

## FARO Reports 20% Increase in Fourth Quarter Orders; Solid Financial Results

February 26, 2014

LAKE MARY, Fla., Feb. 26, 2014 /PRNewswire/ -- FARO Technologies, Inc. (NASDAQ: FARO) today announced results for the fourth quarter ended December 31, 2013. Sales in the fourth quarter of 2013 increased 11.4% to \$89.9 million, from \$80.7 million in the fourth quarter of 2012. The Company reported net income increased to \$8.3 million, or \$0.48 per share, in the fourth quarter of 2013, from \$7.8 million, or \$0.46 per share, in the comparable period in 2012.



Fiscal 2013 sales were \$291.8 million, an increase of 6.7% compared with the preceding year. Net income for fiscal 2013 was \$21.5 million compared with \$23.0 million in fiscal 2012. Cash flow from operations for 2013 was \$34.3 million, compared to \$27.9 million in 2012.

New order bookings for the fourth quarter of 2013 were \$98.6 million, an increase of \$16.5 million, or 20.1%, compared to \$82.1 million in the fourth quarter of 2012.

Fourth quarter gross margin increased to 54.9%, from 53.4% in the fourth quarter of 2012. This improvement resulted from lower manufacturing costs, higher overall pricing primarily from newly introduced products, and sales mix.

The Company's operating margin for the fourth quarter was 12.6%, compared with 13.9% in the fourth quarter of 2012, primarily driven by a planned investment in higher headcount in the sales and research and development organizations to support greater market activity and new product development activity in 2014.

"Our top line results in the fourth quarter reflect the outcome of cutting-edge new product innovation, solid execution across all Company disciplines, and a modest improvement in the markets we serve," stated Jay Freeland, FARO's President & CEO. "We enter 2014 with solid momentum from our growth in the second half of 2013, a portfolio of new products with high customer acceptance already in the market, a pipeline of new product launches planned for 2014, and increased resources deployed in sales and R&D to capitalize on improving market conditions and to expand and accelerate product development."

*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 FARO's growth, demand for and customer acceptance of FARO's products, anticipated improvement in the markets in which FARO operates, and FARO's product development and product launches. 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 "plan," "will," 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, Netherlands, Switzerland, Portugal, India, China, Malaysia, Vietnam, Thailand, South Korea and Japan.

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

**FARO TECHNOLOGIES, INC. AND SUBSIDIARIES**  
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended		Twelve Months Ended	
	(unaudited)			
(in thousands, except share data)	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
<b>SALES</b>				
Product	\$ 76,171	\$ 68,775	\$ 238,841	\$ 227,905
Service	13,724	11,895	52,943	45,490
Total Sales	89,895	80,670	291,784	273,395
<b>COST OF SALES</b>				
Product	31,998	30,170	97,630	94,103
Service	8,576	7,431	32,261	29,673
Total Cost of Sales (exclusive of depreciation and amortization, shown separately below)	40,574	37,601	129,891	123,776
<b>GROSS PROFIT</b>	49,321	43,069	161,893	149,619
<b>OPERATING EXPENSES:</b>				
Selling	21,957	18,413	71,689	64,446
General and administrative	7,984	7,037	30,600	29,065
Depreciation and amortization	1,770	1,812	7,038	6,976
Research and development	6,241	4,580	22,412	17,578
Total operating expenses	37,952	31,842	131,739	118,065
<b>INCOME FROM OPERATIONS</b>	11,369	11,227	30,154	31,554
<b>OTHER (INCOME) EXPENSE</b>				
Interest income	(20)	(19)	(74)	(160)
Other expense (income), net	(71)	529	1,357	744
Interest expense	6	6	9	28
<b>INCOME BEFORE INCOME TAX EXPENSE</b>	11,454	10,711	28,862	30,942
<b>INCOME TAX EXPENSE</b>	3,192	2,870	7,353	7,944
<b>NET INCOME</b>	\$ 8,262	\$ 7,841	\$ 21,509	\$ 22,998
<b>NET INCOME PER SHARE - BASIC</b>	\$ 0.48	\$ 0.46	\$ 1.26	\$ 1.36
<b>NET INCOME PER SHARE - DILUTED</b>	\$ 0.48	\$ 0.46	\$ 1.25	\$ 1.34
Weighted average shares - Basic	17,141,851	16,966,063	17,087,104	16,910,830
Weighted average shares - Diluted	17,299,227	17,074,074	17,241,115	17,129,128

