

FARO's Third Quarter EPS Grows 22% to \$0.22, New Orders Increase 31.2%, Sales Up 17.8% to a Record \$38.4 million

October 30, 2006

LAKE MARY, Fla., Oct. 30 /PRNewswire-FirstCall/ -- FARO Technologies, Inc. (Nasdaq: FARO) today announced results for the third quarter ended September 30, 2006. Net income for the third quarter of 2006 was approximately \$3.2 million, or \$0.22 per diluted share, an increase of \$0.6 million compared with \$2.6 million, or \$0.18 per diluted share, in the third quarter of 2005. Third quarter 2006 results included pre-tax expenses of approximately \$0.9 million related to follow-up on the Company's Foreign Corrupt Practices Act (FCPA) internal investigation and its patent litigation.

Sales for the third quarter of 2006 were approximately \$38.4 million, an increase of \$5.8 million, or 17.8%, from \$32.6 million in the third quarter of 2005. New order bookings for the third quarter were approximately \$38.7 million, an increase of \$9.2 million, or 31.2%, compared with approximately \$29.5 million in the year-ago quarter. New orders increased 19.2% in the Americas to \$15.5 million, from \$13.0 million in the third quarter of 2005. In Europe/Africa, new orders increased 37.4% to \$14.7 million from \$10.7 million in the third quarter of 2005, and in Asia/Pacific, new orders increased 46.6% to \$8.5 million, from \$5.8 million in the third quarter of 2005.

"The Company continues to perform well and the benefits can be seen throughout the income statement and balance sheet," stated Jay Freeland, FARO President and Co-CEO. "Our top-line growth and gross margin remain on plan, and we're getting the leverage we expected from our sales and marketing organization. Market demand has accelerated growth in Europe and Asia while maintaining the strength we've seen in the Americas for the last 18 months. The end result for the third quarter is solid double-digit earnings growth and a \$2.0 million increase in cash."

Gross margin for the third quarter of 2006 was approximately 58.0%, compared to 54.3% in the third quarter of 2005 and 59.3% in the second quarter of 2006. The gross margin in the third quarter of 2005 was adversely affected by a \$1.6 million inventory adjustment. Compared to the second quarter of 2006, gross margin decreased slightly due to a change in sales mix.

Selling expenses as a percentage of sales were 27.6% in the third quarter of 2006, higher than 26.5% of sales in the third quarter of 2005, but better than the 30.5% in the second quarter of 2006 and the 32.0% in the first quarter of 2006.

General and administrative expenses were 14.4% of sales for the third quarter of 2006, compared with 9.7% of sales in the year ago quarter. This increase of \$2.4 million over the third quarter of 2005 includes \$0.4 million of incremental compensation costs, \$0.3 million from operating costs in Singapore which weren't in place in the third quarter of 2005, and the previously mentioned \$0.9 million from the Company's internal FCPA investigation and patent litigation.

Outlook for the Remainder of 2006

"We continue to maintain our full-year 2006 sales guidance of \$150-\$157 million and our gross margin range of 57-59%. Excluding the potential cost of resolution, if any, of the FCPA investigation and patent case and associated legal expenses, we expect continued net income improvement in the fourth quarter," concluded Freeland.

This press release contains forward-looking statements (within the meaning of the Private Securities Litigation Reform Act of 1995) that are subject to risks and uncertainties, such as statements about our plans, objectives, projections, expectations, assumptions, strategies, or future events. Statements that are not historical facts or that describe the Company's plans, objectives, projections, expectations, assumptions, strategies, or goals are forward-looking statements. In addition, words such as "may," "believes," "anticipates," "expects," "intends," "plans," "seeks," "estimates," "will," "should," "could," "projects," "forecast," "target," "goal," and similar expressions or discussions of our strategy or other intentions identify forward-looking statements. Other written or oral statements, which constitute forward-looking statements, also may be made by the Company from time to time. Forward-looking statements are not guarantees of future performance and are subject to various known and unknown risks, uncertainties, and other factors that may cause actual results, performances, or achievements to differ materially from future results, performances, or achievements expressed or implied by such forward-looking statements. Consequently, undue reliance should not be placed on these forward-looking statements.

