

Operator:

Good morning. Welcome everyone to TOTVS' 3Q10 results conference call. Today with us we have Mr. José Rogério Luiz, EVP, CFO and IRO, and Mr. Gilsomar Maia, Planning Officer.

We would like to inform you that all participants will be in a listen-only mode during the Company's presentation. After TOTVS' remarks, there will be a question-and-answer session for investors and analysts when further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator.

Today's live webcast may be accessed through TOTVS' website at www.totvs.com/ir.

Before proceeding, we would like to mention that during this conference call, forward-looking statements may be made relating to TOTVS' business prospects, operational and financial estimates and goals, based on the beliefs and assumptions of TOTVS' management and on information currently available. Forward-looking statements do not guarantee performance. They involve risks, uncertainties, and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur.

Investors should understand that general economic conditions, industry conditions, and other operational factors could also affect TOTVS' future results and can cause these results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. José Rogério Luiz, who will begin the presentation. Mr. José Rogério Luiz, you may begin your conference.

José Rogério Luiz:

Good morning and good afternoon, everyone. Welcome to TOTVS 3Q10 release. As in previous quarters, I would like to remind you that today's presentation numbers and comments take into consideration only TOTVS organic growth since we got back to 2005 figures of the main acquired companies, allowing you a better and clear vision of our performance, that is pro forma figures.

In the 3Q10, total sales reached the 19th consecutive quarter of double-digit organic growth. It is the best period in TOTVS' history in several parameters, among them sales, margins, and number of new clients. Actually, there is a clear perception that the image of the Company is strengthening, not only by its operational performance, but especially as a company of innovation and technology being noticed by its vanguard with the use of software as a service and cloud computing elements. TOTVS is now known by a singular combination that very few ones have in the technology sector, vanguard plus growth plus profitability, all of them at the same time.

So, now I would like to invite you to go to slide on page two. As we have formally mentioned, TOTVS is not a short-term player, thus our actions are based to reach the best possible results, so that the Company can get the long-term market opportunities. Since early 2009, TOTVS has been working in several areas in order to have its growth and margin gain enlarged.

Several investments to reinforced branding have been made, since in technology it is essential to have a recognized brand. We also experienced channels reorganization

process to make them stronger in order to enable intensive market attack ability. The issues, branding and channels were extremely important to growth acceleration.

Internal process has been consistently brought forward in the Company and margin improvement is also an effect of that. The investments in R&D are fundamental for the Company's future, bringing innovation and enabling the product improvement. Therefore, presenting future sales positive effects and allowing the Company to be in the vanguard of the IT industry.

Concerning innovation, let us go to slide on page three. At present, TOTVS owns vanguard elements in cloud computing and to which has added its own innovation capability. Considering cloud computing scope, on the infrastructure as a service dimension, TOTVS has its own data center and also its value-added services, as service desk and ASP hosting an application environment management.

On the platform as a service dimension, By You Studio has been improved for independent developers create solutions based on TOTVS technology and By you ECM allow customers integrate no-structure information in their business process, according to BPM, business process management, and SOA, service oriented concepts. Also, By you portal, under development, focuses on the integration of the most diversified public who interact with the Company either as clients, employees and developers.

Concerning software as a service, TOTVS provides at least two solutions: Series 1, to small business clients, and corporate model that can be classified as ISaaS, innovative software as a service, besides presenting cloud computing elements for sales and implementation, it also presents an addressable commercial market to the client's business cycle.

Distinctively, from major existing software-as-a-service providers, TOTVS model presents three exceptional elements simultaneously, vanguard, profitability and growth.

3Q results demonstrate a positive effect of these actions and investments.

So, I would like to invite you to go to slide on page four. In the 3Q10, the Company has once again reached a historical record in revenues. Net revenue grew 20% over the 3Q09, reaching more than R\$303 million. That was the 19th consecutive quarter of double-digit organic growth. License revenues has also reached a new historical record, 44.5% over the 3Q09, due to the increase of new clients and as well as average fixed value growth.

Maintenance revenue has reached the historical growth over R\$140 million and 13.7% over the 3Q09. As a result of sales increase and cost management, EBITDA is a record getting R\$88.2 million, a growth of 32.7% over the 3Q09. And a record also in margin, over 29% or 280 b.p. when compared to the same period in 2009.

