

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

(Mark One)
 QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2022

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 0-23081

FARO TECHNOLOGIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Florida
(State or other Jurisdiction of Incorporation or Organization)

250 Technology Park,
(Address of Principal Executive Offices)

Lake Mary, Florida

59-3157093
(I.R.S. Employer Identification No.)

32746
(Zip Code)

(407) 333-9911

(Registrant's Telephone Number, including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$.001	FARO	Nasdaq Global Select Market LLC

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer,"

"smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

There were 18,278,511 shares of the registrant's common stock outstanding as of August 1, 2022.

FARO TECHNOLOGIES, INC.

Quarterly Report on Form 10-Q
Quarter Ended June 30, 2022

INDEX

	PAGE
PART I.	
FINANCIAL INFORMATION	
Item 1. Financial Statements	
a) Condensed Consolidated Balance Sheets as of June 30, 2022 (Unaudited) and December 31, 2021	3
b) Condensed Consolidated Statements of Operations (Unaudited) For the Three and Six Months Ended June 30, 2022 and June 30, 2021	4
c) Condensed Consolidated Statements of Comprehensive Loss (Unaudited) For the Three and Six Months Ended June 30, 2022 and June 30, 2021	5
d) Condensed Consolidated Statements of Cash Flows (Unaudited) For the Six Months Ended June 30, 2022 and June 30, 2021	6
e) Condensed Consolidated Statements of Shareholders' Equity (Unaudited) For the Three and Six Months Ended June 30, 2022 and June 30, 2021	7
f) Notes to Condensed Consolidated Financial Statements (Unaudited)	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	20
Item 3. Quantitative and Qualitative Disclosures About Market Risk	30
Item 4. Controls and Procedures	31
PART II.	
OTHER INFORMATION	
Item 1. Legal Proceedings	32
Item 1A. Risk Factors	32
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	33
Item 6. Exhibits	34
SIGNATURES	35

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements****FARO TECHNOLOGIES, INC. AND SUBSIDIARIES**
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)

	June 30, 2022 (unaudited)	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 101,969	\$ 121,989
Accounts receivable, net	70,915	78,523
Inventories, net	44,076	53,145
Prepaid expenses and other current assets	25,248	19,793
Total current assets	<u>242,208</u>	<u>273,450</u>
Non-current assets:		
Property, plant and equipment, net	21,109	22,194
Operating lease right-of-use assets	20,154	22,543
Goodwill	79,595	82,096
Intangible assets, net	28,382	25,616
Service and sales demonstration inventory, net	29,692	30,554
Deferred income tax assets, net	19,635	21,277
Other long-term assets	2,174	2,010
Total assets	<u>\$ 442,949</u>	<u>\$ 479,740</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 13,635	\$ 14,199
Accrued liabilities	24,692	28,208
Income taxes payable	6,539	4,499
Current portion of unearned service revenues	36,372	40,838
Customer deposits	6,975	5,399
Lease liabilities	5,867	5,738
Total current liabilities	<u>94,080</u>	<u>98,881</u>
Unearned service revenues - less current portion	22,323	22,350
Lease liabilities - less current portion	16,053	18,648
Deferred income tax liabilities	1,010	1,058
Income taxes payable - less current portion	10,131	11,297
Other long-term liabilities	956	1,047
Total liabilities	<u>144,553</u>	<u>153,281</u>
Commitments and contingencies - See Note 12		
Shareholders' equity:		
Common stock - par value \$0.001, 50,000,000 shares authorized; 19,651,715 and 19,588,003 issued, respectively; 18,275,364 and 18,205,636 outstanding, respectively	20	20
Additional paid-in capital	306,119	301,061
Retained earnings	55,283	73,544
Accumulated other comprehensive loss	(32,369)	(17,374)
Common stock in treasury, at cost - 1,376,351 and 1,382,367 shares held, respectively	(30,657)	(30,792)
Total shareholders' equity	<u>298,396</u>	<u>326,459</u>
Total liabilities and shareholders' equity	<u>\$ 442,949</u>	<u>\$ 479,740</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

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

(in thousands, except share and per share data)	Three Months Ended		Six Months Ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Sales				
Product	\$ 59,702	\$ 60,275	\$ 116,432	\$ 114,910
Service	20,215	21,835	40,141	43,531
Total sales	79,917	82,110	156,573	158,441
Cost of sales				
Product	28,169	25,455	52,504	50,259
Service	11,311	11,173	22,607	22,293
Total cost of sales	39,480	36,628	75,111	72,552
Gross profit	40,437	45,482	81,462	85,889
Operating expenses				
Selling, general and administrative	36,018	33,594	71,508	66,942
Research and development	12,042	11,760	24,170	23,733
Restructuring costs	1,333	779	1,932	2,303
Total operating expenses	49,393	46,133	97,610	92,978
Loss from operations	(8,956)	(651)	(16,148)	(7,089)
Other (income) expense				
Interest (income) expense, net	(12)	39	(4)	49
Other (income) expense, net	(1,636)	883	(1,649)	(732)
Loss before income tax benefit	(7,308)	(1,573)	(14,495)	(6,406)
Income tax expense (benefit)	1,266	(397)	3,766	(2,009)
Net loss	\$ (8,574)	\$ (1,176)	\$ (18,261)	\$ (4,397)
Net loss per share - Basic	\$ (0.47)	\$ (0.06)	\$ (1.00)	\$ (0.24)
Net loss per share - Diluted	\$ (0.47)	\$ (0.06)	\$ (1.00)	\$ (0.24)
Weighted average shares - Basic	18,266,747	18,161,110	18,267,783	18,133,368
Weighted average shares - Diluted	18,266,747	18,161,110	18,267,783	18,133,368

The accompanying notes are an integral part of these condensed consolidated financial statements.

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

(in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Net loss	\$ (8,574)	\$ (1,176)	\$ (18,261)	\$ (4,397)
Currency translation adjustments, net of income taxes	(13,011)	4,867	(14,995)	(5,307)
Comprehensive loss (income)	\$ (21,585)	\$ 3,691	\$ (33,256)	\$ (9,704)

The accompanying notes are an integral part of these condensed consolidated financial statements.

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

(in thousands)	Six Months Ended	
	June 30, 2022	June 30, 2021
Cash flows from:		
Operating activities:		
Net loss	\$ (18,261)	\$ (4,397)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	6,655	6,289
Stock-based compensation	6,358	5,377
Provisions for bad debts, net of recoveries	80	(43)
Loss on disposal of assets	82	86
Provision for excess and obsolete inventory	6	1,640
Deferred income tax expense (benefit)	(48)	(2,009)
Change in operating assets and liabilities:		
Decrease (Increase) in:		
Accounts receivable	5,102	3,964
Inventories	4,311	(7,495)
Prepaid expenses and other current assets	(6,101)	(982)
(Decrease) Increase in:		
Accounts payable and accrued liabilities	(2,398)	(13,525)
Income taxes payable	1,007	(2,310)
Customer deposits	1,769	1,723
Unearned service revenues	(1,822)	(627)
Net cash used in operating activities	<u>(3,260)</u>	<u>(12,309)</u>
Investing activities:		
Purchases of property and equipment	(3,481)	(2,072)
Cash paid for technology development, patents and licenses	(5,548)	(1,780)
Acquisition of business, net of cash acquired	—	(33,908)
Net cash used in investing activities	<u>(9,029)</u>	<u>(37,760)</u>
Financing activities:		
Payments on finance leases	(116)	(167)
Payments for taxes related to net share settlement of equity awards	(1,165)	(3,779)
Proceeds from issuance of stock related to stock option exercises	—	5,165
Net cash (used in) provided by financing activities	<u>(1,281)</u>	<u>1,219</u>
Effect of exchange rate changes on cash and cash equivalents	(6,450)	(3,446)
Decrease in cash and cash equivalents	(20,020)	(52,296)
Cash and cash equivalents, beginning of period	121,989	185,633
Cash and cash equivalents, end of period	<u>\$ 101,969</u>	<u>\$ 133,337</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(UNAUDITED)

(in thousands, except share data)		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Common Stock in Treasury	Total
		Shares	Amounts					
	BALANCE JANUARY 1, 2022	18,205,636	\$ 20	\$ 301,061	\$ 73,544	\$ (17,374)	\$ (30,792)	\$ 326,459
	Net loss	—	—	—	(9,687)	—	—	(9,687)
	Currency translation adjustment	—	—	—	—	(1,984)	—	(1,984)
	Stock-based compensation	—	—	2,867	—	—	—	2,867
	Common stock issued, net of shares withheld for employee taxes	55,041	—	(1,051)	—	—	135	(916)
	BALANCE MARCH 31, 2022	18,260,677	\$ 20	\$ 302,877	\$ 63,857	\$ (19,358)	\$ (30,657)	\$ 316,739
	Net loss	—	—	—	(8,574)	—	—	(8,574)
	Currency translation adjustment	—	—	—	—	(13,011)	—	(13,011)
	Stock-based compensation	—	—	3,491	—	—	—	3,491
	Common stock issued, net of shares withheld for employee taxes	6,080	—	(249)	—	—	—	(249)
	BALANCE JUNE 30, 2022	18,266,757	\$ 20	\$ 306,119	\$ 55,283	\$ (32,369)	\$ (30,657)	\$ 298,396

(in thousands, except share data)		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Common Stock in Treasury	Total
		Shares	Amounts					
	BALANCE JANUARY 1, 2021	17,990,707	\$ 19	\$ 287,979	\$ 113,508	\$ (10,160)	\$ (31,043)	\$ 360,303
	Net loss	—	—	—	(3,221)	—	—	(3,221)
	Currency translation adjustment	—	—	—	—	(10,174)	—	(10,174)
	Stock-based compensation	—	—	2,094	—	—	—	2,094
	Common stock issued, net of shares withheld for employee taxes	163,457	—	1,530	—	—	251	1,781
	BALANCE MARCH 31, 2021	18,154,164	\$ 19	\$ 291,603	\$ 110,287	\$ (20,334)	\$ (30,792)	\$ 350,783
	Net loss	—	—	—	(1,176)	—	—	(1,176)
	Currency translation adjustment	—	—	—	—	4,867	—	4,867
	Stock-based compensation	—	—	3,283	—	—	—	3,283
	Common stock issued, net of shares withheld for employee taxes	20,709	1	(396)	—	—	—	(395)
	BALANCE JUNE 30, 2021	18,174,873	\$ 20	\$ 294,490	\$ 109,111	\$ (15,467)	\$ (30,792)	\$ 357,362

The accompanying notes are an integral part of these condensed consolidated financial statements.

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(in thousands, except share and per share data, or as otherwise noted)

NOTE 1 – DESCRIPTION OF BUSINESS

FARO Technologies, Inc. and its subsidiaries (collectively “FARO,” the “Company,” “us,” “we” or “our”) design, develop, manufacture, market and support software driven, three-dimensional (“3D”) measurement, imaging, and realization solutions for the 3D metrology, architecture, engineering and construction (“AEC”), Operations and Maintenance (“O&M”) and public safety analytics markets. We enable our customers to capture, measure, manipulate, interact with and share 3D and 2D data from the physical world in a virtual environment and then translate this information back into the physical domain. Our broad technology set equips our customers with a wide range of 3D capture technologies that range from ultra-high accuracy laser-scanner-based technology to lower accuracy, photogrammetry-based technology. Our FARO suite of 3D products and software solutions are used for inspection of components and assemblies, rapid prototyping, reverse engineering, documenting large volume or structures in 3D, surveying and construction, construction management, assembly layout, machine guidance as well as in investigation and reconstructions of crash and crime scenes. We sell the majority of our solutions through a direct sales force, with an increasing volume being sold through an indirect channel across a range of industries including automotive, aerospace, metal and machine fabrication, surveying, architecture, engineering and construction, public safety forensics and other industries.

COVID-19 and Impact On Our Business

Our business is significantly vulnerable to the economic effects of pandemics and other public health crises, including the ongoing coronavirus (“COVID-19”) pandemic that has surfaced in virtually every country of our global operating footprint. During 2020, we experienced a significant decline in the demand for our products and services across all of our served markets as a result of the impact of the spread of COVID-19.

During 2022, we continue to mitigate the ongoing impact of COVID-19 on our business results and we remain committed to taking actions to mitigate both the impact on the health and safety of our employees, as well as negative business effects resulting from demand disruption, material availability and potential production and shipment challenges, including, but not limited to, the following:

- Operating our business with a focus on our employee health and safety, which includes minimizing travel, implementing remote work policies, maintaining employee distancing and enhancing the sanitation of all of our facilities;
- Isolating our production environment from non-essential personnel, to minimize the risk of COVID-19 exposures;
- Recommending that our employees receive vaccinations and vaccine boosters to help protect our colleagues, families, and communities;
- Aggressively pursuing required raw materials to ensure continuity of supply and minimize material cost increases;
- Aggressively pursuing alternative logistics paths when intermittent government-ordered shutdowns affect current logistics paths;
- Monitoring our liquidity, disciplined inventory management, and scrutinizing our capital expenditures while executing our strategic plan; and
- Continuously reviewing our financial strategy to enhance financial flexibility in these volatile financial markets.

We continue to maintain a strong capital structure with a cash balance of \$102.0 million and no debt as of June 30, 2022. We believe that our liquidity position is adequate to meet our projected needs in the reasonably foreseeable future.

Future developments, such as the potential resurgence of COVID-19 in countries that have begun to recover from the early impact of the pandemic and new actions taken by governments in response to future resurgence, are highly uncertain. Therefore, the Company is not able to predict the extent to which the COVID-19 outbreak continues to impact the Company’s results of operations and financial conditions.

NOTE 2 – PRINCIPLES OF CONSOLIDATION

Our condensed consolidated financial statements include the accounts of FARO Technologies, Inc. and its subsidiaries, all of which are wholly owned. All intercompany transactions and balances have been eliminated. The financial statements of our foreign subsidiaries are translated into U.S. dollars using exchange rates in effect at period-end for assets and liabilities and average exchange rates during each reporting period for results of operations. Adjustments resulting from financial statement translations are reflected as a separate component of accumulated other comprehensive loss. Foreign currency transaction gains and losses are included in net loss.

NOTE 3 – BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements and notes thereto have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) for interim financial information and with the instructions of Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. These condensed consolidated financial statements include all normal recurring accruals and adjustments considered necessary by management for a fair presentation in conformity with U.S. GAAP. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates. The condensed consolidated results of operations for the six months ended June 30, 2022 are not necessarily indicative of results that may be expected for the year ending December 31, 2022 or any future period.

The information included in this Quarterly Report on Form 10-Q, including the interim condensed consolidated financial statements and the accompanying notes, should be read in conjunction with the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021. The accompanying December 31, 2021 condensed consolidated balance sheet has been derived from those audited consolidated financial statements.

Stock-based compensation expense is allocated to the applicable departmental cost in our condensed consolidated financial statements. The following table summarizes total stock-based compensation expense for each of the line items on our condensed consolidated statements of operations:

	Three Months Ended		Six Months Ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Cost of sales				
Product	\$ 244	\$ 178	\$ 404	\$ 288
Service	40	36	79	(8)
Total cost of sales	\$ 284	\$ 214	\$ 483	\$ 280
Operating expenses				
Selling, general and administrative	\$ 2,512	\$ 2,526	\$ 4,733	\$ 4,208
Research and development	695	543	1,142	889
Total operating expenses	\$ 3,207	\$ 3,069	\$ 5,875	\$ 5,097

NOTE 4 – IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Impact of Recently Adopted Accounting Standards

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes, which amends and aims to simplify accounting disclosure requirements regarding a number of topics, including intraperiod tax allocation, accounting for deferred taxes when there are changes in consolidation of certain investments, tax basis step up in an acquisition and the application of effective rate changes during interim periods, amongst other improvements. We adopted ASU 2019-12 effective as of January 1, 2021, and the adoption of the new guidance did not have a material impact on our condensed consolidated financial statements.

In October 2021, the FASB issued ASU No. 2021-08, Business Combinations (Topic 805): Accounting for Contract Asset and Contract Liabilities from Contracts with Customers, which intends to simplify the accounting for acquired revenue contracts with customers in a business combination and to also remove inconsistencies in this topic related to recognition of an acquired contract liability and payment terms and their effect on subsequent revenue recognized by the acquirer. ASU No. 2021-08 allows an acquirer to recognize and measure contract assets and contract liabilities acquired in a business combination in a similar manner to how they are recorded on the acquiree's financial statements at book value. Early adoption is permitted and we early adopted ASU No. 2021-08 in the fourth quarter of 2021. As a result of the early adoption of ASU No.2021-08, we recorded the deferred revenue associated with the acquisition of Holobuilder in 2021 at its book value of approximately \$4.0 million.

NOTE 5 – REVENUES

The following tables present our revenues by sales type as presented in our condensed consolidated statements of operations disaggregated by the timing of transfer of goods or services:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2022	2021	2022	2021
Product sales				
Product transferred to customers at a point in time	\$ 54,178	\$ 56,674	\$ 105,659	\$ 107,544
Product transferred to customers over time	5,524	3,601	10,774	7,366
Total product sales	\$ 59,702	\$ 60,275	\$ 116,433	\$ 114,910
Service sales				
Service transferred to customers at a point in time	\$ 8,620	\$ 9,602	\$ 17,322	\$ 19,599
Service transferred to customers over time	11,595	12,233	22,818	23,932
Total service sales	\$ 20,215	\$ 21,835	\$ 40,140	\$ 43,531

The following table presents our revenues disaggregated by geography, based on the billing addresses of our customers:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2022	2021	2022	2021
Total sales to external customers				
Americas ⁽¹⁾	\$ 34,667	\$ 33,702	\$ 71,344	\$ 66,251
EMEA ⁽¹⁾	21,555	26,474	43,691	51,928
APAC ⁽¹⁾	23,695	21,934	41,538	40,262
	\$ 79,917	\$ 82,110	\$ 156,573	\$ 158,441

⁽¹⁾ Regions represent North America and South America (the “Americas”); Europe, the Middle East, and Africa (“EMEA”); and Asia-Pacific (“APAC”).

For revenue related to our measurement and imaging equipment and related software, we allocate the contract price to performance obligations based on our best estimate of the standalone selling price. We make this allocation estimate utilizing data from the sale of our applicable products and services to customers separately in similar circumstances. Revenue related to our measurement and imaging equipment and related software is generally recognized upon shipment from our facilities or when delivered to the customer location, as determined by the agreed upon shipping terms, at which time we are entitled to payment and title and control has passed to the customer. Software arrangements generally include short-term maintenance that is considered post-contract support (“PCS”), which is considered to be product transferred to the customer over time and a separate performance obligation. We generally establish a standalone sales price for this PCS component based on our maintenance renewal rate. Maintenance renewals are recognized on a straight-line basis over the term of the maintenance agreement. Payments for products and services are collected within a short period of time following transfer of control or commencement of delivery of services, as applicable.

Further, customers frequently purchase extended hardware service contracts with the purchase of measurement equipment and related software. Hardware service contracts are considered a performance obligation when services are transferred to a customer over time, and, as such, we recognize revenue on a straight-line basis over the contractual term. Hardware service contracts include contract periods that extend between one month to three years.

We capitalize commission expenses related to deliverables transferred to a customer over time and amortize such costs ratably over the term of the contract. As of June 30, 2022, the deferred cost asset related to deferred commissions was approximately \$3.4 million. For classification purposes, \$2.3 million and \$1.1 million are comprised within the Prepaid expenses and other current assets and Other long-term assets, respectively, on our condensed consolidated balance sheet as of June 30, 2022. As of December 31, 2021, the deferred cost asset related to deferred commissions was approximately \$3.5 million. For classification purposes, \$2.3 million and \$1.2 million were comprised within the Prepaid expenses and other current assets and Other long-term assets, respectively, on our condensed consolidated balance sheet as of December 31, 2021.