Factors that could cause actual results to differ materially from what is expressed or forecasted in forward-looking statements include, but are not limited to:

- our inability to further penetrate our customer base;
- development by others of new or improved products, processes or technologies that make our products obsolete or less competitive;
- our inability to maintain our technological advantage by developing new products and enhancing our existing products;
- the cyclical nature of the industries of our customers and the financial condition of our customers;
- the fact that the market potential for the CAM2 market and the potential adoption rate for our products are difficult to quantify and predict;
- the inability to protect our patents and other proprietary rights in the United States and foreign countries and the assertion and ultimate outcome of infringement claims against us, including the pending suit by Hexagon's Cimcore-Romer subsidiary against us;
- fluctuations in our operating results as a result of a number of factors including, but not limited to litigation brought against us, quality issues with our products, excess or obsolete inventory, raw

- material price fluctuations, expansion of our manufacturing capability and other inflationary pressures;
- changes in gross margins due to changing product mix of product sold and the different gross margins on different products;
- our inability to successfully implement the requirements of Restriction of use of Hazardous Substances (RoHS) and Waste Electrical and Electronic Equipment (WEEE) compliance into our products;
- the effects of increased competition as a result of recent consolidation in the CAM2 market;
- risks associated with expanding international operations, such as fluctuations in currency exchange rates, difficulties in staffing and managing foreign operations, political and economic instability, and the burdens of complying with a wide variety of foreign laws and labor practices;
- our inability to continue to grow sales in the Asia-Pacific region;
- higher than expected increases in expenses relating to our Asia Pacific expansion;
- our inability to keep our financial results within our target goals as a result of various potential factors such as investments in potential acquisitions or strategic sales, product or other initiatives, shrinkage or other inventory losses due to product obsolescence, scrap, material price changes, or other reasons;
- the loss of our co-Chief Executive Officers or other key personnel;
- difficulties in recruiting research and development engineers and application engineers;
- the failure to effectively manage our growth;
- the loss of key suppliers and the inability to find sufficient alternative suppliers in a reasonable period or on commercially reasonable terms; and
- the other risks detailed in the Company's Annual Report on Form 10-K 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 undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

About FARO

With more than 13,000 installations and 5,700 customers globally, FARO Technologies, Inc. (Nasdaq: FARO) designs, develops and markets portable, computerized measurement devices and software used to create digital models - or to perform evaluation and analysis against an existing model - for anything requiring highly detailed 3-D measurements. Applications include part and assembly inspection, reverse-engineering, factory planning and asset documentation, as well as specialized applications ranging from surveying, recreating accident sites and crime scenes to digitally preserving historical sites. FARO's technology increases productivity by dramatically reducing the amount of on-site measuring time, and the various industry-specific software packages enable users to process and present their results quickly and more effectively. Principal products include the world's best-selling measurement arm - the Platinum, Titanium, Advantage and Digital Template FaroArms; the world's best-selling laser tracker - the FARO Laser Tracker X and Xi; the FARO Laser Scanner LS; the FARO Gage, Gage-PLUS and PowerGAGE; the FARO Laser ScanArm; the FARO TrackArm; and the CAM2 Measure family of advanced CAD-based measurement and reporting software. FARO Technologies is ISO 9001 certified and ISO-17025 laboratory registered.

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	Three Months Ended		Nine Months Ended	
(in thousands, except per share data)	Sep 30, 2006	Oct 1, 2005	Sep 30, 2006	Oct 1, 2005
SALES	\$38,365	\$32,598	\$108,463	\$91,109
COST OF SALES (exclusive of depreciation and amortization, shown separately below)	16,121	14,913	44,822	37,691
Gross profit	22,244	17,685	63,641	53,418
OPERATING EXPENSES:				
Selling	10,597	8,631	32,458	25,654

General and administrative	5,519	3,169	18,296	11,005
Depreciation and amortization	1,023	967	3,096	2,447
Research and development	1,741	1,864	5,390	4,824
Total operating expenses	18,880	14,631	59,240	43,930
INCOME FROM OPERATIONS	3,364	3,054	4,401	9,488
OTHER INCOME (EXPENSE)				
Interest income	189	116	516	419
Other (expense) income, net	153	(191)	440	(330)
Interest expense	(3)	(4)	(9)	(83)
INCOME BEFORE INCOME TAX	3,703	2,975	5,348	9,494
INCOME TAX EXPENSE	514	360	810	1,498
NET INCOME	\$3,189	\$2,615	\$4,538	\$7,996
NET INCOME PER SHARE - BASIC	\$0.22	\$0.18	\$0.32	\$0.56
NET INCOME PER SHARE - DILUTED	\$0.22	\$0.18	\$0.31	\$0.56
Basic EPS Shares	14,326,357	14,247,089	14,333,775	14,169,733
Effect of dilutive securities	176,953	182,862	180,372	194,195
Diluted EPS Shares	14,503,310	14,429,951	14,514,147	14,363,928

