



## EXFO Reports Fourth-Quarter and Year-End Results for Fiscal 2009

- *Annual sales decrease 5.9% in the current economic environment*
- *Record cash flows from operations attain US\$22.6 million*
- *Gross margin improves for a seventh consecutive year to reach 61.3%*
- *Cash position of US\$69.7 million and no debt*

QUEBEC CITY, CANADA, October 13, 2009—EXFO Electro-Optical Engineering Inc. (NASDAQ: EXFO, TSX: EXF) reported today fourth-quarter and year-end financial results for the fiscal year ended August 31, 2009.

Annual sales decreased 5.9% to US\$172.9 million in fiscal 2009 from US\$183.8 million in 2008. In the fourth quarter of 2009, sales reached US\$36.5 million compared to US\$43.6 million in the previous quarter and US\$50.9 million in the fourth quarter of 2008. Overall for fiscal 2009, net bookings decreased 2.2% to US\$180.5 million from US\$184.6 million in 2008 for an annual book-to-bill ratio of 1.04. In the fourth quarter of 2009, net bookings totaled US\$40.7 million for a book-to-bill ratio of 1.11 compared to US\$40.2 million in the third quarter of 2009 and US\$45.7 million in the fourth quarter of 2008.

Gross margin improved for a seventh consecutive year to reach 61.3% of sales in fiscal 2009. In the fourth quarter of 2009, gross margin amounted to 60.0% compared to 62.3% in the previous quarter and 59.9% in the fourth quarter of 2008.

In fiscal 2009, GAAP net loss totaled US\$16.6 million, or US\$0.27 per share, including US\$21.7 million for impairment of goodwill, US\$5.1 million in amortization of intangible assets, US\$1.4 million in stock-based compensation costs and US\$1.2 million in restructuring charges. These items were partially offset by US\$1.9 million for the recognition of previously unrecognized R&D tax credits and US\$0.9 million for the net recovery of income taxes. These items resulted in a net income tax recovery of US\$2.6 million.

In fiscal 2008, GAAP net earnings reached US\$18.4 million, or US\$0.27 per diluted share, including US\$6.5 million for the net recovery of income taxes and an extraordinary gain of US\$3.0 million related to the negative goodwill on the acquisition of Navtel Communications. These items were partially offset by US\$3.9 million in amortization of intangible assets and US\$1.3 million in stock-based compensation costs. These items resulted in a net income tax recovery of US\$0.9 million.

In the fourth quarter of 2009, GAAP net loss amounted to US\$1.2 million, or US\$0.02 per share, including US\$1.2 million in restructuring charges, US\$1.1 million in amortization of intangible assets, and US\$0.4 million in stock-based compensation costs. These items were offset by US\$1.9 million for the recognition of previously unrecognized R&D tax credits and US\$0.9 million for the net recovery of income taxes. These items resulted in a net income tax expense of US\$0.1 million.

In the third quarter of fiscal 2009, GAAP net loss totaled US\$23.3 million, or US\$0.39 per share. EXFO recorded a non-cash charge of US\$21.7 million for impairment of goodwill and a foreign exchange loss of US\$4.7 million in the third quarter of 2009. GAAP net loss in the third quarter of 2009 also included US\$1.4 million in amortization of intangible assets and US\$0.4 million in stock-based compensation costs. These items resulted in a net income tax recovery of US\$2.3 million.

In the fourth quarter of 2008, GAAP net earnings amounted to US\$3.3 million, or US\$0.05 per diluted share, including US\$1.4 million in amortization of intangible assets and US\$0.4 million in stock-based compensation costs. These items resulted in a net income tax recovery of US\$0.2 million.

“EXFO made significant progress navigating through the severe global economic recession in fiscal 2009 and I believe we continued to gain market share from a reduced telecom test and service assurance pie,” said Germain Lamonde, EXFO’s Chairman, President and CEO. “I’m particularly pleased with our Protocol business which grew 63.1% on full-year revenue contributions from the Brix and Navtel acquisitions and on our focus on IP convergence — both in fixed and mobile communication networks — to account for more than one-third of Telecom revenues. We also continued building for the future in key telecom growth sectors with 26 new product introductions, including several game-changing solutions.”

