

# TOTVS in 2Q09: New Record in Revenue; 32.8% growth in EBITDA; and Margin of 24.4% (310 b.p. up)



São Paulo, July 29, 2009 - TOTVS S.A. (BOVESPA: TOTS3), the leader in developing and marketing integrated enterprise management software and provision of related services in Brazil, today announces its results for the second quarter of 2009. The Company's consolidated financial statements are prepared in accordance with Brazilian corporate legislation (BRGAAP) and include the effects of Law 11638/07 for 2009. **To enable comparison, data of earlier periods presented in tables and comments in this report is pro forma (unaudited), as it includes the numbers since January 2005 for RM and Logocenter, as well as those earlier announced in the quarterly releases of Datasul S.A.**

## Highlights of the Period

- **Net Revenue:** organic growth of **15.6%** over 2Q08 to reach a **record R\$240.283 million in 2Q09**.
- **Clients served:** **3,976** new and existing clients acquired licenses in 2Q09. Growth of **16.7%** over 2Q08.
- **License Fees revenue:** number of **new clients** rose **24.1%** (+110 clients) in relation to 1Q09, resulting in revenues of **R\$59.161 million**.
- **Maintenance revenue:** **recurring revenue record** of **R\$122.481 million**, growth of **19.4%** over 2Q08. **Active client** base of **23.7 thousand**.
- **Services revenue:** growth of **18.8%** in 2Q09 over 2Q08, totaling **R\$80.823 million**.
- **Costs and expenses:** **11.0%** growth, excluding depreciation and amortization is **once again lower than revenue growth** between 2Q08 and 2Q09.
- **EBITDA:** **R\$58.697 million** in 2Q09, **32.8% up** on 2Q08, despite the impact of the following **non-recurring factors:** additional **marketing** expenses and the negative EBITDA of R\$ 1.4 million in Mexico on account of the **H1N1 epidemic**.
- **EBITDA Margin:** **24.4%** in the quarter, **310 basis points** over 2Q08. **First half of 2009** closes with margin of **over 25%**.

## IR Contacts

**José Rogério Luiz**  
EVP, CFO and IRO  
**Gilsomar Maia / Bruno Brasil**  
Investor Relations  
Phone: +55 (11) 3981-7105  
+55 (11) 3981-7097  
[ir@totvs.com](mailto:ir@totvs.com)

## Conference Calls

Thursday, July 30, 2009

### > English

12:30 pm (US ET)  
Webcast: [www.totvs.com/ir](http://www.totvs.com/ir)  
Phone: +1 (412) 858-4600  
Code: TOTVS  
Replay: +1 (412) 317-0088,  
Code 432329#  
Available till 08/07/09

### > Portuguese

2:00 pm (US ET)  
Webcast: [www.totvs.com/ri](http://www.totvs.com/ri)  
Tel: +55 (11) 2188-0188  
Replay: +55 (11) 2188-0188  
Available till 08/07/09

Consolidated Financial Highlights (in R\$ thousands)	2Q09	2Q08 <i>pro forma</i>	Change (2Q09/2Q08)	1Q09	Change (2Q09/1Q09)	1H09	1H08 <i>pro forma</i>	Change (1H09/1H08)
Net Revenue	240,283	207,824	15.6%	228,373	5.2%	468,656	392,868	19.3%
<b>EBITDA</b>	<b>58,697</b>	<b>44,198</b>	<b>32.8%</b>	<b>59,919</b>	<b>-2.0%</b>	<b>118,616</b>	<b>83,036</b>	<b>42.8%</b>
<b>EBITDA Margin</b>	<b>24.4%</b>	<b>21.3%</b>	<b>310 bp</b>	<b>26.2%</b>	<b>-180 bp</b>	<b>25.3%</b>	<b>21.1%</b>	<b>420 bp</b>
Adjusted Net Income <sup>(1)</sup>	35,948	32,986	9.0%	37,911	-5.2%	73,859	62,716	17.8%

(1) Adjusted Net Income represents Net Income excluding the effect of amortization expenses related to the acquisitions of companies, net of taxes. Thus, Adjusted Net Income can be understood as Net Income from the Company's normal operations. See the section on "Operating Profit and Net Income"

## Recent Events

### **3<sup>rd</sup> TOTVS Day**

On June 23, the third TOTVS Day was held at the Company's headquarters in São Paulo. During the event, targeted at investors and capital market professionals, some key executives from TOTVS spoke about the recent progresses made at the Company, the software and services market as well as the changes brought on by SPED (Public Digital Bookkeeping System) in Brazil. About 70 Brazilian and foreign participants were present and the main messages were:

- Market - Latin America continues to be one of the markets with the highest potential growth and low penetration for enterprise management software (see "Market Update");
- Marketing - Presentation of the new marketing strategy that will support TOTVS' sales teams and distribution channels till the year-end;
- Technology/Product - R&D investments in new technologies and languages, and the roadmap for product development in the quest for greater portfolio integration, bringing together in-house development and FDES; and
- Offerings - Presentation of the segments in which TOTVS is present, the offering methodology and the benefits of such an approach.

