 2011

Sales activity and earnings for the first nine months of 2011 are generally in line with company expectations, confirming the strengthening of Lectra's operating ratios and balance sheet. The order backlog on September 30 remains solid.

These elements reinforce the Company's central scenario for fiscal year 2011, announced on February 10, as updated only by the impact of exchange rate fluctuations, once on July 28 and again today.

Given the actual exchange parities registered in the first nine months and the current assumptions for Q4 (i.e. $1.40 / €1), the translation effect alone would mechanically increase revenues, income from operations, and operating margin to €205 million, €27.5 million, and 13.4%, respectively, relative to the figures communicated on July 28. Like-for-like increases relative to 2010, +10%, +30%, and +2 percentage points respectively, remain unchanged.

Net income would be superior to the estimates of February 10 and July 28 and would be close to €18.5 million (+30% at actual exchange rates, relative to the 2010 figure restated for non-recurring items), as well as free cash flow which would come to around €16.5 million.

On October 5, 2011, the company has hedged its exposure to the U.S. dollar for the fourth quarter of 2011 by means of forward sales at a parity of $1.33/€1. As a result, a rise in the euro pushing the parity above this threshold would have only a limited impact on net income, reduced income from operations being offset by an equivalent.

In this updated hypothesis, revenues would still lag behind the 2007 figure by €12 million (–6%), but income from operations, on the other hand, would be multiplied by 2.7, testifying to the improvement in the company's key operating ratios during the crisis.

2011 will also be the year in which net cash becomes positive again, with a figure of approximately €12 million at year-end. This compares with peak net financial borrowings of €56.4 million at the end of 2008.

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

The Board of Directors

October 27, 2011

Company Certification of the Third Quarter and First Nine Months of 2011 Report

We certify that, to our knowledge, the financial statements for the third quarter and the first nine months of 2011 have been prepared in accordance with currently applicable accounting standards and provide a fair view of the assets, financial condition, and results of the company and of its consolidated companies. We further certify that the report on operations for the third quarter and first nine months presents a true and sincere view of the significant events that occurred during the first nine months of the fiscal year and their impact on the financial statements, as well as a description of the main risks and uncertainties for the remaining three months of the fiscal year.

Paris, October 27, 2011

Daniel Harari	Jérôme Viala
Chief Executive Officer	Chief Financial Officer

Consolidated statement of financial position

ASSETS

(in thousands of euros)	As at September 30, 2011	As at December 31, 2010	As at September 30, 2010
Goodwill	30,939	30,999	30,827
Other intangible assets	4,977	5,452	5,619
Property, plant and equipment	10,940	11,066	11,141
Non-current financial assets	1,612	1,700	1,646
Deferred tax assets	10,331	12,938	13,376
Total non-current assets	58,799	62,155	62,609
Inventories	21,858	19,336	20,244
Trade accounts receivable	35,980	43,862	37,460
Current income tax receivable	11,059	6,918	5,458
Other current assets	7,219	4,674	21,033
Cash and cash equivalents	35,549	30,174	21,038
Total current assets	111,665	104,964	105,233
Total assets	170,464	167,119	167,842

EQUITY AND LIABILITIES

(in thousands of euros)	As at September 30, 2011	As at December 31, 2010	As at September 30, 2010
Share capital	28,037	27,644	27,644
Share premium	2,487	1,039	1,038
Treasury shares	(583)	(386)	(787)
Currency translation adjustment	(8,946)	(8,877)	(8,951)
Retained earnings and net income	32,946	22,612	18,557
Total equity	53,941	42,032	37,500
Retirement benefit obligations	4,270	4,124	4,171
Borrowings, non-current portion	21,942	27,694	36,858
Total non-current liabilities	26,212	31,818	41,029
Trade and other current payables	49,287	49,120	48,911
Deferred revenues	28,773	35,835	28,122
Current income tax liabilities	2,742	537	236
Borrowings, current portion	6,336	4,905	9,625
Provisions for other liabilities and charges	3,173	2,872	2,419
Total current liabilities	90,311	93,269	89,313
Total equity and liabilities	170,464	167,119	167,842

Consolidated income statement

(in thousands of euros)	Three months ended September 30, 2011	Nine months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2010
Revenues	51,186	153,315	48,195	140,029
Cost of goods sold	(15,707)	(45,935)	(13,499)	(39,191)
Gross profit	35,479	107,380	34,696	100,838
Research and development	(2,471)	(8,490)	(2,058)	(7,179)
Selling, general and administrative expenses	(24,202)	(77,203)	(24,380)	(77,060)
Income (loss) from operations before non-recurring items	8,806	21,687	8,258	16,599
Non-recurring income	-	-	3,291	3,291
Income (loss) from operations	8,806	21,687	11,549	19,890
Financial income	125	393	87	191
Financial expenses	(529)	(1,721)	(829)	(2,695)
Foreign exchange income (loss)	(100)	12	(587)	(1,243)
Income (loss) before tax	8,302	20,371	10,220	16,143
Income tax	(2,477)	(5,754)	(2,565)	(4,134)
Net income (loss)	5,825	14,617	7,655	12,009

(in euros)				
Earnings per share				
- basic	0.20	0.51	0.27	0.43
- diluted	0.20	0.50	0.27	0.43
Shares used in calculating earnings per share				
- basic	28,813,597	28,680,548	28,107,423	28,068,477
- diluted	29,460,474	29,365,097	28,310,066	28,091,647

Statement of comprehensive income

(in thousands of euros)	Three months ended September 30, 2011	Nine months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2010
Net income (loss)	5,825	14,617	7,655	12,009
Currency translation adjustment	185	(68)	278	(366)
Effective portion of the change in fair value of currency hedges	-	-	274	74
Effective portion of the change in fair value of interest-rate swaps	62	697	368	717
Tax effect on the comprehensive income items	(23)	(235)	(214)	(264)
Comprehensive income (loss)	6,049	15,011	8,361	12,170

