

TOTVS IN 3Q10: GROWTH AND NEW RECORDS

- NET REVENUE OF R\$303.2 MILLION (+20.0%)
- EBITDA OF R\$88.2 MILLION (+32.7%)
- EBITDA MARGIN OF 29.1% (+280 b.p.)
- 854 NEW SOFTWARE CLIENTS



São Paulo, October 27, 2010 - 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 third quarter of 2010 (3Q10). The Company's consolidated financial statements are prepared in accordance with the accounting practices adopted in Brazil, which are in consonance with the International Financial Reporting Standards (IFRS). To enable comparison (organic growth view), data prior to 2009 periods presented in tables and comments in this report are 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

19th CONSECUTIVE QUARTER OF DOUBLE-DIGIT REVENUE GROWTH

- **Net Revenue:** new quarterly record of R\$303.201 million, **20.0%** up on 3Q09.
- **License fee:** **44.5% growth** over 3Q09 for a new quarterly record of R\$95.0 million, up 35.1% on 2Q10.
- **New software clients:** **854 in 3Q10**, 14.6% higher than in 2Q10, another quarterly record. New clients in 9M10 totaled **2,221, 20.0% over 9M09**.
- **Average ticket** 50.0% higher than in 3Q09 and **19.2% over 9M09**.
- **Service revenue:** **growth of 7.6%** (3Q10 vs. 3Q09), amounting to R\$93.7 million. Growth of 11.5% in 9M10 over 9M09.
- **Maintenance Fee revenue:** R\$140.125 million in 3Q10, **13.7% over 3Q09, a new record**.
- **EBITDA of R\$88.2 million**, 32.7% up on 3Q09, **with the highest ever quarterly Margin of 29.1%**, 280 basis points higher in 3Q10 over 3Q09.
- **Net Income and Adjusted Net Income** of R\$32.978 million (+6.8% over 3Q09) and R\$50.095 million (+21.5% over 3Q09), respectively.

IR Contacts

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Conference Call

Thursday, 10/28/2010

> English

2:00 p.m. (Brasília)

Webcast: www.totvs.com/ir

Ph.: +1 (412) 317-6776

Access Code: TOTVS

Replay: +1 (412) 317-0088, access code 445019# available till 11/08/10

> Portuguese

3:30 p.m. (Brasília)

Webcast: www.totvs.com/ri

Phone: +55 (11) 3301-3000

Access Code: TOTVS

Replay: +55 (11) 3127-4999, access code 47269926, available till 11/04/10

Consolidated Financial Highlights (in R\$ thousands)

	Change			Change		Change		
	3Q10	3Q09	(3Q10/3Q09)	2Q10	(3Q10/2Q10)	9M10	9M09	(9M10/9M09)
Net Revenue	303,201	252,596	20.0%	270,128	12.2%	833,751	721,253	15.6%
EBITDA	88,186	66,450	32.7%	62,747	40.5%	211,772	185,064	14.4%
EBITDA Margin	29.1%	26.3%	280 bp	23.2%	590 bp	25.4%	25.7%	-30 bp
Adjusted Net Income ⁽¹⁾	50,095	41,231	21.5%	45,908	9.1%	134,527	116,820	15.2%

(1) Adjusted Net Income is Net Income excluding amortization expenses resulting from the acquisitions and the merger of Datasul, as well as their respective effects on Income Tax and Social Contribution.

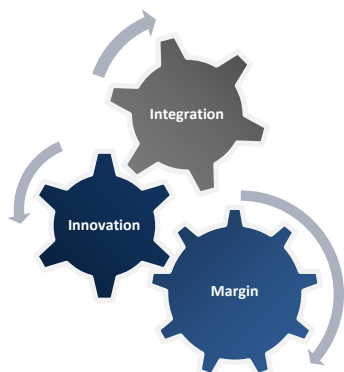
Recent Events

● Acquisition of Development Franchises (FDES)

On August 2, 2010, TOTVS announced the acquisition of SRC Serviços em Informática Ltda., which operated the main franchises for the development of the Datasul brand management software, all of them headquartered in Joinville.

The acquisition amount will be up to R\$43.0 million, of which R\$8.4 million were paid at sight and the remaining amount will be ascertained and paid in up to 3 years in accordance with preset metrics.

This acquisition is part of the Company's strategy of optimizing investments in research and development by integration of the entire development team and unification of the internal processes, methodologies and technological platforms.



