



EXFO Reports Strong Financial Results for First Quarter of 2009

- **Record-high bookings of US\$52.3 million, up 19.7% year-over-year**
- **Sales increase 13.1% year-over-year to US\$46.4 million**
- **Gross margin reaches 62.3%, highest level since second quarter of 2001**
- **GAAP net earnings amount to US\$0.08 per diluted share**

QUEBEC CITY, CANADA, January 13, 2009 – EXFO Electro-Optical Engineering Inc. (NASDAQ: EXFO; TSX: EXF) reported today strong financial results for the first quarter ended November 30, 2008.

Sales increased 13.1% to US\$46.4 million in the first quarter of fiscal 2009 from US\$41.0 million in the first quarter of 2008, but decreased 9.0% from US\$50.9 million in the fourth quarter of 2008. Net bookings improved 19.7% year-over-year to a record-high of US\$52.3 million for a book-to-bill ratio of 1.13 in the first quarter of fiscal 2009 from US\$43.7 million in the same period last year and 14.5% from US\$45.7 million in the fourth quarter of 2008.

Gross margin reached 62.3% of sales in the first quarter of fiscal 2009, its highest level since the second quarter of 2001, compared to 55.7% in the first quarter of 2008 and 59.9% in the fourth quarter of 2008.

GAAP net earnings in the first quarter of fiscal 2009 increased to US\$5.3 million, or US\$0.08 per diluted share, from a GAAP net loss of US\$0.1 million, or US\$ 0.00 per diluted share, in the same period last year and GAAP net earnings of US\$3.3 million, or US\$0.05 per diluted share in the fourth quarter of fiscal 2008. GAAP net earnings in the first quarter of 2009 included US\$1.1 million in after-tax amortization of intangible assets and US\$0.3 million in stock-based compensation costs. It should be noted that EXFO recorded a pre-tax, foreign exchange gain of US\$4.6 million in the first quarter of fiscal 2009.

“I am quite pleased with our record-high bookings of US\$52.3 million and best gross margin in almost eight years in the last quarter, led by very strong growth from our next-generation, IP test equipment and recent service assurance acquisition that we’re starting to leverage,” said Germain Lamonde, EXFO’s Chairman, President and CEO. “On the strength of a multi-million dollar service assurance contract with a Tier-1 wireless operator, our Protocol business collectively accounted for more than 30% of total bookings in the quarter to significantly contribute to our book-to-bill ratio of 1.13. We also benefited from a weaker Canadian/US exchange rate which positively affected our operating expenses and our earnings.”

“A number of wireline and wireless network operators will likely reduce their capital expenditures in 2009, given the challenging macro-economic conditions,” Mr. Lamonde added. “But we expect many will continue to strategically invest in next-generation IP convergence and broadband deployments in order to add higher-margin revenues, differentiated services and to reduce their operating expenses. EXFO is well positioned to take advantage of these growth segments. We’re also counting on important new products and increased focus to attain our long-term performance metrics. To remain prudent, however, we have implemented a series of measures to control expenses, deferred or cancelled hirings, and fine-tuned our strategies. Finally, our balance sheet remains strong, even after our successful C\$30 million share buyback, as we navigate through this tumultuous period.”

Unaudited Selected Financial Information
(In thousands of US dollars)

Segmented results:	Q1 2009	Q1 2008	Q4 2008
Sales:			
Telecom Division	\$ 41,159	\$ 35,365	\$ 45,338
Life Sciences and Industrial Division	5,204	5,620	5,605
Total	\$ 46,363	\$ 40,985	\$ 50,943
Earnings from operations:			
Telecom Division	\$ 1,355	\$ 21	\$ 2,867
Life Sciences and Industrial Division	738	281	721
Total	\$ 2,093	\$ 302	\$ 3,588
Other selected information:			
GAAP net earnings (loss)	\$ 5,287	\$ (93)	\$ 3,314
After-tax amortization of intangible assets	\$ 1,098	\$ 499	\$ 1,177
Stock-based compensation costs	\$ 322	\$ 301	\$ 368

Operating Expenses

Selling and administrative expenses amounted to US\$17.1 million, or 36.9% of sales, in the first quarter of fiscal 2009 compared to US\$14.8 million, or 36.2% of sales, in the same period last year and US\$17.0 million, or 33.4% of sales, in the fourth quarter of 2008.

Gross research and development expenses totaled US\$8.6 million, or 18.6% of sales, in the first quarter of fiscal 2009 compared to US\$7.5 million, or 18.3% of sales, in the first quarter of 2008 and US\$8.6 million, or 16.8% of sales, in the fourth quarter of 2008.