The presentations made at the event are available at TOTVS investor relations website: [www.totvs.com/ir](http://www.totvs.com/ir)

### **PROSOFT: 2<sup>nd</sup> and final installment disbursed**

In the 2nd half of 2008, BNDES conceded a sum of R\$ 44.5 million in 2Q09 referring to the second and last installment from the PROSOFT credit line, taken by TOTVS by 2Q08. Considering both concessions, the loan received by the Company from this bank line is R\$204.5 million.

The cost of this credit line is determined by the TJLP (long-term interest rate, which is currently 6.0% p.a.) plus 1.5% p.a. The Company will pay the principal amount in installments between 2011 and 2015 and the interest on a half-yearly basis.

TOTVS ends the quarter with cash of R\$213.0 million and net debt of R\$221.9 million.

*Second installment of PROSOFT is disbursed in 2Q09 and the Company's cash position is R\$213.0 million at the end of the quarter.*

## Market Update



### **📍 Brazil: low penetration, growth higher than world average and SMBs' preference for local providers, says Gartner**

In a study published in 2Q09, entitled "Dataquest Insight: TOTVS and the Brazilian SMB ERP Landscape", the research institute Gartner analyzed the Brazilian market and concluded that the small and medium business (SMBs) segment, estimated to consist of around 450,000 companies, has a penetration of just 7%.

Other studies by Gartner, namely, "Forecast: Enterprise Software Markets, Worldwide, 2008-2013, 1Q09 Update" and "Market Share: ERP Software, Worldwide, 2008", contain new global estimates and Latin America is highlighted as the region with the highest CAGR between 2008 and 2013: 11.9%.

### **📍 TOTVS is the world's 8<sup>th</sup> largest ERP provider**

In the above-mentioned studies, TOTVS rose one position in the list of the world's largest ERP providers, at present being on the 8th. The study, that reassured TOTVS as the 1<sup>st</sup> in the emerging markets, considered license and maintenance revenues. Another notable point is that all the companies higher in the ranking posted lower growth if compared to TOTVS in 2008.

### **📍 TOTVS once again wins recognition for its investor relations program and in four other categories**

At the 'IR Magazine Brasil Awards' held in June, TOTVS once again won market recognition, being ranked among the five best companies in Brazil in the following categories:

- Grand Prix for the best investor relations program ("small & mid cap" companies).
- Best meeting with the investment analysts community ("small & mid cap" companies).
- Best investor relations website ("small & mid cap" companies).
- Best investor relations executive officer ("small & mid cap" companies).
- Best performance in investor relations by a CEO or CFO.

The awards is one of the most important in the investor relations area. It is organized by IR magazine in partnership with Revista RI, PR Newswire and the Brazilian Investor Relations Institute (IBRI).



## Operating Performance

Operating Performance		2Q09	2Q08	Change (2Q09/2Q08)	1Q09	Change (2Q09/1Q09)	1H09	1H08	Change (1H09/1H08)
# Customers	# Total Clients served	3,976	3,407	16.7%	4,279	-7.1%	8,255	6,817	21.1%
	New Clients	567	650	-12.8%	457	24.1%	1,024	1,168	-12.3%
	Base Clientes	3,409	2,757	23.6%	3,822	-10.8%	7,231	5,649	28.0%
Licenses R\$	License Fee / Client	13,980	16,006	-12.7%	13,165	6.2%	13,557	14,809	-8.5%
	License Fee / New Client	29,159	30,763	-5.2%	26,160	11.5%	27,820	29,194	-4.7%
	License Fee / Base Client	11,455	12,527	-8.6%	11,611	-1.3%	11,538	11,834	-2.5%

TOTVS closed the quarter with **23.7 thousand active clients**, considering software clients with help desk and maintenance service agreements.

In 2Q09, **3,976 clients acquired new software licenses**, which is 16.7% over 2Q08. In 1H09, TOTVS served more than 8,200 clients, 21.1% more than in 1H08. Sales to existing clients grew over 20% in the quarter, positively impacting total sales.

Between 1Q09 and 2Q09, the number of new clients that acquired new licenses grew by 24.1% (110 more clients). This growth in the number of clients, especially those who have never experienced any relationship with the Company, was mainly due to (i) new marketing campaign, (ii) low market penetration of SMB market, (iii) SPED (iv) restructuring of the distribution system in earlier quarters, and (v) improvement in economic activity.

Note that the reduction in the average sale amount is because a significant part of the Company's growth was driven by sales to smaller companies, which were less affected by the economic slowdown, underlining the TOTVS business model's ability to serve companies of diverse sizes.

Since clients usually acquire more licenses over a period of time than during the initial acquisition, the increase in the number of new clients in comparison with 1Q09 is a positive sign.

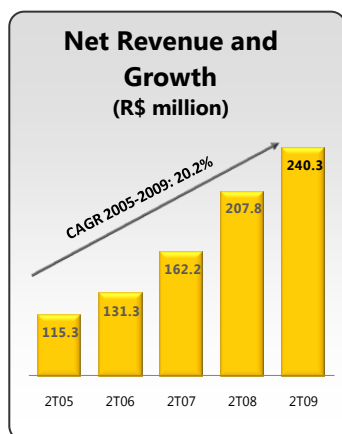
Another important point to be mentioned is the performance in the International Market, notably Mexico, which was affected by the stoppage of business activity due to the H1N1 virus outbreak in April (whole month) and May (partially). See "TOTVS Operation in Mexico".