Adjusted net income, which in the past has been a parameter for dividends-payment calculation, reached R\$50 million in the 3Q10, 21.5% over the same period of 2009. It is also worth mentioning the number of 854 new clients in the 3Q10, a new historical record.

In the 3Q10, the former Datasul franchise of development acquisition has been completed as well as within the distribution channels restructuring process, TOTVS

sold Paraná state clients portfolio. In the 3Q10, there was the first stock conversion from the Company's convertible debentures.

In brief, a quarter with significant results and growth. We can this evolution from charts. So, please let us go to slide five. At your left-hand side, you can see the organic growth line representing the past six years, showing the 3Q strength and the 20% increase in revenue in the 3Q10. At the right-hand side, there is the revenue evolution in the first 9M of each year showing TOTVS continuous and consistent evolution in the most various economic scenarios and business environment changes.

Growth of acceleration is mainly due to the adding new software clients. So, please let us go to page six. At your left-hand side, the chart shows software new clients numbers development. In the 3Q10, it was established a new historical record with software sales to 854 new clients. This growth is due to several factors, such as benefit perception in IT investments, hardware lower price, electronic bookkeeping system and the positive economic environment.

Another important point to mention is the average ticket we have also increased significantly. As it has been already informed to the market, since mid 2008, larger clients that is high end and the top tier of the mid market companies have reduced significantly their IT investments due to the economic crisis. Thus, for practically 24 months, the market depended on typical mid-market clients also known as SMB.

Since early 2010, we informed the market that high-end clients have been gradually returning to our pipeline because of the economic scenario improvement but also by TOTVS recognition, not in terms of image, but especially by technological vanguard and product quality. Therefore, TOTVS became their choice in relation to the traditional suppliers to the high-end companies.

As a result of the combination, new clients and average ticket increase had originated revenue in new software license higher than 40% when compared to the same period in 2009, which I will make it clear that most of TOTVS sales will remain in the SMB market. This is the area of the parameter in which we are the absolute leaders and which will remain being our core, but it is also important to mention that high-end companies' pipeline is still robust allowing TOTVS to go forward in the market of the traditional or old-fashioned software supplier target market.

It is important to mention that high-end companies bring in higher volatility to license revenues due to the longer negotiation periods with these companies. We ended the quarter with historical numbers in new license revenue growth.

On the slide on page seven, at your right we have a chart that shows maintenance revenues acceleration, being motivated by the new license sales in previous quarters and by the IGP-M increase, or the inflation increase. And at left side, you can see service revenue growth. We have already noticed improvements in service margins in this quarter. As already informed to the market, the distribution channels organization resulted in a higher cost to TOTVS in late 2009 and early 2010.

Such system reorganization included the sale of the right to franchises to explore some specific areas, as we had with the one in Paraná state in this quarter, allowing a partial recovery of the temporary increase in implementation costs that TOTVS faced in the beginning of 2010. Therefore, in the revenue side TOTVS had volume and quality improvement in all revenue lines.

On the slide on page eight, in revenue composition we can highlight the last column to the right with 28.9% of license revenue in the 3Q10. As everyone knows, license revenue is responsible to influence service and maintenance lines in the future. Once again, we can see a very best revenue model picture with a good visibility of the future flow of revenues.

In order to follow cost and expenses, I would like to invite you to go to slide on page nine. On the lower-left corner, you can notice that TOTVS is working in a continuous control over G&A and in the lower-right corner market investments are practically at the same base line compared to 2009. It is important to mention that TOTVS growth results have been partially supported by the Company's communication initiatives.

On the upper left-hand side, there is the R&D line. It is noticed that investment volume is in line with technology base migration of the merged companies, investments in order devices, for instance, digital TV, and projects adjustments to allow web tools use within cloud computing scope as showed in the beginning of this presentation.

On the other hand, R&D numbers still do not reflect the benefit of the franchise of development incorporation from the old Datasul brand. This transaction, as you know, was concluded in August 2010 and we expect to see some results in terms of saving costs in the near quarters, in the next quarters.

Innovation and investments are essential, but management understands that it is also an efficiency gain area, therefore was potential for improvement in the near future. To the upper right-hand side, cost and expense are shown to have grown in a lower percentage compared to the sales growth. Consequently, both in margin and in efficiency we could see some gains.