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(in thousands, except share data)	September 30, 2006	December 31, 2005
ASSETS		
Current Assets:		
Cash and cash equivalents	\$8,948	\$9,278
Short-term investments	15,790	16,490
Accounts receivable, net	36,866	28,654
Inventories	26,132	28,650
Deferred income taxes, net	2,765	2,155
Prepaid expenses and other current assets	4,478	2,200
Total current assets	94,979	87,427
Property and Equipment:		
Machinery and equipment	8,684	6,940
Furniture and fixtures	3,696	3,334
Leasehold improvements	2,436	1,710
Property and equipment at cost	14,816	11,984
Less: accumulated depreciation and amortization	(8,056)	(5,920)
Property and equipment, net	6,760	6,064
Goodwill	16,831	14,574
Intangible assets, net	6,276	6,395
Service Inventory	5,709	4,333
Deferred income taxes, net	3,503	3,855
Total Assets	\$134,058	\$122,648
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		

Accounts payable	\$9,264	\$12,301
Accrued liabilities	8,407	5,569
Income taxes payable	2,140	1,406
Current portion of unearned service revenues	3,969	3,168
Customer deposits	562	201
Current portion of long-term debt and obligations under capital leases	110	163
Total current liabilities	24,452	22,808
Unearned service revenues - less current portion	2,713	803
Deferred tax liability, net	1,200	-
Long-term debt and obligations under capital leases - less current portion	163	177
Total Liabilities	28,528	23,788
Commitments and contingencies		
Shareholders' Equity:		
Common stock - par value \$.001, 50,000,000 shares authorized; 14,516,618 and 14,481,178 issued; 14,368,940 and 14,290,917 outstanding, respectively	14	14
Additional paid-in-capital	84,439	83,940
Retained earnings	21,795	17,256
Accumulated other comprehensive (loss)	(567)	(2,199)
Common stock in treasury, at cost - 40,000 shares	(151)	(151)
Total shareholders' equity	105,530	98,860
Total Liabilities and Shareholders' Equity	\$134,058	\$122,648

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(in thousands)	Nine Months Ended	
	Sep 30, 2006	Oct 1, 2005
CASH FLOWS FROM:		
OPERATING ACTIVITIES:		
Net income	\$4,538	\$7,996
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	3,096	2,447
Amortization of stock options and restricted stock units	151	407
Income tax benefit from exercise of stock options	-	(1,041)
Deferred income tax benefit	(402)	(175)
Change in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable, net	(7,146)	(7,409)
Inventories	1,601	(10,169)
Prepaid expenses and other current assets	(2,117)	(302)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(537)	(772)
Income taxes payable	666	924
Customer deposits	345	(187)
Unearned service revenues	2,527	833
Net cash used in operating activities	2,722	(7,448)
INVESTING ACTIVITIES:		
Acquisition of iQvolution	-	(6,385)
Purchases of property and equipment	(2,680)	(2,936)

Payments for intangible assets	(714)	(174)
Purchases of short-term investments	-	(3,300)
Proceeds from short-term investments	700	14,795
Net cash (used in) provided by investing activities	(2,694)	2,000
FINANCING ACTIVITIES:		
Payments of capital leases	(146)	(26)
Proceeds from issuance of stock, net	-	344
Net cash (used in) provided by financing activities	(146)	318
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
	(212)	(268)
DECREASE IN CASH AND CASH EQUIVALENTS	(330)	(5,398)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	9,278	16,357
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$8,948	\$10,959

SOURCE FARO Technologies, Inc.

-0- 10/30/2006

/CONTACT: Keith Bair, Chief Financial Officer of FARO Technologies, Inc.,
+1-407-333-9911/

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

(FARO)

CO: FARO Technologies, Inc.

ST: Florida

IN: MAC CPR STW

SU: ERN ERP

CF-MM

-- CLM101 --

1680 10/30/2006 17:19 EST <http://www.prnewswire.com>