MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS FOR THE THIRD QUARTER AND FIRST NINE MONTHS OF 2010

To all Shareholders,

We report below on the Lectra Group's business activity and consolidated financial statements for the third quarter (Q3) and the first nine months of 2010, ending September 30.

To make the discussion of revenues and earnings as relevant as possible, detailed comparisons between 2010 and 2009 are based on 2009 exchange rates ("like-for-like") unless stated otherwise.

1. SUMMARY OF OPERATIONS FOR Q3 2010

With an average parity of $1.29/€1, the U.S. dollar was up 11% compared to the third quarter of 2009. This evolution, and that of other currencies, mechanically increased revenues by 6% and income from operations by €1.3 million at actual exchange rates, compared to like-for-like figures.

Financial Results Rise Sharply Again, Exceeding the Company's Expectations

The third quarter of 2010 confirmed the very clear rebound in sales activity registered in Q1 and Q2 2010.

At a total of €21.0 million, orders for new software licenses and CAD/CAM equipment were up 74% like-for-like and 86% at actual exchange rates compared to Q3 2009 (€11.3 million).

Revenues totaled €48.2 million, up 27% relative to Q3 2009—up 34% at actual exchange rates.

Revenues from new systems sales (€21.9 million) were up 71%. Recurring revenues (€26.3 million) rose by 5%, which represents both a 4% decrease in revenues from recurring contracts and a 25% 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 three previous quarters.

Income from operations before non-recurring items amounted to €8.3 million, well in excess of the company's expectations. This can be attributed to a sales rebound that was stronger than anticipated, higher gross profit margins for each product line, lower overhead costs, and more favorable exchange rates. Like-for-like, income from operations before non-recurring items rose €6.9 million relative to the slightly positive Q3 2009 income of €0.1 million.

At 17.1%, the operating margin before non-recurring items reached a new milestone in the company's history. In Q3 2009, it was slightly positive, at 0.2%. The year-on-year increase is thus 15.1 percentage points, like-for-like.

Lectra Receives €15.1 Million following the October 2009 Award Rendered by the International Arbitral Tribunal against Induyco

The September 20, 2010, decision issued by the Madrid Court of Appeals, permitted Lectra to call on the first demand bank guarantees granted by Induyco and enabled Lectra to receive €15.1 million on October 7 (*see Chapter 3 below and Chapter 8 of the notes to this report)*.

At June 30, 2010, the company had not recorded in its accounts the amounts awarded by the arbitral tribunal.

In the Q3 consolidated financial statements, the decision of the Madrid Court of Appeals and the receipt of €15.1 million have resulted in a €6.1 million reduction in goodwill and a non-recurring gain of €9 million, less legal costs (€5.7 million) previously recognized in other current assets. The net non-recurring gain is therefore €3.3 million.

The counterpart of these items, in the statement of financial position at September 30, has been recognized as a claim of €15.1 million on Induyco, which was received on October 7.

In parallel, the London High Court of Justice had ordered Induyco to reimburse Lectra's legal costs in connection with a failed action brought by Induyco to set aside the arbitral award. This ruling has given rise to a gain of €0.5 million, of which €0.2 million was received in Q3 and €0.3 million in October. The reimbursed costs having initially been recognized in operating expenses, this gain has resulted in a reduction in operating expenses for Q3

Income from operations, after accounting for non-recurring items, amounted to €11.5 million.

Net Income Exceptionally High

The company registered a net income of €7.7 million, thanks to strong performance during the quarter and non-recurring items relating to the Induyco litigation. This represents an increase of €7.5 million at actual exchange rates, compared to the net income of €0.1 million in Q3 2009.

Free cash flow was positive at €3.4 million (–€1 million in Q3 2009). This amount does not include the €15.1 million received from calls on the bank guarantees relating to the Induyco litigation after the closing of the quarter.

Excluding the impact of the French research tax credit (€1.5 million recognized in Q3 2010 but not received), free cash flow was positive at €4.9 million.

2. CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST NINE MONTHS OF 2010

With an average parity of $1.32/€1 for the first nine months of 2010, the U.S. dollar was up 4% compared to the first nine months of 2009. This evolution, and that of other currencies (most of which appreciated against the euro) mechanically increased revenues by 3% and income from operations by €2.4 million at actual exchange rates, compared to like-for-like figures.

Orders, Revenues, Earnings, and Free Cash Flow Rise Sharply, Exceeding the Company's Expectations

Sales activity bounced back faster and more strongly in the first nine months than expected at the beginning of the year. This has been one of the positive surprises of the year, reinforced by the strength of the company's leading-edge technology and services offer, as well as its superiority over its competitors.

Revenues (€140 million) are up 22% like-for-like, and 27% at actual exchange rates. These revenues, together with an increase in gross profit margin and lower overhead costs, have led to an income from operations before non-recurring items of €16.6 million. This represents an operating margin before non-recurring items of 11.9%.

Free cash flow, meanwhile, reached a record €22.2 million.

Orders

Overall, orders for new software licenses and CAD/CAM equipment amounted to €56.5 million, up 69% relative to the first nine months of 2009. Orders for new software licenses increased by 48%, and those for CAD/CAM equipment were up 81%.

It should be noted, however, that orders for the first three quarters of 2009, which were severely affected by the crisis, had fallen 59% relative to the same quarters of 2007. As a result, and despite a sharp rise, orders are still down 31% compared to 2007. This comparison with figures for 2007, the last year before the onset of the economic and financial crisis, provides a better gauge of its impact on sales and the progressive return to normal activity.

Orders booked in the Asia-Pacific region jumped 129% (163% in China); in the Americas they rose 60%; and in Europe, where certain countries are still suffering the effects of the crisis, they rose 48%. Sales in the rest of the world (Northern Africa, South Africa, Turkey, the Middle East, etc.) advanced 42%. Overall, growth was driven by the emerging countries (+102%), where orders are practically back at their 2007 levels, whereas in the developed countries as a whole (+44%) they still lag behind by around 45% compared to 2007.

All market sectors—fashion, automotive, furniture and other industries—contributed to this rebound in orders. The automotive sector registered a threefold increase.

Revenues

Revenues for the first nine months of 2010 totaled €140 million, up 22% like-for-like, and 27% at actual exchange rates, compared to the first nine months of 2009.

The increase reached 11% in Europe, 27% in the Americas, and 55% in the Asia-Pacific region. These three regions respectively accounted for 51% (France accounting for 10%), 21%, and 22% of total revenues. Revenues from the rest of the world (6% of total Group revenues) increased by 22%.

Revenues from New Systems Sales

Revenues from new software licenses (€17.7 million) increased by 39% and contributed 13% of total revenues (compared to 11% in the first nine months of 2009).

CAD/CAM equipment revenues (€37.7 million) were up 76% and accounted for 27% of total revenues (19% in 2009).

Revenues from training and consulting (€6.2 million) were up 9%.

Overall, revenues from new systems sales (€61.9 million) increased by 54% and represented 44% of total revenues (compared to 35% in 2009). This increase of 9 percentage points of their relative share in total revenues reflects a return to buoyant sales activity.