“It was more challenging on the EBITDA side, given lower sales volume caused by the recession, but actions were taken to align our operating expenses to market conditions through a US\$6 million annualized cost-reduction plan in the fourth quarter,” Mr. Lamonde added. “I’m pleased we still raised our gross margin for a seventh consecutive year to reach 61.3%, generated record cash flows from operations of US\$22.6 million, and maintained a healthy balance sheet. Now that the worst of the economic recession seems to be behind us, I’m excited about EXFO’s strong strategic position to take advantage of key market opportunities and return to our profitable growth path, as reflected in our new corporate performance metrics for the next three years.”

**Selected Financial Information**  
(In thousands of US dollars)

<b>Segmented results:</b>	<b>Q4 2009</b>	<b>Q3 2009</b>	<b>Q4 2008</b>	<b>FY 2009</b>	<b>FY 2008</b>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	
Sales:					
Telecom Division	\$ 31,509	\$ 39,047	\$ 45,338	\$153,082	\$160,981
Life Sciences & Industrial Division	4,998	4,589	5,605	19,796	22,809
<b>Total</b>	<b>\$ 36,507</b>	<b>\$ 43,636</b>	<b>\$ 50,943</b>	<b>\$172,878</b>	<b>\$183,790</b>
Earnings (loss) from operations:					
Telecom Division	\$ (3,238)	\$ (21,990)	\$ 2,867	\$ (21,954)	\$ 9,524
Life Sciences & Industrial Division	2,020	438	721	3,876	2,459
<b>Total</b>	<b>\$ (1,218)</b>	<b>\$ (21,552)</b>	<b>\$ 3,588</b>	<b>\$ (18,078)</b>	<b>\$ 11,983</b>
<b>Other selected information:</b>					
GAAP net earnings (loss)	\$ (1,181)	\$ (23,346)	\$ 3,314	\$ (16,585)	\$ 18,424
Recognition of previously unrecognized R&D tax credits	\$ (1,902)	\$ —	\$ —	\$ (1,902)	\$ —
Amortization of intangible assets	\$ 1,147	\$ 1,355	\$ 1,402	\$ 5,067	\$ 3,871
Restructuring charges	\$ 1,171	\$ —	\$ —	\$ 1,171	\$ —
Impairment of goodwill	\$ —	\$ 21,713	\$ —	\$ 21,713	\$ —
Stock-based compensation costs	\$ 379	\$ 383	\$ 368	\$ 1,409	\$ 1,272
Net recovery of income tax	\$ (943)	\$ —	\$ —	\$ (943)	\$ (6,515)
Extraordinary gain (negative goodwill)	\$ —	\$ —	\$ —	\$ —	\$ (3,036)
Net income tax effect of the above items	\$ 93	\$ (2,273)	\$ (225)	\$ (2,613)	\$ (915)

**Operating Expenses**

Selling and administrative expenses amounted to US\$63.8 million, or 36.9% of sales, in fiscal 2009 compared to US\$61.2 million, or 33.3% of sales, in 2008. In the fourth quarter of 2009, selling and administrative expenses totaled US\$14.2 million, or 38.9% of sales, compared to US\$16.7 million, or 38.3% of sales, in the third quarter of 2009 and US\$17.0 million, or 33.4% of sales, in the fourth quarter of 2008.

Gross research and development (R&D) expenses reached US\$35.8 million, or 20.7% of sales, in fiscal 2009 compared to US\$32.5 million, or 17.7% of sales, in 2008. In the fourth quarter of 2009, gross R&D expenses attained US\$9.0 million, or 24.7% of sales, compared to US\$9.3 million, or 21.4% of sales, in the previous quarter and US\$8.6 million, or 16.8% of sales, in the fourth quarter of 2008.

Net R&D expenses totaled US\$27.7 million, or 16.0% of sales in fiscal 2009, compared to US\$26.9 million, or 14.6% of sales, in 2008. In the fourth quarter of 2009, net R&D expenses amounted to US\$5.4 million, or 14.7% of sales, compared to US\$7.8 million, or 17.8% of sales, in the third quarter of 2009 and US\$7.3 million, or 14.3% of sales, in the fourth quarter of 2008.

