



EXFO Reports Record Sales and Bookings for Third Quarter of Fiscal 2010

- **Sales increase 44.9% year-over-year to US\$63.2 million**
- **Bookings improve 58.2% year-over-year to US\$63.6 million, book-to-bill ratio of 1.01**
- **Gross margin reaches 62.3%**
- **EBITDA amounts to US\$5.7 million or 9.1% of sales**

QUEBEC CITY, CANADA, June 29, 2010—EXFO Inc. (NASDAQ: EXFO; TSX: EXF) reported today record sales and bookings for its third quarter ended May 31, 2010.

Sales increased 44.9% to US\$63.2 million in the third quarter of fiscal 2010 from US\$43.6 million in the third quarter of 2009 and 16.8% from US\$54.1 million in the second quarter of 2010. NetHawk Oyj, which was acquired in mid-March, contributed US\$6.0 million to EXFO's revenues in the third quarter of 2010. After three quarters into fiscal 2010, sales increased 19.4% to US\$162.9 million from US\$136.4 million for the same period in 2009.

Net bookings improved 58.2% to US\$63.6 million in the third quarter of fiscal 2010 from US\$40.2 million in the same period last year and 10.0% from US\$57.8 million in the second quarter of 2010. The company's book-to-bill ratio was 1.01 in the third quarter of 2010 and 1.07 after three quarters into 2010.

Gross margin reached 62.3% of sales in the third quarter of fiscal 2010 compared to 62.3% in the third quarter of 2009 and 60.0% in the second quarter of 2010. After three quarters into fiscal 2010, gross margin attained 62.0% compared to 61.7% after three quarters into 2009.

GAAP net earnings in the third quarter of fiscal 2010 totaled US\$0.2 million, or US\$0.00 per diluted share, compared to a net loss of US\$23.3 million, or US\$0.39 per share, in the same period last year and net earnings of US\$1.2 million, or US\$0.02 per diluted share, in the second quarter of fiscal 2010. It should be noted that EXFO recorded a pre-tax foreign exchange loss of US\$1.2 million in the third quarter of fiscal 2010 compared to a loss of US\$4.7 million in the third quarter of 2009 and a loss of US\$1.0 million in the second quarter of 2010. EXFO also incurred US\$21.7 million in impairment of goodwill in the third quarter of 2009. GAAP net earnings in the third quarter of fiscal 2010 included US\$2.4 million in amortization of intangible assets and US\$0.4 million in stock-based compensation costs. The former item resulted in an income tax recovery of US\$0.2 million.

After three quarters into fiscal 2010, GAAP net earnings amounted to US\$1.7 million, or US\$0.03 per diluted share, compared to a loss of US\$15.4 million, or US\$0.25 per share, for the same period in 2009. GAAP net earnings after three quarters into 2010 included US\$5.3 million in amortization of intangible assets and US\$1.3 million in stock-based compensation costs. The former item resulted in an income tax recovery of US\$1.2 million.

"I'm quite pleased with our execution so far in fiscal 2010 as we continue to outperform our industry through robust organic sales growth, while initiating key transformations like the recent acquisition of wireless test leader NetHawk to benefit from exciting growth opportunities for years to come," said Germain Lamonde, EXFO's Chairman, President and CEO. "Within the wireline and wireless markets, our positioning and ability to make a real difference for our global customer base keeps improving, largely due to highly differentiated solutions and the significant synergies that exist between our various product lines. As our revenue mix gradually shifts towards higher-margin transport and datacom, service assurance and wireless test solutions, earnings leverage will improve which is aligned with our commitment to increase EBITDA (in dollars) faster than sales."

Unaudited Selected Financial Information
(In thousands of US dollars)

Segmented results:	Q3 2010	Q3 2009	Q2 2010
Sales:			
Telecom Division	\$ 55,930	\$ 39,047	\$ 47,951
Life Sciences and Industrial Division	7,280	4,589	6,159
Total	\$ 63,210	\$ 43,636	\$ 54,110
Earnings (loss) from operations:			
Telecom Division	\$ 1,932	\$ (21,990)	\$ 2,748
Life Sciences and Industrial Division	1,031	438	1,187
Total	\$ 2,963	\$ (21,552)	\$ 3,935
Other selected information:			
GAAP net earnings (loss)	\$ 169	\$ (23,346)	\$ 1,154
Selected items included in GAAP net earnings (loss):			
Amortization of intangible assets	\$ 2,354	\$ 1,355	\$ 1,502
Stock-based compensation costs	\$ 426	\$ 383	\$ 469
Impairment of goodwill	\$ –	\$ 21,713	\$ –
Income tax effect of the above selected items	\$ (208)	\$ (2,273)	\$ (484)

Operating Expenses

Selling and administrative expenses totaled US\$20.6 million, or 32.5% of sales, in the third quarter of fiscal 2010 compared to US\$16.7 million, or 38.3% of sales, in the same period last year and US\$16.9 million, or 31.3% of sales, in the second quarter of 2010.

Gross research and development expenses amounted to US\$14.0 million, or 22.1% of sales, in the third quarter of fiscal 2010 compared to US\$9.3 million, or 21.4% of sales, in the third quarter of 2009 and US\$10.4 million, or 19.2% of sales, in the second quarter of 2010.