Revenues from Recurring Contracts and Spare Parts and Consumables

Recurring revenues (€78.1 million) increased by €4.0 million (+6%). They accounted for 56% of total revenues (compared to 65% in 2009).

Revenues from recurring contracts—which represented 61% of recurring revenues and 34% of total revenues—totaled €47.9 million. The 4% decline relative to the first nine months of 2009 stems from an unusually high cancellation rate in 2009, resulting from reduced activity levels, shutdowns, and cost-cutting measures implemented by numerous customers, which had already caused a steady quarter-by-quarter decline.

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

- Revenues from software evolution contracts (€22.3 million), which decreased 3% compared to 2009 and represented 16% of total revenues;
- Revenues from CAD/CAM equipment maintenance contracts and from subscription contracts to the Group's five International Call Centers (€25.6 million), which decreased by 5% and represented 18% of total revenues.

Meanwhile, revenues from spare parts and consumables (€28.8 million) grew by 28%.

Order Backlog

Despite rising sharply, revenues from new software licenses and CAD/CAM equipment are lower than orders booked in the period. As a result, the order backlog for new software licenses and CAD/CAM equipment (€15.7 million) at September 30, 2010, increased by €2.8 million relative to December 31, 2009, and by €6.1 million relative to September 30, 2009. The order backlog comprised €13.1 million for shipment in Q4 2010 and €2.6 million in 2011.

Gross Profit Margin

The overall gross profit margin worked out to 72%. Like-for-like, it came to 71.4%, up 0.1 percentage point relative to the first nine months of 2009 (71.3%).

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. Their margins being lower than the margins of the other revenue components, this should have mechanically led to a decrease in the overall gross profit margin. However, this impact was more than offset by the clear increase in gross profit margins, like-for-like, for each product line, in particular for CAD/CAM equipment. This excellent performance is one of the successes of the 2010 action plan and once again demonstrates the competitiveness and high added value of Lectra's offer.

It should be noted 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 €84.2 million, down €1.8 million (-2%) compared to the first nine months of 2009. They break down as follows:

- €74.9 million in fixed overheads costs and allowances, down €7.2 million (-9%) thanks to cost-cutting measures implemented in 2009. This excellent performance is also one of the successes of the 2010 action plan;
- €9.3 million in variable costs, an increase of €5.3 million (+149%) reflecting 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 €11.9 million and represented 8.5% of revenues (compared to €11.8 million and 10.7% in 2009). Such a level is testament to the company's ongoing, significant efforts in this area. Net R&D costs after deduction of the research tax credit and grants amounted to €7.2 million (€6.5 million in 2009).

Income from Operations and Net Income

Income from operations before non-recurring items reached €16.6 million. Like-for-like, it amounted to €14.2 million, up €19.6 million relative to the loss of €5.4 million in the first nine months of 2009. At actual exchange rates, income from operations before non-recurring items improved by €22 million, while revenues increased €29.4 million; the increase in income from operations before non-recurring items is therefore equivalent to 75% of the increase in revenues.

This noteworthy performance can be attributed to action taken in 2009 to boost gross margins and curb overhead costs, which has resulted in a significant improvement in the Group's key operating ratios in 2010, as well as to the favorable evolution of exchange rates. It also reflects the leverage effect which occurs with any increase in new systems sales.

The margin on operations well exceeded the 10% threshold, at 11.9%. Like-for-like, the margin on operations increased 15.4 percentage points compared to the negative margin of 4.9% at September 30, 2009.

Including a non-recurring income of €3.3 million in connection with the €15.1 million resulting from calls on the bank guarantees pursuant to the arbitral procedure against Induyco, net income after non-recurring items was €19.9 million.

Financial income and expenses represented a net charge of €2.5 million. The balance of foreign exchange gains and losses was negative at €1.2 million.

After an income tax charge of €4.1 million, net income was €12 million, an increase of €16.2 million, at actual exchange rates, compared to the net loss of €4.2 million in the first nine months of 2009.

Net earnings per share on basic and diluted capital were €0.43, compared to a loss of €0.15 per share in the first nine months of 2009.

Free Cash Flow

Before non-recurring items, free cash flow was positive at €22.8 million. Free cash flow benefited from the advance repayment of €6.2 million corresponding to the French research tax credit for the year 2009, which was recognized in the statement of financial position at December 31, 2009. On the other hand, €4.4 million corresponding to the research tax credit for the first nine months of 2010 has been recognized but not received.

In 2009, free cash flow before non-recurring items was positive at €7.4 million, having benefited from the advance repayment of €14.1 million corresponding to the research tax credits for the years 2005 through 2008, which were recognized in the statement of financial position at December 31, 2008.

Excluding the impact of the research tax credit (the net impact of which has been to reduce the working capital requirement by €1.8 million) and before non-recurring items, free cash flow was €21.0 million—an increase of €23.7 million compared to the negative amount of €2.7 million in the first nine months of 2009. This amount exceeds the amount of income before tax by €8.1 million, excluding non-recurring items (€12.9 million). The comparison of free cash flow performance to income before tax is the most relevant metric, since no actual tax collection or disbursement is recognized for the period. This generation of free cash flow reflects the pertinence of Lectra's business model. The level attained results from positive cash flow provided by operating activities of €22.3 million, of which a €3.0 million reduction in working capital requirement, and capital expenditures of €1.3 million.

Leaving aside the impact of the rise in income, this excellent free cash flow performance is another of the 2010 action plan's successes, stemming in particular from a further reduction in working capital requirement.

After €0.6 million in non-recurring disbursements, free cash flow was positive at €22.2 million (€7.3 million in 2009).

Shareholders' Equity – Net Financial Borrowings Down Sharply

At September 30, 2010, consolidated shareholders' equity amounted to €37.5 million (€24.7 million at December 31, 2009).

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., €0.8 million (versus €1.4 million at December 31, 2009). It also incorporates the impact of the recent decisions relating to the Induyco litigation and receipt of the corresponding €15.1 million.

Cash and cash equivalents totaled €21.0 million (€9.7 million at December 31, 2009).

Financial borrowings totaled €46.5 million (€57.5 million at December 31, 2009), of which:

- €44.2 million corresponds to the €48 million 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 contractual repayment of €3.8 million was made on June 30, 2010, and the second, for the same amount, will be made on December 31, 2010;
- €2.3 million corresponds to interest-free repayable government advances to finance R&D programs.

Thanks to the robust improvement in its cash position, the company ceased drawing on cash credit facilities during Q2.

Free cash flow generated has reduced net financial borrowings by €22.4 million since the beginning of the year, and these amounted to €25.4 million at September 30, 2010, compared to €47.8 million at December 31, 2009. After allowing for the €15.1 million received at the beginning of October in connection with the Induyco litigation, net financial borrowings have been reduced to around €10 million at the date of this report.

As a result of the foregoing, the net debt on equity ratio (gearing) has been reduced from 1.9 at December 31, 2009, to 0.7 at September 30, 2010 and to 0.3 after receipt of the €15.1 million related to the Induyco litigation.

