

FARO Reports Second Quarter 2014 Orders Growth of 26% and Sales Growth of 20%; Net Income Increases 74%

July 29, 2014

LAKE MARY, Fla., July 29, 2014 /PRNewswire/ -- FARO Technologies, Inc. (NASDAQ: FARO) today announced results for the second quarter ended June 28, 2014. Sales in the second quarter of 2014 increased 20.1% to \$82.1 million from \$68.3 million in the second quarter of 2013. Net income increased \$2.7 million, or 74.3%, to \$6.3 million, or \$0.36 per share, in the second quarter of 2014 from \$3.6 million, or \$0.21 per share, in the second quarter of 2013.



New order bookings for the second quarter of 2014 increased \$17.2 million, or 25.7%, to \$83.9 million from \$66.7 million in the second quarter of 2013.

Gross profit increased \$8.6 million, or 23.3%, to \$45.5 million from \$36.9 million in the prior year quarter primarily driven by higher sales volume in laser scanners. Gross margin of 55.5% increased 150 basis points from the second quarter of 2013 primarily driven by more favorable metrology product margin resulting from manufacturing efficiency gains.

The Company is committed to continually developing disruptive products through its research and development activities and selective acquisitions. Accordingly, in the second quarter of 2014, R&D spending increased \$1.5 million, or 29.0%, to \$6.7 million from \$5.2 million in the second quarter of 2013. On July 29, 2014, FARO also announced the acquisition of The CAD Zone, Inc., a software provider with proprietary technology specifically targeted for law enforcement applications. CAD Zone's point cloud software application will be integrated with FARO's laser scanning technology to provide a turn-key solution for crime scene and other forensic applications.

Operating margin increased to 10.2% in the second quarter of 2014 from 8.0% in the second quarter of 2013 primarily as a result of strong sales growth coupled with active operating cost management.

"FARO's strong product line-up combined with solid execution by the global team enabled the Company to accelerate sales growth and new order intake in the second quarter," stated Jay Freeland, FARO's President and CEO. "As a result, we also delivered a \$0.15, or 71%, increase in EPS for our shareholders through higher sales, improved manufacturing efficiencies, and greater leverage on our cost structure."

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, "is", "continually," "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 less competitive or obsolete;*
- *the Company's inability to maintain its technological advantage by developing new products and enhancing its existing products;*
- *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 financial conditions; 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, 2013.*

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 other offices in the United States, Canada, Mexico, Brazil, Germany, the United Kingdom, France, Spain, Italy, Poland, Turkey, the Netherlands, Switzerland, Portugal, India, China, Malaysia, Vietnam, Thailand, South Korea, and Japan.

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

Financial tables to follow:

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

	Three Months Ended		Six Months Ended	
(in thousands, except share and per share data)	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
SALES				
Product	\$ 67,382	\$ 55,174	\$ 127,204	\$ 107,656
Service	14,678	13,155	28,230	26,043
Total sales	<u>82,060</u>	<u>68,329</u>	<u>155,434</u>	<u>133,699</u>
COST OF SALES				
Product	26,392	22,921	51,545	44,260
Service	10,151	8,482	18,289	15,688
Total cost of sales (exclusive of depreciation and amortization, shown separately below)	<u>36,543</u>	<u>31,403</u>	<u>69,834</u>	<u>59,948</u>
GROSS PROFIT	<u>45,517</u>	<u>36,926</u>	<u>85,600</u>	<u>73,751</u>
OPERATING EXPENSES				
Selling and marketing	19,715	16,716	37,148	33,366
General and administrative	8,867	7,826	17,280	15,341
Depreciation and amortization	1,868	1,736	3,715	3,569
Research and development	6,658	5,162	12,088	10,287
Total operating expenses	<u>37,108</u>	<u>31,440</u>	<u>70,231</u>	<u>62,563</u>
INCOME FROM OPERATIONS	<u>8,409</u>	<u>5,486</u>	<u>15,369</u>	<u>11,188</u>
OTHER (INCOME) EXPENSE, net				
Interest income	(22)	(19)	(39)	(35)
Other (income) expense, net	(149)	504	11	619
Interest expense	1	0	1	1
INCOME BEFORE INCOME TAX EXPENSE	<u>8,579</u>	<u>5,001</u>	<u>15,396</u>	<u>10,603</u>
INCOME TAX EXPENSE	<u>2,251</u>	<u>1,370</u>	<u>4,092</u>	<u>2,398</u>
NET INCOME	<u>\$ 6,328</u>	<u>\$ 3,631</u>	<u>\$ 11,304</u>	<u>\$ 8,205</u>
NET INCOME PER SHARE - BASIC	<u>\$ 0.37</u>	<u>\$ 0.21</u>	<u>\$ 0.66</u>	<u>\$ 0.48</u>
NET INCOME PER SHARE - DILUTED	<u>\$ 0.36</u>	<u>\$ 0.21</u>	<u>\$ 0.65</u>	<u>\$ 0.48</u>
Weighted average shares - Basic	<u>17,233,012</u>	<u>17,097,973</u>	<u>17,220,146</u>	<u>17,054,354</u>
Weighted average shares - Diluted	<u>17,338,388</u>	<u>17,173,015</u>	<u>17,364,436</u>	<u>17,177,748</u>

