

**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 September 30, 2021

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

(407) 333-9911
(Registrant's Telephone Number, including Area Code)

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

32746
(Zip 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 18,203,763 shares of the registrant's common stock outstanding as of October 25, 2021.

FARO TECHNOLOGIES, INC.

Quarterly Report on Form 10-Q
Quarter Ended September 30, 2021

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

<i>(in thousands, except share and per share data)</i>	September 30, 2021 (unaudited)	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 125,814	\$ 185,633
Accounts receivable, net	58,875	64,616
Inventories, net	55,507	47,391
Prepaid expenses and other current assets	28,776	26,295
Total current assets	<u>268,972</u>	<u>323,935</u>
Non-current assets:		
Property, plant and equipment, net	22,576	23,091
Operating lease right-of-use assets	23,586	26,107
Goodwill	80,873	57,541
Intangible assets, net	24,714	13,301
Service and sales demonstration inventory, net	31,025	31,831
Deferred income tax assets, net	46,700	47,450
Other long-term assets	2,141	2,336
Total assets	<u>\$ 500,587</u>	<u>\$ 525,592</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 16,415	\$ 14,121
Accrued liabilities	26,625	42,593
Income taxes payable	—	3,442
Current portion of unearned service revenues	38,555	39,149
Customer deposits	4,709	2,807
Lease liabilities	5,630	5,835
Total current liabilities	<u>91,934</u>	<u>107,947</u>
Unearned service revenues - less current portion	21,242	21,757
Lease liabilities - less current portion	19,724	22,131
Deferred income tax liabilities	595	787
Income taxes payable - less current portion	9,250	11,583
Other long-term liabilities	1,071	1,084
Total liabilities	<u>143,816</u>	<u>165,289</u>
Commitments and contingencies - See Note 12		
Shareholders' equity:		
Common stock - par value \$0.001, 50,000,000 shares authorized; 19,584,783 and 19,384,350 issued, respectively; 18,202,416 and 17,990,707 outstanding, respectively	20	19
Additional paid-in capital	298,082	287,979
Retained earnings	105,256	113,508
Accumulated other comprehensive loss	(15,795)	(10,160)
Common stock in treasury, at cost; 1,382,367 and 1,393,643 shares, respectively	(30,792)	(31,043)
Total shareholders' equity	<u>356,771</u>	<u>360,303</u>
Total liabilities and shareholders' equity	<u>\$ 500,587</u>	<u>\$ 525,592</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		Nine Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Sales				
Product	\$ 57,838	\$ 48,082	\$ 172,748	\$ 146,866
Service	21,331	22,654	64,862	63,949
Total sales	<u>79,169</u>	<u>70,736</u>	<u>237,610</u>	<u>210,815</u>
Cost of Sales				
Product	25,650	22,413	75,909	66,812
Service	11,188	12,025	33,481	34,936
Total cost of sales	<u>36,838</u>	<u>34,438</u>	<u>109,390</u>	<u>101,748</u>
Gross Profit	<u>42,331</u>	<u>36,298</u>	<u>128,220</u>	<u>109,067</u>
Operating Expenses				
Selling, general and administrative	33,433	30,163	100,375	96,523
Research and development	12,731	10,754	36,464	31,355
Restructuring costs	1,376	239	3,679	14,563
Total operating expenses	<u>47,540</u>	<u>41,156</u>	<u>140,518</u>	<u>142,441</u>
Loss from operations	<u>(5,209)</u>	<u>(4,858)</u>	<u>(12,298)</u>	<u>(33,374)</u>
Other (income) expense				
Interest expense, net	5	161	54	407
Other expense (income), net	299	(256)	(433)	334
Loss before income tax benefit	<u>(5,513)</u>	<u>(4,763)</u>	<u>(11,919)</u>	<u>(34,115)</u>
Income tax benefit	<u>(1,658)</u>	<u>(1,739)</u>	<u>(3,667)</u>	<u>(7,336)</u>
Net loss	<u>\$ (3,855)</u>	<u>\$ (3,024)</u>	<u>\$ (8,252)</u>	<u>\$ (26,779)</u>
Net loss per share - Basic	<u>\$ (0.21)</u>	<u>\$ (0.17)</u>	<u>\$ (0.45)</u>	<u>\$ (1.51)</u>
Net loss per share - Diluted	<u>\$ (0.21)</u>	<u>\$ (0.17)</u>	<u>\$ (0.45)</u>	<u>\$ (1.51)</u>
Weighted average shares - Basic	<u>18,194,960</u>	<u>17,797,390</u>	<u>18,166,930</u>	<u>17,757,359</u>
Weighted average shares - Diluted	<u>18,194,960</u>	<u>17,797,390</u>	<u>18,166,930</u>	<u>17,757,359</u>

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

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

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Net loss	\$ (3,855)	\$ (3,024)	\$ (8,252)	\$ (26,779)
Currency translation adjustments, net of income taxes	(328)	4,339	(5,635)	(1,127)
Comprehensive (loss) income	<u>\$ (4,183)</u>	<u>\$ 1,315</u>	<u>\$ (13,887)</u>	<u>\$ (27,906)</u>

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)	Nine Months Ended	
	September 30, 2021	September 30, 2020
Cash flows from:		
Operating activities:		
Net loss	\$ (8,252)	\$ (26,779)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	9,560	10,631
Stock-based compensation	8,657	6,428
Provisions for bad debts, net of recoveries	33	435
Loss on disposal of assets	130	351
Provision for excess and obsolete inventory	1,955	778
Deferred income tax benefit	(3,667)	(4,961)
Change in operating assets and liabilities:		
Decrease (Increase) in:		
Accounts receivable	4,311	28,132
Inventories	(9,106)	5,101
Prepaid expenses and other current assets	(2,935)	9,391
(Decrease) Increase in:		
Accounts payable and accrued liabilities	(14,153)	(10,006)
Income taxes payable	(1,847)	(6,109)
Customer deposits	1,966	815
Unearned service revenues	(2,223)	(3,391)
Net cash (used in) provided by operating activities	(15,571)	10,816
Investing activities:		
Purchases of property and equipment	(4,845)	(2,833)
Proceeds from asset sales	—	768
Proceeds from sale of investments	—	25,000
Payments for intangible assets	(1,933)	(813)
Acquisition of business, net of cash acquired	(33,908)	(6,036)
Net cash (used in) provided by investing activities	(40,686)	16,086
Financing activities:		
Payments on finance leases	(229)	(237)
Payments of contingent consideration for acquisitions	—	(733)
Payments for taxes related to net share settlement of equity awards	(4,137)	(2,568)
Proceeds from issuance of stock related to stock option exercises	5,835	5,384
Net cash provided by financing activities	1,469	1,846
Effect of exchange rate changes on cash and cash equivalents	(5,031)	1,255
(Decrease) Increase in cash and cash equivalents	(59,819)	30,003
Cash and cash equivalents, beginning of period	185,633	133,634
Cash and cash equivalents, end of period	\$ 125,814	\$ 163,637

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, 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
	Net loss				(3,855)			(3,855)
	Currency translation adjustment					(328)		(328)
	Stock-based compensation			3,280				3,280
	Common stock issued, net of shares withheld for employee taxes	27,543		312				312
	BALANCE SEPTEMBER 30, 2021	18,202,416	\$ 20	\$ 298,082	\$ 105,256	\$ (15,795)	\$ (30,792)	\$ 356,771

(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, 2020	17,576,618	\$ 19	\$ 267,868	\$ 112,879	\$ (17,399)	\$ (31,375)	\$ 331,992
	Net loss				(14,823)			(14,823)
	Currency translation adjustment					(3,778)		(3,778)
	Stock-based compensation			2,178				2,178
	Common stock issued, net of shares withheld for employee taxes	141,561		894			327	1,221
	BALANCE MARCH 31, 2020	17,718,179	\$ 19	\$ 270,940	\$ 98,056	\$ (21,177)	\$ (31,048)	\$ 316,790
	Net loss				(8,932)			(8,932)
	Currency translation adjustment					(1,688)		(1,688)
	Stock-based compensation			2,167				2,167
	Common stock issued, net of shares withheld for employee taxes	51,401		218			6	224
	BALANCE JUNE 30, 2020	17,769,580	\$ 19	\$ 273,325	\$ 89,124	\$ (22,865)	\$ (31,042)	\$ 308,561
	Net loss				(3,024)			(3,024)
	Currency translation adjustment					4,339		4,339
	Stock-based compensation			2,083				2,083
	Common stock issued, net of shares withheld for employee taxes	63,354		1,371				1,371
	BALANCE SEPTEMBER 30, 2020	17,832,934	\$ 19	\$ 276,779	\$ 86,100	\$ (18,526)	\$ (31,042)	\$ 313,330

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”) and public safety analytics markets. We enable our customers to capture, measure, manipulate, interact with and share data from the physical world in a virtual environment and then translate this information back into the physical domain. Our technology enables highly accurate 3D measurement, imaging, comparison and projection of parts and complex structures within production, assembly and quality assurance processes. 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, 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 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 novel 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. While COVID-19 has negatively impacted demand for our products and services overall, it has provided us with the opportunity to adapt to operating in a virtual environment. We significantly increased the utilization of our existing virtual sales demonstration infrastructure which has enabled ongoing customer product education. We launched an updated web-based learning system with FARO Academy that has resulted in an increase in the attendance of our virtual training and product information seminars as our customers take advantage of the opportunity to remotely participate and to better understand the capabilities of our products and software offerings.

During 2021, we continue to assess the ongoing impact of COVID-19 on our business results and remain committed to taking actions to address the health and safety of our employees and customers, as well as the negative effects from demand disruption and production impacts, 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;
- Monitoring of our liquidity, reduction of supply flows into our manufacturing facilities, disciplined inventory management, and limiting capital expenditures; 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 \$125.8 million and no debt as of September 30, 2021. 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 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.

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 statement of operations:

	Three Months Ended		Nine Months Ended	
	September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
Cost of Sales				
Product	\$ 147	\$ 39	\$ 435	\$ 234
Service	43	88	35	257
Total cost of sales	\$ 190	\$ 127	\$ 470	\$ 491
Operating Expenses				
Selling, general and administrative	\$ 2,581	\$ 1,527	\$ 6,789	\$ 4,666
Research and development	509	430	1,398	1,271
Total operating expenses	\$ 3,090	\$ 1,957	\$ 8,187	\$ 5,937

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 three and nine months ended September 30, 2021 are not necessarily indicative of results that may be expected for the year ending December 31, 2021 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, 2020. The accompanying December 31, 2020 condensed consolidated balance sheet has been derived from those audited consolidated financial statements.

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 June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”), which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. ASU 2016-13, and subsequent related amendments to ASU 2016-13, replace the existing incurred loss impairment model with an expected loss model that requires the use of forward-looking information to calculate credit loss estimates. It also eliminates the concept of other-than-temporary impairment and requires credit losses related to available-for-sale debt securities to be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. These changes will result in earlier recognition of credit losses. We adopted ASU 2016-13 effective as of January 1, 2020, and the adoption of the new guidance did not have a material impact on our condensed consolidated financial statements.

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 (in thousands, unaudited):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Product sales				
Product transferred to customers at a point in time	\$ 53,536	\$ 44,561	\$ 161,080	\$ 137,32
Product transferred to customers over time	4,302	3,521	11,668	9,54
	<u>\$ 57,838</u>	<u>\$ 48,082</u>	<u>\$ 172,748</u>	<u>\$ 146,86</u>
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Service sales				
Service transferred to customers at a point in time	\$ 9,332	\$ 9,623	\$ 28,931	\$ 27,26
Service transferred to customers over time	11,999	13,031	35,931	36,68
	<u>\$ 21,331</u>	<u>\$ 22,654</u>	<u>\$ 64,862</u>	<u>\$ 63,94</u>

The following table presents our revenues disaggregated by geography, based on the billing addresses of our customers (in thousands, unaudited):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Total sales to external customers				
Americas ⁽¹⁾	\$ 33,944	\$ 30,867	\$ 100,195	\$ 92,200
EMEA ⁽¹⁾	23,387	20,648	75,315	61,000
APAC ⁽¹⁾	21,838	19,221	62,100	57,500
	<u>\$ 79,169</u>	<u>\$ 70,736</u>	<u>\$ 237,610</u>	<u>\$ 210,700</u>

⁽¹⁾Regions represent North America and South America (Americas); Europe, the Middle East, and Africa (EMEA); and the 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 September 30, 2021, the deferred cost asset related to deferred commissions was approximately \$3.4 million. For classification purposes, \$2.1 million and \$1.3 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 September 30, 2021. As of December 31, 2020, the deferred cost asset related to deferred commissions was approximately \$4.1 million. For classification purposes, \$2.6 million and \$1.5 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, 2020.

The unearned service revenue liabilities reported on our condensed consolidated balance sheets reflect the contract liabilities to satisfy the remaining performance obligations for hardware service contracts 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 hardware service contracts and software maintenance contract liabilities. The unearned service revenues - less 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 hardware service contracts 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 nine months ended September 30, 2021, we recognized \$7.6 million and \$29.2 million of revenue, respectively, that was deferred on our condensed consolidated balance sheet as of December 31, 2020. During the three and nine months ended September 30, 2020, we recognized \$7.8 million and \$29.8 million of revenue, respectively, that was deferred on our condensed consolidated balance sheet as of December 31, 2019.

The nature of certain of our contracts gives rise to variable consideration, primarily related to an allowance for sales returns and contracts with certain government customers. 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 September 30, 2021 and September 30, 2020 were both approximately \$0.1 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 September 30, 2021	As of December 31, 2020
Accounts receivable	\$ 62,359	\$ 68,504
Allowance for credit losses	(3,484)	(3,888)
Total	\$ 58,875	\$ 64,616

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

	Nine Months Ended September 30, 2021	
Beginning balance of the allowance for credit losses	\$	(3,888)
Current period provision for expected credit losses, net of recoveries		33
Charge-offs of amounts previously written off		371
Ending balance of the allowance for credit losses	\$	(3,484)

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 hardware service contract 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 its remaining life, typically three years.

Inventories consist of the following:

	As of September 30, 2021	As of December 31, 2020
Raw materials	\$ 35,219	\$ 29,955
Finished goods	20,288	17,436
Inventories, net	\$ 55,507	\$ 47,391
Service and sales demonstration inventory, net	\$ 31,025	\$ 31,831

NOTE 8 – LOSS PER SHARE

Basic loss per share is computed by dividing net loss by the weighted average number of shares outstanding. Diluted 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 performance-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. Performance-based awards are included in the computation of diluted earnings per share only to the extent that the underlying performance 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 nine months ended September 30, 2021, there were approximately 393,995 shares issuable upon the exercise of options, the vesting of time-based restricted stock and the contingent vesting of performance-based restricted stock units that were excluded from the dilutive calculations, as they were anti-dilutive. For the three and nine months ended September 30, 2020, there were approximately 871,864 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 loss per share is presented below:

	Three Months Ended			
	September 30, 2021		September 30, 2020	
	Shares	Per-Share Amount	Shares	Per-Share Amount
Basic loss per share	18,194,960	\$ (0.21)	17,797,390	\$ (0.17)
Effect of dilutive securities	—	—	—	—
Diluted loss per share	18,194,960	\$ (0.21)	17,797,390	\$ (0.17)

	Nine Months Ended			
	September 30, 2021		September 30, 2020	
	Shares	Per-Share Amount	Shares	Per-Share Amount
Basic loss per share	18,166,930	\$ (0.45)	17,757,359	\$ (1.51)
Effect of dilutive securities	—	—	—	—
Diluted loss per share	18,166,930	\$ (0.45)	17,757,359	\$ (1.51)

NOTE 9 – ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	As of September 30, 2021	As of December 31, 2021
Accrued compensation and benefits	\$ 17,319	\$ 17,4
Accrued restructuring costs	1,493	2,3
Accrued warranties	1,673	1,6
Professional and legal fees	2,743	1,8
Taxes other than income	2,139	5,0
General services administration contract contingent liability (see Note 12)	—	12,3
Other accrued liabilities	1,258	1,9
	<u>\$ 26,625</u>	<u>\$ 42,5</u>

Activity related to accrued warranties was as follows:

	Nine Months Ended	
	September 30, 2021	September 30, 2020
Balance, beginning of period	\$ 1,683	\$ 2,0
Provision for warranty expense	1,941	1,1
Fulfillment of warranty obligations	(1,951)	(1,6)
Balance, end of period	<u>\$ 1,673</u>	<u>\$ 1,6</u>

NOTE 10 – FAIR VALUE MEASUREMENTS

Our financial instruments include cash and cash equivalents, short-term investments, 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 September 30, 2021		
	Level 1	Level 2	Level 3
Liabilities:			
Contingent consideration ⁽¹⁾	\$ —	\$ —	\$ 1,0
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,0</u>
	As of December 31, 2020		
	Level 1	Level 2	Level 3
Liabilities:			
Contingent consideration ⁽¹⁾	\$ —	\$ —	\$ 1,0
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,0</u>

(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 \$1.2 million as of September 30, 2021. 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 includes decreasing total headcount by approximately 500 employees upon the completion of the Restructuring Plan.

