

EXFO Reports Strong Quarterly Results Amid Difficult Market Environment

- *Increases sales 7.1% year-over-year to US\$46.4 million with book-to-bill ratio of 1.02*
- *Record protocol sales exceed 40% of Telecom Division revenues*
- *Recognizes multi-million dollar contract from Tier-1 North American wireless operator*
- *Captures No. 1 position in global fiber-optic test equipment market with 18.0% market share and 33.3% for portable installation and maintenance segment*

QUEBEC CITY, CANADA, March 31, 2009—EXFO Electro-Optical Engineering Inc. (NASDAQ: EXFO; TSX: EXF) reported today strong financial results for the second quarter ended February 28, 2009.

Sales increased 7.1% to US\$46.4 million in the second quarter of fiscal 2009 from US\$43.3 million in the second quarter of 2008, but were flat compared to US\$46.4 million in the first quarter of 2009. Net bookings improved 6.3% to US\$47.3 million for a book-to-bill ratio of 1.02 in the second quarter of fiscal 2009 from US\$44.5 million in the same period last year, but dropped 9.6% from US\$52.3 million in the first quarter of 2009. At the mid-point of fiscal 2009, bookings and sales increased 12.9% and 10.1% year-over-year to US\$99.6 million and US\$92.7 million, respectively, for a book-to-bill ratio of 1.07.

Gross margin reached 60.4% of sales in the second quarter of fiscal 2009 compared to 58.3% in the second quarter of 2008 and 62.3% in the first quarter of 2009. After six months into fiscal 2009, gross margin attained 61.4% compared to 57.0% in the same period last year.

GAAP net earnings in the second quarter of fiscal 2009 amounted to US\$2.7 million, or US\$0.04 per diluted share, compared to US\$4.0 million, or US\$0.06 per diluted share, in the same period last year and US\$5.3 million, or US\$0.08 per diluted share, in the first quarter of fiscal 2009. GAAP net earnings in the second quarter of 2009 included US\$1.0 million in after-tax amortization of intangible assets and US\$0.3 million in stock-based compensation costs. It should be noted that EXFO benefited from a net US\$1.2 million income tax recovery in the second quarter of 2008 and recorded a pre-tax, foreign exchange gain of US\$4.6 million in the first quarter of fiscal 2009.

During the second quarter of fiscal 2009, EXFO closed the acquisition of Sweden-based PicoSolve Inc., a supplier of ultra-high-speed optical sampling oscilloscopes capable of characterizing transmission networks up to 500 Gbit/s. PicoSolve's industry-leading oscilloscopes have been integrated in EXFO's optical product offering for 40 Gbit/s and 100 Gbit/s R&D, manufacturing and deployment applications.

Following the quarter-end, EXFO was named recipient of the Growth Strategy Leadership Award by Frost & Sullivan for the fifth consecutive time. The award is presented to the company whose growth strategy generates the largest market-share gains in the global fiber-optic test equipment (FOTE) market during the previous research period. According to Frost & Sullivan, a leading global growth consulting firm, EXFO captured first place overall in the FOTE market with a market share of 18.0% in 2008 from third place with a market share of 12.7% in 2006. (Frost & Sullivan did not grant an award for market-share gains in 2007). Based on Frost & Sullivan's market data, EXFO improved its leadership position in the portable installation and maintenance test market from 25.5% in 2006 to 33.3% in 2008.

“Given the challenging market environment and typical seasonality, I’m rather pleased with our revenue and earnings performance in the second quarter, as well as with our confirmed global market leadership in Optical testing and continued progress in our Protocol test and service assurance business that reached above 40% of Telecom Division revenues for the first time,” said Germain Lamonde, EXFO’s Chairman, President and CEO. “Our early success in service assurance and wireless market reflects our alignment with key growth segments in the telecom industry. Our strong earnings performance, meanwhile, can be attributed to quality of execution and a favorable Canadian/US exchange rate.”

