

EXFO ELECTRO OPTICAL ENGINEERING INC
Form 6-K
April 05, 2007

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 2007

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-_____.

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On April 3, 2007, EXFO Electro-Optical Engineering Inc., a Canadian corporation, reported its results of operations for the second fiscal quarter ended February 28, 2007. 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 2007 fiscal year. This press release and information relating to EXFO's financial condition and results of operations for the second fiscal quarter of the 2007 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.

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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 5, 2007

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EXFO Reports Year-over-Year Increases in Sales and Net Earnings

- § Sales increase 17.1% to US\$35.2 million from US\$30.1 M in Q2 2006*
- § GAAP net earnings improve 96.5% to US\$2.7 million from US\$1.4 million in Q2 2006*
- § Gross margin reaches 57.5% compared to 55.3% in Q2 2006*
- § Seven new products launched, mostly for broadband access, IPTV and next-gen networks*

QUEBEC CITY, CANADA, April 3, 2007—EXFO Electro-Optical Engineering Inc. (NASDAQ: EXFO; TSX: EXF) reported today year-over-year increases in sales and net earnings for the second quarter ended February 28, 2007.

Sales increased 17.1% to US\$35.2 million in the second quarter of fiscal 2007 from US\$30.1 million in the second quarter of 2006 and decreased 1.0% from US\$35.5 million in the first quarter of 2007. At the half-way mark of fiscal 2007, sales rose 23.9% year-over-year to US\$70.8 million. Net bookings increased 28.8% to US\$36.5 million for a book-to-bill ratio of 1.04 in the second quarter of fiscal 2007 from US\$28.3 million in the same period last year and decreased 1.4% from US\$37.0 million in the first quarter of 2007.

Gross margin improved to 57.5% of sales in the second quarter of fiscal 2007 from 55.3% in the second quarter of 2006 and 57.2% in the first quarter of 2007.

GAAP net earnings in the second quarter of fiscal 2007 increased 96.5% to US\$2.7 million, or US\$0.04 per diluted share, from US\$1.4 million, or US\$ 0.02 per diluted share, in the same period last year, but decreased 24.0% from US\$3.5 million, or US\$0.05 per diluted share, in the first quarter of 2007. GAAP net earnings in the second quarter of fiscal 2007 included US\$0.6 million in amortization of intangible assets and US\$0.2 million in stock-based compensation costs.

“I am satisfied about our financial results with bookings improving almost 30% year-over-year and GAAP net earnings nearly doubling during the same period, despite a challenging second quarter due to seasonality,” said Germain Lamonde, EXFO’s Chairman, President and CEO. “While net earnings are improving much faster than sales and bookings, I am particularly pleased that we are building a strong presence in strategic market areas like next-generation networking, broadband deployments for triple-play offerings, convergence to IP including all-important IPTV services, as well as growing FTTx rollouts.”

“We have accelerated the development of our rich product families in key market segments while expanding our global reach to continue growing faster than our end-markets — like we have done in the past 21 years,” Mr. Lamonde added. “Our 12 product launches at the half-way mark of the fiscal year, plus several others introduced early in the third quarter, are strengthening our competitive position in strategic market segments and should help us accelerate market-share gains. As a result, I expect that sales will increase significantly in the second half of fiscal 2007.”

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(In thousands of US dollars)

Segmented results:	Q2 2007 (unaudited)	Q2 2006 (unaudited)	Q1 2007 (unaudited)
Sales:			
Telecom Division	\$ 29,297	\$ 25,254	\$ 29,522
Life Sciences and Industrial Division	5,910	4,812	6,025
Total	\$ 35,207	\$ 30,066	\$ 35,547
Earnings from operations:			
Telecom Division	\$ 1,078	\$ 1,220	\$ 1,803
Life Sciences and Industrial Division	1,003	188	956
Total	\$ 2,081	\$ 1,408	\$ 2,759
Other selected information:			
GAAP net earnings	\$ 2,684	\$ 1,366	\$ 3,533
Amortization of intangible assets	\$ 630	\$ 1,136	\$ 882
Stock-based compensation costs	\$ 241	\$ 281	\$ 285

Operating Expenses

Selling and administrative expenses amounted to US\$12.2 million, or 34.6% of sales, in the second quarter of fiscal 2007 compared to US\$9.3 million, or 30.9% of sales, in the same period last year and US\$11.5 million, or 32.5% of sales, in the first quarter of 2007.

Gross research and development expenses totaled US\$5.9 million, or 16.9% of sales, in the second quarter of fiscal 2007 compared to US\$4.9 million, or 16.4% of sales, in the second quarter of 2006 and US\$5.5 million, or 15.5% of sales, in the first quarter of 2007.

