FARO Technologies, Inc. Logo

FARO Reports Second Quarter Earnings Per Share of $0.39 on Sales Growth of 25.3%

July 30, 2007

LAKE MARY, Fla., July 30 /PRNewswire-FirstCall/ -- FARO Technologies, Inc. (Nasdaq: FARO) today announced results for the second quarter ended June 30, 2007. Net income for the second quarter was $5.8 million, or $0.39 per diluted share, an increase of $4.9 million, compared to $0.9 million, or $0.06 per diluted share, in the second quarter of 2006.

Sales for the second quarter of 2007 were $47.6 million, an increase of $9.6 million, or 25.3%, from $38.0 million in the second quarter of 2006. New order bookings for the second quarter were $50.4 million, an increase of $9.6 million, or 23.5%, compared with $40.8 million in the year-ago quarter.

"The second quarter established another new milestone for the Company," stated Jay Freeland, President and CEO. "For the first time ever, we exceeded $50 million in new orders in a single quarter. Customer demand in all vertical markets remains strong and all three regions continue to meet or beat the expectations we established for them at the beginning of the year."

Gross margin for the second quarter of 2007 was 61.3%, compared to 59.3% in the second quarter of 2006. Gross margin increased primarily as the result of an increase in unit sales in product lines with lower unit costs due to continuing productivity improvements.

Selling expenses as a percentage of sales decreased to 29.4% in the second quarter of 2007 compared to 30.5% in the second quarter of 2006 primarily due to improved sales force productivity.

General and administrative expenses were 11.6% of sales for the second quarter of 2007 compared to 18.7% of sales in the second quarter of 2006. General and administrative expenses in the second quarter of 2007 included $0.5 million of professional fees related to the Company's Foreign Corrupt Practices Act ("FCPA") matter and its recently settled patent litigation compared to $2.6 million in the second quarter of 2006 for these matters.

Research and development expenses were $2.3 million for the second quarter of 2007, up from $1.8 million in the second quarter of 2006.

Operating margin for the second quarter of 2007 was 13.6%, compared to 2.5% in the year ago quarter.

Income tax expense was $1.4 million for the second quarter of 2007 compared to $0.2 million in the second quarter of 2006 primarily as a result of an increase in pretax income. The Company's effective tax rate was 19.6% in the second quarter of 2007 compared to 18.0% in the second quarter of 2006 due to an increase in taxable income in jurisdictions with higher tax rates.

"Our second quarter results are tracking towards the Company's long-term model. Looking at the second half of 2007, we are maintaining our previously stated full year guidance ranges of approximately 20% - 25% sales growth and 57% to 59% gross margin," Freeland concluded.

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;
- our inability to successfully identify and acquire target companies or achieve expected benefits from acquisitions that are consummated;
- 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;
- fluctuations in our annual and quarterly operating results , and the inability to achieve our financial operating targets as a result of a number of factors including, but not limited to (i) litigation and regulatory actions brought against us, (ii) quality issues with our products, (iii) excess or obsolete inventory,(iv) raw material price fluctuations, (v) expansion of our manufacturing capability and other inflationary pressures, (vi) the size and timing of customer orders, (vii) the amount of time that it takes to fulfill orders and ship our products, (viii) the length of our sales cycle to new customers and the time and expense incurred in further penetrating our existing customer base, (ix) increases in operating expenses required for product development and new product marketing, (x) costs associated with new product introductions, such as product development, marketing, assembly line start-up costs and low introductory period production volumes, (xi) the timing and market acceptance of new products and product enhancements, (xii) customer order deferrals in anticipation of new products and product enhancements, (xiii) our success in expanding our sales and

marketing programs, (xiv) costs associated with opening new sales offices outside of the United States, (xv) fluctuations in revenue without proportionate adjustments in fixed costs, (xvi) the efficiencies achieved in managing inventories and fixed assets; (xvii) investments in potential acquisitions or strategic sales, product or other initiatives, (xviii)shrinkage or other inventory losses due to product obsolescence, scrap, or material price changes, (xix) adverse changes in the manufacturing industry and general economic conditions, and (xx) other factors noted herein;

- changes in gross margins due to changing product mix of products 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 inability of our products to displace traditional measurement devices and attain broad market acceptance;
- the impact of competitive products and pricing in the CAM2 market and the broader market for measurement and inspection devices;
- 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;
- unforeseen developments in our FCPA matter or in complying with the FCPA in the future;
- The outcome of the class action securities litigation against us;
- higher than expected increases in expenses relating to our Asia Pacific expansion or our Singapore manufacturing facility;
- our inability to find less expensive alternatives to stock options to attract and retain employees;
- the loss of our Chief Executive Officer, our Chief Technology Officer, our Chief Financial Officer, or other key personnel;
- difficulties in recruiting research and development engineers, and application engineers;
- the failure to effectively manage our growth;
- variations in the effective tax rate and the difficulty predicting the tax rate on a quarterly and annual basis;
- 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 13,500 installations and 6,500 customers globally, FARO Technologies, Inc. designs, develops, and markets portable, computerized measurement devices and software used to create digital models - or to perform evaluations against an existing model - for anything requiring highly detailed 3-D measurements, including part and assembly inspection, 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 portable measurement arm - the FaroArm; the world's best-selling laser tracker - the FARO Laser Tracker X and Xi; the FARO Laser ScanArm; FARO Laser Scanner LS; the FARO Gage, Gage-PLUS and PowerGAGE; and the CAM2 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		Six Months Ended	
	Jun 30,	Jul 1,	Jun 30,	Jul 1,
(in thousands, except per share data)	2007	2006	2007	2006
SALES	$47,579	$38,042	$87,868	$70,098
COST OF SALES (exclusive of depreciation and amortization, shown separately below)	18,355	15,480	34,808	28,701
GROSS PROFIT	29,224	22,562	53,060	41,397
OPERATING EXPENSES:				
Selling	14,022	11,610	26,326	21,861