Concerning the efficiency, let us go forward to slide on page 10. To the left, there is a chart showing G&A expense operational gains in comparison to the net revenue. This gain is mainly due to shared-service center implementation and internal process improvements.

At your right-hand side, in the same slide, there is a chart with the 12M moving average revenue and cost plus expense. In a long-term perspective, the Company has shown a very clear year trend, increase in profitability.

Both profitability and efficiency growth have enabled gain in EBITDA and margin, which are highlighted on page 11. EBITDA evolution allows TOTVS to reach another historical record, R\$88 million in the 3Q10, approximately 33% over the 3Q09, with margins of 29.1% according to the chart to the left, to the right, EBITDA's historical margins shown since the 3Q05.

The message is very clear. There is volatility, but even being affected by the quarter's volatility, long-term trend has always been positive. Well, among several aspects, this trend is due to TOTVS business model, which allows operational leverage.

Since presented figures reflect organic growth, I would like to take the opportunity to highlight TOTVS performance concerning the Company's mergers. In this 3Q10, we celebrated two years of Datasul incorporation. On the slide on page 12, there is a summary of this period of evolution.

On the left column, pro forma figures of the first 9M08 and on the right column the period just ended. The consistent organic revenue growth, 70% per annum, as well as

EBITDA annual growth of almost 30% per annum, while accompanied by an accounting net profit even over this number; margins, 460 b.p. higher.

Well, management would like to take the advantage of this presentation in order to thank our client and employees as well as the market for the support that we received, taking into consideration that the operation has been initiated in one of the worse moments of the recent economic history, but team efforts has reached outstanding results. There is still room for synergy gains, especially in development and technology, considering that in back-office, branding and distribution channels most of the job has already been performed.

On page 13, we have our traditional financial dashboard, revenue, margin, EBTIDA, and net profit are highlighted. It is important to mention that year-to-date TOTVS presented revenues over 15% when compared to the same period in 2009.

Coming to the end of our presentation, on page 14 we highlight TOTVS fundamentals, which are very clear throughout 2010, results prove that, reminding you that our main challenge is execution. Again, execution is our main risk and our main challenge. What is our objective? To keep doing our job in order to fulfill our clients' needs with effective and innovative solutions, as well as results proving longevity. At last, we are eager to keep line presented in our page 15.

Thank you very much for your attention and we are now available to the Q&A session.

Marcelo Gonçalves, Credit Suisse:

Thanks. My first question is about the license ARPU. The license ARPU was quite high for new clients at 60,000. Do you believe this level is sustainable going forward or and even if it is not, what do you think the ARPU for new clients should stabilize in the next quarters? Thanks.

José Rogério Luiz:

Marcelo, thank you very much for your question. The first point, as we have told you, or as we have been telling the market, the increase in the average ticket was in the core of our business. What we saw is small and medium companies are buying more and having said that, without even the larger clients, the core of our business, small and medium companies, they had an improvement especially during this quarter.

Looking forward, we have two things. The first thing is that we do believe that these fundamentals that are supporting our growth are going to remain. And at the same time, as we have been more — how could I say? — clients that are larger, they are seeing TOTVS more and more as a clear alternative for them. So, that is why in our pipeline we have these clients growing in terms of not only size, but number.

So although we should have some volatility in terms of this growth throughout the time, but I do believe that we have room for keeping, if not the same amount, but keeping a certain growth in terms of the average ticket when you see a longer term. Again I am most very cautious in telling things just in terms of the quarter, but what we have been seeing is a clear trend throughout the last months. It is also important to point out that we have the fourth quarter in a row that we are facing an increase in terms of license revenues.

Marcelo Gonçalves:

OK. Thank you very much. It is perfect. Just another question, it is about maintenance, IGP-M inflation is trending at like 9% year over year now and there is no sign of stopping, you know, are you being able to pass on the increases to your clients on the maintenance side? And should we expect the maintenance revenue should start to grow faster going forward, because of the IGP-M inflation? Thanks.

José Rogério Luiz:

Marcelo, we should pay attention and keep in mind that in terms of maintenance, let us think that like 1/12 of our stock of maintenance or our volume of maintenance is updated every month. So those contracts that were updated for instance in January 2010, they were updated with an IGP-M that was -0.7% in the last 12 months. And then the contracts that were updated for 12 months in February 2010 were with around 0.2.

