Conference call: **CAE INC. Q3 CONFERENCE CALL (Q&A only)**
Time: **12:00 p.m. E.T.**
Date: **February 9th, 2011**

Operator: Thank you. Ladies and gentlemen if you would like to register a question, please press the 1 followed by the 4 on your telephone. You will hear a three tone prompt to acknowledge your request.

If your question has been answered and you would like to withdraw your registration, please press the 1 followed by the 3.

If you are using a speakerphone please lift your handset before entering your request. One moment please for the first question.

Our first questions comes from the line of David Newman with Cormark Securities please go ahead.

David Newman: Good morning, or I guess, good afternoon. Just a housekeeping issue to start off with, your expectations on your guidance, is it excluding FX? So, what you expect is excluding the translation impact?

Alain Raquepas: No, no we don’t - we explain that the effect of - the effect of FX to - so we can get good clarity on how we’re executing if you like, in the business without considering FX.

But when I talk about going forward I take FX into account probably at the spot rates that we’re at.

David Newman: Okay very good. So, the actual organic growth could be higher than what you're guiding to?

Alain Raquepas: If the effects start to play against - continue to play against us in the future.

David Newman: Right. Okay second of all I know you had I know you had a tough comp and FX in the civil side but how do you anticipate you will burn through the I guess, the lower price lower margin backlog on the simulation side. And is pricing looking better Marc, at this juncture or how is that faring?

Marc Parent: Well I think I haven't - I don't see anything that changes the kind of outlook I gave last time which was in products that you know, the kind of margins that we see today you know, around the 11% there.

I don't see a lot of movement up or down beyond that number or at least next quarter as I was telling you. And a lot has to do with looking at how much product has gone through the plant. You know, it hasn't increased since the last couple of quarters in terms of us executing the backlog.

I mean volume would help as we - you're seeing signing more orders. It will help.

Now some of those contracts that were explained in the past a lot of them have to do with development programs or programs that don't deliver, not next year but sometimes the year after that so it won't probably contribute in the short term.

And with regards to pricing there may be a slight mode better but nothing very significant.

David Newman: Okay.

Marc Parent: But I know it hasn't gone down.

David Newman: Do you - I mean obviously as things tighten up here and obviously, Civil is doing very, very well around the world. Commercial is obviously doing quite well and Business Aviation picking up.

I mean, do you anticipate obviously the pricing going back to previous levels and certainly margins to previous levels as well especially as you get the volume throughput? Is there anything changed, I guess on the secular basis, in that front?

Marc Parent: Yes I would tell you that we've changed. I mean the market never stays stable as you know, competition comes and goes. There is a lot of competition in products.

That was in the past as well. I really believe that you know, as we've said before we're really taking advantage of the full breath of capabilities at CAE in both in products and in services to be able to get solutions to customers that allow us to differentiate ourselves.

So how that really translates is really I would encourage you to look at our combined civil results. Because increasingly that's what we're trying to do is bundle our services.

David Newman: Yes.

Marc Parent: So what that means is along the lines that I said I think a couple of times before is, if you look at combined civil margins what we've been saying is that well, we should be moving the next few quarters above the outlook I gave before which was combined civil margins at 15% as the volume picks up particularly in training.

And longer term when we're back at the peak I really don't see any reason, today that anything has changed that we could not generate the kind of returns you know, say 20% EBITs in our combined civil business when we're back at the peak.

David Newman: Very good. And then I guess the last one for me utilization obviously at 71% are very encouraging, things are looking a lot better in that front. I mean how do you think that will time out too? It's kind of a similar question but I think you previously sort of hit a high water mark if I'm not mistaken sort of in the low 80s which seem to be optimal level of utilization.

How do you think that plays out? I mean that'll come before - obviously near term. When you think pilots obviously around the world have to get trained up.

Marc Parent: Yes, I don't know if it happens that near term because what you're seeing today of course you got to look at the 71% as combined with what's happening both in the civil and the civil commercial fleet and the business aircraft fleet because of course we have both.

So what it's telling you the average is much more skewed, that 71% utilization is much more skewed to commercial aviation. And our business aircraft centers that hasn't been much of a big pickup yet.

David Newman: Right.

Marc Parent: So, really I think you get back to the peaks when both business aviation and commercial aviation are in lock step which you know, I think we're probably into 2012 before the business aircraft really comes in.

David Newman: Calendar 2012? Calendar...

Marc Parent: Yes, Calendar 2012 I think that is when most people think that business aircraft really starts to recover and business shed OEMs starts thinking about ramping up the production rate.