*Number of clients served in 2Q09 was 16.7% higher than in 2Q08*

*In 2Q09, licenses were sold to 567 new clients, which is 110 more than in 1Q09, representing 24.1% growth*

## Financial Performance

Breakdown of Gross Revenue from Sales and Services (In R\$ thousands)	2Q09	2Q08 <i>pro forma</i>	Change (2Q09/2Q08)	1Q09	Change (2Q09/1Q09)	1H09	1H08 <i>pro forma</i>	Change (1H09/1H08)
License Fees	59,161	61,006	-3.0%	58,536	1.1%	117,697	111,818	5.3%
Services	80,823	68,034	18.8%	73,707	9.7%	154,530	126,455	22.2%
Maintenance	122,481	102,622	19.4%	117,564	4.2%	240,045	200,074	20.0%
<b>Total Gross Revenue from Sales and Services</b>	<b>262,465</b>	<b>231,662</b>	<b>13.3%</b>	<b>249,807</b>	<b>5.1%</b>	<b>512,272</b>	<b>438,347</b>	<b>16.9%</b>
<b>Net Revenue from Sales and Services</b>	<b>240,283</b>	<b>207,824</b>	<b>15.6%</b>	<b>228,373</b>	<b>5.2%</b>	<b>468,656</b>	<b>392,868</b>	<b>19.3%</b>



### Gross Revenue and Net Revenue

Gross revenue from services and sales totaled R\$262.465 million in 2Q09 – a new record for the Company. Net revenue from services and sales in 2Q09 was 15.6% over in 2Q08, totaling R\$240.283 million, another record.

Between 1H08 and 1H09, gross and net revenues grew by 16.9% and 19.3%, respectively. If the 12-month period ended June 2009 is considered, total revenue of TOTVS is R\$1.015 billion.

Despite the adverse global economic scenario and the negative impact of the H1N1 epidemic on the Company's revenue (Mexico), the Company's pro forma net revenue CAGR in the past five years continues to be over 20%.

### License Fee Revenue

License fee revenue in 2Q09 was R\$59.161 million, higher than the R\$58.536 million in 1Q09. However, it was 3.0% lower than in 2Q08. It is worth mentioning that this comparison is with 2Q08, which recorded the second highest amount in the Company's history, surpassed only by the amount in 4Q08. In 1H09, license fee revenue grew by 5.6% over 1H08.

Sales in this quarter were positively affected by the demand that the SPED implementation generated in companies as well as other factors mentioned in the section "Operating Performance". Problems caused by the H1N1 epidemic, especially in Mexico, vide the section "TOTVS Operation in Mexico".

## Services Revenue

In 2Q09, revenue from services totaled R\$80.823 million, representing not only a new record but also 18.8% over R\$68.034 million in 2Q08. Growth in 1H09 was 22.2%. Revenue from services was adversely affected specifically by Mexico operations due to the stoppage of business activity on account of the H1N1 epidemic.

It is important to mention that in both 2Q09 and in 1H09, the increase in cost of services was lower in comparison to the growth in revenue from services.

Value-added services (including consulting services), which return higher margins than implementation services, grew by 47.7% in 2Q09 over the same period last year, representing 17.5% of total revenue from services, compared to 14.0% in 2Q08.

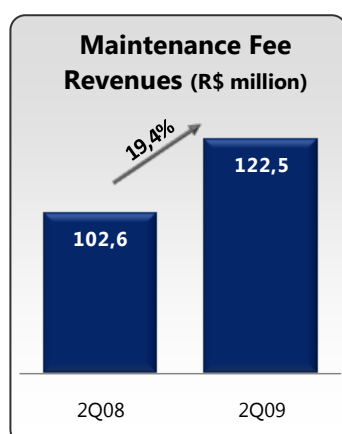
## Maintenance Fee Revenues

Maintenance fee revenues in 2Q09 were a new record, amounting to R\$122.481 million, 19.4% up on 2Q08. In 1H09, these revenues grew by 20% over 1H08, amounting to R\$240.045 million.

The growth in maintenance fee revenues is due to sales of new licenses in previous quarters and also to low churn rate on active contracts.

These revenues are originated on the maintenance contracts with 23.7 thousand active clients, which allow them the right to receive new software versions and upgrades, and are also entitled to help desk services.

It must be highlighted that historically, even in times of economic slowdown, the churn rate of these contracts has remained stable (low), due to several factors, including: (i) functionalities added to new software versions; (ii) adaptation of the software to new legal requirements; (iii) importance of the software for the client's operational stability; and (iv) low average monthly ticket.



