

EXFO ELECTRO OPTICAL ENGINEERING INC
Form 6-K
April 06, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer Pursuant to Rule 13a-16 or 15d-16
Under the Securities Exchange Act of 1934

For the month of April 2009

EXFO Electro-Optical Engineering Inc.
(Translation of registrant's name into English)

400 Godin Avenue, Quebec, Quebec, Canada G1M 2K2
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):
82-_____.

TABLE OF CONTENTS

Signatures

Press Release

Interim Consolidated Balance Sheet

Interim Unaudited Consolidated Statements of Earnings

Interim Unaudited Consolidated Statements of Comprehensive Income (Loss) and Accumulated Other Comprehensive Income

Interim Unaudited Consolidated Statements of Retained Earnings and Contributed Surplus

Interim Unaudited Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

Management's Discussion and Analysis of Financial Condition and Results of Operations

Table of Contents

On March 31, 2009, EXFO Electro-Optical Engineering Inc., a Canadian corporation, reported its results of operations for the second fiscal quarter ended February 28, 2009. This report on Form 6-K sets forth the news release relating to EXFO's announcement and certain information relating to EXFO's financial condition and results of operations for the second fiscal quarter of the 2009 fiscal year. This press release and information relating to EXFO's financial condition and results of operations for the second fiscal quarter of the 2009 fiscal year are hereby incorporated as a document by reference to Form F-3 (Registration Statement under the Securities Act of 1933) declared effective as of July 30, 2001 and to Form F-3 (Registration Statement under the Securities Act of 1933) declared effective as of March 11, 2002 and to amend certain material information as set forth in these two Form F-3 documents.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EXFO ELECTRO-OPTICAL ENGINEERING INC.

By: /s/ Germain Lamonde
Name: Germain Lamonde
Title: President and Chief Executive Officer

Date: April 6, 2009

Page 2 of 49

Table of Contents

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.

Table of Contents

“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.

Table of Contents

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 mid-point 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.

Table of Contents

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.

For more information

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Manager, Investor Relations

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Table of ContentsEXFO Electro-Optical Engineering Inc.
Interim Consolidated Balance Sheet

(in thousands of US dollars)

	As at February 28, 2009	As at August 31, 2008
	(unaudited)	
Assets		
Current assets		
Cash	\$ 9,230	\$ 5,914
Short-term investments	48,898	81,626
Accounts receivable		
Trade (note 4)	29,206	31,473
Other	3,374	4,753
Income taxes and tax credits recoverable	2,557	4,836
Inventories (note 5)	28,869	34,880
Prepaid expenses	1,637	1,774
Future income taxes	9,603	9,140
	133,374	174,396
Tax credits recoverable	19,321	20,657
Property, plant and equipment	17,108	19,875
Intangible assets	16,621	19,945
Goodwill	36,909	42,653
Future income taxes	12,988	15,540
	\$ 236,321	\$ 293,066
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	\$ 27,903	\$ 24,713
Deferred revenue	6,797	5,079
	34,700	29,792
Deferred revenue	3,926	3,759
Forward exchange contracts (note 4)	2,329	—

	40,955	33,551
Contingencies (note 7)		
Shareholders' equity		
Share capital (note 8)	105,934	142,786
Contributed surplus	16,670	5,226
Retained earnings	68,436	60,494
Accumulated other comprehensive income	4,326	51,009
	195,366	259,515
	\$ 236,321	\$ 293,066

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

EXFO Electro-Optical Engineering Inc.
Unaudited Interim Consolidated Statements of Earnings

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

	Three months ended February 28, 2009	Six months ended February 28, 2009	Three months ended February 29, 2008	Six months ended February 29, 2008
Sales	\$ 46,372	\$ 92,735	\$ 43,281	\$ 84,266
Cost of sales (note 5) (1,2)	18,353	35,833	18,060	36,204
Gross margin	28,019	56,902	25,221	48,062
Operating expenses				
Selling and administrative (1)	15,800	32,891	13,683	28,500
Net research and development (1) (note 9)	7,325	14,546	6,185	12,197
Amortization of property, plant and equipment	1,049	2,208	998	1,974
Amortization of intangible assets	1,246	2,565	720	1,454
Total operating expenses	25,420	52,210	21,586	44,125
Earnings from operations	2,599	4,692	3,635	3,937
Interest income	175	641	1,616	3,099
Foreign exchange gain (loss)	1,090	5,658	(232)	(848)
Earnings before income taxes	3,864	10,991	5,019	6,188
Income taxes (note 10)				
Current	297	236	(8,373)	(7,192)
Future	912	2,813	9,368	9,449
	1,209	3,049	995	2,257
Net earnings for the period	\$ 2,655	\$ 7,942	\$ 4,024	\$ 3,931
Basic and diluted net earnings per share	\$ 0.04	\$ 0.12	\$ 0.06	\$ 0.06
Basic weighted average number of shares outstanding (000's)	60,875	64,108	68,984	68,992
Diluted weighted average number of shares outstanding (000's) (note 11)	61,375	64,546	69,490	69,582
(1) Stock-based compensation costs included in:				
Cost of sales	\$ 31	\$ 60	\$ 38	\$ 75

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Selling and administrative	198	399	183	380
Net research and development	96	188	48	115
	\$ 325	\$ 647	\$ 269	\$ 570

(2)The cost of sales is exclusive of amortization, shown separately.

The accompanying notes are an integral part of these consolidated financial statements.

