

## Vecima reports Q3 fiscal 2009 results

**VICTORIA** – (May 14, 2009) – Vecima Networks Inc. (“Vecima” or “the Company”) (TSX:VCM), today reported its third quarter and nine-month financial results for the period ended March 31, 2009. (All dollar amounts are in Canadian funds unless otherwise stated.)

“Sales in the third quarter were impacted by timing issues as customers elected to delay capital spending in light of weaker economic conditions, however our proven and disciplined approach allowed us to remain profitable for the period,” said Dr. Surinder Kumar, Chairman and CEO. “We believe that both the market’s and Vecima’s fundamentals remain sound, and that they will support improved performance over the long-term. Consumers continue to demand increasing levels of bandwidth and service providers will have to oblige them. Vecima’s evolving product offering, blue chip customer base and experienced team will allow us to manage through market volatility and position the Company to capitalize on re-emerging opportunities in the quarters ahead.”

### Highlights:

- nine month sales up 11% over the same period last fiscal year;
- nine month operating income up 101% over the same period last fiscal year;
- third quarter gross margin 48% compared to 42% last year; first nine months gross margin of 49% in fiscal 2009 compared with gross margin of 41% in prior year period;
- YourLink sales increased 31% to \$2.9 million in the third quarter compared with \$2.2 million in the three months ended March 31, 2008; year-to-date YourLink revenue is up 25% to \$8.0 million compared with \$6.4 million for the first nine months of the fiscal year;
- recorded net income of \$1.2 million, or \$0.05 per fully diluted share, for the third quarter ended March 31, 2009; nine month net income of \$10.1 million, or \$0.44 per share fully diluted;
- delivered prototype models of the new Terrace A multiunit digital transport adaptor (M-DTA) device designed under a multi-year engineering, supply and maintenance contract with a leading, US-based cable multiple system operator (MSO) signed last year. The Terrace A is a critical component in the MSO transition to all digital networks, enabling the ten-fold increase in capacity realized through the conversion to digital transmission;
- signed multi-year engineering, supply and maintenance contract with a leading, US-based MSO for TerraceQAM, a follow-on product to the new Terrace A, that will deliver encrypted digital HD and SD television directly to newer flat-panel digital televisions. The TerraceQAM streamlines infrastructure, saves the capital expense of set top boxes, and adds new revenue generating service offerings for MSOs while improving picture quality by taking advantage of the capabilities of next-generation HDTVs;

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- delivered the first units of a custom-designed base station and subscriber equipment to Télébec, a member of the Bell Aliant Regional Communications Group, for wide-spread wireless deployment in rural Québec; and
- announced partnership between Spectrum Signal Processing and LiveTV LLC to supply next generation radios for LiveTV's connectivity system permitting sending and receiving of email from aircraft while in-flight.

## **Financial Review**

Total revenue for the third quarter was \$20.1 million, a decrease of 34% over sales of \$30.4 million in the third quarter of the previous fiscal year. Total sales for the first nine months of fiscal 2009 increased by 11%, to \$93.7 million, up from \$84.2 million for the nine months ended March 31, 2008.

Sales in the Converged Wired Solutions market decreased 43%, to \$12.6 million for the three months ended March 31, 2009, compared with \$22.1 million in the third quarter of fiscal 2008. Sales in this market increased 14% to \$68.7 million for the nine months ended March 31, 2009, compared with \$60.3 million last fiscal year. The decrease on a quarter-over-quarter basis was the result of MSOs delaying orders due to global economic conditions. The year-to-date increase is due to strong sales of the CableVista edge decoder and to solid growth in data-over-cable transmitter modules in the first two quarters of the year.

Broadband Wireless sales decreased 23% to \$4.7 million for the third quarter of this fiscal year, compared with \$6.1 million for the three months ended March 31, 2008. Wireless sales remained relatively flat with a marginal decline of 3% to \$17.0 million for the nine months ended March 31, 2009 compared with \$17.5 million for the first nine months of fiscal 2008. The decline for the quarter and the year-to-date periods can be attributed to decreases in sales for both BWIN and WiMAX products in the third fiscal quarter associated with the global economic recession.

