Conference call:	**CAE INC. Q3 CONFERENCE CALL (Q&A only)**
Time:	**12h00 E.T.**
Date:	**FEBRUARY 10, 2010**

Andrew Arnovitz: Operator, we would now be pleased to take questions from analysts and institutional investors.

Before you open the lines, let me first ask that in the interest of fairness, that you please limit yourselves to a single question. If you have additional questions after that and time permits, please do re-enter the queue.

Operator: Thank you. We will now take questions from the telephone lines. If you have a question, please press star, one on your telephone keypad. You may cancel your question by pressing the pound key. Please press star, one at this time if you have a question. There will be a brief pause while participants register. We thank you for your patience.

Our first question is from Cameron Doerksen from Versant Partners. Please go ahead.

Cameron Doerksen: Hi, good afternoon.

Marc Parent: Good afternoon.

Cameron Doerksen: I guess a question on the civil training business. You provided some, I guess some commentary around what's going on in the end markets there. I'm just wondering if CAE, specifically, has seen any kind of pickup in the training business, in either airline sub-segment or business aircraft. I mean, have you seen anything in the last few months that would indicate that, perhaps, you know, we've seen the bottom for the training market?

Marc Parent: Well, I think if we look at the large cabin airplanes, you know, large cabin business jets, I think that has not dropped as much. We had a bit of a pickup there. I think, if you look Middle East, we're still flying pretty well there.

I think you can really look at the utilization. We were at 60%, which was pretty much a historical low for us, 60% utilization through our network last quarter. Now, that was also the weak seasonal quarter. This quarter, we see 65%. Now, we normally see about that level of pickup seasonally, so it's hard for us to figure out whether there's any more pilots there, but it doesn't appear to be when you look at that metric. So it'll take… if you look at the macro-economic factor that we see, like utilization, it's hard to imagine that you would see a big pickup. So I think it'll take the next, you know, we'll watch things in the next few months to see what happens, but I think this quarter, what we saw, I think is probably just normal seasonal variances.

Cameron Doerksen: Okay, thank you.

Operator: Thank you. The next question is from Claude Proulx from BMO Capital Markets. Please go ahead.

Claude Proulx: Thank you. Good afternoon. You talked about the impact, or your view on the U.S. military budget. Can you talk a little about other countries, and I guess the U.K. in particular, you know, what you see in terms of budgeting and the impact on your business?

Marc Parent: Yes. If I look at the U.K., I mean, definitely there's a lot of pressure in the U.K. and we expect things to happen there. We're closely linked to that market. If you look at this year, in the short term for us in the U.K., even though there's significant budgetary pressure, like the elections, on that, for us… the platforms that we're exposed to in the U.K. where… you know, we have a training center in Benson that trains all the Royal Air Force medium helicopter crews, and this year, because of the war in Afghanistan and Iraq, we saw a lot of order activity on the CH-47 that we had out there related to modernization. We saw, as an ancillary benefit, the Dutch taking the CH-47 training in Benson as well [inaudible] business there. If you look at programs that they've recently announced, they've announced that they're going to pick up/extend the Puma helicopter. That's a platform that we have, so that means that we'll be seeing more activity there because we have Pumas [inaudible]. So, overall, I think we'll continue to do well there.

I think we'll see the same pressure that we see everywhere else, that is that as budgets are under pressure, you know, simulators lower cost. Because, as you well know, it's 10% of the cost to train on a simulator relative to flying in a real aircraft, and with the technology that we're a leader at, you can do training that's just as effective, and, in fact, sometimes better because you control aspects such as the environment or the weather, and the tactical environment. So, with all those trends, I think it bodes well.

If I look at the military budget in the U.S., you saw a budget—a proposed budget because it isn't approved yet—but even if you put that and you take the Quadrennial Defense Review, the budget's going up. The base budget in the U.S. is proposed to go up 3.4%. But if you dig deeper and you look at the line items of that budget that CAE is exposed to, the operations and maintenance budgets as well as the procurement budget, both of those elements are going up by 8%. As well, the platforms that—and again, we've talked in the past about the platforms that are used very much on what's called 'the war on terror,' you know, aircraft like the C-130J, CH-47, Blackhawk helicopter, Seahawk for Navy, all of those are seeing a pickup in the budget, and we're not exposed to any of the programs that are seeing a cut.

So, if I look overall, I think it bodes as a positive for us in the U.S., and I think in the rest of the world we'll continue to do well.

Claude Proulx: Okay, thank you.

Operator: Thank you. The next question is from Ben Cherniavsky from Raymond James. Please go ahead.