So what I am trying to tell you is that there is a past in terms of the update of the IGP-M within our contracts that they are changing quarter over quarter and for sure we are going to enter in the next probably eight to nine months with an IGP-M within the renewal of the maintenance contracts over 5% or 6%.

So having this said, it is a step-by-step process, but for sure we are going to capture this volume within the maintenance contracts that we have in the next months. We are starting to see this and we are going to see for sure as a mathematical aspect in the next quarters.

Marcelo Gonçalves:

OK, perfect. Thank you very much for your answers.

Mark Jason, Invesco:

Yes, hi. Congratulations on the great quarter. I guess what I just want to know is, we hit some new highs this quarter and I just want to know kind of where is, for example, like EBITDA margin, what is the sustainable level of EBITDA margin?

According to your chart on — let us see, this is page 11 — you know, we have kind of gone up and down above that trend line, but we are way above it now. Do you anticipate EBITDA margin coming down going forward or? You know, I am trying to get a feel of where we are in terms of the cycle and in terms of what is the long-term sustainable rate.

José Rogério Luiz:

Mark, let me answer in three steps. The first one is, of course, given our business model, margins are very linked, this additional group of margins is very linked to the number and the size of the new licenses that we sell in a certain quarter. So if you ask me if we have pipeline to keep in a very good level, yes, we do. But as we have these larger clients, this is going to create or to give us an additional volatility.

But when you see our history, it is not different from what we had in the past. So when you see the chart in page 11, in the right-hand side, I think that what we try to show to

the market is that there is an average that is this step-by-step process. So you can have volatility near this curve, but the trend seems to be very consistent.

And again, if you could move just to page 10, when you see in the right-hand side, the chart that we have showing the 12M average, when you see this, you see a clear trend.

So this chart shows you the step-by-step process. So to tell you, there is, again we are aiming to go in this step-by-step process in the direction to our long-term guidance.

Of course, conditions of the market can help us to reach this long-term guidance faster, but in between we are going to see and to face volatility. But again, this volatility should be also always around a curve that has been our historical curve.

Mark Jason:

So do you see the overall margin continuing to expand going forward for how many years?

José Rogério Luiz:

Look. One side of me, I do not have a crystal ball, but what I can tell you is in terms of the fundamentals. So what you have to pay attention is that what the main fundamentals of our industry, the industry within TOTVS is, are. We are in page 14, again, we are supporting the market with a basic-need solution, something very important the perception of IT as something fundamental for a company is increasing, especially small and medium companies.

The second thing, the price of the hardware, there is no perspective in having the hardware price increasing throughout the time. So this is another benefit. The other aspect about the under-penetrated market, again, we ended this quarter with a new record in terms of new clients.

And I think that the environment, the perception of the market in terms of TOTVS brand and TOTVS technology is increasing. Having this said, even in other markets that are besides our core within the pyramid, they are paying much more attention because they see that makes no sense to pay 6x to 7x more to other solutions, when they can have a solution as good as and implementing in a faster way.

So I think that this aspect of brand perception is increasing. Again, do we think that these fundamentals are going to change dramatically? To the bad side, in the next X years, probably not, so that is why we always say that our main challenge in terms of senior management of TOTVS is to deal with the execution process.

Mark Jason:

OK, all right. Thank you very much.

Tatiana Feldman, Morgan Stanley:

Hi, Rogério, hi, guys. Just a couple of things, actually, from me. Just going back to Marcelo's question on the average ticket, could you just help us understand sort of the dynamic behind that average ticket? I mean, at the end of the day, we got a lot of big boost on the average ticket but the actual number of new clients was relatively small, right?

So, I am just trying to understand a little bit of the dimension of these large clients versus your base, sort of the mix there, the percentage, and the underlying average ticket for the more normalized new clients, and anything in terms of sort of a discounting mechanism that you guys had to sort of apply to these new types of clients? And I have a couple of other questions.

José Rogério Luiz:

Tatiana, the first thing is that I do not think that I can agree with you when you say about the core of our clients. As you remember, the 1H of this year, we had over 30% of new clients within TOTVS in terms of number. And again, this new figure of 854, it seems that they are not that high in relation to the previous all-time high that we had in the 3Q08, but it is very meaningful when you see, for instance, in the 1Q of this year the number of clients that we had.