● Full TOTVS Franchises in Paraná State

On September 1, 2010, TOTVS sold Datasul clients portfolio located in Paraná to Solvs Soluções Ltda., the TOTVS franchisee in Curitiba/PR, and to Tecno Paraná Central Serviços e Soluções Ltda., the TOTVS franchisee in both Londrina/PR and Cascavel/PR surroundings, for the total amount of R\$7.8 million. This portfolio has approximately 300 clients and posted revenues of around R\$10.0 million in 2009.

This sale is in line with TOTVS' strategy of consolidating the distribution channels into Full TOTVS Franchises that are prepared to distribute the entire TOTVS portfolio.

● Issue of shares for conversion of 15% of debentures

With the achievement of the parameters that make conversion of 15% of the debentures issued by TOTVS in August 2008 compulsory the Board of Directors approved the issue of 306,870 shares on September 20, 2010 at the issue price of R\$ 97.747683 per share, calculated according to the deed of debentures. This issue represented an increase of R\$30.0 million in TOTVS' capital and a 0.975% dilution in the shareholder base Please see "Net Income and Adjusted Net Income" in "Financial Performance" section.

Market Update

- **TOTVS among best companies (top 10) in Human Development in Brazil**



The fourth edition of the “The 100 best companies in the Indicator of Organizational Human Development (IDHO)” survey conducted by Gestão & RH Editora listed TOTVS among “The top 10 companies in IDHO” and as the leader in the “Human Capital” pillar.

IDHO is benchmarked on the Human Development Index (HDI), which measures the level of human development of countries. However, instead of the HDI pillars (education, health, longevity and per capita income), the IDHO covers five evaluation parameters: Sustainability, Corporate Citizenship, Corporate Governance, Human Capital and Transparency.

- **TOTVS among most (top 20) innovative companies in Brazil**



TOTVS came 12th in the ranking of The 20 most innovative companies in Brazil, published by the Época Negócios magazine in its September 2010 edition, entitled “The Most Innovative Companies in Brazil”, the Brazilian version of the international “Best Innovator” award instituted by the consulting firm A.T.Kearney, the magazine’s survey partner.

The ranking took into consideration six pillars of innovation: Strategy for Innovation, Organization and Culture, Innovation Process, Structure and Support to Innovation, Sustainability and Result of Innovation.

- **TOTVS among the most globalized of Brazilian companies**



This quarter, the Dom Cabral Foundation published the 2010 edition of the “Ranking of Brazilian Transnationals”. This ranking was drawn up based on questionnaires using UNCTAD’s methodology, applied by a team of researchers from the foundation to a universe of 71 Brazilian business groups with international operations. TOTVS was ranked 29th.



In September 2010, the Valor Econômico newspaper published its “Brazilian Multinationals” annual report listing the 52 most globalized Brazilian companies, in which TOTVS is listed 41st. This ranking is based on a survey conducted by the Brazilian Society for Studies of Transnational Companies and Economic Globalization (Sobeet) in partnership with Valor Econômico, in accordance with the criteria laid down by the United Nations Conference on Trade and Development (UNCTAD) applied to a universe of 160 companies with international operations.

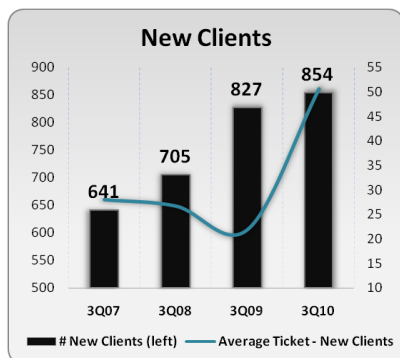
- **Latin Trade 500 – Largest Companies in Latin America**



For the first time, TOTVS appears in the Latin Trade magazine's annual “Latin Trade 500” ranking of the 500 largest companies in Latin America in annual revenue. TOTVS is ranked 410th in the 2009 ranking, published by the magazine in its July/August edition.

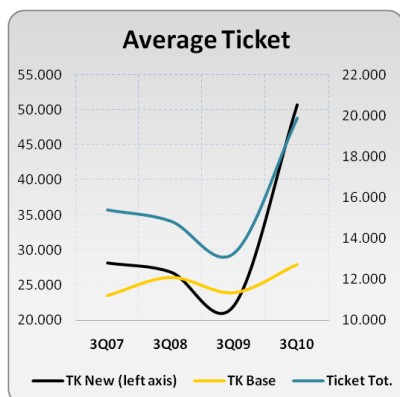
Operating Performance

Operating Performance (Licence Fee)	3Q10	3Q09	Change (3Q10/3Q09)	2Q10	Change (3Q10/2Q10)	9M10	9M09	Change (9M10/9M09)
Total # clients served	4,523	4,676	-3.3%	4,289	5.5%	13,397	12,931	3.6%
# New Clients	854	827	3.3%	745	14.6%	2,221	1,851	20.0%
# Base Clients	3,669	3,849	-4.7%	3,544	3.5%	11,176	11,080	0.9%
License Fee (R\$) / Clients	19,893	13,262	50.0%	14,854	33.9%	16,029	13,451	19.2%
License Fee (R\$) / New Clients	50,742	22,126	129.3%	26,935	88.4%	35,963	25,276	42.3%
License Fee (R\$) / Base Clients	12,712	11,358	11.9%	12,315	3.2%	12,067	11,475	5.2%