These activities are expected to be substantially completed by the end of the first half of 2022. Pre-tax charges of approximately \$49 million were recorded in the fourth quarter of 2019 in connection with the implementation of our new strategic plan and included the following:

- \$21.2 million impairment of goodwill;
- \$12.8 million charge, increasing our reserve for excess and obsolete inventory;
- \$10.5 million impairment of intangible assets associated with recent acquisitions;
- \$1.4 million impairment of intangible assets related to capitalized patents;
- \$3.4 million impairment of other assets and other charges.

In connection with the Restructuring Plan, we recorded a pre-tax charge of approximately \$15.8 million during the year ended December 31, 2020 primarily consisting of severance and related benefits, professional fees and other related charges and costs including a non-cash expense of \$0.4 million related to the disposal of our Photonics business and 3D Design related assets. We received \$0.7 million in cash payments for the disposal of our Photonics business and 3D Design related assets in the second quarter of 2020. We are continuing to execute our cost reduction initiatives to achieve our 20% target EBITDA margins that could result in additional pre-tax charges in the range of \$5 million to \$15 million through the end of the first half of fiscal year 2022.

On July 15, 2021, we entered into a manufacturing services agreement (the “Agreement”) with Sanmina Corporation (“Sanmina”), in connection with the Restructuring Plan. Under the Agreement, Sanmina will provide manufacturing services for the Company’s measurement device products currently manufactured by the Company at the Company’s Lake Mary, Florida, Exton, Pennsylvania, and Stuttgart, Germany manufacturing sites. A phased transition to a Sanmina production facility is expected to be completed by the end of the second quarter of 2022 as part of our cost reduction initiative. The Company expects to incur a cash charge of approximately \$2 million in the fourth quarter of 2021, primarily consisting of professional fees and other related charges, and approximately \$4 million in fiscal year 2022, primarily consisting of severance and related benefits.

Actual results, including the costs of the Restructuring Plan, may differ materially from our expectations, resulting in our inability to realize the expected benefits of the Restructuring Plan and our new strategic plan and negatively impacting our ability to execute our future plans and strategies, which could have a material adverse effect on our business, financial condition and results of operations.

In connection with the Restructuring Plan, we paid \$13.1 million during the year ended December 31, 2020 and \$4.5 million during the nine months ended September 30, 2021, primarily consisting of severance and related benefits. Activity related to the accrued restructuring charge and cash payments for the nine months ended September 30, 2021 was as follows:

	Severance and other benefits	Professional fees and other related charges	Total
Balance at December 31, 2020	\$ 1,481	\$ 867	\$ 2,348
Additions charged to expense	2,515	1,164	3,679
Cash payments	(2,784)	(1,750)	(4,534)
Balance at September 30, 2021	<u>\$ 1,212</u>	<u>\$ 281</u>	<u>\$ 1,493</u>
Balance at February 14, 2020	\$ —	\$ —	\$ —
Additions charged to expense	11,633	2,580	14,213
Cash payments	(8,265)	(2,518)	(10,783)
Balance at September 30, 2020	<u>\$ 3,368</u>	<u>\$ 62</u>	<u>\$ 3,430</u>

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 September 30, 2021, we had approximately \$40.6 million in purchase commitments that are expected to be delivered within the next 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 March 31, 2021, we settled and paid the full \$12.3 million and 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 September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Operating lease cost	\$ 2,010	\$ 2,245	\$ 5,901	\$ 6,306
Finance lease cost:				
Amortization of ROU assets	60	77	221	237
Interest on lease liabilities	5	6	14	23
Total finance lease cost	\$ 65	\$ 83	\$ 235	\$ 260

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 cost for the three months ended September 30, 2021 and September 30, 2020 were both less than \$0.1 million. Our short-term lease cost for the nine months ended September 30, 2021 and September 30, 2020 were both \$0.1 million.

Supplemental balance sheet information related to leases was as follows:

	As of September 30, 2021	As of December 31, 2020
Operating leases:		
Operating lease right-of-use assets	\$ 23,586	\$ 26,107
Current operating lease liabilities	\$ 5,466	\$ 5,557
Operating lease liabilities - less current portion	19,639	21,985
Total operating lease liabilities	\$ 25,105	\$ 27,542
Finance leases:		
Property and equipment, at cost	\$ 1,342	\$ 1,813
Accumulated depreciation	(1,118)	(1,415)
Property and equipment, net	\$ 224	\$ 398
Current finance lease liabilities	\$ 164	\$ 278
Finance lease liabilities - less current portion	85	146
Total finance lease liabilities	\$ 249	\$ 424
Weighted Average Remaining Lease Term (in years):		
Operating leases	5.92	6.55
Finance leases	1.82	1.93
Weighted Average Discount Rate:		
Operating leases	5.68 %	5.66 %
Finance leases	5.12 %	5.07 %

Supplemental cash flow information related to leases was as follows:

	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 5,874	\$ 6,451
Operating cash flows from finance leases	\$ 14	\$ 23
Financing cash flows from finance leases	\$ 229	\$ 237
ROU assets obtained in exchange for lease obligations:		
Operating leases	\$ 1,209	\$ 1,758

Maturities of lease liabilities are as follows:

Year Ending December 31,	Operating leases		Finance leases	
2021 (excluding the first 9 months)	\$	1,859	\$	66
2022		6,324		123
2023		5,455		45
2024		4,623		20
2025		3,248		6
Thereafter		8,229		1
Total lease payments	\$	29,738	\$	261
Less imputed interest		(4,633)		(12)
Total	\$	25,105	\$	249

NOTE 14 – INCOME TAXES

For both the three months ended September 30, 2021 and September 30, 2020, we recorded an income tax benefit of \$1.7 million. Our effective tax rate was 30.1% for the three months ended September 30, 2021 compared with 36.5% in the prior year period. The change in our effective tax rate was primarily associated with discrete tax items and a shift in the geographic mix of pretax income expected for the full year 2021.

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.

NOTE 15 - BUSINESS COMBINATIONS

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 \$34 million paid, net of cash acquired, subject to certain additional post-closing adjustments. We believe this acquisition enables the Company to provide reality-capture photo documentation and added remote access capability for industries such as construction management further expanding the Company’s 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 September 30, 2021.

The acquisition of Holobuilder constitutes a business combination as defined by ASC Topic 805, *Business Combinations*. Accordingly, the assets acquired and liabilities assumed were recorded at their fair values on the date of acquisition. The purchase price allocations below represent our preliminary determination of the fair value of the assets acquired and liabilities assumed for the acquisitions.

Following is a preliminary summary of our allocations of the purchase price to the fair values of the assets acquired and liabilities assumed as of the date of the acquisition:

	<u>Fair Value (Preliminary)</u>
Tangible assets acquired:	
Accounts receivable	\$ 192
Property, plant and equipment, net	46
Other assets	7
Total assets acquired	245
Liabilities assumed:	
Accounts payable and accrued liabilities	(56)
Deferred revenue	(2,732)
Total liabilities assumed	(2,788)
Intangible assets	10,470
Net deferred tax asset	987
Net assets acquired	8,914
Goodwill	24,994
Purchase price paid, net of cash acquired	\$ 33,908

The goodwill arising from the acquisition consists largely of the expected synergies from combining operations as well as the value of the workforce. This goodwill is not tax deductible. Acquisition and integration costs are not included as components of consideration transferred, but are recorded as expense in the period in which such costs are incurred. As of September 30, 2021, we have incurred \$0.3 million of acquisition or integration costs for the Holobuilder acquisition. Pro forma financial results for Holobuilder have not been presented because the effects of these transactions, individually and in the aggregate, were not material to our condensed consolidated financial results.

Following are the details of the preliminary purchase price allocated to the intangible assets acquired for the Holobuilder acquisition:

	Amount	Weighted Average Life (Years)
Brand	\$ 370	3
Technology	6,800	5
Customer relationships	3,300	12
Fair value of intangible assets acquired	\$ 10,470	8

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 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, 2020.

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, 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. 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 COVID-19 pandemic, including on our business operations, as well as its impact on general economic and financial market conditions;
- our inability to realize the intended benefits of our undertaking to transition to a company that is reorganized around functions to improve the efficiency of our sales organization and to improve operational effectiveness;
- our inability to successfully execute our new strategic plan and restructuring plan, including but not limited to additional impairment charges 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 or inflationary pressures;
- 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 adequately establish and 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;
- 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;
- the effect of estimates and assumptions with respect to critical accounting policies and the impact of the adoption of recently issued accounting pronouncements;
- 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 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, 2020 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”) and public safety analytics markets. We enable our customers to capture, measure, manipulate, interact with and share data from the physical world in a virtual environment and then translate this information back into the physical domain. Our technology enables highly accurate 3D measurement, imaging, comparison and projection of parts and complex structures within production, assembly and quality assurance processes. 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, 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 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.

We manufacture our FARO Quantum Arm products in our manufacturing facility located in Florida for customer orders from Europe, the Middle East and Africa (“EMEA”) and from the Americas, as well as in our manufacturing facility located in Singapore for customer orders from the Asia-Pacific region. We manufacture our FARO Focus laser scanner in our manufacturing facilities located in Germany for customer orders from EMEA and the Asia-Pacific region, and in our manufacturing facility located in Pennsylvania for customer orders from the Americas. We manufacture our FARO Laser Tracker and our FARO Laser Projector products in our facility located in Pennsylvania. We expect all of our existing manufacturing facilities and third party resources to have the production capacity necessary to support our volume requirements during 2021.

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 condensed 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 2020 or the nine months ended September 30, 2021.

New Strategic Plan and 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 includes decreasing total headcount by approximately 500 employees upon the completion of the Restructuring Plan.

These activities are expected to be substantially completed by the end of the first half of 2022. Pre-tax charges of approximately \$49 million were recorded in the fourth quarter of 2019 in connection with the implementation of our new strategic plan and included the following:

- \$21.2 million impairment of goodwill;
- \$12.8 million charge, increasing our reserve for excess and obsolete inventory;
- \$10.5 million impairment of intangible assets associated with recent acquisitions;

- \$1.4 million impairment of intangible assets related to capitalized patents;
- \$3.4 million impairment of other assets and other charges.

In connection with the Restructuring Plan, we recorded a pre-tax charge of approximately \$15.8 million during the year ended December 31, 2020 primarily consisting of severance and related benefits, professional fees and other related charges and costs including a non-cash expense of \$0.4 million related to the disposal of our Photonics business and 3D Design related assets. We received \$0.7 million in cash payments for the disposal of our Photonics business and 3D Design related assets in the second quarter of 2020. We are continuing to execute our cost reduction initiatives to achieve our 20% target EBITDA margins that could result in additional pre-tax charges in the range of \$5 million to \$15 million through end of the first half of fiscal year 2022.

On July 15, 2021, we entered into a manufacturing services agreement (the "Agreement") with Sanmina Corporation ("Sanmina"), in connection with the Restructuring Plan. Under the Agreement, Sanmina will provide manufacturing services for the Company's measurement device products currently manufactured by the Company at the Company's Lake Mary, Florida, Exton, Pennsylvania, and Stuttgart, Germany manufacturing sites. A phased transition to a Sanmina production facility is expected to be completed by the end of the second quarter of 2022 as part of our cost reduction initiative. The Company expects to incur a cash charge of approximately \$2 million in the fourth quarter of 2021, primarily consisting of professional fees and other related charges, and approximately \$4 million in fiscal year 2022, primarily consisting of severance and related benefits.

Actual results, including the costs of the Restructuring Plan, may differ materially from our expectations, resulting in our inability to realize the expected benefits of the Restructuring Plan and our new strategic plan and negatively impacting our ability to execute our future plans and strategies, which could have a material adverse effect on our business, financial condition and results of operations.

In connection with the Restructuring Plan, we paid \$13.1 million during the year ended December 31, 2020 and \$4.5 million during the nine months ended September 30, 2021, primarily consisting of severance and related benefits.

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.

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 September 30,				Nine months ended September 30,			
	2021	% of Sales	2020	% of Sales	2021	% of Sales	2020	% of Sales
Sales								
Product	\$ 57,838	73.1 %	\$ 48,082	68.0 %	\$ 172,748	72.7 %	\$ 146,866	69.7 %
Service	21,331	26.9 %	22,654	32.0 %	64,862	27.3 %	63,949	30.3 %
Total sales	79,169	100.0 %	70,736	100.0 %	237,610	100.0 %	210,815	100.0 %
Cost of Sales								
Product	25,650	32.4 %	22,413	31.7 %	75,909	31.9 %	66,812	31.7 %
Service	11,188	14.1 %	12,025	17.0 %	33,481	14.1 %	34,936	16.6 %
Total cost of sales	36,838	46.5 %	34,438	48.7 %	109,390	46.0 %	101,748	48.3 %
Gross Profit	42,331	53.5 %	36,298	51.3 %	128,220	54.0 %	109,067	51.7 %
Operating Expenses								
Selling, general and administrative	33,433	42.2 %	30,163	42.6 %	100,375	42.2 %	96,523	45.8 %
Research and development	12,731	16.1 %	10,754	15.2 %	36,464	15.3 %	31,355	14.9 %
Restructuring costs	1,376	1.7 %	239	0.3 %	3,679	1.5 %	14,563	6.9 %
Total operating expenses	47,540	60.0 %	41,156	58.2 %	140,518	59.1 %	142,441	67.6 %
Loss from operations	(5,209)	(6.6) %	(4,858)	(6.9) %	(12,298)	(5.2) %	(33,374)	(15.8) %
Other (income) expense								
Interest expense, net	5	— %	161	0.2 %	54	— %	407	0.2 %
Other expense (income), net	299	0.4 %	(256)	(0.4) %	(433)	(0.2) %	334	0.2 %
Loss before income tax benefit	(5,513)	(7.0) %	(4,763)	(6.7) %	(11,919)	(5.0) %	(34,115)	(16.2) %
Income tax benefit	(1,658)	(2.1) %	(1,739)	(2.5) %	(3,667)	(1.5) %	(7,336)	(3.5) %
Net loss	\$ (3,855)	(4.9) %	\$ (3,024)	(4.3) %	\$ (8,252)	(3.5) %	\$ (26,779)	(12.7) %

Consolidated Results

Three Months Ended September 30, 2021 Compared to the Three Months Ended September 30, 2020

Sales. Total sales increased by \$8.5 million, or 11.9%, to \$79.2 million for the three months ended September 30, 2021 from \$70.7 million for the three months ended September 30, 2020. Total product sales increased by \$9.7 million, or 20.3%, to \$57.8 million for the three months ended September 30, 2021 from \$48.1 million for the three months ended September 30, 2020. The increase in sales is primarily the result of the recovery from the economic effect of the COVID-19 pandemic which adversely affected the prior year. Service revenue decreased by \$1.4 million, or 5.8%, to \$21.3 million for the three months ended September 30, 2021 from \$22.7 million for the three months ended September 30, 2020, primarily due to a decrease in warranty renewals driven by the COVID-19 pandemic. This decrease in renewal rates in 2020, led to lower ratable revenue recognition in 2021. Foreign exchange rates had a positive impact on total sales of \$0.8 million, increasing the percent that our overall sales increased by approximately 1.1 percentage points, primarily due to the strengthening of the Euro relative to the U.S. dollar.

