

FARO Technologies, Inc. Logo

Faro Technologies Sales, Earnings Drop in Q3 During Product-Transition Period

October 23, 1998

--Sales Up 19% Year-To-Date--
--Company Restructures Sales Organization--
--New Product Line Being Well Received--

LAKE MARY, Fla., Oct. 23 /PRNewswire/ -- Faro Technologies, Inc. (Nasdaq: FARO), today announced that sales for the third quarter ended September 30, 1998, decreased 16% to \$4,972,182 compared to \$5,909,306 in the third quarter of 1997. The Company reported a net loss of \$1,276,304, or 11 cents per share assuming dilution, compared to net income of \$829,115, or 11 cents per share assuming dilution, for the same period in 1997.

For the nine months ended September 30, 1998, sales increased 19.4% to \$19,376,191 from \$16,227,841 for the same period in 1997. Excluding a one-time, pre-tax charge of \$14,374,000 for in-process research and development taken in the second quarter and associated with the acquisition on May 15, 1998, of CATS GmbH ("CATS"), the Company reported a decrease in net income of 54.7% from \$2,084,723, or 28 cents per diluted share in the nine months ended September 30, 1997, to \$944,950, or 9 cents per diluted share for the same period in 1998. Including this one-time charge the company reported a net loss of \$11,829,050, or \$1.10 per common share assuming dilution, for the nine months ended September 30, 1998.

Commenting on FARO's performance in the third quarter, Simon Raab, President and Chief Executive Officer, said, "This quarter represented the beginning of a transition from our traditional product line to our new Generation of CAD-based quality assurance products including the Sterling and Gold FaroARMs and our expanded AnthroCam family of software programs. As announced in September, this advanced new product line is aimed at repositioning Faro from being a niche to a mainstream player in the multi-billion dollar overall CAD/CAM worldwide marketplace."

"Although unit sales of our traditional products increased 16% in the quarter compared to a year ago," Raab noted, "sales revenue and gross margin decreased in part as a result of aggressive discounting to clear inventory of these products. Sales were also affected by the summer season slowdown in Europe, a temporary decrease in orders from Boeing and GM, and continuing weakness in the Asia Pacific region. We expect to clear out our inventory of traditional products by the end of 1998. In the meantime I am pleased with the initial customer reaction to the new generation of products, which has resulted in increased backlog at the end of this quarter as compared to previous quarters this year."

"We continue to ramp up production of the new Sterling and Gold FaroArm products, but supply of demonstration units to our expanded sales force should use up a majority of this production through the fourth quarter," Raab added. "As a result, sales and earnings in the fourth quarter are expected to lag behind those of last year's fourth quarter. We are aware of the need for cost control during this transition period, but I believe that this is not the time to sacrifice the marketing efforts which we have put in place throughout the year, including the newly expanded sales force and the New Generation product launch. We will continue to aggressively market, and this will result in our selling expenses continuing to be high as a percentage of sales."

"During the third quarter, we restructured our sales department to improve our ability to generate sales domestically and overseas, and several personnel changes have occurred" Raab continued. "Dan Buckles has resigned as Vice President of Worldwide Sales, to become an independent consultant. Dan will continue to work closely with FARO on certain sales and marketing assignments. The management of marketing and sales will now be split between the Americas and Europe. Each region will have a Vice President of Marketing, and a Sales Director. Wendelin Scharbach, managing director of our German CATS subsidiary based in Karlsruhe near Stuttgart, has been appointed Vice President of Marketing -- Europe. Philip Keeling has been hired as Director of Sales -- Americas and will be based in our USA home office. Phil has twenty-five years of experience in sales management in the metrology markets in Europe and North America."

"I am pleased to announce the company's first major order in North America for CATS software under the new AnthroCAM product family name," Raab said. "In a contract valued at over \$200,000, Mercedes Benz U.S.'s plant in Alabama purchased multiple licenses of AnthroCAM CMM AUTOMOTIVE Software, to retrofit all manual coordinate measuring machines (CMMs) in this plant."