The company has given an undertaking to the banks regarding the €48 million medium-term loan, to comply with certain financial ratios (covenants) at December 31 of each year (*see chapter 10.1 of the notes to this report*). The company considers that it will be in compliance with these ratios at December 31, 2010.

Taking into account available cash and cash equivalents and confirmed cash credit facilities, total liquidity available to the company at September 30, 2010, amounted to €35 million. This amount evolved to €50.1 million at the beginning of October (*see Chapter 10.2 of the notes to this report*).

3. LITIGATION PENDING

In June 2005, Lectra commenced arbitration against Induyco (a member of the Spanish group El Corte Inglés) and on October 21, 2009, the international arbitral tribunal awarded Lectra €25.7 million (as of September 30, 2010) in damages and interest *(see Chapter 8 of the notes to this report).*

Following the notification of the award, Lectra called on the first demand bank guarantees granted by Induyco and requested that Induyco pay the full amount of the award. In response, Induyco initiated a judicial action in Spain seeking to block the calls on the grounds that Lectra first had to obtain

recognition and enforcement of the award in Spain. In November 2009, Induyco obtained an interim order temporarily suspending the operation of the first demand bank guarantees.

On September 20, 2010, the Madrid Court of Appeals issued a decision overturning and vacating the interim order entered by the Madrid Court of First Instance, and thereby lifted the temporary injunction The Court of Appeals also ordered Induyco to reimburse Lectra for the legal costs incurred.

Following the appellate court's decision Lectra called on the first demand bank guarantees and in accordance with their terms Lectra received €15.1 million on October 7.

On October 4, 2010, the Madrid Court of First Instance dismissed Induyco's action on the merits. It also ordered Induyco to reimburse Lectra for the costs incurred.

In a further effort to interfere with the calls on the demand guarantees, Induyco has since appealed this judgment to the Madrid Court of Appeals and lodged a new claim for interim measures with the Madrid Court of First Instance.

Meanwhile, on July 1, 2010, the High Court of Justice in London fully dismissed and put an end to Induyco's action in England to set aside the arbitral award. The arbitral decision is binding on Induyco under international law.

The decisions of the Madrid Court of Appeals and the London High Court of Justice reinforce Lectra in its position that the new procedures in Spain are completely unfounded, and in its commitment to vigorously enforce its rights and to recover the full amount due to it under the award.

The full costs incurred having been paid already, execution of the arbitral decision will give rise to a net cash receipt equal to the balance (€10.6 million) of the full damages awarded still owed by Induyco.

4. SHARE CAPITAL – OWNERSHIP – SHARE PRICE PERFORMANCE

Change in Share Capital

At September 30, 2010, share capital totaled €27,643,752.58, divided into 28,498,714 shares with a par value of €0.97.

Share capital has been increased by 3,200 shares since January 1, 2010, resulting from the exercise of stock options in the third quarter.

On January 6, 2010, Insinger de Beaufort Asset Management N.V. (Netherlands) reported having reduced its shareholding and voting rights below the 5% statutory reporting thresholds, and stated that it held 4.69% of the capital and 4.61% of the voting rights at that date.

No other change of shareholding entailing a crossing of statutory thresholds has been notified to the company since January 1, 2010.

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 39% of the capital and voting rights;
- Société Financière de l'Echiquier (France) and Delta Lloyd Asset Management N.V. (Netherlands), which, on behalf of investment funds managed by them, hold more than 10% (but less than 15%) of the capital and voting rights.

Treasury Shares

At September 30, 2010, the company held 1.1% of its own shares in treasury shares, solely within the framework of the Liquidity Agreement managed by SG Securities (Société Générale).

Share Price Performance and Trading Volumes

The company's share price at September 30, 2010, was €3.36, up 49% compared to December 31, 2009 (€2.25). Since January 1, 2010, the share price has recorded a high of €3.83 (on September 14) and a low of €1.85 (February 9). Over the same period, the CAC 40 index was down 6% and the CAC Mid&Small190 index rose 8%, the Small 90 index rose 4% and the SBF250 fell 3%. At the date of publication of this report, the company's share price was €3.76, bringing the rise for the year to 67%.

Although still narrow, trading volumes have nonetheless risen. According to Euronext figures, the number of shares traded (3.9 million) and the volume of capital traded (€10.1 million) increased by 90% and 118% respectively, compared to the same period in 2009.

Lectra Readmitted to the CAC Small 90, CAC Mid&Small 190 and SBF 250 Indexes

Following the quarterly review of the Euronext Paris indexes on September 3, 2010, the scientific advisory committee decided to readmit the company to the panel making up the CAC Small 90, CAC Mid&Small190 and SBF 250 indexes.

5. POST-CLOSING EVENTS

No significant event has occurred since September 30, 2010, with the exception of receipt of the amount from the call of the bank guarantees resulting from the ruling of the Madrid Court of Appeals.

6. FINANCIAL CALENDAR

Q4 and fiscal year 2010 financial results will be published on February 10, 2011, after the close of trading on Euronext Paris.

7. BUSINESS TRENDS AND OUTLOOK

The macroeconomic context improved in the first nine months of 2010, even though it has not returned to the pre-crisis situation. The situations in different regions and market sectors remain disparate.

The rebound in sales activity was confirmed, exceeding the company's expectations announced at the beginning of the year. This is reflected in the robust growth in orders for new software licenses and CAD/CAM equipment (despite their remaining down 31% relative to their level in 2007), and also in sales of spare parts and consumables (which have recovered to their 2007 level).

However, all analysts agree that the recovery remains fragile, and another deterioration in conditions is still possible, especially in Europe and the United States.

It is worth recalling that at the beginning of the year, the company decided, in the absence of visibility, to refrain from providing quantified guidance for the fiscal year. It pointed out that the central uncertainty for 2010 concerned the level of revenues from new systems, and that the breakeven point would be exceeded—with a corresponding positive net income—if orders for new software licenses and CAD/CAM equipment grew by more than 20% relative to 2009. If that had been the case, revenues would have amounted to
€163 million and income from operations to around €3 million.

Results for the first nine months of the year have far surpassed these expectations.

2010 Outlook Again Revised Upward

The strong rebound in orders (69%) in the first nine months, the order backlog at September 30, and progress in implementing the 2010 plan—in particular, improved profit margins, reduced fixed overhead costs, and the significant generation of free cash flow—along with a currency situation in which the euro/dollar parity is likely to remain close to its present level, provide grounds for expecting earnings to significantly exceed the company's 2010 expectations, which were already updated on July 28, at the time of publication of its first half results.

At September 30, income from operations before non-recurring items has already exceeded the most recent full-year forecast.

The main variable for the fourth quarter remains revenues from new systems sales. The pace of growth in orders is likely to be more temperate in Q4 than in the first nine months, owing to a higher basis of comparison (as the figure for Q4 2009 orders had already jumped 70% relative to the average for the first three quarters of 2009).

Fixed overhead costs for Q4 are likely to be higher than the Q3 figures, which benefited from the natural reduction during the summer vacation months and from the reimbursement of legal fees by Induyco. Therefore, the operating margin before non-recurring items for Q4 will be less than for Q3. Less favorable currency exchange rates (the assumptions are based on an average parity of $1.40/€1 in Q4 2010, whereas for Q3 it was $1.29/€1) will also reduce the operating margin before non-recurring items. The latter is forecast to remain high, however, at between 10% and 12%.