Gross profit. Gross profit increased by \$6.0 million, or 16.6%, to \$42.3 million for the three months ended September 30, 2021 from \$36.3 million for the three months ended September 30, 2020, and gross margin increased to 53.5% for the three months ended September 30, 2021 from 51.3% for the three months ended September 30, 2020. Gross margin from product revenue increased by 2.3 percentage points to 55.7% for the three months ended September 30, 2021 from 53.4% for the prior year period primarily due to changes in product mix, and the favorable impact of the recovery from the economic effect of the COVID-19 pandemic which adversely affected our product fixed cost absorption in the prior year, partially offset by unfavorable price variances in the current year due to global supply shortages. Gross margin from service revenue increased by 0.7 percentage points to 47.6% for the three months ended September 30, 2021 from 46.9% for the prior year period, primarily due to a reduction in departmental costs as a result of the Restructuring Plan.

Selling, general and administrative expenses. Selling, general and administrative expenses increased by \$3.2 million, or 10.8%, to \$33.4 million for the three months ended September 30, 2021 from \$30.2 million for the three months ended September 30, 2020. This increase was driven primarily by an increase in selling commission expense due to higher global sales and an increase in travel expense as there were pandemic stay-at-home orders in the prior year. Selling, general and administrative expenses as a percentage of sales remained consistent at 42.2% for both the three months ended September 30, 2021, and the three months ended September 30, 2020. Our worldwide period-ending selling, general and administrative headcount increased by 85, or 12.7%, to 753 at September 30, 2021, from 668 at September 30, 2020.

Research and development expenses. Research and development expenses increased by \$1.9 million, or 18.4%, to \$12.7 million for the three months ended September 30, 2021 from \$10.8 million for the three months ended September 30, 2020. This increase was primarily driven by higher compensation expense resulting from increased engineering headcount and costs to accelerate new product development. Research and development expenses as a percentage of sales increased to 16.1% for the three months ended September 30, 2021 from 15.2% for the three months ended September 30, 2020.

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 \$1.2 million to \$1.4 million for the three months ended September 30, 2021 from \$0.2 million for the three months ended September 30, 2020 primarily consisting of additional severance and related benefits charges as part of our phased transition to our third party contract manufacturer, Sanmina.

Interest expense, net. We recorded net interest expense of less than \$0.1 million and \$0.2 million for the three months ended September 30, 2021 and three months ended September 30, 2020, respectively.

Other expense (income), net. For the three months ended September 30, 2021, other expense was \$0.3 million compared with other income of \$0.3 million for the three months ended September 30, 2020. This change was primarily driven by the effect of foreign exchange rates.

Income tax benefit. For both the three months ended September 30, 2021 and for the three months ended September 30, 2020, we recorded an income tax benefit of \$1.7 million. Our effective tax rate was 30.1% for the three months ended September 30, 2021 compared with 36.5% in the prior year period. The change in our effective tax rate was primarily associated with discrete tax items and a shift in the geographic mix of pretax income expected for the full year 2021.

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.

Net loss. Our net loss was \$3.9 million for the three months ended September 30, 2021 compared with net loss of \$3.0 million for the prior year period, reflecting the impact of the factors described above.

Nine Months Ended September 30, 2021 Compared to the Nine Months Ended September 30, 2020

Sales. Total sales increased by \$26.8 million, or 12.7%, to \$237.6 million for the nine months ended September 30, 2021 from \$210.8 million for the nine months ended September 30, 2020. Total product sales increased by \$25.9 million, or 17.6%, to \$172.7 million for the nine months ended September 30, 2021 from \$146.9 million for the nine months ended September 30, 2020. The increase in sales is primarily the result of the recovery from the economic effect of the COVID-19 pandemic which adversely affected the prior year. Similarly, service revenue increased by \$0.9 million, or 1.4%, to \$64.9 million for the nine months ended September 30, 2021 from \$63.9 million for the nine months ended September 30, 2020. Foreign exchange rates had a positive impact on total sales of \$6.5 million, increasing the percent that our overall sales increased by approximately 3.1 percentage points, primarily due to the strengthening of the Euro relative to the U.S. dollar.

Gross profit. Gross profit increased by \$19.1 million, or 17.6%, to \$128.2 million for the nine months ended September 30, 2021 from \$109.1 million for the nine months ended September 30, 2020 and gross margin increased to 54.0% for the nine months ended September 30, 2021 from 51.7% for the nine months ended September 30, 2020. Gross margin from product revenue increased by 1.6 percentage points to 56.1% for the nine months ended September 30, 2021 from 54.5% for the prior year period, primarily due to changes in product mix, and the favorable impact of the recovery related to the COVID-19 pandemic which adversely affected our product fixed cost absorption in the prior year, partially offset by unfavorable price variances in the current year due to global supply shortages. Gross margin from service revenue increased by 3.0 percentage points to 48.4% for the nine months ended September 30, 2021 from 45.4% for the prior year period, primarily due to a reduction in departmental costs as a result of the Restructuring Plan.

Selling, general and administrative expenses. Selling, general and administrative expenses increased by \$3.9 million, or 4.0%, to \$100.4 million for the nine months ended September 30, 2021 from \$96.5 million for the nine months ended

September 30, 2020. This increase was driven primarily by an increase in selling commission expense due to higher global sales and an increase in travel expense as there were pandemic stay-at-home orders in the prior year. Selling, general and administrative expenses as a percentage of sales decreased to 42.2% for the nine months ended September 30, 2021, compared with 45.8% of sales for the nine months ended September 30, 2020. Our worldwide period-ending selling headcount increased by 85, or 12.7%, to 753 at September 30, 2021, from 668 at September 30, 2020.

Research and development expenses. Research and development expenses increased by \$5.1 million, or 16.3%, to \$36.5 million for the nine months ended September 30, 2021 from \$31.4 million for the nine months ended September 30, 2020. This increase was primarily driven by higher compensation expense resulting from increased engineering headcount and costs to accelerate new product development. Research and development expenses as a percentage of sales increased to 15.3% for the nine months ended September 30, 2021 from 14.9% for the nine months ended September 30, 2020.

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 \$10.9 million to \$3.7 million for the nine months ended September 30, 2021 from \$14.6 million for the nine months ended September 30, 2020 primarily driven by the reduction of severance and related benefits.

Interest expense, net. For the nine months ended September 30, 2021, we recorded interest expense of \$0.1 million compared with interest expense of \$0.4 million for the nine months ended September 30, 2020.

Other expense (income), net. For the nine months ended September 30, 2021, other income was \$0.4 million as compared to other expense of \$0.3 million for the nine months ended September 30, 2020. This change was primarily driven by the effect of foreign exchange rates as well as COVID-19 related foreign incentives received in the current year.

Income tax benefit. For the nine months ended September 30, 2021, we recorded an income tax benefit of \$3.7 million compared with income tax benefit of \$7.3 million for the nine months ended September 30, 2020. Our effective tax rate was 30.8% for the nine months ended September 30, 2021 compared with 21.5% in the prior year period. The change in our income benefit was primarily due to a lower pretax loss during the first nine months of 2021 and changes in our effective tax rate. The change in our effective tax rate was primarily associated with discrete tax items, and a shift in the geographic mix of pretax income expected for the full year 2021.

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 \$8.3 million for the nine months ended September 30, 2021 compared to \$26.8 million for the prior year period, reflecting the impact of the factors described above.

Liquidity and Capital Resources

Cash and cash equivalents decreased by \$59.8 million to \$125.8 million at September 30, 2021 from \$185.6 million at December 31, 2020. The decrease was primarily driven by net cash used in operating and investing activities. Cash used in operating activities was \$15.6 million during the nine months ended September 30, 2021, compared to \$10.8 million of cash provided by operations during the nine months ended September 30, 2020. The change was due to changes in working capital accounts, primarily a decrease in accounts payable and accrued liabilities driven by the \$12.3 million settlement of liability related to the GSA matter, as well as an increase in raw material inventories in preparation for our phased transition to our third party contract manufacturer, Sanmina.

Cash used in investing activities during the nine months ended September 30, 2021 was \$40.7 million compared to cash provided by investing activities of \$16.1 million during the nine months ended September 30, 2020. The change was primarily due to the \$34.0 million used in the acquisition of a business during the nine months ended September 30, 2021, as compared to the maturity of U.S. Treasury Bills amounting to \$25.0 million during the nine months ended September 30, 2020 without such activity during the nine months ended September 30, 2021.

Cash provided by financing activities was \$1.5 million during the nine months ended September 30, 2021 compared to cash provided by financing activities of \$1.8 million for the nine months ended September 30, 2020. The change was primarily due to larger payments for taxes related to the net share settlement of equity awards during the nine months ended September 30, 2021 compared to during the nine months ended September 30, 2020.

Of our cash and cash equivalents, \$90.5 million was held by foreign subsidiaries as of September 30, 2021. 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. The Company has reinvested a large portion of its undistributed foreign earnings and profits in acquisitions and other investments and intends to bring back a portion of foreign cash in certain jurisdictions where the Company 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 nine month period ended September 30, 2021 under this program. As of September 30, 2021, 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 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 September 30, 2021, we had \$40.6 million in purchase commitments that are expected to be delivered within the next 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, 2020.

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, 2020, as filed with the Securities and Exchange Commission on February 17, 2021. As of September 30, 2021, our critical accounting policies have not changed from those described in our Annual Report on Form 10-K for the year ended December 31, 2020.

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 nine months ended September 30, 2021, 61% of our revenue was invoiced, and a significant portion of our operating expenses were paid, in foreign currencies, and 33% 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, Swiss Franc, Japanese Yen, 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 2020 or the nine months ended September 30, 2021.

Item 4. Controls and Procedures

Evaluation of Disclosure 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.

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 September 30, 2021. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2021 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 September 30, 2021, 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, 2020, as updated by our Quarterly Report on Form 10-Q for the quarter ended September 30, 2021, each as filed with the SEC, before deciding to invest in, or retain, shares of our common stock. These risks 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, 2020 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, 2020, other than as updated by our subsequent quarterly reports on Form 10-Q, including as set forth below.

The risk factor entitled “Increases in the cost of raw materials or components used in our products could negatively impact our business and profitability.” has been updated to read as follows:

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, and supply shortages. 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 and inflationary pressures 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.

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

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 nine month period ended September 30, 2021 under this program. As of September 30, 2021, we had authorization to repurchase \$18.3 million remaining under the repurchase program.

Item 5. Other Information*Revised Non-Employee Director Compensation Program*

On July 23, 2021, the Board approved revisions to the Non-Employee Director Compensation Policy (the "Policy"). Under these revisions, the Company's non-employee directors will be compensated for service on the Board as set forth in the following table:

Annual Cash Retainer:	\$	60,000	
Additional Annual Retainers:			
Nominating, Governance and Sustainability Committee Chairperson	\$	20,000	
Audit Committee Chairperson	\$	20,000	
Talent, Development, and Compensation Committee Chairperson	\$	20,000	
Non-Employee Chairman	\$	75,000	
Initial Equity Grant	\$	100,000	(a)
Annual Equity Grant	\$	175,000	(b)

(a) Upon election to the Board, each non-employee director receives restricted stock units with a value equal to \$100,000, calculated by using the closing price of our common stock on the date of the non-employee director's election to the Board. The initial restricted stock unit grant vests on the third anniversary of the grant date, subject to the non-employee director's continued membership on the Board as of such date.

(b) On the day following the annual meeting of shareholders, each director receives restricted stock units with a value equal to that indicated in the above chart, calculated by using the closing price of our common stock on the day following the annual meeting of shareholders. The annual restricted stock unit grant vests the day prior to the following year's annual meeting date, subject to a director's continued membership on the Board as of such date.

Item 6. Exhibits

INDEX TO EXHIBITS

3.1	Amended and Restated Articles of Incorporation, as amended (Filed as Exhibit 3.1 to our Registration Statement on Form S-1/A filed September 10, 1997, and incorporated herein by reference)
3.2	Amended and Restated Bylaws (Filed as Exhibit 3.1 to our Current Report on Form 8-K, filed March 27, 2020 and incorporated herein by reference)
4.1	Specimen Stock Certificate (Filed as Exhibit 4.1 to our Registration Statement on Form S-1/A filed September 10, 1997, and incorporated herein by reference)
10.1**	Transition and Separation Agreement by and Between FARO Technologies, Inc. and Katrona Tyrrell dated June 28, 2021 (Filed as Exhibit 10.1 to our Current Report on Form 8-K, filed July 2, 2021 and incorporated herein by reference)
10.2***	Summary of Director Compensation Program (Effective July 1, 2021)
10.3**	Manufacturing Services Agreement by and Between FARO Technologies, Inc. and Sanmina corporation dated July 15, 2021
31-A	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
31-B	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
32-A*	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
32-B*	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
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.*)

* - Furnished herewith

** - Certain portions of this Exhibit have been redacted pursuant to Item 601(b)(10) of Regulation S-K because they are both (i) not material and (ii) would likely cause competitive harm to the registrant if publicly disclosed. The registrant agrees to furnish supplementally an unredacted copy of this Exhibit to the SEC upon request.

*** - This exhibit is being re-filed to correct the effective date of the Director Compensation Program.

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: October 27, 2021

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



Summary of Director Compensation Program
(Effective July 1, 2021)

Annual Cash Retainer:	\$	60,000
Additional Annual Retainers:		
Nominating, Governance and Sustainability Committee Chairperson	\$	20,000
Audit Committee Chairperson	\$	20,000
Talent, Development, and Compensation Committee Chairperson	\$	20,000
Non-Employee Chairman	\$	75,000
Initial Equity Grant	\$	100,000 (a)
Annual Equity Grant	\$	175,000 (b)

(a) Upon election to the Board, each non-employee director receives restricted stock units with a value equal to \$100,000, calculated by using the closing price of our common stock on the date of the non-employee director's election to the Board. The initial restricted stock unit grant vests on the third anniversary of the grant date, subject to the non-employee director's continued membership on the Board as of such date.

(b) On the day following the annual meeting of shareholders, each director receives restricted stock units with a value equal to that indicated in the above chart, calculated by using the closing price of our common stock on the day following the annual meeting of shareholders. The annual restricted stock unit grant vests the day prior to the following year's annual meeting date, subject to a director's continued membership on the Board as of such date.

NOTE: Certain portions of this Exhibit have been redacted pursuant to Item 601(b)(10) of Regulation S-K because they are both (i) not material and (ii) would likely cause competitive harm to the registrant if publicly disclosed. The registrant agrees to furnish supplementally an unredacted copy of this Exhibit to the SEC upon request.

MANUFACTURING SERVICES AGREEMENT

THIS MANUFACTURING SERVICES AGREEMENT (the "**Agreement**") is effective as of the date of last signing of the Parties below (the "**Effective Date**"), by and between FARO Technologies, Inc. a Florida corporation having a principal place of business at 250 Technology Park, Lake Mary, 32746, on behalf of itself and its affiliates or subsidiaries (collectively "**CUSTOMER**") and **SANMINA CORPORATION**, a Delaware corporation having its principal place of business at 2700 North First Street, San Jose, California 95134, on behalf of itself and its affiliates or subsidiaries (collectively "**SANMINA**"). **CUSTOMER** and **SANMINA** are sometimes referred to herein as a "Party" and the "Parties."

1. TERM

The initial term of this Agreement shall commence on the Effective Date and shall continue through the third anniversary of the Effective Date unless sooner terminated by mutual agreement or in accordance with this Agreement ("**Initial Term**"). Upon the expiry of the Initial Term, this Agreement shall continue from year to year until one Party terminates the Agreement by giving at least twelve (12) months' prior written notice to the other Party (each, a "**Renewal Term**"). The Initial Term together with any Renewal Term(s) is referred to as the "**Term**". Notwithstanding the foregoing, the term of this Agreement shall automatically extend to include the term of any purchase order ("**Order**") issued hereunder. This agreement is not exclusive. For the initial transition from **CUSTOMER** performing as **CUSTOMER**'s manufacturer to **SANMINA** performing as **CUSTOMER**'s manufacturer, **SANMINA** shall make reasonable efforts to meet the obligations and timeline as set forth in the Transition Timeline, with the understanding that **SANMINA**'s ability to meet such obligations and timeline is dependent on **CUSTOMER**'s participation and timely provision of deliverables, expertise, and answers to questions. The Transition Timeline is attached herein as Exhibit D. The manufacturing will be primarily established and maintained at **SANMINA**'s facility in Thailand, and will also include its facility in Texas, unless otherwise agreed by **CUSTOMER** ("**Sanmina Facilities**"). The facility in the Czech Republic will be utilized by the Parties for fulfillment as further described in Section 4.2(i) and a separate services agreement. Any change in the facilities used by **SANMINA** to perform under this Agreement is subject to prior written approval of **CUSTOMER**.