Third quarter was highlighted by the increase in the number of new clients as well as the average ticket growth from both new and existing clients. The Company ended 3Q10 with approximately 26.2 thousand active software clients, that is, the ones with current maintenance and help-desk contracts.

New clients growth is mainly due to Management's initiatives in previous periods, which included consolidation of the distribution channels into "Full TOTVS" franchises and investments to strengthen the perception of TOTVS brand. In 3Q10, 854 new clients were added to the software client base, beating the previous quarterly record in 3Q09. In 9M10, 2,221 new clients were added, 20.0% over the same period in 2009.



Ticket quarterly variations (e.g.: +50.0% in 3Q10 vs. 3Q09) essentially reflect the average size of the clients served in the period. Observed ticket growth in recent quarters was driven by large companies purchases resumption, which had reduced their IT investments since mid-2008.

Due to the flexibility of the Company's solutions, big-sized companies have also noticed that TOTVS is able to provide them with a wide variety of solutions for managing their businesses.. Note that sales cycle for these clients is longer than the range in the market that accounts for the bulk of TOTVS' sales (small and medium companies), contributing to quarterly average ticket volatility increase.

As for sales to existing clients, there was an 11.9% increase in the average ticket, with 3,699 sales transactions completed.

Financial Performance

Breakdown of Gross Revenue from Sales and Services (In R\$ thousands)	Change			Change			Change		
	3Q10	3Q09	(3Q10/3Q09)	2Q10	(3Q10/2Q10)	9M10	9M09	(9M10/9M09)	
License fee	95,030	65,782	44.5%	70,316	35.1%	229,018	183,479	24.8%	
Services	93,693	87,064	7.6%	90,588	3.4%	269,377	241,595	11.5%	
Maintenance	140,125	123,268	13.7%	137,497	1.9%	415,010	363,313	14.2%	
Total Gross Revenue from Sales and Services	328,848	276,114	19.1%	298,401	10.2%	913,405	788,387	15.9%	
Net Revenue from Sales and Services	303,201	252,596	20.0%	270,128	12.2%	833,751	721,253	15.6%	

19th consecutive quarter of double digit growth

Gross Revenue and Net Revenue

Gross revenue from services and sales totaled R\$328.848 million in 3Q10 for another quarterly record. Net revenue grew 20.0% over 3Q09 and reached R\$303.201 million – the 19th consecutive quarter of double-digit growth. Year-to-date net revenue came to R\$833.751 million, 15.6% higher than in 9M09.

New record in number of new clients +854

License Fee Revenue

License fee revenue totaled R\$95.030 million in 3Q10, a 44.5% increase over the R\$65.782 million in 3Q09, driven by the significant growth in sales to new clients (+854) and by the average growth in the size of these clients, which positively impacted the quarter's average ticket. License fee revenue in 9M10 grew 24.8% over the same period in 2009.

Service Revenue

Service revenue in the quarter totaled R\$93.693 million, 7.6% higher than the R\$87.064 million in 3Q09. This line was adversely affected by the sale of the portfolio of clients in Paraná, as mentioned in the "Recent Events" section, which generated around R\$2.5 million in service revenue per quarter. In 9M10, service revenue totaled R\$269.377 million, 11.5% higher than 9M09.

In 3Q10, Value-Added Services (consulting, BPO, Service Desk and ASP) jointly accounted for 28.0% of total service revenue, compared to 24.9% in 3Q09, mainly driven by the consulting and ASP businesses.

It is worth noting that the ASP and Corporate models have strengthened TOTVS' presence as a provider of SaaS (Software as a Service), and it is today one of the few profitable (net income) SaaS providers in the world.

Maintenance Fee Revenues

Maintenance fee revenues came to R\$140.125 million in 3Q10, 13.7% higher than in the same period of 2009. 9M10 maintenance fee revenues reached R\$415.010, 14.2% over the R\$363.313 in 9M09. These revenues are impacted by sales of new licenses in previous quarters and by the adjustment to maintenance agreements on the respective anniversary dates based on predefined inflation indexes.