Consolidated statement of cash flows

(in thousands of euros)	Nine months ended September 30, 2011	Nine months ended September 30, 2010
I - OPERATING ACTIVITIES		
Net income (loss)	14,617	12,009
Depreciation and amortization	3,225	5,047
Non-cash operating expenses	165	(246)
Loss (profit) on sale of fixed assets	(4)	191
Changes in deferred income taxes, net value	2,267	2,308
Changes in inventories	(1,604)	(2,689)
Changes in trade accounts receivable	580	(674)
Changes in other current assets and liabilities	(4,334)	7,586
Net cash provided by (used in) operating activities	14,912	23,532
II - INVESTING ACTIVITIES		
Purchases of intangible assets	(747)	(891)
Purchases of property, plant and equipment	(1,622)	(607)
Proceeds from sales of intangible assets and property, plant and equipment	127	151
Purchases of financial assets	(202)	(435)
Proceeds from sales of financial assets	367	453
Net cash provided by (used in) investing activities	(2,077)	(1,329)
III - FINANCING ACTIVITIES		
Proceeds from issuance of ordinary shares	1,841	8
Dividends paid	(5,164)	-
Purchases of treasury shares	(763)	(239)
Sales of treasury shares	954	658
Proceeds from long term and short term borrowings	-	400
Repayments of long term and short term borrowings	(4,320)	(3,914)
Net cash provided by (used in) financing activities	(7,452)	(3,087)
Increase (decrease) in cash and cash equivalents	5,383	19,116
Cash and cash equivalents at the opening [(1)]	30,174	2,149
Increase (decrease) in cash and cash equivalents	5,383	19,116
Effect of changes in foreign exchange rates	(8)	(227)
Cash and cash equivalents at the closing	35,549	21,038
Free cash flow before non-recurring items	13,803	22,813
Non-recurring items of the free cash flow	(968)	(610)
Free cash flow	12,835	22,203
Income tax paid (reimbursed) [(2)]	136	(76)
Interest paid	1,175	2,125

(1) After deducting the amount of cash credit facilities used of €7.6 million at December 31, 2009. Cash credit facilities have not been used since June 30, 2010.

(2) This amount does not include repayments of (French) research tax credit

Consolidated statement of changes in equity

(in thousands of euros, except for par value per share expressed in euros)	Share capital							
	Number of shares	Par value per share	Total par value	Share premium	Treasury shares	Currency translation adjustment	Retained earnings and net income	Equity
Balances at January 1, 2010	28,495,514	0.97	27,641	1,033	(1,439)	(8,585)	6,039	24,689
Net income (loss)							12,009	12,009
Other comprehensive income (loss)						(366)	527	161
Comprehensive income (loss)						(366)	12,536	12,170
Exercised stock options	3,200	0.97	3	5				8
Fair value of stock options							137	137
Sale (purchase) of treasury shares					652			652
Profit (loss) on treasury shares							(155)	(155)
Balances at September 30, 2010	28,498,714	0.97	27,644	1,038	(787)	(8,951)	18,556	37,500
Balances at January 1, 2010	28,495,514	0.97	27,641	1,033	(1,439)	(8,585)	6,039	24,689
Net income (loss)							15,647	15,647
Other comprehensive income (loss)						(292)	682	390
Comprehensive income (loss)						(292)	16,329	16,037
Exercised stock options	3,500	0.97	3	5				9
Fair value of stock options							193	193
Sale (purchase) of treasury shares					1,053			1,053
Profit (loss) on treasury shares							51	51
Balances at December 31, 2010	28,499,014	0.97	27,644	1,039	(386)	(8,877)	22,612	42,032
Net income (loss)							14,617	14,617
Other comprehensive income (loss)						(68)	462	394
Comprehensive income (loss)						(68)	15,079	15,011
Exercised stock options	404,596	0.97	392	1,449				1,841
Fair value of stock options							158	158
Sale (purchase) of treasury shares					(197)			(197)
Profit (loss) on treasury shares							259	259
Dividends paid							(5,164)	(5,164)
Balances at September 30, 2011	28,903,610	0.97	28,037	2,487	(583)	(8,945)	32,944	53,941

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT SEPTEMBER 30, 2011

1. BUSINESS ACTIVITY

Lectra was established in 1973 and has been listed on NYSE Euronext (compartment C) since 1987. Lectra is the world leader in software, CAD/CAM equipment and related services dedicated to large-scale users of textiles, leather and industrial fabrics. Lectra addresses a broad array of major global markets, including fashion (apparel, accessories, and footwear), automotive (car seats and interiors, airbags), and furniture, as well as a wide variety of other industries, such as the aeronautical and marine industries, wind turbines, personal protective equipment, etc.

The company’s technology offering is geared to the specific needs of each market, enabling its customers to design, develop and manufacture their products (garments, seats, airbags, etc.). For the fashion industry, Lectra’s software applications also enable the management of collections and cover the entire product lifecycle (Product Lifecycle Management, or PLM). Lectra forges long-term relationships with its customers and provides them with full-line, innovative solutions.

The Group’s customers comprise large national and international corporations and medium-sized companies. Lectra helps them to overcome their major strategic challenges: e.g., cutting costs and boosting productivity; reducing time-to-market; dealing with globalization; developing secure electronic communications across the supply chain; enhancing quality; satisfying the demand for mass-customization; and monitoring and developing their corporate image and brands. The Group markets end-to-end solutions comprising the sale of software, CAD/CAM equipment and associated services (technical maintenance, support, training, consulting, sales of consumables and spare parts).