Ben Cherniavsky: Oh, hi guys. I just have a question, a point of clarification around your financials. That restructuring charge in the quarter, how should we think of it as we look at your segment and margins? I'm just trying to get a sense of what some kind of a normalized profitability rate would be for each of your four divisions. Did it land predominantly in any one of those groups that we can adjust for?

Alain Raquepas: As you might have noticed, Ben, the charge is not pushed into the segment operating income. We left it separate on the P&L. Obviously, if you would like to put it back in the margin, it has mainly affected the manufacturing facility here in Montreal—the major portion of the layoff were in Montreal at the beginning. But, right now, it's not included in the SOI, in the margin you've seen it.

Ben Cherniavsky: That's the way you presented it in the past, that's consistent with the past?

Alain Raquepas: Yes, exactly. So it's below the SOI.

Ben Cherniavsky: Okay, right, I'm sorry about that. Thanks a lot.

Alain Raquepas: You're welcome.

Operator: Thank you. The next question is from Ron Epstein from Bank of America. Please go ahead.

Ronald Epstein: Yes, good morning guys. Just quickly, does your outlook still contemplate a narrow body rate cut in calendar 2010, and if that doesn't happen, what do you think could happen to narrow body rates?

Marc Parent: You know, I'm not even going to begin to think about what—sorry, [audio interference] Airbus, Boeing [audio interference] narrow body [audio interference]. You know, for us, what we [audio interference] is that you've got to look at an aircraft, you've also got to look at the level of [audio interference] less initial training and more recurrence. So, to me, we haven't baked in—you know, we have an outlook [audio interference] number of simulators next year, and delivery rate is the predominant catalyst [audio interference]. Hopefully, by then we'll see an indication of any.

Ronald Epstein: Great, thank you.

Operator: Thank you. The next question is from Benoit Poirier from Desjardins Securities. Please go ahead.

Benoit Poirier: Yes. Hi, gentlemen. Oh, sorry. Good afternoon. Just one question. When we look at the U.S. defense budget, more specifically, are you guys exposed to the C-17 or replacement for the EP-3 intelligence aircraft?

Marc Parent: No, we're not.

Benoit Poirier: Okay, thank you.

Marc Parent: Welcome.

Operator: Thank you. The next question is from Tim James from TD Newcrest. Please go ahead.

Tim James: Thank you. Good afternoon. I'm just wondering if you could talk a little bit about the regulatory environment globally. Safety has been an increasing concern, arguably, here over the last, kind of, 12 to 24 months. I assume that creates a potential opportunity. So I'm just wondering if you can kind of talk about that and if you're seeing any influences on your business, and maybe at the same time, if you can touch on MPL and progress on that?

Marc Parent: Yes, maybe just start with the last element of your question in terms of MPL. We've started our first, you know, we had announced just short time ago that we've started our first MPL beta course, and that's begun at the Moncton Flying College, so that's well underway.

In terms of the more general question, because we're an industry leader in training, we participate, and in fact, we lead sometimes a lot of the industry working groups, working with the regulators to draft new regulations that will come out of, you know, any accidents or regulatory changes or changes in environment. So, we'll participate in that. For example, a result of the very unfortunate crash in Buffalo, the FAA administrators have come out to industry asking for input, so of course we will participate in that. So, you know, in terms of future opportunities, I think it just, I'm not banking on any future opportunities, I'm just banking that the training will remain a very key priority, a key emphasis of airlines and the general aviation environment going forward.

Tim James: Do you have any sense for, at this point, whether these increasing safety concerns that have come to light sort of shift demand in terms of your products towards full-flight simulators or your flight training devices or any particular product? Or is it difficult to say that at this point?

Marc Parent: I don't see any wholesale changes to any product line one way or another at this time.

Tim James: Thank you.

Operator: Thank you. Our next question is from David Tyerman from Genuity Capital Markets. Please go ahead.

David Tyerman: Yes. Good afternoon. A question on your Military. On the guidance, you provided, which I guess is a reiteration of what you've said before, the more than 10% growth and the 15% operating margins. For the growth, how far out would you be comfortable thinking about that kind of number? Then, on the operating margins, you've been above that 15% for seven quarters in a row; is there something that would take you down to the 15%?

Marc Parent: Yes well, just the first part of your question, in terms of the… I think I go pretty much… in terms of that outlook, I pretty much go to what I've got in the backlog and in products, mainly. So, you're probably talking about a couple of years there, in terms of that's typically what you see. Beyond that, and even within two years, you've got to assume that you're going to win contracts to start to replenish the backlog. But, you know, I feel confident in that for the reasons I've talked about before, in terms of the trends for the market. So, that's what I would see.

