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Fiber-optic test, measurement and monitoring equipment

Press Release

## EXFO Meets Previously Announced Guidance

- *Sales of US\$14.6 million*
- *Pro forma net loss\* of US\$0.07 per share*
- *Net loss of US\$0.37 per share*
- *Guides towards slight growth in upcoming quarter*

QUEBEC CITY, CANADA, March 18, 2002—EXFO Electro-Optical Engineering Inc. (NASDAQ: EXFO, TSE: EXF) announced today that it has met previously issued guidance for the second quarter of fiscal 2002.

EXFO reported sales of US\$14.6 million for the quarter ended February 28, 2002 compared to US\$36.3 million for the same period in fiscal 2001 and US\$20.1 million for the first quarter of 2002.

Pro forma net loss\* for the second quarter of fiscal 2002 was US\$4.1 million, or US\$0.07 per share, compared to pro forma net earnings of US\$7.5 million, or US\$0.14 per share, for the second quarter of 2001 and a pro forma net loss of US\$1.9 million, or \$0.03 per share, for the first quarter of 2002.

EXFO's net loss, which includes amortization of goodwill and the after-tax effect of amortization of intangible assets and restructuring charges, for the second quarter of fiscal 2002 was US\$22.7 million, or US\$0.37 per share, compared to net earnings of US\$24,000, or US\$0.00 per share, for the same period last year and a net loss of US\$19.1 million, or \$0.33 per share, for the first quarter of 2002.

Gross margin, excluding inventory write-offs, amounted to 51.9% of sales for the second quarter of 2002 compared to 64.8% for the same period in 2001 and 55.1% for the first quarter of 2002. Including inventory write-offs of US\$5.9 million and US\$3.5 million in the second and first quarters of 2002, gross margin dropped to 11.8% and 37.8%, respectively.

“After 16 consecutive years of growth in sales, we have been affected by difficult market conditions that are unprecedented in this industry,” said Germain Lamonde, Chairman, President and CEO of EXFO.

“However, I am pleased that we have strengthened our positioning in the fiber-optic test and measurement segment. Our sequential increase in net bookings and decrease in order cancellations represent encouraging signs that our business strategy is reaping benefits.”



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### **Business Highlights**

EXFO launched an unprecedented nine new products during the second quarter of 2002. Three major releases included the FTB-5800 Chromatic Dispersion Analyzer for high-speed DWDM networks; the IQS-500 Cortex platform for manufacturing automation and R&D; and the FPMD-5600 Femtosecond Polarization Mode Dispersion Analyzer (PMD) to measure first- and second-order PMD for DWDM.

By the time the Optical Fiber Conference concludes this week, the Company will have announced more than 20 new products since the beginning of fiscal 2002. In comparison, EXFO launched the same number of products during the entire 2001 fiscal year.

### **Operating Expenses**

Selling and administrative expenses amounted to US\$9.3 million, or 63.4% of sales, for the second quarter of fiscal 2002 compared to US\$10.9 million, or 30.1% of sales, for the same period in 2001 and US\$10.3 million, or 51.3% of sales, for the first quarter of 2002. Gross research and development expenses totalled US\$4.8 million, or 33.0% of sales, for the second quarter of fiscal 2002 compared to US\$4.5 million, or 12.4% of sales, for the same period last year and US\$4.2 million, or 20.9% of sales, for the first quarter of 2002. During the second quarter of 2002, EXFO incurred additional severance expenses of US\$447,000 as part of its restructuring efforts.

The percentage increases in operating expenses were mainly due to decreased sales during the second quarter of 2002 and the full effect of the Avantas acquisition.

### **Business Outlook**

EXFO forecasted sales between US\$14.5 million and US\$17.0 million and a pro forma net loss between US\$0.05 and US\$0.07 for the third quarter of fiscal 2002.

“We have made difficult choices preserving our long-term focus on innovation and market share gains while aligning our cost structure to current market conditions,” Mr. Lamonde said. “Judging by the string of products we released so far this year, we are optimistic about showing slight growth in the third quarter.”

### **Conference Call and Webcast**

EXFO will host a conference call today at 5 p.m. (Eastern time) to review its second-quarter results. To listen to the conference call and participate in the question period via telephone, dial 1 (416) 620-2400.