● Operating Costs and Expenses

Main Operating Costs and Expenses (In R\$ Thousands)	Change			Change			Change		
	3Q10	3Q09	(3Q10/3Q09)	2Q10	(3Q10/2Q10)	9M10	9M09	(9M10/9M09)	
Licensing costs	(5,561)	(5,423)	2.5%	(6,933)	-19.8%	(17,439)	(16,597)	5.1%	
Cost of services	(86,457)	(73,833)	17.1%	(87,028)	-0.7%	(262,917)	(212,321)	23.8%	
Research and development	(39,306)	(32,330)	21.6%	(36,186)	8.6%	(108,966)	(87,944)	23.9%	
Advertising expenses	(9,977)	(8,071)	23.6%	(8,770)	13.8%	(24,512)	(20,424)	20.0%	
Selling expenses	(17,739)	(14,671)	20.9%	(16,576)	7.0%	(51,951)	(40,085)	29.6%	
Commissions expenses	(34,207)	(23,778)	43.9%	(27,468)	24.5%	(84,870)	(72,463)	17.1%	
General and administrative expenses	(18,469)	(17,464)	5.8%	(17,911)	3.1%	(54,652)	(56,968)	-4.1%	
Management fees	(8,510)	(8,796)	-3.3%	(7,653)	11.2%	(21,145)	(23,793)	-11.1%	
Provision for doubtful accounts	(2,136)	(2,440)	-12.5%	(2,464)	-13.3%	(6,797)	(6,962)	-2.4%	
Other expenses (revenues)	7,347	660	1013.2%	3,608	103.6%	11,270	1,368	723.8%	
Subtotal	(215,015)	(186,146)	15.5%	(207,381)	3.7%	(621,979)	(536,189)	16.0%	
Depreciation and amortization	(19,124)	(17,848)	7.1%	(19,200)	-0.4%	(57,607)	(51,933)	10.9%	
Total	(234,139)	(203,994)	14.8%	(226,581)	3.3%	(679,586)	(588,122)	15.6%	
Net revenue	303,201	252,596	20.0%	270,128	12.2%	833,751	721,253	15.6%	

Operating costs and expenses, excluding depreciation and amortization, increased by 15.5% in 3Q10 over 3Q09, compared to the 20.0% net revenue growth in the period. In comparison with 2Q10, these expenses increased by 3.7%, against 12.2% growth in net revenue.

● Cost of License Fees

Cost of License Fees totaled R\$5.561 million in 3Q10, 2.5% up on 3Q09, mainly due to the growth in sales of third-party complementary software (e.g. database and operating systems). As a percentage of license fees, this line came to 5.9%, as against 8.2% in 3Q09, and represented 7.6% of gross license fee revenues in 9M10, compared to 9.0% in 9M09.

● Cost of Services and Sales

The 17.1% increase in the cost of services and sales in 3Q10 over 3Q09 continues to reflect the absorption of the service teams during the consolidation of channels, concentrated in the last four months of 2009.

Compared to 2Q10, cost of services and sales declined by 0.7%, compared to a 3.4% growth in the gross revenue from services during the period, thanks to the improved productivity of service teams, especially those relating to Value-Added services.

● Research and Development

Research and development (R&D) expenses reached 13.0% of net revenue in 3Q10. In 9M10, R&D expenses represented 13.1%, compared to 12.2% in 9M09. The increase in R&D spending was mainly due to the continued investments in the project for the development of interactive applications for the Brazilian Digital TV System (approximately R\$6.9 million in 9M10), additional investments for integrating the vertical and back-office solutions for consolidating the offerings by segments, development of new versions for new and/or existing solutions, and investments to bring on par the software technological platforms that were added to TOTVS' portfolio of offerings.

The Company continues its efforts to optimize the R&D investments. The main initiatives in course to reach this goal are: (i) conclusion of the project to equalize TOTVS' software platforms, especially the software originated from Datasul; (ii) integration of the structures and capture of synergies from the operations originating from FDES; and (iii) improvement of the internal development processes by unifying the methodologies and development environments (PHOENIX Project).

● Advertising Expenses

Advertising expenses in 3Q10 were 13.8% over 2Q10 and 23.6% over 3Q09, reflecting the investments in the new advertising campaign launched in the second quarter, as well as the strategy of investing in marketing initiatives, especially in the second half of the year, which helped accelerate software license sales.

Advertising expenses remained stable in the nine-month comparison, representing 2.9% of net revenue in 9M10 as against 2.8% in 9M09.