David Newman: Perfect. Thanks gentlemen.

Operator: And our next question comes from the line of Cameron Doerksen with The National Bank Financial. Please go ahead.

Cameron Doerksen: I guess a question on the new core markets. You gave the year to date revenue and you also gave I guess the operating loss that was recorded in Q3. Do you have the revenue that was recorded in the third quarter?

Alain Raquepas: Yes we have that. Give me two seconds Cameron I'll be right with you

Cameron Doerksen: Sorry, what was that again?

Marc Parent: 11 million.

Cameron Doerksen: 11 million okay. And I mean I guess you sort of you know, discussed it a little bit, you know, it seems, and maybe I've read this wrong, but seems like maybe the operating loss in the third quarter was maybe a little higher than what it was in previous quarters. I mean at, you know, what point do you start to get a little bit concerned about, you know, the drag this is having on the, you know, the margins in the Civil Training segment?

Marc Parent: Well I think it's obviously what we're aiming for is a profitable business clearly. I mean - but we're also aiming for a larger business than we have today.

We certainly believe that we can get this, at some point to - it becomes material to see that's our goal obviously. And we think that the markets will expand for us to be able to do that.

I mean what's happening today is that although the products that we're selling whether they be surgical simulators, whether they be services, operating training centers the products and services themselves are profitable.

But what's happening is we've - because we're targeting a larger business the amount of money we're putting in SG&A you know, sales and marketing for example and in R&D is obviously not being made up by the amount of revenue.

So it's a bit too early for me to say. I can tell you it's not years away, but it's still a bit early for me to tell you when that breaks even - or goes (unintelligible).

Cameron Doerksen: Okay, fair enough. I guess just a second question you know, you talked a bit about the - you know, funding delays in the US military programs. Was there anything specific there that got delayed? Or is it just sort of generally across the board with the US military programs?

Marc Parent: Well I mean what's happening is you've probably seen it is that the Fiscal '11 military - well actually US government budget hasn't be approved.

So they are still spending I guess the authorization is to spend that fiscal year '10 levels.

So it’s a variety of things you know, I’ll give you an example, we are selected for the MH60R Helicopter Programs. It’s a four - it’s a four simulator program really. And we - and the contractors for four.

Now because of funding they’ve turned on two. And you know, we’re - we’ve been selected on the additional two but they don’t have the funding to be able to operationalize those.

Those are the kind of examples that you see. So I don’t have any concerns that the programs go away.
But what you see is that because of this lack of budget approval - from what I’ve seen so far, it’s like their all - the revenue kind of moves to the right, almost like the incremental revenues moves by about a quarter to the right, everything moves that way, that’s what we’re seeing right now.

The next opportunity I think is March 7th for a vote on this subject. And so we’re cautiously - well I guess, waiting for what happens on that date.

Cameron Doerksen: Got it, all right that’s all I have, thanks very much.

Marc Parent: Thank you.

Operator: And our next question comes from the line of (Dan) Cherniavsky with Raymond James. Please go ahead.

Ben Cherniavsky: Hi guys.

Marc Parent: Hi.

Ben Cherniavsky: It’s usually my last name that they slaughter. I just had a question from your - just listing some quotes from your press release where you say based on our backlog and the programs we project winning your term.

Can you elaborate on some of the programs that you are bidding on and what you expect to win. And whether or not these are of the size that we've seen recently? Or are there any big programs out there that could come your way?

Marc Parent: I wouldn't like to comment too much on specifics because obviously competitive reasons. And I don't think you'll see much change in this type. We're not banking if you like big contracts to make or break our year.

I think the kind of programs that we've run recently are probably the same thing you would expect going forward. Same types of platforms, same - I think it's been our strategy for quite a few years.

We're quite happy when we get a $250 million contract but you know, we're not banking on it to make our year.

Ben Cherniavsky: But are there any $250 million contracts you're bidding on at present?

Marc Parent: Well I think that's - if you look at some of the air crew train service contracts that are up in the US you saw the win that we had on the KC135. So there is a number of programs that are still up for bid. I think the C17 has been decided that we'll see about that one. But there is other programs coming up for example, the C5.

So you know, those are the programs we would go after but they're part of what I would consider you know, the way we manage things like you would expect is we have say a A List of programs we go after we don't win them we've got a B and C list which we go after as well and with various degrees of profitability - of probability and that's what really makes the outlook that I give to you.

