

FARO Technologies, Inc. Logo

FARO Technologies Reports Second Quarter Results; Cost Reductions Intensified to Respond to Economic Conditions

August 13, 2001

LAKE MARY, Fla., Aug. 13 /PRNewswire/ -- FARO Technologies, Inc. (Nasdaq: FARO), a leading provider of computer-aided manufacturing measurement (CAM2) solutions, today announced that sales for the quarter ended June 30, 2001 decreased 23.9% to \$8.3 million from \$10.9 million in the second quarter of 2000. Net loss for the quarter was \$1.6 million, or 14 cents per share compared to net income of \$591,000 or five cents per share in the second quarter of 2000.

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Gross margin for the second quarter decreased to 58.1% from 63.4% in the second quarter of 2000 due to more aggressive sales discounts. Sequentially, gross margin decreased by 1% from 59.1% from the first quarter of 2001. Selling, general and administrative expenses (SG&A) for the second quarter of 2001 increased 12.7% to \$5.3 million from \$4.7 million a year ago mainly due to the Company's sustained efforts to increase market share in Asia and Europe, restructuring of its domestic sales force and an increase in administrative expenses in Europe and Japan.

"FARO has been in a product expansion and geographic and market sector investment mode since its IPO in 1997 which continued through the first half of 2001," said Simon Raab, president and chief executive officer. "The consensus is that we should not expect a second half recovery in the USA economy, and as such we are taking the following more dramatic cost-cutting measures than those previously announced:

- * a reduction of approximately 15% of the company's workforce, or about 30 people, primarily in administration, research and development, and manufacturing; and
- * the elimination of certain projects that do not provide the highest long-term strategic benefit to the company."

The lay offs and expense cuts completed in July are expected to provide consolidated average quarterly operating expense reductions of approximately \$1 million. "At historic gross margins of approximately 59% this should reduce our average quarterly breakeven sales to approximately \$10 million," said Raab.

"Our goal by the end of this year is to return to positive cash flow, and to transition from a period of aggressive investment, to one of profitability, powered by an expanded product line with market-leading gross margins and important early stage sector and geographic penetration," Raab concluded.

Regionally, sales in the United States for the quarter decreased by 42.9%, from \$5.6 million in 2000 to \$3.2 million in 2001, while sales in the European countries where the Company has a direct presence -- France, Germany and the United Kingdom -- decreased by 7%, to \$3.8 million from \$4.0 million. Export sales to other regions, including Japan where the Company recently opened offices, remained flat at \$1.3 million.

The Company also said that it was continuing its previously announced financing arrangement with SpatialMetrix ("SMX") Corporation. The company has loaned SMX \$1.5 million to date. In addition, the Company and SMX have entered into two letters of intent. One of the letters of intent outlines the terms under which FARO will provide SMX with up to an additional \$1.5 million in financing. The other letter of intent outlines the terms pursuant to which FARO will have an option to acquire SMX. Both letters of intent are non-binding and will be subject to negotiation and execution of definitive agreements and the satisfaction of various conditions by SMX.

The Company remains virtually debt free and had cash and marketable securities of \$14.2 million at June 30, 2001.

FARO Technologies, Inc. and its international subsidiaries are pioneers and market leaders in the computer-aided manufacturing measurement (CMM) market, which is the final frontier of the computer-aided design (CAD) and computer-aided manufacturing (CAM) revolution. FARO's product line includes portable, 3D measurement equipment, a broad range of CAD-based inspection software for portable and fixed-base coordinate measurement machines, as well as factory-level statistical process control (SPC), and manufacturing quality consulting services. The Company's products play a key role in the worldwide trend toward CAD-based total quality management for shortened production cycles and for the reduction in scrap and rework. FARO's products are used worldwide by a wide variety of manufacturing companies, both large and small. News and information are available at the Company's web site at <http://www.faro.com>.

Financial Tables Follow

Statements contained in this press release that are not historical facts are forward-looking statements that are made pursuant to the safe harbor provisions of the Private Securities and Litigation Reform Act of 1995. In addition, words such as "believes," "anticipates," "expects" and similar expressions are intended to identify forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties or other factors that 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:

- * inability of the Company's products to attain broad market acceptance,
- * inability of the Company to conclude an acquisition of SpatialMetrix Corporation,
- * downturn in manufacturing activity in Japan,
- * foreign exchange fluctuation,

- * the impact of competitive products and pricing,
- * fluctuations in quarterly operating results as a result of the size, timing and recognition of revenue from significant orders, increases in operating expenses required for product development and marketing, the timing and market acceptance of new products and product enhancements; customer order deferrals in anticipation of new products and product enhancements; the Company's success in expanding its sales and marketing programs, and general economic condition,
- * increased length of the Company's sales cycle,
- * uncertainties in patent enforcement or the protection of other proprietary rights,
- * dependence on Simon Raab and Gregory A. Fraser and other key personnel,
- * the cyclical nature of the industries of the Company's customers,
- * the other risks detailed in the Company's 10-K report and other filings from time to time with the Securities and Exchange Commission.

Forward-looking statements in this release represent the Company's judgment as of the date of this release. The Company disclaims, however, any intent or obligation to update these forward-looking statements.

FARO TECHNOLOGIES
SUMMARY FINANCIAL TABLE

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	2000	2001	2000
Sales	\$8,265,131	\$10,923,279	\$16,670,661	\$20,773,046
Cost of sales	3,463,801	3,996,544	6,903,328	7,936,904
Gross profit	4,801,330	6,926,735	9,767,333	12,836,142
Operating expenses:				
Selling	3,764,470	3,401,020	7,193,595	7,031,161
General and administrative	1,518,664	1,348,761	2,901,785	2,643,895
Depreciation and amortization	657,541	803,316	1,324,478	1,441,415
Research and development	790,171	813,408	1,711,222	1,814,855
Employee stock options	0	31,671	--	63,342
Total operating expenses	6,730,846	6,398,176	13,131,080	12,994,668
(Loss) income from operations	(1,929,516)	528,559	(3,363,747)	(158,526)
Interest income	267,975	167,545	504,018	364,794
Interest expense	(412)	0	(766)	--
Other income, net	63,886	40,431	149,956	112,697
(Loss) income before income taxes	(1,598,067)	736,535	(2,710,539)	318,965
Income tax benefit (expense)	14,783	(145,137)	--	(145,137)
Net (loss)				

income	\$ (1,583,284)	\$591,398	\$ (2,710,539)	\$173,828
Net (loss) income per common share - Basic	\$ (0.14)	\$0.05	\$ (0.25)	\$0.02
Weighted average shares - Basic	11,030,706	11,020,682	11,027,950	11,020,252
Net (loss) income per common share - Diluted	\$ (0.14)	\$0.05	\$ (0.25)	\$0.02
Weighted average shares - Diluted	11,030,706	11,079,398	11,027,950	11,072,763

SELECTED CONSOLIDATED BALANCE SHEET DATA

	June 30, 2001 (Unaudited)	December 31, 2000
Cash and investments	\$14,219,334	\$19,003,526
Current assets	\$26,051,349	\$32,281,913
Total assets	\$38,398,884	\$44,699,274
Current liabilities	\$6,207,652	\$8,609,177
Total debt	\$59,158	\$66,657
Total liabilities	\$6,352,821	\$8,743,821
Total shareholders' equity	32,046,063	35,955,453
Total liabilities and shareholders' equity	\$38,398,884	\$44,699,274

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