With the exception of certain products for which the company has formed long-term strategic partnerships, all Lectra software and equipment is designed and developed in-house. Equipment is assembled from sub-elements produced by an international network of subcontractors, and tested in the company’s main industrial facilities in Bordeaux–Cestas (France) where most of Lectra’s R&D is performed.

Lectra’s strength lies in the skills and experience of its nearly 1,350 employees worldwide, encompassing expert R&D, technical and sales teams with deep knowledge of its customers’ businesses.

The Group has been present worldwide since the mid-1980s. Based in France, the company serves 23,000 customers in more than 100 countries through its extensive network of 30 sales and services subsidiaries, which are backed by agents and distributors in some regions. Thanks to this unrivalled network, Lectra generated 92% of its revenues directly in 2010. Its five International Call Centers, at Bordeaux–Cestas (France), Madrid (Spain), Milan (Italy), Atlanta (U.S.A.) and Shanghai (China) cover Europe, North America and Asia. All of the company’s technologies are showcased in its International Advanced Technology & Conference Center at Bordeaux–Cestas (France) for Europe and international visitors, and its two International Advanced Technology Centers at Atlanta (U.S.A.) for North and South America, and Shanghai (China) for Asia and the Pacific. Lectra is geographically close to its customers wherever they are, with nearly 750 employees dedicated to marketing, sales and services. It employs 210 engineers dedicated to R&D, and 160 employees in industrial purchasing, assembly and testing of CAD/CAM equipment, and logistics.

Business Model

Lectra's business model comprises two types of revenue streams:

- revenues from new systems sales (new software licenses and CAD/CAM equipment, and related services), the company's growth driver;
- recurring revenues, consisting partly of recurring contracts (e.g., software evolution, CAD/CAM equipment maintenance and on-line support contracts), and partly of other statistically recurring revenues generated by the installed base (sales of spare parts and consumables, and per-call maintenance and support interventions). These recurring revenues are a key factor in the company's stability, acting as a cushion in periods of slow overall economic growth.

In addition, the business model is geared to generating free cash flow in excess of net income assuming utilization or receipt of the annual research tax credit applicable in France.

2. SUMMARY OF ACCOUNTING RULES AND METHODS

The consolidated financial statements are compliant with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board as adopted within the European Union, and available for consultation on the European Commission website:

http://ec.europa.eu/internal_market/accounting/ias/index_en.htm

The condensed consolidated financial statements at September 30, 2011 have been prepared in accordance with IAS 34 – Interim Financial Statements. They do not comprise all of the financial disclosures required in the complete annual financial statements and should be read in conjunction with the Group's consolidated financial statements and attached notes for the fiscal year 2010, available on the company's website (www.lectra.com).

They have been prepared in accordance with the same rules and methods as those applied in the preparation of the 2010 financial statements. They have been prepared under the responsibility of the Board of Directors at its meeting of October 27, 2011. They have not been the subject of a review by the Statutory Auditors.

The standards and interpretations adopted by the European Union as of January 1, 2011 had no impact on the Group's financial statements, i.e.:

- IAS 24 – Related party disclosures;
- IAS 32 amendment – Classification of rights issues;
- IFRS 1 amendment – Limited exemption from comparative IFRS 7 disclosures for first-time adopters;
- Annual improvements to IFRS 2010;
- IFRIC 19 – Extinguishing financial liabilities with equity instruments;
- IFRIC 14 amendment – Prepayments of a minimum funding requirement.

The Group has not adopted, before they became mandatory, any standards or interpretations whose application is not required for fiscal years starting January 1, 2011. It does not expect their adoption to have a material impact on the financial statements.

Comparability of the Group's interim and annual accounts may be affected by the slightly seasonal nature of the Group's business, which mostly achieves a higher level of revenues during the fourth quarter of the year. This notably applies to sales of new software licenses and CAD/CAM equipment. Moreover, overhead costs are reduced during the third quarter due to the summer holidays in France

and in European subsidiaries. These two items have a positive impact on the income from operations of those quarters.

Comparisons identified as “like-for-like” correspond to 2011 figures restated at 2010 exchange rates, in comparison with actual data for 2010.

Critical Accounting Estimates and Judgments

Preparation of the financial statements in accordance with IFRS demands that certain critical accounting estimates be made. Management is also required to exercise its judgment in applying the Group's accounting policies. Although such estimates are made in a particularly uncertain environment, the Group’s business model supports their relevance.

The areas involving a higher degree of judgment or complexity, or requiring material assumptions and estimates in relation to the consolidated financial statements, concern goodwill impairment and deferred taxation. The Group has reviewed its cash generating units (CGU) and has found no indication of any impairment of assets.

Revenues

Revenues from sales of hardware are recognized when the significant risks and benefits relating to ownership are transferred to the purchaser.

For hardware, or for software in cases where the company also sells the computer equipment on which the software is installed, these conditions are fulfilled upon physical transfer of the hardware in accordance with the contractual sale terms.

For software not sold with the hardware on which it is installed, these conditions are generally fulfilled at the time of installation of the software on the customer’s computer (either by CD-Rom or downloading).

Revenues from software evolution contracts and recurring services contracts are booked monthly over the duration of the contracts.

Revenues from the billing of services not covered by recurring contracts are recognized at the time of performance of the service or, where appropriate, on a percentage of completion basis.

Cost of Goods Sold

Cost of goods sold comprises all purchases of raw materials included in the costs of manufacturing, the change in inventory and inventory write-downs, all labor costs included in manufacturing costs which constitute the added value, freight-out costs on equipment sold, and a share of depreciation of the manufacturing facilities.

Cost of goods sold does not include salaries and expenses associated with service revenues, which are included under “Selling, General and Administrative Expenses”.