The unearned service revenue liabilities reported on our condensed consolidated balance sheets reflect the contract liabilities to satisfy the remaining performance obligations for extended warranties, subscription-based software and software maintenance. The current portion of unearned service revenues on our condensed consolidated balance sheets is what we expect to recognize as revenue within twelve months after the applicable balance sheet date relating to extended warranties, subscription-based software and software maintenance contract liabilities. The unearned service revenues less the current portion on our condensed consolidated balance sheets is what we expect to recognize as revenue extending beyond twelve months after the applicable balance sheet date relating to extended warranties, subscription-based software and software maintenance contract liabilities. Customer deposits on our condensed consolidated balance sheets represent customer prepayments on contracts for performance obligations that we must satisfy in the future to recognize the related contract revenue. These amounts are generally related to performance obligations which are delivered in less than 12 months. During the three and six months ended June 30, 2022, we recognized \$9.5 million and \$20.4 million of revenue that was deferred on our condensed consolidated balance sheet as of December 31, 2021. During the three and six months ended June 30, 2021, we recognized \$9.6 million and \$21.6 million of revenue that was deferred on our condensed consolidated balance sheet as of December 31, 2020.

The nature of certain of our contracts gives rise to variable consideration, primarily related to an allowance for sales returns. We are required to estimate the contract asset related to sales returns and record a corresponding adjustment to Cost of Sales. Our allowance for sales returns for June 30, 2022 and June 30, 2021 were both approximately \$0.2 million.

Shipping and handling fees billed to customers in a sales transaction are recorded in Product Sales and shipping and handling costs incurred are recorded in Cost of Sales. We exclude from Sales any value-added sales and other taxes that we collect concurrently with revenue-producing activities.

NOTE 6 – ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	As of June 30, 2022	As of December 31, 2021
Accounts receivable	\$ 73,144	\$ 80,754
Allowance for credit losses	(2,229)	(2,231)
Total	<u>\$ 70,915</u>	<u>\$ 78,523</u>

Activity related to the allowance for credit losses was as follows:

	Six Months Ended June 30, 2022
Beginning balance of the allowance for credit losses	\$ (2,231)
Current period provision for expected credit losses, net of recoveries	(80)
Charge-offs of amounts previously expensed	82
Ending balance of the allowance for credit losses	<u>\$ (2,229)</u>

NOTE 7 – INVENTORIES

Inventories are stated at the lower of cost or net realizable value using the first-in first-out (FIFO) method. We have three principal categories of inventory: 1) manufactured product to be sold; 2) sales demonstration inventory - completed product used to support our sales force for demonstrations and held for sale; and 3) service inventory - completed product and parts used to support our service department and held for sale. Shipping and handling costs are classified as a component of Cost of Sales in our condensed consolidated statements of operations. Sales demonstration inventory is held by our sales representatives for up to three years, at which time it would be refurbished and transferred to finished goods as used equipment, stated at the lower of cost or net realizable value. We expect these refurbished units to remain in finished goods inventory and sold within 12 months at prices that produce reduced gross margins. Service inventory is used to provide a temporary replacement product to a customer covered by a premium warranty when the customer's unit requires service or repair and as training equipment. Service inventory is available for sale; however, management does not expect service inventory to be sold within 12 months and, as such, classifies this inventory as a long-term asset. Service inventory that we utilize for training or repairs and which we deem as no longer available for sale is transferred to fixed assets at the lower of cost or net realizable value and depreciated over the remaining life, typically three years.

Inventories consist of the following:

	As of June 30, 2022	As of December 31, 2021
Raw materials	\$ 35,381	\$ 34,617
Finished goods	8,695	18,528
Inventories, net	<u>\$ 44,076</u>	<u>\$ 53,145</u>
Service and sales demonstration inventory, net	<u>\$ 29,692</u>	<u>\$ 30,554</u>

NOTE 8 – NET LOSS PER SHARE

Basic net loss per share is computed by dividing net loss by the weighted average number of shares outstanding. Diluted net loss per share is computed by also considering the impact of potential common stock on both net loss and the weighted average number of shares outstanding. Our potential common stock consists of employee stock options, restricted stock units and market-based awards. Our potential common stock is included in the diluted earnings per share calculation when adding such potential common stock would not be anti-dilutive. Market-based awards are included in the computation of diluted earnings per share only to the extent that the underlying conditions (and any applicable market condition) (i) are satisfied as of the end of the reporting period or (ii) would be considered satisfied if the end of the reporting period were the end of the related contingency period and the result would be dilutive under the treasury stock method. When we report a net loss for the period presented, the calculation of diluted net loss per share excludes our potential common stock, as the effect would be anti-dilutive.

For the three and six months ended June 30, 2022, there were approximately 582,595 shares issuable upon the exercise of options, the vesting of time-based restricted stock and the contingent vesting of market-based restricted stock units that were excluded from the dilutive calculations, as they were anti-dilutive. For the three months and six months ended June 30, 2021, there were approximately 425,455 issuable upon the exercise of options that were excluded from the dilutive calculations, as they were anti-dilutive.

A reconciliation of the number of common shares used in the calculation of basic and diluted net loss per share is presented below:

	Three Months Ended			
	June 30, 2022		June 30, 2021	
	Shares	Per-Share Amount	Shares	Per-Share Amount
Basic net loss per share	18,266,747	\$ (0.47)	18,161,110	\$ (0.06)
Effect of dilutive securities	—	—	—	—
Diluted net loss per share	<u>18,266,747</u>	<u>\$ (0.47)</u>	<u>18,161,110</u>	<u>\$ (0.06)</u>

	Six Months Ended			
	June 30, 2022		June 30, 2021	
	Shares	Per-Share Amount	Shares	Per-Share Amount
Basic net loss per share	18,267,783	\$ (1.00)	18,133,368	\$ (0.24)
Effect of dilutive securities	—	—	—	—
Diluted net loss per share	<u>18,267,783</u>	<u>\$ (1.00)</u>	<u>18,133,368</u>	<u>\$ (0.24)</u>

NOTE 9 – ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	As of June 30, 2022	As of December 31, 2021
Accrued compensation and benefits	\$ 12,834	\$ 15,723
Accrued restructuring costs	3,016	3,919
Accrued warranties	1,865	1,880
Professional and legal fees	2,672	2,053
Taxes other than income	3,135	3,674
Other accrued liabilities	1,170	959
Total accrued liabilities	\$ 24,692	\$ 28,208

Activity related to accrued warranties was as follows:

	Six Months Ended	
	June 30, 2022	June 30, 2021
Balance, beginning of period	\$ 1,880	\$ 1,683
Provision for warranty expense	1,497	1,284
Fulfillment of warranty obligations	(1,512)	(1,351)
Balance, end of period	\$ 1,865	\$ 1,616

NOTE 10 – FAIR VALUE MEASUREMENTS

Our financial instruments include cash and cash equivalents, accounts receivable, customer deposits, accounts payable and accrued liabilities. The carrying amounts of such financial instruments approximate their fair value due to the short-term nature of these instruments.

Liabilities measured at fair value on a recurring basis are categorized in the tables below based upon the lowest level of significant input to the valuations:

	As of June 30, 2022		
	Level 1	Level 2	Level 3
Liabilities:			
Contingent consideration ⁽¹⁾	\$ —	\$ —	\$ 938
Total	\$ —	\$ —	\$ 938
	As of December 31, 2021		
	Level 1	Level 2	Level 3
Liabilities:			
Contingent consideration ⁽¹⁾	\$ —	\$ —	\$ 1,028
Total	\$ —	\$ —	\$ 1,028

(1) Contingent consideration liability represents arrangements to pay the former owners of certain companies we acquired based on the attainment of future product release milestones and is reported in Other long-term liabilities. We use a probability-weighted discounted cash flow model to estimate the fair value of contingent consideration liabilities. These probability weightings are developed internally and assessed on a quarterly basis. The remaining undiscounted maximum payment under these arrangements was \$1.0 million as of June 30, 2022. We expect to make payments earned by former owners under these arrangements on August 31, 2023.

NOTE 11 – RESTRUCTURING

In the first quarter of 2020, our Board of Directors approved a global restructuring plan (the “Restructuring Plan”), which is intended to support our strategic plan in an effort to improve operating performance and ensure that we are appropriately structured and resourced to deliver increased and sustainable value to our shareholders and customers. Key activities under the Restructuring Plan include a continued focus on efficiency and cost-saving efforts, which included a planned decrease of total headcount by approximately 500 employees upon the completion of the Restructuring Plan.

On July 15, 2021, we entered into a manufacturing services agreement (the “Agreement”) with Sanmina Corporation (Nasdaq: SANM) (“Sanmina”), in connection with the Restructuring Plan. Under the Agreement, Sanmina will provide manufacturing services for the Company’s measurement device products previously manufactured by the Company at the Company’s Lake Mary, Florida, Exton, Pennsylvania, and Stuttgart, Germany manufacturing sites. This phased transition to a Sanmina production facility was substantially completed at the end of the second quarter of 2022 as part of our cost reduction initiative. The facilities which previously housed our manufacturing function are currently under evaluation for a reduction in occupancy. All of these facilities are mixed-use spaces with our service, research and development, or sales teams, and are in use for those functions.

In connection with the Restructuring Plan, we paid \$2.8 million during the six months ended June 30, 2022, primarily consisting of severance and related benefits. Since the approval of the Restructuring Plan, we have paid \$21.7 million, primarily consisting of severance and related benefits. Activity related to the accrued restructuring charge and cash payments during the six months ended June 30, 2022 and June 30, 2021 was as follows:

	Severance and other benefits	Professional fees and other related charges	Total
Balance at December 31, 2021	\$ 3,442	\$ 477	\$ 3,919
Additions charged to expense	1,422	510	1,932
Cash payments	(2,016)	(819)	(2,835)
Balance at June 30, 2022	<u>\$ 2,848</u>	<u>\$ 168</u>	<u>\$ 3,016</u>
Balance at December 31, 2020	\$ 1,481	\$ 867	\$ 2,348
Additions charged to expense	1,480	823	2,303
Cash payments	(2,257)	(1,279)	(3,536)
Balance at June 30, 2021	<u>\$ 704</u>	<u>\$ 411</u>	<u>\$ 1,115</u>

Substantially all of our planned activities under the Restructuring Plan are complete and as part of our final steps, we expect to incur remaining pre-tax charges in the range of \$1 million to \$3 million through the end of fiscal year 2022. We have reduced our total headcount by approximately 390 employees. The Company expects to make concluding cash payments of approximately \$4 million in the remainder of fiscal year 2022, consisting of severance and related benefits.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Purchase Commitments — We enter into purchase commitments for products and services in the ordinary course of business. These purchases generally cover production requirements for 60 to 120 days as well as materials necessary to service customer units through the product lifecycle and for warranty commitments. As of June 30, 2022, we had approximately \$60.8 million in purchase commitments that are expected to be delivered within the next 12 months. To ensure adequate component availability, as of June 30, 2022, we also had \$1.2 million in long-term commitments for purchases to be delivered after 12 months.

Legal Proceedings — We are not involved in any legal proceedings, including routine litigation arising in the normal course of business, that we believe will have a material adverse effect on our business, financial condition or results of operations.

U.S. Government Contracting Matter — We have sold our products and related services to the U.S. Government (the “Government”) under General Services Administration (“GSA”) Federal Supply Schedule contracts (the “GSA Contracts”) since 2002 and are currently selling our products and related services to the Government under two such GSA Contracts. Each GSA Contract is subject to extensive legal and regulatory requirements and includes, among other provisions, a price reduction

clause (the “Price Reduction Clause”), which generally requires us to reduce the prices billed to the Government under the GSA Contracts to correspond to the lowest prices billed to certain benchmark customers.

Late in the fourth quarter of 2018, during an internal review we preliminarily determined that certain of our pricing practices may have resulted in the Government being overcharged under the Price Reduction Clauses of the GSA Contracts (the “GSA Matter”). As a result, we performed remediation efforts, including but not limited to, the identification of additional controls and procedures to ensure future compliance with the pricing and other requirements of the GSA Contracts. We also retained outside legal counsel and forensic accountants to assist with these efforts and to conduct a comprehensive review of our pricing and other practices under the GSA Contracts (the “Review”). On February 14, 2019, we reported the GSA Matter to the GSA and its Office of Inspector General.

Effective as of February 25, 2021, as a result of the review, we entered into a settlement agreement with the GSA. Pursuant to the settlement agreement, we agreed to, among other things, pay to the GSA \$12.3 million in full and final satisfaction of any and all claims, causes of actions, appeals and the like, including damages, costs, attorney’s fees and interest arising under or related to the GSA Matter. As of June 30, 2022, we no longer have any outstanding liability related to this matter.

NOTE 13 – LEASES

We have operating and finance leases for manufacturing facilities, corporate offices, research and development facilities, sales and training facilities, vehicles, and certain equipment under which we assume the role of lessee. We do not lease assets as a lessor. Our leases have remaining lease terms of less than one year to approximately ten years, some of which include options to extend the leases for up to fifteen years, and some of which include options to terminate the leases within three months. We do not participate in any material subleasing.

We determine if an arrangement is a lease at inception. Operating leases are included in Operating lease right-of-use (“ROU”) asset, Lease liability, and Lease liability - less current portion in our condensed consolidated balance sheets. Finance leases are included in Property and equipment, net, Lease liability, and Lease liability - less current portion in our condensed consolidated balance sheets.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and lease liabilities are recognized on the commencement date of the lease based on the present value of lease payments over the lease term. Variable lease payments that depend on an index or rate include the variable portion when calculating ROU assets and lease liabilities. Variable lease payments that do not depend on an index or rate are expensed as incurred. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available on the commencement date of the lease to determine the present value of lease payments. We use the implicit rate when readily determinable. The operating lease ROU assets also include any lease payments made and lease incentives. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option at the time the lease is commenced. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

While we have lease agreements with lease and non-lease components, we account for the lease and non-lease components as a single lease component.

The components of lease expense were as follows:

	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Operating lease cost	\$ 1,842	\$ 1,922	\$ 3,648	\$ 3,891
Finance lease cost:				
Amortization of ROU assets	29	78	\$ 77	\$ 161
Interest on lease liabilities	5	4	\$ 10	\$ 10
Total finance lease cost	<u>\$ 34</u>	<u>\$ 82</u>	<u>\$ 87</u>	<u>\$ 171</u>

We recognize lease payments made for short-term leases where terms are 12 months or less as the payments are incurred. Our short-term lease costs for the three months ended June 30, 2022 and June 30, 2021 were both less than \$0.1 million. Our short-term lease costs for the six months ended June 30, 2022 and June 30, 2021 were both \$0.1 million.

Supplemental balance sheet information related to leases was as follows:

	As of June 30, 2022	As of December 31, 2021
Operating leases:		
Operating lease right-of-use assets	\$ 20,154	\$ 22,543
Current operating lease liabilities	\$ 5,680	\$ 5,601
Operating lease liabilities - less current portion	15,894	18,538
Total operating lease liabilities	\$ 21,574	\$ 24,139
Finance leases:		
Property and equipment, at cost	\$ 1,299	\$ 1,380
Accumulated depreciation	(1,179)	(1,222)
Property and equipment, net	\$ 120	\$ 158
Current finance lease liabilities	\$ 187	\$ 137
Finance lease liabilities - less current portion	159	110
Total finance lease liabilities	\$ 346	\$ 247
Weighted Average Remaining Lease Term (in years):		
Operating leases	5.21	5.69
Finance leases	2.05	2.12
Weighted Average Discount Rate:		
Operating leases	5.66 %	5.67 %
Finance leases	5.34 %	5.02 %

Supplemental cash flow information related to leases was as follows:

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 3,748	\$ 3,827
Operating cash flows from finance leases	\$ 10	\$ 9
Financing cash flows from finance leases	\$ 116	\$ 167
ROU assets obtained in exchange for lease obligations:		
Operating leases	\$ 826	\$ 614

Maturities of lease liabilities are as follows:

Year Ending December 31,	Operating leases	Finance leases
2022 (excluding the first 6 months)	\$ 3,548	\$ 111
2023	6,013	173
2024	4,834	62
2025	3,156	11
2026	2,173	7
Thereafter	5,330	1
Total lease payments	\$ 25,054	\$ 365
Less imputed interest	(3,480)	(19)
Total	\$ 21,574	\$ 346

NOTE 14 – INCOME TAXES

For the three months ended June 30, 2022, we recorded an income tax expense of \$1.3 million compared with an income tax benefit of \$0.4 million for the three months ended June 30, 2021. Our effective tax rate was 17.3% for the three months ended June 30, 2022 compared with 25.2% in the prior year period. The tax rate for 2022 reflects a tax expense on a pre-tax loss and the tax rate for 2021 reflects a tax benefit on a pre-tax loss. The change in our income tax expense and our effective tax rate were primarily due to the impact of the capitalization of research and development (“R&D”) expenditures for income tax purposes. The Tax Cuts and Jobs Act (the “Act”) requires the capitalization and amortization of R&D costs incurred after December 31, 2021. We have considered the effects of the Act on the forecasted domestic cash tax payments for the year ending December 31, 2022. Our entity in the United States remains in a full valuation allowance position, hence we were not able to recognize the tax benefits associated with the capitalization of these R&D expenditures.

Our quarterly estimate of our annual effective tax rate, and our quarterly provision for income tax (benefit) expense, are subject to significant variation due to numerous factors, including variability in accurately predicting our pretax and taxable income or loss and the mix of jurisdictions to which they relate, as well as the amount of pretax income or loss recognized during the quarter.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with the condensed consolidated financial statements, including the notes thereto, included elsewhere in this Quarterly Report on Form 10-Q and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2021.

Amounts reported in millions within this Quarterly Report on Form 10-Q are computed based on the amounts in thousands. As a result, the sum of the components reported in millions may not equal the total amount reported in millions due to rounding. Certain columns and rows within the tables that follow may not add due to the use of rounded numbers. Percentages presented are calculated based on the respective amounts in thousands.

FARO Technologies, Inc. ("FARO," the "Company," "us," "we" or "our") has made "forward-looking statements" in this report (within the meaning of the Private Securities Litigation Reform Act of 1995). Statements that are not historical facts or that describe our plans, beliefs, goals, intentions, objectives, projections, expectations, assumptions, strategies, or future events are forward-looking statements. In addition, words such as "may," "might," "would," "will," "will be," "future," "strategy," "believe," "plan," "should," "could," "seek," "expect," "anticipate," "intend," "estimate," "goal," "objective," "project," "forecast," "target" and similar words identify forward-looking statements.