Page 8 of 49

Table of Contents

EXFO Electro-Optical Engineering Inc.
 Unaudited Interim Statements of Comprehensive Income (Loss)
 and Accumulated Other Comprehensive Income

(in thousands of US dollars)

Comprehensive income (loss)

	Three months ended February 28, 2009	Six months ended February 28, 2009	Three months ended February 29, 2008	Six months ended February 29, 2008
Net earnings for the period	\$ 2,655	\$ 7,942	\$ 4,024	\$ 3,931
Foreign currency translation adjustment	(4,646)	(41,579)	5,827	19,733
Changes in unrealized losses on short-term investments	-	22	51	90
Unrealized gains (losses) on forward exchange contracts	(1,734)	(8,663)	600	2,549
Reclassification of realized gains (losses) on forward exchange contracts in net earnings	1,371	1,234	(1,168)	(1,927)
Future income taxes effect of the above items	113	2,303	182	(199)
Comprehensive income (loss)	\$ (2,241)	\$ (38,741)	\$ 9,516	\$ 24,177

Accumulated other comprehensive income

	Six months ended February 28, 2009	Six months ended February 29, 2008
Foreign currency translation adjustment		
Cumulative effect of prior periods	\$ 51,129	\$ 53,418
Current period	(41,579)	19,733
	9,550	73,151
Unrealized gains (losses) on forward exchange contracts		
Cumulative effect of prior periods	(96)	1,948
Current period, net of realized gains (losses) and future income taxes	(5,126)	423
	(5,222)	2,371
Unrealized losses on short-term investments		
Cumulative effect of prior periods	(24)	(55)
Current period, net of future income taxes	22	90
	(2)	35
Accumulated other comprehensive income	\$ 4,326	\$ 75,557

Total retained earnings and accumulated other comprehensive income amounted to \$121,779 and \$72,762 as of February 29, 2008, and February 28, 2009, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

Page 9 of 49

Table of Contents

EXFO Electro-Optical Engineering Inc.
 Unaudited Interim Consolidated Statements of Retained Earnings
 and Contributed Surplus

(in thousands of US dollars)

Retained earnings

	Six months ended February 28, 2009	Six months ended February 29, 2008
Balance – Beginning of the period	\$ 60,494	\$ 42,330
Add (deduct)		
Net earnings for the period	7,942	3,931
Premium on redemption of share capital (note 8)	–	(39)
Balance – End of the period	\$ 68,436	\$ 46,222

Contributed surplus

	Six months ended February 28, 2009	Six months ended February 29, 2008
Balance – Beginning of the period	\$ 5,226	\$ 4,453
Add (deduct)		
Stock-based compensation costs	639	585
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards (note 8)	(452)	(211)
Discount on redemption of share capital (note 8)	11,257	–
Balance – End of the period	\$ 16,670	\$ 4,827

The accompanying notes are an integral part of these consolidated financial statements.

Table of ContentsEXFO Electro-Optical Engineering Inc.
Unaudited Interim Consolidated Statements of Cash Flows

(in thousands of US dollars)

	Three months ended February 28, 2009	Six months ended February 28, 2009	Three months ended February 29, 2008	Six months ended February 29, 2008
Cash flows from operating activities				
Net earnings for the period	\$ 2,655	\$ 7,942	\$ 4,024	\$ 3,931
Add (deduct) items not affecting cash				
Change in discount on short-term investments	135	591	86	988
Stock-based compensation costs	325	647	269	570
Amortization	2,295	4,773	1,718	3,428
Deferred revenue	3,070	3,423	151	502
Future income taxes	912	2,813	9,368	9,449
Change in unrealized foreign exchange gain (loss)	(601)	(4,057)	184	440
	8,791	16,132	15,800	19,308
Change in non-cash operating items				
Accounts receivable	4,508	(2,817)	(985)	181
Income taxes and tax credits	352	(344)	(9,190)	(9,648)
Inventories	488	121	794	707
Prepaid expenses	308	(234)	216	(396)
Accounts payable and accrued liabilities	1,849	762	2,735	(2,959)
	16,296	13,620	9,370	7,193
Cash flows from investing activities				
Additions to short-term investments	(133,364)	(255,464)	(197,607)	(409,060)
Proceeds from disposal and maturity of short-term investments	149,501	276,106	194,009	408,580
Additions to capital assets (1)	(2,946)	(4,460)	(2,113)	(3,686)
	13,191	16,182	(5,711)	(4,166)
Cash flows from financing activities				
Change in bank loan	–	–	–	699
Exercise of stock options (note 8)	5	31	10	10
Redemption of share capital (note 8)	(25,631)	(26,078)	–	(174)
	(25,626)	(26,047)	10	535
Effect of foreign exchange rate changes on cash	(72)	(439)	21	108
Change in cash	3,789	3,316	3,690	3,670
Cash – Beginning of period	5,441	5,914	5,521	5,541

Cash – End of period	\$	9,230	\$	9,230	\$	9,211	\$	9,211
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(1) As at February 29, 2008 and February 28, 2009, unpaid purchases of capital assets amounted to \$94 and \$614, respectively.

The accompanying notes are an integral part of these consolidated financial statements.

Page 11 of 49

Table of Contents

EXFO Electro-Optical Engineering Inc.
Notes to Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

1. Interim Financial Information

The financial information as at February 28, 2009, and for the three- and six-month periods ended February 29, 2008, and February 28, 2009, is unaudited. In the opinion of management, all adjustments necessary to present fairly the results of these periods in accordance with generally accepted accounting principles (GAAP) in Canada have been included. The adjustments made were of a normal and recurring nature. Interim results may not necessarily be indicative of results anticipated for the entire year.

These interim consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada and use the same accounting policies and methods used in the preparation of the company's most recent annual consolidated financial statements, except for changes described in note 2. However, all disclosures required for annual financial statements have not been included in these financial statements. Consequently, these interim consolidated financial statements should be read in conjunction with the company's most recent annual consolidated financial statements.