"Going forward, we remain optimistic regarding the growth potential of CAD-based quality assurance technology and our ability to reach our goal of achieving \$100 million in revenue in the year 2000," Raab concluded. "We continue to anticipate that we will regain our growth rate in sales and profitability by mid 1999. In the third quarter we experienced negative impact on revenues from a variety of sources which are unlikely to combine again, as the CAD-based quality assurance technology market cuts across numerous industries and is geographically diverse. This does not preclude the possibility of a downturn in global manufacturing in the event of a worldwide economic recession. Acceptance of our New Generation of products positions us well to sustain and grow our leadership position in the new Computer Assisted Measurement segment of the overall market."

FARO Technologies, Inc. and its international subsidiaries are pioneers in Computer Aided Design (CAD)-based quality assurance products. These products play a key role in the worldwide trend toward CAD-based total quality management for shortened production cycles and the reduction in scrap and rework. FARO's product line includes portable measurement equipment, a broad line of CAD-based inspection software, and enterprise level statistical process control (SPC) software for portable and fixed-base coordinate measurement machines. FARO's products are used worldwide by more than 800 customers. News and information are available at the company's Website at <http://www.faro.com>.

To receive additional information on FARO Technologies, Inc. via fax at no charge, dial 1-800-PRO-INFO and enter code FARO. For international access, dial 732-544-2850.

This press release contains "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties or other factors which may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Factors that might cause such a difference include, but are not limited to: availability of qualified sales personnel, cyclicality of the automotive market, and fluctuations in quarterly operating results. Such factors are discussed more fully in FARO's public filings, including its most

recent 10K and 10Q filings with the Securities and Exchange Commission.

FARO TECHNOLOGIES, INC
SUMMARY FINANCIAL TABLE

CONSOLIDATED INCOME STATEMENTS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
Sales	\$4,972,182	\$5,909,306	\$19,376,191	\$16,227,841
Cost of Sales	2,460,143	2,379,114	7,921,748	6,567,395
Gross profit	2,512,039	3,530,192	11,454,443	9,660,446
Operating Expenses				
Selling	2,870,373	1,432,265	6,665,432	3,955,236
General				
and Administrative	851,532	310,082	1,967,250	916,517
Depreciation				
and amortization	399,935	79,023	772,814	204,998
Research				
and development	737,732	326,918	1,559,710	721,757
Employee stock				
options	43,041	813	129,123	364,959
In-process research				
and development resulting				
from acquisition	0	0	14,374,000	0
Total operating				
expenses	4,902,613	2,149,101	25,468,329	6,163,467
Income (loss) From				
Operations	(2,390,574)	1,381,091	(14,013,886)	3,496,979
Interest and				
Other Income	235,157	64,951	860,690	107,595
Interest Expense	(3,234)	(43,809)	(11,099)	(109,660)
Income (Loss) Before				
income taxes	(2,158,651)	1,402,233	(13,164,295)	3,494,914
Income Tax				
Benefit (Expense)	882,347	(573,118)	1,335,245	(1,410,191)
Net Income				
(Loss)	\$(1,276,304)	\$829,115	\$(11,829,050)	\$2,084,723
Net Income (Loss)				
Per Common Share				
- Basic	\$(0.12)	\$0.11	\$(1.13)	\$0.29
Weighted Average				
Shares	11,028,890	7,384,923	10,506,189	7,129,733
Net Income (Loss)				
Per Common Share				
- Assuming Dilution	\$(0.11)	\$0.11	\$(1.10)	\$0.28
Weighted Average				
Shares and Assumed				
Conversions	11,131,677	7,750,062	10,719,291	7,480,262

CONSOLIDATED BALANCE SHEETS

	(Unaudited)	
	September 30, 1998	September 30, 1997
Current Assets	\$34,809,768	\$39,924,417
Total Assets	\$40,319,243	\$41,530,350
Current Liabilities	\$2,380,365	\$3,197,219
Total Liabilities	\$2,516,139	\$3,565,518
Shareholder's Equity	37,803,104	37,964,832
Total Liabilities and Shareholders' Equity	\$40,319,243	\$41,530,350

SOURCE FARO Technologies Inc.

Web site: <http://www.faro.com>

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