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)	June 28, 2014 (unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 129,835	\$ 124,630
Short-term investments	64,996	64,994
Accounts receivable, net	65,979	66,309

Inventories, net	53,302	48,940
Deferred income taxes, net	5,930	4,601
Prepaid expenses and other current assets	14,945	14,645
Total current assets	<u>334,987</u>	<u>324,119</u>
Property and equipment:		
Machinery and equipment	39,587	36,924
Furniture and fixtures	7,159	6,888
Leasehold improvements	12,709	11,765
Property and equipment at cost	<u>59,455</u>	<u>55,577</u>
Less: accumulated depreciation and amortization	<u>(41,571)</u>	<u>(39,126)</u>
Property and equipment, net	<u>17,884</u>	<u>16,451</u>
Goodwill	19,241	19,358
Intangible assets, net	8,466	8,112
Service inventory	21,906	19,033
Deferred income taxes, net	4,401	4,423
Total assets	<u>\$ 406,885</u>	<u>\$ 391,496</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 13,866	\$ 14,881
Accrued liabilities	20,382	20,133
Income taxes payable	33	1,690
Current portion of unearned service revenues	23,215	21,331
Customer deposits	2,559	2,910
Current portion of obligations under capital leases	8	8
Total current liabilities	<u>60,063</u>	<u>60,953</u>
Unearned service revenues - less current portion	14,153	13,414
Deferred income tax liability	1,235	1,171
Obligations under capital leases - less current portion	4	8
Total liabilities	<u>75,455</u>	<u>75,546</u>
Commitments and contingencies		
Shareholders' equity:		
Common stock - par value \$.001, 50,000,000 shares authorized; 17,927,617 and 17,868,372 issued; 17,247,382 and 17,188,137 outstanding, respectively	18	18
Additional paid-in capital	196,032	191,874
Retained earnings	137,171	125,867
Accumulated other comprehensive income	7,284	7,266
Common stock in treasury, at cost - 680,235 shares	<u>(9,075)</u>	<u>(9,075)</u>
Total shareholders' equity	<u>331,430</u>	<u>315,950</u>
Total liabilities and shareholders' equity	<u>\$ 406,885</u>	<u>\$ 391,496</u>

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

(in thousands)	Six Months Ended	
	June 28, 2014	June 29, 2013
CASH FLOWS FROM:		
OPERATING ACTIVITIES:		
Net income	\$ 11,304	8,205
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,715	3,569
Compensation for stock options and restricted stock units	2,444	2,105
Provision for bad debts	66	315
Deferred income tax (benefit) expense	(1,249)	1,281
Income tax benefit from exercise of stock options	(59)	(814)
Change in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	297	9,644
Inventories, net	(6,645)	1,101
Prepaid expenses and other current assets	(341)	(765)
(Decrease) increase in:		
Accounts payable and accrued liabilities	(714)	(4,565)
Income taxes payable	(1,644)	(2,868)
Customer deposits	(395)	458
Unearned service revenues	2,727	594
Net cash provided by operating activities	9,506	18,260
INVESTING ACTIVITIES:		
Purchases of property and equipment	(4,555)	(891)
Payments for intangible assets	(927)	(832)
Net cash used in investing activities	(5,482)	(1,723)
FINANCING ACTIVITIES:		
Payments on capital leases	(4)	(76)
Income tax benefit from exercise of stock options	59	814
Proceeds from issuance of stock, net	1,655	3,084
Net cash provided by financing activities	1,710	3,822
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		
	(529)	(2,284)
INCREASE IN CASH AND CASH EQUIVALENTS	5,205	18,075
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	124,630	93,233
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 129,835	111,308

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

(in thousands)	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Net income	\$ 6,328	3,631	11,304	8,205
Currency translation adjustments, net of tax	99	468	18	(2,961)
Comprehensive income	\$ 6,427	4,099	11,322	5,244

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SOURCE FARO Technologies, Inc.

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