## **i** Operating Costs and Expenses

Main Operating Costs and Expenses (In R\$ Thousands)	2Q09	2Q08 <i>pro forma</i>	Change (2Q09/2Q08)	1Q09	Change (2Q09/1Q09)	1H09	1H08 <i>pro forma</i>	Change (1H09/1H08)
Cost of License Fees	(5,638)	(5,713)	-1.3%	(5,536)	1.8%	(11,174)	(12,730)	-12.2%
Cost of Services	(71,186)	(66,170)	7.6%	(67,301)	5.8%	(138,487)	(125,415)	10.4%
Research and Development	(28,887)	(22,118)	30.6%	(26,727)	8.1%	(55,614)	(41,161)	35.1%
Advertising Expenses	(9,110)	(7,713)	18.1%	(3,243)	180.9%	(12,353)	(11,398)	8.4%
Selling Expenses	(12,784)	(14,843)	-13.9%	(12,630)	1.2%	(25,414)	(26,795)	-5.2%
Commissions	(25,207)	(19,749)	27.6%	(23,478)	7.4%	(48,685)	(39,305)	23.9%
General and Administrative Expenses	(18,771)	(19,197)	-2.2%	(20,733)	-9.5%	(39,504)	(36,614)	7.9%
Management Fees	(6,972)	(5,401)	29.1%	(8,025)	-13.1%	(14,997)	(11,585)	29.5%
Provisions for Doubtful Accounts	(2,635)	(2,660)	-0.9%	(1,886)	39.7%	(4,521)	(4,663)	-3.0%
Other Revenue (Expenses)	(396)	(62)	538.2%	1,105	-135.8%	709	(166)	-527.3%
<b>Subtotal</b>	<b>(181,586)</b>	<b>(163,626)</b>	<b>11.0%</b>	<b>(168,454)</b>	<b>7.8%</b>	<b>(350,040)</b>	<b>(309,832)</b>	<b>13.0%</b>
Depreciation and Amortization	(16,950)	(19,447)	-12.8%	(17,135)	-1.1%	(34,085)	(36,712)	-7.2%
<b>Total</b>	<b>(198,536)</b>	<b>(183,073)</b>	<b>8.4%</b>	<b>(185,589)</b>	<b>7.0%</b>	<b>(384,125)</b>	<b>(346,544)</b>	<b>10.8%</b>
<b>Net Revenue from Sales and Services</b>	<b>240,283</b>	<b>207,824</b>	<b>15.6%</b>	<b>228,373</b>	<b>5.2%</b>	<b>468,656</b>	<b>392,868</b>	<b>19.3%</b>

*Costs and expenses once again rose slower than revenue growth*

Operating costs and expenses, excluding depreciation and amortization, totaled R\$181.586 million in 2Q09, which is 11.0% higher than the R\$163.626 million in 2Q08, once again lower than the 15.6% growth of net revenue in the period. The increase in 1H09 was 13.0% higher than in 1H08, once again lower than the 19.3% revenue growth in the period.

This lower increase in costs and expenses compared to revenue growth shows the Company's discipline in optimizing resources and controlling expenses, and also reflects the continuous process of capturing revenue synergies and the dilution of costs of the structures absorbed in the operations in recent years, more recently the Datasul merger.

### **i** Cost of License Fees

Cost of License fees totaled R\$5.638 million in 2Q09, a 1.3% decrease in comparison to 2Q08. This item includes the cost of third-party solutions, notably those currently used by Datasul products. License fee costs in 1H09 totaled R\$11.174 million, 12.2% lower than in 1H08.

TOTVS continues its efforts to reduce these costs as a percentage of revenues.

### **i** Cost of Services and Sales

Cost of services and sales rose by 7.6% between 2Q08 and 2Q09 to reach R\$71.186 million. The cost increase is lower than the 18.8% growth in revenue from services, which is also observed in the comparison between 1H08 and 1H09, when costs rose by 10.4% and revenues by 22.2%.

The gain in margin from services, despite the lower utilization of the billable hours by the implementation team in Mexico, which was affected by the H1N1 outbreak,

is due to the efficiency of the software implementation team and the greater share of Value Added and Consulting services, whose margins are higher than of software implementation services.

### **Research and Development**

Research and development (R&D) expenses came to R\$28,887million in 2Q09, 30.6% higher than the R\$22.118 million in 2Q08. R&D expenses in 1H09 totaled R\$55.614 million, 35.1% more than the R\$41.161 million in 1H08. The increase in R&D expenses is, among others, due to the absorption of approximately 40 professionals from the Datasul Development Franchises (FDES).

As mentioned in the previous quarter, this incremental cost in R&D expenses was reduced in the same proportion in the Cost of Services and Sales, where the costs of these professionals hired by TOTVS was specifically classified while preparing Datasul's numbers. Thus, for better analysis and comparability between 2008 and 2009, we recommend considering the variation in the Cost of Services and Sales along with R&D Costs. Between 2Q08 (R\$66.170 million + R\$22.118 million = R\$88.288 million) and 2Q09 (R\$71.186 million + R\$28.887 million = R\$100.073 million), there was a 13.3% increase in costs, thus lower than revenue growth.

In 2Q09, R&D expenses represented 12.0% of net revenue. Thus, TOTVS will dedicate efforts on taking R&D to 11.0% of the Company's net revenue.

### **Advertising Expenses**

Between 2Q08 and 2Q09, advertising grew by 18.1% to R\$9.110 million, representing 3.8% of net revenue. The highest quarterly investment ever made in advertising and marketing by the company is due to the components of the first phase of advertising campaign to strengthen TOTVS brand.

TOTVS believes that despite the impact on the quarterly results, in addition to the investments in R&D to improve the products, TOTVS brand strengthening will positively contribute to Company's sales.

### **Selling Expenses**

Selling expenses in 2Q09 were R\$12.784 million, 13.9% lower than the R\$14.843 million in 2Q08, being one of the expense items improved by synergies obtained between TOTVS and Datasul.