Ben Cherniavsky: Okay. And just a second question to follow up on all this discussion about the impact of the program delays.

Would that have - had they not been delayed had you seen that business coming your way, would it have come in the form in backlog or revenue?

I am just trying to understand your book to bill ratio being less than one. If these program delays had translated into revenue immediately, as opposed to backlog for future business, then that ratio would have been even lower. And so, what was the nature of the kind of business that's been deferred?

Marc Parent: Well it would have been both by the way, it would have been extra order and take and extra revenue.

((Crosstalk))

Ben Cherniavsky: Would the ratio have been higher than one then?

Marc Parent: I didn't actually calculate it to be honest. I think you know, we tend to - I mean we tend to look at it not on a quarterly basis because this business is so variable you get one big contract to kind of skew things.

I think if you look back three quarters or the full year you'll see we're at 1.35 booked to bill. Even if you take into account that maybe lowers a little bit down you're still have a good backlog brewing there.

And also if you think about programs like the KC135, even though we won that program and it's a $250 million program, we've only included $20 million of that program which represents this year's funding in the backlog. Even though the likelihood of that now going forward at the full value is very remote but you know, we maintain things that way.

As far as...

Ben Cherniavsky: So nothing really to read into on the book to bill you're so confident that the (unintelligible) as you say plus 10% or so.

Marc Parent: No, I don't read it very much into it. Like I said I really believe that our fundamental story hasn't changed. What I see is that I see a few things moved that are right. You know, the incremental revenue we're expected by about a quarter.

So having said that you know, I expect that a strong - a stronger third quarter and a strong - and a strong finish in the fourth which was my previous outlook.

And you know, visibility is pretty good because of where we are in the year considering what date it is.

So that's where I'm pretty confident that you know, we will see a strong finish in the fourth quarter both on the revenue and bottom line. Which you know, which gives me good visibility that you know, if I - and in my growth year over year in the kind of high teens rather than (unintelligible).

Ben Cherniavsky: So where are you - we're in the third quarter.

((Crosstalk))

Ben Cherniavsky: I'm sorry?

Marc Parent: I'm sorry, it's high single digits.

Ben Cherniavsky: Just final clarification and I'll let it go. But then where the third quarter and I will let it go, but then where the third quarter was a little lighter than you initially expected now. You would see the fourth quarter being better than you initially expected. Net-net for the year it is a wash, but the fourth quarter gets lumpy on the upside.

Marc Parent: It's really moving to the - it's really everything moving to the right it's what I'm saying.

Ben Cherniavsky: But are things that are in the fourth quarter now moving into the first and (actually) I'm just trying to get an appreciation for the timing.

Marc Parent: Yes.

Ben Cherniavsky: Is everything moved to the right?

Marc Parent: I think everything is moving to the right.

And a lot will depend on when this - you know, the magnitude of everything will likely really depend on when they turn on this budget - this budget for Fiscal '11.

So that's why I say that we'll be a lot smarter about this by the time we talk to you again at the end of the fourth quarter.

Ben Cherniavsky: Understand. Okay, thanks a lot.

Operator: Our next question comes from the line of Benoit Poirier with the Desjardins Securities. Please go ahead.

Benoit Poirier: Yes, thank you very much. So, my first question is on the defense side. When we look at the defense costs, I understand that there is a delay right now. But I am wondering if you see any positive impact on the simulation and if your investment sees this about the simulation, the savings is still valid?

Marc Parent: Yes I think - you know, are - and why our investments remain the same in regards to that.

I mean the question is how much you know, how much time, what's the - what's the timing on that. I mean some programs get cut we haven't seen much effect on our business.

And then we see governments asking us for solutions to reduce cost using modelling and simulation.

So you know, if we do get - if we do see cuts you know, does that get offset? By basic thesis is yes, based on everything that I see.

What we have seen that is for sure is that activity levels in our military training centers have increased. So there is definite increase in the use of simulation-based training rather than live aircraft that is definite.

Benoit Poirier: When we look at the overall military booking it's pretty solid - the year to date compared to the revenue. How consistent are you about the double digit revenue growth next year?

And with respect to the booking are you considered to maintain a book to bill above one on the military for next year?

Marc Parent: Book to bill for next year it's a bit early for me to say right now. I am much more confident with regards to the double digit growth next year in revenue. Because as you can expect where we stand - where we stand right now at this stake would be revenue that we've won that we probably have anywhere approximately 60% of next years revenue already in backlog.