2. PRICING

2.1 **Pricing.** During the term, **CUSTOMER** may purchase from **SANMINA** the products specified by the Parties, as amended from time to time (the "**Products**") at the prices set forth in Exhibit A (the "**Prices**"). Prices (a) are in U.S. Dollars, (b) include **SANMINA** standard packaging, (c) exclude the items set forth in Section 2.2, and (d) are based on (i) the configuration set forth in the specifications provided to **SANMINA** by **CUSTOMER** (the "**Specifications**") on which the pricing in Exhibit A is based and (ii) the projected volumes, minimum run rates, the projected inventory turns and other pricing assumptions expressly provided in Exhibit A. The Prices will remain fixed for each quarter. The Prices shall be reviewed quarterly, and may be revised (x) to account for any material variations on the market prices of components, parts and raw material (collectively "**Components**"), including any such variations resulting from allocations or shortages or tariffs levied on the Components; (y) to account for any changes in the exchange rate between the currency in which the pricing is calculated and the currency in which **SANMINA** pays for its labor, overhead and Components or (z) to account for the price adjustments set forth in Section 2.3 and cost reductions set forth in Section 2.4. Revisions to the Prices in the quarterly reviews will reflect any changes in costs of Components or resulting from change in exchange rate or pricing assumptions set forth in Exhibit A or from any additional costs

savings per Section 2.4. Prices will not be increased in any quarterly review unless (and only to the extent) those costs actually increase above the quoted BOM costs, assembly or test times or labor rates that had been used to establish the then-current Pricing. Adjustments to Prices will be determined using proper cost allocation methodologies consistently applied and agreed margin percentages and rates as set forth in Exhibit A, and will apply to Orders placed on or after the agreed date the new Pricing is to be implemented and to any existing Orders impacted by such Pricing changes; however, Pricing changes due to changes in Component cost will only apply once existing Components have been consumed or if the existing inventory of such Component has been revalued and paid for accordingly. Cost reductions from initial localization activities will be implemented as the changes are implemented and passed through in full to CUSTOMER minus applicable recovery of costs related to such implementation; Localization cost reductions shall be any cost improvement heralded from changing Vendors. Vendors may be proposed or recommended by SANMINA, and all Vendors shall be approved by CUSTOMER and become part of the CUSTOMER's AVL prior to SANMINA purchasing from them. Such shall be reported in the quarterly business reviews. On the last Monday of the third month of any calendar quarter prior to the quarter of application, the Parties shall establish the exchange rates ("**Contract Rates**") to be applied to the following quarter's costs (for those costs denominated in currencies different from the currency in which the Price is denominated). The source of the Contract Rates will be the spot rates published by the *Wall Street Journal* or the *Financial Times of London* (CUSTOMER's option) reflecting the previous day's closing rates. To the extent Pricing changes are due to changes in Component cost, on hand inventory of those Components will be consumed at the previous pricing (to be reconciled quarterly at quarter end), or may be revalued by CUSTOMER placing a purchase order for the difference.

2.2 Exclusions from Price. Prices specifically exclude (a) export licensing of the Product and payment of broker's fees, duties, tariffs and other similar charges; (b) taxes or charges (other than those based on net income of SANMINA) imposed by any taxing authority upon the manufacture, sale, shipment, storage, "value add" or use of the Product; and (c) setup, tooling, or non-recurring engineering activities (collectively "**NRE Charges**"), which are charged and/or paid separately, as applicable. Any NRE Charges or other amounts excluded from the Prices may only be charged to CUSTOMER as expressly set forth in this Agreement or otherwise approved in advance in writing by CUSTOMER.

2.3 Other Price Adjustments:

(a) CUSTOMER acknowledges that the Prices set forth in Exhibit A are based on the forecasted volumes provided by CUSTOMER to SANMINA and the projected inventory turns as provided in Exhibit A. In the event CUSTOMER fails to purchase Product in sufficient volumes consistent with the quoted prices, Prices will be subject to adjustment in the quarterly pricing review as described in Section 2.1 above.

(b) CUSTOMER acknowledges that the Prices are based on the Specifications and the assumptions set forth in Exhibit A. In the event SANMINA experiences an increase in cost as a result of changes in the pricing assumptions or the Specifications, Prices will be subject to adjustment in the quarterly pricing review as set forth in Section 2.1.

(c) CUSTOMER may request a price review meeting for particular transactions where cost savings may be realized (e.g., large order from end-customer) outside of the quarterly review meetings under Section 2.1. In such event, the Parties will review and agree on a credit amount to be provided after the conditions of the transaction are met including volume

and any other criteria on which the price reduction was based. Pricing for other transactions will remain unchanged until the next quarterly review meeting unless otherwise agreed by the Parties.

2.4 Cost Reductions. Cost reductions from transition and localization of manufacturing to SANMINA will be passed through in full to CUSTOMER, after the costs of implementing such cost reductions are recovered. After transition and localization, the Parties agree to seek ways to further reduce the cost of manufacturing the Products by methods such as elimination of Components via an engineering change order or Value Add Value Engineering activity, obtaining alternate sources of materials for CUSTOMER to add to its AVL, redefinition of specifications, and improved assembly or test methods (“**Cost Reductions**”). CUSTOMER shall have the benefit of any Cost Reductions identified by CUSTOMER, which would be implemented at the next quarterly price update after SANMINA has recovered the cost to implement the Cost Reduction. For Cost Reductions identified by SANMINA related to production released Products, any savings would be split with fifty percent (50%) to each Party after SANMINA has recovered the cost to implement the Cost Reduction for a period of six (6) months, after which one hundred percent (100%) of the savings would be passed on to CUSTOMER at the next pricing adjustment. SANMINA shall measure and report on pricing and productivity improvements, accomplishments, and initiatives at quarterly business reviews.

3. PAYMENT TERMS/SETOFFS/CREDIT LIMIT

3.1 Payment Terms. Payment terms are net [redacted] days after the date of the invoice, subject to continuing credit approval. CUSTOMER will use reasonable efforts to bring any apparent pricing or quantity discrepancies to SANMINA’s attention within ten (10) days after receiving an invoice. On any invoice not paid by the maturity date, CUSTOMER shall pay interest from maturity to date of payment at the rate of 1% per month. Unless otherwise stated, payment shall be made in U.S. Dollars. In the event CUSTOMER has any undisputed outstanding invoice beyond the payment term, CUSTOMER will be given at least five (5) business days notification, and SANMINA will escalate per Section 17.4, prior to any stop shipments occurring.

3.2 Setoffs. Each Party shall be entitled at all times to set-off any amount owing from the other Party to such Party against any amount payable to the other Party from such Party, arising out of this or any other transaction. For purposes hereof, (i) the term "Party" shall include the Parties to this transaction and each Party's Affiliates and (ii) a Party's "**Affiliate**" shall mean any entity that, directly or through one or more intermediaries, controls, is controlled by or is under common control by such Party, including but not limited to a Party's subsidiaries.

3.3 Credit Limit. CUSTOMER shall provide completed credit application to SANMINA’s Credit Department. SANMINA shall provide CUSTOMER with an initial credit limit based upon available financial information, which shall be reviewed (and, if necessary, adjusted) from time to time based upon financial updates in order to maintain a credit limit. SANMINA shall have the right to reduce the credit limit upon five (5) days’ prior written notice to CUSTOMER, provided that credit approval will be provided to CUSTOMER on a consistent and non-discriminatory basis no less favorable than provided to other similarly situated customers. In the event CUSTOMER exceeds this credit limit, SANMINA shall have the right to stop shipments of Product to CUSTOMER and stop loading new Orders and Forecasts until CUSTOMER makes a sufficient payment to bring its account within the credit limit provided.

3.4 Affiliates. CUSTOMER’s Affiliates may place Orders for Product under this Agreement. CUSTOMER will either guarantee the obligations of each of its Affiliates that places

Orders or Forecasts pursuant to this Agreement and agrees to be jointly liable for such obligations, or CUSTOMER's Affiliates may be required to submit credit applications and may be subject to differing credit terms, depending on the evaluation.

3.5 Reporting. CUSTOMER shall provide SANMINA with the initial test and labor times used in relation to the Products. SANMINA will provide to CUSTOMER throughout the Term, as applicable, reporting including quoted BOMs, labor times, inbound freight, test times and labor rates, including operations reporting (including testing per Specifications, traceability and product/warranty history) and SANMINA's cost model and margin used to determine Pricing and adjustments under this Agreement. If SANMINA has inaccurately stated any change in cost used to establish pricing adjustments for any quarter, SANMINA will [redacted]. For any Component price increases, SANMINA will share quotes from Vendors to document such increases that accurately reflect the increased cost actually being paid by SANMINA. SANMINA will provide reasonable documentation for any other types of cost increases. With respect to cost information relating to pricing adjustments, upon request of CUSTOMER, SANMINA will [redacted]. SANMINA will also provide CUSTOMER reports in conformance with the Reporting Requirements, attached as Exhibit J, Reporting Requirements.

3.6 Right of Audit/Investigation. At CUSTOMER's sole discretion, in compliance with SANMINA's confidentiality and security requirements, and on an escorted basis, SANMINA agrees that CUSTOMER shall have the right to investigate and/or audit SANMINA to determine whether or not any SANMINA actions or failures may subject CUSTOMER to liability under any law, governmental rule, or regulation and/or compliance with the terms herein. CUSTOMER shall provide five (5) days' notice for routine audits, and forty-eight (48) hours' notice for an emergency audit. SANMINA agrees to cooperate fully with such investigation, the scope, method, nature, and duration of which shall be at the sole reasonable discretion of CUSTOMER. If SANMINA fails to reasonably cooperate with CUSTOMER's investigation and/or audit, CUSTOMER may immediately terminate this Agreement in accordance with Section 11.1 of this Agreement.

3.7 Compliance. SANMINA shall comply with, in accordance with the exceptions listed in the applicable Exhibits, the FARO Supplier Code of Conduct (Exhibit F), FARO Conflict Minerals Policy (Exhibit G), FARO Third-Party Anti-Corruption Policy (Exhibit H) and ILO International Labor Standards and shall ensure that all subcontractors (which for the avoidance of doubt does not include Vendors except for any Vendors that are SANMINA Affiliates) follow policies at least as strict.

3.8 Information Security. SANMINA warrants that (i) it will, at all times, strictly comply with NIST SP 800-171 requirements, with third party verification by a reputable security company of NIST SP 800-171 or other SOC-2 or equivalent audit reasonably acceptable to CUSTOMER, at CUSTOMER's expense as approved by CUSTOMER in advance; and (ii) SANMINA does and will regularly conduct security testing on its information systems including penetration testing. In addition, the Parties will endeavor to understand the requirements of the U.S. Department of Defense Cyber Maturity Model Certification Model (2020), how such requirements apply to the manufacturing of CUSTOMER Products and develop any plans the Parties mutually agree are required. SANMINA will maintain security measures at its facility reasonably acceptable to CUSTOMER, including sign-in/badges, escorts, security cameras, alarms and other reasonable security measures. For the avoidance of doubt, security measures apply to the facility, not to any particular customer area unless otherwise agreed.

3.9 Non-Solicit. Neither Party will directly or indirectly employ any personnel of the other Party who have been directly involved in the provision or receipt of the services of this Agreement during the term of their involvement and for a minimum of 12 months thereafter. This restriction does not apply to personnel who are hired by a Party in response to a bona fide advertisement to the public at large, so long as the personnel was not directed to the advertisement or was otherwise invited to apply.

4. PURCHASE ORDERS/FORECAST/RESCHEDULE

4.1 Purchase Orders.

(a) CUSTOMER will issue to SANMINA specific Orders for Product covered by this Agreement. Each Order shall be in the form of a written or electronic communication and shall contain the following information: (i) the part number of the Product; (ii) the quantity of the Product; (iii) the delivery date or shipping schedule; (iv) the location to which the Product is to be shipped; and (v) transportation instructions. Each Order shall contain a number for billing purposes, and may include other instructions and terms (provided that such terms do not conflict with this Agreement) as may be appropriate under the circumstances.

(b) All Orders shall be confirmed by SANMINA within five (5) business days of receipt. SANMINA will accept all Orders consistent with Forecast and this Agreement and will use reasonable efforts to accept Orders for upside. If SANMINA does not accept or reject the Order within the five-day period, the Order will be deemed accepted if consistent with Forecast and for upside shall be deemed rejected by SANMINA unless SANMINA has notified CUSTOMER that it has commenced performance, in which case the Order shall be deemed accepted to the extent of such performance. CUSTOMER shall provide a weekly open order report so that SANMINA can verify it is aware of all Orders that have been placed. SANMINA shall have a target of meeting the delivery schedule for all accepted Orders. The success rate for on-time delivery will be measured and reviewed by the Parties on a monthly basis. A Late Order shall be an Order that ships at least the day after specified as the commit to ship date agreed upon by the Parties. If the success rate drops below ninety-five percent (95%) for any month, then SANMINA will implement remedial actions reasonably acceptable to CUSTOMER to maintain a success rate above ninety-five percent (95%), which may include expedited shipping and/or safety stock as appropriate, subject to Section 10. Remedial actions will be at SANMINA's expense to the extent due to issues for which SANMINA is responsible under this Agreement. In no event will SANMINA divert resources or reduce capacity available to CUSTOMER in any manner that adversely impacts the success rate as required for CUSTOMER's volumes (e.g., in favor of another SANMINA customer).

4.2 Forecast; Minimum Buys; Excess and Obsolete Inventory.

(a) Initial Forecast. Once Sanmina Facilities have been qualified by CUSTOMER, CUSTOMER shall provide SANMINA with (i) an initial ninety (90) day firm Order and (ii) a forecast for Product requirements (in monthly buckets) for an additional nine (9) months ("**Forecast**"). Until Sanmina Facilities are qualified or CUSTOMER otherwise authorizes Sanmina to procure Components to meet CUSTOMER's Forecast, Sanmina is not responsible for MRP process per Section 4.2(c) and CUSTOMER will not have any Component Liability. All Orders shall be binding and may be rescheduled only in accordance with Section 4.2(d) or cancelled upon payment of (1) the purchase price of the Product (if the cancellation is made within 30 days of the scheduled delivery date) or (2) the amounts set forth in Section 4.2(f) (if cancellation is made outside of such 30-day period). Any Products or Components for which

CUSTOMER is charged will at CUSTOMER's option be (i) delivered to CUSTOMER, or (ii) the payment shall be credited to Offset Inventory Reserve Account and handled as set forth in Sections 4.2(e) and (f). SANMINA shall make purchase commitments (including purchase commitments for Long Lead-time Components) to its Component suppliers ("**Vendors**") as reasonably required based upon the Order and Forecast, and CUSTOMER shall be responsible for all such Components purchased in support of CUSTOMER's then-current Forecast in accordance with this Agreement as set forth in Section 4.2 (f) and the Inventory Turns Section of Exhibit A or, upon termination of this Agreement, in accordance with Section 11.5. For all other purposes, however, the Forecast shall be non-binding.

(b) Subsequent Forecasts. On the first business day of each calendar month after the initial Order and Forecast, CUSTOMER shall provide an updated Forecast. CUSTOMER may adjust volumes subject to lead times required for Long Lead-time Components. SANMINA will use reasonable efforts to accommodate any upside requests. The first month of the updated Forecast shall automatically become part of the Order, a new Forecast month shall be added, and a new firm Order issued, so that a rolling Order of ninety (90) days is always maintained.

(c) MRP Process.