Germain Lamonde, Chairman, President and CEO, and Pierre Plamondon, CA, Vice-President of Finance and Chief Financial Officer, will participate in the call. A replay of the conference call can be accessed after 7 p.m. (Eastern time) today until midnight (Eastern time) on March 22, 2002. The replay number is 1 (416) 626-4100 and the password is 20395770. A Webcast of the conference call will also be available on EXFO's Web site at [www.exfo.com](http://www.exfo.com), under the Investors section.



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\* *Pro forma net earnings (loss) represent net earnings (loss) excluding amortization of goodwill and the after-tax effect of amortization of intangible assets and restructuring charges. All figures are in thousands of US dollars except per share data.*

	<b>Three Months Ended February 28,</b>	
	<b>2001</b>	<b>2002</b>
<i>Net earnings (loss) in accordance with GAAP</i>	\$ 24	\$ (22,675)
<i>Pro forma adjustments:</i>		
<i>Amortization of goodwill</i>	6,377	12,409
<i>Amortization of intangible assets</i>	1,648	3,469
<i>Tax effect of amortization of intangible assets</i>	(538)	(1,281)
<i>Restructuring charges</i>	-	6,309
<i>Tax effect of the restructuring charges</i>	-	(2,330)
<i>Pro forma net earnings (loss)</i>	<u>\$ 7,511</u>	<u>\$ (4,099)</u>
<i>Basic and diluted pro forma net earnings (loss) per share</i>	\$ 0.14	\$ (0.07)

*EXFO provides pro forma financial information to help the reader better understand its operating results. This information is not in accordance with, or an alternative for, generally accepted accounting principles and may not be comparable to similarly titled measures reported by other companies.*

### **About EXFO**

EXFO is a leading designer and manufacturer of fiber-optic test, measurement, monitoring and automation solutions for the global telecommunications industry. EXFO markets more than 90 product families to 2000 customers in 70 countries around the world.

EXFO and its subsidiaries develop products for two main markets. The Portable and Monitoring Division provides handheld and modular instruments for the physical-, optical- and protocol-layer testing needs of telecommunications carriers and network service providers. The Industrial and Scientific Division offers an extensive line of high-performance instruments, test automation systems and manufacturing automation equipment for optical component and transmission system vendors as well as for research and development labs.



Press Release

This news release contains forward-looking statements within the meaning of the U. S. Private Securities Litigation Reform Act of 1995 and we intend that such forward-looking statements be subject to the safe harbors created thereby. Forward-looking statements are statements other than historical information or statements of current condition. Words such as “may,” “will,” “expect,” “believe,” “anticipate,” “intend,” “could,” “estimate” or “continue” or the negative or comparable terminology are intended to identify forward-looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and actual results may differ materially from those in the forward-looking statements as a result of various factors including continued uncertainty over the world-wide economy, spending in the telecommunications sector and our ability to execute successfully in these uncertain conditions; the effects of the actions we have taken in response to such economic uncertainty (including workforce reductions, ability to quickly adapt cost structures to align with decreased levels of business, ability to manage inventory levels to adapt to slowdowns); market acceptance of our recently introduced new products and other upcoming new products; limited visibility with regards to customer orders and the timing of such orders; our ability to successfully integrate our acquired and to-be-acquired companies; and future economic, competitive and market conditions. Assumptions relating to the foregoing involve judgments and risks, all of which are difficult or impossible to predict accurately and many of which are beyond our control. Other risk factors that may affect our future performance and our operations are detailed in our Annual Report on Form 20-F and our other filings with the U. S. Securities and Exchange Commission and the Canadian securities commissions. Although we believe that the expectations reflected in the forward-looking statements are reasonable based on information currently available to us, we cannot assure you that the expectations will prove to have been correct. Accordingly, you should not place undue reliance on these forward-looking statements. In any event, these statements speak only as of the date of this document. We undertake no obligation to revise or update any of them to reflect events or circumstances after the date of this document.

**For more information:**

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# EXFO Electro-Optical Engineering Inc.