### Fiscal 2009 Business Highlights

- **Market expansion** — EXFO's annual sales decreased 5.9%, or 13.5% on an organic basis (excluding acquisitions and gains or losses from forward exchange contracts recorded in sales), largely due to the global economic recession in 2009. Protocol sales, benefiting from full-year revenue contributions from the Brix Networks and Navtel Communications acquisitions, IP convergence and network capacity upgrades on wireline and wireless networks, increased 63.1% year-over-year. The company's Optical (-17.5%) and Copper Access (-21.8%) businesses were more affected by challenging market conditions, since many network operators deferred capital-intensive deployment decisions. Likewise, the Life Sciences and Industrial Division (-13.2%) was affected by difficult market conditions. In terms of geographic diversification, the Americas accounted for 57.4% of sales in 2009 (vs. 55.8% in 2008), Europe, Middle East and Africa (EMEA) 26.9% (vs. 28.4% in 2008), and Asia-Pacific 15.7% (vs. 15.8% in 2008). EXFO's largest customer accounted for 11.6% of total sales, while the company's top three customers represented 17.8%.
- **Profitability** — EXFO raised its gross margin for a seventh consecutive year to reach 61.3%, generated a record of US\$22.6 million in cash flows from operations, and closed fiscal 2009 with a cash position of US\$69.7 million and no debt. EBITDA dropped to US\$14.5 million, or 8.4% of sales, mainly due to the global economic recession. The company implemented a restructuring plan in the fourth quarter that incurred a charge of US\$1.2 million but will provide US\$6 million in annualized cost savings.
- **Innovation** — EXFO launched 26 new products in fiscal 2009, including three in the fourth quarter, compared to 27 in 2008. Key product introductions in 2009 included laboratory and portable test solutions for characterizing 100 Gbit/s Ethernet and 40/43 Gbit/s SONET/OTN networks; a distributed PMD analyzer that allows network operators to cost-effectively upgrade their networks to 40 Gbit/s and 100 Gbit/s; new software releases for the IMS InterWatch platform and Packet Blazer product lines that support the migration of voice and video applications to the IPv6 (Internet Protocol, version 6) addressing scheme; and the next-generation FTB-500 multi-layer platform for high-end test applications in the field and central office. Following the year-end, the company released the industry's first turnkey optical modulation analyzer for complete characterization of signals up to 100 Gbaud/s. Sales from products on the market two years or less accounted for 38.4% of total sales in fiscal 2009, including 38.8% in the fourth quarter, compared to 34.6% in fiscal 2008.

### Business Outlook

EXFO forecasted sales between US\$40 million and US\$45 million and a GAAP net loss between US\$0.06 and US\$0.02 per share for the first quarter of 2010. GAAP net loss includes US\$0.02 per share in after-tax amortization of intangible assets and stock-based compensation costs and assumes a pre-tax foreign exchange loss of US\$0.03 per share to account for the significant decrease of the US dollar compared to the Canadian dollars since the end of the fourth quarter of fiscal 2009.

This guidance was established by management based on existing backlog as of the date of this press release, seasonality and expected bookings for the remaining of the quarter.

### **Corporate Performance Objectives for Fiscal 2010-2012**

Given the global economic recession in fiscal 2009, EXFO has adjusted its corporate performance metrics over a new three-year period extending from fiscal 2010 to 2012. The company has maintained its 20% sales CAGR objective, proposed to double EBITDA in dollars, and raised its gross margin target to 64% for the newly defined three-year period.

<b>Corporate Performance Objectives for FY 2010-2012</b>
Increase sales by a CAGR of 20% or more
Raise gross margin to 64%
Double EBITDA* in dollars

\* EBITDA is defined as net earnings (loss) before interest, income taxes, amortization of property, plant and equipment, amortization of intangible assets, impairment of goodwill and extraordinary gain. See the following page on EXFO's Website, [www.EXFO.com/investors](http://www.EXFO.com/investors), for a reconciliation with GAAP net earnings (loss) in previous fiscal years.

### **Conference Call and Webcast**

EXFO will host a conference call today at 5 p.m. (Eastern time) to review its fourth-quarter and year-end financial results for fiscal 2009. To listen to the conference call and participate in the question period via telephone, dial 1-416-641-6654. 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 will be available one hour after the end of the conference call until 7 p.m. on October 20, 2009. The replay number is 1-402-977-9141 and the reservation number is 21434695. The live audio Webcast and replay of the conference call will also be available on EXFO's Website at [www.EXFO.com/investors](http://www.EXFO.com/investors).

### **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](http://www.EXFO.com).

### **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 the effect of the worldwide recession and the timing of the expected recovery on the telecom market for our customers and suppliers; fluctuating exchange rates and our ability to execute in these uncertain conditions; 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; 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 condition. 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.

### **For more information**

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