**FARO TECHNOLOGIES, INC. AND SUBSIDIARIES**  
CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)	December 31, 2013	December 31, 2012
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 124,630	\$ 93,233

Short-term investments	64,994	64,990
Accounts receivable, net	66,309	62,559
Inventories, net	48,940	48,894
Deferred income taxes, net	4,601	7,216
Prepaid expenses and other current assets	14,645	11,186
Total current assets	<u>324,119</u>	<u>288,078</u>
Property and Equipment:		
Machinery and equipment	36,924	32,236
Furniture and fixtures	6,888	6,516
Leasehold improvements	11,765	10,897
Property and equipment at cost	<u>55,577</u>	<u>49,649</u>
Less: accumulated depreciation and amortization	<u>(39,126)</u>	<u>(34,305)</u>
Property and equipment, net	<u>16,451</u>	<u>15,344</u>
Goodwill	19,358	18,816
Intangible assets, net	8,112	7,048
Service inventory	19,033	19,125
Deferred income taxes, net	4,423	2,396
Total Assets	<u>\$ 391,496</u>	<u>\$ 350,807</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 14,881	\$ 10,413
Accrued liabilities	20,133	18,216
Income taxes payable	1,690	4,886
Current portion of unearned service revenues	21,331	19,460
Customer deposits	2,910	2,662
Current portion of obligations under capital leases	8	45
Total current liabilities	<u>60,953</u>	<u>55,682</u>
Unearned service revenues - less current portion	13,414	11,221
Deferred income tax liability, net	1,171	1,149
Obligations under capital leases - less current portion	8	19
Total Liabilities	<u>75,546</u>	<u>68,071</u>
Commitments and contingencies		
Shareholders' Equity:		
Common stock - par value \$.001, 50,000,000 shares authorized; 17,868,372 and 17,653,879 issued; 17,188,137 and 16,973,644 outstanding, respectively	18	18
Additional paid-in capital	191,874	181,094
Retained earnings	125,867	104,358
Accumulated other comprehensive income	7,266	6,341
Common stock in treasury, at cost - 680,235 shares	<u>(9,075)</u>	<u>(9,075)</u>
Total Shareholders' Equity	<u>315,950</u>	<u>282,736</u>
Total Liabilities and Shareholders' Equity	<u>\$ 391,496</u>	<u>\$ 350,807</u>

**FARO TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Years Ended December 31,**

<b>(in thousands)</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM:</b>			
<b>OPERATING ACTIVITIES:</b>			
Net income	\$ 21,509	\$ 22,998	\$ 23,377
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	7,038	6,976	6,712
Compensation for stock options and restricted stock units	4,367	4,018	2,727
Provision for (net recovery of) bad debts	1,001	(23)	2,169
Deferred income tax expense (benefit)	645	(2,016)	(672)
Change in operating assets and liabilities:			
Decrease (increase) in:			
Accounts receivable	(4,053)	(4,840)	(8,979)
Inventories, net	(119)	(844)	(27,329)
Prepaid expenses and other current assets	(3,346)	(1,870)	(1,417)
Income tax benefit from exercise of stock options	(969)	(1,135)	(1,593)
Increase (decrease) in:			
Accounts payable and accrued liabilities	6,108	(3,079)	4,644

Income taxes payable	(2,028)	3,497	2,998
Customer deposits	353	(1,374)	668
Unearned service revenues	<u>3,772</u>	<u>5,565</u>	<u>5,384</u>
Net cash provided by operating activities	<u>34,278</u>	<u>27,873</u>	<u>8,689</u>
INVESTING ACTIVITIES:			
Purchases of property and equipment	(4,350)	(3,843)	(4,474)
Payments for intangible assets	<u>(2,204)</u>	<u>(1,361)</u>	<u>(890)</u>
Net cash used in investing activities	<u>(6,554)</u>	<u>(5,204)</u>	<u>(5,364)</u>
FINANCING ACTIVITIES:			
Payments on capital leases	(93)	(132)	(163)
Income tax benefit from exercise of stock options	969	1,135	1,593
Proceeds from issuance of stock, net	<u>5,444</u>	<u>6,162</u>	<u>9,150</u>
Net cash provided by financing activities	<u>6,320</u>	<u>7,165</u>	<u>10,580</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>(2,647)</u>	<u>(1,141)</u>	<u>(87)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	31,397	28,693	13,818
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>93,233</u>	<u>64,540</u>	<u>50,722</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 124,630</u>	<u>\$ 93,233</u>	<u>\$ 64,540</u>

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SOURCE FARO Technologies, Inc.

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