

**Cimatron Ltd.**  
**Q3/2009 Results Conference Call**  
**November 18, 2009**

**Conference Coordinator:**

Ladies and gentlemen, thank you for standing by.

Welcome to the **Cimatron 3<sup>rd</sup> Quarter 2009 Results** Conference Call.

All participants are at present in a listen-only mode.

Following management's formal presentation, instructions will be given for the question and answer session. For operator assistance during the conference, please press \* 0.

If you have not received a copy of today's release and would like to do so, please download it from the company website at the investors' pages: **www.cimatron.com**

As a reminder this conference is being recorded, November 18<sup>th</sup>, 2009.

With us on line today are: **Mr. Danny Haran, Cimatron's president and CEO and Mr. Ilan Erez, Cimatron's CFO.**

Before I turn the call over to **Mr. Danny Haran** I would like to remind everyone that statements contained in this conference call which are not historical facts contain forward-looking information with respect to plans, projections, or future performance of the Company, the occurrence of which involve certain risks and uncertainties, which could cause actual results to differ materially from those currently anticipated. Such risks and uncertainties include dependence on economic and political conditions in Israel, the impact of competition, supply constraints, as well as certain other risks and uncertainties which are detailed in the Company's filings with the various securities authorities.

I would like to turn over the call to Mr. Danny Haran, Cimatron's president and CEO.

**Mr. Haran**, would you like to begin?

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## **Danny Haran:**

Good morning and welcome to Cimatron's third quarter 2009 results Conference Call.

In a nut-shell, we could simply say "more of the same". The weakness in product sales continued into the third quarter, while maintenance revenues are stable. Recall that the third quarter of every year is characterized by lower product revenues and overall lower activity due to the summer vacation in Europe and North America. This year, we have seen many companies extend their vacations even longer, in the effort to reduce operating expenses.

As before, we see initial signs of what may indicate a recovery in some of our markets. For instance, sales in China over the first 9 months of 2009 remained at the same level as in the first 9 months of 2008, and may end 2009 higher than 2008. However, the majority of our markets, including parts of Western Europe, Japan and the USA, are still well below last year.

We are now half way through the fourth quarter of 2009, and the numbers seem to be improving. However, the fourth quarter of every year is typically its strongest. Is this a sustainable recovery or just end-of-year seasonality? We do not know yet. As we have seen in the past, it takes time for any decline or pickup in demand at the consumer level to propagate down the supply chain until it is felt in the CAD/CAM software market.

In the meantime, we are pleased with our solid balance sheet, and strong cash position. It allows us to keep following our long-term product development roadmap, and maintain our investment in fulfilling our customers' needs.

Ilan Erez, our CFO, will now review the financial statements. Ilan, please:

## **Ilan Erez:**

Thank you Danny. Hello everybody and thank you for joining us for our third quarter 2009 results conference call.

The results we will present on this call are on a non-GAAP basis, as we believe they better represent the actual state of our business, and make comparisons to previous periods easier. We have also published our results on a GAAP basis, as well as a reconciliation between results on a GAAP and Non-GAAP basis, and those can be found in our press release issued yesterday.

**Revenues** for the quarter were 7.2 million Dollars, compared to 10.1 million Dollars in the third quarter of 2008.

In the first nine months of 2009, revenues were 23.2 million Dollars, compared to 31.3 million Dollars in the same period of 2008. On a constant currency basis, the revenues in the first nine months of 2009 were down 22% from the same period in 2008, with a decrease of 38% in product and product-related services revenues, and a decrease of 2% in maintenance revenues.

The revenue breakdown this quarter was as follows - License revenues: 30%, Maintenance revenues: 59%, other professional services revenues: 6%, and hardware revenues: 5%. The geographical revenue breakdown for the quarter was as follows: Europe: 53%, North America: 29%, Asia Pacific: 13%, and Rest of the World: 5%.