Net R&D expenses totaled US\$11.9 million, or 18.8% of sales, in the third quarter of fiscal 2010 compared to US\$7.8 million, or 17.8% of sales, in the same period last year and US\$8.8 million, or 16.3% of sales, in the second quarter of 2010.

Third-Quarter Highlights

IP Fixed-Mobile Network Convergence and Broadband Deployments — EXFO closed the acquisition of NetHawk Oyj, a leading supplier of 2G, 3G and 4G/LTE protocol analyzers and simulators for the wireless industry, in the third quarter of fiscal 2010. This strategic acquisition transforms EXFO into a major force in the 3G and 4G/LTE wireless test market, and positions the company among the top-five suppliers in the global telecom test and service assurance industry with end-to-end assessment of the performance and reliability of converged, IP fixed and mobile networks.

In terms of new product introductions, EXFO released optical transport network (OTN) testing capabilities for its 40G and 100G Packet Blazer product line as well as software for characterizing the transport of Fibre Channel services over OTN.

Profitable Growth Path — EXFO reported EBITDA of US\$5.7 million, or 9.1% of sales, in the third quarter of fiscal 2010 on revenue of US\$63.2 million compared to negative EBITDA of \$2.0 million in the third quarter of 2009 on revenue of US\$43.6 million. It should be noted the company recorded a pre-tax foreign exchange loss of US\$1.2 million in the third quarter of 2010 and US\$4.7 million in the same period in 2009. Foreign exchange losses or gains are included in EBITDA. After three quarters into fiscal 2010, EXFO posted EBITDA of US\$15.8 million, or 9.7% of sales, on revenue of US\$162.9 million. See the section below entitled, “Non-GAAP Financial Measure,” for a reconciliation of EBITDA with GAAP net earnings (loss).

Business Outlook

EXFO forecasted sales between US\$61 million and US\$66 million and GAAP net results between a loss of US\$0.01 per share and earnings of US\$0.03 per share for the fourth quarter of 2010. GAAP net results assume a pre-tax foreign exchange loss of US\$0.01 per share and include US\$0.04 per share in after-tax amortization of intangible assets and stock-based compensation costs.

Guidance was established by management based on existing backlog as of the date of this press release, seasonality, expected bookings for the remainder of the quarter and volatile exchange rates.

Conference Call and Webcast

EXFO will host a conference call today at 5 p.m. (Eastern time) to review its financial results for the third quarter of fiscal 2010. To listen to the conference call and participate in the question period via telephone, dial 1-416-981-9076. 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 July 6, 2010. The replay number is 1-402-977-9141 and the reservation number is 21469623. 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.

About EXFO

EXFO is a leading provider of next-generation test and service assurance solutions for wireless and wireline network operators and equipment manufacturers in the global telecommunications industry. The Telecom Division, which accounts for about 90% of the company's revenues, offers core-to-edge solutions that assess the performance and reliability of converged, IP fixed and mobile networks. Key technologies supported include 3G, 4G/LTE, IMS, Ethernet, OTN, xDSL, and various optical technologies accounting for an estimated 33% of the portable fiber-optic test market. The Life Sciences and Industrial Division provides solutions in medical device and opto-electronics assembly, fluorescence microscopy and other life science sectors. EXFO has a staff of approximately 1,600 people in 25 countries, supporting more than 2,000 customers worldwide. For more information, visit 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 our ability to successfully integrate our acquired and to-be-acquired businesses; fluctuating exchange rates; consolidation in the global telecommunications test, measurement and service assurance industry and increased competition among vendors; 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 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 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 press release. 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.

Non-GAAP Financial Measure

EXFO's provide a non-GAAP financial measure (EBITDA^{*}) as supplemental information regarding its operational performance. The company uses this measure for the purposes of evaluating historical and prospective financial performance, as well as its performance relative to competitors. This measure also helps EXFO to plan and forecast future periods as well as to make operational and strategic decisions. EXFO believes that providing this information, in addition to GAAP measures, allows investors to see the company's results through the eyes of management, and to better understand historical and future financial performance.

The presentation of this additional information is not prepared in accordance with GAAP. Therefore, the information may not necessarily be comparable to that of other companies and should be considered as a supplement to, not a substitute for, the corresponding measures calculated in accordance with GAAP.

The following table summarizes the reconciliation of EBITDA to GAAP net earnings (loss) in thousands of US dollars:

	Three months ended May 31, 2010	Nine months ended May 31, 2010	Three months ended May 31, 2009	Nine months ended May 31, 2009
GAAP net earnings (loss) for the period	\$ 169	\$ 1,657	\$ (23,346)	\$ (15,404)
Add (deduct):				
Amortization of property, plant and equipment	1,643	4,246	1,166	3,374
Amortization of intangible assets	2,354	5,325	1,355	3,920
Interest expense (income)	59	177	(42)	(683)
Income taxes (recovery)	1,524	4,435	(2,851)	198
Impairment of goodwill	—	—	21,713	21,713
EBITDA for the period	<u>\$ 5,749</u>	<u>\$ 15,840</u>	<u>\$ (2,005)</u>	<u>\$ 13,118</u>
EDITDA in percentage of sales	<u>9.1%</u>	<u>9.7%</u>	<u>(4.6)%</u>	<u>9.6%</u>

* EBITDA is defined as net earnings (loss) before interest, income taxes, amortization of property, plant and equipment, amortization of intangible assets and impairment of goodwill.

For more information

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