YourLink revenue increased 31% to \$2.9 million for the three months ended March 31, 2009, compared with \$2.2 million in the third quarter of fiscal 2008; and increased 25%, to \$8.0 million, for the nine-month period, compared with \$6.4 million in the same period last fiscal year. Much of the YourLink revenue increase resulted from new residential and enterprise installations.

Gross margin was 48% in the third quarter, providing a gross profit of \$9.6 million, compared with a gross margin of 42% for the third quarter of fiscal 2008 that provided a gross profit of \$12.8 million. Gross margin was 49%, providing a gross profit of \$45.6 million for the first nine months of the 2009 fiscal year, compared with a gross margin of 41% that provided a gross profit of \$34.4 million for the nine months ended March 31, 2008. In the third quarter, Vecima received non-recurring engineering

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fees in exchange for product development expertise with minor associated costs of sales. For the year-to-date period, the non-recurring fees, coupled with manufacturing efficiencies and a broader product mix contributed to the improvement.

Operating expenses for the third quarter this year decreased 6% to \$8.3 million, compared with \$8.8 million, for the same period in the prior year. The reduction was the result of a 12% decrease in research and development expense, as a result of deferrals to future periods, and a 14% reduction in sales and marketing expenses. Operating expenses increased 6% to \$26.5 million for the nine months ended March 31, 2009, compared with \$24.9 million for the first nine months of the prior fiscal year. The higher operating expenses results from a 20% increase in general administrative costs, largely related to the 25% increase in Your Link sales, as well as higher utility costs and insurance premiums, but was partially offset by a 7% decrease in research and development reported on a GAAP basis, from the significant increase in M-DTA development cost deferred until commercial production commences.

The operating expense margin for the third quarter of fiscal 2009 was 41% of revenue, compared with 29% of sales in the third quarter last year. Over the same period, sales decreased 34%. Operating expense margin for the first nine months of fiscal 2009 was 28% of sales, compared with \$24.9 million, or 30% of sales, for the nine months ended March 31, 2008.

Operating income decreased 67% to \$1.3 million, or \$0.06 per share, in the third quarter of fiscal 2009, compared with \$4.1 million, or \$0.14 per share, in the three months ended March 31, 2008. This decrease resulted from the significant decrease in sales offset by an increase in gross margin coupled with operating expenses at a lower level than in the same period last year. Operating income increased 101% to \$19.1 million, or \$0.83 per share, in the first three quarters of fiscal 2009, compared with \$9.5 million, or \$0.41 per share, in the nine months ended March 31, 2008. This increase resulted from the significant increase in gross margin coupled with the aforementioned decrease in operating expenses.

Deteriorating global economic conditions in recent months have brought high levels of volatility to the currency market, which has made managing foreign exchange very challenging. Vecima previously entered into forward foreign exchange transactions to lock-in the value of United States dollars it would be receiving on expected US dollar receipts at rates available in its first fiscal quarter. Those rates were much lower than at exercise and foreign exchange losses resulted in a significant decrease in net income before taxes. The foreign exchange loss for the nine months ended March 31, 2009 was \$6.2 million compared to a gain of \$0.5 million in the same period last fiscal year. Of the total loss, \$3.7 million resulted from the mark-to-market of forward hedges falling due in the third and fourth quarters of fiscal 2009. Since Vecima has marked-to-market foreign exchange contracts maturing

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from January to June, 2009, bottom-line impacts of foreign exchange movements should be substantially reduced in upcoming quarters.

For the three months ended March 31, 2009, management's ongoing focus on expense containment translated into net income of \$1.2 million, or \$0.05 per share, down from \$3.2 million, or \$0.14 per share, in the third quarter last year. Vecima's net income increased 35% to \$10.1 million, or \$0.44 per share, for the nine months ended March 31, 2009 compared with \$7.4 million, or \$0.32 per share, for the same period last fiscal year.

Working capital remained strong at \$60.6 million at March 31, 2009, up from \$51.7 million as at June 30, 2008. Total assets increased 5% to \$151.0 million at March 31, 2009 compared with \$144.4 million at June 30, 2008.

As at March 31, 2009, the Company had outstanding a total of 22,856,867 common shares.