2. New Accounting Standards and Pronouncements

Adopted in fiscal 2009

In December 2006, the Canadian Institute of Chartered Accountants (CICA) issued three new sections, which provide a complete set of disclosure and presentation requirements for financial instruments: Section 3862, "Financial Instruments – Disclosures"; Section 3863, "Financial Instruments – Presentation"; and Section 1535, "Capital Disclosures".

Section 3862 replaces the disclosure portion of Section 3861, "Financial Instruments – Disclosure and Presentation". The new standard places increased emphasis on disclosures regarding risks associated with both recognized and unrecognized financial instruments and how these risks are managed. It is also intended to remove any duplicate disclosures and simplify the disclosures about concentrations of risk, credit risk, liquidity risk and price risk previously found in Section 3861.

Section 3863 carries forward the presentation requirements from Section 3861, unchanged.

Section 1535 applies to all entities, regardless of whether they have financial instruments or are subject to external capital requirements. The new section requires disclosure of information about an entity's objectives, policies and processes for managing capital, as well as quantitative data about capital and whether the entity has complied with any capital requirements.

The company adopted these new standards on September 1, 2008 (notes 3 and 4).

In June 2007, the CICA issued Section 3031, "Inventories". This standard requires the measurement of inventories at the lower of cost and net realizable value and includes guidance on the determination of cost, including allocation of overheads and other costs to inventory. The standard also requires the consistent use of either first-in, first-out (FIFO) or weighted average cost formula to measure the cost of inventories and requires the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. The new standard applies to

fiscal years beginning on or after January 1, 2008. The company adopted this new standard on September 1, 2008, and its adoption had no effect on its consolidated financial statements.

In June 2007, the CICA amended Section 1400, “General Standards of Financial Statement Presentation” to include new requirements regarding an entity’s ability to continue as a going concern. These amendments apply to fiscal years beginning on or after January 1, 2008. The company adopted these amendments on September 1, 2008, and their adoption had no effect on its consolidated financial statements.

Table of Contents

EXFO Electro-Optical Engineering Inc.
Notes to Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

To be adopted after fiscal 2009

In February 2008, the CICA issued Section 3064, “Goodwill and intangible assets”, which supersedes Section 3062, “Goodwill and other intangible assets” and Section 3450, “Research and development costs”. Various changes have been made to other sections of the CICA Handbook for consistency purposes. Section 3064 establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill remain unchanged from the standards included in Section 3062. This new section applies to fiscal years beginning on or after October 1, 2008. The company will adopt this new standard on September 1, 2009, and has not yet determined the effects its adoption will have on its consolidated financial statements.

In January 2009, the CICA issued Section 1582, “Business Combinations”, which replaces Section 1581, “Business Combinations”. This new section establishes the standards for the accounting of business combinations and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent consideration and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. This standard applies prospectively to business combinations with acquisition dates on or after January 1, 2011; earlier adoption is permitted.

In January 2009, the CICA issued Section 1601, “Consolidated Financial Statements”, which replaces Section 1600, “Consolidated Financial Statements”, and establishes the standards for preparing consolidated financial statements. This new section applies to fiscal years beginning on or after January 1, 2011; earlier adoption is permitted. The company has not yet determined the impact, if any, that adopting this standard will have on its consolidated financial statements.

In January 2009, the CICA issued Section 1602, “Non-controlling Interests”, which establishes standards for the accounting of non-controlling interests of a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. This new section applies to fiscal years beginning on or after January 1, 2011; earlier adoption is permitted as of the beginning of a fiscal year.

Should the company decide to early adopt one of these three new sections, it must adopt all three on the same date.

3. Capital Disclosures

The company is not subject to any external restrictions on its capital.

The company’s objectives when managing capital are:

- To maintain a flexible capital structure, which optimizes the cost of capital at acceptable risk;
- To sustain future development of the company, including research and development activities, market development, and potential acquisitions of complementary businesses or products; and
- To provide the company’s shareholders with an appropriate return on their investment.

The company defines its capital as shareholders' equity, excluding accumulated other comprehensive income. Accumulated other comprehensive income's main components are the cumulative foreign currency translation adjustment, which is the result of the translation of the company's consolidated financial statements into US dollars (the reporting currency) as well as after-tax unrealized gains (loss) on forward exchange contracts.

The capital of the company amounted to \$208,506,000 and \$191,040,000 as at August 31, 2008 and February 28, 2009, respectively.

Table of ContentsEXFO Electro-Optical Engineering Inc.
Notes to Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

Of this capital, as at February 28, 2009, an amount of \$58,128,000 represented cash and short-term investments (\$87,540,000 as at August 31, 2008), a portion of which can be considered in excess of the company's current and expected needs (except for potential acquisitions of businesses). The company has consequently been actively repurchasing shares from the open market via a normal course issuer bid through the facilities of the Toronto Stock Exchange and NASDAQ. Furthermore, on December 18, 2008, pursuant to a substantial issuer bid (note 8), the company purchased for cancellation 7,692,307 subordinate voting shares for an aggregate purchase price of CA\$30,000,000 (US\$24,879,000), plus related fees of \$576,000.

4. Financial Instruments

Market risk

Currency risk

The principal measurement currency of the company is the Canadian dollar. The company is exposed to currency risks as a result of its export sales of products manufactured in Canada and China, the majority of which are denominated in US dollars and euros. These risks are partially hedged by forward exchange contracts (US dollars) and certain operating expenses (US dollars and euros).

As at February 28, 2009, the company held contracts to sell US dollars for Canadian dollars at various forward rates, which are summarized as follows:

Expiry dates	Contractual amounts (unaudited)	Weighted average contractual forward rates
March 2009 to August 2009	\$ 18,800	1.0567
September 2009 to August 2010	24,200	1.0760
September 2010 to August 2011	14,600	1.1221
September 2011	1,000	1.1278
Total	\$ 58,600	1.0822

These contracts are designated and accounted for as cash flow hedges.