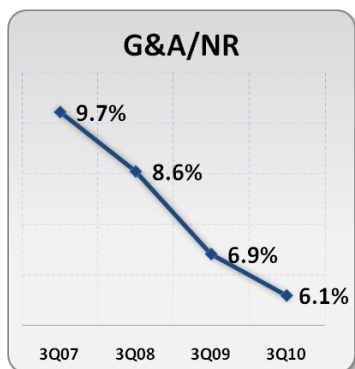
● Selling Expenses

The incorporation of the sales teams during the consolidation process of the distribution channels impacts the annual comparison of selling expenses, yet these represented 5.8% of net revenue in 3Q09 and 5.9% in 3Q10.

The dilution of the costs relating to the sales structure is demonstrating results, given that selling expenses declined from 6.8% of net revenue in 1Q10 to 6.1% in 2Q10 and 5.9% this quarter.

● Commissions

Commissions essentially reflect the sales mix among the Company's distribution channels (own and franchises). In 3Q10, commissions represented 11.3% of net revenue, 1.2 percentage points higher than the 10.2% in 2Q10, showing the higher contribution by franchises to the Company's total sales in comparison with the previous periods.



● General and Administrative Expenses

General and Administrative expenses increased by 5.8% in 3Q10 over 3Q09, corresponding to 6.1% of net revenue. In 9M10, these expenses represented 6.6% of net revenue, as against 7.9% in 9M09, showing the continued gains in scale from the support structure for the processes related to the Company's core business. The Company is moving forward with its continuous improvement process.

● Management Fees

Management fees declined 3.3% from 3Q09 and increased 11.2% over 2Q10. The variations arise from: (i) the level of achievement of the Company's monthly targets, which affect the executives' variable compensation; and (ii) the provisioning of the annual bonus for the proportional achievement of the Company's annual financial targets, as well as the financial and non-financial targets for the executives.

● Provision for Doubtful Accounts

The provision for doubtful accounts remained within the historical levels, corresponding to 0.7% of the net revenue in 3Q10 and 0.8% in 9M10, compared to 1.0% in 3Q09 and 1.0% in 9M09. This provision is based on an analysis of the Company's receivables portfolio.

● Other Revenues and Expenses

Other Revenues and Expenses in 3Q10 totaled R\$7.347 million, significantly impacted by the sale of the portfolio of clients in Paraná (see "Recent Events" section). The sale is part of the rebalancing of the distribution system and the sale proceeds partially compensate the additional expenses incurred in this process since 4Q09, already allocated to costs and expenses, as commented in the previous items.

● Depreciation and Amortization

Depreciation and Amortization expenses totaled R\$19.124 million, of which R\$16.109 million are related to amortization of the intangible assets resulting from acquisitions.

EBITDA

Consolidated Financial Highlights (in R\$ thousands)	Change			Change			Change	
	3Q10	3Q09	(3Q10/3Q09)	2Q10	(3Q10/2Q10)	9M10	9M09	(9M10/9M09)
Net Revenue	303,201	252,596	20.0%	270,128	12.2%	833,751	721,253	15.6%
EBITDA	88,186	66,450	32.7%	62,747	40.5%	211,772	185,064	14.4%
EBITDA Margin	29.1%	26.3%	280 bp	23.2%	590 bp	25.4%	25.7%	-30 bp
Adjusted Net Income ⁽¹⁾	50,095	41,231	21.5%	45,908	9.1%	134,527	116,820	15.2%

**New record for
EBITDA and
MARGIN**

EBITDA totaled R\$88.186 million in 3Q10, a 32.7% growth over 3Q09. EBITDA margin came to 29.1%, 280 basis points over 3Q09. EBITDA in 9M10 totaled R\$211.772 million, 14.4% more than in 9M09, with margin coming to 25.4%.

The EBITDA growth in the quarter is the result of: (i) the increase in the number of new clients and growth in the average ticket; (ii) improved productivity of the service teams; and (iii) continued dilution of the Company's fixed costs and expenses.

Net Income and Adjusted Net Income

Net Income Reconciliation (In thousand R\$)	Change			Change			Change	
	3Q10	3Q09	(3Q10/3Q09)	2Q10	(3Q10/2Q10)	9M10	9M09	(9M10/9M09)
Net Income	32,978	30,883	6.8%	34,681	-4.9%	95,510	88,256	8.2%
Amortization of intangibles	10,632	10,348	2.7%	11,227	-5.3%	32,532	28,564	13.9%
Convertible debentures fair price	6,485	-	-	-	-	6,485	-	-
Adjusted Net Income	50,095	41,231	21.5%	45,908	9.1%	134,527	116,820	15.2%

The Company ended 3Q10 with net income of R\$32.978 million, a 6.8% growth over 3Q09.

