

FARO Technologies Reports Fourth Quarter And Full Year 2002 Results

March 26, 2003

Profit Surges 185% in the Quarter; Sales Increase 28% in the Year

LAKE MARY, Fla., March 26 /PRNewswire-FirstCall/ -- FARO Technologies, Inc. (Nasdaq: FARO) today reported a 185% surge in fourth quarter earnings, fueled by increases in sales and operating margin.

(Photo: http://www.newscom.com/cgi-bin/prnh/20000522/FL_M0351.0GO)

Fourth Quarter 2002 Summary

Net income was \$1.6 million, or 13 cents per share, in the quarter that ended December 31, 2002, compared to \$562 thousand, or five cents per share in the year-ago quarter. Sales for the quarter were \$15.1 million, a 45.2% increase from \$10.4 million in the fourth quarter of 2001. The increase in sales was due to \$3.3 million in Laser Tracker sales, a new product in 2002, and \$1.4 million in increased sales of the Faro Arm product. Sales in the fourth quarter of both years reflect the reclassification of royalty revenue from "Other Income" to "Sales" in the amounts of \$380,000 in 2002 and \$382,000 in 2001.

Gross margin improved for the second consecutive quarter in 2002, from 49.5% to 54.1% to 56.8% in the second, third and fourth quarters, respectively. This increase was primarily a result of a continuing improvement in production of the new Laser Tracker and a completely new line of Faro Arm products, which were introduced in 2002. Gross margin was 58.8% in the fourth quarter of 2001.

Selling, general and administrative ("SG&A") expenses were \$6.3 million in the fourth quarter of 2002, an increase of \$2.0 million, or 46.5% from \$4.3 million in the year-ago quarter. On a sequential basis, SG&A expenses as a percentage of sales dropped for the third consecutive quarter from 54.9% in the first quarter of 2002 to 41.7% in the fourth quarter of 2002. This improvement was primarily a result of lower selling expenses as a percentage of sales.

Income from operations increased \$683,000, or 146.8% from \$465,000 in the fourth quarter of 2001 to \$1.1 million in the fourth quarter of 2002. This increase was a result of an increase in gross profit of \$2.5 million plus reductions of \$120,000 and \$70,000 in depreciation and amortization, and research and development expenses, respectively offset by the \$2.0 million increase in SG&A expenses noted above.

Full Year 2002 Summary

For the full year that ended December 31, 2002, the net loss was \$2.0 million, or 17 cents per share, a drop of \$800,000, or 28.6%, from \$2.8 million, or 26 cents per share in 2001. The profitable third and fourth quarters of 2002 significantly offset a \$3.7 million loss, primarily acquisition-related, incurred in the first half of the year.

Led by \$8.8 million in Laser Tracker product sales, overall sales increased \$10.1 million, or 28.0% in 2002 from \$36.1 million in 2001 to \$46.2 million in 2002. The new Laser Tracker product, which was launched in the second quarter of 2002, resulted from the Company's acquisition of co-developed technology of Spatial MetriX Corporation ("SMX") in January 2002. Sales in both years reflect the reclassification of royalty revenue from "Other Income" to "Sales".

Regionally, sales in the United States grew 34.4% to \$19.9 million in 2002 compared to \$14.8 million in 2001. Sales in Europe increased 15.4% in 2002 to \$16.6 million, compared to \$14.3 million in 2001. Sales in Japan increased 111.8% to \$3.6 million in 2002 from \$1.7 million in 2001. The Company had its second full year of direct sales in Japan in 2002. Sales in the rest of the world in 2002 increased 17.0% to \$6.2 million, from \$5.3 million in 2001.

Gross Margin in 2002 was 54.4% compared to 60.4% in 2001. Gross Margin was negatively impacted in 2002 by assembly line start-ups in April and August related to the new Laser Tracker and Faro Arm products, respectively, and by an inventory write down of \$729,000 in the second quarter related to the acquisition of SMX. Gross Margin improved steadily following the start of Laser Tracker shipments in 2002, and the Company expects Gross Margin to ultimately meet or exceed the Company's historical 60% average for the 5 years ended December 31, 2001.

SG&A expenses increased \$2.5 million in 2002 compared to 2001, but dropped as a percentage of sales from 53.2% in 2001 to 47.1% in 2002. Selling expenses increased only 3.0% in 2002 compared to 2001, while sales increased \$10.1 million, or 28.0%. The lower selling expenses as a percentage of sales in 2002 resulted from the cost cutting initiatives initiated by the Company in 2001.

"2002 was a year highlighted by record sales, a return to profitability in the second half of the year, and new product releases including the new generation Faro Arm, and the Faro Laser Tracker," said Simon Raab, President and CEO. "Each of these products represents a new performance benchmark in the Computer-Aided Manufacturing Measurement (CAM2) field. The new generation arm and tracker have accuracy now directly comparable to classical devices yet have the portability, adaptability and speed that the manufacturing market requires for effective shop floor measurement," Raab concluded.