The fair value of forward exchange contracts, which represents the amount that the company would receive or pay to settle the contracts based on the forward exchange rate at period end, amounted to net gains of \$62,000 as at August 31, 2008 and net losses of \$8,457,000 as at February 28, 2009, following the significant decrease in the value of the Canadian dollar compared to the US dollar since the beginning of fiscal 2009. As at February 28, 2009, forward exchange contracts, in the amount of \$4,997,000, are presented in the accounts payable and accrued liabilities (note 6) in the balance sheet, and forward exchange contracts, in the amount of \$2,329,000, are presented in forward exchange contracts in the balance sheet.

Table of ContentsEXFO Electro-Optical Engineering Inc.
Notes to Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

The following table summarizes significant financial assets and liabilities that are subject to currency risk as at February 28, 2009:

	Carrying/nominal amount (in thousands of US dollars) (unaudited)		Carrying/nominal amount (in thousands of euros)
Financial assets			
Cash	\$ 6,128	€	575
Accounts receivable	22,292		3,112
	28,420		3,687
Financial liabilities			
Accounts payable and accrued liabilities	7,452		359
Forward exchange contracts	58,600		–
	66,052		359
Net exposure	\$ (37,632)	€	3,328

The period-end value of the Canadian dollar compared to the US dollar was CA\$1.2707 = US\$1.00 as at February 28, 2009.

The period-end value of the Canadian dollar compared to the euro was CA\$1.6089 = €1.00 as at February 28, 2009.

The following sensitivity analysis summarizes the effect that a change in the value of the Canadian dollar (compared to US dollar and euro) would have on financial assets and liabilities denominated in US dollars and euros, as well as on net earnings, net earnings per diluted share and comprehensive income, based on the foreign exchange rates as at February 28, 2009:

- An increase (decrease) of 10% in the period-end value of the Canadian dollar compared to the US dollar would decrease (increase) net earnings by \$1,433,000, or \$0.02 per diluted share.
- An increase (decrease) of 10% in the period-end value of the Canadian dollar compared to the euro would decrease (increase) net earnings by \$434,000, or \$0.01 per diluted share.
- An increase (decrease) of 10% in the period-end value of the Canadian dollar compared to the US dollar would increase (decrease) comprehensive income by \$3,600,000.

The impact of the change in the value of the Canadian dollar compared to the US dollar and the euro on these financial assets and liabilities is recorded in the foreign exchange gain or loss line item in the consolidated statements of earnings, except for outstanding forward contracts, which impact is recorded in comprehensive income. The change in the value of the Canadian dollar compared to the US dollar and the euro also impacts the company's balances of income tax and tax credits recoverable or payable and future income tax assets and liabilities related to integrated

foreign subsidiaries; this may result in additional and significant foreign exchange gain or loss. However, these assets and liabilities are not considered financial instruments and are excluded from the sensitivity analysis above. The foreign exchange rate fluctuations also flow through the statements of earnings line items, as a significant portion of the company's operating expenses is denominated in Canadian dollars, and the company reports its results in US dollars; that effect is not reflected in the sensitivity analysis above.

Table of ContentsEXFO Electro-Optical Engineering Inc.
Notes to Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

Interest rate risk

The company is exposed to interest rate risks through its short-term investments. As at February 28, 2009, the company's short-term investments, in the amount of \$48,898,000, bear interest at rates ranging between 0.73% and 2.65% and mature between March 2009 and June 2009.

- An increase (decrease) of 0.5% in the interest rate of the company's short-term investments would increase (decrease) net earnings by \$42,000, or \$0.00 per diluted share on a quarterly basis.

Due to their short-term maturity of usually three months or less, the company's short-term investments are not subject to significant fair value interest rate risk. Accordingly, change in fair value has been nominal to the degree that amortized cost has historically approximated the fair value. Any change in fair value of the company's short-term investments, all of which are classified as available for sale, is recorded in comprehensive income.

Cash, accounts receivable and accounts payable and accrued liabilities are non-interest-bearing financial assets and liabilities.

Credit risk

Financial instruments that potentially subject the company to credit risk consist primarily of cash, short-term investments, accounts receivable and forward exchange contracts (with a positive fair value). As at February 28, 2009, the company's short-term investments consist of debt instruments issued by 14 (10 as at August 31, 2008) high-credit quality corporations and trusts. None of these debt instruments are expected to be affected by a liquidity risk, and none of them represent asset-backed commercial paper. The company's cash and forward exchange contracts are held with or issued by high-credit quality financial institutions; therefore, the company considers the risk of non-performance on these instruments to be limited.

Generally, the company does not require collateral or other security from customers for trade accounts receivable; however, credit is extended to customers following an evaluation of creditworthiness. In addition, the company performs ongoing credit reviews of all its customers and establishes an allowance for doubtful accounts receivable when accounts are determined to be uncollectible. Allowance for doubtful accounts amounted to \$305,000 and \$599,000 as at August 31, 2008 and February 28, 2009, respectively and bad debt expense amounted to \$13,000 and \$315,000 for the three months ended February 29, 2008 and February 28, 2009, respectively, and \$53,000 and \$355,000 for the six months ended February 29, 2008 and February 28, 2009, respectively.

For the three and the six months ended February 28, 2009, one customer represented more than 10% of global sales with 20.3% (\$9,407,000) and 11.9% (\$11,042,000) respectively.

The following table summarizes the age of trade accounts receivable as at February 28, 2009:

	(unaudited)
Current	\$ 21,044
Past due since less than 30 days	4,346
Past due, 31 to 60 days	2,820

Past due, more than 61 days	1,595
Total accounts receivable	29,805
Allowance for doubtful accounts	(599)
	\$ 29,206

Table of Contents

EXFO Electro-Optical Engineering Inc.
Notes to Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

Liquidity risk

Liquidity risk is defined as the potential that the company cannot meet its obligations as they become due.