Assuming sales activity were to remain stable or to grow slowly relative to Q4 2009, both full-year 2010 revenues and income from operations before non-recurring items would henceforth be €6 million greater than the previous respective forecasts of €180 million and €15 million, reaching or exceeding €186 million and €21 million, respectively.

2010 revenues would grow by €33 million (+21%) relative to 2009 and income from operations before non-recurring items by €23.8 million compared to the loss from operations before non-recurring items for 2009 (–€2.8 million), at actual exchange rate.

The full-year operating margin before non-recurring items would come to around 11-12%, an outstanding performance in the current economic climate, which deserves to be emphasized. The previous historical high of 10% was achieved in 2000, even though the average euro / dollar parity of $0.92/€1 was far more favorable to the company and revenues had reached a historical high of €228 million.

The company expects 2010 free cash flow to reach a historical high of close to €40 million (including a record €25 million excluding the impact of non-recurring items).

This would reduce net financial borrowing to less than €10 million at December 31, 2010 (versus €47.8 million one year earlier). Moreover, receipt of the €10.6 million outstanding in respect of the damages awarded to the company by the international arbitral tribunal would restore a net cash positive position.

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

The Board of Directors

October 28, 2010

Company Certification of the Third Quarter and First Nine Months of 2010 Report

We certify that, to our knowledge, the financial statements for the third quarter and first nine months of 2010 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 of 2010, attached, 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 28, 2010

Daniel Harari	Jérôme Viala
Chief Executive Officer	Chief Financial Officer

Consolidated statement of financial position

ASSETS

(in thousands of euros)	As at September 30, 2010	As at December 31, 2009	As at September 30, 2009 restated (1)
Goodwill	30,827	36,401	36,270
Other intangible assets	5,619	5,797	5,973
Property, plant and equipment	11,141	12,455	13,101
Non-current financial assets	1,646	1,492	1,401
Deferred tax assets	13,376	15,573	15,416
Total non-current assets	62,609	71,718	72,161
Inventories	20,244	18,448	22,268
Trade accounts receivable	37,460	43,357	33,837
Current income tax receivable	5,458	7,773	5,382
Other current assets	21,033	10,337	11,240
Cash and cash equivalents	21,038	9,749	9,064
Total current assets	105,233	89,664	81,791
Total assets	167,842	161,382	153,952

EQUITY AND LIABILITIES

(in thousands of euros)	As at September 30, 2010	As at December 31, 2009	As at September 30, 2009 restated (1)
Share capital	27,644	27,641	27,641
Share premium	1,038	1,033	1,033
Treasury shares	(787)	(1,439)	(1,541)
Currency translation adjustment	(8,951)	(8,585)	(8,420)
Retained earnings and net income	18,557	6,039	5,673
Total equity	37,500	24,689	24,385
Retirement benefit obligations	4,171	3,784	3,777
Borrowings, non-current portion	36,858	42,060	45,936
Total non-current liabilities	41,029	45,844	49,713
Trade and other current payables	48,911	39,378	36,544
Deferred revenues	28,122	33,369	28,345
Current income tax liabilities	236	76	332
Borrowings, current portion	9,625	15,475	12,635
Provisions for other liabilities and charges	2,419	2,551	1,998
Total current liabilities	89,313	90,849	79,854
Total equity and liabilities	167,842	161,382	153,952

(1) Down-payments from customers are now classified in “other current payables” and down-payments to suppliers in “other current assets” as at September 30, 2009.

Consolidated income statement

(in thousands of euros)	Three months ended September 30, 2010	Nine months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2009
Revenues	48,195	140,029	35,857	110,634
Cost of goods sold	(13,499)	(39,191)	(10,017)	(31,721)
Gross profit	34,696	100,838	25,840	78,913
Research and development	(2,058)	(7,179)	(1,838)	(6,544)
Selling, general and administrative expenses	(24,380)	(77,060)	(23,934)	(77,786)
Income (loss) from operations before non-recurring items	8,258	16,599	68	(5,417)
Non-recurring income	3,291	3,291	-	-
Income (loss) from operations	11,549	19,890	68	(5,417)
Financial income	87	191	(36)	104
Financial expenses	(829)	(2,695)	(816)	(2,731)
Foreign exchange income (loss)	(587)	(1,243)	554	1,077
Income (loss) before tax	10,220	16,143	(230)	(6,967)
Income tax	(2,565)	(4,134)	356	2,734
Net income (loss)	7,655	12,009	126	(4,233)

(in euros)				
Earnings per share				
- basic	0.27	0.43	0.00	(0.15)
- diluted	0.27	0.43	0.00	(0.15)
Shares used in calculating earnings per share				
- basic	28,107,423	28,068,477	28,067,148	28,084,422
- diluted	28,310,066	28,091,647	28,067,148	28,084,422

Statement of comprehensive income

(in thousands of euros)	Three months ended September 30, 2010	Nine months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2009
Net income (loss)	7,655	12,009	126	(4,233)
Currency translation adjustment	278	(366)	12	(377)
Effective portion of the change in fair value of currency hedges	274	74	(448)	762
Effective portion of the change in fair value of interest-rate swaps	368	717	47	(346)
Tax effect on the comprehensive income items	(214)	(264)	133	(139)
Comprehensive income (loss)	8,361	12,170	(129)	(4,332)

Consolidated statement of cash flows

(in thousands of euros)	Nine months ended September 30, 2010	Nine months ended September 30, 2009
I - OPERATING ACTIVITIES		
Net income (loss)	12,009	(4,233)
Depreciation and amortization	5,047	5,834
Non-cash operating expenses	(246)	172
Loss (profit) on sale of fixed assets	191	(12)
Changes in deferred income taxes, net value	2,308	(3,529)
Changes in inventories	(2,689)	5,277
Changes in trade accounts receivable	(674)	5,532
Changes in other current assets and liabilities	7,586	64
Net cash provided by (used in) operating activities	23,532	9,105
II - INVESTING ACTIVITIES		
Purchases of intangible assets	(891)	(1,194)
Purchases of property, plant and equipment	(607)	(784)
Proceeds from sales of intangible assets and property, plant and equipment	151	151
Purchases of financial assets	(435)	(296)
Proceeds from sales of financial assets	453	301
Net cash provided by (used in) investing activities	(1,329)	(1,822)
III - FINANCING ACTIVITIES		
Proceeds from issuance of ordinary shares	8	-
Purchases of treasury shares	(239)	(243)
Sales of treasury shares	658	85
Proceeds from borrowings	400	400
Repayments of borrowings	(3,914)	(74)
Net cash provided by (used in) financing activities	(3,087)	168
Increase (decrease) in cash and cash equivalents	19,116	7,451
Cash and cash equivalents at the opening [(1)]	2,149	(6,725)
Increase (decrease) in cash and cash equivalents	19,116	7,451
Effect of changes in foreign exchange rates	(227)	(262)
Cash and cash equivalents at the closing [(1)]	21,038	464
Free cash flow before non-recurring items	22,813	7,423
Non-recurring items of the free cash flow	(610)	(140)
Free cash flow	22,203	7,283
Income tax paid [(2)]	(76)	703
Interest paid	2,125	2,394