General and administrative	5,495	7,130	10,518	12,777
Depreciation and amortization	951	1,062	2,042	2,073
Research and development	2,276	1,797	4,248	3,649
Total operating expenses	22,744	21,599	43,134	40,360
INCOME FROM OPERATIONS	6,480	963	9,926	1,037
OTHER (INCOME) EXPENSE				
Interest (income)	(336)	(169)	(592)	(327)
Other (income) expense, net	(382)	88	(707)	(287)
Interest expense	2	4	4	6
INCOME BEFORE INCOME TAX	7,196	1,040	11,221	1,645
INCOME TAX EXPENSE	1,410	187	2,237	296
NET INCOME	$5,786	$853	$8,984	$1,349
NET INCOME PER SHARE - BASIC	$0.39	$0.06	$0.61	$0.09
NET INCOME PER SHARE - DILUTED	$0.39	$0.06	$0.60	$0.09

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

(in thousands, except share data)	June 30, 2007	December 31, 2006
ASSETS		
Current Assets:		
Cash and cash equivalents	$19,213	$15,689
Short-term investments	21,021	15,790
Accounts receivable, net	44,959	42,706
Inventories	22,318	23,429
Deferred income taxes, net	2,070	1,845
Prepaid expenses and other current assets	6,197	3,222
Total current assets	115,778	102,681
Property and Equipment:		
Machinery and equipment	11,540	9,131
Furniture and fixtures	4,347	3,988
Leasehold improvements	2,770	2,615
Property and equipment at cost	18,657	15,734
Less: accumulated depreciation and amortization	(11,790)	(8,889)
Property and equipment, net	6,867	6,845
Goodwill	17,953	17,266
Intangible assets, net	5,857	6,221
Service Inventory	9,558	7,278
Deferred income taxes, net	4,016	3,985
Total Assets	$160,029	$144,276
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$9,571	$11,182
Accrued liabilities	10,173	10,379
Income taxes payable	944	2,151
Current portion of unearned service revenues	6,185	4,569
Customer deposits	322	618
Current portion of long-term debt and		

obligations under capital leases	77	90
Total current liabilities	27,272	28,989
Unearned service revenues - less current portion	4,465	2,917
Deferred tax liability, net	1,229	1,200
Long-term debt and obligations under capital leases - less current portion	78	115
Total Liabilities	33,044	33,221
Commitments and contingencies		
Shareholders' Equity:		
Common stock - par value $.001, 50,000,000 shares authorized; 14,937,123 and 14,586,402 issued; 14,829,163 and 14,464,715 outstanding, respectively	15	14
Additional paid-in-capital	91,789	85,160
Retained earnings	34,437	25,452
Accumulated other comprehensive (loss)	895	580
Common stock in treasury, at cost - 40,000 shares	(151)	(151)
Total Shareholders' Equity	126,985	111,055
Total Liabilities and Shareholders' Equity	$160,029	$144,276

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

	Six Months Ended	
(in thousands)	Jun 30, 2007	Jul 1, 2006
CASH FLOWS FROM:		
OPERATING ACTIVITIES:		
Net income	$8,984	$1,349
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	2,042	2,073
Amortization of stock options and restricted stock units	573	148
Provision for bad debts	28	125
Deferred income tax	(188)	(736)
Change in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable, net	(1,769)	(4,757)
Inventories	(784)	2,220
Prepaid expenses and other current assets	(2,919)	(743)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(1,703)	(2,444)
Income taxes payable	(1,163)	726
Customer deposits	(270)	82
Unearned service revenues	3,270	1,598
Net cash provided by (used in) operating activities	6,101	(359)
INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,345)	(2,122)
Payments for intangible assets	(148)	(589)

(Purchases of) proceeds from short-term investments	(5,230)	700
Net cash used in investing activities	(6,723)	(2,011)
FINANCING ACTIVITIES:		
Payments of capital leases	(55)	(107)
Income tax benefit from exercise of stock options	2,260	-
Proceeds from issuance of stock, net	3,356	1
Net cash provided by financing activities	5,561	(106)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(1,415)	115
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,524	(2,361)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	15,689	9,278
CASH AND CASH EQUIVALENTS, END OF PERIOD	$19,213	$6,917

SOURCE FARO Technologies, Inc.

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