The following table summarizes the contractual maturity of the company's financial liabilities as at February 28, 2009:

	0-12 months	13-24 months	25-36 months
	(unaudited)		
Accounts payable and accrued liabilities	\$ 22,906	\$ -	\$ -
Forward exchange contracts			
Outflow	34,500	15,800	8,300
Inflow	(28,841)	(13,749)	(7,315)
Total	\$ 28,565	\$ 2,051	\$ 985

In addition, the company has a share repurchase program that may require additional cash outflows during fiscal 2009 and 2010 (note 8). Also, the company has outstanding contingent considerations payable upon acquisitions of assets and business, which are not yet recorded in the financial statements that may require additional cash outflows during fiscal 2009 to 2011.

As at February 28, 2009, the company had \$58,128,000 in cash and short-term investments. In addition to these financial assets, the company has unused available lines of credit totalling \$11,220,000 for working capital and other general corporate purposes, including potential acquisitions and its share repurchase program as well as unused lines of credit of \$14,968,000 for foreign currency exposure related to its forward exchange contracts.

5. Inventories

	As at February 28, 2009	As at August 31, 2008
	(unaudited)	
Raw materials	\$ 14,434	\$ 17,651
Work in progress	1,867	1,961
Finished goods	12,568	15,268
	\$ 28,869	\$ 34,880

The cost of sales comprised almost exclusively the amount of inventory recognized as an expense during the reporting periods, except for the related amortization, that is shown separately in operating expenses.

Inventory write-down amounted to \$523,000 and \$1,010,000 for the three months ended February 29, 2008 and February 28, 2009, respectively and \$268,000 and \$1,804,000 for the six months ended February 29, 2008 and February 28, 2009, respectively.

Table of ContentsEXFO Electro-Optical Engineering Inc.
Notes to Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

6. Accounts Payable and Accrued Liabilities

	As at February 28, 2009	As at August 31, 2008
	(unaudited)	
Trade	\$ 9,197	\$ 10,303
Salaries and social benefits	8,223	8,888
Warranty	731	974
Commissions	702	761
Tax on capital	458	923
Restructuring charges	–	292
Forward exchange contracts (note 4)	4,997	714
Business combination	1,718	–
Other	1,877	1,858
	\$ 27,903	\$ 24,713

Changes in the warranty provision are as follows:

	Six months ended February 28, 2009	Six months ended February 29, 2008
	(unaudited)	
Balance – Beginning of period	\$ 974	\$ 800
Provision	309	297
Settlements	(552)	(257)
Balance – End of period	\$ 731	\$ 840

7. Contingencies

Class Action

On November 27, 2001, a class-action suit was filed in the United States District Court for the Southern District of New York against the company, four of the underwriters of its Initial Public Offering and some of its executive officers pursuant to the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder and Sections 11, 12

and 16 of the Securities Act of 1933. This class action alleges that the company's registration statement and prospectus filed with the Securities and Exchange Commission on June 29, 2000, contained material misrepresentations and/or omissions resulting from (i) the underwriters allegedly soliciting and receiving additional, excessive and undisclosed commissions from certain investors in exchange for which they allocated material portions of the shares issued in connection with the company's Initial Public Offering; and (ii) the underwriters allegedly entering into agreements with customers whereby shares issued in connection with the company's Initial Public Offering would be allocated to those customers in exchange for which customers agreed to purchase additional amounts of shares in the after-market at predetermined prices.

Table of Contents

EXFO Electro-Optical Engineering Inc.
Notes to Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

On April 19, 2002, the plaintiffs filed an amended complaint containing master allegations against all of the defendants in all of the 310 cases included in this class action and also filed an amended complaint containing allegations specific to four of the company's underwriters, the company and two of its executive officers. In addition to the allegations mentioned above, the amended complaint alleges that the underwriters (i) used their analysts to manipulate the stock market; and (ii) implemented schemes that allowed issuer insiders to sell their shares rapidly after an initial public offering and benefit from high market prices. As concerns the company and its two executive officers in particular, the amended complaint alleges that (i) the company's registration statement was materially false and misleading because it failed to disclose the additional commissions and compensation to be received by underwriters; (ii) the two named executive officers learned of or recklessly disregarded the alleged misconduct of the underwriters; (iii) the two named executive officers had motive and opportunity to engage in alleged wrongful conduct due to personal holdings of the company's stock and the fact that an alleged artificially inflated stock price could be used as currency for acquisitions; and (iv) the two named executive officers, by virtue of their positions with the company, controlled the company and the contents of the registration statement and had the ability to prevent its issuance or cause it to be corrected. The plaintiffs in this suit seek an unspecified amount for damages suffered.

In July 2002, the issuers filed a motion to dismiss the plaintiffs' amended complaint and a decision was rendered on February 19, 2003. Only one of the claims against the company was dismissed. On October 8, 2002, the claims against its officers were dismissed pursuant to the terms of Reservation of Rights and Tolling Agreements entered into with the plaintiffs.

In June 2004, an agreement of partial settlement was submitted to the court for preliminary approval. The proposed partial settlement was between the plaintiffs, the issuer defendants in the consolidated actions, the issuer officers and directors named as defendants, and the issuers' insurance companies. The court granted the preliminary approval motion on February 15, 2005, subject to certain modifications. On August 31, 2005, the court issued a preliminary order further approving the modifications to the settlement and certifying the settlement classes. The court also appointed the notice administrator for the settlement and ordered that notice of the settlement be distributed to all settlement class members by January 15, 2006. The settlement fairness hearing occurred on April 24, 2006, and the court reserved decision at that time.