### **Commissions**

Commission expenses totaled R\$25.207 million in 2Q09, representing a 27.6% increase over 2Q08. In 1H09, commission expenses totaled R\$48.685 million, 23.9% higher than the R\$39.305 million in 1H08.

*Advertising expenses rose 18.1% due to the new marketing campaign's 1<sup>st</sup> phase, which impacted the quarter.*



Commissions on net revenue essentially reflect the variations in the sales mix between channels and franchises. Especially in 2Q09 franchising sales figures surpassed 2Q08.

### **General and Administrative Expenses**

General and administrative (G&A) expenses totaled R\$18.771 million in 2Q09, 2.2% lower than 2Q08. Between January and June, G&A expenses totaled R\$39.504 million, 7.9% higher than 1H08.

For the 10<sup>th</sup> consecutive quarter, G&A expenses recorded lower increase if compared to revenue growth. In 2Q09, these expenses represented 7.8% of net revenue, once again showing the gains in scale and synergies that can be obtained in TOTVS' operations. Management integrating efforts will remain in 2009.

### **Management Fees**

Management fees totaled R\$6.972 million in 2Q09, 29.1% over R\$5.401 million in 2Q08. Management fees in 1H09 were 29.4% higher in 1H08 due to the increase in the number of statutory executive officers after Datasul merger. This item was also affected by the stock option plans, which are now booked as expense since the Company has adopted International Financial Reporting Standards (IFRS) - not applied in 2Q08.

### **Provision for Doubtful Accounts**

Provision for doubtful accounts in 2Q09 was R\$2.635 million, a 0.9% decrease from the 2Q08 provision of R\$2.660 million, and a 3.0% decline in the half-yearly comparison. This provision is based on an analysis of the Company's receivables portfolio.

### **Other Revenues and Expenses**

Other net expenses came to R\$0.396 million in 2Q09, as against R\$0.062 million in 2Q08.

### **Depreciation and Amortization**

Depreciation and amortization expenses totaled R\$16.950 million in 2Q09, 12.8% lower than in 2Q08, mainly due to the reduction in goodwill amortization expenses after the adoption of the International Financial Reporting Standards (IFRS). Goodwill amortized in 2Q09 totaled R\$14.148 million.

*EBITDA grew 32.8% to R\$58.7 million in the quarter, with Margin of 24.4%*

## EBITDA

EBITDA reached R\$58.697 million in 2Q09, 32.8% over R\$44.198 million in 2Q08. EBITDA in 1H09 was R\$118.616 million, 42.8% over year-on-year.

The quarterly EBITDA was impacted by two non-recurring events:

- Additional expenses with advertising; and
- Decline in revenues in Mexico as a result of the H1N1 outbreak (for more information, see the comments on section "TOTVS Operation in Mexico" below).

EBITDA Statement (In thousand R\$)	2Q09	2Q08 <i>pro forma</i>	Change (2Q09/2Q08)	1Q09	Change (2Q09/1Q09)	1H09	1H08 <i>pro forma</i>	Change (1H09/1H08)
Operating Income (EBIT)	41,747	24,751	68.7%	42,784	-2.4%	84,531	46,324	82.5%
Depreciation and Amortization	16,950	19,447	-12.8%	17,135	-1.1%	34,085	36,712	-7.2%
<b>EBITDA</b>	<b>58,697</b>	<b>44,198</b>	<b>32.8%</b>	<b>59,919</b>	<b>-2.0%</b>	<b>118,616</b>	<b>83,036</b>	<b>42.8%</b>

EBITDA margin was 24.4% in 2Q09 due to the following: (i) record revenues and the consequent dilution of costs, (ii) improvement in the margin from services, notably the higher share of value-added and consulting services, as well as the gains in efficiency of the software implementation teams; and (iii) greater control over costs and expenses.

EBITDA margin in 1H09 was 25.3%, which is above the long-term margin guidance updated by the Company in 2007, of 22.0% to 25.0% between 2009 and 2011. However, the Management still maintains the guidance, which may be altered after the 2009 results, in order to consolidate the new margin levels and the synergy gains obtained before defining a new guidance.

## **TOTVS Operation in Mexico**

As mentioned in previous quarters, TOTVS made structural changes in the Mexican operation in order to make it break even in 2009. The 1Q09 results were already in line with this objective. However, a non-recurring fact affected the 2Q09 of that country – the H1N1 epidemic (also known as the swine flu).

According to a BBC report, the epidemic began in Mexico and, by the end of July, more than 13,500 cases and 125 deaths had been registered. Latin America's second largest economy shrunk by around 9% in 1H09 and was mainly affected between April and May, when business came to a standstill for about 45 days. In this period, prices of basic goods rose by more than 230%.

TOTVS' Mexican operations were mainly affected (i) in revenue from services since the stoppage of operations in many companies hampered the implementation of projects already sold, and (ii) in license fee revenues owing to the cancellation of meetings with potential clients and other corporate events such as industry fairs and conferences, which are an important prospecting source for the Company.

The results for June already indicate a partial reversal of the above situation. TOTVS believes that the business environment in Mexico will gradually improve in the second half and its operations will return to the pre-epidemic momentum of 1Q09.