(1) SANMINA shall take the Order and Forecast and generate a Master Production Schedule ("**MPS**") for a twelve-month period in accordance with the process described in this Section. The MPS shall define the master plan on which SANMINA shall base its procurement, internal capacity projections and commitments. SANMINA shall use CUSTOMER's Order to generate the first three (3) months of the MPS and shall use CUSTOMER's Forecast to generate the subsequent nine (9) months of the MPS.

(2) SANMINA shall process the MPS through industry-standard software that will break down CUSTOMER's Product requirements into Component requirements. When no Product testing (in-circuit or functional testing) is required by CUSTOMER, SANMINA will use commercially reasonable efforts to schedule delivery of all Components to SANMINA eleven (11) business days before the Products are scheduled to ship to CUSTOMER; in the event Product testing is required, SANMINA will use commercially reasonable efforts to schedule delivery of all Components to SANMINA sixteen (16) business days before the Products are scheduled to ship to CUSTOMER.

(3) SANMINA will release (launch) purchase orders to Vendors (including other SANMINA facilities) prior to the anticipated date that the Components are needed at SANMINA. The date on which these orders are launched will depend on the lead time determined between the Vendor and SANMINA and SANMINA's manufacturing or materials planning systems.

(4) A list of all Components with lead times greater than ninety days (or the Order period, if the Order period is less than ninety days) ("**Long Lead-time Components**") is set forth in Exhibit B to this Agreement and/or has previously been provided to CUSTOMER. SANMINA shall use reasonable efforts to update the list of Long Lead-time Components every quarter and present an updated list of Long Lead-time Components to CUSTOMER at the time SANMINA presents the CUSTOMER with the Excess List and Obsolete List described in Exhibit A. Each revised Long Lead-time Item list shall be deemed an amendment to Exhibit B, whether or not it has been formally designated as such. In the event SANMINA fails to present an updated list of Long Lead-time Components, (i) the Parties shall

continue to rely on the preceding list (as updated in writing by the Parties) and (ii) CUSTOMER will accept responsibility for Long Lead-time Components ordered outside the lead-times set forth in the list provided that SANMINA can demonstrate to CUSTOMER’s reasonable satisfaction that such Components were ordered in accordance with the then-current Vendor lead- times. (CUSTOMER acknowledges that lead-times constantly change and that SANMINA might not always be able to present CUSTOMER with a current Long Leadtime Component List).

(5) CUSTOMER acknowledges that SANMINA will order Components in quantities sufficient to support CUSTOMER’s Forecast.

(6) CUSTOMER acknowledges that SANMINA may be required to order Components in accordance with the various minimum buy quantities, tape and reel quantities, and multiples of packaging quantities required by the Vendor. In addition, CUSTOMER acknowledges that there may be a lag time between any CUSTOMER cancellation and the cancellation of the Components required to support production.

(7) CUSTOMER acknowledges that the Vendor lead times can be significant and understands that it is possible for SANMINA to have Long Lead-time Components on order which would support the last week of CUSTOMER’s Forecast.

(8) SANMINA will review the above with CUSTOMER on at least a monthly basis and coordinate with CUSTOMER regarding appropriate order placement, inventory management and safety stock to address any CUSTOMER concerns regarding continuity of supply and/or mitigation of inventory risk, in view of then-current supply chain conditions.

(d) Reschedule. CUSTOMER may reschedule out all or part of a scheduled delivery (per Order or Forecast) for a period not to exceed ninety (90) days in accordance with the table below. At the end of this ninety day period, CUSTOMER shall either accept delivery of rescheduled finished units and/or pay SANMINA’s Delivered Cost (as defined in Section 4.2(e)) associated with rescheduled units not yet built (to be credited to Offset Inventory Reserve Account and handled as set forth in Sections 4.2(e) and (f)).

Days Before P.O. Delivery Date	Percentage Reschedule Out Allowance
0 – 30	[redacted]
31 – 60	[redacted]
61-90	[redacted]
> 90	[redacted]

SANMINA shall use reasonable commercial efforts to accommodate any upside schedule changes beyond the firm Order periods based on Component availability and equipment capacity.

(e) Excess and Obsolete Inventory, Inventory Turns.

(i) For the purpose of this Agreement,

a. **“Delivered Cost”** shall mean SANMINA’s quoted cost of Components as stated on the bill of materials, plus a materials margin and incoming freight equal to [redacted]. Quoted costs to be updated at quarterly review meetings based on actual costs used for Pricing adjustments as contemplated in Sections 2 and 3.5. Delivered Cost will be

based on the current valuation of the Components. Incoming freight will be reconciled quarterly until localization is complete.

b. **“Excess Components”** means inventory that is in excess of the quantity required to maintain the agreed to inventory turns per Exhibit A.

c. **“Obsolete Components”** means: the quantity of Components that SANMINA has on hand, which have been ordered, manufactured, or acquired (in accordance with the requirements of this Section 4) based on CUSTOMER’s then-current Forecast or Order, but which SANMINA no longer requires as a result of (i) CUSTOMER’s announcement or notification that the Product into which such Component is incorporated has reached its end of life, or (ii) a change in the specification for the Product into which the Component was incorporated as a result of an Engineering Change Notice.

(ii) The management of Excess Components and Obsolete Components shall be handled in accordance with the Inventory Turns Section of Exhibit A.

(f) Customer Component Liability. CUSTOMER acknowledges that it shall be financially liable for all Components ordered in accordance with this Section as set forth in the Inventory Turns Section of Exhibit A or, upon termination of this Agreement, in accordance with Section 11.5. Specifically, CUSTOMER’s Component Liability shall be equal to SANMINA’s Delivered Cost of all Components reasonably ordered in support of any Order or Forecast in accordance with process above, including any Excess Components resulting from any minimum buy quantities, tape and reel quantities, and multiples of packaging quantities required by the Vendor less the actual cost (per the bill of materials) of those Components which are returnable to Vendor (less any cancellation or restocking charges), in each case, as offset by the amount in the Offset Inventory Reserve Account. At CUSTOMER’s request, SANMINA shall use commercially reasonable efforts to minimize CUSTOMER’s Component Liability by attempting to return Components to the Vendor; provided, however, that SANMINA shall not be obligated to attempt to return to Vendor Components which are, in the aggregate, worth less than \$1,000.

(g) Supplier Managed Inventory Program. CUSTOMER acknowledges that the concept of "purchase commitments to a Vendor" (as used in Section 4.2(a) and elsewhere in this Agreement) includes not only SANMINA purchase orders issued to Vendors, but also forecasts (which are based on CUSTOMER’s Forecasts) provided to Vendors in accordance with SANMINA’s Supplier Managed Inventory Program ("**SMI Program**"). Under the SMI Program, SANMINA provides Vendors with forecasts of anticipated Component requirements, and the Vendor is obligated to supply SANMINA with all forecasted Components, but SANMINA does not issue Vendor a purchase order until the Component is actually required by SANMINA for production. However, under the SMI Program, SANMINA is obligated to either consume a sufficient level of the forecasted Components or pay the Vendor for a certain level of unused Components. For the purpose of this Agreement, CUSTOMER’s Component Liability (pursuant to 4.2(f) above) shall include the cost of any required Vendor payments under the SMI Program as well as any Components actually ordered from the Vendors based on CUSTOMER’s Forecast.

(h) Subcontractors. SANMINA shall not subcontract any material or substantive obligation or performance herein without CUSTOMER’s prior authorization in writing, which shall not be unreasonably withheld or delayed. SANMINA shall be responsible for any subcontractors used by SANMINA as if such were SANMINA directly, and SANMINA shall defend, hold harmless, and indemnify CUSTOMER for any damages, costs, or expenses suffered by CUSTOMER due to SANMINA’s subcontractor’s acts or omissions. With the

exceptions noted in the applicable Exhibits, SANMINA shall comply with Sections 3.7 (Compliance) and 3.8 (Information Security), including the requirements of NIST SP 800-171, FARO's Supplier Code of Conduct (Exhibit F), and FARO's Conflict Minerals Policy (Exhibit G), and FARO's Third-Party Anti-Corruption Policy (Exhibit H), and shall ensure that all subcontractors follow policies at least as strict. For the avoidance of doubt, Vendors are not considered subcontractors except as follows. SANMINA is responsible for compliance of Vendors if SANMINA uses any Vendor that is an Affiliate of SANMINA or that is not on the CUSTOMER AVL or otherwise approved by CUSTOMER. For Vendors referred by SANMINA (e.g., on SANMINA's preferred supplier list), the Parties will cooperate and coordinate on process to qualify those Vendors, including with respect to anti-corruption and ethical business conduct. In addition, SANMINA will obtain and keep copies of all applicable (recognizing some Vendors do not provide certificates of conformance) certificates of conformance to Vendor specifications for the Components (and will verify that it receives the identical part number and revision as what is specified on CUSTOMER's AVL) required to be provided by Vendors for incoming Components and results of required inspections of incoming Components per the Specifications and make the same available to CUSTOMER on request.

(i) Service Agreement. Any agreement between the Parties related to out of warranty repairs shall be via a separate written agreement. If requested by Customer, SANMINA will make available out of warranty services, calibration, upgrades and re-certification (including related logistics and shipping) at the rates quoted by SANMINA as of the Effective Date, consistent with the margin percentages and rates set forth in Exhibit A as applicable. Future rate changes shall be addressed via SOWs or addendums to SOWs. The services will include at least the final assembly and re-calibration required by CUSTOMER for SANMINA to deliver Product from the SANMINA Facilities outside of Thailand when specified by CUSTOMER, at rates consistent with Exhibit A, or as otherwise agreed.

5. DELIVERY AND ACCEPTANCE

5.1 Delivery. The Parties agree to continue discussing how all Product shipments (including shipments made in accordance with Section 7 "Warranty") shall be made, including title transfer, risk of loss, taxes, shipping charges and importer of record/exporter of record responsibilities ("**Delivery Terms**"). Until such time as other arrangements are agreed, the default arrangement shall be FCA SANMINA's facility of manufacture or repair (Incoterms 2020) as indicated by CUSTOMER (e.g., Thailand, Texas or Czech Republic). Title to and risk of loss or damage to the Product shall pass to CUSTOMER upon SANMINA's tender of the Product to the common carrier. Except for warranty returns per Section 7, any such costs for shipping by the common carrier paid by SANMINA shall be billed back to CUSTOMER on a separate invoice line item. [redacted]. SANMINA shall mark, pack, package, crate, transport, ship and store Product to ensure (a) delivery of the Product to its ultimate destination in safe condition, (b) compliance with all requirements of the carrier and destination authorities, and (c) compliance with any special instructions of CUSTOMER. SANMINA shall use commercially reasonable efforts to deliver the Products on the agreed-upon delivery dates and shall promptly notify CUSTOMER of any anticipated delays. SANMINA shall be responsible for expedited shipping costs for any delays solely due to reasons within SANMINA's control (which for the avoidance of doubt, does not include late deliveries from Vendors if SANMINA properly places orders in the appropriate time frames, properly performs payment and other obligations to Vendors, performs applicable incoming inspections, and properly manages forecasting and handling of returns with Vendors).

5.2 Acceptance. Acceptance of the Product shall occur no later than fifteen (15) days after shipment of Product and shall be based solely on whether the Product passes the mutually agreed specified acceptance test procedure or inspection designed to demonstrate compliance with the Specifications. Product cannot be rejected based on criteria that were unknown to SANMINA or based on test procedures that SANMINA has not approved or does not conduct. The acceptance test procedures and inspection requirements in the Specifications referenced in Exhibit M as of the Effective Date have been approved by SANMINA, and further changes will be approved per the process set forth in Section 6 (Changes). Notwithstanding anything to the contrary, Product shall be deemed accepted if not rejected within this fifteen-day period. Once a Product is accepted, all Product returns shall be handled in accordance with Section 7 (Warranty). Prior to returning any rejected Product, CUSTOMER shall obtain and Return Material Authorization (“**RMA**”) number from SANMINA, and shall return such Product in accordance with SANMINA’s instructions; CUSTOMER shall specify the reason for such rejection in all RMA’s. In the event a Product is rejected, SANMINA shall have a reasonable opportunity to cure any defect which led to such rejection.

6. CHANGES

6.1 General. CUSTOMER may upon sufficient notice make changes within the general scope of this Agreement. Such changes may include, but are not limited to, changes in (1) drawings, plans, designs, procedures, Specifications, test specifications or bill of material (“**BOM**”), (2) methods of packaging and shipment, (3) quantities or versions of Product to be furnished, (4) delivery schedule, or (5) Customer-Furnished Equipment. All changes other than changes in quantity of Products to be furnished shall be requested pursuant to an Engineering Change Notice (“**ECN**”) and finalized in an Engineering Change Order (“**ECO**”). If any such change causes either an increase or decrease in SANMINA’s cost or the time required for performance of any part of the work under this Agreement (whether changed or not changed by any ECO) the Prices and/or delivery schedules shall be adjusted in a manner which would adequately compensate the Parties for such change, consistent with this Agreement.

6.2 ECN’s. SANMINA will respond to [redacted] ECN requests per Product per month without a non-recurring administrative fee [redacted]; responses to additional ECN’s will incur an administrative fee of [redacted] each except as follows. SANMINA will also respond to [redacted] ECN requests per Product per month for test software and Product software without an administrative fee [redacted]; responses to additional ECN’s will incur an administrative fee of [redacted] each. Within five (5) business days after an ECN is received (or 48 hours in a line down situation an initial response can be given), SANMINA shall advise CUSTOMER in writing (a) of any change in Prices or delivery schedules resulting from the ECN, (b) any new tooling needed, which will be paid for by CUSTOMER, and (c) the purchase price of any Finished Product, Work-in-Process (including value-add and applicable mark-ups), and the Delivered Cost of any Component rendered excess or obsolete as a result of the ECN (collectively the “**ECN Charge**”). SANMINA shall update CUSTOMER on such ECN requests at least every two (2) business days. Unless otherwise stated, ECN Charges are valid from thirty (30) days from the date of the ECN Charge.

6.3 ECO’s. In the event CUSTOMER desires to proceed with the change after receiving the ECN Charge pursuant to Section 6.2, CUSTOMER shall advise SANMINA in writing and shall immediately pay the portion of the ECN Charge set forth in Section 6.2(b). In the event CUSTOMER does not desire to proceed with the Change after receiving the ECN Charge, it shall so notify SANMINA. In the event SANMINA does not receive written

confirmation of CUSTOMER's desire to proceed with the change within thirty days after SANMINA provides CUSTOMER with the ECN Charge, the ECN shall be deemed cancelled.

6.4 Acceptance. Changes specified in the ECN will become part of the Specifications for the applicable Product. Acceptance under Section 5.2 (Acceptance) and warranty under Section 7 (Warranty) will apply in accordance with the updated Specifications reflecting the change.

7. **WARRANTY**

7.1 SANMINA Warranty. SANMINA warrants that, for a period of thirteen (13) months from the date of shipping of the Product, the Product will be free from defects in workmanship. Products shall be considered free from defects in workmanship if they are manufactured in accordance with the latest version of IPC-A-600 or IPC-A-610, conform to CUSTOMER's provided, and mutually agreed, Specifications, and successfully complete specified product acceptance tests. The Specifications referenced in Exhibit M as of the Effective Date have been mutually agreed and changes will be approved per the process set forth in Section 6 (Changes). SANMINA shall, at its option and at its expense (and as CUSTOMER's sole and exclusive remedy for breach of such warranty), repair, replace or issue a credit for Product found defective during the warranty period. In addition, SANMINA will pass on to CUSTOMER all Vendors' (and manufacturers') Component warranties to the extent that they are transferable, as well as manage such warranties on CUSTOMER's behalf, but does not independently warrant Components. All warranty obligations will cease upon the earlier of the expiration of the warranty period set forth above or the return (at CUSTOMER's request) of any test equipment or test fixtures required for performance of warranty obligations. ALL CLAIMS FOR BREACH OF WARRANTY MUST BE RECEIVED BY SANMINA NO LATER THAN THIRTY (30) DAYS AFTER THE EXPIRATION OF THE WARRANTY PERIOD.