Tatiana Feldman:

Rogério, I do not think I mean to imply that. I am just trying to understand sort of relative to the number of new clients and the average tickets, just really what the mix really looks like, since we do not have a lot of visibility into that.

José Rogério Luiz:

Look, the larger clients, when you see the 9M average, they remain being something like 15% to 20% of our total revenues.

Tatiana Feldman:

OK. But in this quarter, the number of licenses that these clients are buying, how much did that help or how much did that boost the average ticket versus actual pricing in the licenses?

José Rogério Luiz:

Look, no change in the pricing. What we had, in fact, was a higher volume of licenses sold.

Tatiana Feldman:

Right. OK. So if I were to look at, you know, if we sort of excluded these larger clients in the 3Q, what type of improvement would we have seen in the average ticket for new clients? Is it something along the lines of what we saw for the base clients, the 12%?

José Rogério Luiz:

Could you please repeat the question?

Tatiana Feldman:

I am just trying to understand, you know, for the base client license fee in the 3Q, we had an improvement of 12% year on year and there was a sequential improvement as well. So, if we sort of excluded these larger clients that came into the 3Q, did the new client license fee have a similar trend? Was that also up 10% to 12%?

José Rogério Luiz:

It was faster than the previous quarters. The average ticket for our — I am using the word core clients but I should mention that every quarter we have larger clients. The point is that as they are returning stronger in terms of number in the last two quarters and they started to close the transaction with us, several guys at the same time during this quarter, this helped us a lot.

Tatiana Feldman:

OK. Actually, just on that really quickly to clarify then, just to understand again the volatility. Is that also part of the issue? I mean, was there a little bit of pent-up demand that was coming into the 3Q that potentially these larger clients or these clients that came in this quarter potentially would have bought more slowly or more gradually through the year so that potentially impact base client orders? They maybe will not behave in the same way that we have seen, did you understand what I am saying?

José Rogério Luiz:

Tatiana, small and medium clients, generally speaking they buy the software because they need, not because they want.

Tatiana Feldman:

Right.

José Rogério Luiz:

So the cycle in order to close the transaction with them is faster when we compare with these larger clients. These larger clients, probably they have a software, a good software at this point in time or they have their home-made solution, a very powerful one, and they are not in a hurry to close the transaction.

So, some of them they required to have board approvals or even several of them to have approval outside the Country, so having said that, sometimes you are negotiating these contracts for one year, for instance, or even more.

So, taking into consideration that we have an increasing number of these clients within our pipeline, the point is that they can close this transaction in the next two quarters or even in the next 3Q11. What we have always tried to do is not to be dependent on these guys.

That is why we are very happy that in this quarter the core of our business, the small and medium companies, we had a significant growth in terms of the number and even the average ticket with them had a historical high within this quarter, which means that, again, they are buying more software and besides the other things, we think that the electronic bookkeeping system is a very important thing that they are paying attention to.

Remember that up to the end of the year, over 170,000 companies are entering in this process and we are going to have this in the next three years at least not only in São Paulo state and Rio de Janeiro, but in the other states, this wave of the electronic bookkeeping system.

Tatiana Feldman:

Could I just do one last question just to follow that up? So, was that part of why we saw the timing in the way we did in the 3Q? Were there some clients that literally had to sort of be prepared for yearend and maybe 4Q will not necessarily have the same shock or same effect?

José Rogério Luiz:

For small and medium companies, it is rational to believe that some of these clients are going to, in fact they are already in contact with us in order to buy the software because they have to comply with some of these legal requirements.

Although when they buy from us, they do not say that they are buying because of this, but it is clear. And Tatiana, I have the transcripts of our previous conversations with the market and we have been telling the markets in the 1H of this year that we were expecting to have some of this new small and medium clients buying more from us.

Although we had this 30% increase in terms of new clients, but there was space to have other guys buying from us. What happened is that we know that as they are smaller, they think that they are more flexible and they can wait near to the deadline in order to go for buying and implementing. So part of the movement if we saw the 3Q was in this direction.

Tatiana Feldman:

OK. Perfect, thank you so much. Congratulations.