In 3Q10, net income was negatively impacted by R\$6.485 million due to additional financial expenses calculated from the evaluation of the convertible debentures at fair value. This assessment took into consideration: (i) the discount between market price and conversion price (R\$97,747683 per share) of 306,870 shares issued on August 20, 2010, for the conversion of 15% of the debentures (see section "Recent Events"), (ii) the reversal of the bonus for non-conversion of 15% of the debentures converted in 2Q10, and (iii) an accrual for a potential discount based on the difference between both conversion and market prices projections, considering the issuance of new shares for a possible conversion of the remaining 45% of the debentures that may still be converted. Such additional expenses are non-cash items, in other hand, are not counted in the calculation of Income Tax and Social Contribution for being considered as an adoption effect of International Accounting Standards (IFRS), resulting in taxable income increase and, consequently, the quarter effective tax rate.

From 3Q10 and forth, the additional financial expenses will be reverted in the ANI calculations

Since IPO, the Company has used the adjusted net income to calculate the annual dividends. From the 3Q10, the Management reverted the effect of these additional financial expenses in the adjusted net income, in order to avoid negative affects in the distribution of dividends to shareholders. In 3Q10, adjusted net income reached R\$50.095 million, a quarterly record, a 21.5% growth over 3Q09.

Net Debt

The Company's cash position on September 30, 2010 was R\$179.011 million and gross debt, consisting of loans, financings and the debentures issued in 3Q08, amounted to R\$398.363 million, resulting in net debt of R\$219.352 million, equivalent to 0.8x EBITDA of the past 12 months.

Considering the short-term receivables of R\$276.461 million, the Company's net cash reached R\$57.109 million.

Capital Markets

Ownership Breakdown

Shareholder (In % of the free float)	3Q10	2Q10	1Q10	4Q09	3Q09
Non-Institutional Investor	4.5%	4.6%	4.5%	4.6%	4.8%
Institutional Investor	95.5%	95.4%	95.5%	95.4%	95.2%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%
National Investor	18.3%	18.4%	25.0%	26.2%	27.6%
International Investor	81.7%	81.6%	75.0%	73.8%	72.4%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%

Free float on September 30, 2010 came to 21,874,303 shares, corresponding to 69.5% of the total 31,459,272 shares. The remaining shares are held by the Company's administrators, including related persons and companies controlled by them (25.20%), and by BNDES Participações S/A (5.27%).

Performance of TOTS3

In 3Q10, TOTVS' shares (Bovespa: TOTS3) declined 3.02% compared to 2Q10, beginning and closing the quarter at R\$133.95 and R\$129.90, respectively. In the same period, the Ibovespa index rose 13.94%, opening and closing the quarter at 60,935.90 and 69,429.78 points, respectively. In the annual comparison, TOTS3 appreciated 49.31%, compared to the IBOVESPA's 12.86%.

Though trading volume recovered sharply in the last month of the quarter compared to the same period in the previous year, with the daily average coming to R\$15.59 million, the financial volume increased 173.5% over the daily average of R\$4.37 million in 3Q09. Average daily financial volume of TOTS3 traded on the stock exchange reached R\$12.73 million.

Upcoming Events

Results Conference Call 3Q10 October 28th, 2010 (Thursday)

English	Portuguese
Time: 12:00 p.m. (New York) 09:00 a.m. (San Francisco) 05:00 p.m. (London) 02:00 p.m. (São Paulo)	Time: 01:30 p.m. (New York) 10:30 a.m. (San Francisco) 06:30 p.m. (London) 03:30 p.m. (São Paulo)
Conection number: +1 (412) 317-6776	Connection number: +55 (11) 3301-3000
Access Code: TOTVS	Access Code: TOTVS
Replay: +1 (412) 317-0088, access code: 445019 #, until november 8th 2010, or at our website.	Replay: +55 (11) 3127-4999, access code: 47269926, until november 4th 2010, or at our website.
Webcast: www.totvs.com/ir	Webcast: 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.
- **EBITDA**
CVM Circular 1/2005 defines EBITDA as earnings before net financial expenses, income tax and social contribution, and non-operating result.
- **Adjusted Net Income**
Adjusted net income refers to net income excluding amortizations resulting from the acquisitions and the Datasul merger, as well as their respective effects on income tax and social contribution.
- **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 7th 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 serve 26,200 clients and are complemented by a broad portfolio of vertical solutions, as well as value-added services such as consulting, infrastructure and BPO. For further information, visit 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 other risks. 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