**Gross Profit** for the quarter was 6.0 million Dollars, representing 82% of revenues, as compared to 8.5 million Dollars, or 85% of revenues, in the third quarter of 2008.

In the first nine months of 2009, Gross profit was 19.2 million Dollars, representing 83% of revenues, as compared to 26.1 million Dollars, or 83% of revenues, in the same period in 2008.

**Operating expenses** in the quarter were 6.6 million dollars, compared to 8.0 million Dollars in the third quarter of last year.

In the first nine months of 2009, operating expenses were 20.2 million dollars, compared to 24.8 million Dollars in the same period of 2008.

Approximately 73% of the decrease in the first nine months of 2009 is attributed to the expense control measures that we took, while the remainder of the decrease reflects the

changes in the Euro and Israeli Shekel rates against the US Dollar during this period, as compared to the same period in 2008.

**Operating loss** in the quarter was (654) thousand dollars, compared to an operating profit of 514 thousand dollars in the third quarter of 2008.

In the first nine months of 2009, Operating loss was (989) thousand dollars, compared to an operating profit of 1.4 million dollars in the same period of 2008.

**Net loss** for the quarter was (575) thousand Dollars, or (6) Cents per diluted share, compared to a net profit of 646 thousand Dollars, or 7 Cents per diluted share recorded in the corresponding quarter of 2008.

For the first nine months of 2009, Net loss was (907) thousand Dollars, or (10) Cents per diluted share, compared to a net profit of 1.6 million Dollars, or 17 Cents per diluted share recorded in the corresponding period of 2008.

Our **cash and cash equivalents balance** at the end of September 2009 was 7.5 million Dollars, with positive cash flow from operating activities of 2.3 million Dollars in the first nine months of 2009.

We will now open the call for Questions and Answers. Operator, please.

**Operator:** Thank you. Ladies and gentlemen, at this time we will begin the question and answer session. If you have a question, please press \*1. If you wish to cancel your request, please press \*2. If you are using speaker equipment, kindly lift the handset before pressing the numbers. Your questions will be polled in the order they are received. Please stand by while we poll for your questions. I repeat, if you have any questions, please press \*1. The first question is from Don McKiernan of Landolt Securities. Please go ahead.

**Don McKiernan:** Hello. The positive cash flow was 2.3 million for the 9 months this year. Do you have a number for last year?

**Ilan Erez:** Yes, the number for last year was \$3.5 million. Obviously, this year we see a lower number due to the difference in profitability.

**Don McKiernan:** And when do your, don't you collect most of your maintenance revenues at one quarter during the year?

**Ilan Erez:** Yes, most of them are basically collected during the first two quarters of every year.

**Don McKiernan:** Okay. And overall maintenance revenues for the current quarter were 59%. On a dollar basis versus last year's third quarter, what were they?

**Ilan Erez:** What were they?

**Don McKiernan:** What were the maintenance revenues last year in the same quarter?

**Ilan Erez:** Last year in the same quarter. One moment.

**Don McKiernan:** Because it looks like you were about 4.2 million on the current quarter.

**Ilan Erez:** Yes, I will tell you in just a minute.

**Don McKiernan:** And I'd be curious to know the same thing for the license revenues. Probably worth 2.1 in the quarter, 2.2.

**Ilan Erez:** Last year in Q3, maintenance revenues were \$4.5 million, and product revenues were \$4.8 million.

**Don McKiernan:** Okay. So a big drop-off in the product. And in the press release, and I missed the opening comments, but I think you talked about maybe things picking up this quarter, a little bit. Could you, you know, provide more input on that? And then any thoughts on next year?