Alex Liuzzi, M Squared:

Hi, Rogério, congratulations for the results. I want to ask a question about these large clients as they bring the same proportional revenues in terms of maintenance and services than small and medium clients, so for these larger ticket clients in the next quarter, can we expect the same impact in maintenance and service revenues than the others at that 2x for service revenues and 34% for maintenance revenues? That is the first question.

José Rogério Luiz:

I would suggest you, when we are dealing with these larger clients, sometimes we have to provoke to them some tenor in terms of starting to have the maintenance fees and also some discounts. So I would suggest you for 80%, if you are to go in your model, as we have this grace period for these larger clients, I would suggest you that for 80% of our new clients, you can apply the 0.34%.

And for this 20% of larger clients, you should apply something like 20%. Is it clear? I mean, 80% of the guys 0.34, and for the remaining 20%, 0.2. So I think this is going to give you a kind of normalized line in terms of what you expect in terms of maintenance.

Alex Liuzzi:

For maintenance... and in terms of your service revenues, since your larger clients require a more complicated implementation process, how can we expect this to impact margins and in service revenues, in service margins and service revenues?

José Rogério Luiz:

I do expect that with this we can have a higher margin from one single aspect, because when implementing these guys, when we are selling to them we are providing a kind of package that includes not only our guys of implementation, but our guys of consulting. And the guys of consulting have sort of the price of the hour is at least 50% higher than the normal price that we have for our team of the core implementation of the software.

Alex Liuzzi:

Excellent. And if you can give us some light for the next quarter, if you already in talks with proportionally more larger clients, if these kind of impacts that we are seeing this quarter is also expected for next quarter.

José Rogério Luiz:

Look, let me tell you, one thing is that, do we have pipeline for larger transactions? Yes, we do. Should we expect this to close in this quarter or in the 1Q? I would be conservative and say let us not put these figures or let us not take into consideration that these accounts are going to be closed in this next two quarters.

But again, for some of the clients that closed in the 3Q, we had the expectation that they would close in the 2Q and this did not happen. So I am trying to tell you guys that first, our core of small and medium companies is getting stronger, because of our brand, because of the perception of our technology and because of the needs that they have.

Besides this, something that we always had that was some larger clients, they are starting to increase the number and the size of the transactions. But again, we are not up to this moment in the path of having several large clients closing every month. So, that is why we are still going to see some volatility, but what is fact is that we are in the right direction.

So, I read from a theory yesterday that someone said that it was an occasional aspect in terms of larger clients. I think that is somehow a kind of lack of knowledge in terms of our existing client base that we always say about this aspect. Because just to give an idea, although the 10 largest clients of TOTVS represent just 6% of our revenues, 10 largest, just 6%, one important aspect is that, for instance, in the 10 largest clients that we have, we have the five largest banks in Brazil.

So we do have larger guys and what we are facing now is that this is happening more frequently and this has a tremendous impact when we have a certain quarter, besides that our core business remains growing.

Alex Liuzzi:

Thanks, Rogério. And then the last question I would say the pipeline regarding small and medium clients, in the beginning of the year you said that they usually wait for the last minute to comply with the SPED. So, potentially there is a huge demand right now for small and medium clients for ERP, so I wanted to see your thoughts on that. How is that coming along?

José Rogério Luiz:

I think that part of the increase that we had in the 3Q was already supported by the demand of these small and medium clients for the electronic bookkeeping system.

Alex Liuzzi:

OK. Thank you, Rogério.

Matthew Chan, Neuberger:

Congrats on the quarter. I am wondering if you could give us some more clarity on some more aspects about these larger customers. Are they from any particular industry and at the time of winning these contracts, are these independent companies that chose TOTVS or are they subsidiaries of MNC companies? And lastly, was SAP and Oracle also being considered for these wins?

José Rogério Luiz:

The first thing is that we have some guys that are subsidiaries, but the majority of them are local guys. But we have some subsidiaries that are also part. So if I could tell you in terms of the larger transactions, I would say that around 70% is for local guys and 30% for subsidiaries of multinationals, this is number one.

The second thing is that, yes, these other traditional high-end suppliers they were in the bid, if not both of them, at least one of them.