CONSOLIDATED BALANCE SHEET				
(In thousand R\$)				
	Sep-10	Sep-09	Jun-10	Jun-09
ASSETS				
<u>Current assets</u>				
Cash and cash equivalents	172,576	232,086	183,063	212,991
Marketable securities	6,435	-	5,316	-
Accounts receivable	276,461	203,403	251,198	190,800
Allowance for doubtful accounts	(20,260)	(19,924)	(21,744)	(19,966)
Income tax and social contribution deferred	16,292	19,606	16,470	19,339
Recoverable taxes	24,751	23,335	35,844	22,950
Other current assets	23,055	12,938	18,126	11,785
	499,310	471,444	488,273	437,899
<u>Non-current assets</u>				
Long-term assets				
Marketable securities	47,771	-	17,366	-
Income tax and social contribution deferred	28,015	31,109	27,232	35,281
Judicial deposits	15,201	7,304	14,688	7,042
Other receivables	30,075	11,632	17,666	14,921
Permanent assets				
Investments	8	2	8	2
Equipment	36,279	33,403	34,272	30,949
Intangible	597,851	605,199	569,750	598,464
	755,200	688,649	680,982	686,659
TOTAL ASSETS	1,254,510	1,160,093	1,169,255	1,124,558
LIABILITIES				
<u>Current liabilities</u>				
Suppliers	21,570	22,287	20,663	24,441
Loans and financing	56,667	3,177	8,461	6,206
Debentures	606	1,289	7,197	12,482
Current obligation under capital leases	2,590	4,542	3,239	4,884
Taxes payable	5,856	5,289	5,907	6,353
Salaries and social charges payable	74,073	60,431	65,049	52,496
Commissions payable	44,881	26,409	35,206	25,296
Dividends payable	318	216	745	235
Obligation relating to acquisitions	11,057	34,018	11,547	12,138
Other payable	4,069	4,071	2,159	4,856
	221,687	161,729	160,173	149,387
<u>Non-current liabilities</u>				
Loans and financing	157,464	209,325	209,095	208,501
Debentures	191,482	209,785	216,413	207,742
Current obligation under capital leases	387	2,940	761	3,563
Income tax and social contribution deferred	-	-	-	152
Provision for contingencies	11,905	16,869	11,392	16,740
Obligation relating to acquisitions	51,996	12,554	21,093	18,786
Other liabilities	2,571	4,344	4,589	3,604
	415,805	455,817	463,343	459,088
Minority interests	-	5,315	-	7,901
<u>Shareholders' equity</u>				
Capital	406,489	376,493	376,493	376,493
Capital reserve	59,396	47,922	50,822	47,521
Income reserve	153,073	115,770	120,092	85,548
Ajuste de avaliação patrimonial	(1,940)	(2,953)	(1,668)	(1,380)
	617,018	537,232	545,739	508,182
TOTAL LIABILITIES AND EQUITY	1,254,510	1,160,093	1,169,255	1,124,558