**Danny Haran:** Yes. We do see numbers much better in Q4 than in Q3. But we don't know if this is just a regular seasonality or if this is something that will carry forward and carry on into 2010. We see, it's not everywhere. We see very good results in Germany; good results in China; some nice projects, not so great results in Italy, for now. But then again, we have another half of the quarter to go. And usually we see much of the activity concentrated towards the end of the quarter or the third month of the quarter. So we'll just have to wait and see. From the information we're getting from our partners, some of information from machine vendors, we believe there's still a lot of reluctance to invest in our market with the machine sales, NC machines, rather slow. Probably some of that attributed to the difficulty of small businesses to get financing for such machines. Other may be just being more careful with capital expenditure at that time. We believe it will just take some time for the recovery in the consumer level market in the general economy to propagate down to our market at the CAD/CAM industry. We're hopeful that this will happen in 2010, but again, we do not have any strong evidence, as of yet, for that to happen.

**Don McKiernan:** Do you think you need to cut costs more, or do you think you're at that level where you don't need to?

**Danny Haran:** No, we're quite happy with the current level of expenses. Throughout the year we took some measures. We've done that before. Now, we're not waiting a long time before we react to changing conditions in the market. In territories where sales go down, we try to adjust expenses. In headquarters we always look at the expenses. Right now we feel confident that we have a reasonable level of expenses to go forward.

**Don McKiernan:** Has the Gibbs, are the revenues down comparably, you know, as the whole business is? Or can you quantify that at all, how Gibbs is doing relative to the original business?

**Danny Haran:** Well, Gibbs, the Gibbs revenues this quarter and this year are down compared to last year. Same as with Cimatron-E. Same as with everyone in the industry, at least the information we're getting, because many of the companies are private. But I can say that GibbsCAM's revenues, product revenues are holding a little bit better than the other parts of the company, which is encouraging.

**Don McKiernan:** All right. And competitively, your products are still well-positioned, in your opinion, versus your competition?

**Danny Haran:** Yes, we believe so. I don't think we're losing any market share anywhere. We're always collecting information to see if we're, you know, losing to the competition. And it doesn't seem to be the case at all. It's just that still people are holding back decisions, waiting to see if their businesses catch up, and go higher, before they purchase new software. But as far as we know, we're doing fine in terms of competitive products.

**Don McKiernan:** And I think my last question is, can you comment about your new 64 bit version of your Cimatron-E 9.0?

**Danny Haran:** Sure. This is, again, the similar version, in terms of functionality and it's compatible with the 32 bit version, so people can actually work with both versions. And it is meant to open up the possibility of heavy users, to people that are doing really big, either assemblies, huge molds, huge dies, or very large NC programming jobs, the people that actually cannot fit inside the addressed space limitation of 32 bit systems. And we have some users like that. And having a native 64 bit system will allow them to execute projects as large as they wish. They can utilize the new hardware with 6GB, 8GB, any number they can install, and actually open up the possibility to do very, very large projects, things that require more than 4GB, which is the limit,

even less than that, in 32 bit. So it's mainly for the large customers, the people that do the very large molds, things like car bumpers, dashboards, large dies and big aerospace products.

**Don McKiernan:** And have you had some early feedback on it yet, or?

**Danny Haran:** Some feedback, so far, means that basically feedback says it's okay, it's working, it does the job as promised. There's just initial, I think, application of that in the field. And so far it is working as expected. Some people report also somewhat higher, better performance. Because that is also a side benefit of 64 bit. Nothing like huge, but 10 to 20% in some areas. Overall they're happy to have this option to allow, also the resellers are happy to have this option to allow them to go to larger and higher level end users.

**Don McKiernan:** All right. Thank you.

**Danny Haran:** You're welcome.

**Operator:** If there are any additional questions, please press \*1. If you wish to cancel your request, please press \*2. Please stand by while we poll for more questions. There are no further questions at this time. A replay of the call will be available on Cimatron's website: [www.cimatron.com](http://www.cimatron.com), starting tomorrow. Mr. Haran, would you like to make your concluding statements?

**Danny Haran:** Yes. I'd just like to thank you all for joining Cimatron's conference call. We hope to meet you all in the future in the next conference call. Thank you.

**Operator:** Thank you. This concludes the Cimatron third quarter 2009 results conference call. Thank you for your participation. You may go ahead and disconnect.

(End of conference call)