While the partial settlement was pending approval, the plaintiffs continued to litigate against the underwriter defendants. The district court directed that the litigation proceed within a number of "focus cases" rather than in all of the 310 cases that have been consolidated. The company's case is not one of these focus cases. On October 13, 2004, the district court certified the focus cases as class actions. The underwriter defendants appealed that ruling, and on December 5, 2006, the Court of Appeals for the Second Circuit reversed the district court's class certification decision.

On April 6, 2007, the Second Circuit denied the plaintiffs' petition for rehearing of that decision and, on May 18, 2007, the Second Circuit denied the plaintiffs' petition for rehearing en banc. In light of the Second Circuit's opinion, liaison counsel for all issuer defendants, including the company, informed the court that this settlement cannot be approved, because the defined settlement class, like the litigation class, cannot be certified. On June 25, 2007, the district court entered an order terminating the settlement agreement. On August 14, 2007, the plaintiffs filed their second consolidated amended class-action complaints against the focus cases and, on September 27, 2007, again moved for class certification. On November 12, 2007, certain defendants in the focus cases moved to dismiss the second consolidated amended class-action complaints. On March 26, 2008, the district court denied the motions to dismiss, except as to Section 11 claims raised by those plaintiffs who sold their securities for a price in excess of the initial

offering price and those who purchased outside of the previously certified class period. Briefing on the class certification motion was completed in May 2008. That motion was withdrawn without prejudice on October 10, 2008. On February 25, 2009, liaison counsel for the plaintiffs informed the district court that a settlement has been agreed to in principle, subject to formal approval by the parties, and preliminary and final approval by the court.

Due to the inherent uncertainties of litigation, the final outcome of the case including the approval of the settlement described above is uncertain and it is not possible to determine the amount of any possible losses. The company will continue to defend its position in this litigation that the claims against it, and its officers, are without merit. Accordingly, no provision for this case has been made in the interim consolidated financial statements as at February 28, 2009.

Table of ContentsEXFO Electro-Optical Engineering Inc.
Notes to Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

Contingent consideration

Following the purchase of assets during the three months ended February 28, 2009, the company has a contingent cash consideration of up to \$1,000,000, payable based upon the achievement of a booking volume in the next 24 months following the purchase.

8. Share Capital

On November 6, 2008, the company announced that its Board of Directors had authorized a renewal of its share repurchase program, by way of a normal course issuer bid on the open market, of up to 10% of its public float (as defined by the Toronto Stock Exchange), or 2,738,518 subordinate voting shares, at the prevailing market price. The company expects to use cash, short-term investments or future cash flows from operations to fund the repurchase of shares. The period of the normal course issuer bid commenced on November 10, 2008, and will end on November 9, 2009, or on an earlier date if the company repurchases the maximum number of shares permitted under the bid. The program does not require the company to repurchase any specific number of shares, and it may be modified, suspended or terminated at any time and without prior notice. All shares repurchased under the bid will be cancelled.

On November 10, 2008, the company announced that its Board of Directors had authorized a substantial issuer bid (the "Offer") to purchase for cancellation subordinate voting shares for an aggregate purchase price not to exceed CA\$30,000,000. On December 18, 2008, pursuant to the Offer, the company purchased for cancellation 7,692,307 subordinate voting shares for the aggregate purchase price of CA\$30,000,000 (US\$24,879,000), plus related fees of \$576,000. The company used cash and short-term investments to fund the purchase of shares.

The following tables summarize changes in share capital for the six months ended February 29, 2008, and February 28, 2009:

	Six months ended February 29, 2008				Total amount
	Multiple voting shares		Subordinate voting shares		
	Number	Amount	Number	Amount	
	(unaudited)				
Balance as at August 31, 2007	36,643,000	\$ 1	32,361,561	\$ 150,018	\$ 150,019
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	–	–	–	2	2
Redemption of share capital	–	–	(29,200)	(135)	(135)
Balance as at November 30, 2007	36,643,000	1	32,332,361	149,885	149,886
Exercise of stock options	–	–	4,000	10	10
Redemption of restricted share units	–	–	38,031	–	–

Reclassification of stock-based compensation costs to share capital upon exercise of stock awards

	-		-		-	209	209
Balance as at February 29, 2008	36,643,000	\$	1	32,374,392	\$	150,104	\$ 150,105

Table of ContentsEXFO Electro-Optical Engineering Inc.
Notes to Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

	Multiple voting shares		Subordinate voting shares		Total amount
	Number	Amount	Number	Amount	
	(unaudited)				
Balance as at August 31, 2008	36,643,000	\$ 1	30,783,705	\$ 142,785	\$ 142,786
Exercise of stock options	–	–	12,500	26	26
Redemption of share capital	–	–	(176,914)	(821)	(821)
Balance as at November 30, 2008	36,643,000	1	30,619,291	141,990	141,991
Exercise of stock options	–	–	2,500	5	5
Redemption of restricted share units	–	–	92,682	–	–
Redemption of share capital	–	–	(7,745,379)	(36,514)	(36,514)
Reclassification of stock-based compensation costs to share capital upon exercise of stock awards	–	–	–	452	452
Balance as at February 28, 2009	36,643,000	\$ 1	22,969,094	\$ 105,933	\$ 105,934

9. Net Research and Development Expenses

Net research and development expenses comprise the following:

	Three months ended February 28, 2009	Six months ended February 28, 2009	Three months ended February 29, 2008	Six months ended February 29, 2008
	(unaudited)		(unaudited)	
Gross research and development expenses	\$ 8,791	\$ 17,403	\$ 7,575	\$ 15,061
Research and development tax credits	(1,466)	(2,857)	(1,390)	(2,864)
	\$ 7,325	\$ 14,546	\$ 6,185	\$ 12,197