#### Outlook:

Vecima generated very solid results for the first half of the 2009 fiscal year driven by consumer appetite for bandwidth and digital video streaming has caused increased demand for infrastructure products for digital television and data-over-cable services. Although this demand remains, the current economic downturn has led customers to delay capital expenditures until conditions improve. The Company has implemented process improvements and increased production staff levels in Saskatoon and Victoria which helped drive strong results in the first half of the year and supported higher margins in the third quarter, while also laying a solid foundation for continued growth in the future periods.

New product introductions, greater success within its acquired business units and growing demand for existing products have allowed Vecima to generate 30% growth in revenue compounded annually over the past five fiscal years. The compound annual growth rate of ordinary profit over the same time period has been 33%. However, Vecima is not immune to current macroeconomic conditions and is seeing signs of softening demand as end customers conserve cash by reducing capital purchases. Market conditions have affected visibility and shipment requirements forecasting by major customers, which will add even more 'lumpiness' to quarterly results than the Company has experienced in the past. Based on softening demand experienced in the third quarter and on contracted and expected sales to major customers the Company expects revenue in fiscal 2009 trend in a range from flat to down 5% on an annual basis. The Company does however, expect that as conditions improve and new products are launched that it will be capable of returning to, or even exceeding, historical revenue growth levels of 20 to 30%

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Vecima continues to strengthen its balance sheet by increasing capital assets, growing retained earnings and reducing the draw on its bank line of credit. In the first nine months of the fiscal year, the Company generated \$10.7 million in cash from operations, in addition to investing \$6.8 million in capital assets, paying \$9.2 million in deferred development costs and repurchasing \$0.7 million in shares through a Normal Course Issuer Bid. These investments will allow Vecima to continue to improve manufacturing capacity, fuel the research and development and sales pipelines and provide increased benefit to shareholders.

The Company's full consolidated financial statements and management's discussion and analysis for the three months and nine months ended March 31, 2009 are posted on [www.SEDAR.com](http://www.SEDAR.com).

Vecima's consolidated financial statements and accompanying notes for the three months and nine months ended March 31, 2009 are available at [http://www.vecima.com/financials\\_ir.php](http://www.vecima.com/financials_ir.php). A conference call and live audio webcast will be held on May 14, 2009 at 11 a.m. EDT to discuss the results. To participate in the teleconference, dial 617-786-4511 or 800-901-5218 and enter the code 40562886. The third quarter fiscal 2009 earnings call webcast is available at [http://www.vecima.com/events\\_ir.php](http://www.vecima.com/events_ir.php).

All dollar amounts are in Canadian dollars.

#### **About Vecima Networks**

Vecima Networks Inc. (TSX:VCM) designs, manufactures and sells products that enable broadband access to cable, wireless, fibre and telephony networks. Vecima's hardware products incorporate original embedded software to meet the complex requirements of next-generation, high-speed digital networks. Service providers use Vecima's solutions to deliver services to a converging worldwide broadband market, including what are commonly known as "triple play" (voice, video and data) and "quadruple play" (voice, video, data and wireless) services. Vecima's solutions allow service providers to rapidly and cost-effectively bridge the final network segment that connects the system directly to end users, commonly referred to as "the last mile," by overcoming the bottleneck resulting from insufficient carrying capacity in legacy, last mile infrastructures. Vecima's products are directed at two principal markets: Converged Wired Solutions and Broadband Wireless. The Company has also developed, and continues to focus on developing, products to address emerging markets such as Voice over Internet Protocol, fibre to the home and IP video. [www.vecima.com](http://www.vecima.com)

#### **Forward-Looking Statements**

Certain statements in this news release may constitute forward-looking statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results,

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performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this news release, such statements are generally identified by the use of such words as "may", "will", "expect", "believe", "plan", "intend" and other similar terminology. These statements reflect Vecima's current expectations regarding future events and operating performance and speak only as of the date of this news release. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors including, but not limited to, the factors discussed under "Risk Factors" in the Company's Annual Report dated September 25, 2008 available on SEDAR ([www.sedar.com](http://www.sedar.com)), could cause actual results to differ materially from the results discussed in the forward-looking statements. Although the forward-looking statements contained in this news release are based upon what management of the Company believes are reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this news release, and the Company assumes no obligation to update or revise them to reflect new events or circumstances.

**Vecima Networks**

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