Research and Development

The technical feasibility of software and hardware developed by the Group is generally not established until a prototype has been produced or until feedback is received from its pilot sites, conditioning their commercialization. Consequently, the technical and economic criteria that render the recognition of R&D costs in assets at the moment they occur are not met, and R&D costs are therefore expensed in the year in which they are incurred.

The (French) research tax credit *(crédit d’impôt recherche)* as well as grants linked to R&D projects, if any, are deducted from R&D expenses.

Earnings per share

Basic net earnings per share are calculated by dividing net income by the weighted-average number of shares outstanding during the period, excluding the weighted average number of treasury shares.

Diluted net earnings per share are calculated by dividing net income by the weighted-average number of shares adjusted for the dilutive effect of stock options outstanding during the period and excluding the weighted average number of treasury shares held.

The dilutive effect of stock options is computed in accordance with the share repurchase method provided in the revised version of IAS 33. The assumed proceeds from exercise of stock options are regarded as having been used to repurchase shares at the average market price during the period. The number of shares thus obtained is deducted from the total number of shares resulting from the exercise of stock options.

Only options with an exercise price below the said average share price are included in the calculation of the number of shares representing the diluted capital.

Borrowings and Financial Debt

The non-current portion of borrowings and financial debt comprises the portion due in more than one year of:

- interest-bearing bank loans;
- non-interest bearing reimbursable advances corresponding to R&D grants.

The current portion of borrowings and financial debt comprises:

- the portion of bank loans, reimbursable advances and other borrowings and financial debt due in less than one year;
- cash facilities, where applicable.

Borrowings and financial debts are recognized initially at fair value.

At balance sheet date, borrowings and financial debt are stated at amortized cost using the effective interest rate method, defined as the rate whereby cash received equals the total cash flows relating to the servicing of the borrowing. Interest expenses on the bank loans and on the utilization of cash credit facilities are recognized as financial expenses in the income statement.

Free Cash Flow

Free cash flow is equal to net cash provided by operating activities minus cash used in investing activities—excluding cash used for acquisitions of companies (net of cash acquired).

Operating segments

Operating segment reporting is based directly on the company’s performance tracking and review systems. The operating segments presented in note 6 are identical to those covered by the information regularly communicated to the Executive Committee, in its capacity as the company’s “chief operating decision maker”.

Operating segments refer primarily to the marketing regions in the sense of the regions whose performance is reviewed by the Executive Committee. The regions concerned are: the “Americas”, “Europe”, “Asia-Pacific”, and the “Rest of the World”, where the company operates chiefly in Northern Africa, South Africa, Turkey, Israel, and the Middle East. These regions are involved in sales and the provision of services to their customers. They do not perform any industrial activities or R&D. They draw on centralized competencies and a wide array of functions that are pooled among all of the regions, including marketing, communication, logistics, procurement, finance, legal affairs, human resources, information systems, etc. All of these cross-divisional activities are reported as an additional operating segment referred to here as the “Corporate” segment.

Performance is measured by the segment's income from operations before non-recurring items and impairment of assets, if any. Marketing regions derive their revenues from external customers; all inter-segment billings are excluded from this item. The gross profit margin rates used to determine operating performance are identical for all regions. They are computed for each product line and include value added supplied by the Corporate segment. Consequently, for products or services supplied in full or in part by the Corporate segment, a percentage of consolidated gross profit is retained in the income computed for the Corporate segment sufficient to cover its costs. Because the Corporate segment's general overheads are mainly fixed costs, its gross profit and consequently its income from operations therefore depend mainly on the volume of business billed by these regions.

3. SCOPE OF CONSOLIDATION

At September 30, 2011, the Group's scope of consolidation comprised Lectra S.A. together with 25 fully-consolidated companies.

There were no changes in the scope of consolidation during the first nine months of 2011.

Five sales and service subsidiaries are not consolidated, their revenues being immaterial both separately and in the aggregate. At September 30, 2011, their combined revenues totaled €1.5 million, and their combined assets in their statement of financial position totaled €2 million. They had no non-Group financial debt. Most of these subsidiaries' sales activity is billed directly by the parent company, Lectra SA.

Transactions with these related parties mainly refer to purchases from the parent for the purposes of their local activity, or to expenses and commissions billed to the parent in order to cover their operating costs when acting as an agent. The amount concerned by these transactions was not material in 2011.

4. CONSOLIDATED STATEMENT OF INCOME—LIKE-FOR-LIKE CHANGE

4.1 Q3 2011

	Three Months Ended September 30				
	2011		2010	Changes 2011/2010	
(in thousands of euros)	Actual	At 2010 exchange rates	Actual	Actual	Like-for-like
Revenues	51,186	52,606	48,195	+6%	+9%
Cost of goods sold	(15,707)	(15,892)	(13,499)	+16%	+18%
Gross profit	35,479	36,714	34,696	+2%	+6%
(in % of revenues)	69.3%	69.8%	72.0%	-2,7 points	-2,2 points
Research and development	(2,471)	(2,471)	(2,058)	+20%	+20%
Selling, general and administrative expenses	(24,202)	(24,694)	(24,380)	-1%	+1%
Income from operations before non-recurring items	8,806	9,549	8,258	+7%	+16%
(in % of revenues)	17.2%	18.2%	17.1%	+0,1 point	+1,1 point
Non-recurring income	-	-	3,291	ns	ns
Income from operations	8,806	9,549	11,549	-24%	-17%
(in % of revenues)	17.2%	18.2%	24.0%	-6,8 points	-5,8 points
Profit before tax	8,302	9,045	10,220	-19%	-11%
Income tax	(2,477)	na	(2,565)	-3%	na
Net income	5,825	na	7,655	-24%	na