Forward-looking statements are not guarantees of future performance and are subject to a number of known and unknown risks, uncertainties, assumptions, and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. Consequently, undue reliance should not be placed on these forward-looking statements. These forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q. We do not intend to update any forward-looking statements, whether as a result of new information, future events, or otherwise, unless otherwise required by law. Important factors that could cause actual results to differ materially from those contemplated in such forward-looking statements include, among others, the following:

- an economic downturn or other adverse changes in the industries that we serve or the domestic and international economies in the regions of the world where we operate and other general economic, business, and financial conditions;
- the effect of the ongoing COVID-19 pandemic, including on our business operations, as well as its impact on general economic and financial market conditions;
- the effect of shipping disruptions caused by COVID-19-related lockdowns and its impact on our ability to deliver our products to customers;
- our inability to realize the intended benefits of reorganizing our business functions to improve the efficiency of our sales organization and to improve operational effectiveness;
- our inability to realize the intended benefits of our undertaking to transition to a subscription-based business model to deliver new and existing software offerings on a cloud-computing-based platform, including but not limited to impairment charges of capitalized expenditures related to the development of Sphere, our cloud-computing-based platform, and our inability to realize the expected benefits;
- our inability to successfully execute our strategic plan and Restructuring Plan, including but not limited to additional impairment charges including existing leasehold improvements and/or higher than expected severance costs and exit costs, and our inability to realize the expected benefits of such plans;
- our inability to realize the anticipated benefits of our partnership with Sanmina and to successfully transition our manufacturing operations to Sanmina's production facility;
- our inability to reasonably source essential equipment and materials to manufacture our products as a result of global supply shortages;
- the effect of inflationary pressures and its impact on our business operations;
- our inability to successfully realize changes to the pricing of our products and services;
- our inability to achieve and maintain profitability to fully realize the economic benefit of recorded deferred tax assets;
- our inability to further penetrate our customer base and target markets;
- development by others of new or improved products, processes or technologies that make our products less competitive or obsolete;
- our inability to maintain what we believe to be our technological advantage by developing new products and enhancing our existing products;

- risks associated with expanding international operations, such as difficulties in staffing and managing foreign operations, increased political and economic instability, compliance with potentially evolving 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;
- changes in trade regulation, which result in rising prices of imported steel, steel byproducts, aluminum and aluminum byproducts and various other raw materials that we use in the production of measurement devices, and our ability to pass those costs on to our customers or require our suppliers to absorb such costs;
- changes in foreign regulation which may result in rising prices of our measurement devices sold as exports to our international customers, our customers' willingness to absorb incremental import tariffs, and the corresponding impact on our profitability;
- our inability to successfully identify and acquire target companies and achieve expected benefits from, and effectively integrate acquisitions that are consummated;
- our inability to realize the intended benefits of the technology, products, operations, contracts, and personnel of our acquisitions;
- the cyclical nature of the industries of our customers and material adverse changes in our customers' access to liquidity and capital;
- changes in the potential for the computer-aided measurement market and the potential adoption rate for our products, which are difficult to quantify and predict;
- our inability to protect our patents and other proprietary rights in the United States and foreign countries;
- our inability to defend against a cyberattack or security breach of our systems may compromise the confidentiality, integrity, or availability of our internal data and the availability of our products and websites designed to support our customers or their data;
- our inability to adequately maintain effective internal controls over financial reporting;
- 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, without limitation (i) litigation and regulatory action brought against us, (ii) quality issues with our products, (iii) excess or obsolete inventory, shrinkage or other inventory losses due to product obsolescence, change in demand for our products, scrap or material price changes, (iv) raw material price fluctuations and other inflationary pressures, (v) expansion of our manufacturing capability, (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) manufacturing inefficiencies associated with new product introductions, (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) the inability of our sales and marketing programs to achieve their sales targets, (xiv) start-up costs associated with opening new sales offices outside of the United States, (xv) fluctuations in revenue without proportionate adjustments in fixed costs, (xvi) inefficiencies in the management of our inventories and fixed assets, (xvii) compliance with government regulations including health, safety, and environmental matters, and (xviii) costs associated with the training and ramp-up time for new sales people;
- changes in gross margins due to a changing mix of products sold and the different gross margins on different products and sales channels;
- changes in applicable laws, rules or regulations, or their interpretation or enforcement, or the enactment of new laws, rules or regulations that apply to our business operations or require us to incur significant expenses for compliance;
- our inability to successfully comply with the requirements of the Restriction of Hazardous Substances Directive and the Waste Electrical and Electronic Equipment Directive in the European Union;
- the inability of our products to displace traditional measurement devices and attain broad market acceptance;
- the impact of competitive products and pricing on our current offerings;
- the loss of any of our executive officers or other key personnel which may include an inability to competitively address inflationary pressures on employee compensation and flexibility in employee work arrangements;
- difficulties in recruiting research and development engineers and application engineers;

- the failure to effectively manage the effects of any future growth;
- the impact of reductions or projected reductions in government spending, or uncertainty regarding future levels of government expenditures, particularly in the defense sector;
- variations in our effective income tax rate, which makes it difficult to predict our effective income tax rate on a quarterly and annual basis, and the impact of the U.S. Tax Cuts and Jobs Act of 2017 on the global intangible low-taxed income of foreign subsidiaries;
- the loss of key suppliers and the inability to find sufficient alternative suppliers in a reasonable period of time or on commercially reasonable terms;
- the impact of fluctuations in exchange rates on non-U.S. dollar-denominated revenues and expenses which could materially effect our reported financial results;
- the effect of estimates and assumptions with respect to critical accounting policies and the impact of the adoption of recently issued accounting pronouncements;
- the effect of changes in political conditions in the U.S. and other countries in which we operate, including the effect of changes in U.S. trade policies or the United Kingdom's withdrawal from the European Union, on general market conditions, global trade policies and currency exchange rates;
- the magnitude of increased warranty costs from new product introductions and enhancements to existing products;
- the sufficiency of our plants and third-party resources to meet manufacturing requirements;
- the continuation of our share repurchase program;
- the sufficiency of our working capital and cash flow from operations to fund our short- and long-term liquidity requirements;
- the impact of geographic changes in the manufacturing or sales of our products on our effective income tax rate;
- our ability to comply with the requirements for favorable tax rates in foreign jurisdictions; and
- other risks and uncertainties discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2021, elsewhere in this Quarterly Report on Form 10-Q, and in other SEC filings.

Moreover, new risks and uncertainties emerge from time to time, and we undertake no obligation to update publicly or review the risks and uncertainties included in this Quarterly Report on Form 10-Q, unless otherwise required by law.

Overview

We are a global technology company that designs, develops, manufactures, markets and supports software driven, three-dimensional (“3D”) measurement, imaging, and realization solutions for the 3D metrology, architecture, engineering and construction (“AEC”), Operations and Maintenance (“O&M”) and public safety analytics markets. We enable our customers to capture, measure, manipulate, interact with and share 3D and 2D data from the physical world in a virtual environment and then translate this information back into the physical domain. Our broad technology set equips our customers with a wide range of 3D capture technologies that range from ultra-high accuracy laser-scanner-based technology to lower accuracy, photogrammetry-based technology. Our FARO suite of 3D products and software solutions are used for inspection of components and assemblies, rapid prototyping, reverse engineering, documenting large volume or structures in 3D, surveying and construction, construction management, assembly layout, machine guidance as well as in investigation and reconstructions of crash and crime scenes. We sell the majority of our solutions through a direct sales force, with an increasing volume being sold through an indirect channel across a range of industries including automotive, aerospace, metal and machine fabrication, surveying, architecture, engineering and construction, public safety forensics and other industries.

We derive our revenues primarily from the sale of our measurement equipment and related multi-faceted software programs. Revenue related to these products is generally recognized upon shipment. In addition, we sell extended warranties and training and technology consulting services relating to our products. We recognize the revenue from hardware service contracts and software maintenance contracts on a straight-line basis over the contractual term, and revenue from training and technology consulting services when the services are provided.

We operate in international markets throughout the world and maintain sales offices in Australia, Brazil, Canada, China, France, Germany, India, Italy, Japan, Malaysia, Mexico, the Netherlands, Poland, Portugal, Singapore, South Korea, Spain, Switzerland, Thailand, Turkey, the United Kingdom, and the United States.

Prior to the end of the second quarter of 2022, we manufactured our FARO Quantum Max Arm products in our manufacturing facility located in Florida for customer orders from North America and South America (the “Americas”) and Europe, the Middle East and Africa (“EMEA”), and in our manufacturing facility located in Singapore for customer orders from the Asia-Pacific region (“APAC”). We manufactured our FARO Focus laser scanner in our manufacturing facilities located in Germany for customer orders from EMEA and APAC, and in our manufacturing facility located in Pennsylvania for customer orders from the Americas. We manufactured our FARO Laser Tracker and our FARO Laser Projector products in our manufacturing facility located in Pennsylvania.

Under the manufacturing services agreement dated July 15, 2021 and in connection with the Restructuring Plan described below, Sanmina now provides manufacturing services for our measurement device products previously manufactured by us at the aforementioned manufacturing facilities. The phased transition to a Sanmina production facility was substantially completed at the end of the second quarter of 2022 as part of our cost reduction initiative. The facilities which previously housed our manufacturing function are currently under evaluation for a reduction in occupancy. All of these facilities are mixed-use spaces with our service, research and development, or sales teams, and are in use for those functions. We expect our third party manufacturing facilities to have the production capacity necessary to support our volume requirements for the remainder of 2022.

We account for wholly-owned foreign subsidiaries in the currency of the respective foreign jurisdiction; therefore, fluctuations in exchange rates may have an impact on the value of the intercompany account balances denominated in different currencies and reflected in our consolidated financial statements. We are aware of the availability of off-balance sheet financial instruments to hedge exposure to foreign currency exchange rates, including cross-currency swaps, forward contracts and foreign currency options. However, we have not used such instruments in the past, and none were utilized in 2021 or the six months ended June 30, 2022. We may not use such instruments in the future.

Restructuring Plan

In the first quarter of 2020, our Board of Directors approved a global restructuring plan (the “Restructuring Plan”), which is intended to support our strategic plan in an effort to improve operating performance and ensure that we are appropriately structured and resourced to deliver increased and sustainable value to our shareholders and customers. Key activities under the Restructuring Plan include a continued focus on efficiency and cost-saving efforts, which included a planned decrease of total headcount by approximately 500 employees upon the completion of the Restructuring Plan.

On July 15, 2021, we entered into a manufacturing services agreement (the “Agreement”) with Sanmina Corporation (Nasdaq: SANM) (“Sanmina”), in connection with the Restructuring Plan. Under the Agreement, Sanmina will provide manufacturing services for the Company’s measurement device products previously manufactured by the Company at the Company’s Lake Mary, Florida, Exton, Pennsylvania, and Stuttgart, Germany manufacturing sites. This phased transition to a Sanmina production facility was substantially completed at the end of the second quarter of 2022 as part of our cost reduction initiative. The facilities which previously housed our manufacturing function are currently under evaluation for a reduction in occupancy. All of these facilities are mixed-use spaces with our service, research and development, or sales teams, and are in use for those functions.

Substantially all of our planned activities under the Restructuring Plan are complete and as part of our final steps, we expect to incur remaining pre-tax charges in the range of \$1 million to \$3 million through the end of fiscal year 2022. Since the approval of the Restructuring Plan, we have paid \$21.7 million, primarily consisting of severance and related benefits and have reduced our total headcount by approximately 390 employees. We expect to make concluding cash payments of approximately \$4 million in the remainder of fiscal year 2022, consisting of severance and related benefits.

FARO Sphere and the Unified Software Environment

FARO Sphere is our new cloud-based platform that is the foundation to our new software and solution strategy. Our objective is to provide differentiated value by offering workflow enhancements which include data uploads from any location, access to our existing suite of 3D software applications, cloud-based data analysis and global user access as well as ultimately, the ability for our customers to purchase, renew or manage all of their FARO software and hardware assets. FARO Sphere represents the first step in the expansion of our cloud-based software offerings that we believe will deliver greater value to our customers and to our shareholders. The FARO Sphere platform can be adopted globally across a wide range of markets, including construction management, facilities, operations and maintenance, robotic simulation and incident preplanning. If FARO Sphere is adopted widely, we would expect this to lead to an increase in the number of users and thus enable revenue growth of our software and a shift toward increased levels of recurring revenue over time. We launched FARO Sphere to the market on April 12, 2022.

Revenue from our current software products was \$10.5 million and \$10.2 million for the three months ended June 30, 2022 and June 30, 2021, respectively, and \$20.8 million and \$20.4 million for the six months ended June 30, 2022 and June 30, 2021, respectively. Our recurring revenue which is comprised of hardware service contracts, software maintenance contracts, and subscription-based software applications was \$17.1 million and \$15.8 million for the three months ended June 30, 2022 and June 30, 2021, respectively, and \$33.6 million and \$31.4 million for the six months ended June 30, 2022 and June 30, 2021, respectively.

Research and development costs incurred relating to the development of internal-use software and website development, including software used to upgrade and enhance our websites and applications to be sold as a service are capitalized in the period incurred and amortized over 1 year to 5 years. These costs include external direct costs of materials and services and internal costs such as payroll and benefits of those employees directly associated with the development of new functionality in internal use software to be sold as a service. The amount of costs capitalized relating to internally developed computer software to be sold as a service was \$1.7 million and \$1.2 million for the three months ended June 30, 2022 and June 30, 2021, respectively, and \$3.2 million and \$1.4 million for the six months ended June 30, 2022 and June 30, 2021, respectively.

Acquisition of Holobuilder

On June 4, 2021, we acquired all of the outstanding shares of Holobuilder, Inc. (“Holobuilder”), a company focused on 3D photogrammetry-based technology for a purchase price of \$33.8 million, net of cash acquired. This acquisition enables us to provide reality-capture photo documentation and added remote access capability for industries such as construction management further expanding our Digital Twin solution portfolio. The results of Holobuilder’s operations as of and after the date of acquisition have been included in our condensed consolidated financial statements as of and for the period ended June 30, 2022.

Results of Operations

The following table sets forth, for the periods indicated, our unaudited results of operations expressed as dollar amounts and as a percentage of total sales.

(dollars in thousands)	Three months ended June 30,				Six months ended June 30,			
	2022	% of Sales	2021	% of Sales	2022	% of Sales	2021	% of Sales
Sales								
Product	\$ 59,702	74.7 %	\$ 60,275	73.4 %	\$ 116,432	74.4 %	\$ 114,910	72.5 %
Service	20,215	25.3 %	21,835	26.6 %	40,141	25.6 %	43,531	27.5 %
Total sales	79,917	100.0%	82,110	100.0%	156,573	100.0 %	158,441	100.0 %
Cost of sales								
Product	28,169	35.2 %	25,455	31.0 %	52,504	33.5 %	50,259	31.7 %
Service	11,311	14.2 %	11,173	13.6 %	22,607	14.4 %	22,293	14.1 %
Total cost of sales	39,480	49.4 %	36,628	44.6 %	75,111	48.0 %	72,552	45.8 %
Gross profit	40,437	50.6 %	45,482	55.4 %	81,462	52.0 %	85,889	54.2 %
Operating expenses								
Selling, general and administrative	36,018	45.1 %	33,594	40.9 %	71,508	45.7 %	66,942	42.3 %
Research and development	12,042	15.1 %	11,760	14.3 %	24,170	15.4 %	23,733	15.0 %
Restructuring costs	1,333	1.7 %	779	0.9 %	1,932	1.2 %	2,303	1.5 %
Total operating expenses	49,393	61.8 %	46,133	56.2 %	97,610	62.3 %	92,978	58.7 %
Loss from operations	(8,956)	(11.2) %	(651)	(0.8) %	(16,148)	(10.3) %	(7,089)	(4.5) %
Other (income) expense								
Interest (income) expense, net	(12)	— %	39	— %	(4)	— %	49	— %
Other (income) expense, net	(1,636)	(2.0) %	883	1.1 %	(1,649)	(1.1) %	(732)	(0.5) %
Loss before income tax benefit	(7,308)	(9.1) %	(1,573)	(1.9) %	(14,495)	(9.3) %	(6,406)	(4.0) %
Income tax expense (benefit)	1,266	1.6 %	(397)	(0.5) %	3,766	2.4 %	(2,009)	(1.3) %
Net loss	\$ (8,574)	(10.7) %	\$ (1,176)	(1.4) %	\$ (18,261)	(11.7) %	\$ (4,397)	(2.8) %

Consolidated Results

Three Months Ended June 30, 2022 Compared to the Three Months Ended June 30, 2021

Sales. Total sales decreased by \$2.2 million, or 2.7%, to \$79.9 million for the three months ended June 30, 2022 from \$82.1 million for the three months ended June 30, 2021. Foreign exchange rates had a negative impact on total sales of \$4.7 million, or 5.7%, primarily due to the weakening of the Euro and the Japanese Yen relative to the U.S. dollar in the current period as compared to the change in foreign exchange rates applicable in the prior period. Total product sales decreased by \$0.6 million, or 1.0%, to \$59.7 million for the three months ended June 30, 2022 from \$60.3 million for the three months ended June 30, 2021. Increased product sales due to the global demand of our new Quantum Max Arm and Focus Laser Scanner products were completely offset by the negative impact on sales related to the weakening of the Euro and the Japanese Yen relative to the U.S. dollar during the three months ended June 30, 2022. Service sales decreased by \$1.6 million, or 7.4%, to \$20.2 million for the three months ended June 30, 2022 from \$21.8 million for the three months ended June 30, 2021.

Gross profit. Gross profit decreased by \$5.1 million, or 11.1%, to \$40.4 million for the three months ended June 30, 2022 from \$45.5 million for the three months ended June 30, 2021, and gross margin decreased by 4.8 percentage points to 50.6% for the three months ended June 30, 2022 from 55.4% for the three months ended June 30, 2021. Gross margin from product revenue decreased by 5.0 percentage points to 52.8% for the three months ended June 30, 2022 from 57.8% for the prior year period primarily due to changes in product mix and unfavorable price variances due to global supply shortages. Gross margin from service revenue decreased by 4.8 percentage points to 44.0% for the three months ended June 30, 2022 from 48.8% for the prior year period, primarily due to the aforementioned decrease in service sales with relatively consistent fixed costs.

Selling, general and administrative expenses. Selling, general and administrative expenses increased by \$2.4 million, or 7.2%, to \$36.0 million for the three months ended June 30, 2022 from \$33.6 million for the three months ended June 30, 2021.

This increase was primarily driven by higher personnel costs resulting from additional headcount obtained primarily from our Holobuilder acquisition and base compensation increases. Selling, general and administrative expenses as a percentage of sales increased by 4.2 percentage points to 45.1% for the three months ended June 30, 2022 from 40.9% for the three months ended June 30, 2021. Our worldwide period-ending selling, general and administrative headcount increased by 25, or 3.3%, to 776 at June 30, 2022, from 751 at June 30, 2021.

Research and development expenses. Research and development expenses increased by \$0.2 million, or 1.7%, to \$12.0 million for the three months ended June 30, 2022 from \$11.8 million for the three months ended June 30, 2021. This increase was primarily driven by higher compensation expense resulting from increased engineering headcount and costs to accelerate new product development and from our acquisition of Holobuilder. Research and development expenses as a percentage of sales increased to 15.1% for the three months ended June 30, 2022 from 14.3% for the three months ended June 30, 2021.

Restructuring costs. In February 2020, we initiated the Restructuring Plan to improve business effectiveness, streamline operations and achieve a stated target cost level for the Company as a whole. Restructuring costs included in operating expenses increased by \$0.5 million to \$1.3 million for the three months ended June 30, 2022 from \$0.8 million for the three months ended June 30, 2021 primarily consisting of additional severance and related benefits charges as part of our phased transition to our third party contract manufacturer, Sammina.

Interest (income) expense, net. We recorded net interest income of less than \$0.1 million for the three months ended June 30, 2022 and net interest expense of less than \$0.1 million for the three months ended June 30, 2021.

Other (income) expense, net. For the three months ended June 30, 2022, other income was \$1.6 million compared with other expense of \$0.9 million for the three months ended June 30, 2021. This change was primarily driven by the effect of foreign exchange rates on our non-U.S.dollar-denominated balance sheet.

Income tax expense (benefit). For the three months ended June 30, 2022 we recorded an income tax expense of \$1.3 million compared with an income tax benefit of \$0.4 million for the three months ended June 30, 2021. Our effective tax rate was 17.3% for the three months ended June 30, 2022 compared with 25.2% in the prior year period. The tax rate for 2022 reflects a tax expense on a pre-tax loss and the tax rate for 2021 reflects a tax benefit on a pre-tax loss. The change in our income tax expense and our effective tax rate were primarily due to the impact of the capitalization of research and development ("R&D") expenditures for income tax purposes. The Tax Cuts and Jobs Act (the "Act") requires the capitalization and amortization of R&D costs incurred after December 31, 2021. We have considered the effects of the Act on the forecasted domestic cash tax payments for the year ending December 31, 2022. Our entity in the United States remains in a full valuation allowance position, hence we were not able to recognize the tax benefits associated with the capitalization of these R&D expenditures.