Table of Contents

EXFO Electro-Optical Engineering Inc.
Notes to Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

10. Income Taxes

For the three and the six months ended February 29, 2008 and February 28, 2009, the reconciliation of the income tax provision calculated using the combined Canadian federal and provincial statutory income tax rate with the income tax provision in the financial statements is as follows:

	Three months ended February 28, 2009	Six months ended February 28, 2009	Three months ended February 29, 2008	Six months ended February 29, 2008
	(unaudited)		(unaudited)	
Income tax provision at combined Canadian federal and provincial statutory tax rate (32% in 2008 and 31% in 2009)	\$ 1,196	\$ 3,399	\$ 1,606	\$ 1,980
Increase (decrease) due to:				
Foreign income taxed at different rates	55	36	(11)	77
Non-taxable income	(66)	(114)	(290)	(371)
Non-deductible expenses	196	368	368	590
Change in tax rates (1)	–	–	1,524	1,522
Change in tax strategy (2)	–	–	(2,715)	(2,715)
Foreign exchange effect of translation of foreign integrated subsidiaries	(112)	(948)	67	194
Other	(61)	116	232	391
Utilization of previously unrecognized future income tax assets	(75)	(75)	(1,881)	(1,881)
Unrecognized future income tax assets on temporary deductible differences and unused tax losses and deductions	76	267	2,095	2,470
	\$ 1,209	\$ 3,049	\$ 995	\$ 2,257

The income tax provision consists of the following:

Current	\$ 297	\$ 236	\$ (8,373)	\$ (7,192)
Future	911	2,621	9,154	8,860
Valuation allowance	1	192	214	589
	912	2,813	9,368	9,449
	\$ 1,209	\$ 3,049	\$ 995	\$ 2,257

- (1) During the three months ended February 29, 2008, reductions to the Canadian federal statutory tax rate, previously announced by the Canadian federal government, were enacted. Therefore, Canadian federal future income tax assets decreased by \$1,524,000, and generated a future income tax expense for the same amount during the three and six months ended February 29, 2008.
- (2) During the three months ended February 29, 2008, based on new Canadian federal enacted tax rates, the company reviewed its tax strategy for the future use of its Canadian federal operating losses, research and development expenses, certain timing differences and research and development tax credits to minimize income taxes payable on future years' taxable income, by amending its prior year's income tax returns to generate a net operating loss to be carried back to prior years, which released previously used research and development tax credits. This resulted in an increase of its tax related assets of \$2,715,000 and in an income tax recovery for the same amount in the statements of earnings for the three and six months ended February 29, 2008.

Table of ContentsEXFO Electro-Optical Engineering Inc.
Notes to Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

11. Earnings per share

The following table summarizes the reconciliation of the basic weighted average number of shares outstanding and the diluted weighted average number of shares outstanding:

	Three months ended February 28, 2009	Six months ended February 28, 2009	Three months ended February 29, 2008	Six months ended February 29 2008
	(unaudited)		(unaudited)	
Basic weighted average number of shares outstanding (000's)	60,875	64,108	68,984	68,992
Plus dilutive effect of:				
Stock options (000's)	122	124	241	321
Restricted share units (000's)	287	229	188	195
Deferred share units (000's)	91	85	77	74
Diluted weighted average number of shares outstanding (000's)	61,375	64,546	69,490	69,582
Stock awards excluded from the calculation of diluted weighted average number of shares because their exercise price was greater than the average market price of the common shares (000's)	1,668	1,858	1,697	1,415

12. Segment Information

The company is organized under two reportable segments: the Telecom Division and the Life Sciences and Industrial Division. The Telecom Division offers integrated test solutions and network monitoring systems to network service providers, cable TV operators, system vendors and component manufacturers throughout the global telecommunications industry. The Life Sciences and Industrial Division offers solutions in medical-device and opto-electronics assembly, fluorescence microscopy and other life sciences sectors.

Table of ContentsEXFO Electro-Optical Engineering Inc.
Notes to Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

The following tables present information by segment:

	Three months ended February 28, 2009			Six months ended February 28, 2009		
	Telecom Division	Life Sciences and Industrial Division	Total	Telecom Division	Life Sciences and Industrial Division	Total
	(unaudited)			(unaudited)		
Sales	\$ 41,367	\$ 5,005	\$ 46,372	\$ 82,526	\$ 10,209	\$ 92,735
Earnings from operations	\$ 2,117	\$ 482	\$ 2,599	\$ 3,472	\$ 1,220	\$ 4,692
Unallocated items:						
Interest income			175			641
Foreign exchange gain			1,090			5,658
Earnings before income taxes			3,864			10,991
Income taxes			1,209			3,049
Net earnings for the period			\$ 2,655			\$ 7,942

	Three months ended February 29, 2008			Six months ended February 29, 2008		
	Telecom Division	Life Sciences and Industrial Division	Total	Telecom Division	Life Sciences and Industrial Division	Total
	(unaudited)			(unaudited)		
Sales	\$ 37,435	\$ 5,846	\$ 43,281	\$ 72,800	\$ 11,466	\$ 84,266
Earnings from operations	\$ 2,817	\$ 818	\$ 3,635	\$ 2,838	\$ 1,099	\$ 3,937
Unallocated items:						
Interest income			1,616			3,099
Foreign exchange loss			(232)			(848)
Earnings before income taxes			5,019			6,188
Income taxes			995			2,257
Net earnings for the period			\$ 4,024			\$ 3,931

Table of ContentsEXFO Electro-Optical Engineering Inc.
Notes to Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

Total assets by reportable segment are detailed as follows:

	As at February 28, 2009	As at August 31, 2008
	(unaudited)	
Total assets		
Telecom Division	\$ 125,170	\$ 145,168
Life Sciences and Industrial Division	8,554	9,571
Unallocated assets	102,597	138,327
	\$ 236,321	\$ 293,066

Unallocated assets are comprised of cash, short-term investments, other receivable on forward exchange contracts, income taxes and tax credits recoverable and future income tax assets.