4.2 First Nine Months of 2011

	Nine Months Ended September 30				
	2011		2010	Changes 2011/2010	
(in thousands of euros)	Actual	At 2010 exchange rates	Actual	Actual	Like-for-like
Revenues	153,315	156,675	140,029	+9%	+12%
Cost of goods sold	(45,935)	(46,252)	(39,191)	+17%	+18%
Gross profit	107,380	110,423	100,838	+6%	+10%
(in % of revenues)	70.0%	70.5%	72.0%	-2,0 points	-1,5 point
Research and development	(8,490)	(8,490)	(7,179)	+18%	+18%
Selling, general and administrative expenses	(77,203)	(78,092)	(77,060)	0%	+1%
Income from operations before non-recurring items	21,687	23,841	16,599	+31%	+44%
(in % of revenues)	14.1%	15.2%	11.9%	+2,2 points	+3,3 points
Non-recurring income	-	-	3,291	ns	ns
Income from operations	21,687	23,841	19,890	+9%	+20%
(in % of revenues)	14.1%	15.2%	14.2%	-0,1 point	+1,0 point
Profit before tax	20,371	22,526	16,143	+26%	+40%
Income tax	(5,754)	na	(4,134)	+39%	na
Net income	14,617	na	12,009	+22%	na

5. BREAKDOWN OF REVENUES—LIKE-FOR-LIKE CHANGE

5.1 Q3 2011

Revenues by geographic region

(in thousands of euros)	2011 Actual	2011 %	2011 At 2010 exchange rates	2010 Actual	2010 %	Changes 2011/2010 Actual	Changes 2011/2010 Like-for-like
Europe, of which :	25,896	51%	25,958	23,942	50%	+8%	+8%
- France	5,124	10%	5,124	4,592	10%	+12%	+12%
Americas	12,254	24%	13,196	9,893	21%	+24%	+33%
Asia-Pacific	10,951	21%	11,323	11,550	24%	-5%	-2%
Other countries	2,085	4%	2,128	2,810	6%	-26%	-24%
Total	51,186	100%	52,605	48,195	100%	+6%	+9%

Three Months Ended September 30

Revenues by product line

(in thousands of euros)	2011 Actual	2011 %	2011 At 2010 exchange rates	2010 Actual	2010 %	Changes 2011/2010 Actual	Changes 2011/2010 Like-for-like
Software, of which :	13,673	27%	13,995	13,428	28%	+2%	+4%
- New licenses	6,203	12%	6,368	5,889	12%	+5%	+8%
- Software evolution contracts	7,470	15%	7,627	7,539	16%	-1%	+1%
CAD/CAM equipment	16,291	32%	16,871	14,062	29%	+16%	+20%
Hardware maintenance and on-line services	8,638	17%	8,810	8,948	19%	-3%	-2%
Spare parts and consumables	10,603	21%	10,904	9,768	20%	+9%	+12%
Training and consulting services	1,838	4%	1,879	1,889	4%	-3%	-1%
Miscellaneous	143	0%	146	100	0%	+43%	+46%
Total	51,186	100%	52,605	48,195	100%	+6%	+9%

Three Months Ended September 30

Breakdown of revenues between new systems sales and recurring revenues

(in thousands of euros)	2011 Actual	2011 %	2011 At 2010 exchange rates	2010 Actual	2010 %	Changes 2011/2010 Actual	Changes 2011/2010 Like-for-like
Revenues from new systems sales[1]	24,476	48%	25,263	21,941	46%	+12%	+15%
Recurring revenues[2], of which :	26,710	52%	27,342	26,254	54%	+2%	+4%
- Recurring contracts	15,655	31%	15,981	16,064	33%	-3%	-1%
- Other recurring revenues on the installed base	11,055	21%	11,361	10,190	21%	+8%	+11%
Total	51,186	100%	52,605	48,195	100%	+6%	+9%

Three Months Ended September 30

[1] Revenues from sales of new systems comprise sales of new software licenses, CAD/CAM equipment, PC's and peripherals, and related services.

[2] Recurring revenues fall into two categories :

- software evolution, hardware maintenance and online support contracts, which are renewable annually,

- revenues from sales of spare parts and consumables, and one-off interventions, on the installed base, which are statistically recurrent.

5.2 First Nine Months of 2011

(in thousands of euros)	Nine Months Ended September 30						
	2011			2010		Changes 2011/2010	
	Actual	%	At 2010 exchange rates	Actual	%	Actual	Like-for-like
Europe, of which :	77,712	51%	77,654	71,282	51%	+9%	+9%
- France	16,002	10%	16,002	14,003	10%	+14%	+14%
Americas	32,247	21%	34,233	30,142	21%	+7%	+14%
Asia-Pacific	35,715	23%	37,096	30,369	22%	+18%	+22%
Other countries	7,641	5%	7,692	8,236	6%	-7%	-7%
Total	153,315	100%	156,675	140,029	100%	+9%	+12%

Revenues by product line

(in thousands of euros)	Nine Months Ended September 30						
	2011			2010		Changes 2011/2010	
	Actual	%	At 2010 exchange rates	Actual	%	Actual	Like-for-like
Software, of which :	41,719	27%	42,386	40,029	29%	+4%	+6%
- New licenses	19,650	13%	20,063	17,688	13%	+11%	+13%
- Software evolution contracts	22,069	14%	22,323	22,341	16%	-1%	0%
CAD/CAM equipment	46,762	31%	48,560	37,672	27%	+24%	+29%
Hardware maintenance and on-line services	25,814	17%	26,076	26,908	19%	-4%	-3%
Spare parts and consumables	31,956	21%	32,526	28,841	21%	+11%	+13%
Training and consulting services	6,675	4%	6,735	6,165	4%	+8%	+9%
Miscellaneous	389	0%	392	414	0%	-6%	-5%
Total	153,315	100%	156,675	140,029	100%	+9%	+12%