Our quarterly estimate of our annual effective tax rate and our quarterly provision for income tax expense (benefit) are subject to significant variation due to numerous factors, including variability in accurately predicting our pretax and taxable income or loss and the mix of jurisdictions to which they relate, as well as the amount of pretax income or loss recognized during the quarter.

Net loss. Our net loss was \$8.6 million for the three months ended June 30, 2022 compared with net loss of \$1.2 million for the prior year period, reflecting the impact of the factors described above.

Six Months Ended June 30, 2022 Compared to the Six Months Ended June 30, 2021

Sales. Total sales decreased by \$1.8 million, or 1.2%, to \$156.6 million for the six months ended June 30, 2022 from \$158.4 million for the six months ended June 30, 2021. Foreign exchange rates had a negative impact on total sales of \$6.9 million, or 4.3%, primarily due to the weakening of the Euro and the Japanese Yen relative to the U.S. dollar in the current period as compared to the change in foreign exchange rates applicable in the prior period. Total product sales increased by \$1.5 million, or 1.3%, to \$116.4 million for the six months ended June 30, 2022 from \$114.9 million for the six months ended June 30, 2021 due to global demand of our new Quantum Max Arm products. Service sales decreased by \$3.4 million, or 7.8%, to \$40.1 million for the six months ended June 30, 2022 from \$43.5 million for the six months ended June 30, 2021.

Gross profit. Gross profit decreased by \$4.4 million, or 5.2%, to \$81.5 million for the six months ended June 30, 2022 from \$85.9 million for the six months ended June 30, 2021 and gross margin decreased by 2.2 percentage points to 52.0% for the six months ended June 30, 2022 from 54.2% for the six months ended June 30, 2021. Gross margin from product revenue decreased by 1.4 percentage points to 54.9% for the six months ended June 30, 2022 from 56.3% for the prior year period, primarily due to changes in product mix and unfavorable cost variances due to global supply shortages. Gross margin from service revenue decreased by 5.1 percentage points to 43.7% for the six months ended June 30, 2022 from 48.8% for the prior year period, primarily due to the aforementioned decrease in service sales with relatively consistent fixed costs.

Selling, general and administrative expenses. Selling, general and administrative expenses increased by \$4.6 million, or 6.8%, to \$71.5 million for the six months ended June 30, 2022 from \$66.9 million for the six months ended June 30, 2021. This increase was primarily driven by higher personnel costs resulting from additional headcount obtained primarily from our Holobuilder acquisition and base compensation increases. Selling, general and administrative expenses as a percentage of sales increased by 3.4 percentage points to 45.7% for the six months ended June 30, 2022, compared with 42.3% of sales for the six months ended June 30, 2021. Our worldwide period-ending selling headcount increased by 25, or 3.3%, to 776 at June 30, 2022, from 751 at June 30, 2021.

Research and development expenses. Research and development expenses increased by \$0.5 million, or 2.1%, to \$24.2 million for the six months ended June 30, 2022 from \$23.7 million for the six months ended June 30, 2021. This increase was primarily driven by higher compensation expense resulting from increased engineering headcount and costs to accelerate new product development and from our acquisition of Holobuilder. Research and development expenses as a percentage of sales increased to 15.4% for the six months ended June 30, 2022 from 15.0% for the six months ended June 30, 2021.

Restructuring costs. In February 2020, we initiated the Restructuring Plan to improve business effectiveness, streamline operations and achieve a stated target cost level for the Company as a whole. Restructuring costs included in operating expenses decreased by \$0.4 million to \$1.9 million for the six months ended June 30, 2022 from \$2.3 million for the six months ended June 30, 2021 primarily driven by the reduction of severance and related benefits.

Interest (income) expense, net. For the six months ended June 30, 2022, we recorded interest income of less than \$0.1 million compared with interest expense of less than \$0.1 million for the six months ended June 30, 2021.

Other (income) expense, net. For the six months ended June 30, 2022, other income was \$1.6 million compared to other income of \$0.7 million for the six months ended June 30, 2021. This change was primarily driven by the effect of foreign exchange rates on our non-U.S.dollar-denominated balance sheet.

Income tax expense (benefit). For the six months ended June 30, 2022, we recorded an income tax expense of \$3.8 million compared with income tax benefit of \$2.0 million for the six months ended June 30, 2021. Our effective tax rate was 26.0% for the six months ended June 30, 2022 compared with 31.4% in the prior year period. The tax rate for 2022 reflects a tax expense on a pre-tax loss and the tax rate for 2021 reflects a tax benefit on a pre-tax loss. The change in our income tax expense and our effective tax rate were primarily due to the impact of the capitalization of research and development (“R&D”) expenditures for income tax purposes. The Tax Cuts and Jobs Act (the “Act”) requires the capitalization and amortization of R&D costs incurred after December 31, 2021. We have considered the effects of the Act on the forecasted domestic cash tax payments for the year ending December 31, 2022. Our entity in the United States remains in a full valuation allowance position, hence we were not able to recognize the tax benefits associated with the capitalization of these R&D expenditures.

Our quarterly estimate of our annual effective tax rate and our quarterly provision for income tax expense are subject to significant variation due to numerous factors, including variability in accurately predicting our pretax and taxable income or loss and the mix of jurisdictions to which they relate, as well as the amount of pretax income or loss recognized during the quarter.

Net loss. Our net loss was \$18.3 million for the six months ended June 30, 2022 compared to \$4.4 million for the prior year period, reflecting the impact of the factors described above.

Liquidity and Capital Resources

Cash and cash equivalents decreased by \$20.0 million to \$102.0 million at June 30, 2022 from \$122.0 million at December 31, 2021. The decrease was primarily driven by net cash used in investing activities.

Cash used in operating activities was \$3.3 million during the six months ended June 30, 2022, compared to \$12.3 million of cash used in operating activities during the six months ended June 30, 2021. The decrease was due to changes in working capital accounts, primarily consisting of a decrease in inventory in the current year from the sale of our raw materials at cost to our third party contract manufacturer, Sanmina and the settlement of the GSA Liability in the prior year.

Cash used in investing activities during the six months ended June 30, 2022 was \$9.0 million compared to cash used in investing activities of \$37.8 million during the six months ended June 30, 2021. The decrease was primarily due to the acquisition of Holobuilder in the prior year and purchases of property and equipment and cash paid for technology development, patents, and licenses during the six months ended June 30, 2022, compared to lower purchase activity of property and equipment and cash paid for technology development, patents, and licenses during the six months ended June 30, 2021.

Cash used in financing activities was \$1.3 million during the six months ended June 30, 2022 compared to cash provided by financing activities of \$1.2 million for the six months ended June 30, 2021. The decrease was primarily due to lower proceeds from the issuance of stock related to stock option exercises during the six months ended June 30, 2022, compared to during the six months ended June 30, 2021.

Of our cash and cash equivalents, \$97.3 million was held by foreign subsidiaries as of June 30, 2022. On December 22, 2017, the United States enacted the U.S. Tax Cuts and Jobs Act, resulting in significant modifications to existing tax law, which included a transition tax on the mandatory deemed repatriation of foreign earnings. As a result of the U.S. Tax Cuts and Jobs Act, the Company can repatriate foreign earnings and profits to the U.S. with minimal U.S. income tax consequences, other than the transition tax and global intangible low-taxed income ("GILTI") tax. We have reinvested a large portion of our undistributed foreign earnings and profits in acquisitions and other investments and intends to bring back a portion of foreign cash in certain jurisdictions where we will not be subject to local withholding taxes and which were subject already to transition tax and GILTI tax.

On November 24, 2008, our Board of Directors approved a \$30.0 million share repurchase program. Acquisitions for the share repurchase program may be made from time to time at prevailing prices, as permitted by securities laws and other legal requirements, and subject to market conditions and other factors. The share repurchase program may be discontinued at any time. There is no expiration date or other restriction governing the period over which we can repurchase shares under the program. In October 2015, our Board of Directors authorized an increase to the existing share repurchase program from \$30.0 million to \$50.0 million. We made no stock repurchases during the six-month period ended June 30, 2022 under this program. As of June 30, 2022, we had authorization to repurchase \$18.3 million remaining under the repurchase program.

We believe that our working capital and anticipated cash flow from operations will be sufficient to fund our short- and long-term liquidity operating requirements for at least the next 12 months.

We have no off-balance sheet arrangements.

Contractual Obligations and Commercial Commitments

We enter into purchase commitments for products and services in the ordinary course of business. These purchases generally cover production requirements for 60 to 120 days as well as materials necessary to service customer units through the product lifecycle and for warranty commitments. As of June 30, 2022, we had \$60.8 million in purchase commitments that are expected to be delivered within the next 12 months. We also had \$1.2 million in long-term commitments for purchases to be delivered after 12 months. Other than as described in the preceding sentences, there have been no material changes to the contractual obligations and commercial commitments table included in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2021.

Critical Accounting Policies

The preparation of our condensed consolidated financial statements requires our management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, as well as disclosure of contingent assets and liabilities. We base our estimates on historical experience, along with various other factors believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Some of these judgments can be subjective and complex and, consequently, actual results may differ from these estimates under different assumptions or conditions. A discussion of our critical accounting policies is included in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the Securities and Exchange Commission on February 16, 2022. As of June 30, 2022, our critical accounting policies have not changed from those described in our Annual Report on Form 10-K for the year ended December 31, 2021.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Exchange Exposure

We conduct a significant portion of our business outside the United States. As of and for the six months ended June 30, 2022, 58% of our revenue was invoiced, and a significant portion of our operating expenses and manufacturing costs were paid, in foreign currencies, and 38% of our assets were denominated in foreign currencies. Fluctuations in exchange rates between the U.S. dollar and such foreign currencies may have a material effect on our results of operations and financial condition and could specifically result in foreign exchange gains and losses. The impact of future exchange rate fluctuations on the results of our operations cannot be accurately predicted due to our constantly changing exposure to various currencies, and the fact that all foreign currencies do not react in the same manner in relation to the U.S. dollar. Our most significant exposures are to the Euro, Japanese Yen, Swiss Franc, Chinese Yuan and Brazilian Real. To the extent that the percentage of our non-U.S. dollar revenues derived from international sales increases in the future, our exposure to risks associated with fluctuations in foreign exchange rates may increase. We are aware of the availability of off-balance sheet financial instruments to hedge exposure to foreign currency exchange rates, including cross-currency swaps, forward contracts and foreign currency options. However, we have not used such instruments in the past, and none were utilized in 2021 or the six months ended June 30, 2022. We may not use such instruments in the future.

Global Inflation Exposure

General inflation in the United States, Europe and other geographies has risen to levels not experienced in recent decades. General inflation, including rising prices for our raw materials and other inputs as well as rising salaries negatively impact our business by increasing our cost of sales and operating expenses. General inflation also negatively impacts our business by decreasing the capital for our customers to deploy to purchase our products and services. Inflation may cause our customers to reduce or delay orders for our goods and services thereby causing a decrease in sales of our products and services. The impact of future inflation fluctuations on the results of our operations cannot be accurately predicted.

Item 4. Controls and Procedures

We are responsible for establishing and maintaining disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), that are designed to provide reasonable assurance that information required to be disclosed in our reports filed under the Exchange Act, such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s (the “SEC”) rules and forms. Disclosure controls and procedures also include, without limitation, controls and procedures that are designed to provide reasonable assurance that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objective. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that our management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of June 30, 2022. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2022 to provide reasonable assurance that information required to be disclosed in this Quarterly Report on Form 10-Q was recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and was accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

During the quarter ended June 30, 2022, there was no change in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are not involved in any legal proceedings, including routine litigation arising in the normal course of business, that we believe will have a material adverse effect on our business, financial condition or results of operations.

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed under “Risk Factors” in this Item 1A and in our Annual Report on Form 10-K for the year ended December 31, 2021 as filed with the SEC, before deciding to invest in, or retain, shares of our common stock. These risks and uncertainties could materially and adversely affect our business, financial condition, and results of operations. The risks described in our Annual Report on Form 10-K for the year ended December 31, 2021 and in subsequent periodic reports filed with the SEC are not the only risks we face. Our operations could also be affected by additional factors that are not presently known by us or by factors that we currently consider to be immaterial to our business. There have been no material changes in our risk factors from those set forth in our Annual Report on Form 10-K for the year ended December 31, 2021, other than as set forth below.

The risk factors entitled “*Because a significant portion of our revenues and expenses are denominated in foreign currencies, we face significant exposure to foreign exchange rate risk*” and “*Increases in the cost and constraints in the availability of raw materials or components used in our products could negatively impact our business and profitability*” have been updated to read as follows:

Because a significant portion of our revenues, expenses, and assets are denominated in foreign currencies, we face significant exposure to foreign exchange rate risk.

We conduct a significant portion of our business outside the United States and consequently much of our revenues, expenses and assets are denominated in foreign currencies, most notably the Euro, Japanese Yen, Swiss Franc, Chinese Yuan and Brazilian Real. Our results of operations are affected by fluctuations in exchange rates, which have caused, and may in the future cause, significant fluctuations in our quarterly and annual results of operations. Fluctuations in exchange rates may have a material adverse effect on our results of operations and financial condition and could result in potentially significant foreign exchange gains and losses. The impact of future exchange rate fluctuations on the results of our operations cannot be accurately predicted due to our constantly changing exposure to various currencies, and the fact that all foreign currencies do not react in the same manner in relation to the U.S. dollar. Additionally, currency fluctuations could require us to increase prices to foreign customers, which could result in lower net sales by us to those customers. If we do not adjust the prices for our products in response to unfavorable currency fluctuations, we could be forced to sell our products at a lower margin or at a net loss. To the extent that the percentage of our non-U.S. dollar revenues derived from international sales increases in the future, our exposure to risks associated with fluctuations in foreign exchange rates will increase. We are aware of the availability of off-balance sheet financial instruments to hedge exposure to foreign currency exchange rates, including cross-currency swaps, forward contracts and foreign currency options; however, we have not used such instruments in the past, and may not use such instruments in the future.

Increases in the cost and constraints in the availability of raw materials or components used in our products could negatively impact our business and profitability.

Our products contain various raw materials, including steel, steel byproducts, aluminum, aluminum byproducts, resin products and various electronic components. We use raw materials directly in manufacturing and in components that we purchase from our suppliers. These raw materials are subject to extensive laws, governmental regulations, policies, including tariffs and other import restrictions, inflationary pressures, exchange rate fluctuations and supply shortages. Some of the raw materials are obtained from suppliers outside the United States, and to the extent that the quantity or proportion of materials derived from such foreign suppliers increases in the future, our exposure to tariffs and other import restrictions, supply chain disruptions and exchange rate fluctuations may increase. The occurrence and impact of future changes in laws, governmental regulations, policies, inflationary pressures, exchange rate fluctuations and supply shortages cannot be accurately predicted. Changes to the laws, governmental regulations and policies governing these raw materials, including tariffs and other import restrictions, have increased and could continue to increase the cost of such raw materials and, correspondingly, the cost of manufacturing our products. Further, interruptions in global supply chains, inflationary pressures and exchange rate fluctuations have increased and could continue to increase the cost of such raw materials, and have constrained and could continue to constrain the availability of such raw materials. If the costs of our raw materials further increase, whether due to changes in laws, governmental regulations, policies, supply shortages or for other reasons, we may not be able to pass on these costs to our

customers, which could have a material adverse effect on our business, results of operations and financial condition. Even in the event that increased costs can be substantially passed through to our customers, our gross margin percentages would decline.

The following risk factor has been added:

Inflation in the global economy could negatively impact our business and results of operations.

General inflation in the United States, Europe and other geographies has risen to levels not experienced in recent decades. General inflation, including rising prices for our raw materials and other inputs as well as rising salaries negatively impact our business by increasing our operating expenses. General inflation also negatively impacts our business by decreasing the capital for our customers to deploy to purchase our products and services. Inflation may cause our customers to reduce or delay orders for our goods and services thereby causing a decrease in sales of our products and services.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Recent Sales of Unregistered Securities

On May 27, 2022, pursuant to our 2022 Equity Incentive Plan, which was approved at our 2022 annual meeting of shareholders (the “annual meeting”), and our Company’s Non-Employee Director Compensation Policy, each of our non-employee directors was automatically granted restricted stock units equal to an aggregate total of 37,884 shares of the Company’s common stock in connection with our annual meeting (the “Annual Director Grants”). Additionally, Rajani Ramanathan was automatically granted restricted stock units equal to an aggregate total of 3,189 shares of the Company’s common stock in connection with her appointment to our Board of Directors on July 25, 2022 (the “Initial Director Grant”). The Annual Director Grants shall vest on the day prior to the 2023 annual meeting of shareholders and the Initial Director Grant shall vest on July 25, 2025, each subject to the director’s continued service on our Board of Directors as of such date.

During the quarter ended June 30, 2022, we also issued restricted stock units equal to an aggregate total of 1,986 shares of the Company’s common stock to certain employees (the “Employee Grants”). The Employee Grants shall vest in three equal annual installments on the anniversary dates of each respective grant.

The restricted stock units were granted in accordance with Section 4(a)(2) of the Securities Act of 1933, as amended. The shares underlying these restricted stock units will be registered on a Form S-8 registration statement prior to the vesting event applicable to such awards.

Purchases of Equity Securities by the Issuer Under the Share Repurchase Plan

On November 24, 2008, our Board of Directors approved a \$30.0 million share repurchase program. Acquisitions for the share repurchase program may be made from time to time at prevailing prices, as permitted by securities laws and other legal requirements, and subject to market conditions and other factors. The share repurchase program may be discontinued at any time. There is no expiration date or other restriction governing the period over which we can repurchase shares under the program. In October 2015, our Board of Directors authorized an increase to the existing share repurchase program from \$30.0 million to \$50.0 million. We made no stock repurchases during the six month period ended June 30, 2022 under this program. As of June 30, 2022, we had authorization to repurchase \$18.3 million remaining under the repurchase program.

Item 6. Exhibits
EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference				Provided Herewith
		Form	File No.	Exhibit	Filing Date	
3.1	Amended and Restated Articles of Incorporation, as amended	S-1/A	333-32983	3.1	September 10, 1997	
3.2	Amended and Restated Bylaws	10-K	0-23081	3.2	February 16, 2022	
4.1	Specimen Stock Certificate	S-1/A	333-32983	4.1	September 10, 1997	
4.2**	FARO Technologies, Inc. 2022 Equity Incentive Plan and forms of agreement thereunder					X
10.1	Severance Agreement and General Release by and between FARO Technologies, Inc. and Kevin Beadle dated April 21, 2022	10-Q	0-23081	10.1	April 27, 2022	
31.1	Certification of the President and Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of the Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1*	Certification of the President and Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2*	Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document					
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document					
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					
104	Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101.*)					

* - The certifications attached as Exhibit 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q are deemed furnished and not filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of the Registrant under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FARO Technologies, Inc.

(Registrant)

Date: August 3, 2022

By: /s/ Allen Muhich
Name: Allen Muhich
Title: Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer)

FARO TECHNOLOGIES, INC.
2022 EQUITY INCENTIVE PLAN

SECTION 1. GENERAL PURPOSE OF THE PLAN; DEFINITIONS

The name of the plan is the Faro Technologies, Inc. 2022 Equity Incentive Plan (the “Plan”). The purpose of the Plan is to encourage and enable the officers, employees, Non-Employee Directors and Consultants of Faro Technologies, Inc. (the “Company”) and its Affiliates upon whose judgment, initiative and efforts the Company largely depends for the successful conduct of its business to acquire a proprietary interest in the Company. It is anticipated that providing such persons with a direct stake in the Company’s welfare will assure a closer identification of their interests with those of the Company and its stockholders, thereby stimulating their efforts on the Company’s behalf and strengthening their desire to remain with the Company.