(1) After deducting the amount of cash credit facilities used of €7.6 million at December 31, 2009, €8.6 million at September 30, 2009 and €16.9 million at December 31, 2008. Cash credit facilities have not been used at September 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	Consolidated reserves and net income	Equity
Balances at January 1, 2009	28,495,514	0.97	27,641	1,033	(1,498)	(8,043)	9,471	28,604
Net income (loss)							(4,233)	(4,233)
Other comprehensive income (loss)						(377)	277	(100)
Comprehensive income (loss)						(377)	(3,955)	(4,332)
Fair value of stock options							233	233
Sale (purchase) of treasury shares					(44)			(44)
Profit (loss) on treasury shares							(76)	(76)
Balances at September 30, 2009	28,495,514	0.97	27,641	1,033	(1,541)	(8,420)	5,673	24,385
Balances at January 1, 2009	28,495,514	0.97	27,641	1,033	(1,498)	(8,043)	9,471	28,604
Net income (loss)							(3,623)	(3,623)
Other comprehensive income (loss)						(542)	20	(522)
Comprehensive income (loss)						(542)	(3,603)	(4,145)
Fair value of stock options							338	338
Sale (purchase) of treasury shares					59			59
Profit (loss) on treasury shares							(167)	(167)
Balances at December 31, 2009	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
Issuance of ordinary shares	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)	18,557	37,500

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT SEPTEMBER 30, 2010

1. BUSINESS ACTIVITY

Lectra was established in 1973 and has been listed on Euronext Paris (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 1,400 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 31 sales and services subsidiaries, which are backed by agents and distributors in some regions. Thanks to this unrivalled network, Lectra generated 93% of its revenues directly in 2009. 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), and its four International Advanced Technology Centers at Atlanta (U.S.A.), Istanbul (Turkey), Shanghai (China) and Mexico City (Mexico). Lectra is geographically close to its customers wherever they are, with nearly 800 employees dedicated to marketing, sales and services. It employs 210 engineers dedicated to R&D, and 166 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 Boards 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, 2010 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 for the fiscal year 2009, available on the company's Web site (www.lectra.com).

The financial statements at September 30, 2010 have been prepared in accordance with the same rules and methods as those applied in the preparation of the 2009 financial statements with the exception of the following items. They have not been the subject of a review by the Statutory Auditors.

The Group applies the revised standard IFRS 3—Business combinations applicable to fiscal years since January 1, 2010.

The Group also applies the European Commission Regulation of March 23, 2010 adopting certain international accounting standards as regards improvements to International Financial Reporting Standards (IFRS). In particular, this regulation amends IFRS 8—Operating Segments, exempting the Group from presenting an indicator of total assets for each segment, since this indicator is not regularly provided to the chief operating decision maker.

The other standards and interpretations adopted by the European Union in 2010 had no impact on the Group's financial statements, i.e.:

- IAS 39 Amendment—Eligible hedged items;
- IAS 39 and IFRIC 9 Amendments—Reassessment of embedded derivatives;
- IFRS 1 revised—First-time adoption of IFRS;
- IFRS 2 Amendments—Group cash-settled share-based payment transactions.

The French 2010 Budget Act, enacted on December 30, 2009, abolished the *Taxe Professionnelle* (business tax on French tax entities) with effect from 2010. This tax was replaced by two new contributions, namely the *Cotisation Foncière des Entreprises* (CFE—tax assessed on the rental value of properties) and the *Cotisation sur la Valeur Ajoutée des Entreprises* (CVAE—Tax on corporate value added). The Group has taken the view that the aforementioned tax changes amount in fact to replacement of the *Taxe Professionnelle* by two new taxes of different natures, namely:

- The CFE, whose amount varies according to the rental value of properties, which may, in certain cases, be capped at a percentage of the value added, is similar to the *Taxe Professionnelle* in significant aspects. Like the latter, it is recognized in operating expenses in 2010;
- The CVAE, which, as analyzed by the Group, satisfies the definition of an income tax as set forth in IAS 12.2—Income taxes based on taxable profit. In analyzing this tax, the Group has referred in particular to the IFRIC interpretations concerning the scope of application of IAS 12—Income taxes. The IFRIC has stated that, to come within the scope of IAS 12, a tax must be calculated on the basis of a net amount of revenues and expenses, and that this net amount may differ from net income. The Group has taken the view that the CVAE satisfied these criteria insofar as value added constitutes the intermediate level of income that systematically serves as the basis for determining the amount of the CVAE under French tax rules.

As prescribed in IAS 12, the decision to treat the CVAE as income tax led to recognition by the Group, as at December 31, 2009, of deferred tax liabilities of €0.1 million on assets from which future economic benefits are expected to flow and which are liable for tax in respect of the CVAE although their recovery is not deductible from value added.

The Group has not adopted, before they became mandatory, any standards or interpretations whose application is not required for fiscal years starting January 1, 2010.

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 2010 figures restated at 2009 exchange rates, in comparison with actual data for 2009.

There was no change in the scope of consolidation in 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.

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

Net earnings per share on basic capital are calculated by dividing net income attributable to shareholders by the weighted-average number of shares outstanding during the period, excluding treasury shares.

Net earnings per share on diluted capital are calculated by dividing net income attributable to shareholders by the weighted-average number of shares comprising the basic capital, plus stock options that could have been exercised considering the average market price of the shares during the period. 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.

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 geographic regions are involved in sales and the provision of services to their clients. 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 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 margin is retained in the income computed for the Corporate segment sufficient to cover its costs, most of which are fixed. Because the Corporate segment's revenues consist solely of amounts billed to the regions and its general overheads are mainly fixed costs, its income from operations therefore depends mainly on the volume of business generated by these regions.

3. SCOPE OF CONSOLIDATION

At September 30, 2010, the Group's scope of consolidation comprised Lectra S.A. together with 24 fully-consolidated companies.

Five sales and service subsidiaries are not consolidated, their revenues being immaterial both separately and in the aggregate. At September 30, 2010, their combined revenues totaled €1.1 million, and their combined assets in their statement of financial position totaled €1.9 million. They had no non-Group financial debt.

Most of these subsidiaries' sales activity is billed directly by the parent company, Lectra SA.