Breakdown of revenues between new systems sales and recurring revenues

(in thousands of euros)	Nine Months Ended September 30						
	2011			2010		Changes 2011/2010	
	Actual	%	At 2010 exchange rates	Actual	%	Actual	Like-for-like
Revenues from new systems sales[(1)]	73,476	48%	75,749	61,938	44%	+19%	+22%
Recurring revenues[(2)], of which :	79,839	52%	80,926	78,091	56%	+2%	+4%
- Recurring contracts	46,544	30%	47,055	47,915	34%	-3%	-2%
- Other recurring revenues on the installed base	33,295	22%	33,871	30,176	22%	+10%	+12%
Total	153,315	100%	156,675	140,029	100%	+9%	+12%

[(1)] Revenues from sales of new systems comprise sales of new software licenses, CAD/CAM equipment, PC's and peripherals, and related services.

[(2)] Recurring revenues fall into two categories :

- software evolution, hardware maintenance and online support contracts, which are renewable annually,

- revenues from sales of spare parts and consumables, and one-off interventions, on the installed base, which are statistically recurrent.

Breakdown of revenues from new systems sales by market sector

(in thousands of euros)	Nine Months Ended September 30						
	2011			2010		Changes 2011/2010	
	Actual	%	At 2010 exchange rates	Actual	%	Actual	Like-for-like
Fashion (apparel, accessories, footwear)	39,496	54%	40,403	32,681	53%	+21%	+24%
Automotive	24,441	33%	25,607	16,268	26%	+50%	+57%
Furniture	4,840	7%	4,832	4,977	8%	-3%	-3%
Other industries	4,699	6%	4,907	8,011	13%	-41%	-39%
Total	73,476	100%	75,749	61,938	100%	+19%	+22%

6. OPERATING SEGMENT INFORMATION

As at September 30, 2010 (in thousands of euros)	Europe	Americas	Asia-Pacific	Other countries	Corporate segment	Total
Revenues	71,281	30,142	30,369	8,237	-	140,029
Income (loss) from operations before non-recurring items	6,225	(559)	315	873	9,745	16,599

As at September 30, 2011 (in thousands of euros)	Europe	Americas	Asia-Pacific	Other countries	Corporate segment	Total
Revenues	77,712	32,247	35,715	7,641	-	153,315
Income from operations before non-recurring items	7,875	548	624	1,133	11,507	21,687

Income from operations, which is obtained by adding together the income for each segment, is identical to consolidated income from operations shown in the Group's consolidated financial statements and therefore does not require reconciliation.

7. CONSOLIDATED CASH FLOW SUMMARY

(in millions of euros)	Cash and cash equivalent	Financial debts	Net cash (+) Net debt (–)
Free cash flow before non-recurring items	13.8	-	13.8
Non-recurring items included in free cash flow	(1.0)	-	(1.0)
Proceeds from issuance of ordinary shares [1]	1.8	-	1.8
Sale and purchase of treasury shares [2]	0.2	-	0.2
Dividends paid	(5.2)	-	(5.2)
Change in borrowings	(4.3)	4.3	-
Impact of currency variations - other	(0.0)	-	(0.0)
Change in cash position for the period	5.4	4.3	9.7
Cash and cash equivalents at December 31, 2010	30.2	(32.6)	(2.4)
Cash and cash equivalents at September 30, 2011	35.5	(28.3)	7.3
Change in cash position for the period	5.4	4.3	9.7

(1) Resulting solely from the exercise of stock options.

(2) Carried out solely under the Liquidity Agreement administered by SG Securities (Société Générale) in the framework of the stock buyback program approved by the April 30, 2010 and April 29, 2011 General Shareholders' Meetings.

Free cash flow at September 30, 2011 amounts to €12.8 million.

Excluding the disbursements of non-recurring items (corresponding to the costs of restructuring measures deployed at the end of last year and provisioned in the 2010 financial statements), free cash flow was €13.8 million. This figure results from a combination of €15.9 million in cash flows provided by operating activities (out of which an increase in working capital requirement of €4.4 million) and of €2.1 million in capital expenditures.

The main variations are:

- +€1.6 million corresponding to an increase in inventories, due to the steep increase in revenues from CAD/CAM equipment and spare parts and consumables;
- −€0.6 million corresponding to a new decrease in customer accounts receivable, although revenues have risen;
- −€4 million corresponding to an increase in trade accounts payable as a result of the sharp rise in volumes purchased for the production of CAD/CAM equipment and spare parts and consumables;
- +€4 million arising from the research tax credit for the quarter, recognized but not received;
- +€2.5 million arising from payment in the first quarter of the variable portion of salaries for the Group and of the incentive plan of the parent company Lectra SA (*prime d'intéressement)* in respect of fiscal 2010.

The total increase in working capital requirement, including €1 million of non-recurring items, amounted to €5.4 million.

As approved by the Shareholders' Meeting of April 29, 2011, the company declared a dividend of €0.18 per share in respect of fiscal year 2010, representing a total amount of €5.2 million, which was paid on May 10, 2011.

8. LITIGATION WITH INDUYCO PENDING

See note 23 to the 2010 consolidated financial statements for a detailed discussion of this dispute.

In its ruling on October 21, 2009, the International Court of Arbitration awarded Lectra €26 million (as of September 30, 2011)

In June 2005, Lectra initiated arbitration proceedings against Induyco (a member of the Spanish group El Corte Inglés), the former shareholder of Investronica Sistemas, following the acquisition of this company. Under the stock purchase agreement signed on April 2, 2004, the parties agreed that any disputes arising out of the stock purchase agreement would be finally settled by international arbitration under the Rules of the International Chamber of Commerce in London, England.

