

FARO Reports Third Quarter Revenue Growth of 12%, EPS Growth of 38%

October 30, 2013

LAKE MARY, Fla., Oct. 30, 2013 /PRNewswire/ -- FARO Technologies, Inc. (NASDAQ: FARO) today announced results for the third quarter ended September 28, 2013. Sales in the third quarter of 2013 increased \$7.5 million, or 12.3%, to \$68.2 million, from \$60.7 million in the third quarter of 2012. The Company reported net income increased 37.3% to \$5.0 million, or \$0.29 per share, in the third quarter of 2013 compared to \$3.7 million, or \$0.21 per share, in the third quarter of 2012.

(Logo: <http://photos.prnewswire.com/prnh/20110415/MM84316LOGO>)

New order bookings for the third quarter of 2013 were \$63.4 million, an increase of 3.9% from \$61.0 million in the third quarter of 2012.

Gross margin for the third quarter of 2013 was 56.9%, compared to 53.2% in the third quarter of 2012. Gross margins increased primarily due to lower manufacturing costs with improved average selling prices for certain metrology products.

The Company's operating margin for the third quarter increased to 11.1%, compared to 8.3% in the third quarter of 2012. Operating expenses increased due to staffing costs and related expenses of \$4.1 million primarily in our sales and marketing and research and development organizations, offset by lower legal and professional fees of approximately \$1.0 million.

"Our strong third quarter revenue growth reflects improved market conditions, excellent sales execution and the positive effect of several new product launches. We continued to accelerate our R&D spending in the quarter and we successfully leveraged our cost base to generate a 38% increase in earnings," stated Jay Freeland, FARO's President & CEO. "We launched two important new products over the last two months. The first was our next generation Laser Line Probe with increased speed and data density. The second, launched at the start of the fourth quarter, is our next generation Laser Scanner, the X330. This new, disruptive scanner increases our measurement range to beyond 330 meters, while improving image clarity twofold and incorporating GPS technology for positioning. Overall it was a very good quarter for the Company and we continue to maintain our leadership in the market."

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 demand for its products, anticipated improvement in the markets in which it operates, its sales strategy and execution, its product launches, its ability to maintain market leadership, and its future operating results and financial condition. 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 "intend," "believe," "will," "expect" and similar expressions or discussions of FARO's plans or other intentions identify forward-looking statements. 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 such forward-looking statements include, but are not limited to:

- *development by others of new or improved products, processes or technologies that make the Company's products obsolete or less competitive;*
- *the cyclical nature of the industries of the Company's customers and material adverse changes in customers' access to liquidity and capital;*
- *declines or other adverse changes, or lack of improvement, in industries that the Company serves or the domestic and international economies in the regions of the world where the Company operates and other general economic, business, and financing conditions;*
- *risks associated with international operations, such as fluctuations in currency exchange rates, difficulties in staffing and managing foreign operations, political and economic instability, compliance with import and export regulations, and the burdens and potential exposure of complying with a wide variety of U.S. and foreign laws and labor practices; and*
- *other risks detailed in Part I, Item 1A. Risk Factors in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.*

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, unless otherwise required by law.

About FARO

FARO is the world's most trusted source for 3D measurement technology. The Company develops and markets computer-aided measurement and imaging devices and software. Technology from FARO permits high-precision 3D measurement, imaging and comparison of parts and complex structures within production and quality assurance processes. The devices are used for inspecting components and assemblies, rapid prototyping, documenting large volume spaces or structures in 3D, surveying and construction, as well as for investigation and reconstruction of accident sites or crime scenes.

Approximately 15,000 customers are operating more than 30,000 installations of FARO's systems, worldwide. The Company's global headquarters is located in Lake Mary, FL; its European regional headquarters in Stuttgart, Germany; and its Asia/Pacific regional headquarters in Singapore. FARO has offices in Brazil, Mexico, United Kingdom, France, Spain, Italy, Poland, Netherlands, India, China, Malaysia, Vietnam, Thailand and Japan.

More information is available at <http://www.faro.com>.