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

4.1 Q3 2010

(in thousands of euros)	Three Months Ended September 30				
	2010		2009	Changes 2010/2009	
	Actual	At 2009 exchange rates	Actual	Actual	Like-for-like
Revenues	48,195	45,677	35,857	+34%	+27%
Cost of goods sold	(13,499)	(13,227)	(10,017)	+35%	+32%
Gross profit	34,696	32,450	25,840	+34%	+26%
(in % of revenues)	72.0%	71.0%	72.1%	-0.1 point	-1.1 point
Research and development	(2,058)	(2,058)	(1,838)	+12%	+12%
Selling, general and administrative expenses	(24,380)	(23,405)	(23,934)	+2%	-2%
Income (loss) from operations before non-recurring items	8,258	6,987	68	ns	ns
(in % of revenues)	17.1%	15.3%	0.2%	+16.9 points	+15.1 points
Non-recurring income	3,291	3,291	-	na	na
Income (loss) from operations	11,549	10,278	68	ns	ns
(in % of revenues)	24.0%	22.5%	0.2%	+23.8 points	+22.3 points
Income (loss) before tax	10,220	8,947	(230)	ns	ns
Income tax	(2,565)	na	356	ns	na
Net income (loss)	7,655	na	126	ns	na

4.2 First Nine Months of 2010

(in thousands of euros)	Nine Months Ended September 30				
	2010		2009	Changes 2010/2009	
	Actual	At 2009 exchange rates	Actual	Actual	Like-for-like
Revenues	140,029	135,451	110,634	+27%	+22%
Cost of goods sold	(39,191)	(38,711)	(31,721)	+24%	+22%
Gross profit	100,838	96,740	78,913	28%	+23%
(in % of revenues)	72.0%	71.4%	71.3%	+0.7 point	+0.1 point
Research and development	(7,179)	(7,179)	(6,544)	+10%	+10%
Selling, general and administrative expenses	(77,060)	(75,337)	(77,786)	-1%	-3%
Income (loss) from operations before non-recurring items	16,599	14,224	(5,417)	ns	ns
(in % of revenues)	11.9%	10.5%	-4.9%	+16.8 points	+15.4 points
Non-recurring income	3,291	3,291	-	na	na
Income (loss) from operations	19,890	17,515	(5,417)	ns	ns
(in % of revenues)	14.2%	12.9%	-4.9%	+19.1 points	+17.8 points
Income (loss) before tax	16,143	13,766	(6,967)	ns	ns
Income tax	(4,134)	na	2,734	ns	na
Net income (loss)	12,009	na	(4,233)	ns	na

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

5.1 Q3 2010

Revenues by geographic region

(in thousands of euros)	2010 Actual	2010 %	2010 At 2009 exchange rates	2009 Actual	2009 %	Changes 2010/2009 Actual	Changes 2010/2009 Like-for-like
Europe, of which :	23,942	50%	23,850	21,350	60%	+12%	+12%
- France	4,592	10%	4,592	4,241	12%	+8%	+8%
Americas	9,893	21%	8,837	6,934	19%	+43%	+27%
Asia-Pacific	11,550	24%	10,258	5,847	16%	+98%	+75%
Other countries	2,810	6%	2,732	1,726	5%	+63%	+58%
Total	48,195	100%	45,677	35,857	100%	+34%	+27%

Three Months Ended September 30

Revenues by product line

(in thousands of euros)	2010 Actual	2010 %	2010 At 2009 exchange rates	2009 Actual	2009 %	Changes 2010/2009 Actual	Changes 2010/2009 Like-for-like
Software, of which :	13,428	28%	12,831	11,062	31%	+21%	+16%
- New licenses	5,889	12%	5,594	3,720	10%	+58%	+50%
- Software evolution contracts	7,539	16%	7,237	7,342	20%	+3%	-1%
CAD/CAM equipment	14,062	29%	13,167	6,297	18%	+123%	+109%
Hardware maintenance and on-line services	8,948	19%	8,551	9,056	25%	-1%	-6%
Spare parts and consumables	9,768	20%	9,228	7,383	21%	+32%	+25%
Training and consulting services	1,889	4%	1,808	1,867	5%	+1%	-3%
Miscellaneous	100	0%	92	192	1%	-48%	-52%
Total	48,195	100%	45,677	35,857	100%	+34%	+27%

Three Months Ended September 30

Breakdown of revenues between new systems sales and recurring revenues

(in thousands of euros)	2010 Actual	2010 %	2010 At 2009 exchange rates	2009 Actual	2009 %	Changes 2010/2009 Actual	Changes 2010/2009 Like-for-like
Revenues from new systems sales[1]	21,941	46%	20,661	12,076	34%	+82%	+71%
Recurring revenues[2], of which :	26,254	54%	25,016	23,781	66%	+10%	+5%
- Recurring contracts	16,064	33%	15,381	15,983	45%	+1%	-4%
- Other recurring revenues on the installed base	10,190	21%	9,635	7,798	22%	+31%	+24%
Total	48,195	100%	45,677	35,857	100%	+34%	+27%

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 2010

Revenues by geographic region

(in thousands of euros)	Nine Months Ended September 30						
	2010			2009		Changes 2010/2009	
	Actual	%	At 2009 exchange rates	Actual	%	Actual	Like-for-like
Europe, of which :	71,282	51%	71,044	63,726	58%	+12%	+11%
- France	14,003	10%	14,003	11,852	11%	+18%	+18%
Americas	30,142	21%	28,356	22,310	20%	+35%	+27%
Asia-Pacific	30,369	22%	28,151	18,144	16%	+67%	+55%
Other countries	8,236	6%	7,900	6,454	6%	+28%	+22%
Total	140,029	100%	135,451	110,634	100%	+27%	+22%

Revenues by product line

(in thousands of euros)	Nine Months Ended September 30						
	2010			2009		Changes 2010/2009	
	Actual	%	At 2009 exchange rates	Actual	%	Actual	Like-for-like
Software, of which :	40,029	29%	38,874	34,810	31%	+15%	+12%
- New licenses	17,688	13%	17,063	12,256	11%	+44%	+39%
- Software evolution contracts	22,341	16%	21,811	22,554	20%	-1%	-3%
CAD/CAM equipment	37,672	27%	36,086	20,518	19%	+84%	+76%
Hardware maintenance and on-line services	26,908	19%	26,228	27,577	25%	-2%	-5%
Spare parts and consumables	28,841	21%	27,864	21,748	20%	+33%	+28%
Training and consulting services	6,165	4%	6,002	5,506	5%	+12%	+9%
Miscellaneous	414	0%	397	475	0%	-13%	-16%
Total	140,029	100%	135,451	110,634	100%	+27%	+22%

Breakdown of revenues between new systems sales and recurring revenues

(in thousands of euros)	Nine Months Ended September 30						
	2010			2009		Changes 2010/2009	
	Actual	%	At 2009 exchange rates	Actual	%	Actual	Like-for-like
Revenues from new systems sales[1]	61,938	44%	59,548	38,755	35%	+60%	+54%
Recurring revenues[2], of which :	78,091	56%	75,903	71,879	65%	+9%	+6%
- Recurring contracts	47,915	34%	46,742	48,927	44%	-2%	-4%
- Other recurring revenues on the installed base	30,176	22%	29,161	22,952	21%	+31%	+27%
Total	140,029	100%	135,451	110,634	100%	+27%	+22%

[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						
	2010			2009		Changes 2010/2009	
	Actual	%	At 2009 exchange rates	Actual	%	Actual	Like-for-like
Fashion (apparel, accessories, footwear)	32,682	53%	31,570	25,221	65%	+30%	+25%
Automotive	16,268	26%	15,352	4,841	12%	+236%	+217%
Furniture	4,977	8%	4,853	3,842	10%	+30%	+26%
Other industries	8,011	13%	7,773	4,850	13%	+65%	+60%
Total	61,938	100%	59,548	38,755	100%	+60%	+54%

6. OPERATING SEGMENT INFORMATION

As at September 30, 2009 (in thousands of euros)	Europe	Americas	Asia-Pacific	Other countries	Corporate segment	Total
Revenues	63,726	22,310	18,144	6,454	-	110,634
Income (loss) from operations before non-recurring items (1)	1,088	(1,974)	(2,534)	523	(2,520)	(5,417)

(1) The allocation of income (loss) from operations at September 30, 2009 has been modified consequent upon the revision in 2010 of gross margins rates used in the analysis of the performance of the regions.