CONSOLIDATED INCOME STATEMENT (In thousand R\$)	3Q10	3Q09	Change (3Q10/3Q09)	2Q10	Change (3Q10/2Q10)	9M10	9M09	Change (9M10/9M09)
Gross revenue								
License fee	95,030	65,782	44.5%	70,316	35.1%	229,018	183,479	24.8%
Services	93,693	87,064	7.6%	90,588	3.4%	269,377	241,595	11.5%
Maintenance	140,125	123,268	13.7%	137,497	1.9%	415,010	363,313	14.2%
	328,848	276,114	19.1%	298,401	10.2%	913,405	788,387	15.9%
Deductions from revenue								
Cancellation of services and sales	(5,008)	(5,578)	-10.2%	(8,508)	-41.1%	(20,910)	(16,146)	29.5%
Taxes	(20,639)	(17,940)	15.0%	(19,765)	4.4%	(58,744)	(50,988)	15.2%
Net revenue	303,201	252,596	20.0%	270,128	12.2%	833,751	721,253	15.6%
Licensing costs	(5,561)	(5,423)	2.5%	(6,933)	-19.8%	(17,439)	(16,597)	5.1%
Cost of services	(86,457)	(73,833)	17.1%	(87,028)	-0.7%	(262,917)	(212,321)	23.8%
Gross income	211,183	173,340	21.8%	176,167	19.9%	553,395	492,335	12.4%
Operating expenses								
Research and development	(39,306)	(32,330)	21.6%	(36,186)	8.6%	(108,966)	(87,944)	23.9%
Advertising expenses	(9,977)	(8,071)	23.6%	(8,770)	13.8%	(24,512)	(20,424)	20.0%
Selling expenses	(17,739)	(14,671)	20.9%	(16,576)	7.0%	(51,951)	(40,085)	29.6%
Commissions expenses	(34,207)	(23,778)	43.9%	(27,468)	24.5%	(84,870)	(72,463)	17.1%
General and administrative expenses	(18,469)	(17,464)	5.8%	(17,911)	3.1%	(54,652)	(56,968)	-4.1%
Management fees	(8,510)	(8,796)	-3.3%	(7,653)	11.2%	(21,145)	(23,793)	-11.1%
Depreciation and amortization	(19,124)	(17,848)	7.1%	(19,200)	-0.4%	(57,607)	(51,933)	10.9%
Provision for doubtful accounts	(2,136)	(2,440)	-12.5%	(2,464)	-13.3%	(6,797)	(6,962)	-2.4%
Other expenses (revenues)	7,347	660	1013.2%	3,608	103.6%	11,270	1,368	723.8%
	(142,121)	(124,738)	13.9%	(132,620)	7.2%	(399,230)	(359,204)	11.1%
Operating profit (EBIT)	69,062	48,602	42.1%	43,547	58.6%	154,165	133,131	15.8%
Financial result								
Financial revenues	6,799	6,335	7.3%	5,867	15.9%	18,237	20,012	-8.9%
Financial expenses	(26,138)	(13,302)	96.5%	(11,666)	124.1%	(52,394)	(44,358)	18.1%
	(19,339)	(6,967)	177.6%	(5,799)	233.5%	(34,157)	(24,346)	40.3%
Non-operating income	-	-	-	-	-	-	-	-
Income before taxes	49,723	41,635	19.4%	37,748	31.7%	120,008	108,785	10.3%
Income and social contribution taxes								
Current	(17,227)	(6,837)	152.0%	(6,295)	173.7%	(29,067)	(15,794)	84.0%
Deferred	482	(3,915)	-112.3%	3,228	-85.1%	4,569	(4,735)	-196.5%
	(16,745)	(10,752)	55.7%	(3,067)	446.0%	(24,498)	(20,529)	19.3%
Net income	32,978	30,883	6.8%	34,681	-4.9%	95,510	88,256	8.2%
EBITDA	88,186	66,450	32.7%	62,747	40.5%	211,772	185,064	14.4%

CONSOLIDATED CASH FLOW				
(In thousand R\$)	3Q10	3Q09	9M10	9M09
Net Cash from operating activities				
EBIT	69,062	48,602	154,165	133,131
Depreciation and Amortization	19,124	17,848	57,607	51,933
EBITDA	88,186	66,450	211,772	185,064
<u>Cash Items after EBITDA</u>	<u>(21,316)</u>	<u>(2,299)</u>	<u>(31,762)</u>	<u>(9,402)</u>
Financial Result	(4,089)	4,538	(2,695)	6,392
Income Tax and Social Contr. - Current	(17,227)	(6,837)	(29,067)	(15,794)
<u>Non-Cash Items after EBITDA</u>	<u>11,223</u>	<u>2,970</u>	<u>18,594</u>	<u>12,434</u>
Allowance for doubtful accounts	2,136	2,440	6,797	6,961
Provision for contingencies	513	129	1,252	4,382
Share-based payment	8,574	401	10,545	1,091
<u>Changes in Working Capital</u>	<u>(18,348)</u>	<u>(11,927)</u>	<u>(67,444)</u>	<u>(41,360)</u>
Accounts receivable, net of commissions	(26,019)	(11,499)	(48,243)	(31,133)
Suppliers	742	(2,154)	(2,579)	(5,424)
Salaries and charges payable	9,024	7,935	14,874	18,102
Taxes payable	11,042	(1,449)	6,623	(7,319)
Other assets and liabilities	(13,137)	(4,760)	(38,119)	(15,586)
	59,745	55,194	131,160	146,736
Cash flows from investment activities				
Acquisition of equipment	(5,280)	(5,302)	(12,488)	(10,480)
Intangible	(44,336)	(7,057)	(50,956)	(34,741)
Sales of Permanent Assets	(4)	84	43	4,096
	(49,620)	(12,275)	(63,401)	(41,125)
Cash flows from financing activities				
Bank loans and Debentures	(19,162)	(22,858)	(30,560)	15,918
Increase of lease obligations	(1,023)	(965)	(3,188)	(3,359)
Dividends paid	(427)	(1)	(69,156)	(33,490)
	(20,612)	(23,824)	(102,904)	(20,931)
Increase of cash and cash equivalents	(10,487)	19,095	(35,145)	84,680
Cash and equivalents at the beginning	183,063	212,991	207,721	147,406
Cash and banks at the end of the year	172,576	232,086	172,576	232,086