13. Differences between Canadian and U.S. GAAP

These interim consolidated financial statements are prepared in accordance with Canadian GAAP; significant differences in measurement and disclosure from U.S. GAAP are set out in note 19 to the company's most recent annual consolidated financial statements. This note describes significant changes occurring since the most recent annual consolidated financial statements and provides a quantitative analysis of all significant differences. All disclosures required in annual financial statements under U.S. GAAP and Regulation S-X of the Securities and Exchange Commission in the United States have not been provided in these interim consolidated financial statements.

Statements of earnings

For the three and six months ended February 29, 2008 and February 28, 2009, there were no significant differences between the net earnings under Canadian GAAP as compared to U.S. GAAP.

Reconciliation of shareholders' equity to conform to U.S. GAAP

The following summary sets out the significant differences between the company's reported shareholders' equity under Canadian GAAP as compared to U.S. GAAP:

	As at February 28, 2009	As at August 31, 2008
	(unaudited)	

Shareholders' equity in accordance with Canadian GAAP	\$ 195,366	\$ 259,515
Goodwill	(10,570)	(12,640)
Stock appreciation rights	(73)	(73)
Shareholders' equity in accordance with U.S. GAAP	\$ 184,723	\$ 246,802

Table of Contents

EXFO Electro-Optical Engineering Inc.
Notes to Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

Research and development tax credits

Under Canadian GAAP, all research and development tax credits are recorded as a reduction of gross research and development expenses. Under U.S. GAAP, tax credits that are utilizable against income taxes payable are recorded in the income taxes. These tax credits amounted to \$808,000, \$1,788,000 for the three and six months ended February 29, 2008, respectively, and \$732,000 and \$1,628,000 for the three and six-months ended February 28, 2009, respectively. This difference has no impact on the net earnings and the net earnings per share for the reporting periods.

Statements of cash flows

For the three and six months ended February 29, 2008 and February 28, 2009, there were no significant differences between the statements of cash flows under Canadian GAAP as compared to U.S. GAAP, except for the subtotal before change in non-cash operating items, whose presentation is not permitted under U.S. GAAP.

New accounting standards and pronouncements

Adopted in fiscal 2009

In September 2006, the Financial Accounting Standard Board (FASB) issued SFAS 157, "Fair Value Measurements", which establishes a framework for measuring fair value in GAAP and is applicable to other accounting pronouncements, in which fair value is considered to be the relevant measurement attribute. SFAS 157 also expands disclosures about fair value measurement. In February 2008, the FASB amended SFAS 157 to exclude leasing transactions and to delay the effective date by one year for non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis. This statement is effective for fiscal years beginning after November 15, 2007. The company adopted this statement on September 1, 2008, and its adoption had no effect on its consolidated financial statements.

In February 2007, the FASB issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115", which permits entities to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of this statement apply only to entities that elect the fair value option. However, the amendment to SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities", applies to all entities with available-for-sale and trading securities. This statement is effective for fiscal years beginning after November 15, 2007. The company adopted this statement on September 1, 2008, and it did not elect to use the fair value option as of the date of adoption.

To be adopted after fiscal 2009

In December 2007, the FASB issued SFAS 141(R), "Business Combinations", and SFAS 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51". These new standards will significantly change the accounting and reporting for business combination transactions and noncontrolling (minority) interests in consolidated financial statements. SFAS 141(R) and SFAS 160 are required to be adopted simultaneously and are effective for the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited. The company will adopt this statement on September 1, 2009, and is currently evaluating the impact the adoption of SFAS 141(R) and SFAS 160 will have on its consolidated financial statements.

Table of Contents

EXFO Electro-Optical Engineering Inc.
Notes to Unaudited Interim Consolidated Financial Statements

(tabular amounts in thousands of US dollars, except share and per share data and as otherwise noted)

In March 2008, the FASB issued SFAS 161, “Disclosure about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133”, which will require entities to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance and cash flow. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The company will adopt this statement on September 1, 2009, and is currently evaluating the impact its adoption will have on its note disclosures related to derivative instruments and hedging activities.

In April 2008, the FASB issued the FASB staff position (FSP) FAS 142-3, “Determination of the Useful Lives of Intangible Assets”. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, “Goodwill and Other Intangible Assets”. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141 (revised 2007), “Business Combinations”, and other U.S. generally accepted accounting principles (GAAP). This FSP shall be effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The guidance for determining the useful life of a recognized intangible asset in paragraphs 7–11 of this FSP shall be applied prospectively to intangible assets acquired after the effective date. The disclosure requirements in paragraphs 13–15 shall be applied prospectively to all intangible assets recognized as of, and subsequent to, the effective date. The company will adopt this FSP on September 1, 2009, and is currently evaluating the impact its adoption will have on its consolidated financial statements.

In May 2008, the FASB issued SFAS 162, “The Hierarchy of Generally Accepted Accounting Principles”. The new standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. GAAP for non-governmental entities. For non-governmental entities, the guidance in SFAS 162 replaces that prescribed in Statement on Auditing Standards (SAS) No. 69, “The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles” and will become effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board’s amendments to AU Section 411, “The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles”. The company is currently evaluating the impact the adoption of SFAS 162 will have on its consolidated financial statements.

Table of Contents

Management's Discussion and Analysis of Financial Condition
and Results of Operations

This discussion and analysis 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 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.

The following discussion and analysis of financial condition and results of operations is dated March 27, 2009.

All dollar amounts are expressed in US dollars, except as otherwise noted.

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