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

In compliance with the European Commission Regulation of March 23, 2010 adopting certain international accounting standards as regards improvements to International Financial Reporting Standards (IFRS) amending IFRS 8—Operating segments, the Group has decided to no longer present an indicator of total assets for each segment.

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

The loss from operations in the Corporate segment at September 30, 2009 was due to the sharp decline in regional segments' revenues during the first nine months of 2009, the share of gross margin on revenue allocated to this operating segment being insufficient to cover its overhead expenses.

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	22.8	-	22.8
Non-recurring items included in free cash flow	(0.6)	-	(0.6)
Sale and purchase of treasury shares	0.4	-	0.4
Change in borrowings	(3.5)	3.5	-
Impact of currency variations - other	(0.2)	-	(0.2)
Change in cash position for the period	18.9	3.5	22.4
Situation at December 31, 2009 (statement of financial position)	9.7	(57.5)	(47.8)
Use of cash credit facilities	(7.6)	7.6	-
Situation at December 31, 2009 (cash flow statement)	2.1	(49.9)	(47.8)
Situation at September 30, 2010 (statement of financial position)	21.0	(46.5)	(25.4)
Use of cash credit facilities	-	-	-
Situation at September 30, 2010 (cash flow statement)	21.0	(46.5)	(25.4)

(1) 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, 2009 and April 30, 2010 General Shareholders' Meetings.

Free cash flow at September 30, 2010 includes the receipt of €6.2 million in respect of the (French) research tax credit for 2009, following the renewal for 2010 of the policy of early repayment of research tax credits, under the French Government's economic stimulus plan. At the same time, a research tax credit of €4.4 million was recognized in the first nine months of 2010 but not received.

Excluding the impact of the research tax credit and non-recurring items, free cash flow for the first nine months of the fiscal year was €21.0 million. After also eliminating the impact of the recognition of €15.1 million, received in execution of the bank guarantees in respect of the pending litigation with Induyco (cf. note 8 below), but not yet collected on September 30, this figure for free cash flow results from a combination of €22.3 million in cash flows provided from operations (of which a €6.3 million reduction in working capital requirement), and of €1.3 million in capital expenditures. The main items comprising the reduction in working capital requirement are:

- a €4.0 million increase in trade accounts payable as a result of strong activity during the period;
- a €3.7 million increase in social liabilities;
- a €2.7 million increase in inventories.

Meanwhile, although revenues have risen very sharply, customer accounts receivable have increased by only €0.7 million, reflecting a reduction in average collection time.

8. DEVELOPMENTS REGARDING THE LITIGATION WITH INDUYCO PENDING

In its ruling on October 21, 2009, the International Court of Arbitration awarded Lectra €25.7 million in damages and interest (as of September 30, 2010).

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[1] (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).

Total interest awarded by the tribunal from initiation of the arbitral procedure to the date of the decision amounts to €3.4 million, bringing the total amount of the award plus interest awarded at the date of the decision to €25.2 million. Interest accrued between October 28, 2009, and September 30, 2010, amounts to €0.5 million, bringing the total amount on September 30, 2010 to €25.7 million.

Following notification of the award, Lectra called on the first demand bank guarantees provided by Induyco in order to secure its contractual obligations, and requested Induyco to pay the full amount of the award plus interest. In response, Induyco initiated a judicial action in Spain seeking to block the calls on the grounds that Lectra first had to obtain recognition and enforcement of the award in Spain. In November 2009, Induyco obtained an interim order temporarily suspending the operation of the first demand bank guarantees. Lectra appealed and during the pendency of the appeal, the Madrid Court of First Instance stayed further proceedings.

The Madrid Court of Appeals issued a decision overturning and vacating the interim order that suspended execution of the first demand bank guarantees provided to Lectra by Induyco

On September 20, 2010, the Madrid Court of Appeals issued a decision overturning and vacating the interim order entered by the Madrid Court of First Instance, and thereby lifted the temporary injunction. The Court of Appeals also ordered Induyco to pay Lectra's legal costs.

Following the appellate court's decision, Lectra called on the first demand guarantees and in accordance with their terms Lectra received €15.1 million on October 7.

On October 4, 2010, the Madrid Court of First Instance dismissed Induyco's action on the merits. It also ordered Induyco to reimburse Lectra for the costs incurred.

In a further effort to interfere with the calls on the demand guarantees, Induyco has since appealed this judgment to the Madrid Court of Appeals and lodged a new claim for interim measures with the Madrid Court of First Instance.

The London High Court of Justice Dismissed Induyco's Action to Set Aside the Award Rendered by the International Arbitral Tribunal on October 21, 2009

In parallel with the action in Spain (which sought to block the calls on the demand guarantees), Induyco commenced an action in England to set aside the award. On July 1, 2010, the London High Court of Justice dismissed this action in its entirety, denied leave to appeal and awarded Lectra its costs and fees of defending the action.

The arbitral decision is binding on Induyco under international law.

The decisions of the Madrid Court of Appeals and the London High Court of Justice strengthen Lectra in its view that these new suits in Spain are entirely groundless and reinforce its commitment to enforce its rights and to recover the amounts due to it under the arbitral award.

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[1] *In a "clarification" of its ruling requested by the parties, in May 2010 the Tribunal rectified a material error in the amount of the legal costs awarded to Lectra on October 21, 2009. This explains the minor difference ($220,000 or approximately €0.15 million) relative to the figures previously published by the company.*

The Company Has not Recorded in its Accounts the Full Amount of the Arbitral Award, but Only the €15.1 Million Received on October 7, 2010

At June 30, 2010, in view of, (a) the suspension of the calls for €15.1 million on the bank guarantees and Induyco's failure to pay voluntarily the award; and (b) the proceeding commenced by Induyco in England, which challenged the award's validity, the company had not recognized in its financial statements the amount of €25.7 million (at September 30, 2010) awarded by the arbitral tribunal, and the accounting methods applied to the arbitration procedure, as adopted at December 31, 2008, remained unchanged.

The aggregate amount of legal and expert fees, procedural and other costs incurred by Lectra since the beginning of the procedure and until September 30, 2010 amounts to €10.9 million. Of this amount, €4.2 million were expensed as operating expenses in 2005 and 2006; €5.7 million incurred from January 1, 2006 to October 28, 2009 were recognized in current assets in the statement of financial position and have been deducted from the €15.1 million recorded at September 30, 2010, as a result of the Madrid Court of Appeals' decision to lift the injunction. Finally, legal fees and costs of the new legal proceedings instituted by Induyco in Spain and England since October 28, 2009 (€1.0 million, of which €0.7 million were incurred in the first nine months of 2010) are expensed directly in charges over the period in which they took place. Of the total amount, €0.6 million relates to the English proceedings brought by Induyco to set aside the award.