The Plan is the successor to and continuation of the FARO Technologies, Inc. 2014 Stock Incentive Plan (the “2014 Plan”). From and after the Effective Date, no additional awards may be granted under the 2014 Plan. All outstanding awards granted under the 2014 Plan or the FARO Technologies, Inc. 2009 Equity Incentive Plan (the “2009 Plan” and, together with the 2014 Plan, the “Prior Plans”) will remain subject to the terms of the Prior Plans.

The following terms shall be defined as set forth below:

“*Act*” means the Securities Act of 1933, as amended, and the rules and regulations thereunder.

“*Administrator*” means either the Board or the compensation committee of the Board or a similar committee performing the functions of the compensation committee and which is comprised of not less than two Non-Employee Directors who are independent.

“*Affiliate*” means, at the time of determination, any “parent” or “subsidiary” of the Company as such terms are defined in Rule 405 of the Act. The Board will have the authority to determine the time or times at which “parent” or “subsidiary” status is determined within the foregoing definition.

“*Award*” or “*Awards*,” except where referring to a particular category of grant under the Plan, shall include Incentive Stock Options, Non-Qualified Stock Options, Stock Appreciation Rights, Restricted Stock Units, Restricted Stock Awards, Unrestricted Stock Awards, Cash-Based Awards, and Dividend Equivalent Rights.

“*Award Certificate*” means a written or electronic document setting forth the terms and provisions applicable to an Award granted under the Plan. Each Award Certificate is subject to the terms and conditions of the Plan.

“*Board*” means the Board of Directors of the Company.

“*Cash-Based Award*” means an Award entitling the recipient to receive a cash-denominated payment.

“*Cause*” as a reason for a grantee’s termination of employment shall have the meaning assigned such term in the employment, severance or similar agreement, if any, between such

grantee and the Company or an Affiliate, provided, however that if there is no such employment, severance or similar agreement in which such term is defined, and unless otherwise defined in the applicable Award Certificate, "Cause" shall mean any of the following acts by the grantee, as determined by the Administrator: (i) the failure of the grantee to perform substantially his duties with the Company and/or any Affiliate (excluding any such failure resulting from the grantee's disability) after a written demand for substantial performance is delivered to the grantee by or on behalf of the Board which identifies the manner in which the Board believes that the grantee has not substantially performed his duties and providing the grantee a minimum of 30 days to cure the identified deficiencies, (ii) the grantee engaging in illegal conduct or gross misconduct that is materially injurious to the Company or any Affiliate, (iii) the grantee engaging in conduct or misconduct that materially harms the reputation or financial position of the Company or any Affiliate, (iv) the grantee obstructing, impeding or failing to materially cooperate with an investigation authorized by the Board (provided that the grantee shall be given written notice and a reasonable opportunity to cure any alleged breach of this clause (iv)), (v) the grantee being convicted of, or pleading nolo contendere to, a felony or of a crime involving fraud, dishonesty, violence or moral turpitude, (vi) the grantee is found liable in any SEC or other civil or criminal securities law action, (vii) the grantee commits an act of fraud or embezzlement against the Company or any Affiliate, or (viii) the grantee accepting a bribe or kickback. The determination of the Committee as to the existence of "Cause" shall be conclusive on the grantee and the Company.

"Code" means the Internal Revenue Code of 1986, as amended, and any successor Code, and related rules, regulations and interpretations.

"Consultant" means a consultant or adviser who provides *bona fide* services to the Company or an Affiliate as an independent contractor and who qualifies as a consultant or advisor under Instruction A.1.(a)(1) of Form S-8 under the Act.

"Dividend Equivalent Right" means an Award entitling the grantee to receive credits based on cash dividends that would have been paid on the shares of Stock specified in the Dividend Equivalent Right (or other award to which it relates) if such shares had been issued to and held by the grantee.

"Effective Date" means the date on which the Plan becomes effective as set forth in Section 19.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder.

"Fair Market Value" of the Stock on any given date means the fair market value of the Stock determined in good faith by the Administrator; provided, however, that if the Stock is listed on the National Association of Securities Dealers Automated Quotation System ("NASDAQ"), NASDAQ Global Market, The New York Stock Exchange or another national securities exchange or traded on any established market, the determination shall be made by reference to market quotations. If there are no market quotations for such date, the determination shall be made by reference to the last date preceding such date for which there are market quotations.

"Full Value Award" means an Award other than in the form of a Stock Option or Stock Appreciation Right, and which is settled by the issuance of Stock (or at the discretion of the Administrator, settled in cash valued by reference to Stock value).

“*Good Reason*” (or a similar term denoting constructive termination) has the meaning, if any, assigned such term in the employment, consulting, severance or similar agreement, if any, between a Participant and the Company or an Affiliate; provided, however, that if there is no such employment, consulting, severance or similar agreement in which such term is defined, “*Good Reason*” shall have the meaning, if any, given such term in the applicable Award Certificate. If not defined in either such document, the term “*Good Reason*” as used herein shall not apply to a particular Award.

“*Incentive Stock Option*” means any Stock Option designated and qualified as an “incentive stock option” as defined in Section 422 of the Code.

“*Minimum Vesting Period*” means the one-year period following the date of grant of an Award.

“*Non-Employee Director*” means a member of the Board who is not also an employee of the Company or any Subsidiary.

“*Non-Qualified Stock Option*” means any Stock Option that is not an Incentive Stock Option.

“*Option*” or “*Stock Option*” means any option to purchase shares of Stock granted pursuant to Section 5.

“*Restricted Shares*” means the shares of Stock underlying a Restricted Stock Award that remain subject to a risk of forfeiture or the Company’s right of repurchase.

“*Restricted Stock Award*” means an Award of Restricted Shares subject to such restrictions and conditions as the Administrator may determine at the time of grant.

“*Restricted Stock Units*” means an Award of stock units subject to such restrictions and conditions as the Administrator may determine at the time of grant.

“*Sale Event*” shall mean (i) the sale of all or substantially all of the assets of the Company on a consolidated basis to an unrelated person or entity, (ii) a merger, reorganization or consolidation pursuant to which the holders of the Company’s outstanding voting power and outstanding stock immediately prior to such transaction do not own a majority of the outstanding voting power and outstanding stock or other equity interests of the resulting or successor entity (or its ultimate parent, if applicable) immediately upon completion of such transaction, (iii) the sale of all of the Stock of the Company to an unrelated person, entity or group thereof acting in concert, (iv) any other transaction in which the owners of the Company’s outstanding voting power immediately prior to such transaction do not own at least a majority of the outstanding voting power of the Company or any successor entity immediately upon completion of the transaction other than as a result of the acquisition of securities directly from the Company; or (v) individuals who, as of the Effective Date, constitute the Board (the “*Incumbent Directors*”) cease for any reason to constitute at least a majority of the Board or other governing body or entity of the Company, its successor or survivor, provided that any person becoming a director subsequent to the Effective Date but prior to any Sale Event, whose election or nomination for election was approved or recommended by a vote of a majority of the Incumbent Directors then on the Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director, without written objection to such nomination), shall be an Incumbent Director; provided, however, that no individual initially elected or nominated as a director of the Company as a result of an actual or threatened election contest with respect to directors or as a result of any other actual or threatened solicitation of

proxies or consents by or on behalf of any person other than the Board shall be deemed to be an Incumbent Director.

“*Sale Price*” means the value as determined by the Administrator of the consideration payable, or otherwise to be received by stockholders, per share of Stock pursuant to a Sale Event.

“*Section 409A*” means Section 409A of the Code and the regulations and other guidance promulgated thereunder.

“*Service Relationship*” means any relationship as an employee, director or Consultant of the Company or any Affiliate (e.g., a Service Relationship shall be deemed to continue without interruption in the event an individual’s status changes from full-time employee to part-time employee or Consultant).

“*Stock*” means the Common Stock, par value \$0.001 per share, of the Company, subject to adjustments pursuant to Section 3.

“*Stock Appreciation Right*” means an Award entitling the recipient to receive shares of Stock (or cash, to the extent explicitly provided for in the applicable Award Certificate) having a value equal to the excess of the Fair Market Value of the Stock on the date of exercise over the exercise price of the Stock Appreciation Right multiplied by the number of shares of Stock with respect to which the Stock Appreciation Right shall have been exercised.

“*Subsidiary*” means any corporation or other entity (other than the Company) in which the Company has at least a 50 percent interest, either directly or indirectly.

“*Substitute Award*” means an Award granted under the Plan in connection with a corporate transaction, such as a merger, combination, consolidation or acquisition of property or stock, in any case, upon the assumption of, or in substitution for, outstanding equity awards previously granted by a company or other entity; provided, however, that in no event shall the term “Substitute Award” be construed to refer to an award made in connection with the cancellation and repricing of an Option or Stock Appreciation Right.

“*Ten Percent Owner*” means an employee who owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than 10 percent of the combined voting power of all classes of stock of the Company or any parent or subsidiary corporation.

“*Unrestricted Stock Award*” means an Award of shares of Stock free of any restrictions.

SECTION 2. ADMINISTRATION OF PLAN; ADMINISTRATOR AUTHORITY TO SELECT GRANTEES AND DETERMINE AWARDS

(a) Administration of Plan. The Plan shall be administered by the Administrator.

(b) Powers of Administrator. The Administrator shall have the power and authority to grant Awards consistent with the terms of the Plan, including the power and authority:

(i) to select the individuals to whom Awards may from time to time be granted;

(ii) to determine the time or times of grant, and the extent, if any, of Incentive Stock Options, Non-Qualified Stock Options, Stock Appreciation Rights, Restricted Stock Awards, Restricted Stock Units, Unrestricted Stock Awards, Cash-Based Awards, and Dividend Equivalent Rights, or any combination of the foregoing, granted to any one or more grantees;

- (iii) to determine the number of shares of Stock to be covered by any Award;
- (iv) to determine and modify from time to time the terms and conditions, including restrictions, not inconsistent with the terms of the Plan, of any Award, which terms and conditions may differ among individual Awards and grantees, and to approve the forms of Award Certificates;
- (v) to accelerate at any time the exercisability or vesting of all or any portion of any Award;
- (vi) subject to the provisions of Section 5(c), to extend at any time the period in which Stock Options may be exercised; and
- (vii) at any time to adopt, alter and repeal such rules, guidelines and practices for administration of the Plan and for its own acts and proceedings as it shall deem advisable; to interpret the terms and provisions of the Plan and any Award (including related written instruments); to make all determinations it deems advisable for the administration of the Plan; to decide all disputes arising in connection with the Plan; and to otherwise supervise the administration of the Plan.

All decisions and interpretations of the Administrator shall be binding on all persons, including the Company and Plan grantees.

(c) Delegation of Authority to Grant Awards. Subject to applicable law, the Administrator, in its discretion, may delegate to a committee consisting of one or more officers of the Company including the Chief Executive Officer of the Company all or part of the Administrator's authority and duties with respect to the granting of Awards to individuals who are (i) not subject to the reporting and other provisions of Section 16 of the Exchange Act and (ii) not members of the delegated committee. Any such delegation by the Administrator shall include a limitation as to the amount of Stock underlying Awards that may be granted during the period of the delegation and shall contain guidelines as to the determination of the exercise price and the vesting criteria. The Administrator may revoke or amend the terms of a delegation at any time but such action shall not invalidate any prior actions of the Administrator's delegate or delegates that were consistent with the terms of the Plan.

(d) Award Certificate. Awards under the Plan shall be evidenced by Award Certificates that set forth the terms, conditions and limitations for each Award which may include, without limitation, the term of an Award and the provisions applicable in the event employment or service terminates.

(e) Indemnification. Neither the Board nor the Administrator, nor any member of either or any delegate thereof, shall be liable for any act, omission, interpretation, construction or determination made in good faith in connection with the Plan, and the members of the Board and the Administrator (and any delegate thereof) shall be entitled in all cases to indemnification and reimbursement by the Company in respect of any claim, loss, damage or expense (including, without limitation, reasonable attorneys' fees) arising or resulting therefrom to the fullest extent permitted by law and/or under the Company's articles or bylaws or any directors' and officers' liability insurance coverage which may be in effect from time to time and/or any indemnification agreement between such individual and the Company.

(f) Foreign Award Recipients. Notwithstanding any provision of the Plan to the contrary, in order to comply with the laws in other countries in which the Company and its Subsidiaries operate or have employees or other individuals eligible for Awards, the Administrator, in its sole discretion, shall have the power and authority to: (i) determine which

Subsidiaries shall be covered by the Plan; (ii) determine which individuals outside the United States are eligible to participate in the Plan; (iii) modify the terms and conditions of any Award granted to individuals outside the United States to comply with applicable foreign laws; (iv) establish subplans and modify exercise procedures and other terms and procedures, to the extent the Administrator determines such actions to be necessary or advisable (and such subplans and/or modifications shall be attached to this Plan as appendices); provided, however, that no such subplans and/or modifications shall increase the share limitations contained in Section 3(a) hereof; and (v) take any action, before or after an Award is made, that the Administrator determines to be necessary or advisable to obtain approval or comply with any local governmental regulatory exemptions or approvals. Notwithstanding the foregoing, the Administrator may not take any actions hereunder, and no Awards shall be granted, that would violate the Exchange Act or any other applicable United States securities law, the Code, or any other applicable United States governing statute or law.

(g) Minimum Vesting Period. The vesting period for each Award granted under the Plan must be at least equal to the Minimum Vesting Period; provided, however, notwithstanding the foregoing, (i) up to five percent of the shares of Stock authorized for issuance under the Plan may be utilized for Unrestricted Stock Awards or other Awards with a vesting period that is less than the Minimum Vesting Period (each such Award, an "Excepted Award") and (ii) annual Awards to Non-Employee Directors that occur in connection with the Company's annual meeting of stockholders may vest on the earlier of the one-year anniversary of the date of grant or the date of the Company's next annual meeting of stockholders which is at least 50 weeks after the immediately preceding year's annual meeting. Notwithstanding the foregoing, (x) in addition to Excepted Awards, the Administrator may grant Awards that vest (or permit previously granted Awards to vest) within the Minimum Vesting Period (i) if such Awards are Substitute Awards that were scheduled to vest within the Minimum Vesting Period or (ii) if such Awards are being granted in lieu of fully vested cash compensation and (y) nothing in this Section 2(g) shall limit the Administrator's authority to provide for the accelerated vesting of Awards in the terms of an Award Certificate or as permitted in Section 2(b)(v) above.

SECTION 3. STOCK ISSUABLE UNDER THE PLAN; MERGERS; SUBSTITUTION

(h) Stock Issuable. The maximum number of shares of Stock reserved and available for issuance under the Plan shall be 750,000 shares, subject to adjustment as provided in this Section 3, plus (i) any shares that, as of the business day immediately prior to the Effective Date, have been reserved but not issued pursuant to any awards granted under the 2014 Plan and are not subject to any awards granted thereunder and (ii) any shares subject to stock options, restricted stock units, or similar awards granted under the Prior Plans that, on or after the Effective Date, expire or otherwise terminate without having been exercised in full or are forfeited to or repurchased by the Company due to failure to vest. For purposes of this limitation, (x) the shares of Stock underlying any awards under the Plan and under the Prior Plans that are forfeited, canceled or otherwise terminated (other than by exercise) shall be added back to the shares of Stock available for issuance under the Plan and, to the extent permitted under Section 422 of the Code and the regulations promulgated thereunder, the shares of Stock that may be issued as Incentive Stock Options and (y) each share of Stock underlying Full Value Awards granted under the Prior Plans that again become available as provided in this Section 3(b) shall increase the share reserve under this Section 3(a) by 1.7 shares of Stock. Notwithstanding the foregoing, the following shares shall not be added to the shares authorized for grant under the Plan: (i) shares tendered or held back upon exercise of an Option or settlement of an Award to cover the exercise price or tax withholding, and (ii) shares subject to a Stock Appreciation Right that are not issued in connection with the stock settlement of the Stock Appreciation Right upon exercise thereof. In the event the Company repurchases shares of Stock on the open market, such shares shall not be added to the shares of Stock available for issuance under the Plan. Subject to such overall limitations, shares of Stock may be issued up to such maximum number

pursuant to any type or types of Award; provided, however, that no more than 750,000 shares of the Stock may be issued in the form of Incentive Stock Options. The shares available for issuance under the Plan may be authorized but unissued shares of Stock or shares of Stock reacquired by the Company. Awards that may be settled solely in cash shall not be counted against the share reserve.

(i) Changes in Stock. Subject to Section 3(c) hereof, if, as a result of any reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or other similar change in the Company's capital stock, the outstanding shares of Stock are increased or decreased or are exchanged for a different number or kind of shares or other securities of the Company, or additional shares or new or different shares or other securities of the Company or other non-cash assets are distributed with respect to such shares of Stock or other securities, or, if, as a result of any merger or consolidation, sale of all or substantially all of the assets of the Company, the outstanding shares of Stock are converted into or exchanged for securities of the Company or any successor entity (or a parent or subsidiary thereof), the Administrator shall make an appropriate or proportionate adjustment in (i) the maximum number of shares reserved for issuance under the Plan, including the maximum number of shares that may be issued in the form of Incentive Stock Options, (ii) the number and kind of shares or other securities subject to any then outstanding Awards under the Plan, (iii) the repurchase price, if any, per share subject to each outstanding Restricted Stock Award, and (iv) the exercise price for each share subject to any then outstanding Stock Options and Stock Appreciation Rights under the Plan, without changing the aggregate exercise price (i.e., the exercise price multiplied by the number of shares subject to Stock Options and Stock Appreciation Rights) as to which such Stock Options and Stock Appreciation Rights remain exercisable. The Administrator shall also make equitable or proportionate adjustments in the number of shares subject to outstanding Awards and the exercise price and the terms of outstanding Awards to take into consideration cash dividends paid other than in the ordinary course or any other extraordinary corporate event. The adjustment by the Administrator shall be final, binding and conclusive. No fractional shares of Stock shall be issued under the Plan resulting from any such adjustment, but the Administrator in its discretion may make a cash payment in lieu of fractional shares.

(j) Mergers and Other Transactions. In the case of and subject to the consummation of a Sale Event, the parties thereto may cause the assumption or continuation of Awards theretofore granted by the successor entity, or the substitution of such Awards with new Awards of the successor entity or parent thereof, with appropriate adjustment as to the number and kind of shares and, if appropriate, the per share exercise prices, as such parties shall agree. To the extent the parties to such Sale Event do not provide for the assumption, continuation or substitution of Awards, upon the effective time of the Sale Event, the Plan and all outstanding Awards granted hereunder shall terminate. In such case, except as may be otherwise provided in the relevant Award Certificate, (i) all Options and Stock Appreciation Rights with time-based vesting conditions or restrictions that are not vested and/or exercisable immediately prior to the effective time of the Sale Event shall become fully vested and exercisable as of the effective time of the Sale Event, (ii) all other Awards with time-based vesting, conditions or restrictions shall become fully vested and nonforfeitable as of the effective time of the Sale Event, and (iii) the target payout opportunities attainable under outstanding performance-based Awards shall be deemed to have been fully earned as of the effective date of the Sale Event based upon the actual level of achievement of all relevant performance goals against target measured as of the date of the Sale Event, and there shall be a payout to grantees within sixty (60) days following the Sale Event (unless a later date is required by Section 409A). In the event of such termination, (i) the Company shall have the option (in its sole discretion) to make or provide for a payment, in cash or in kind, to the grantees holding Options and Stock Appreciation Rights, in exchange for the cancellation thereof, in an amount equal to the difference between (A) the Sale Price multiplied by the number of shares of Stock subject to outstanding Options and Stock Appreciation Rights (to the extent then exercisable at prices not in excess of the Sale Price) and (B) the aggregate

exercise price of all such outstanding Options and Stock Appreciation Rights (provided that, in the case of an Option or Stock Appreciation Right with an exercise price equal to or greater than the Sale Price, such Option or Stock Appreciation Right shall be cancelled for no consideration); or (ii) each grantee shall be permitted, within a specified period of time prior to the consummation of the Sale Event as determined by the Administrator, to exercise all outstanding Options and Stock Appreciation Rights (to the extent then exercisable) held by such grantee. The Company shall also have the option (in its sole discretion) to make or provide for a payment, in cash or in kind, to the grantees holding other Awards in an amount equal to the Sale Price multiplied by the number of vested shares of Stock under such Awards.