In 2Q09, TOTVS Mexico's contribution to the Company's EBITDA was a negative R\$1.4 million.

## **Operating Profit and Net Income**

In 2Q09, TOTVS posted operating profit of R\$41.747 million, a 68.7% growth over 2Q08. In addition to the earlier comments on EBITDA, the decrease in Depreciation and Amortization positively influenced the operating income.

Adjusted net income of TOTVS totaled R\$35.948 million in 2Q09, 9.0% above 2Q08.

Adjusted net income refers to net income excluding amortizations resulting from the acquisitions and the Datasul merger, as well as their respective effects on tax income and social contribution, as shown below.

Net Income Reconciliation (In thousand R\$)	2Q09	2Q08 <i>pro forma</i>	Change (2Q09/2Q08)	1Q09	Change (2Q09/1Q09)	1H09	1H08 <i>pro forma</i>	Change (1H09/1H08)
<b>Net Income</b>	<b>26,610</b>	<b>21,803</b>	22.0%	<b>29,033</b>	-8.3%	<b>55,643</b>	<b>41,624</b>	33.7%
Goodwill Amortization from acquisitions	14,148	16,943	-16.5%	13,452	5.2%	27,600	31,956	-13.6%
Income tax and social contribution effect	(4,810)	(5,760)	-16.5%	(4,574)	5.2%	(9,384)	(10,864)	-13.6%
<b>Adjusted Net Income</b>	<b>35,948</b>	<b>32,986</b>	9.0%	<b>37,911</b>	-5.2%	<b>73,859</b>	<b>62,716</b>	17.8%

## Net Debt

The Company ended 2Q09 with cash of R\$212.991 million and total debt of R\$434.931 million, composed of the PROSOFT loan from the Brazilian Development Bank (BNDES) and the debentures issued in 3Q08, resulting in net debt of R\$221.940 million.

## Capital Markets

### **T Ownership Breakdown**

Shareholder (In % of the free float)	2Q09	1Q09	4Q08	3Q08	2Q08
Non-Institutional Investor	7.2%	7.1%	7.1%	6.7%	5.0%
Institutional Investor	92.8%	92.9%	92.9%	93.3%	95.0%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Shareholder (In % of the free float)	2Q09	1Q09	4Q08	3Q08	2Q08
National Investor	27.8%	25.1%	24.4%	25.0%	18.7%
International Investor	72.2%	74.9%	75.6%	75.0%	81.3%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Free float on June 30, 2009 was 68.2%, i.e., 21,249,698 shares out of a total of 31,152,402 shares. The remaining shares are held by the Company's administrators (25.3%), including related persons and subsidiaries, and by BNDES Participações S/A (6.5%).

In 2Q09, TOTVS' shares (Bovespa: TOTS3) appreciated 64.0% (while the IBovespa index rose 22.6%), rising from R\$40.75 on December 31, 2008 to R\$66.85 on June 30, 2009. In the same period, average daily trading volume was 89,354 shares, or R\$5.2 million in financial volume.

## Upcoming Events

### 2Q09 Results Conference Calls July 30, 2009

#### **English**

12:30 p.m.(US ET)

Telephone: 1 (412) 858-4600

Access Code: TOTVS

Replay: +1 (412) 317-0088, access code  
432329# till 08/07/2009

Webcast: [www.totvs.com/ir](http://www.totvs.com/ir)

#### **Portuguese**

14:00 p.m.(US ET)

Telephone: 55(11) 2188-0188

No access code required

Replay: (11) 2188-0188  
till 08/07/2009

Webcast: [www.totvs.com/ri](http://www.totvs.com/ri)

## GLOSSARY

### **License Fees / User License**

License fees include the license to use the Company's software, sale of third party software, and royalties.

### **Maintenance**

Maintenance refers to the delivery of new versions and upgrade of the Company's software, containing adjustments related to technological, functional or legal enhancements.

### **Traditional Model**

Under the traditional model, a permanent and non-exclusive software license is granted upon payment of a specified amount, which can be made in installments. The license fee is based on a per-user price and customers pay for the number of users using the software. This number refers to the maximum number of users that can access the system simultaneously.

### **Corporate Model**

Under the corporate model, customers acquire unlimited usage rights without restrictions on the number of simultaneous users, in exchange for payment (in cash or installments) and annual payments based on a growth metric pertaining to their particular area of business. The purpose of this model is to increase customer loyalty and recurring revenue. This model does not apply to modules and products developed with partner companies (such as import/export, asset maintenance, and occupational health and safety). Should customers wish to acquire these products under the corporate model, payments will be subject to an increment.

### **EBITDA**

CVM Circular 1/2005 defines EBITDA as earnings before net financial expenses, income tax and social contribution, and non-operating result.