7.2 RMA Process. SANMINA shall concur in advance on all Products to be returned for repair or rework. All returned Products should be shipped in the packaging that the Products were originally shipped in. CUSTOMER shall obtain a RMA number from SANMINA prior to return shipment. All returns shall state the specific reason for such return and will be processed in accordance with SANMINA's RMA process. SANMINA shall pay or reimburse all transportation costs for valid returns of the Products to SANMINA and for the shipment of the repaired or replacement Products to CUSTOMER's end customer, and shall bear all risk of loss or damage to such Products while in transit; CUSTOMER shall pay these charges, plus a handling charge, for invalid or "no defect found" returns. Any repaired or replaced Product shall be warranted as set forth in this Section for a period equal to the greater of (i) the balance of the applicable warranty period relating to such Product or (ii) ninety (90) days after it is received by CUSTOMER.

7.3 Exclusions from Warranty. This warranty does not cover defects or failures in Products to the extent due to (a) CUSTOMER's design of Products including, but not limited to, design functionality failures, specification inadequacies, failures relating to the functioning of Products in the manner for the intended purpose or in the specific CUSTOMER's environment (but SANMINA's failure to comply with the Specifications is not considered to be a failure or defect due to CUSTOMER's design); (b) accident, disaster, neglect, abuse, misuse, improper handling, testing, storage or installation by CUSTOMER (or its end customer) including improper handling in accordance with static sensitive electronic device handling requirements; (c) alterations, modifications or repairs by CUSTOMER or third parties (not at the direction of SANMINA) or (d) defective CUSTOMER-provided test equipment or test software.

CUSTOMER bears all design responsibility for the Product. SANMINA remains responsible for any failure to manufacture and test in accordance with Specifications and for any accident, disaster, neglect, abuse, misuse, improper handling, testing, storage or installation or other damage while in SANMINA's possession or control.

7.4 Remedy. THE SOLE REMEDY UNDER THIS WARRANTY SHALL BE THE REPAIR, REPLACEMENT OR CREDIT FOR DEFECTS AS STATED ABOVE. THE WARRANTIES IN THIS SECTION 7 (WARRANTY) ARE IN LIEU OF ANY OTHER WARRANTIES EITHER EXPRESS OR IMPLIED. SANMINA DOES NOT MAKE ANY WARRANTIES REGARDING MERCHANTABILITY, NONINFRINGEMENT, OR FITNESS FOR A PARTICULAR PURPOSE, AND SPECIFICALLY DISCLAIMS ANY SUCH WARRANTY, EXPRESS OR IMPLIED. SANMINA SHALL COMPLY WITH "ROHS", "WEEE", "REACH" AND OTHER APPLICABLE ENVIRONMENTAL LEGISLATION WORLDWIDE WITH RESPECT TO IT'S MANUFACTURING PROCESS (INCLUDING PROCESS MATERIALS). CUSTOMER SHALL COMPLY WITH "ROHS", "WEE", "REACH" AND OTHER APPLICABLE ENVIRONMENTAL LEGISLATION WORLDWIDE WITH RESPECT TO ITS PRODUCT DESIGN AND CHOICE OF COMPONENTS CONTAINED WITHIN THE PRODUCT (NOT INCLUDING PROCESS MATERIALS).

7.5 SANMINA further represents and warrants that all Products will be new, provided with good and marketable title, free and clear of any liens or encumbrances.

8. CUSTOMER FURNISHED EQUIPMENT AND COMPONENTS

8.1 Customer-Furnished Equipment. CUSTOMER shall provide SANMINA with the equipment, tooling, and fixtures ("Customer-Furnished Equipment") set forth in Exhibit C (collectively the "**Customer-Furnished Equipment**"). Any equipment, tooling, and fixtures for which Customer pays NRE will also be treated as Customer Furnished Equipment and will be owned by Customer unless otherwise agreed. SANMINA will assume all risk of loss or damage to the Customer Furnished Equipment upon delivery to the Sanmina Facility and until such Customer Furnished Equipment is removed. The Parties will cooperate to address any issues with the Customer Furnished Equipment.

8.2 Care of Customer-Furnished Equipment. All Customer-Furnished Equipment shall remain the property of CUSTOMER. SANMINA will keep the Customer Furnished Equipment at the Sanmina Facility and not move it without CUSTOMER's consent. The Customer Furnished Equipment and related documentation will be protected as the Confidential Information of CUSTOMER or its equipment vendor, as applicable. The Customer Furnished Equipment (and all parts and components thereof) are and shall at all times be and remain the sole and exclusive personal property of CUSTOMER. SANMINA shall have no right, title or interest therein or thereto, and shall not create, incur, assume or suffer to exist any claim, mortgage, lien, pledge or other encumbrance or attachment of any kind whatsoever upon, affecting or with respect to the Customer Furnished Equipment once any applicable NREs have been paid for the Customer Furnished Equipment if procured by SANMINA for CUSTOMER. SANMINA shall clearly identify all Customer-Furnished Equipment by an appropriate tag and shall utilize such Customer-Furnished Equipment solely in connection with the manufacture of CUSTOMER's Product. SANMINA shall not make or allow modifications to be made to Customer-Furnished Equipment without CUSTOMER's prior written consent. SANMINA shall be responsible for reasonable diligence and care in the use and protection of any Customer-Furnished Equipment and routine maintenance of any Customer-Furnished Equipment but shall not be responsible for repairs or replacements (including servicing and CUSTOMER-specific calibration (unless

managed on behalf of CUSTOMER and paid for with NRE) to the equipment) unless such failure was caused by SANMINA's negligence or willful misconduct. If requested by CUSTOMER, SANMINA will arrange for servicing and CUSTOMER-specific calibration of Customer-Furnished Equipment on cost plus agreed margin basis consistent with this Agreement.

8.3 Removal of Customer Furnished Equipment. All Customer-Furnished Equipment shall be returned to CUSTOMER at CUSTOMER's expense upon request. SANMINA's production and warranty obligations which require the utilization of the returned Customer-Furnished Equipment will cease upon SANMINA's fulfillment of CUSTOMER's request. SANMINA agrees to provide access to CUSTOMER and its employees and agents in order to remove the Customer Furnished Equipment from the Sanmina Facility. SANMINA shall cooperate with and assist CUSTOMER, as reasonably requested by CUSTOMER, in the takedown, disassembly, packing and shipping logistics for the Customer Furnished Equipment. In addition, SANMINA will provide CUSTOMER with copies of all equipment logs and documentation.

8.4 Customer-Furnished Components. During transition and thereafter as may be mutually agreed, SANMINA will purchase certain Components for the Products from CUSTOMER. The cost, availability and lead time for those Components will be specified by CUSTOMER. SANMINA will issue purchase orders to CUSTOMER consistent with the cost, availability and lead time specified by CUSTOMER. It is expected that SANMINA will transition to direct purchases from approved Vendors after Components made available by CUSTOMER have been purchased. However, while Components continue to be made available by CUSTOMER, SANMINA will purchase from CUSTOMER as first choice for those components unless otherwise agreed by CUSTOMER. Any Vendor warranty or date code related issues for Customer-Furnished Components shall be resolved between CUSTOMER and the Vendor, as applicable.

9. INDEMNIFICATION

9.1 SANMINA's Indemnification – Intellectual Property. SANMINA shall defend CUSTOMER and CUSTOMER's affiliates, directors, officers, employees, contract employees, agents and other representatives (the "**Customer-Indemnified Parties**") against, and indemnify and hold harmless the Customer Indemnified Parties from damages finally awarded or agreed in settlement for, third party demands, claims, actions, causes of action, proceedings, and suits ("**Claim(s)**") alleging actual or alleged infringement or misappropriation of any patent, trademark, mask work, copyright, trade secret, or any actual or alleged violation of any other intellectual property rights arising from or in connection with SANMINA's manufacturing processes (including, process materials, systems and facilities) or materials or Components that originate from SANMINA or an Affiliate of SANMINA (collectively "**SANMINA-Furnished Items**").

9.2 CUSTOMER's Indemnification – Intellectual Property. CUSTOMER shall defend SANMINA and SANMINA's affiliates, directors, officers, employees, contract employees, agents and other representatives (the "**SANMINA-Indemnified Parties**") against, and indemnify and hold harmless the SANMINA-Indemnified Parties from damages finally awarded or agreed in settlement for, all third party Claims alleging infringement or misappropriation of any patent, trademark, mask work, copyright, trade secret or any actual or alleged violation of any other intellectual property rights arising from or in connection with the Products, except to the extent that the alleged infringement arises from or in connection with SANMINA-Furnished Items. For purposes of this Section 9, SANMINA's manufacturing processes include the facilities, equipment, processes and services provided by SANMINA that

are not uniquely required by CUSTOMER's Product Specifications, including manufacturing processes, technology and services that SANMINA makes commonly or generally available to other customers.

9.3 Other Indemnification.

(a) CUSTOMER shall indemnify, defend, and hold SANMINA-Indemnified Parties harmless from all third party Claims (i) based upon personal injury or death or injury to tangible property to the extent caused by a defective Product that has been manufactured in accordance with the Specifications or by the negligence or willful misconduct of CUSTOMER or its officers, employees, subcontractors or agents, and in each case not due to the negligence or willful misconduct of any of the SANMINA-Indemnified Parties and (ii) by any employee of CUSTOMER or its affiliates who alleges or asserts that such employee should have been transferred to and become employed by SANMINA or its affiliates pursuant to any contract, law, rule or undertaking relating to a party's obligations upon transfer of an undertaking, including the Acquired Rights Directive (Council Directive 2001/23/EC) and its local counterparts. SANMINA shall indemnify, defend and hold Customer-Indemnified Parties harmless from all Claims based upon personal injury or death or injury to tangible property to the extent caused by the negligence or willful misconduct of SANMINA or its officers, employees, subcontractors or agents, and in each case not due to the negligence or willful misconduct of any of the CUSTOMER- Indemnified Parties. For avoidance of doubt, with respect to "injury to tangible property" referenced above, delivery of Product by SANMINA that does not conform to the warranties set forth in Section 7 is not considered "injury" to the Product itself, and is handled in accordance with Section 7 ("Warranty").

(b) If CUSTOMER requires third party marking to be placed on the Products by SANMINA, CUSTOMER shall indemnify, defend, and hold SANMINA-Indemnified Parties harmless from any Claims by the third party that Products manufactured in accordance with the Specifications do not comply with the third party's requirements for use of such marks. SANMINA shall indemnify, defend, and hold CUSTOMER-Indemnified Parties harmless from any Claims by the third party for non-compliance with such requirements due to failure by SANMINA to manufacture the Products in accordance with the Specifications that relate to such Product labeling and mark usage requirements.

9.4 Procedure. A Party entitled to indemnification pursuant to this Section (the "**Indemnitee**") shall (i) promptly notify the other Party (the "**Indemnitor**") in writing of any Claims covered by this indemnity, (ii) provide the Indemnitor with sole control over the defense and settlement of the Claim, and (iii) provide all cooperation and assistance in the defense and settlement of the Claim as reasonably requested by Indemnitor at the Indemnitor's expense. Notwithstanding the foregoing, if the Indemnitee in its sole judgment so elects, the Indemnitee may also participate in the defense of such action by employing counsel at its expense, without waiving the Indemnitor's obligation to indemnify and defend. The Indemnitor shall not compromise any Claim (or portions thereof) or consent to the entry of any judgment without an unconditional release of all liability of the Indemnitee as to each claimant or plaintiff, except with consent of the Indemnitee, not to be unreasonably withheld or delayed.

10. LIMITATION OF LIABILITY

10.1 WITH THE EXCEPTION OF INDEMNITY OBLIGATIONS UNDER SECTION 9, OR BREACHES OF SECTION 14 (CONFIDENTIALITY), IN NO EVENT SHALL EITHER PARTY BE LIABLE TO THE OTHER FOR ANY INDIRECT, CONSEQUENTIAL,

INCIDENTAL, PUNITIVE OR SPECIAL DAMAGES, OR ANY DAMAGES WHATSOEVER RESULTING FROM LOSS OF USE, DATA OR PROFITS, EVEN IF SUCH OTHER PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. FOR THE PURPOSE OF THIS SECTION, BOTH LOST PROFITS AND DAMAGES RESULTING FROM VALUE ADDED TO THE PRODUCT BY CUSTOMER AFTER DELIVERY BY SANMINA SHALL BE CONSIDERED CONSEQUENTIAL DAMAGES. IN NO EVENT WILL SANMINA BE LIABLE FOR COSTS OF PROCUREMENT OF SUBSTITUTE PRODUCT BY CUSTOMER FROM A THIRD PARTY. IN NO EVENT SHALL EITHER PARTY'S LIABILITY FOR ALL CLAIMS ARISING OUT OF OR RELATING TO THIS AGREEMENT EXCEED [redacted] U.S. DOLLARS [redacted] OR (ii) [redacted] PERCENT [redacted] OF TOTAL PAYMENT AMOUNTS FOR PRODUCTS AND SERVICES PROVIDED (OR REQUIRED TO BE PROVIDED) UNDER THIS AGREEMENT DURING THE 12 MONTH PERIOD PRECEDING THE DATE THAT THE CLAIM FIRST ACCRUES (THE "CAP"). THESE LIMITATIONS SHALL APPLY NOTWITHSTANDING ANY FAILURE OF ESSENTIAL PURPOSE OF ANY LIMITED REMEDY. NOTWITHSTANDING THE FOREGOING, THE CAP SHALL NOT APPLY TO LIMIT: (i) CUSTOMER'S PAYMENT OBLIGATIONS UNDER SECTIONS 3.1, 4.2(a) OR (d) (FOR CANCELLED ORDERS) OR 11.5; OR (ii) EITHER PARTY'S PAYMENT OBLIGATIONS UNDER EXHIBIT A; OR (iii) EITHER PARTY'S LIABILITIES DUE TO BREACH OF SECTION 14 (CONFIDENTIALITY); OR (iv) SANMINA'S LIABILITY FOR WARRANTY REMEDIES IN ACCORDANCE WITH SECTION 7 (WARRANTY); OR (v) SANMINA'S LIABILITY UNDER SECTION 11.5(d) WHICH IS SUBJECT TO A CAP AS SET FORTH IN SECTION 11.5(d) AND SUCH CAP SHALL BE CONSIDERED A SUB-CAP INCLUDED WITHIN THE CAP DESCRIBED IN THIS SECTION 10.1 IF THE CAP DESCRIBED IN THIS SECTION 10.1 IS ABOVE [redacted] BY MEASURE OF [redacted] OF THE 12 MONTH PERIOD IMMEDIATELY PRECEDING THE DATE OF THE CLAIM, AND OTHERWISE THE CAP IN SECTION 11.5(d) SHALL BE A SEPARATE CAP AND THE CAP IN THIS SECTION 10.1 WILL NOT APPLY. THE LIMITATIONS SET FORTH IN THIS SECTION SHALL APPLY WHERE THE DAMAGES ARISE OUT OF OR RELATE TO THIS AGREEMENT. THE CAP WILL NOT BE CONSTRUED AS LIMITING SANMINA'S LIABILITY TO BE LESS THAN (i) WITH RESPECT TO CUSTOMER FURNISHED EQUIPMENT, COMPONENTS AND OTHER ITEMS PROVIDED OR PAID FOR BY CUSTOMER, THE FULL CURRENT VALUE OF THOSE ITEMS (INCLUDING AMOUNTS PAID BY CUSTOMER INTO THE OFFSET INVENTORY RESERVE ACCOUNT), OR (ii) WITH RESPECT TO A LIABILITY COVERED BY BUSINESS INTERRUPTION/CYBER RISK INSURANCE THE MINIMUM INSURANCE COVERAGE REQUIRED UNDER SECTION 15, [redacted]. THE LIMITATIONS IN THIS SECTION WILL NOT APPLY TO GROSS NEGLIGENCE OR WILLFUL MISCONDUCT BY EITHER PARTY.

10.2 Intentional Failure to Supply. If SANMINA has the ability to supply sufficient quantities of Products to CUSTOMER, but intentionally does not supply such Products for any reasons that are in SANMINA's control (except for a proper termination pursuant to Section 11.2, i.e., without cause, late payment per Section 3.1, exceeding a credit limit per Section 3.3 or other material breach of the Agreement by CUSTOMER), either: (a) as communicated by a c-level executive of SANMINA to CUSTOMER; or (b) as communicated by CUSTOMER to a c-level executive of SANMINA that it reasonably believes that SANMINA has breached its supply obligations as described in this Section 10.2, and providing SANMINA ten (10) business days to reply by either acknowledging and accepting the factual conclusion that SANMINA has intentionally breached its supply obligations, or curing and substantially rectifying the failure to supply; then,

CUSTOMER shall be entitled to seek CUSTOMER's [redacted].