The second part of your question, sorry—?

David Tyerman: On the 15% operating margin, you've been above it for seven quarters in a row; what would take you down to the 15%?

Marc Parent: Yes well, again, the way we work, the way we do our accounting, is we present as a completion of accounting, which means that we book revenue as we book cost. So, clearly, you've got to make sure that when you sell the product, sell a military program, I know what margin we've sold it at. Now, we've got to execute at that margin or else, with that kind of accounting system, you're faced with a significant write-off which would happen all of a sudden, so you don't want to be exposed to that. So, you know, really what you're seeing there, in terms of a higher margin, is we've been executing the program at a higher margin than we've won on average. That's really what we're seeing. There's a bit of a mix. If I look going forward in terms of my backlog, you know, not all programs have the same level of profitability, so there's some of that there. So I think what you're seeing is that we've been executing better than we've been at winning the projects. Cost cutting has played a factor. Going forward, there is a mix of programs that has—with different profitability that plays into that.

David Tyerman: Okay, fair enough. Then, on the capex, you're doing very well this year, quite low capex at 82 million. Is this significantly below what would be kind of a steady state? Any thoughts in terms of what would be a more normal run rate for a business of your size right now?

Marc Parent: I think we'll update it when we get to the first quarter. I think a general statement I could make is that we have brought it down and, you know, some of that's a consequence of—as we said at the beginning, you're a consequence of the times you're in. We're maintaining. We have a fleet of assets out there, a fleet out there in our network, that clearly we have to continue maintaining, what we call maintenance capex. So, probably, you're talking about maybe 30/40 million a year on that, and after that it's growth, and that depends on the market opportunities out there.

David Tyerman: Okay, but to maintain the company at the current size, could you actually maintain 30/40 million?

Marc Parent: Well…

Alain Raquepas: In terms of the run rate for maintenance capex, yeah, I would say probably around 50 is/will be a right number, yes.

David Tyerman: Okay. Okay, great. Thank you.

Operator: Thank you. Our next question is from Scott Rattee from CI Capital Markets. Please go ahead.

Scott Rattee: Great. Thank you. Marc, I just had a question. You reiterated your guidance of 20 simulators for the year. I guess I was just sort of wondering a little bit more along the lines of sort of hearing—are you sort of seeing the sort of pace of discussion sort of improve a little bit and/or the volume of it? You know, what gives you the confidence that you can sort of make that through the balance of the year? Thanks.

Marc Parent: I think the pace of activity is there. I wouldn't say I've seen a wholesale, you know, major increase. I think we have more discussion. I think it's fair enough that more discussion's out there, and that's what you'd expect because the delivery rates are still relatively high out there. So, there's a little bit more activity.

In terms of finishing the year at 20, I think this is going to be a… it's kind of a race for the finish. The deals that we see out there, the deals that we're currently working on with customers—and, as I said before, it's taking a lot longer, both in terms of the marketing activity and closing of deals, because most deals now involve financing. There's very significant capital constraints at airlines, so everything has to be elevated to quite senior levels in the company. So, for all of those reasons, I think if we, and as I said last quarter, when we achieve our target of 20 this year, I'll consider that a great success. But, having said that, you know, we expect that we can get there.

Operator: Thank you. Our next question is from Marko Pencak from GMP Securities. Please go ahead.

Marko Pencak: Yes, I guess I've just got a couple of financial questions for Alain. In your MD&A, you talk about a couple of items that affected your number but you didn't provide disclosure on the amounts. So, that's what I'm trying to get here.

The first is in the military training segment, you talk about a contract amendment. Can you quantify the impact in revenue and/or segment profit during the quarter?

Alain Raquepas: Yes, Marko, it was close to $1 million, so just south of a million.

Marko Pencak: In profit?

Alain Raquepas: Yes.

Marko Pencak: Okay. You also talk about a change in accounting for pre-operating costs in the same segment. That's the first time this quarter, I believe; is that correct?

Alain Raquepas: No, we had that in the past. I do not have the amount close by, Marko, on that one, so—

Marko Pencak: Okay, maybe we can follow up. Because you also said that you'd restated the last year's third quarter, so I'm just not clear—

Alain Raquepas: Yes, that's the change that we've put in [inaudible] quarter, it's not a new item for the quarter.

Marko Pencak: Okay. Okay, so fine, that's ongoing. Then, can you just tell what was the actual amount of the sales type capital lease? Could you give us a net amount versus the cancellation measures? I'm curious what the actual impact of that.