In its decision of October 21, 2009, the international arbitral tribunal awarded Lectra €21.7 million (plus interest):

- award on the merits: €15.1 million (plus interest since June 30, 2005 and post-award interest until payment);
- award as costs: €6.6 million (plus post-award interest from the time of the decision until payment).

Induyco refused to honor the award, which was binding on it under international law, and commenced an action in England to set aside the award (the London High Court of Justice dismissed this action in

its entirety and denied leave to appeal). Induyco also commenced proceedings in Spain to prevent Lectra from recovering the amounts due to it under the award.

Following the September 20, 2010 decision of the Madrid Court of Appeals, Lectra called on the first demand bank guarantees provided by Induyco and received €15.1 million.

In view of Induyco's persistent refusal to pay the outstanding €10.9 million still due, Lectra commenced an action of exequatur before the Madrid Court of First Instance at the end of December 2010, in order to enforce in Spain the arbitral award and recover the remaining amounts owed by Induyco.

In its decision of exequatur issued on June 27, 2011, the Madrid Court of First Instance recognized the arbitral award rendered against Induyco in October 2009 by the International Arbitral Tribunal. The Madrid Court of First Instance has thus recognized the award is valid and enforceable in Spain and rejected Induyco's challenge to exequatur.

This decision of the Madrid Court of First Instance, against which Induyco has appealed (its conclusions were filed at the end of October), represents a major milestone in the settlement of this dispute. It reinforces Lectra in its commitment to vigorously enforce its rights and to recover the full amount due to it under the award.

The Company Has Recognized Only €15.1 Million of the Full Amount of the €26 Million Arbitral Award

In the 2010 consolidated financial statements, the receipt of €15.1 million resulted in a €6.1 million reduction in goodwill and a net non-recurring gain of €3.3 million resulting from a non-recurring gain of €9 million less legal costs (€5.7 million) previously recognized in other current assets.

Induyco having appealed the June 27, 2011 decision, this decision does not modify the accounting of the award in the company's financial statements: the balance (€10.9 million) of the total amount of the award (€26 million at September 30, 2011) was not recorded in the financial statements and will only be recorded upon its receipt.

As all of the costs incurred by Lectra have already been paid, execution of the arbitral decision will result in a cash inflow equal to the balance of the award still owed by Induyco.

9. TREASURY SHARES

Under the Liquidity Agreement administered by SG Securities (Paris), from January 1 to September 30, 2011, the company purchased 133,717 shares and sold 177,124 shares at an average purchase price of €5.70 and €5.39 respectively.

Consequently, at September 30, 2011, the company held 100,333 Lectra shares (or 0.3% of share capital) with an average purchase price of €5.81 entirely under the Liquidity Agreement.

10. BANK BORROWINGS AND LIQUIDITY

10.1 Medium-term Bank Loan of €48 million

In 2007, the company contracted a €48 million medium-term bank loan from Société Générale and Natixis in order to finance the public stock buyback tender offer for 20% of the company's share capital, carried out in May 2007, at a price of €6.75 per share.

The first two half-yearly installments of €3.8 million each were repaid on June 30 and December 31, 2010. Additionally, and in light of its sharply improved cash position in the course of 2010, the company made a voluntary repayment of €10 million on December 31, 2010, ahead of the scheduled

repayment date. This voluntary repayment replaced the contractual half-yearly installments due in respect of 2011, which are consequently reduced to €0.6 million at December 31, 2011.

A supplemental repayment of €3.8 million took place on June 30, 2011 pursuant to the excess cash flow clause in the loan contract, in virtue of the sharp increase in cash and cash equivalents as at December 31, 2010.

The balance outstanding on the loan, i.e. €25.9 million, is repayable in four half-yearly installments as from June 30, 2012—the first two for €5.3 million each (on June 30 and December 31, 2012), the following one for €9.6 million (June 30, 2013) and the last one for €5.8 million (on December 31, 2013). Repayments may be scheduled to accelerate relative to this timetable, under the terms of the contract, depending on the increase of cash and cash equivalents at December 31, 2011.

Moreover, the contract provides for accelerated repayment of the portion actually collected of the arbitral award against Induyco. The receipt of €15.1 million in 2010 has not given rise to early repayment, the threshold above which this clause applies not having been reached in regard to the aggregate legal fees and costs incurred by Lectra since the start of the proceedings, these being deducted from the indemnity received for the purpose of calculating a repayment, if applicable. On the other hand, receipt of the balance of the arbitral award (€10.8 million) still owed by Induyco will give rise to early repayment amounting to almost 50% of the total amount to be received.

The repayment dates of the borrowing used in the table in note 10.2 are the contractual payment dates, at the latest without taking into account the accelerated repayments under the various contract clauses concerned.

Further, the company is bound during the period of the loan to respect at December 31 of each year the covenants governing the ratios between its net financial borrowing and shareholders' equity ("gearing") on the one hand, and between net financial borrowing and EBITDA ("leverage") on the other. A loan covenant provides for early repayment of the loan in its entirety in the event of failure to comply with these ratios; in that event the company would recontact its banks in order to come to a satisfactory arrangement.

The ratios to be respected at December 31 of each year until the maturity of this loan are as follows:

	2011	2012
Leverage	< 1.7	< 1.7
Gearing	< 1	< 1

The ratio of net financial borrowing to shareholders' equity (gearing) and the leverage ratio were both equal to 0.1 for fiscal year 2010. The company considers that it will be in compliance with both covenants at December 31, 2011.