11. TERMINATION

11.1 Termination for Cause. Subject to Section 11.5, either Party may terminate this Agreement for default if the other Party materially breaches this Agreement; provided, however, no termination right shall accrue until thirty (30) days after the defaulting Party is notified in writing of the material breach and has failed to cure or give adequate assurances of performance within the thirty (30) day period after notice of material breach. The Parties agree that it is not the intent of the cure period to leverage any extension of the agreed payment terms.

11.2 Termination for Convenience. Subject to Section 11.5, CUSTOMER may terminate this Agreement for any reason upon twelve (12) months' prior written notice and may terminate any Order hereunder for any reason upon ninety (90) days' (before scheduled shipment) prior written notice. Subject to Section 11.5, SANMINA may terminate this Agreement for any reason upon twelve (12) months' notice. Neither Party will provide notice of termination of this Agreement for convenience during the Initial Term, unless such notice applies to termination of the Initial Term at the end of the Initial Term, except as provided for in Section 11.3.

11.3 Supplemental Termination Rights by CUSTOMER. After the Effective Date, if:

(i) SANMINA is not able to initially meet the Specifications at the SANMINA Facilities (e.g. vibration testing requirements, delivering conforming Products), the Parties agree to review and consider alternatives for a period of thirty (30) days, and if they are unable to reasonably agree upon another SANMINA Facility that meets such requirements, then CUSTOMER may terminate this Agreement upon written notice to SANMINA; or

(ii) the Parties are not able to agree on Delivery Terms per Section 5.1 (e.g. importer of record/exporter of record arrangements for delivery to end customers reasonably acceptable to CUSTOMER), then CUSTOMER may terminate this Agreement upon written notice to SANMINA. A termination under this Sections 11.3 (i) or (ii) shall be considered a termination for convenience and shall not be considered a termination for cause due to breach by Sanmina, and in such case the transfer of manufacturing responsibilities to SANMINA shall be halted, and the Parties agree that any services related to the transfer that have already been provided by SANMINA will be paid pro rata in accordance with the agreed transition plan to SANMINA, along with any costs as described in Section 11.5 a.

After the Effective Date, if:

(iii) SANMINA is not able to maintain the ability to meet Specifications that will meet the CUSTOMER's requirements over a period of thirty (30) days at the SANMINA Facilities, the Parties agree to review and consider alternatives for a period of thirty (30) days, and if they are not able to agree on a viable solution, then CUSTOMER may terminate this Agreement upon written notice to SANMINA. If a termination is made under this Section 11.3 (iii), and the cause of SANMINA's inability to meet the Specifications is within SANMINA's reasonable control, CUSTOMER may terminate for cause in accordance with Section 11.1. If the cause for termination is not within SANMINA's control, a termination under this Section 11.3 will be considered a termination for convenience and shall not be considered a termination for cause due to

breach by Sanmina, and the Parties shall share the costs of transition in accordance with Section 11. (d), except that SANMINA's liability shall be capped at no more [redacted] by SANMINA for bringing CUSTOMER to SANMINA at the beginning of the Agreement.

11.4 Termination by Operation of Law. Subject to Section 11.5, either Party shall have the right to terminate this Agreement upon written notice to the other Party should the other Party (a) become insolvent; (b) enter into or file a petition, arrangement or proceeding seeking an order for relief under the bankruptcy laws of its respective jurisdiction; (c) enter into a receivership of any of its assets or (d) enter into a dissolution or liquidation of its assets or an assignment for the benefit of its creditors.

11.5 Consequences of Termination.

a. Termination for Reasons other than SANMINA's Breach. In the event this Agreement is terminated for any reason other than a breach by SANMINA (including but not limited to a force majeure or termination for convenience), CUSTOMER shall pay SANMINA charges equal to (1) the contract price for all finished Product existing at the time of termination (whether or not delivered at the time of termination) that are subsequently delivered to and accepted by CUSTOMER per CUSTOMER's Orders; (2) SANMINA's quoted cost (including labor, Components and applicable mark-ups per the pricing model) for all work in process for unfinished Product that has been commenced per CUSTOMER's Orders (however, such shall be mitigated as reasonably possible, by avoidance, return or use on other projects and CUSTOMER will have the option to have the work completed and delivered per Section 11.5(c)); and (3) CUSTOMER's Component Liability pursuant to Section 4.2(f) and subject to Section 11.5(c).

b. Termination Resulting from SANMINA's Breach. In the event CUSTOMER terminates this Agreement as a result of a breach by SANMINA, CUSTOMER shall pay SANMINA charges equal to (1) the contract price for all finished Product existing at the time of termination (whether or not delivered at the time of termination) that are subsequently delivered to and accepted by CUSTOMER per CUSTOMER's Orders; (2) SANMINA's quoted cost (including labor, Components but excluding any markup) for all work in process for unfinished Product that has been commenced per CUSTOMER's Orders (however, such shall be mitigated as reasonably possible, by avoidance, return or use on other projects and CUSTOMER will have the option to have the work completed and delivered per Section 11.5(c)); and (3) CUSTOMER's Component Liability pursuant to Section 4.2(f) and subject to Section 11.5(c); provided, however, that for the purposes of this subsection only, CUSTOMER's Component Liability shall be calculated exclusive of any markup. SANMINA remains liable to CUSTOMER for damages pursuant to this Agreement.

c. Wind Down Period. CUSTOMER shall have the right to continue to place Orders and purchase Products under this Agreement for a period of twelve (12) months after notice of any termination of this Agreement ("**Wind Down Period**"), subject to continued payment of undisputed amounts for such Products. Any amounts subject to good faith dispute will be resolved per Section 17.5. SANMINA will reasonably cooperate with CUSTOMER to provide continuity of supply and smooth transition during the Wind Down Period and to work with Customer to mitigate any termination costs. CUSTOMER shall have the right to (i) have SANMINA continue to manage inventory in accordance with the Offset Inventory Reserve Account and the Inventory Turns Section of Exhibit A while CUSTOMER continues to purchase

Products in accordance with quarterly pricing reviews and any applicable changes in Price during the Wind Down Period (with any termination fees for remaining Component Liability only paid at the end of the wind down), (ii) take delivery and ownership of all Product and Components for which it pays termination fees, including to have existing Components shipped to alternate manufacturer, (iii) have work in process completed or Components allocated to Orders placed during the Wind Down Period, and/or (iv) have Components returned or re-allocated where possible to mitigate costs.

d. Transition Costs. SANMINA will be responsible to Customer for [redacted] suffered by Customer arising from Customer's termination for cause due to SANMINA's breach in accordance with Section 11.1 that results in a transition away from SANMINA, capped at no more than [redacted] charged by SANMINA for bringing CUSTOMER to SANMINA at the beginning of the Agreement. SANMINA will cooperate with CUSTOMER and its second-generation provider until Customer is satisfactorily transitioned, including cooperation and assistance on wind down/transition plans to minimize disruption and transfer of Customer Furnished Equipment, components, test data and other materials and information required for CUSTOMER to establish alternate manufacturing for the Products, not including SANMINA's Background Intellectual Property (except per Section 16.3). SANMINA's warranty obligations will survive until transitioned and, if transitioned before end of applicable warranty period, CUSTOMER will receive credit for remaining portion of warranty period based on historical warranty return rate over prior 12 month period. SANMINA will provide traceability, Product and warranty history and other data as reasonably requested by CUSTOMER. In the event of termination not resulting from SANMINA's breach, the costs for such transition shall be made available to CUSTOMER at the time and materials rates in the pricing sheet (Exhibit A) as of the Effective Date.

12. QUALITY, PROGRAM MANAGEMENT AND CONTINUITY OF SUPPLY

12.1 Specifications. Product shall be manufactured by SANMINA in accordance with the Specifications, as may be modified via written ECO's in accordance with this Agreement. SANMINA is not responsible for inaccuracies or deficiencies in Specifications provided by CUSTOMER; however, SANMINA will promptly notify CUSTOMER of any known inaccuracies or deficiencies and the Parties will correct as needed via written ECO's in accordance with this Agreement. Neither Party shall make any change to the Specifications, to any Components described therein, or to the Products (including, without limitation, changes in form, fit, function, design, appearance or place of manufacture of the Products or changes which would affect the reliability of any of the Products) unless such change is made in accordance with Section 6.1. Notwithstanding the foregoing, SANMINA shall be permitted to make changes in its manufacturing process within the limits of the approved process and its upper and lower control limits at any time, so long as such changes do not affect the form, fit, or function of the Products.

12.2 Content of Specifications. The Specifications shall include, but shall not be limited to, (i) detailed electrical, mechanical, performance and appearance specifications for each model of Product, (ii) the BOM; (iii) tooling specifications, along with a detailed description of the operation thereof, (iv) art work drawings, (v) Component specifications, (vi) Vendor cross references, and (vii) acceptance tests.

12.3 Components. SANMINA shall use in its production of Products such Components of a type, quality, and grade specified by CUSTOMER to the extent CUSTOMER chooses to so specify, and shall purchase Components only from Vendors appearing on CUSTOMER's approved vendor list ("AVL"); provided, however, that in the event SANMINA

cannot purchase a Component from a Vendor on CUSTOMER's AVL for any reason, SANMINA shall be able to purchase such Component from an alternate Vendor, subject to CUSTOMER's prior written approval, which approval shall not be unreasonably withheld or delayed. SANMINA shall use commercially reasonable efforts to manage all Vendors, but shall not be responsible for any Component (including the failure of any Component to comply with the Specifications) except from Vendors that are SANMINA Affiliates. SANMINA is responsible for obtaining and maintaining any applicable (recognizing some Vendors do not provide certificates of conformance) certificates of conformance to Vendor specifications from Vendors for incoming Components (and will verify that it receives the identical part number and revision as that specified on the CUSTOMER's AVL), inspection and testing in accordance with the Specifications, warranty claims and returns for Components that do not meet applicable inspection and testing requirements, proper handling, managing inventory, and any Components to the extent originating from SANMINA or its Affiliates. SANMINA shall recommend Vendors when appropriate, and the Parties will cooperate and coordinate on process to qualify those Vendors, but Vendor approval and selection shall be CUSTOMER's sole responsibility. Within the first year of this Agreement, CUSTOMER will use reasonable efforts to approve SANMINA as an AVL Vendor for all Components manufactured by SANMINA. SANMINA may recommend a change in a Component or Vendor, but no change shall be made except at the written approval of the CUSTOMER and the addition of any new Vendor to the CUSTOMER's AVL. CUSTOMER may reasonably require SANMINA to change Vendors. CUSTOMER retains the right to continuously investigate and seek improved Vendor products and terms and can unilaterally update the AVL with written notice to SANMINA.

12.4 Quality Specifications. SANMINA shall comply with the quality specifications set forth in its Quality Manual, incorporated by reference herein, a copy of which is available from SANMINA upon request.

12.5 Compliance. SANMINA has and will maintain certification and compliance with the following at the Sanmina Facilities and with respect to the manufacture of the Products: ISO 9001-2015, ISO 140001, and ISO 17025-2017. SANMINA will maintain compliance with the Specifications as agreed with CUSTOMER as of the Effective Date and as changed per Section 6 (Changes).

12.6 Inspection of Facility. Upon reasonable advance written notice and, upon SANMINA's request the execution of an appropriate nondisclosure agreement consistent with this Agreement, in compliance with SANMINA's security policies and on an escorted basis, CUSTOMER and its representatives may inspect the Products and Components held by SANMINA for CUSTOMER at SANMINA's facilities during SANMINA's regular business hours at the Sanmina Facility used to manufacture the Products, provided that such inspection does not unduly affect SANMINA's operations. CUSTOMER's regulators and customers who have inspection rights may participate in such inspections. CUSTOMER and its representatives shall observe all security and handling measures of SANMINA while on SANMINA's premises. CUSTOMER and its representatives, regulators, customers and any CUSTOMER employees acknowledge that their presence on SANMINA's property is at their sole risk. The Parties accept and acknowledge that CUSTOMER will co-locate several, full-time CUSTOMER employees on SANMINA's site (i) during the on-boarding phase of the Transition Timeline, and (ii) subject to reasonable availability of office space, as reasonably required by CUSTOMER thereafter during the Term for purposes of this Agreement. For the avoidance of doubt, CUSTOMER employees shall not be permitted to give direction to SANMINA staff on work requirements; all direction must come through SANMINA appointed contacts. Any long-term co-location would be via separate agreement on reasonable terms, and in no case would access by CUSTOMER's

employees to the SANMINA Facilities be unrestricted. SANMINA shall cooperate fully with CUSTOMER's employees and provide reasonable office space, Internet connectivity and other resources as reasonably requested for such employees, and CUSTOMER shall reimburse SANMINA nominal, reasonable expenses due to CUSTOMER's co-location and facility use, which such shall be reasonably agreed upon by the Parties.

12.7 Compliance with Environmental Regulations. CUSTOMER shall ensure that the Specifications comply with applicable law, including environmental regulations. SANMINA shall comply with all applicable laws, including environmental requirements in relation to its manufacturing location and manufacturing process and any other SANMINA-Furnished Items. As between SANMINA and CUSTOMER, Component compliance with applicable RoHS laws and regulations, including their components, subassemblies or materials of or used in Components, shall be the responsibility of CUSTOMER. Unless waived by CUSTOMER, Vendors will be required to certify compliance of Components with Vendors' specifications for applicable (recognizing some Vendors do not provide certificates of conformance) Components. SANMINA shall verify it receives the identical part number and revision as that specified on CUSTOMER's AVL). Upon request, SANMINA will certify it procured Components only from CUSTOMER's AVL, unless a waiver is signed by the CUSTOMER accepting non-compliant Components.

12.8 Key Personnel. Each Party shall designate Key Personnel to facilitate day to day communications and cooperation. The Key Personnel shall be as designated in Exhibit L. Key Personnel shall not change without notification to the other Party. The Key Personnel shall be responsible for resolving minor disputes and ensuring smooth business operations. SANMINA will use reasonable efforts to maintain a consistent team of Key Personnel for CUSTOMER. In any event, SANMINA will provide qualified personnel with sufficient staffing and expertise to meet its obligations to maintain continuity of supply for CUSTOMER.

12.9 Program Management. SANMINA will support and participate in CUSTOMER's quarterly business reviews and weekly functional reviews, including attendance by Key Personnel as applicable. SANMINA will provide all mutually agreed reports and information reasonably requested by CUSTOMER for such purposes and will take actions reasonably requested by CUSTOMER to address any issues identified in such reviews.

12.10 Manufacturing and Test Data. SANMINA will provide all test data and results through secure Internet connection to CUSTOMER's designated data repository in manner and format specified by CUSTOMER. In addition, SANMINA will provide traceability, product and warranty history and other information and reports to CUSTOMER relating to manufacturing and quality as reasonably requested by CUSTOMER from time to time.

12.11 Business Continuity Plan. SANMINA will maintain and implement a Business Continuity Plan ("BCP") to protect against disaster or disruption in its performance or supply and take all reasonable measures to maintain continuity of supply to CUSTOMER as contemplated under this Agreement. SANMINA will meet and review its BCP with CUSTOMER as may be requested by CUSTOMER from time to time. SANMINA will not reduce the protections for CUSTOMER under its BCP in any material respect during the Term without prior consent of CUSTOMER.

13. FORCE MAJEURE

13.1 Force Majeure Event. For purposes of this Agreement, a "Force Majeure Event" shall mean the occurrence of unforeseen circumstances such as act by governmental authority, act of war, natural disaster, epidemic, strike, boycott, embargo, a Vendor's Force Majeure Event, shortage, riot, lockout, labor dispute, civil commotion or similar cause beyond a Party's reasonable control that could not have been prevented through reasonable efforts and is not due to such Party's negligence or intentional misconduct, and in the case of SANMINA notwithstanding SANMINA's compliance with its BCP (which is understood to address longer term Force Majeure Events) and other measure to be taken by SANMINA under this Agreement to maintain continuity of supply.