## Interim Consolidated Balance Sheet

(in thousands of US dollars)

	<u>As at August 31, 2001</u>	<u>As at February 28, 2002</u>
		(unaudited)
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 7,729	\$ 8,105
Short-term investments	66,861	43,432
Accounts receivable		
Trade, less allowance for doubtful accounts of \$541 (\$893 as at August 31, 2001)	24,531	9,669
Other	3,660	3,408
Income taxes receivable	-	15,781
Inventories	44,345	36,143
Prepaid expenses	1,265	1,478
Future income taxes	1,423	1,808
	<u>149,814</u>	<u>119,824</u>
<b>Property, plant and equipment</b>	27,140	28,537
<b>Intangible assets and goodwill</b>	264,242	291,318
<b>Future income taxes</b>	<u>1,381</u>	<u>1,909</u>
	<u>\$ 442,577</u>	<u>\$ 441,588</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 16,180	\$ 12,525
Income taxes payable	2,623	-
Deferred revenue	616	378
Current portion of long-term debt	106	91
	<u>19,525</u>	<u>12,994</u>
<b>Deferred grants</b>	1,002	636
<b>Long-term debt</b>	664	620
<b>Future income taxes</b>	<u>6,581</u>	<u>5,522</u>
	<u>27,772</u>	<u>19,772</u>
<b>Shareholders' Equity</b>		
<b>Share capital</b>	429,995	489,611
<b>Contributed surplus</b>	1,457	1,483
<b>Cumulative translation adjustment</b>	(8,333)	(19,234)
<b>Deficit</b>	<u>(8,314)</u>	<u>(50,044)</u>
	<u>414,805</u>	<u>421,816</u>
	<u>\$ 442,577</u>	<u>\$ 441,588</u>

# EXFO Electro-Optical Engineering Inc.

## Interim Unaudited Consolidated Statements of Earnings

(in thousands of US dollars, except share and per share data)

	<b>Three Months Ended February 28, 2001</b>	<b>Six Months Ended February 28, 2001</b>	<b>Three Months Ended February 28, 2002</b>	<b>Six Months Ended February 28, 2002</b>
<b>Sales</b>	\$ 36,293	\$ 64,812	\$ 14,601	\$ 34,739
<b>Cost of sales *</b>	12,787	23,095	12,885	25,417
<b>Gross margin</b>	23,506	41,717	1,716	9,322
<b>Operating expenses</b>				
Selling and administrative	10,915	19,835	9,252	19,577
Net research and development	3,315	5,287	3,673	6,818
Amortization of property, plant and equipment	716	1,230	1,487	2,835
Amortization of intangible assets	1,648	1,662	3,469	6,740
Restructuring charges	-	-	447	857
<b>Total operating expenses</b>	16,594	28,014	18,328	36,827
<b>Earnings (loss) from operations</b>	6,912	13,703	(16,612)	(27,505)
Interest income, net	1,777	4,408	279	978
Foreign exchange gain	811	3,170	54	87
<b>Earnings (loss) before income taxes and amortization of goodwill</b>	9,500	21,281	(16,279)	(26,440)
<b>Income taxes</b>				
Current	4,070	7,590	(5,241)	(7,815)
Future	(971)	(339)	(772)	(1,754)
	3,099	7,251	(6,013)	(9,569)
<b>Earnings (loss) before amortization of goodwill</b>	6,401	14,030	(10,266)	(16,871)
<b>Amortization of goodwill</b>	6,377	6,501	12,409	24,859
<b>Net earnings (loss) for the period</b>	\$ 24	\$ 7,529	\$ (22,675)	\$ (41,730)
<b>Basic and diluted earnings (loss) per share</b>				
Earnings (loss) before amortization of goodwill	\$ 0.12	\$ 0.28	\$ (0.17)	\$ (0.28)
Net earnings (loss)	\$ -	\$ 0.15	\$ (0.37)	\$ (0.70)
<b>Basic weighted average number of shares outstanding (000's)</b>	51,804	49,267	61,321	59,822
<b>Diluted weighted average number of shares outstanding (000's)</b>	52,043	49,431	61,321	59,822

\* including restructuring charges for inventory write-off of \$5,862 and \$9,362 for the three months and the six months ended February 28, 2002, respectively, nil in 2001.