### **SPED (Public Digital Bookkeeping System)**

It broadly consists of modernizing the current system of meeting the ancillary obligations, transmitted by taxpayers to the tax authorities using digital certification for signing electronic documents, thus ensuring their legal validity only in their electronic format. It consists of three large subprojects - Digital Accounting Bookkeeping, Digital Tax Bookkeeping and Electronic Invoice and encompasses the federal, state and municipal governments. For further information, visit <http://www1.receita.fazenda.gov.br/>

## **About TOTVS**

TOTVS is Latin America's largest developer of application software, the world's 8th biggest ERP developer and the leader in emerging markets. It is the absolute leader in Brazil, and the leader in the small and medium enterprises (SME) segment in Latin America. TOTVS was the first IT company in Latin America to go public, with its shares listed on the Novo Mercado segment of the São Paulo Stock Exchange (BOVESPA). Its ERP operations, represented by the products Datasul, Logix, Microsigla Protheus and RM, serve 23,700 customers and are complemented by a broad portfolio of vertical solutions, as well as value-added services such as consulting, infrastructure and BPO services. For more information, visit [www.totvs.com](http://www.totvs.com).

*This report contains forward-looking statements that are based on the beliefs and expectations of TOTVS management. The words "anticipate", "believe", "wish", "expect", "foresee", "intend", "plan", "predict", "project", and similar are intended to identify statements that, necessarily, involve known and unknown risks. Known risks include uncertainties that are not limited to the impact of price and product competitiveness, acceptance of products by the market, the market performance of the Company's products and those of its competitors, regulatory approval, currency fluctuations, supply and production difficulties and changes in product sales, among others. This report also contains certain pro forma statements, prepared by the Company exclusively for informational and reference purposes and are therefore unaudited. This report is updated to the present date and TOTVS is under no obligation to update it further to include new information and/or future occurrences.*

## Financial Statements

BALANCE SHEET (In R\$ Thousands)	Consolidated		
	Jun. 30, 2009	Jun. 30, 2008 <i>pro forma</i>	Dec. 31, 2008 <i>pro forma</i>
<b>ASSETS</b>			
<u>Current assets</u>			
Cash and cash equivalents	212,991	215,295	147,406
Accounts receivable	190,800	150,604	173,146
Provision for doubtful accounts	(19,966)	(12,788)	(19,139)
Income tax and social contribution deferred	19,339	17,451	18,127
Recoverable taxes	22,950	11,097	18,664
Other current assets	11,785	10,561	7,662
<b>Current assets</b>	<b>437,899</b>	<b>392,220</b>	<b>345,866</b>
<u>Non-current assets</u>			
Long-term assets			
Income tax and social contribution deferred	35,281	28,091	35,512
Judicial deposit	7,042	7,500	8,385
Other receivables	14,921	18,167	7,739
Permanent Assets			
Investments	2	25	21
Equipment	30,949	27,289	31,863
Intangible	598,464	309,518	614,936
	<b>686,659</b>	<b>390,590</b>	<b>698,456</b>
<b>Total assets</b>	<b>1.124,558</b>	<b>782,810</b>	<b>1.044,322</b>
<b>LIABILITIES</b>			
<u>Current liabilities</u>			
Accounts payable	24,441	17,473	27,704
Loans and financing	6,206	1,252	5,242
Debentures	12,482	-	5,635
Current obligation under capital leases	4,884	3,379	5,036
Taxes payable	6,353	8,267	7,937
Salaries and social charges payable	52,496	42,151	42,329
Commissions payable	25,296	22,179	19,341
Dividends payable	235	406	33,724
Obligation from acquisitions	12,138	18,621	16,419
Other payable	4,856	4,566	4,541
<b>Total Current liabilities</b>	<b>149,387</b>	<b>118,294</b>	<b>167,908</b>
<u>Non-current liabilities</u>			
Loans and financing	208,501	1,856	163,270
Debentures	207,742	-	202,777
Current obligation under capital leases	3,563	1,760	4,444
Income Tax and Social Contribution deferred	152	317	-
Tax payable	-	6	-
Contingencies	16,740	16,181	15,384
Obligation relating to acquisitions	18,786	24,356	26,626
Other payable	3,604	2,424	1,902
<b>Total non-current liabilities</b>	<b>459,088</b>	<b>46,900</b>	<b>414,403</b>
<u>Minority interests</u>	<b>7,901</b>	<b>3,320</b>	<b>5,541</b>
<u>Shareholders' Equity</u>			
Capital	376,493	478,674	376,493
Treasury shares	-	(2,920)	-
Capital reserve	47,521	31,557	45,886
Income reserve	85,548	106,985	34,091
Cumulative translation adjustment	(1,380)	-	-
<b>Total shareholders equity</b>	<b>508,182</b>	<b>614,296</b>	<b>456,470</b>
<b>Total liabilities and shareholders equity</b>	<b>1.124,558</b>	<b>782,810</b>	<b>1.044,322</b>