Alain Raquepas: I think what we said, or we are willing to go as far as saying that it was a positive contributor to the same product top line this quarter, and you could assume 4 or 5 million of positive contribution when you take the net of the two.

Marko Pencak: Net of the two, okay.

Alain Raquepas: Yes, because the positive impact of the sales type lease was offsetting more.

Marko Pencak: Right, but you're not going to give us the split?

Alain Raquepas: Well, I don't have the exact number, but I'll give you—it's 4 or 5 million of additional contribution is the right number to use.

Marko Pencak: Okay. Then, finally, can you just help me understand your interest expense a little bit? You know, in Q1 this year, it's about 6.6 million, it increased to 7.4 million in Q2, and then it's dropped to 6.5 in Q3, you know, yet your net debt is higher. It's not clear to me sort of what's affecting such significant quarter-to-quarter swings, given that your debt balances are not moving around that much.

Alain Raquepas: Yes. Well, there's a couple of things, Marko, you could consider. You know we bought more debt.

Marko Pencak: In Q1.

Alain Raquepas: Yes, when we raised the private placement, and that was driving close to 7.5% interest. So, the mix has changed, which can be one of the explanations. The other thing is because we have less capital expenditure going into the network, under accounting rule, you can capitalize a portion of your interest expense when you have growth capex, and because we have less this year, obviously, a smaller portion of the interest expense went to the capitalization of the assets we've deployed. So, these are the two items, probably, you could consider to normalize the interest line.

Marko Pencak: Okay. So, basically, so as we look forward, I mean, if your—just so I'm clear on this, I guess if your incremental—if your growth capex goes down, right, then you're going to be capitalizing less interest, and so your interest expense goes up?

Alain Raquepas: Yes, absolutely. If, effectively, there's less asset to be deployed in the network, the interest portion that we attach to that during the build phase cannot be capitalized and it hits the bottom line, so you're absolutely right, yes, that's under accounting principle.

Just as a clarification, Marko, when I said 4 to 5 million, it's on the top line, obviously, not on the bottom line.

Marko Pencak: Yeah, no, understood.

Alain Raquepas: My colleagues here are good.

Marko Pencak: Okay, thanks. Thank you.

Operator: Thank you. The next question is from Richard Stoneman from Dundee Securities. Please go ahead.

Richard Stoneman: Good afternoon. I noticed that sales in Canada are up 64% to date this year, would that be the C-130J project, and when would expect the Chinook contract to be signed?

Marc Parent: I didn't look in detail at the [inaudible] but that would have to be it for sure. It would be the C-130J contract. On the CH-47, you know, we're… as you know, the government's acquired the helicopters, and we were identified early on as part of the OTSB contract, as the partner to look at the training of CH-47, so we're currently negotiating with the government. As I said in my remarks, sometimes the pace of those can be somewhat elusive, but, having said that, I feel confident that we'll be able to do that in a relatively short time.

Richard Stoneman: Thank you very much.

Operator: Thank you. Our next question is from Benoit Poirier from Desjardins Securities. Please go ahead.

Benoit Poirier: Yes. With respect to civil products, civil product equipment, you were talking about a longer term to sign the deal, but would you say, Marc, that the pipeline right now is about the same or unchanged versus the previous quarters?

Marc Parent: Well, yes, it's similar. It's similar. I think in last quarters, yes. I think it would be better than we saw earlier in the year, if you like, and we weren't sure as the market downturn really hit, but comparing what I saw last quarter, it's probably similar in terms of level of activity. Of course, you know, at the beginning of next year, we'll update what we think it looks like in terms of [inaudible].

Benoit Poirier: Okay, and maybe one housekeeping question. Alain, could you maybe talk about how much was the dividend from the U.K. investment for military?

Alain Raquepas: Again, if my memory serves me well, then it's, again, just south of a million, but we can confirm that to you. It's always in the same ballpark every quarter that we get the dividend [inaudible].

Benoit Poirier: On the operating income, right?

Alain Raquepas: Yes. This one is on the bottom line, yes.

Benoit Poirier: Okay. Perfect. Thanks.

Alain Raquepas: You're welcome.

Operator: Thank you. Our next question is from Michael Harber from Picton Mahoney. Please go ahead.

Michael Harber: Hey, guys. I just wonder if you have any kind of timeline for any level of materiality from the healthcare business, and if you can offer some more details on how you are progressing there.