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

	Three Months Ended		Nine Months Ended	
(in thousands, except share data)	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
SALES				
Product	\$ 55,014	\$ 49,274	\$ 162,670	\$ 159,130
Service	13,176	11,460	39,219	33,595
Total Sales	<u>68,190</u>	<u>60,734</u>	<u>201,889</u>	<u>192,725</u>
COST OF SALES				
Product	21,372	21,107	65,632	63,933
Service	7,997	7,323	23,685	22,242
Total Cost of Sales (exclusive of depreciation and amortization, shown separately below)	<u>29,369</u>	<u>28,430</u>	<u>89,317</u>	<u>86,175</u>
GROSS PROFIT	38,821	32,304	112,572	106,550
OPERATING EXPENSES:				
Selling	16,366	14,154	49,732	46,033
General and administrative	7,275	7,266	22,616	22,028
Depreciation and amortization	1,699	1,796	5,268	5,164
Research and development	5,884	4,065	16,171	12,998
Total operating expenses	<u>31,224</u>	<u>27,281</u>	<u>93,787</u>	<u>86,223</u>
INCOME FROM OPERATIONS	7,597	5,023	18,785	20,327
OTHER (INCOME) EXPENSE				
Interest income	(19)	(20)	(54)	(141)
Other expense, net	809	(46)	1,428	215
Interest expense	2	2	3	22
INCOME BEFORE INCOME TAX EXPENSE	6,805	5,087	17,408	20,231
INCOME TAX EXPENSE	1,763	1,414	4,161	5,074
NET INCOME	<u>\$ 5,042</u>	<u>\$ 3,673</u>	<u>\$ 13,247</u>	<u>\$ 15,157</u>
NET INCOME PER SHARE - BASIC	<u>\$ 0.29</u>	<u>\$ 0.22</u>	<u>\$ 0.78</u>	<u>\$ 0.90</u>
NET INCOME PER SHARE - DILUTED	<u>\$ 0.29</u>	<u>\$ 0.21</u>	<u>\$ 0.77</u>	<u>\$ 0.88</u>
Weighted average shares - Basic	<u>17,095,066</u>	<u>16,944,120</u>	<u>17,053,223</u>	<u>16,892,338</u>
Weighted average shares - Diluted	<u>17,185,380</u>	<u>17,094,102</u>	<u>17,191,407</u>	<u>17,148,555</u>

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)	September 28, 2013 (unaudited)	December 31, 2012
ASSETS		
Current Assets:		
	\$	
Cash and cash equivalents	116,905	\$ 93,233
Short-term investments	64,995	64,990
Accounts receivable, net	52,939	62,559
Inventories, net	48,973	48,894
Deferred income taxes, net	6,207	7,216
Prepaid expenses and other current assets	14,614	11,186
Total current assets	<u>304,633</u>	<u>288,078</u>
Property and Equipment:		
Machinery and equipment	34,519	32,236
Furniture and fixtures	6,748	6,516
Leasehold improvements	11,211	10,897
Property and equipment at cost	52,478	49,649
Less: accumulated depreciation and amortization	<u>(38,143)</u>	<u>(34,305)</u>
Property and equipment, net	<u>14,335</u>	<u>15,344</u>

Goodwill	19,125	18,816
Intangible assets, net	7,972	7,048
Service inventory	18,137	19,125
Deferred income taxes, net	2,452	2,396
	\$	\$
Total Assets	366,654	350,807
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
	\$	
Accounts payable	8,902	10,413
Accrued liabilities	18,786	18,216
Income taxes payable	324	4,886
Current portion of unearned service revenues	19,526	19,460
Customer deposits	2,324	2,662
Current portion of obligations under capital leases	4	45
Total current liabilities	49,866	55,682
Unearned service revenues - less current portion	11,701	11,221
Deferred tax liability, net	1,171	1,149
Obligations under capital leases - less current portion	17	19
Total Liabilities	62,755	68,071
Commitments and contingencies		
Shareholders' Equity:		
Common stock - par value \$.001, 50,000,000 shares authorized; 17,795,117 and 17,653,879 issued; 17,114,882 and 16,973,644 outstanding, respectively	18	18
Additional paid-in capital	188,413	181,094
Retained earnings	117,607	104,358
Accumulated other comprehensive income	6,936	6,341
Common stock in treasury, at cost - 680,235 shares	(9,075)	(9,075)
Total Shareholders' Equity	303,899	282,736
	\$	\$
Total Liabilities and Shareholders' Equity	366,654	350,807

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

(in thousands)	Nine Months Ended	
	September 28, 2013	September 29, 2012
CASH FLOWS FROM:		
OPERATING ACTIVITIES:		
Net income	\$ 13,247	\$ 15,157
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,268	5,164
Compensation for stock options and restricted stock units	3,237	2,956
Provision for (net recovery of) bad debts	426	(155)
Deferred income tax expense (benefit) expense	996	(670)
Change in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	8,951	6,398
Inventories, net	620	(5,998)
Prepaid expenses and other current assets	(3,365)	(1,231)
Income tax benefit from exercise of stock options	(814)	(1,135)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(925)	(7,307)
Income taxes payable	(3,700)	82
Customer deposits	(258)	(1,707)
Unearned service revenues	512	1,730
Net cash provided by operating activities	24,195	13,284
INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,883)	(3,139)
Payments for intangible assets	(1,787)	(772)
Net cash used in investing activities	(3,670)	(3,911)
FINANCING ACTIVITIES:		
Payments on capital leases	(76)	(119)
Income tax benefit from exercise of stock options	814	1,135

Proceeds from issuance of stock, net	3,267	6,107
Net cash provided by financing activities	<u>4,005</u>	<u>7,123</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>(858)</u>	<u>(531)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	23,672	15,965
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>93,233</u>	<u>64,540</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 116,905\$</u>	<u>80,505</u>

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

(in thousands)	Three Months Ended		Nine Months Ended	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Net income	\$ 5,042 \$	3,673 \$	13,247 \$	15,157
Currency translation adjustments	3,558	1,303	597	(385)
Comprehensive income	<u>\$ 8,600 \$</u>	<u>4,976 \$</u>	<u>13,844 \$</u>	<u>14,772</u>

SOURCE FARO Technologies, Inc.

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