So we got to win 40%. I mean some of it has to happen in this fourth quarter. You've seen - and that's why I say some of this is affected by this continuous budget resolution.

But the business hasn't changed as I look at the program that we count on to be able to win, to be able to get next year revenue we have pretty good visibility on our win probability on those programs.

And whether those programs you know, will be affected by any cuts which we don't believe will be the case.

If I look at all of that plus of course you know, I don't factor to win a 100% I always have - I factor things in. That's where I come from that I feel confident about the 10 to 12% next year. You know, even when I look at the exchange rates where they are today.

Benoit Poirier: Okay and maybe one last question if I may. Obviously the civil market environment is improving. But when you are discussing with the airlines are they cautious going forward given the traffic recovery and also the fuel improving.

Do you feel that they are looking to defer spending eventually?

Marc Parent: I don't see that yet. It's not to say it won't happen I mean our activity levels in simulator sales. I mean you've seen the pickup in terms of our wins. Activity levels are good and the profitability of the airlines have increased and that's always a good sign. And so no negative on the horizon so far I would tell you.

Benoit Poirier: Okay thanks for the time.

Marc Parent: Welcome.

Operator: Ladies and gentlemen as a reminder to register for a question please press the 1 followed by the 4.

Our next question comes from the line of David Tyerman with Canaccord Genuity. Please go ahead.

David Tyerman: Good afternoon. First question Marc you commented that you expect the combined civil margins to be moving up from the mid teens level over the next - or in the next several quarters. I am wondering what you see that will be driving that?

Marc Parent: A few things this is (just now) starting to come back. You know, we haven't - if you look at the utilization of our business aircraft centers we haven't seen much of a pickup and nothing material.

When it starts to pick up business aircraft tends to have more revenue and DOI per simulator. So that has a pretty strong affect.

Also the fact that the - we're still you know, quite a bit not full in our commercial simulator centers. So as they become - as they grow obviously you know, it's a lot at some point becomes a fixed cost business. So the more revenue put across it, the more drops to the bottom line.

So I think that those are the two factors that will drive it. Business aircraft coming back and passenger or airline capacity driving increased usage in our commercial aircraft centers.

Other factors...

David Tyerman: So on the whole on the TSC side it sounds like then?

Marc Parent: No sorry I was commenting more on TSC. Obviously we're winning more orders in products so that will drive - that will drive an increase in absolute dollars.

But to your point I think for the next few quarters I'm still not confident that we could really say much material movement around the 11% in the products.

David Tyerman: Okay.

((Crosstalk))

Marc Parent: For the increase from the 15 [combined civi] I see this being driven by Training and Services.

David Tyerman: Right. And just sort of related to that will the new core markets likely continue to be I don't know, one or two million drag the quarter type of thing?

Marc Parent: I hope not. I mean that's all what - that's not what we want. But as I said before, it will be a question of how much revenue because it's as I was explaining the profits we - the programs that we sale, the products and services are profitable.

So it's a question of having enough of them to overcome the SG&A and investment that we're making R&D we're investing for the future.

So I can't tell you when but what I'm telling you it's not going to be years before that turns profitable.

David Tyerman: Okay that's helpful. And then just on the military if the budget (unintelligible) from the US continues for a very long time which is possible it seems would this put a risk your double digit workout do you have any idea what it would be?

Marc Parent: Well I don't know now. I mean if - clearly if it doesn't get approved on March 7th and the orders that we expected to be - that we're selected on that we expect to be on contract if that moves too far out. I mean we have some buffer, but if it moves too far out to - into the first quarter clearly that starts affecting our ability to get double digit next year.

It’s too early for me to say we’re kind of banking on this happening on March 7th. But having said that we do have some buffer, we do have you know, work around plans to generate revenue that is not germane necessarily to that budget resolution.

So we look at the (end) the timing that’s why I said that we really have to come back to you when we report in the fourth quarter that’s when we’ll know the impact.

We’re not anticipating - we’re not anticipating it because as you can well imagine CAE is probably a very, very small player in terms of the impact of not approving the US budget.

David Tyerman: Yes, fair enough. That’s helpful, thank you.

Operator: Our next question comes from the line of Hamzah Mazari with the Credit Suisse. Please go ahead.

Hamzah Mazari: Good afternoon. Thank you. On the Civil Training side, are you beginning to see any pickup in initial certification type work yet? Or are you not yet seeing you know, a lot of (pilot) movement take place?