Net R&D expenses totaled US\$7.2 million, or 15.6% of sales, in the first quarter of fiscal 2009 compared to US\$6.0 million, or 14.7% of sales, in the same period last year and US\$7.3 million, or 14.3% of sales, in the fourth quarter of 2008.

First-Quarter Business Highlights

Market expansion — EXFO delivered sales growth of 13.1% year-over-year, including a combined US\$4.5 million revenue contribution from recently acquired Brix Networks and Navtel Communications. Its Protocol business generated record quarterly revenues, accounting for more than 30% of Telecom Division sales for the first time. The company's bookings made significant progress in the wireless market in the first quarter of 2009, while Telecom Division sales increased 16.4% year-over-year and the Life Sciences and Industrial Division experienced a 7.4% drop due to deteriorating end-consumer markets. EXFO's top customer accounted for 3.8% of total sales, while its top three accounts represented 10.4% of sales, demonstrating the company's successful diversification efforts.

Profitability and Gross Margin — EXFO reported GAAP net earnings of US\$5.3 million, or US\$0.08 per diluted share. An improved gross margin at 62.3%, on account of a weaker Canadian dollar, increased sales of higher-margin Protocol test solutions and the ramp-up of low-cost manufacturing plant in China, also contributed to the company's profitability in the first quarter.

EXFO launched five new products in the first quarter including amongst others a new software release for the Transport Blazer product line that delivers unprecedented insight into 40 Gbit/s network behavior; new software releases for the IMS InterWatch platform and Packet Blazer product line to support the migration of voice and video applications to the IPv6 (Internet Protocol, version 6) addressing scheme; and expanded Ethernet test capabilities on the Power Blazer product line through multi-stream, quality of service (QoS) support. Products on the market two years or less generated 33.1% of total sales.

Business Outlook

EXFO forecasted sales between US\$45 million and US\$50 million and GAAP net earnings between US\$0.01 per diluted share and US\$0.05 per diluted share for the second quarter of 2009. GAAP net earnings include US\$0.02 per share in after-tax amortization of intangible assets and stock-based compensation costs.

This guidance was established by management based on existing backlog as of the date of this press release, seasonality, expected bookings for the remaining of the quarter, as well as stability in exchange rates compared to the previous quarter.

Conference Call and Webcast

EXFO will host a conference call today at 5 p.m. (Eastern time) to review its financial results for the first quarter of fiscal 2009. To listen to the conference call and participate in the question period via telephone, dial 1-416-620-2416. Germain Lamonde, Chairman, President and CEO, and Pierre Plamondon, CA, Vice-President of Finance and Chief Financial Officer, will participate in the call. An audio replay of the conference call will be available one hour after the event until 7 p.m. on January 20, 2009. The replay number is 1-402-977-9141 and the reservation number is 21405504. The audio Webcast and replay of the conference call will also be available on EXFO's Website at www.EXFO.com, under the Investors section.

Forward-Looking Statements

This press 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, 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 and circumstances are considered forward-looking statements. They are not guarantees of future performance and involve risks and uncertainties. Actual results may differ materially from those in forward-looking statements due to various factors including consolidation in the global telecommunications test, measurement and monitoring industry; capital spending levels in the telecommunications, life sciences and high-precision assembly sectors; concentration of sales; fluctuating exchange rates and our ability to execute in these uncertain conditions; the effects of the additional actions we have taken in response to such economic uncertainty (including our ability to quickly adapt cost structures with anticipated levels of business, ability to manage inventory levels with market demand); market acceptance of our new products and other upcoming 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 businesses; our ability to successfully expand international operations; the retention of key technical and management personnel; and future economic, competitive, financial and market conditions, including any slowdown or recession in the global economy. Assumptions relating to the foregoing involve judgments and risks, all of which are difficult or impossible to predict and many of which are beyond our control. Other risk factors that may affect our future performance and 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. We believe that the expectations reflected in the forward-looking statements are reasonable based on information currently available to us, but 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. These statements speak only as of the date of this document. Unless required by law or applicable regulations, we undertake no obligation to revise or update any of them to reflect events or circumstances that occur after the date of this document.



About EXFO

EXFO is a leading provider of test and service assurance solutions for network service providers and equipment manufacturers in the global telecommunications industry. The Telecom Division offers a wide range of innovative solutions extending across the full technology lifecycle — from design to technology deployment and onto service assurance — and covering all layers on a network infrastructure to enable triple-play services and next-generation, converged IP networking. The Life Sciences and Industrial Division offers solutions in medical device and optoelectronics assembly, fluorescence microscopy and other life science sectors. For more information, visit www.EXFO.com.

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