At the same time, the loan contract entitles the banks to demand early repayment of the balance of the loan outstanding under a "change of control" clause in the event that one or more of the company's shareholders, acting in concert—with the exception of André Harari and/or Daniel Harari—came to hold more than 50% of the share capital and/or voting rights.

Furthermore, the company has undertaken to limit its capital expenditures to €10 million per year and the dividends distributed to 50% of the consolidated net income for the year elapsed, subject to certain conditions (if less than 50% of consolidated net income for a given year has been distributed, the difference relative to 50% may be distributed in subsequent years). Payment of the total dividend of €5.2 million in respect of fiscal 2010 is consistent with this condition.

The loan carries interest at the 3-month Euribor rate plus a margin that was set at 1.85% per year as from January 1, 2009. As provided under the contract, this margin was reduced to 0.95% per year as from January 1, 2011 given the leverage ratio of fiscal year 2010.

The company hedged in 2007 its interest-rate risk exposure on part of the loan by converting this floating rate into a fixed rate via two interest-rate swaps *(see note 11 below)*. The total effective interest rate after including the cost of the hedging instruments and amounts hedged is 5.72% in first nine months of 2011.

10.2 Schedule of Borrowings by Category and by Maturity

At September 30, 2011, the repayment schedule is as follows:

	Short term	Long term		
(in thousands of euros)	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Bank loan	5,840	20,640	-	26,480
Interest-free repayable advances [1]	496	1,302	-	1,798
Cash facilities	-	-	-	-
Total	6,336	21,942	-	28,278

(1) The repayable advances correspond to public grants to finance R&D programs.

10.3 Cash and Cash Equivalents and Net Cash

The €14 million in cash facilities outstanding at December 31, 2010 expired in June 2011. The company did not intend to renew these cash facilities, in light of the cash surplus available to it.

Based on cash and cash equivalents available at September 30, 2011, total liquidity available to the company amounted to €35.5 million. Net cash therefore totaled €7.3 million (versus net financial borrowings of €2.4 million at December 31, 2010).

11. INTEREST-RATE HEDGING INSTRUMENTS

As stated in note 10 above, the company has hedged its exposure to the interest-rate risk on part of the €48 million medium-term bank loan, converting the floating rate payable on the loan (3-month Euribor rate) into a fixed rate via two interest-rate swaps contracts. The interest-rate has been hedged on the basis of the best estimate of the amount of the loan over the different periods covered, having due regard to the contract terms.

Since the face value of these swaps remains lower than the face value of the loan, they meet the hedge accounting criteria as defined by IFRS. Their fair value at September 30, 2011 is a negative €0.5 million. The effective portion, corresponding to their full fair value, is entirely recognized in shareholders' equity. No ineffective part has been booked in net financial expenses during the first nine months of 2011.

As at January 1, 2011, the nominal value of interest-rate swaps has been reduced to €30 million. This amount has been reduced to €18 million at July 1, 2011, and will be reduced to €13 million at January 1, 2012, and €5 million at July 1, 2012 and until December 31, 2012, when the swaps expire.

Consequently, and in the theoretical event that the 3-month Euribor rate remains identical to that at October 21, 2011 (1.59%), the total effective implied interest rate including the cost of the hedging instruments and the amounts hedged would be 4.72% in Q4 of 2011, 4.17% in the first half of 2012, 3.34% in the second half of 2012, and 2.57% in 2013.

12. CURRENCY RISK

The Group's exposure to currency risks and its currency risk management policy are unchanged relative to December 31, 2010.

During the first nine months of 2011, the average dollar/euro parity was $1.41/€1.

Exchange Risk Hedging Instruments

Exchange risk hedging instruments at September 30, 2011 are comprised of forward sales or purchases of foreign currencies (mainly U.S. dollars, Canadian dollars, Japanese yen, and British pounds) for a net total equivalent value (sales minus purchases) of €1 million, intended to hedge existing positions.

On October 5, 2011, the company has hedged its exposure to the U.S. dollar for the fourth quarter of 2011 by means of forward sales at a parity of $1.33/€1.

13. SENSITIVITY ANALYSIS

Sensitivity of Income from Operations to a Change in the Revenues from New Systems Sales

Under the company's business model, each €1 million increase (or decrease) in revenues from new systems sales results in a rise (or fall) in income from operations of approximately €0.45 million.

Sensitivity of Revenues and Income from Operations to a Change in the Dollar/Euro Parity

The average parity assumed for the 2011 budget was $1.35/€1 (versus an actual parity of $1.32/€1 in 2010 and $1.41/€1 in the first nine months of 2011).

The average euro/dollar parity assumed for Q4 2011 is $1.40/€1. Given the estimated share of revenue and expenses denominated in dollars or in currencies correlated with the dollar, an average rise of $0.05 in the dollar against the euro (bringing the parity from $1.40/€1 to $1.35/€1) would mechanically increase fourth quarter revenues by around €0.7 million and income from operations by €0.4 million. Conversely, a $0.05 fall in the dollar against the euro (bringing the average parity to $1.45/€1) would reduce revenues and income from operations by the same amounts. These amounts take into consideration an increase in the portion of revenues denominated in dollars compared to the company's estimates of the beginning of the year.

In light of the hedges put in place for the fourth quarter *(see note 12)*, a rise in the euro pushing the parity above the threshold of $1.33/€1 would have only a limited impact on net income, reduced income from operations being offset by an equivalent translation gain.

14. TAX AUDIT OF LECTRA SA

A tax audit has been ongoing since June 2010 at the parent company, Lectra SA, concerning fiscal years 2008 and 2009, and was completed in the first quarter of 2011. The tax arrears notified by the tax authorities to the company chiefly concern the (French) research tax credit. Their amount is not deemed material and was fully provisioned at December 31, 2010.