Matthew Chan:

And how many seats are we typically talking about when we refer to these larger customers? Are we talking about 100 seats or even higher than that?

José Rogério Luiz:

No. we are talking far higher, much more than this.

Matthew Chan:

250 and higher? That like in on your pyramid.

José Rogério Luiz:

Look, this is going to be in the top of our...

Matthew Chan:

Sure, of your pyramid.

José Rogério Luiz:

Area in the pyramid. If you go and you see the image that we have for pyramid we are invading the high-end, but it is the bottom of the high end. We are not again competing in the top, top, top of the high end.

Matthew Chan:

And was there any particular industry that you saw these large clients coming from?

José Rogério Luiz:

Look, there are several areas within the Country that are growing, including homebuilders, including health and education.

Matthew Chan:

Great. Thank you so much.

Mark Jason, Invesco:

Yeah, hi. I was just wondering why you ended up selling one of your portfolios in Paraná?

José Rogério Luiz:

Look, Mark, thank you very much for the question. Why do we go for the risk? When we announced at the end of the 3Q09 the restructuring of our franchise system or distribution system, it was a process that included several things. The first thing was in the areas of the third-party franchises, we would help them sometimes even getting some of the bad transactions that they had, what I mean by transaction, some implementation that were very difficult for them, we assumed this and assumed we are not having the revenues, but this was in order to help them to close the transaction. This is number one.

And the second thing is that there are some areas that TOTVS feels that is TOTVS area, the headquarters, for instance São Paulo, Rio de Janeiro, Recife, Brasília, but there are other areas that we think that the franchisees have to operate this. They operate better than us. But given the process that we incorporate to other companies, sometimes as we had in Paraná, in Paraná state, we had a group of clients and an area there, but this area was within the area that should be from a franchisee, so what did we do? We had a lot of expenses while treating this tough projects or bad projects of this other franchises and then we had all the cost of this and at the same time, what we do within our project, to sell some areas to the local franchisees.

So, what we did is we sold the Paraná state stake that we have to the local franchisee. This is not the first time that we have done it. If you go to our 4Q09 release, you are going to see that we described the same thing that we did in the last quarter 2009 and it was an over R\$4 million sales that we made in terms of the, I think Espírito Santo state.

So if you go to our release in the 4Q, you are going to see that this is something that always once or twice a year has been happening in the last years and probably is going to happen in the following years because we go for some restructuring and if we feel that this area is not an area that we should be, where a franchisee is going to be more effective and efficient, we go for and provide to them.

So that is why it caused almost a surprise for me talking to some analysts that they decided to deduct this from our EBITDA this quarter, because we had the same thing in the last year in the 4Q and we probably are going to have other cases in the future when going for the balance of our restructure. Is it clear?

Mark Jason:

I think so, yeah, thanks.

Operator:

Any further questions, sir?

Mark Jason:

None from me.

Operator:

OK. Thank you. This will conclude our question-and-answer session for today's conference. And I will now turn the floor back over to Mr. José Rogério Luiz for any final remarks.

José Rogério Luiz:

I would like to say thank you very much for everybody for all the support that we have been having. And again, we are very glad and happy, not only because of the quarter, but mainly because we are celebrating these two years of our transaction with Datasul. At that point in time, it was a difficult moment in the economic history of the world, but we could go forward, we went to merger with Datasul, we got the synergies and we believe that there is still room to gain some more efficiency.

So, two years of very hard work but we are very happy that we are ending a quarter with meaningful results. So thank you very much and we remain always open to support you with answers and any information that you need. Thank you very much.

Operator:

Thank you. TOTVS' 3Q results conference call is over. We appreciate your participation. Have a great day.

"This document is a transcript produced by MZ. MZ uses its best efforts to guarantee the quality (current, accurate and complete) of the transcript. However, it is not responsible for possible flaws, as outputs depend on the quality of the audio and on the clarity of speech of participants. Therefore, MZ is not responsible or liable, contingent or otherwise, for any injury or damages, arising in connection with the use, access, security, maintenance, distribution or transmission of this transcript. This document is a simple transcript and does not reflect any investment opinion of MZ. The entire content of this document is sole and total responsibility of the company hosting this event, which was transcribed by MZ. Please, refer to the company's investor relations (and/or institutional) website for further specific and important terms and conditions related to the usage of this transcript."