INCOME STATEMENT (Pro forma, in R\$ Thousands)	Consolidated			
	2Q09	2Q08 <i>pro forma</i>	1H09	1H08 <i>pro forma</i>
<b>Gross revenue</b>				
License fees	59,161	61,006	117,697	111,818
Services	80,823	68,034	154,530	126,455
Maintenance	122,481	102,622	240,045	200,074
	<b>262,465</b>	231,662	<b>512,272</b>	438,347
<b>Deductions from revenue</b>				
Cancellation of services and sales	(5,051)	(7,938)	(10,568)	(15,265)
Taxes	(17,131)	(15,900)	(33,048)	(30,214)
<b>Net sales revenue</b>	<b>240,283</b>	207,824	<b>468,656</b>	392,868
Licensing Costs	(5,638)	(5,713)	(11,174)	(12,730)
Cost of Services	(71,186)	(66,170)	(138,487)	(125,415)
<b>Gross Income</b>	<b>163,459</b>	135,941	<b>318,995</b>	254,723
<b>Operating Expenses</b>				
Research and Development	(28,887)	(22,118)	(55,614)	(41,161)
Advertising expenses	(9,110)	(7,713)	(12,353)	(11,398)
Selling expenses	(12,784)	(14,843)	(25,414)	(26,795)
Commissions expenses	(25,207)	(19,749)	(48,685)	(39,305)
General and Administrative Expenses	(18,771)	(19,197)	(39,504)	(36,614)
Management Fees	(6,972)	(5,401)	(14,997)	(11,585)
Depreciation and Amortization	(16,950)	(19,447)	(34,085)	(36,712)
Provision for Doubtful Accounts	(2,635)	(2,660)	(4,521)	(4,663)
Other expenses	(396)	(62)	709	(166)
	<b>(121,712)</b>	(111,190)	<b>(234,464)</b>	(208,399)
<b>Operating profit, before financial effects</b>	<b>41,747</b>	24,751	<b>84,531</b>	46,324
Financial revenues	6,737	5,653	13,677	12,924
Financial expenses	(15,986)	(2,459)	(31,056)	(3,932)
Non-operating income	-	(268)	-	-
<b>Income before taxes</b>	<b>32,498</b>	27,677	<b>67,152</b>	55,076
<b>Income and social contribution taxes</b>				
Current	(5,063)	(10,182)	(8,957)	(18,228)
Deferred	156	4,839	(820)	5,269
	<b>(4,907)</b>	(5,343)	<b>(9,777)</b>	(12,959)
<b>Minority interest</b>	<b>(981)</b>	(531)	<b>(1,732)</b>	(493)
<b>Net income</b>	<b>26,610</b>	21,803	<b>55,643</b>	41,624
<b>EBITDA</b>	<b>58,697</b>	44,198	<b>118,616</b>	83,036



CASH FLOWS (In R\$ Thousands)	Consolidated			
	2Q09	2Q08 <i>pro forma</i>	1H09	1H08 <i>pro forma</i>
<b><u>Cash flows from operating activities</u></b>				
EBIT	41,747	24,751	84,531	46,324
Depreciation and Amortization	16,950	19,447	34,085	36,712
<b>EBITDA</b>	<b>58,697</b>	<b>44,198</b>	<b>118,616</b>	<b>83,036</b>
<i>Cash Items after EBITDA</i>	<i>(3,948)</i>	<i>(7,342)</i>	<i>(7,103)</i>	<i>(9,243)</i>
Financial Result	1,115	2,840	1,854	8,984
Income Tax and Social Contribution on Net Income	(5,063)	(10,182)	(8,957)	(18,227)
<i>Non-Cash Items after EBITDA</i>	<i>3,904</i>	<i>3,584</i>	<i>9,464</i>	<i>6,559</i>
Allowance for doubtful accounts	2,635	2,660	4,521	4,663
Provision for contingencies	1,046	924	4,253	1,896
Share-based payment	223	-	690	-
<i>Changes in Working Capital</i>	<i>(13,481)</i>	<i>(3,146)</i>	<i>(29,435)</i>	<i>(16,659)</i>
Accounts receivable, net of commissions	(13,654)	(15,838)	(19,634)	(21,092)
Suppliers	2,367	1,531	(3,270)	1,291
Salaries and charges payable	10,881	8,382	10,167	11,257
Taxes payable	(1,724)	2,513	(5,870)	(249)
Judicial deposit	128	(1,095)	(1,553)	(1,928)
Other assets and liabilities	(11,479)	1,361	(9,275)	(5,938)
<b>Net Cash from operating activities</b>	<b>45,172</b>	<b>37,294</b>	<b>91,542</b>	<b>63,693</b>
<b><u>Cash flows from investment activities</u></b>				
Permanent investment	(8,208)	(38,779)	(15,530)	(67,935)
Acquisition of equipment	(2,965)	(4,586)	(5,178)	(8,014)
Intangible	(10,056)	(2,978)	(12,154)	(3,894)
Sales of Permanent Assets	3,959	300	4,012	378
<b>Cash flows from investment activities</b>	<b>(17,270)</b>	<b>(46,043)</b>	<b>(28,850)</b>	<b>(79,465)</b>
<b><u>Cash flows from financing activities</u></b>				
Bank loans	44,589	2,051	38,776	1,561
Increase of lease obligations	(1,033)	(251)	(2,394)	(159)
Buy back of Datasul shares	-	(1,190)	-	(2,920)
Dividends paid	(16,608)	(5,535)	(33,489)	(43,374)
<b>Cash flows from financing activities</b>	<b>26,948</b>	<b>(4,925)</b>	<b>2,893</b>	<b>(44,892)</b>
<b><u>Increase of cash and cash equivalents</u></b>	<b>54,850</b>	<b>(13,674)</b>	<b>65,585</b>	<b>(60,664)</b>
Cash and cash equivalents at the beginning of the year	158,141	228,969	147,406	275,959
<b>Cash and banks at the end of the year</b>	<b>212,991</b>	<b>215,295</b>	<b>212,991</b>	<b>215,295</b>