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

9. TREASURY SHARES

Under the Liquidity Agreement administered by SG Securities (Paris), in the first nine months of 2010, the company purchased 98,512 shares and sold 226,865 shares at an average purchase price of €2.43 and €2.90 respectively. The company has neither purchased nor sold shares outside of the Liquidity Agreement within the framework of the company's stock buyback programs, as authorized by the Ordinary Shareholders' Meeting on April 30, 2010.

Consequently, at September 30, 2010, the company held 314,193 Lectra shares (or 1.1% of share capital) with an average purchase price of €2.50 entirely under the Liquidity Agreement.

10. BANK BORROWINGS AND LIQUIDITY

10.1 Medium-term Bank Loan of €48 million

The public stock buyback tender offer for 20% of the company's share capital, issued on May 2007, was financed by a €48 million medium-term bank loan from Société Générale and Natixis.

The first half-yearly installment, €3.8 million, was repaid on June 30, 2010. The balance outstanding on the loan, i.e. €44.2 million, is repayable in seven half-yearly installments—€3.8 million on December 31, 2010, the following four for €5.3 million each, and the last two for €9.6 million each (on June 30 and December 31, 2013). Repayments are scheduled to accelerate from 2010 onward, depending on the increase of free cash provided by operations, which was not the case at June 30, 2010 based on the cash position at December 31, 2009.

Moreover, the contract provides for accelerated repayment of the portion actually collected of the arbitral award against Induyco, for an amount equal to 50% of the sum received in excess of €15.4 million, having regard to the aggregate legal fees and costs incurred by Lectra since the start of the proceedings. Consequently, the receipt of €15.1 million on October 7, 2010 will not give rise to early repayment within the framework of this clause.

The repayment dates of the borrowing used in the table in note 10.3 are the contractual payment dates, at the latest, in the absence of an acceleration of repayments.

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:

	2010	2011	2012
Leverage	< 1.9	< 1.7	< 1.7
Gearing	< 1.2	< 1	< 1

The ratio of net financial borrowing to shareholders' equity (gearing) has been reduced from 1.9 at December 31, 2009 to 0.7 at September 30, 2010. The gearing ratio has been lowered to 0.3, with the receipt of €15.1 million on October 7, leading to a reduction in net financial borrowing at September 30.

The company considers that it will be in compliance with both ratios at December 31, 2010.

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 of 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).

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, this margin being reducible if the leverage ratio falls below certain thresholds.

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 rate after including the cost of the hedging instruments and amounts hedged at September 30, 2010 is 6.31%.

10.2 Liquidity

The table below summarizes the cash position, confirmed cash credit facilities available to the company, and its net financial debt, at September 30, 2010:

(in thousands of euros)	Limits	Utilizations	Available Amounts
Confirmed cash credit facilities			
- Until June 15, 2011	4,000	-	4,000
- Until June 23, 2011	10,000	-	10,000
Total	14,000	-	14,000
Bank loan	44,160	44,160	-
Non-interest bearing repayable advances	2,323	2,323	-
Total financial debts	60,483	46,483	14,000
Cash and cash equivalents			21,038
Total	60,483	46,483	35,038

Having recovered a very favorable cash position, the Company has not requested the rollover of the €15 million in cash credit facilities expiring on July 31, 2010.

Based on cash and cash equivalents available at September 30, 2010, total liquidity available to the company amounted to €35.0 This was increased to €50.1 million on October 7, 2010 following receipt of €15.1 million due to the call on the bank guarantees granted by Induyco.

10.3 Borrowings and Financial Debt

Schedule of borrowings at September 30, 2010, by category and maturity:

	Short term	Long term		
(in thousands of euros)	Less than 1 year	Between 1 and 5 years	More than 5 years	Total
Bank loan	9,120	35,040	-	44,160
Interest-free repayable advances [(1)]	505	1,818	-	2,323
Cash facilities	-	-	-	-
Total	9,625	36,858	-	46,483

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

11. INTEREST-RATE HEDGING INSTRUMENTS

As stated in chapter 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, 2010 is a negative €1.5 million, due to the decline in the 3-month Euribor rate relative to the rate prevailing when these swaps were put in place.

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 at September 30, 2010.

12. CURRENCY RISK

The Group's exposure to currency risks and its currency risk management policy are unchanged relative to December 31, 2009.

The average dollar/euro parity for the first nine months of 2010 was $1.32/€1.

On February 19, 2010, the company hedged its exposure to the U.S. dollar for the second quarter by means of forward sales ($1.35/€1). While the company's income from operations was lifted by the dollar's sharp appreciation against the euro, with an average parity of $1.27/€1 in Q2, conversely these forward sales resulted in recognition of a foreign exchange translation loss of €0.6 million in the period.

On May 4, 2010, the company hedged its estimated U.S. dollar exposure for the second half of 2010 by purchasing a series of U.S. dollar puts at a strike price of $1.35/€1. The September 30, 2010 closing rate ($1.36/€1) enabled the company to exercise the options maturing at that date, and consequently to hedge the fall in the dollar between $1.35/€1 and $1.36/€1.

The parity at the date of publication of this report was $1.39/€1. If the euro remains above a parity of $1.35/€1 in the fourth quarter, the company would exercise the currency options it holds to hedge its fourth quarter exposure; any parity above that threshold would have only a limited impact on company's net income. On the other hand, the company would benefit from the real euro / dollar exchange rate up to a parity of $1.35/€1.

Exchange Risk Hedging Instruments

Exchange risk hedging instruments at September 30, 2010 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 €5.3 million, intended to hedge existing positions; and
- from the aforementioned series of U.S. dollar puts with a strike price of $1.35/€1, and expiring between October 31 and December 31, 2010, total amount $9.2 million. Their fair value at September 30, 2010 is a positive €0.2 million. Their effective portion, corresponding to the intrinsic value of these options is fully recognized in shareholders' equity; the ineffective portion being recognized in foreign exchange income or loss.

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 €0.4 million.

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

The average parity assumed for the 2010 budget was $1.50/€1 (versus an actual parity of $1.39/€1 in 2009) and $1.32/€1 in the first nine months of 2010.

At the date of publication of this report, the euro / dollar parity is $1.39/€1. An average fall of $0.05 in the dollar against the euro (bringing the parity from $1.39/€1 to $1.44/€1) would mechanically reduce last quarter revenue by around €0.7 million and income from operations by €0.3 million. Conversely, a $0.05 rise in the dollar against the euro (bringing the average parity to $1.34/€1) would boost revenue and income from operations by the same amounts.

As stated in note 12, having regard to the hedging instruments put in place for the last quarter, a “strong” euro with a parity above the threshold of $1.35/€1 would have only a limited impact on the company’s net income, the decrease in income from operations being offset by a translation gain of an equivalent amount.

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. The previous tax audit concerning fiscal years 2005 through 2007 did not give rise to any claim for back taxes.