Net R&D expenses totaled US\$4.7 million, or 13.3% of sales, in the second quarter of fiscal 2007 compared to US\$3.9 million, or 13.0% of sales, in the same period last year and US\$4.4 million, or 12.2% of sales, in the first quarter of 2007.

Second-Quarter Business Highlights

Market expansion — EXFO delivered year-over-year sales growth of 17.1% in the second quarter of fiscal 2007 due to market-share gains in optical testing, year-end revenue from a Tier-1 network service provider, a full three-month contribution from the Consultronics acquisition, heightened penetration of protocol test solutions, and increased acceptance of fluorescence microscopy and light-based curing solutions in the Life Sciences and Industrial Division. At the halfway mark of fiscal 2007, EXFO had increased its sales 23.9% compared to the same period in 2006, while the corporate objective for fiscal 2007 is 20% year-over-year growth.

Profitability — EXFO recorded earnings from operations of 5.9% in the second quarter of fiscal 2007 and 6.8% after six months into the fiscal year. This mid-year performance can largely be attributed to an increase in gross margin which, in turn, was positively affected by a higher proportion of protocol sales. EXFO expects its gross margin will reach 60% on a mid-term basis. The company's profitability goal for fiscal 2007 is 7% in earnings from operations.

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Innovation — EXFO launched seven new products in the second quarter and 12 at the half-way mark of fiscal 2007, including IPTV test capabilities for its Packet Blazer Gigabit Ethernet product line; an enhanced Packet Blazer test module for advanced, higher-layer Ethernet test applications; a standards-based VDSL2 test module to characterize IPTV and HDTV over copper access links; as well as a new variable optical attenuator (VOA) for R&D and manufacturing applications. Subsequent to the quarter-end, the company released a series of OTDR test modules for its popular FTB-200 and FTB-400 field-test platforms as well as a new remote fiber test system (RFTS). Sales derived from products that have been on the market two years or less represented 28.2% of total sales in the second quarter of fiscal 2007 and 30.5% after six months, while the published goal for fiscal 2007 is 35%.

Business Outlook

EXFO forecasted sales between US\$36.0 million and US\$39.0 million and GAAP net earnings between US\$0.03 and US\$0.06 per diluted share for the third quarter ending May 31, 2007. GAAP net earnings include US\$0.01 per diluted share in amortization of intangible assets and stock-based compensation costs.

Conference Call and Webcast

EXFO will host a conference call today at 5 p.m. (EDT) to review its financial results for the second quarter of fiscal 2007. To listen to the conference call and participate in the question period via telephone, dial 1-416-620-5690. 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 10, 2007. The replay number is 1-402-977-9141 and the reservation number is 21331773. 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 recognized test and measurement expert in the global telecommunications industry. The Telecom Division, which represents the majority of the company's business, offers a full suite of test solutions and monitoring systems to network service providers, cable TV operators, telecom system vendors and component manufacturers in approximately 70 countries. EXFO is the global market leader for portable optical test solutions and a leading supplier of protocol and access test solutions to enable triple-play deployments and converged IP networking. Its PC/Windows-based modular FTB-200, FTB-400 and IQS-500 test platforms host a wide range of modular test solutions across optical, physical, data and network layers, while maximizing technology reuse across several market segments. The Life Sciences and Industrial Division, which leverages several core telecom technologies, offers value-added solutions in the life sciences and high-precision assembly sectors based on advanced spot-curing, fluorescence microscopy and nanopositioning solutions. For more information about EXFO, visit www.EXFO.com.

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Forward-Looking Statements

This news 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 and measurement 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; the retention of key technical and management personnel; and future economic, competitive and market conditions. 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. We undertake no obligation to revise or update any of them to reflect events or circumstances that occur after the date of this document.

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For more information

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EXFO Electro-Optical Engineering Inc.
Interim Consolidated Balance Sheet

(in thousands of US dollars)

	As at February 28, 2007	As at August 31, 2006
(unaudited)		
Assets		
Current assets		
Cash	\$ 9,108	\$ 6,853
Short-term investments	105,521	104,437
Accounts receivable		
Trade, less allowance for doubtful accounts of \$272 (\$451 as at August 31, 2006)	21,793	20,891
Other	3,088	2,792
Income taxes and tax credits recoverable	2,138	2,201
Inventories (note 4)	23,428	24,623
Prepaid expenses	1,191	1,404
	166,267	163,201
Income taxes and tax credits recoverable	1,309	476
Property, plant and equipment	15,695	17,392
Intangible assets	9,459	10,948
Goodwill	25,675	27,142
	\$ 218,405	\$ 219,159
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 5)	\$ 19,302	\$