With respect to Awards assumed by the successor entity or otherwise equitably continued or substituted in connection with a Sale Event: if within one year after the effective date of the Sale Event, a grantee's employment is terminated without Cause or the grantee resigns for Good Reason, then (i) all of that grantee's outstanding Options or Stock Appreciation Rights shall become fully exercisable, (ii) all time-based vesting restrictions on the his or her outstanding Awards shall lapse, and (iii) the payout level under all of that grantee's performance-based Awards that were outstanding immediately prior to effective time of the Sale Event shall be determined and deemed to have been earned as of the date of termination based upon the actual level of achievement of all relevant performance goals against target (measured as of the end of the calendar quarter immediately preceding the date of termination), and there shall be a payout to such grantee within sixty (60) days following the date of termination of employment (unless a later date is required under Section 409A). With regard to each Award, a grantee shall not be considered to have resigned for Good Reason unless either (i) the Award Certificate includes such provision or (ii) the grantee is party to an employment, severance or similar agreement with the Company or an Affiliate that includes provisions in which the grantee is permitted to resign for Good Reason. Any Options or Stock Appreciation Rights shall thereafter continue or lapse in accordance with the other provisions of the Plan and the Award.

(k) Maximum Awards to Non-Employee Directors. Notwithstanding anything to the contrary in this Plan, the value of all Awards awarded under this Plan and all other cash compensation paid by the Company to any Non-Employee Director in any calendar year shall not exceed \$750,000; provided, however that such amount shall be \$1,500,000 for the calendar year in which the applicable Non-Employee Director is initially elected or appointed to the Board. For the purpose of this limitation, the value of any Award shall be its grant date fair value, as determined in accordance with ASC 718 or successor provision but excluding the impact of estimated forfeitures related to service-based vesting provisions.

(l) Substitute Awards. Substitute Awards may be granted on such terms as the Administrator deems appropriate, notwithstanding limitations on Awards in the Plan. Substitute Awards shall not reduce the shares of Stock authorized for grant under the Plan, except as may be required by reason of Code Section 422, and shares of Stock subject to such Substitute Awards shall not be added to the shares of Stock available for Awards under the Plan as provided in Section 3(a) above. Additionally, in the event that a company acquired by the Company or any Subsidiary or with which the Company or any Subsidiary combines has shares available under a pre-existing plan approved by its stockholders and not adopted in contemplation of such acquisition or combination, the shares available for grant pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the holders of common stock of the entities party to such acquisition or combination) may, if allowed under applicable law, be used for Awards under the Plan and shall not reduce the shares of Stock authorized for grant under the Plan (and shares of Stock subject to such Awards shall not be added to the shares of Stock available for Awards under the Plan as provided in Section 3(a) above); provided that Awards using such available shares of Stock shall not be made after the date awards or grants could have been made under the terms of the pre-

existing plan, absent the acquisition or combination, and shall only be made to individuals who were not employed by or providing services to the Company or its Subsidiaries immediately prior to such acquisition or combination.

SECTION 4. ELIGIBILITY

Grantees under the Plan will be such employees, Non-Employee Directors or Consultants of the Company and its Affiliates as are selected from time to time by the Administrator in its sole discretion; provided that Awards may not be granted to employees, Directors or Consultants who are providing services only to any “parent” of the Company, as such term is defined in Rule 405 of the Act, unless (i) the stock underlying the Awards is treated as “service recipient stock” under Section 409A or (ii) the Company has determined that such Awards are exempt from or otherwise comply with Section 409A.

SECTION 5. STOCK OPTIONS

(m) Award of Stock Options. The Administrator may grant Stock Options under the Plan. Any Stock Option granted under the Plan shall be in such form as the Administrator may from time to time approve.

Stock Options granted under the Plan may be either Incentive Stock Options or Non-Qualified Stock Options. Incentive Stock Options may be granted only to employees of the Company or any Subsidiary that is a “subsidiary corporation” within the meaning of Section 424(f) of the Code. To the extent that any Option does not qualify as an Incentive Stock Option, it shall be deemed a Non-Qualified Stock Option.

Stock Options granted pursuant to this Section 5 shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Administrator shall deem desirable. If the Administrator so determines, Stock Options may be granted in lieu of cash compensation at the optionee’s election, subject to such terms and conditions as the Administrator may establish.

(n) Exercise Price. The exercise price per share for the Stock covered by a Stock Option granted pursuant to this Section 5 shall be determined by the Administrator at the time of grant but shall not be less than 100 percent of the Fair Market Value on the date of grant. In the case of an Incentive Stock Option that is granted to a Ten Percent Owner, the exercise price of such Incentive Stock Option shall be not less than 110 percent of the Fair Market Value on the grant date. Notwithstanding the foregoing, Stock Options may be granted with an exercise price per share that is less than 100 percent of the Fair Market Value on the date of grant (i) pursuant to a transaction described in, and in a manner consistent with, Section 424(a) of the Code, (ii) to individuals who are not subject to U.S. income tax on the date of grant or (iii) the Stock Option is otherwise compliant with Section 409A.

(o) Option Term. The term of each Stock Option shall be fixed by the Administrator, but no Stock Option shall be exercisable more than ten years after the date the Stock Option is granted. In the case of an Incentive Stock Option that is granted to a Ten Percent Owner, the term of such Stock Option shall be no more than five years from the date of grant.

(p) Exercisability; Rights of a Stockholder; No Dividend Equivalents. Stock Options shall become exercisable at such time or times, whether or not in installments, as shall be determined by the Administrator at or after the grant date. Subject to Section 2(b)(v), the Administrator may at any time accelerate the exercisability of all or any portion of any Stock Option. An optionee shall have the rights of a stockholder only as to shares acquired upon the

exercise of a Stock Option and not as to unexercised Stock Options. No Stock Option shall provide for Dividend Equivalent Rights.

(q) Method of Exercise. Stock Options may be exercised in whole or in part, by giving written or electronic notice of exercise to the Company, specifying the number of shares to be purchased. Payment of the purchase price may be made by one or more of the following methods except to the extent otherwise provided in the Award Certificate:

(i) In cash, by certified or bank check or other instrument acceptable to the Administrator;

(ii) Through the delivery (or attestation to the ownership following such procedures as the Company may prescribe) of shares of Stock that are not then subject to restrictions under any Company plan. Such surrendered shares shall be valued at Fair Market Value on the exercise date;

(iii) By the optionee delivering to the Company a properly executed exercise notice together with irrevocable instructions to a broker to promptly deliver to the Company cash or a check payable and acceptable to the Company for the purchase price; provided that in the event the optionee chooses to pay the purchase price as so provided, the optionee and the broker shall comply with such procedures and enter into such agreements of indemnity and other agreements as the Company shall prescribe as a condition of such payment procedure; or

(iv) With respect to Stock Options that are not Incentive Stock Options, by a “net exercise” arrangement pursuant to which the Company will reduce the number of shares of Stock issuable upon exercise by the largest whole number of shares with a Fair Market Value that does not exceed the aggregate exercise price.

Payment instruments will be received subject to collection. The transfer to the optionee on the records of the Company or of the transfer agent of the shares of Stock to be purchased pursuant to the exercise of a Stock Option will be contingent upon receipt from the optionee (or a purchaser acting in his stead in accordance with the provisions of the Stock Option) by the Company of the full purchase price for such shares and the fulfillment of any other requirements contained in the Award Certificate or applicable provisions of laws (including the satisfaction of any withholding taxes that the Company is obligated to withhold with respect to the optionee). In the event an optionee chooses to pay the purchase price by previously-owned shares of Stock through the attestation method, the number of shares of Stock transferred to the optionee upon the exercise of the Stock Option shall be net of the number of attested shares. In the event that the Company establishes, for itself or using the services of a third party, an automated system for the exercise of Stock Options, such as a system using an internet website or interactive voice response, then the paperless exercise of Stock Options may be permitted through the use of such an automated system.

(r) Annual Limit on Incentive Stock Options. To the extent required for “incentive stock option” treatment under Section 422 of the Code, the aggregate Fair Market Value (determined as of the time of grant) of the shares of Stock with respect to which Incentive Stock Options granted under this Plan and any other plan of the Company or its parent and subsidiary corporations become exercisable for the first time by an optionee during any calendar year shall not exceed \$100,000. To the extent that any Stock Option exceeds this limit, it shall constitute a Non-Qualified Stock Option.

SECTION 6. STOCK APPRECIATION RIGHTS

(s) Award of Stock Appreciation Rights. The Administrator may grant Stock Appreciation Rights under the Plan. A Stock Appreciation Right is an Award entitling the recipient to receive shares of Stock (or cash, to the extent explicitly provided for in the applicable Award Certificate) having a value equal to the excess of the Fair Market Value of a share of Stock on the date of exercise over the exercise price of the Stock Appreciation Right multiplied by the number of shares of Stock with respect to which the Stock Appreciation Right shall have been exercised.

(t) Exercise Price of Stock Appreciation Rights. The exercise price of a Stock Appreciation Right shall not be less than 100 percent of the Fair Market Value of the Stock on the date of grant.

(u) Grant and Exercise of Stock Appreciation Rights. Stock Appreciation Rights may be granted by the Administrator independently of any Stock Option granted pursuant to Section 5 of the Plan.

(v) Terms and Conditions of Stock Appreciation Rights. Stock Appreciation Rights shall be subject to such terms and conditions as shall be determined on the date of grant by the Administrator. The term of a Stock Appreciation Right may not exceed ten years. The terms and conditions of each such Award shall be determined by the Administrator, and such terms and conditions may differ among individual Awards and grantees.

(w) No Dividend Equivalents. No Stock Appreciation Rights shall provide for Dividend Equivalent Rights.

SECTION 7. RESTRICTED STOCK AWARDS

(x) Nature of Restricted Stock Awards. The Administrator may grant Restricted Stock Awards under the Plan. A Restricted Stock Award is any Award of Restricted Shares subject to such restrictions and conditions as the Administrator may determine at the time of grant. Conditions may be based on continuing employment (or other Service Relationship) and/or achievement of pre-established performance goals and objectives.

(y) Rights as a Stockholder. Upon the grant of the Restricted Stock Award and payment of any applicable purchase price, a grantee shall have the rights of a stockholder with respect to the voting of the Restricted Shares and receipt of dividends; provided that if the lapse of restrictions with respect to the Restricted Stock Award is tied to the attainment of vesting conditions, any dividends paid by the Company during the vesting period shall accrue and shall not be paid to the grantee until and to the extent the vesting conditions are met with respect to the Restricted Stock Award. Unless the Administrator shall otherwise determine, (i) uncertificated Restricted Shares shall be accompanied by a notation on the records of the Company or the transfer agent to the effect that they are subject to forfeiture until such Restricted Shares are vested as provided in Section 7(d) below, and (ii) certificated Restricted Shares shall remain in the possession of the Company until such Restricted Shares are vested as provided in Section 7(d) below, and the grantee shall be required, as a condition of the grant, to deliver to the Company such instruments of transfer as the Administrator may prescribe.

(z) Restrictions. Restricted Shares may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of except as specifically provided herein or in the Restricted Stock Award Certificate. Except as may otherwise be provided by the Administrator either in the Award Certificate or, subject to Section 16 below, in writing after the Award is issued, if a grantee's employment (or other Service Relationship) with the Company and its Subsidiaries

terminates for any reason, any Restricted Shares that have not vested at the time of termination shall automatically and without any requirement of notice to such grantee from or other action by or on behalf of, the Company be deemed to have been reacquired by the Company at its original purchase price (if any) from such grantee or such grantee's legal representative simultaneously with such termination of employment (or other Service Relationship), and thereafter shall cease to represent any ownership of the Company by the grantee or rights of the grantee as a stockholder. Following such deemed reacquisition of Restricted Shares that are represented by physical certificates, a grantee shall surrender such certificates to the Company upon request without consideration.

(aa) Vesting of Restricted Shares. The Administrator at the time of grant shall specify the date or dates and/or the attainment of pre-established performance goals, objectives and other conditions on which the non-transferability of the Restricted Shares and the Company's right of repurchase or forfeiture shall lapse. Subsequent to such date or dates and/or the attainment of such pre-established performance goals, objectives and other conditions, the shares on which all restrictions have lapsed shall no longer be Restricted Shares and shall be deemed "vested."

SECTION 8. RESTRICTED STOCK UNITS

(ab) Nature of Restricted Stock Units. The Administrator may grant Restricted Stock Units under the Plan. A Restricted Stock Unit is an Award of stock units that may be settled in shares of Stock (or cash, to the extent explicitly provided for in the Award Certificate) upon the satisfaction of such restrictions and conditions at the time of grant. Conditions may be based on continuing employment (or other Service Relationship) and/or achievement of pre-established performance goals and objectives. The terms and conditions of each such Award shall be determined by the Administrator, and such terms and conditions may differ among individual Awards and grantees. Except in the case of Restricted Stock Units with a deferred settlement date that complies with Section 409A, at the end of the vesting period, the Restricted Stock Units, to the extent vested, shall be settled in the form of shares of Stock. Restricted Stock Units with deferred settlement dates are subject to Section 409A and shall contain such additional terms and conditions as the Administrator shall determine in its sole discretion in order to comply with the requirements of Section 409A.

(ac) Election to Receive Restricted Stock Units in Lieu of Compensation. The Administrator may, in its sole discretion, permit a grantee to elect to receive a portion of future cash compensation otherwise due to such grantee in the form of an award of Restricted Stock Units. Any such election shall be made in writing and shall be delivered to the Company no later than the date specified by the Administrator and in accordance with Section 409A and such other rules and procedures established by the Administrator. Any such future cash compensation that the grantee elects to defer shall be converted to a fixed number of Restricted Stock Units based on the Fair Market Value of Stock on the date the compensation would otherwise have been paid to the grantee if such payment had not been deferred as provided herein. The Administrator shall have the sole right to determine whether and under what circumstances to permit such elections and to impose such limitations and other terms and conditions thereon as the Administrator deems appropriate. Any Restricted Stock Units that are elected to be received in lieu of cash compensation shall be fully vested, unless otherwise provided in the Award Certificate.

(ad) Rights as a Stockholder. A grantee shall have the rights as a stockholder only as to shares of Stock acquired by the grantee upon settlement of Restricted Stock Units; provided, however, that the grantee may be credited with Dividend Equivalent Rights with respect to the stock units underlying his Restricted Stock Units, subject to the provisions of Section 11 and such terms and conditions as the Administrator may determine.

(ae) Termination. Except as may otherwise be provided by the Administrator either in the Award Certificate or, subject to Section 16 below, in writing after the Award is issued, a grantee's right in all Restricted Stock Units that have not vested shall automatically terminate upon the grantee's termination of employment (or cessation of Service Relationship) with the Company and its Subsidiaries for any reason.

SECTION 9. UNRESTRICTED STOCK AWARDS

Grant or Sale of Unrestricted Stock. The Administrator may grant (or sell at par value or such higher purchase price determined by the Administrator) an Unrestricted Stock Award under the Plan. An Unrestricted Stock Award is an Award pursuant to which the grantee may receive shares of Stock free of any restrictions under the Plan. Unrestricted Stock Awards may be granted in respect of past services or other valid consideration, or in lieu of cash compensation due to such grantee.

SECTION 10. CASH-BASED AWARDS

Grant of Cash-Based Awards. The Administrator may grant Cash-Based Awards under the Plan. A Cash-Based Award is an Award that entitles the grantee to a payment in cash upon the attainment of specified performance goals. The Administrator shall determine the maximum duration of the Cash-Based Award, the amount of cash to which the Cash-Based Award pertains, the conditions upon which the Cash-Based Award shall become vested or payable, and such other provisions as the Administrator shall determine. Each Cash-Based Award shall specify a cash-denominated payment amount, formula or payment ranges as determined by the Administrator. Payment, if any, with respect to a Cash-Based Award shall be made in accordance with the terms of the Award and may be made in cash.

SECTION 11. DIVIDEND EQUIVALENT RIGHTS

(af) Dividend Equivalent Rights. The Administrator may grant Dividend Equivalent Rights under the Plan. A Dividend Equivalent Right is an Award entitling the grantee to receive credits based on cash dividends that would have been paid on the shares of Stock specified in the Dividend Equivalent Right (or other Award to which it relates) if such shares had been issued to the grantee. A Dividend Equivalent Right may be granted hereunder to any grantee as a component of an award of Restricted Stock Units or as a freestanding award. The terms and conditions of Dividend Equivalent Rights shall be specified in the Award Certificate. Dividend equivalents credited to the holder of a Dividend Equivalent Right may be paid currently or may be deemed to be reinvested in additional shares of Stock, which may thereafter accrue additional equivalents. Any such reinvestment shall be at Fair Market Value on the date of reinvestment or such other price as may then apply under a dividend reinvestment plan sponsored by the Company, if any. Dividend Equivalent Rights may be settled in cash or shares of Stock or a combination thereof, in a single installment or installments. A Dividend Equivalent Right granted as a component of an Award of Restricted Stock Units shall provide that such Dividend Equivalent Right shall be settled only upon settlement or payment of, or lapse of restrictions on, such other Award, and that such Dividend Equivalent Right shall expire or be forfeited or annulled under the same conditions as such other Award. Notwithstanding anything herein to the contrary and for the avoidance of doubt, (i) in no event shall Dividend Equivalents granted as a component of an award of Restricted Stock Units or dividends accrued with respect to Restricted Stock be paid or distributed until the vesting provisions of the underlying Award are fulfilled and (ii) in no event shall any Stock Options or Stock Appreciation Rights provide for any Dividend Equivalent Rights.

(ag) Termination. Except as may otherwise be provided by the Administrator either in the Award Certificate or, subject to Section 16 below, in writing after the Award is issued, a

grantee's rights in all Dividend Equivalent Rights shall automatically terminate upon the grantee's termination of employment (or cessation of Service Relationship) with the Company and its Subsidiaries for any reason.

SECTION 12. TRANSFERABILITY OF AWARDS

(ah) Transferability. Except as provided in Section 12(b) below, during a grantee's lifetime, his or her Awards shall be exercisable only by the grantee, or by the grantee's legal representative or guardian in the event of the grantee's incapacity. No Awards shall be sold, assigned, transferred or otherwise encumbered or disposed of by a grantee other than by will or by the laws of descent and distribution or pursuant to a domestic relations order. No Awards shall be subject, in whole or in part, to attachment, execution, or levy of any kind, and any purported transfer in violation hereof shall be null and void.