At December 31, 2002, the Company had a backlog of orders representing approximately \$8.8 million in sales, compared to \$706,000 at December 31, 2001. The majority of these orders were shipped by March 11, 2003, and, as of March 11, 2003, the Company had orders for approximately \$9.6 million in sales outstanding.

The company had cash and total investments of approximately \$5.9 million and approximately \$1.5 million in borrowings under a line of credit at December 31, 2002. This compares to \$14.1 million in cash and total investments and \$81,000 in borrowings at December 31, 2001. The major application of cash in 2002 was the approximately \$9.5 million (\$5.8 million for assumed liabilities, and the above mentioned \$3.7 million loss in the first half) for the SMX acquisition, including funding the operations of the former SMX unit before significant shipments of the Laser Tracker product began midyear. Accounts receivable at December 31, 2002 were \$14.2 million, an increase of \$4.8 million from \$9.4 million at December 31, 2001.

A conference call reviewing fourth quarter and full year 2002 results will be held Thursday, March 27, 2003 beginning at 11:00 AM (Eastern)/ 8:00 AM (Pacific). To participate please dial 800-903-0247 five minutes prior to start time. International callers should dial 785-832-1077. The Conference ID is "FARO". A recording of the call will be available until June 27, 2003 by dialing 800-934-4548. International callers should dial 402-220-1175. No access code is needed for the replay. The call will be simultaneously broadcast over the Internet at:

<http://www.firstcallevts.com/service/ajwz376672523qf12.html> The call will be archived at the Company's website at <http://www.faro.com>.

Financial Tables Follow

This press release contains forward-looking statements that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Statements that are not historical facts or that describe the Company's future plans, objectives, expectations, strategies, or goals are forward-looking statements. In addition, words such as "may," "believes," "anticipates," "expects," "intends," "plans," "seeks," "estimates," "will," "should," "could," and similar expressions are intended to identify forward-looking statements. Forward-looking statements are not guarantees of future performance and 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. Consequently, undue reliance should not be placed on these forward-looking statements. Factors that might cause such a difference include, but are not limited to:

- * The potential loss of material customers,
- * The failure to properly manage growth and successfully integrate acquired businesses such as SMX,
- * inability of the Company's products to attain broad market acceptance,
- * inability of the Company to maintain or reduce operating expenses,
- * inability of the Company to ramp up shipments of its new Faro Arm and Laser Tracker products in 2003 as a result of manufacturing or other delays,
- * 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 conditions,
- * 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.

FINANCIAL DATA TABLE

SUMMARY FINANCIAL TABLE CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended		Year Ended December 31,	
	December 31,		September 30,	
	2002	2001	2002	2001
Sales	\$15,110,470	\$10,407,649	\$46,246,372	\$36,121,696
Cost of sales	6,520,511	4,284,369	21,109,609	14,304,083
Gross profit	8,589,959	6,123,280	25,136,763	21,817,613
Operating expenses:				
Selling	4,113,516	2,904,636	13,891,917	13,436,209
General and administrative	2,170,680	1,412,911	7,873,338	5,812,803
Depreciation and amortization	455,889	575,691	2,267,763	2,559,495
Research and				

development	694,633	765,071	4,033,462	3,370,716
Employee stock options	7,504	--	9,526	--
Total operating expenses	7,442,222	5,658,309	28,076,006	25,179,223
Income (loss) from operations	1,147,737	464,971	(2,939,243)	(3,361,610)
Interest income	218,721	215,532	561,112	900,281
Other income, net	413,303	4,120	601,336	(43,150)
Interest expense	(18,355)	(1,275)	(28,036)	(1,747)
Income (Loss) before income taxes	1,761,406	683,348	(1,804,831)	(2,506,226)
Income tax (benefit) provision	190,073	121,738	210,740	341,738
Net income (loss)	\$1,571,333	\$561,610	\$(2,015,571)	\$(2,847,964)
Net income (loss) per common share - Basic	\$0.13	\$0.05	\$(0.17)	\$(0.26)
Weighted average shares - Basic	11,891,726	11,035,252	11,853,732	11,032,449
Net income (loss) per common share - Diluted	\$0.13	\$0.05	\$(0.17)	\$(0.26)
Weighted average shares - Diluted	11,939,719	11,035,252	11,853,732	11,032,449

SELECTED
CONSOLIDATED BALANCE
SHEET DATA
(Unaudited)

December 31, 2002

Cash and investments	\$5,888,629
Current assets	\$29,966,744
Total assets	\$45,194,780
Current liabilities	\$11,628,203
Long-term debt	\$47,028
Total liabilities	\$11,811,131
Total shareholders' equity	33,383,649
Total liabilities and shareholders' equity	\$45,194,780

SOURCE FARO Technologies, Inc.