Marc Parent: We thought - we are seeing it, we saw more last quarter it’s - these things tend to work in cycles and seasonally it’s - so that - so therefore it’s a bit lumpy so I wouldn’t say - we’ve seen a C change yet, but there is more than they were.

I mean if we look at it last year it was almost exclusively recurrent training. Now we’re starting to see some more initial and it’s fair to expect that we’re going to have more going forward which is way I’m basically saying that we should see the margins in training services start to trend upwards.

Hamzah Mazari: Okay. And then on the military side if you could just comment on you know, how the European business is doing relative to your other market.

And you spoke of activity levels going up in your military centers. You know, are you seeing increasing use of simulation based training in the US? And is that beginning to catch up to Europe, are you seeing early signs of that yet?

Marc Parent: Well we've seen increased levels of training in the military training centers across the globe. MSH, our center in England has definitely seen it pick up in some of the training that we do; in the US we've seen training come up as well.

In terms of catching up I couldn't comment. I don't want to...

Hamzah Mazari: Okay. And I'm sorry just to just the last clarification question. You know, you spoke of you know, later delivery dates for some of your simulators. Is it fair to say that, you know, it is going to take more than 16 months for our orders to cycle through backlog? You know, your average, I think is 14. So, I am just wondering how to think about those later delivery dates?

Marc Parent: Well I don't think we've made a weighted average. Could you comment on that one Andrew?

Andrew Arnovitz: Yes I mean there is a number of them that are new aircraft programs and new aircraft development programs could be you know, anywhere ranging from 18 to 24 months.

Whereas, the high volume risk still could be 12 months or less. So, it's really executed both ends.

Marc Parent: We usually try by the way if we announced a simulator for a prototype program like the 747-8 for example, we'll usually you know, that you can assume the longer delivery time.

And if we deliver a simulator that says like a repeat aircraft that's already built usually you'll expect a shorter you know, around the 14 month timeframe.

Unless we specifically say in the press release and we usually do when it's going to be delivered if we say it's going to be delivered and in two years then that's because we know that the customers - that's his timeframe that's when we're going to deliver.

Hamzah Mazari: Okay great, very helpful. Thank you.

Operator: Ladies and gentlemen as a reminder to register for a question please press the 1 followed by the 4.

Our next question comes from the line of Marco Pencak with the GMP Securities. Please go ahead.

Marco Pencak: Thank you. Good afternoon. Alain, two questions for you the first one is, you recorded - or you undertook a sale and lease back transaction at your (Amridge) JV. Was there a gain on sale on those two (sims) and if so, how much?

Alain Raquepas: Yes it's only on the - on half of the value of the portion we're not selling while we sell that's the way it worked when we're selling simulators with JV in which we own that 50%.

The specific amount of profit Marco I do not have with me. But I can confirm to you that there is only half of the value that is going to the P&L when we're selling simulator through GD that we own that 50%.

Marco Pencak: Okay well if you could send that to me with...

Alain Raquepas: Yes we'll do the follow up for you (this week).

Marco Pencak: Okay thank you. Secondly next fiscal year when you transition to when you transition to IFR's accounting, will your - will you be recording revenues on your Civil simulators on percentage of completion, or upon delivery?

Alain Raquepas: Yes under the actual guidance Marco we're very confident that we're going to be able to continue to record revenue on a few (unintelligible) basis. There is some concept there about the customization what they also continue with transfer.

So every time I'm building a simulator as you know it's sales specific, it's for a specific customer.

The customer is taking almost ownership as I'm building it. So under these guidance and the new rule under IFRS we're still confident that this will stay obviously for the military (sims) for the 7000 Series and almost all of what we do.

Marco Pencak: Okay, that's great. Thank you very much.

Alain Raquepas: You're welcome.

Andrew Arnovitz: Thank you. Operator we will need to now make some time for members of the media to have an opportunity to ask questions and adjustment management.

So we'll formally close the investor portion of the call and now open the lines to members of the media.

Operator: Thank you very much. Ladies and gentlemen of the press and media if you would like to register a question please press the 1 followed by the 4 on your telephone.

Andrew Arnovitz: Operator if there are no calls from members of the media we can conclude the call.

Operator: Thank you very much Mr. Arnovitz we have no questions from the press and media, you may proceed with your closing remarks.

Andrew Arnovitz: I'd like to thank everyone for participating in this afternoons call. And remind you that a transcript of the call can be found on CAE's Website at CAE.com.

Operator: Ladies and gentlemen that does conclude the conference call for today we thank you for your participation and ask that you please disconnect your lines.

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