(ai) Administrator Action. Notwithstanding Section 12(a), the Administrator, in its discretion, may provide either in the Award Certificate regarding a given Award or by subsequent written approval that the grantee (who is an employee or director) may transfer his or her Non-Qualified Stock Options to his or her immediate family members, to trusts for the benefit of such family members, or to partnerships in which such family members are the only partners, provided that the transferee agrees in writing with the Company to be bound by all of the terms and conditions of this Plan and the applicable Award. In no event may an Award be transferred by a grantee for value.

(aj) Family Member. For purposes of Section 12(b), "family member" shall mean a grantee's child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships, any person sharing the grantee's household (other than a tenant of the grantee), a trust in which these persons (or the grantee) have more than 50 percent of the beneficial interest, a foundation in which these persons (or the grantee) control the management of assets, and any other entity in which these persons (or the grantee) own more than 50 percent of the voting interests.

(ak) Designation of Beneficiary. To the extent permitted by the Company, each grantee to whom an Award has been made under the Plan may designate a beneficiary or beneficiaries to exercise any Award or receive any payment under any Award payable on or after the grantee's death. Any such designation shall be on a form provided for that purpose by the Administrator and shall not be effective until received by the Administrator. If no beneficiary has been designated by a deceased grantee, or if the designated beneficiaries have predeceased the grantee, the beneficiary shall be the grantee's estate.

SECTION 13. TAX WITHHOLDING

(al) Payment by Grantee. Each grantee shall, no later than the date as of which the value of an Award or of any Stock or other amounts received thereunder first becomes includable in the gross income of the grantee for Federal income tax purposes, pay to the Company, or make arrangements satisfactory to the Administrator regarding payment of, any Federal, state, or local taxes of any kind required by law to be withheld by the Company with respect to such income. The Company and its Subsidiaries shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the grantee. The Company's obligation to deliver evidence of book entry (or stock certificates) to any grantee is subject to and conditioned on tax withholding obligations being satisfied by the grantee.

(am) Payment in Stock. The Administrator may require the Company's tax withholding obligation to be satisfied, in whole or in part, by the Company withholding from

shares of Stock to be issued pursuant to any Award a number of shares with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due; provided, however, that the amount withheld does not exceed the maximum statutory tax rate or such lesser amount as is necessary to avoid liability accounting treatment. For purposes of share withholding, the Fair Market Value of withheld shares shall be determined in the same manner as the value of Stock includible in income of the grantees. The Administrator may also require the Company's tax withholding obligation to be satisfied, in whole or in part, by an arrangement whereby a certain number of shares of Stock issued pursuant to any Award are immediately sold and proceeds from such sale are remitted to the Company in an amount that would satisfy the withholding amount due.

SECTION 14. SECTION 409A AWARDS

Awards are intended to be exempt from Section 409A to the greatest extent possible and to otherwise comply with Section 409A. The Plan and all Awards shall be interpreted in accordance with such intent. To the extent that any Award is determined to constitute "nonqualified deferred compensation" within the meaning of Section 409A (a "409A Award"), the Award shall be subject to such additional rules and requirements as specified by the Administrator from time to time in order to comply with Section 409A. In this regard, if any amount under a 409A Award is payable upon a "separation from service" (within the meaning of Section 409A) to a grantee who is then considered a "specified employee" (within the meaning of Section 409A), then no such payment shall be made prior to the date that is the earlier of (i) six months and one day after the grantee's separation from service, or (ii) the grantee's death, but only to the extent such delay is necessary to prevent such payment from being subject to interest, penalties and/or additional tax imposed pursuant to Section 409A. Further, the settlement of any 409A Award may not be accelerated except to the extent permitted by Section 409A.

SECTION 15. TERMINATION OF SERVICE RELATIONSHIP, TRANSFER, LEAVE OF ABSENCE, ETC.

(an) Termination of Service Relationship. If the grantee's Service Relationship is with an Affiliate and such Affiliate ceases to be an Affiliate, the grantee shall be deemed to have terminated his or her Service Relationship for purposes of the Plan.

(ao) For purposes of the Plan, the following events shall not be deemed a termination of a Service Relationship:

- (i) a transfer to the employment of the Company from an Affiliate or from the Company to an Affiliate, or from one Affiliate to another; or
- (ii) an approved leave of absence for military service or sickness, or for any other purpose approved by the Company, if the employee's right to re-employment is guaranteed either by a statute or by contract or under the policy pursuant to which the leave of absence was granted or if the Administrator otherwise so provides in writing.

SECTION 16. AMENDMENTS AND TERMINATION

The Board may, at any time, amend or discontinue the Plan and the Administrator may, at any time, amend or cancel any outstanding Award for the purpose of satisfying changes in law or for any other lawful purpose, but no such action shall materially and adversely affect rights under any outstanding Award without the holder's consent. Except as provided in Section 3(b) or 3(c), without prior stockholder approval, in no event may the Administrator exercise its discretion to reduce the exercise price of outstanding Stock Options or Stock Appreciation Rights or effect repricing through cancellation and re-grants or cancellation of Stock Options or Stock

Appreciation Rights in exchange for cash or other Awards. To the extent required under the rules of any securities exchange or market system on which the Stock is listed, to the extent determined by the Administrator to be required by the Code to ensure that Incentive Stock Options granted under the Plan are qualified under Section 422 of the Code, Plan amendments shall be subject to approval by Company stockholders. Nothing in this Section 16 shall limit the Administrator's authority to take any action permitted pursuant to Section 3(b) or 3(c).

SECTION 17. STATUS OF PLAN

With respect to the portion of any Award that has not been exercised and any payments in cash, Stock or other consideration not received by a grantee, a grantee shall have no rights greater than those of a general creditor of the Company unless the Administrator shall otherwise expressly determine in connection with any Award or Awards. In its sole discretion, the Administrator may authorize the creation of trusts or other arrangements to meet the Company's obligations to deliver Stock or make payments with respect to Awards hereunder, provided that the existence of such trusts or other arrangements is consistent with the foregoing sentence.

SECTION 18. GENERAL PROVISIONS

(a) No Distribution. The Administrator may require each person acquiring Stock pursuant to an Award to represent to and agree with the Company in writing that such person is acquiring the shares without a view to distribution thereof.

(b) Issuance of Stock. To the extent certificated, stock certificates to grantees under this Plan shall be deemed delivered for all purposes when the Company or a stock transfer agent of the Company shall have mailed such certificates in the United States mail, addressed to the grantee, at the grantee's last known address on file with the Company. Uncertificated Stock shall be deemed delivered for all purposes when the Company or a Stock transfer agent of the Company shall have given to the grantee by electronic mail (with proof of receipt) or by United States mail, addressed to the grantee, at the grantee's last known address on file with the Company, notice of issuance and recorded the issuance in its records (which may include electronic "book entry" records). Notwithstanding anything herein to the contrary, the Company shall not be required to issue or deliver any evidence of book entry or certificates evidencing shares of Stock pursuant to the exercise or settlement of any Award, unless and until the Administrator has determined, with advice of counsel (to the extent the Administrator deems such advice necessary or advisable), that the issuance and delivery is in compliance with all applicable laws, regulations of governmental authorities and, if applicable, the requirements of any exchange on which the shares of Stock are listed, quoted or traded. Any Stock issued pursuant to the Plan shall be subject to any stop-transfer orders and other restrictions as the Administrator deems necessary or advisable to comply with federal, state or foreign jurisdiction, securities or other laws, rules and quotation system on which the Stock is listed, quoted or traded. The Administrator may place legends on any Stock certificate or notations on any book entry to reference restrictions applicable to the Stock. In addition to the terms and conditions provided herein, the Administrator may require that an individual make such reasonable covenants, agreements, and representations as the Administrator, in its discretion, deems necessary or advisable in order to comply with any such laws, regulations, or requirements. The Administrator shall have the right to require any individual to comply with any timing or other restrictions with respect to the settlement or exercise of any Award, including a window-period limitation, as may be imposed in the discretion of the Administrator.

(c) Stockholder Rights. Until Stock is deemed delivered in accordance with Section 18(b), no right to vote or receive dividends or any other rights of a stockholder will exist with respect to shares of Stock to be issued in connection with an Award, notwithstanding the exercise of a Stock Option or any other action by the grantee with respect to an Award.

(d) Other Compensation Arrangements; No Employment Rights. Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, including trusts, and such arrangements may be either generally applicable or applicable only in specific cases. The adoption of this Plan and the grant of Awards do not confer upon any employee any right to continued employment with the Company or any Subsidiary.

(e) Trading Policy Restrictions. Option exercises and other Awards under the Plan shall be subject to the Company's insider trading policies and procedures, as in effect from time to time.

(f) Clawback Policy. Awards under the Plan shall be subject to the Company's clawback policy, as in effect from time to time.

SECTION 19. EFFECTIVE DATE OF PLAN

This Plan shall become effective upon stockholder approval in accordance with applicable state law, the Company's bylaws and articles of incorporation, and applicable stock exchange rules. No grants of Stock Options and other Awards may be made hereunder after the tenth anniversary of the Effective Date and no grants of Incentive Stock Options may be made hereunder after the tenth anniversary of the date the Plan is approved by the Board.

SECTION 20. GOVERNING LAW

This Plan and all Awards and actions taken thereunder shall be governed by, and construed in accordance with, the internal laws of the State of Florida, applied without regard to conflict of law principles.

DATE APPROVED BY BOARD OF DIRECTORS:

DATE APPROVED BY STOCKHOLDERS:

**FARO Technologies, Inc. 2022 Equity Incentive Plan
Restricted Stock Unit Award Agreement**

You have been selected to participate in the FARO Technologies, Inc. 2022 Equity Incentive Plan (the "Plan"), as specified below:

Grantee: Participant Name
Grant Date: Grant Date
[Vesting Commencement Date: Vesting Commencement Date]
Number of Restricted Stock Units Granted: Number of Awards Granted

THIS RESTRICTED STOCK UNIT AWARD AGREEMENT (this "Agreement") evidences the grant of restricted stock units (the "Restricted Stock Units") by FARO Technologies, Inc., a Florida corporation (the "Company"), to the Grantee named above, on the date indicated above, pursuant to the provisions of the Plan.

This Agreement and the Plan contain the terms and conditions governing the Restricted Stock Units. If there is any inconsistency between the terms of this Agreement and the terms of the Plan, the Plan's terms shall completely supersede and replace the conflicting terms of this Agreement. All capitalized terms shall have the meanings ascribed to them in the Plan, unless specifically set forth otherwise herein. The parties hereto agree as follows:

1. Award of Restricted Stock Units. The Company hereby grants to the Grantee the number of Restricted Stock Units set forth above, subject to the terms and conditions of the Plan and this Agreement. Each Restricted Stock Unit represents the right to receive, once vested, one Share (or, in the Committee's or its authorized delegates' discretion, the Fair Market Value as of the Restricted Stock Unit vesting date of one Share). Prior to their settlement or forfeiture in accordance with the terms of this Agreement, the Restricted Stock Units granted to the Grantee will be credited to an account in the Grantee's name maintained by the Company. This account shall be unfunded and maintained for book-keeping purposes only, with the Restricted Stock Units simply representing an unfunded and unsecured contingent obligation of the Company.

2. Vesting of Restricted Stock Units; Forfeiture. One-third of the Restricted Stock Units will vest on each of the first, second and third anniversaries of the [Grant Date/Vesting Commencement Date]. To the extent that one-third of the Restricted Stock Units is not a whole number, any fractional Restricted Stock Units that would otherwise be scheduled to vest on the first two scheduled vesting dates will be disregarded, and the number of Restricted Stock Units scheduled to vest on the third scheduled vesting date will be adjusted accordingly. If the Grantee's employment with or service to the Company or an Affiliate is terminated prior to the date the Restricted Stock Units are vested, the Restricted Stock Units that have not yet vested as of the date of such termination will be immediately forfeited without further consideration or any act or action by the Grantee; provided, however, if, prior to the date the Restricted Stock Units have vested, the Grantee's employment with or service to the Company or an Affiliate terminates as a result of death or Disability, the Committee, in its sole discretion, shall have the right to immediately vest all or any portion of such Restricted Stock Units, subject to such terms as the Committee, in its sole discretion, deems appropriate.

3. Settlement of Restricted Stock Units. Subject to all terms and conditions of the Plan and to compliance with section 5 of this Agreement, each vested Restricted Stock Unit will be settled in one Share (or, as provided in Section 1, the Fair Market Value thereof as of the Restricted Stock Unit's vesting date), as soon as reasonably practicable following the vesting date (but no later than the 15th day of the third calendar month following the vesting date). If settled in cash, the Grantee will receive a cash amount in payment and settlement of the vested Restricted Stock Units equal to the product of the Fair Market Value of a Share on the applicable vesting date, multiplied by the number of vested Restricted Stock Units. If settled in Shares, the Grantee will receive one Share in payment and settlement of each vested Restricted Stock Unit, and such Shares will be registered in the Grantee's name on the books of the Company as of the vesting date.

4. Nontransferability of the Award. This Award shall not be transferable by the Grantee otherwise than by will or the laws of descent and distribution or as otherwise expressly permitted pursuant to the Plan.

5. Tax Withholding. When the Restricted Stock Units become taxable income to the Grantee, the Company may deduct and withhold from any cash otherwise payable to the Grantee (whether payable with respect to the Restricted Stock Units or as salary, bonus or other compensation) such amount as may be required for the purpose of satisfying the Company's obligation to withhold Federal, state or local taxes or foreign taxes or other social insurance amounts. Further, in the event the amount so withheld is insufficient for such purpose, the Company may require that the Grantee upon its demand or otherwise make arrangements satisfactory to the Company for payment of such amount as may be requested by the Company in order to satisfy its obligation to withhold any such taxes. In

any case where a tax is required to be withheld in connection with the delivery of Shares under this Agreement, the Grantee shall be permitted to satisfy the Company's tax withholding requirements by making a written election (in accordance with such rules and regulations and in such form as the Committee may determine) to have the Company withhold Shares otherwise issuable to the Grantee pursuant to the vesting of the Restricted Stock Units (the "Withholding Election") having a Fair Market Value on the date income is recognized (the "Tax Date") equal to the minimum amount required to be withheld. If the number of Shares withheld to satisfy withholding tax requirements shall include a fractional share, the number of Shares withheld shall be reduced to the next lower whole number and the Grantee shall deliver cash in lieu of such fractional share, or otherwise make arrangements satisfactory to the Company for payment of such amount. A Withholding Election must be received by the Corporate Secretary of the Company on or prior to the Tax Date.

6. Status of Grantee. The Grantee shall not be deemed for any purposes to be a shareholder of the Company with respect to any of the Restricted Stock Units unless and until they are settled in Shares and registered in the Grantee's name on the books of the Company, in accordance with section 3 above, upon vesting of the Restricted Stock Units. Neither the Plan nor this Agreement shall confer upon the Grantee any right to continue in the employ of the Company or any of its Affiliates, nor to interfere in any way with the right of the Company to terminate the employment of the Grantee at any time. In no event shall the value, at any time, of this Award, the Shares underlying this Award or any other benefit provided by this Agreement be included as compensation or earnings for purposes of any other compensation, retirement or benefit plan offered to employees of the Company or its subsidiaries unless otherwise specifically provided for in such plan.

7. Powers of the Company Not Affected. The existence of this Award shall not affect in any way the right or power of the Company or its shareholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issuance of bonds, debentures, preferred or prior preference stock senior to or affecting the Shares or the rights thereof, or dissolution or liquidation of the Company, or any sale or transfer of all or any part of the Company's assets or business or any other corporate act or proceeding, whether of a similar character or otherwise.

8. Interpretation by Committee. As a condition of the granting of the Restricted Stock Units, the Grantee agrees, for himself or herself and his or her legal representatives or guardians, that this Agreement shall be interpreted by the Committee and that any interpretation by the Committee of the terms of this Agreement and any determination made by the Committee pursuant to this Agreement shall be final, binding and conclusive.

9. Nature of the Award. The Grantee acknowledges and agrees that he or she understands that the value that may be realized, if any, from this Award is contingent, and depends on the future market price of the Company's Stock, among other factors. The Grantee further confirms his or her understanding that this Award is intended to promote employee retention and stock ownership and to align employees' interests with those of shareholders, is subject to vesting conditions and will be forfeited if vesting conditions are not satisfied.

The Grantee also acknowledges and agrees that he or she understands that (a) the Plan is discretionary in nature and may be suspended or terminated by the Company at any time; (b) the grant of an Award is voluntary and occasional and does not create any contractual or other right to receive future awards, or benefits in lieu of Awards even if Awards have been granted repeatedly in the past; (c) all decisions with respect to any future award will be at the sole discretion of the Company; (d) the Grantee's participation in the Plan is voluntary; (e) the value of this Award is an extraordinary item of compensation which is outside the scope of the Grantee's employment contract with his or her actual employer, if any; (f) this Award and past or future awards are not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments; and (g) no claim or entitlement to compensation or damages arises from termination of this Award or diminution in value of this Award, and the Grantee irrevocably releases the Company and its Affiliates from any such claim that may arise.

10. Administration. The Grantee acknowledges and agrees that he or she understands that the Company and its Affiliates hold certain personal information about him or her, including, but not limited to, information such as his or her name, home address, telephone number, date of birth, salary, nationality, job title, social security number, social insurance number or other such tax identity number and details of all Awards or other entitlement to shares of Stock awarded, cancelled, exercised, vested, unvested or outstanding in the Grantee's favor ("Personal Data").

The Grantee acknowledges and agrees that he or she understands that in order for the Company to process this Award and maintain a record of Shares under the Plan, the Company shall collect, use, transfer and disclose Personal Data within the Company and among its Affiliates electronically or otherwise, as necessary for the implementation and administration of the Plan including, in the case of a social insurance number, for income

reporting purposes as required by law. The Grantee further understands that the Company may transfer Personal Data, electronically or otherwise, to third parties, including but not limited to such third parties as outside tax, accounting, technical and legal consultants when such third parties are assisting the Company or its Affiliates in the implementation and administration of the Plan. The Grantee understands that such recipients may be located within the jurisdiction of his or her residence, or within the United States or elsewhere and are subject to the legal requirements in those jurisdictions. The Grantee understands that the employees of the Company, its Affiliates and third parties performing work related to the implementation and administration of the Plan shall have access to the Personal Data as is necessary to fulfill their duties related to the implementation and administration of the Plan. By accepting this Award, the Grantee consents, to the fullest extent permitted by law, to the collection, use, transfer and disclosure, electronically or otherwise, of the Grantee's Personal Data by or to such entities for such purposes and accepts that this may involve the transfer of Personal Data to a country which may not have the same level of data protection law as the country in which this Agreement is executed. The Grantee confirms that if he or she has provided or, in the future, will provide Personal Data concerning third parties including beneficiaries, he or she has the consent of such third party to provide their Personal Data to the Company for the same purposes.

The Grantee understands that he or she may, at any time, request to review the Personal Data and require any necessary amendments to it by contacting the Company in writing. As well, the Grantee may always elect to forgo participation in the Plan or any other award program.

11. Miscellaneous.

(a) This Agreement and the rights of the Grantee hereunder are subject to all the terms and conditions of the Plan, as the same may be amended from time to time, as well as to such rules and regulations as the Committee may adopt for administration of the Plan. The Committee shall have the right to impose such restrictions on any Shares acquired pursuant to the Award, as it may deem advisable, including, without limitation, restrictions under applicable federal securities laws, under applicable federal and state tax law, under the requirements of any stock exchange or market upon which such Shares are then listed and/or traded, and under any blue sky or state securities laws applicable to such Shares.

(b) It is expressly understood that the Committee is authorized to administer, construe, and make all determinations necessary or appropriate to the administration of the Plan and this Agreement, all of which shall be binding upon the Grantee.

(c) The Grantee agrees to take all steps necessary to comply with all applicable provisions of federal and state securities and tax laws in exercising his or her rights under this Agreement.