Marc Parent: Yes. I think what I'd tell you is it's still very early days, it's too early for us to be able to put a number on that. We're so enthusiastic in this market, that's why we're investing in it. We're putting the essential elements of the business in position right now, and you saw these two small acquisitions, that's really for us to get subject matter expertise from medical practitioners.

I think that, really, what I'd like to see is positive contribution over the next few years and material long term. If I look at long term, I think the new core markets which we talked about before—i.e., healthcare, energy, and mining—I mean, if we're going to get into them, to me, it's going to have to be that we have an expectation that at some point they'll be at least as important as any of our existing four segments. But, it's early days right now.

You know, what we see of the healthcare training market today, it's a pretty fragmented market. It's about 7 to 800 million in terms of revenue today. We expect that over the next four or five years, it will probably double and we want to be part of that. But, again, we're very small at the moment and we'll have to be patient on that one. I think at this point what I would tell investors is that it has option value at this point.

Michael Harber: All right. Thanks.

Operator: Thank you. Our next question is from Tim James from TD Newcrest. Please go ahead.

Tim James: Thank you. I just wanted to explore the free cash flow in the quarter a little bit further. Alain, you mentioned about the inventory influences. It sounded like it was the primary reason for the cash used for working capital. Can you just talk a little bit about the specific differences in the contracts, or whatever color you can provide on why it required so much additional cash this year relative to the same quarter last year?

Alain Raquepas: Yes, sure. Well, first of all, we said that, roughly speaking, we invested 40 million in working cap this quarter. If you look at the Note 8, there's a good breakdown of where the 40 million is coming from. Essentially, a tricky area—15 million in contract-in-progress. That's the account on the balance sheet that comes when you do your POC and you cannot bill your customer because you have not achieved the milestone, you have an asset. So, it has increased by 15 million, and because our military business is increasing, it makes a lot of sense that the contract-in-progress, or what we call the UBS on billed sales, is augmenting. So, nothing to worry there, it's with military customers, they all have very good credit, so it's not something that worries us in terms of the collectability of these increases.

Inventory, we got the cancellation during the quarter so that simulator went back into inventory, which explains a bit of the 12 or 13 million increase in the inventory account, as well as some long-lead items that we bought for future program from an OEM.

The other leg explaining, the third leg explaining the increase, is at one point in time you had to pay your payables, and a good portion came out for that amount.

People should be reminded that year to date though the cash flow is at 64 million, the free cash flow is at 64 million versus 104 million of net earnings, so in terms of quality of earnings, that's not a bad ratio. I would like it to be a bit higher, but it's still quite good. Overall, when you look at the balance sheet at CAE, when you look at our short-term asset versus our short-term liability, we only have, for a company of our size, 13 million invested in short-term assets over my short-term liabilities. So, the boys are doing quite a good job in managing all of the short-term assets and short-term liability despite the investment that we show sporadically in working cap.

Tim James: Okay, thank you very much. That's very helpful.

Alain Raquepas: You're welcome.

Andrew Arnovitz: Operator, we only have about 10 minutes left on this call and so I think we'll open the lines now to members of the media. If there are any other additional questions from investors and analysts, I, of course, will be available in my office after this call. So, Operator, if you would please open the lines now to the media.

Operator: Thank you. We will now take questions from the media. If you have a question, please press star, one on your telephone keypad. Our first question is from Nick Swavie from Mergermarket. Please go ahead.

Nick Swavie: Hi. Good afternoon, gentlemen. Just from a growth standpoint, can you tell me about plans, if any, to add any new divisions to the business or to acquire other businesses and partnerships for your existing divisions?

Marc Parent: You know, I think the—our plan is kind of what we laid out. We have our four segments, we have two in the Military, two in Civil, and that's the bulk of our business, our core business. What we've talked about is we've started to lay the ground for leveraging our competencies into other markets, such as healthcare and mining and energy, and assuming that becomes material like as our plan over the next few years, then at that point, we would report it separately.

In terms of acquisitions, our focus has been on relatively small acquisitions, mainly to get subject matter expertise in areas that we don't have, or gain distribution channels, but nothing that I would consider major, and that's not within the kind of things that we're really envisaging right now.

Nick: Okay. Thank you very much.

Operator: Thank you. Once again, we are taking questions from the media. Please press star, one for any questions or comments.

Andrew Arnovitz: Operator, if there are no questions, we'll conclude the call. I'd like to thank everyone for their participation and remind you that a transcript of today's call is available on our website at www.cae.com. Thank you.

Operator: Thank you. The conference has now ended. Please disconnect your lines at this time and we thank you for your participation.

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