Unaudited Selected Financial Information
(In thousands of US dollars)

Segmented results:	Q2 2009	Q2 2008	Q1 2009
Sales:			
Telecom Division	\$ 41,367	\$ 37,435	\$ 41,159
Life Sciences and Industrial Division	5,005	5,846	5,204
Total	\$ 46,372	\$ 43,281	\$ 46,363
Earnings from operations:			
Telecom Division	\$ 2,117	\$ 2,817	\$ 1,355
Life Sciences and Industrial Division	482	818	738
Total	\$ 2,599	\$ 3,635	\$ 2,093
Other selected information:			
GAAP net earnings	\$ 2,655	\$ 4,024	\$ 5,287
After-tax amortization of intangible assets	\$ 1,034	\$ 490	\$ 1,098
Stock-based compensation costs	\$ 325	\$ 269	\$ 322
Future income tax recovery	\$ –	\$ (2,715)	\$ –
Effect of changes in Canadian tax rate	\$ –	\$ 1,524	\$ –

Operating Expenses

Selling and administrative expenses amounted to US\$15.8 million, or 34.1% of sales, in the second quarter of fiscal 2009 compared to US\$13.7 million, or 31.6% of sales, in the same period last year and US\$17.1 million, or 36.9% of sales, in the first quarter of 2009.

Gross research and development expenses totaled US\$8.8 million, or 19.0% of sales, in the second quarter of fiscal 2009 compared to US\$7.6 million, or 17.5% of sales, in the second quarter of 2008 and US\$8.6 million, or 18.6% of sales, in the first quarter of 2009.

Net R&D expenses totaled US\$7.3 million, or 15.8% of sales, in the second quarter of fiscal 2009 compared to US\$6.2 million, or 14.3% of sales, in the same period last year and US\$7.2 million, or 15.6% of sales, in the first quarter of 2009.

Second-Quarter Business Highlights

Market expansion — EXFO delivered sales growth of 7.1% year-over-year in the second quarter of 2009, including a combined US\$9.2 million revenue contribution from Brix Networks and Navtel Communications. The company's Protocol business, which includes Brix Networks and Navtel Communications, generated record quarterly sales, accounting for more than 40% of Telecom Division revenue. EXFO's top customer accounted for 20.3% of sales in the second quarter largely due to a multi-million dollar IP service assurance contract from a Tier-1 North American wireless operator. Year-to-date in fiscal 2009, EXFO's top customer represented 11.8% of sales and its top three customers 18.6%.

Profitability — GAAP net earnings amounted to US\$2.7 million, or US\$0.04 per diluted share, in the second quarter based on higher-margin protocol sales, cost-control initiatives and a favorable Canada/US exchange rate. At the midpoint of fiscal 2009, GAAP net earnings amounted to US\$7.9 million, or US\$0.12 per diluted share. In comparison, the company posted GAAP net earnings of US\$3.9 million, or US\$0.06 per diluted share, at the same period in 2008.

Innovation — EXFO launched seven new products in the second quarter, including a patent-pending distributed PMD analyzer that allows network operators to cost-effectively upgrade their networks to 40G and 100G by measuring the level of potentially debilitating PMD on each fiber section. The company also released a new software suite for Packet-over-OTN (Optical Transport Network) test applications in next-generation, IP networks; a new software suite for end-to-end testing of IMS (Internet Protocol Multimedia Subsystem) networks; and a new passive optical network (PON) power meter for fiber-to-the-home (FTTH) test applications. Following the quarter-end, EXFO introduced a portable, multi-layer platform (FTB-500) designed for high-end test applications in the field and central office; a high-performance optical spectrum analyzer (OSA) purpose-built for dense wavelength-division multiplexing (DWDM) network commissioning and network upgrades to 40G; and an optical time domain reflectometer (OTDR) optimized for FTTH applications and live fiber troubleshooting. Sales from products that have been on the market two years or less accounted for 41.4% of total sales in the second quarter of 2009 and 37.2% year-to-date in fiscal 2009.

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 third 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 second quarter of fiscal 2009. To listen to the conference call and participate in the question period via telephone, dial 1-416-641-6680. 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 April 7, 2009. The replay number is 1-402-977-9141 and the reservation number is 21416112. 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 service assurance 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 slow-down 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 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 opto-electronics assembly, fluorescence microscopy and other life science sectors. For more information, visit www.EXFO.com.

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