(d) This Agreement shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

(e) All obligations of the Company under the Plan and this Agreement shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase of all or substantially all of the business and/or assets of the Company, or the result of a merger, consolidation or otherwise.

(f) The award of Restricted Stock Units as provided in this Agreement and any issuance of Shares or payment pursuant to this Agreement are intended to be exempt from Section 409A of the Code under the short-term deferral exception specified in Treas. Reg. § 1.409A-1(b)(4).

(g) The Company may, in its sole discretion, decide to deliver any documents related to current or future participants in the Plan by electronic means. The Grantee hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

(h) To the extent not preempted by federal law, this Agreement shall be governed by, and construed in accordance with, the laws of the State of Florida.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the Grant Date.

**FARO TECHNOLOGIES,
INC.**

By: 

Name: Michael Burger

Title: President & CEO

GRANTEE

Electronic Signature

Name: **Participant Name**

**FARO Technologies, Inc. 2022 Equity Incentive Plan
Restricted Stock Unit Award Agreement
(Performance-Based)**

You have been selected to participate in the FARO Technologies, Inc. 2022 Equity Incentive Plan (the "Plan"), as specified below:

Grantee: Participant Name
Grant Date: Grant Date
[Vesting Commencement Date: Vesting Commencement Date]
Target Number of Restricted Stock Units: Number of Awards Granted

THIS RESTRICTED STOCK UNIT AWARD AGREEMENT (this "Agreement") evidences the grant of restricted stock units (the "Restricted Stock Units") by FARO Technologies, Inc., a Florida corporation (the "Company"), to the Grantee named above, on the date indicated above, pursuant to the provisions of the Plan.

This Agreement and the Plan contain the terms and conditions governing the Restricted Stock Units. If there is any inconsistency between the terms of this Agreement and the terms of the Plan, the Plan's terms shall completely supersede and replace the conflicting terms of this Agreement. All capitalized terms shall have the meanings ascribed to them in the Plan, unless specifically set forth otherwise herein. The parties hereto agree as follows:

1. Award of Restricted Stock Units. The Company hereby confirms the grant to you, as of the Grant Date and subject to the terms and conditions of this Agreement and the Plan, of an award of Restricted Stock Units in an amount initially equal to the Target Number of Restricted Stock Units specified above. The number of Restricted Stock Units that may actually be earned and become eligible to vest pursuant to this Award can be between 0% and 200% of the Target Number of Restricted Stock Units. Each Restricted Stock Unit that is earned as a result of the performance goals specified in Exhibit A to this Agreement having been satisfied and which thereafter vests represents the right to receive one Share (or, in the Committee's or its authorized delegates' discretion, the Fair Market Value as of the Restricted Stock Unit vesting date of one Share). Prior to their settlement or forfeiture in accordance with the terms of this Agreement, the Restricted Stock Units granted to the Grantee will be credited to an account in the Grantee's name maintained by the Company. This account shall be unfunded and maintained for book-keeping purposes only, with the Restricted Stock Units simply representing an unfunded and unsecured contingent obligation of the Company.

2. Vesting of Restricted Stock Units; Forfeiture. Except as otherwise provided herein and in the Plan, the number of Restricted Stock Units determined to have been earned in accordance with Exhibit A attached hereto as of the end of the Performance Period specified in Exhibit A will vest on the date the Committee certifies such performance results (assuming Grantee's Continuous Service to the Company through such date), which shall be no later than the Scheduled Vesting Date specified in Exhibit A. Except as otherwise provided in Exhibit A, if the Grantee's employment with or service to the Company or an Affiliate is terminated prior to the date the Restricted Stock Units are vested, the Restricted Stock Units that have not yet vested as of the date of such termination will be immediately forfeited without further consideration or any act or action by the Grantee; provided, however, if, prior to the date the Restricted Stock Units have vested, the Grantee's employment with or service to the Company or an Affiliate terminates as a result of death or Disability, the Committee, in its sole discretion, shall have the right to immediately vest all or any portion of such Restricted Stock Units, subject to such terms as the Committee, in its sole discretion, deems appropriate.

3. Settlement of Restricted Stock Units. Subject to all terms and conditions of the Plan and to compliance with section 5 of this Agreement, each vested Restricted Stock Unit will be settled in one Share (or, as provided in Section 1, the Fair Market Value thereof as of the Restricted Stock Unit's vesting date), as soon as reasonably practicable following the vesting date (but no later than the 15th day of the third calendar month following the vesting date). If settled in cash, the Grantee will receive a cash amount in payment and settlement of the vested Restricted Stock Units equal to the product of the Fair Market Value of a Share on the applicable vesting date, multiplied by the number of vested Restricted Stock Units. If settled in Shares, the Grantee will receive one Share in payment and settlement of each vested Restricted Stock Unit, and such Shares will be registered in the Grantee's name on the books of the Company as of the vesting date.

4. Nontransferability of the Award. This Award shall not be transferable by the Grantee otherwise than by will or the laws of descent and distribution or as otherwise expressly permitted pursuant to the Plan.

5. Tax Withholding. When the Restricted Stock Units become taxable income to the Grantee, the Company may deduct and withhold from any cash otherwise payable to the Grantee (whether payable with respect to the Restricted Stock Units or as salary, bonus or other compensation) such amount as may be required for the purpose of satisfying the Company's obligation to withhold Federal, state or local taxes or foreign taxes or other social insurance amounts. Further, in the event the amount so withheld is insufficient for such purpose, the Company may require that the Grantee upon its demand or otherwise make arrangements satisfactory to the Company for payment of such amount as may be requested by the Company in order to satisfy its obligation to withhold any such taxes. In any case where a tax is required to be withheld in connection with the delivery of Shares under this Agreement, the Grantee shall be permitted to satisfy the Company's tax withholding requirements by making a written election (in accordance with such rules and regulations and in such form as the Committee may determine) to have the Company withhold Shares otherwise issuable to the Grantee pursuant to the vesting of the Restricted Stock Units (the "Withholding Election") having a Fair Market Value on the date income is recognized (the "Tax Date") equal to the minimum amount required to be withheld. If the number of Shares withheld to satisfy withholding tax requirements shall include a fractional share, the number of Shares withheld shall be reduced to the next lower whole number and the Grantee shall deliver cash in lieu of such fractional share, or otherwise make arrangements satisfactory to the Company for payment of such amount. A Withholding Election must be received by the Corporate Secretary of the Company on or prior to the Tax Date.

6. Status of Grantee. The Grantee shall not be deemed for any purposes to be a shareholder of the Company with respect to any of the Restricted Stock Units unless and until they are settled in Shares and registered in the Grantee's name on the books of the Company, in accordance with section 3 above, upon vesting of the Restricted Stock Units. Neither the Plan nor this Agreement shall confer upon the Grantee any right to continue in the employ of the Company or any of its Affiliates, nor to interfere in any way with the right of the Company to terminate the employment of the Grantee at any time. In no event shall the value, at any time, of this Award, the Shares underlying this Award or any other benefit provided by this Agreement be included as compensation or earnings for purposes of any other compensation, retirement or benefit plan offered to employees of the Company or its subsidiaries unless otherwise specifically provided for in such plan.

7. Powers of the Company Not Affected. The existence of this Award shall not affect in any way the right or power of the Company or its shareholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issuance of bonds, debentures, preferred or prior preference stock senior to or affecting the Shares or the rights thereof, or dissolution or liquidation of the Company, or any sale or transfer of all or any part of the Company's assets or business or any other corporate act or proceeding, whether of a similar character or otherwise.

8. Interpretation by Committee. As a condition of the granting of the Restricted Stock Units, the Grantee agrees, for himself or herself and his or her legal representatives or guardians, that this Agreement shall be interpreted by the Committee and that any interpretation by the Committee of the terms of this Agreement and any determination made by the Committee pursuant to this Agreement shall be final, binding and conclusive.

9. Nature of the Award. The Grantee acknowledges and agrees that he or she understands that the value that may be realized, if any, from this Award is contingent, and depends on the future market price of the Company's Stock, among other factors. The Grantee further confirms his or her understanding that this Award is intended to promote employee retention and stock ownership and to align employees' interests with those of shareholders, is subject to vesting conditions and will be forfeited if vesting conditions are not satisfied.

The Grantee also acknowledges and agrees that he or she understands that (a) the Plan is discretionary in nature and may be suspended or terminated by the Company at any time; (b) the grant of an Award is voluntary and occasional and does not create any contractual or other right to receive future awards, or benefits in lieu of Awards even if Awards have been granted repeatedly in the past; (c) all decisions with respect to any future award will be at the sole discretion of the Company; (d) the Grantee's participation in the Plan is voluntary; (e) the value of this Award is an extraordinary item of compensation which is outside the scope of the Grantee's employment contract with his or her actual employer, if any; (f) this Award and past or future awards are not part of normal or expected compensation or salary for any

purposes, including, but not limited to, calculating any severance, resignation, redundancy, end of service payments, bonuses, long-service awards, pension or retirement benefits or similar payments; and (g) no claim or entitlement to compensation or damages arises from termination of this Award or diminution in value of this Award, and the Grantee irrevocably releases the Company and its Affiliates from any such claim that may arise.

10. Administration. The Grantee acknowledges and agrees that he or she understands that the Company and its Affiliates hold certain personal information about him or her, including, but not limited to, information such as his or her name, home address, telephone number, date of birth, salary, nationality, job title, social security number, social insurance number or other such tax identity number and details of all Awards or other entitlement to shares of Stock awarded, cancelled, exercised, vested, unvested or outstanding in the Grantee's favor ("Personal Data").

The Grantee acknowledges and agrees that he or she understands that in order for the Company to process this Award and maintain a record of Shares under the Plan, the Company shall collect, use, transfer and disclose Personal Data within the Company and among its Affiliates electronically or otherwise, as necessary for the implementation and administration of the Plan including, in the case of a social insurance number, for income reporting purposes as required by law. The Grantee further understands that the Company may transfer Personal Data, electronically or otherwise, to third parties, including but not limited to such third parties as outside tax, accounting, technical and legal consultants when such third parties are assisting the Company or its Affiliates in the implementation and administration of the Plan. The Grantee understands that such recipients may be located within the jurisdiction of his or her residence, or within the United States or elsewhere and are subject to the legal requirements in those jurisdictions. The Grantee understands that the employees of the Company, its Affiliates and third parties performing work related to the implementation and administration of the Plan shall have access to the Personal Data as is necessary to fulfill their duties related to the implementation and administration of the Plan. By accepting this Award, the Grantee consents, to the fullest extent permitted by law, to the collection, use, transfer and disclosure, electronically or otherwise, of the Grantee's Personal Data by or to such entities for such purposes and accepts that this may involve the transfer of Personal Data to a country which may not have the same level of data protection law as the country in which this Agreement is executed. The Grantee confirms that if he or she has provided or, in the future, will provide Personal Data concerning third parties including beneficiaries, he or she has the consent of such third party to provide their Personal Data to the Company for the same purposes.

The Grantee understands that he or she may, at any time, request to review the Personal Data and require any necessary amendments to it by contacting the Company in writing. As well, the Grantee may always elect to for-go participation in the Plan or any other award program.

11. Miscellaneous.

(a) This Agreement and the rights of the Grantee hereunder are subject to all the terms and conditions of the Plan, as the same may be amended from time to time, as well as to such rules and regulations as the Committee may adopt for administration of the Plan. The Committee shall have the right to impose such restrictions on any Shares acquired pursuant to the Award, as it may deem advisable, including, without limitation, restrictions under applicable federal securities laws, under applicable federal and state tax law, under the requirements of any stock exchange or market upon which such Shares are then listed and/or traded, and under any blue sky or state securities laws applicable to such Shares.

(b) It is expressly understood that the Committee is authorized to administer, construe, and make all determinations necessary or appropriate to the administration of the Plan and this Agreement, all of which shall be binding upon the Grantee.

(c) The Grantee agrees to take all steps necessary to comply with all applicable provisions of federal and state securities and tax laws in exercising his or her rights under this Agreement.

(d) This Agreement shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

(e) All obligations of the Company under the Plan and this Agreement shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase of all or substantially all of the business and/or assets of the Company, or the result of a merger, consolidation or otherwise.

(f) The award of Restricted Stock Units as provided in this Agreement and any issuance of Shares or payment pursuant to this Agreement are intended to be exempt from Section 409A of the Code under the short-term deferral exception specified in Treas. Reg. § 1.409A-1(b)(4).

(g) The Company may, in its sole discretion, decide to deliver any documents related to current or future participants in the Plan by electronic means. The Grantee hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

(h) To the extent not preempted by federal law, this Agreement shall be governed by, and construed in accordance with, the laws of the State of Florida.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the Grant Date.

FARO TECHNOLOGIES, INC.



By:___

Name: Michael D. Burger
Title: President & CEO

GRANTEE

Electronic Signature
Name: Participant Name

PERFORMANCE METRICS

Performance Period: [Grant Date/Vesting Commencement Date] through Cliff Vesting Date

Scheduled Vesting Date: The date, not to exceed 30 calendar days following the conclusion of the above performance period, on which the Committee certifies (i) the degree to which the applicable performance objectives for the Performance Period have been satisfied, and (ii) the number of Restricted Stock Units that have been earned during the Performance Period and will vest, as determined in accordance with this Exhibit A.

1. *Units Earned; Vesting.* Subject to the terms of the Restricted Stock Unit Award Agreement ("Agreement") of which this Exhibit A is a part, the number of Restricted Stock Units that will be earned during the Performance Period and will vest as of the Scheduled Vesting Date as set forth above will be determined as provided below. Any capitalized term used in this Exhibit A that is not defined herein will have the meaning given to it in the Agreement or the Plan.

2. *Performance Objectives.* The Restricted Stock Units subject to this Award may be earned based on the Company's Relative TSR Performance as described in section 3 below, subject to the limitation described in section 4 below, if applicable.

3. *Relative TSR Performance.* The number of Restricted Stock Units that will be considered earned based on the Relative TSR Performance of the Company will be determined using the following formula:

$$(\text{Target Number of Units}) \times (\text{Relative TSR Percentage})$$

For purposes of determining the Company's Relative TSR Performance, the following terms shall have the meanings indicated:

(a) "Relative TSR" means the percentile ranking of the Company's TSR relative to the TSR of the other companies included in the Russell 2000 Index for the entirety of the Performance Period (the "Peer Companies"). Relative TSR will be determined by ranking the Company and the Peer Companies from highest to lowest according to their respective TSRs. After this ranking, the percentile performance of the Company relative to the Peer Companies will be determined as follows:

$$P = \frac{N - R}{N - 1}$$

$$N - 1$$

where:

"P" represents the percentile performance which will be rounded, if necessary, to the nearest whole percentile by application of regular rounding.

"N" represents the remaining number of Peer Companies, plus the Company.

"R" represents the Company's ranking among the Peer Companies.

Example: If there are 239 Peer Companies, and the Company ranked 67th, the performance would be at the 72nd percentile: $.72 = (240 - 67)/(240 - 1)$

(b) "TSR" means, with respect to any company, the percentage growth in total shareholder return, determined by dividing (A) the appreciation in price of a share of the company's common stock from the Opening Value (as defined below) to the Closing Value (as defined below), plus any dividends paid during the Performance Period (which shall be deemed reinvested in the company's common stock on the ex-dividend date), by (B) the Opening Value.

(c) "Opening Value" means, with respect to any company, the average of the closing prices per share of the company's common stock for all trading days in the 30 calendar day period beginning on and including the first day of the Performance Period, assuming any dividends paid during the 30 calendar day period are reinvested in the company's common stock on the ex-dividend date.

(d) "Closing Value" means, with respect to any company, the average of the closing prices per share of the company's common stock for all trading days in the 30 calendar day period ending on and including the last day of the Performance Period, assuming any dividends paid during the 30 calendar day period are reinvested in the company's common stock on the ex-dividend date.

(e) "Relative TSR Percentage" means the percentage specified in the following table that corresponds to the Relative TSR ranking achieved by the Company during the Performance Period. If the Relative TSR is between performance levels specified in the table, the corresponding Relative TSR Percentage will be determined by linear interpolation. For the avoidance of doubt, in no event shall the Relative TSR Percentage exceed 200%.

Payout Level	Relative TSR	Relative TSR Percentage
Max	80 th percentile or above	200%
Target	55 th percentile	100%
Threshold	25 th percentile	25%
None	Less than 25 th percentile	0%

4. *Negative TSR.* If the Company's TSR for the Performance Period is negative, then the maximum Relative TSR Percentage that may be achieved under section 3 is 100%.

5. *Change in Control.*

(a) In the event of a Change in Control: (i) the Performance Period shall be deemed to have ended as of the date of the consummation of the Change in Control (the "CIC Date," and such Performance Period, the "Abbreviated Performance Period"), (ii) the TSR for the Company and each of the Peer Companies shall be calculated by using the Closing Value of each company's common stock as of the CIC Date, and (iii) the number of earned Restricted Stock Units for such Abbreviated Performance Period (the "CIC Earned Units") shall be determined in accordance with section 3 above, provided that any reference to "Performance Period" in section 3 above shall be deemed to be a reference to the Abbreviated Performance Period for purposes of this calculation.

(b) If this Restricted Stock Unit Award is not continued or assumed by the Surviving Entity or otherwise equitably converted or substituted for in connection with a Change in Control, the number of Grantee's CIC Earned Units, as determined in accordance with section 5(a) above, shall vest immediately upon the CIC Date and settle in accordance with section 3 of the Agreement (unless a later date is required by Section 17.3 of the Plan).

(c) If this Restricted Stock Unit Award is continued or assumed by the Surviving Entity or otherwise equitably converted or substituted for in connection with a Change in Control, the Grantee's CIC Earned Units shall be determined in accordance with section 5(a) above. The Pro Rata Portion of the Grantee's CIC Earned Units shall vest immediately upon the CIC Date and settle in accordance with section 3 of the Agreement (unless a later date is required by Section 17.3 of the Plan), and the balance of the Grantee's CIC Earned Units (the "Continued Units") shall convert immediately upon the CIC Date into a time-based vesting award for the remaining duration of the original Performance Period and, assuming the Grantee's continued employment, shall vest on the last day of the original Performance Period; provided, however, if within one year after the CIC Date, the Grantee's employment is terminated without Cause or the Grantee resigns for Good Reason, then the Grantee's Continued Units shall vest immediately as of the date of his or her termination of Continuous Service and settle in accordance with section 3 of the Agreement (unless a later date is required by Section 17.3 of the Plan).

(d) The "Pro Rata Portion" means that number of Restricted Stock Units equal to the product obtained by multiplying (x) the total number of CIC Earned Units (as determined in accordance with section 5(a) of this Exhibit) by (y) a fraction, the numerator of which is the number of days elapsed from the first day of the original Performance Period through the CIC Date and the denominator of which is the number of days in the original Performance Period.

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael Burger, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of FARO Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2022

/s/ Michael Burger

Michael Burger
President and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Allen Muhich, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of FARO Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 3, 2022

/s/ Allen Muhich

Allen Muhich
Chief Financial Officer
(Principal Financial Officer)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Solely for the purposes of complying with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, the undersigned President and Chief Executive Officer of FARO Technologies, Inc. (the Company), hereby certify that the Quarterly Report on Form 10-Q for the quarter ended June 30, 2022 (the Report) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 3, 2022

/s/ Michael Burger

Michael Burger
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Solely for the purposes of complying with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, the undersigned Chief Financial Officer of FARO Technologies, Inc. (the Company), hereby certify that the Quarterly Report on Form 10-Q for the quarter ended June 30, 2022 (the Report) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 3, 2022

/s/ Allen Muhich

Allen Muhich
Chief Financial Officer
(Principal Financial Officer)