13.2 Notice of Force Majeure Event. Neither Party shall be responsible for any failure to perform due to a Force Majeure Event provided that such Party gives notice to the other Party of the Force Majeure Event as soon as reasonably practicable, but not later than five (5) days after the date on which such Party knew or should reasonably have known of the commencement of the Force Majeure Event, specifying the nature and particulars thereof and the expected duration thereof; provided, however, that the failure of a Party to give notice of a Force Majeure Event shall not prevent such Party from relying on this Section except to the extent that the other Party has been prejudiced thereby.

13.3 Termination of Force Majeure Event. The Party claiming a Force Majeure Event shall use reasonable efforts to mitigate the effect of any such Force Majeure Event and to cooperate to develop and implement a plan of remedial and reasonable alternative measure to remove the Force Majeure Event; provided, however, that neither Party shall be required under this provision to settle any strike or other labor dispute on terms it considers to be unfavorable to it. Upon the cessation of the Force Majeure Event, the Party affected thereby shall immediately notify the other Party of such fact, and use its best efforts to resume normal performance of its obligations under the Agreement as soon as possible.

13.4 Limitations. Notwithstanding that a Force Majeure Event otherwise exists, the provisions of this Section shall not excuse (i) any obligation of either Party, including the obligation to pay money in a timely manner for Product actually delivered or other liabilities actually incurred, that arose before the occurrence of the Force Majeure Event causing the suspension of performance; or (ii) any late delivery of Product, equipment, materials, supplies, tools, or other items to the extent caused by negligent acts or omissions on the part of such Party.

13.5 Termination of Affected Orders. CUSTOMER may terminate affected Orders, in accordance with Section 4, if any Force Majeure continues for more than sixty days.

14. CONFIDENTIALITY

14.1 Definitions. For the purpose of this Agreement:

(a) "**Confidential Information**" means (technical or non-technical) information (in any form or media) regarding a Party's customers, prospective customers (including lists of customers and prospective customers), methods of operation, engineering and processes (include any information which may be obtained by a Party by reverse engineering, decompiling or examining any software or hardware provided by the other Party under this Agreement), programs and databases, patents and designs and billing rates, billing procedures, vendors and suppliers, business methods, finances, management, business plans, business forecasts, research, financial information, procurement requirements, purchasing requirements, manufacturing, customer lists, sales and merchandising efforts, marketing plans, experimental work, development, design details,

specifications, engineering, intellectual property (patents, copyrights, trade secrets, proprietary information, etc.), methodologies, techniques, sketches, drawings, models, inventions, know-how, processes, apparatus, equipment, algorithms, software programs, software source documents, and formulae, in any way related to the current, future and proposed business, products and services of either of the Parties or any other business information relating to such Party (whether constituting a trade secret or proprietary or otherwise) which has value to such Party and is indicated by such Party as being confidential or is confidential due to its nature; provided, however, that Confidential Information does not include information that (i) is known to the other Party prior to receipt from the Disclosing Party hereunder, which knowledge shall be evidenced by written records, (ii) is independently developed as evidenced by written records, (iii) is or becomes in the public domain through no breach of this Agreement, or (iv) is received from a third party without breach of any obligation of confidentiality.

(b) **"Person"** shall mean and include any individual, partnership, association, corporation, trust, unincorporated organization, limited liability company or any other business entity or enterprise.

(c) **"Representative"** shall mean a Party's employees, agents, or representatives, including, without limitation, financial advisors, lawyers, accountants, experts, and consultants.

14.2 Nondisclosure Covenants.

(a) In connection with this Agreement, each Party (the **"Disclosing Party"**) may furnish to the other Party (the **"Receiving Party"**) or its Representatives certain Confidential Information. For a period of five (5) years from the end of the Term of this Agreement and any Wind Down Period, the Receiving Party (a) shall maintain as confidential all Confidential Information disclosed to it by the Disclosing Party, (b) shall not, directly or indirectly, disclose any such Confidential Information to any Person other than, on a strictly need-to-know basis (i) those Representatives of the Receiving Party whose duties justify the need to know such Confidential Information and then only after each Representative has agreed to be bound by this Confidentiality Agreement and clearly understands the obligation to protect the confidentiality of such Confidential Information and to restrict the use of such Confidential Information or (ii) if SANMINA is the Receiving Party, a third party Vendor for the purpose of obtaining price quotations, and (c) shall treat such Confidential Information with the same degree of care as it treats its own Confidential Information (but in no case with less than a reasonable degree of care), including in the case of SANMINA, compliance with Section 3.8 (Information Security) with respect to CUSTOMER's Confidential Information.

(b) The disclosure of any Confidential Information is solely for the purpose of enabling each Party to perform under this Agreement, and the Receiving Party shall not use any Confidential Information disclosed by the Disclosing Party for any other purpose.

(c) Except as otherwise set forth in this Agreement, all Confidential Information supplied by the Disclosing Party shall remain the property of the Disclosing Party and will be promptly returned by the Receiving Party upon written request except return of electronic copies retained for backup, disaster recovery, or business continuity and in such case the obligations hereunder shall survive until such copies are destroyed pursuant to retention policies.

(d) If the Receiving Party or its Representative is requested or becomes legally compelled to disclose any of the Confidential Information, it will provide the Disclosing Party with

prompt written notice. If a protective order or other remedy is not obtained, then only that part of the Confidential Information that is legally required to be furnished will be furnished, and reasonable efforts will be made to obtain reliable assurances of confidentiality.

(e) Notwithstanding the foregoing, it is understood that the data, reports and other information provided by SANMINA to CUSTOMER regarding the design, test, warranty and servicing of CUSTOMER's Products will be considered Confidential Information of CUSTOMER and not SANMINA. The Specifications provided by CUSTOMER to SANMINA shall also be considered the Confidential Information of CUSTOMER and not SANMINA. CUSTOMER shall be free to use and disclose such information in connection with its business as well as data and information owned by or licensed to CUSTOMER under Section 16 below.

14.3 Injunctive Relief Authorized. Any material breach of this Section by a Party or its Representatives may cause irreparable injury and the non-breaching Party may be entitled to equitable relief, including injunctive relief and specific performance, in the event of a breach. The above will not be construed to limit the remedies available to a Party. In addition, the prevailing Party will be entitled to be reimbursed for all of its reasonable attorneys' fees and expenses at all levels of proceedings and for investigations, from the non-prevailing Party.

14.4 No Publicity. Each Party agrees not to publicize or disclose the existence or terms of this Agreement to any third party without the prior consent of the other Party except as required by law or stock exchange requirement including relevant securities or stock market filing (in which case, the Party seeking to disclose the information shall give reasonable notice to the other Party of its intent to make such a disclosure and CUSTOMER hereby provides such notice with respect to its Form 8-K securities filing regarding this Agreement). With respect to CUSTOMER's filing of redacted copy of this Agreement in connection with its securities filing, CUSTOMER does not intend to disclose, or will seek confidential treatment for, specific pricing and rates in Exhibit A (but may disclose its component liability obligations) and specific caps on liability and exception in Section 10, unless required by applicable stock exchange or regulatory body requirements or as otherwise advised by its securities counsel, in which case SANMINA will be provided with an opportunity to review and suggest reasonable comments and proposed redactions. Neither Party shall make any press release or similar public statement without the prior consent of the other Party, not to be unreasonably withheld or delayed. CUSTOMER's press release regarding this Agreement has been approved by SANMINA as of the Effective Date. Notwithstanding the foregoing, CUSTOMER may disclose the existence of this Agreement and that SANMINA is a manufacturer of the Products under this Agreement.

14.5 Privacy. Each Party shall comply with their obligations under applicable Data Protection Laws relating to the collection, use, processing, protection or disclosure of Personal Data relating to individuals in the course of carrying out their respective obligations under this Agreement, including without limitation, obtaining and maintaining all necessary and valid data subject consents, providing all necessary privacy or fair information processing notices, term and authorizations with the competent data protection authorities. Nothing in this Agreement shall be deemed to prevent the Parties from taking steps it reasonably deems necessary to comply with Data Protection Laws. "Personal Data" includes, without limitation, any data that could potentially be used to identify a person, either directly or indirectly. "Data Protection Laws" means all laws, codes, statutes, rules, and regulations with which each Party is legally obliged to comply in performing hereunder during the Term of this Agreement.

15. INSURANCE

SANMINA agrees to maintain during the term of this Agreement (a) Workers' Compensation insurance as prescribed by the law of the state in which SANMINA's services are performed; (b) Employer's Liability insurance with limits of at least \$500,000 per occurrence; (c) Commercial Automobile Liability insurance if the use of motor vehicles is required, with limits of at least \$1,000,000 for bodily injury and property damage for each occurrence; (d) Commercial General Liability insurance, including blanket contractual liability and broad form property damage, with limits of at least \$1,000,000 combined single limit for personal injury and property damage for each occurrence; (e) Commercial General Liability insurance endorsed to include Products Liability and Completed Operations coverage in the amount of \$1,000,000 for each occurrence; (f) Business Interruption/Cyber Risk insurance with limits of no less than \$5,000,000 for each occurrence; and (g) Umbrella Liability insurance with limits of no less than \$5,000,000 for each occurrence. The insurance policies shall be issued by companies with rating of at least A VIII in Best's Key Rating Guide or Standard & Poor's A rating. SANMINA shall furnish to CUSTOMER upon request certificates or evidence of the foregoing insurance indicating the amount and nature of such coverage and the expiration date of each policy. Each Party agrees that it, its insurer(s) and anyone claiming by, through, or under or in its behalf shall have no claim, right of action or right of subrogation against the other Party and the other Party's affiliates, directors, officers, employees and customers based on any loss or liability insured against under the insurance required by this Agreement.

16. INTELLECTUAL PROPERTY

16.1 **"Intellectual Property Rights"** means all worldwide common law and statutory rights associated with (a) patents and patent applications; (b) copyrights and all other literary property and author rights, including without limitation, copyright applications, copyright registrations, certificates of copyrights and copyrighted interests, and "moral" rights; (c) all rights, title and interest in and to inventions (whether patentable or not in any country) and invention disclosures; (d) trade secrets, know-how, or the protection of confidential information; (e) other proprietary rights related to intangible intellectual property; (f) analogous rights to the rights set forth in (a)-(e), and (g) all divisions, continuations, renewals, reissuances, and extensions of the foregoing (as applicable) now existing or hereafter filed, issued or acquired; such includes for inventions, concepts, techniques, designs, processes, improvements, discoveries and ideas (whether patentable or not), trade secrets, know-how, specifications, drawings, technical information, process engineering information, computer software and the like.

16.2 **Ownership.** Except as otherwise expressly set forth below, each Party retains ownership of its Intellectual Property Rights created, authored or invented by such Party prior to the Effective Date or independently outside the scope of this Agreement ("**Background IP**") and any enhancements or derivatives of the foregoing, as applicable. Intellectual Property Rights relating to the Products or their design, Specifications, testing, servicing or associated software and all test and performance data with respect thereto, including any feedback, suggestions, modifications, improvements, enhancements or derivatives with respect to any of the foregoing (not including any SANMINA Background IP) (collectively, "**Product IP**"), shall be owned exclusively by CUSTOMER, without any obligation to SANMINA or compensation of any kind under any circumstances, at the time of development or in the future, and (b) shall be Confidential Information of CUSTOMER and not SANMINA. Any development of Product IP by SANMINA would be done under a separate development agreement and related statement of work, and would be owned by CUSTOMER once quoted, provided, accepted and paid for. To the extent that SANMINA has or obtains any rights in or to any Product IP under this Agreement, SANMINA hereby assigns all right, title and interest in and to the Product IP to CUSTOMER. SANMINA will promptly disclose to CUSTOMER

any such Product IP created, authored or invented by SANMINA and take such further actions reasonably requested by CUSTOMER to fully perfect the assignment and transfer the Product IP to CUSTOMER. SANMINA may not use any Intellectual Property from CUSTOMER for the benefit of other customers or for any purposes not contemplated by this Agreement or applicable Order.

16.3 License to Customer. If, in connection with its performance under this Agreement, SANMINA incorporates into any Product or Product Requirements any SANMINA Intellectual Property Rights, SANMINA hereby grants to CUSTOMER a non-exclusive, irrevocable, perpetual, worldwide, royalty-free, sublicensable right and license to make, use, sell, distribute, modify, support, incorporate, and otherwise exploit SANMINA Intellectual Property Rights incorporated into such Product or Product Requirements solely in connection with the manufacture, use, sale, distribution, modification or support thereof (or of any derivatives, new versions or follow-on products or product requirements). As used above, "Product or Product Requirements" means (i) the Products and Product IP, (ii) the manufacturing processes and requirements for the Products provided or specified by CUSTOMER, and (iii) any feedback, suggestions, modifications, improvements, enhancements and derivatives thereof made during the course of this Agreement that are changes to the items in (i) and (ii) above. For avoidance of doubt, "Product or Product Requirements" does not include SANMINA's Background IP for implementing an underlying manufacturing process step (e.g., particular SANMINA recipe) but does include the requirements for each step as outlined in the Specifications (e.g., results, tolerances) and sequence of steps as outlined in the Specifications (e.g., process flow) to manufacture the Products that are set forth in the Specifications, as will be updated throughout the course of this Agreement. As an example of the above, if visual inspection were replaced by automated visual inspection, the underlying process for automated visual inspection would not be part of the Specifications, but the fact that automated visual inspection was being used would be noted in the Specifications.

16.4 Licenses to Sanmina.

(a) Embedded Intellectual Property. For CUSTOMER Intellectual Property embedded in the Products, CUSTOMER grants to SANMINA a non-exclusive, non-transferable, revocable, royalty free license for the Term of this Agreement for SANMINA's internal use of the same as required to perform hereunder, as part of the Product in which they are embedded. Nothing contained in this Agreement shall be construed to grant SANMINA any right to use or exploit such Intellectual Property in its stand-alone form separate and apart from the Product.

(b) Freestanding Intellectual Property. In the event CUSTOMER's Intellectual Property is not embedded in the Products but used by SANMINA for CUSTOMER to receive the benefit of the Agreement, CUSTOMER grants to SANMINA a non-exclusive, non-transferable, revocable, royalty free license for the Term of this Agreement for SANMINA's internal use as required to perform hereunder. Nothing contained in this Agreement shall be construed to grant SANMINA any right to use or exploit such Intellectual Property in its stand-alone form separate and apart from the Product.

(c) The Products may include third party materials or marks, including marks indicating Product certifications. It shall be the sole responsibility of CUSTOMER to obtain the requisite licenses for any third party materials or marks it specifies to be used in relation to the Products. If CUSTOMER requires the use of third party materials or marks, CUSTOMER warrants it has provided written instructions on the use or application of such items and warrants (i) it has all applicable rights, licenses and permissions from the applicable third

parties to grant permission or sublicense SANMINA to use or apply such third party materials or marks; and (ii) will ensure its Products remain in compliance with any requirements from third parties related to the use of their materials or marks, at CUSTOMER's expense, for as long as CUSTOMER requires SANMINA to use such materials or marks; in each case of (i) and (ii), subject to SANMINA complying with the applicable Specifications and purchasing the respective third party materials from the approved Vendors.

17. MISCELLANEOUS

17.1 Integration Clause. This Agreement (including the Exhibits and Schedules to this Agreement) constitutes the entire agreement of the Parties, superseding all previous Agreements covering the subject matter. This Agreement shall not be changed or modified except by written agreement, specifically amending, modifying and changing this Agreement, signed by authorized representatives of CUSTOMER and SANMINA.

17.2 Order of Precedence. All quotations, Orders, acknowledgments and invoices issued pursuant to this Agreement are issued for convenience of the Parties only and shall be subject to the provisions of this Agreement and the Exhibits hereto. The Parties expressly reject any pre-printed terms and conditions of any Order, acknowledgment, or any other form document of either Party other than the specific terms set forth in Section 4.1(a)(i)-(v) shall be deemed deleted and such pre-printed terms and conditions shall be of no effect whatsoever. No modification to this Agreement, the Exhibits or any Order shall be valid without the prior written consent of the authorized representatives of SANMINA and CUSTOMER. In the event of any inconsistency or conflicting provisions between any parts of this Agreement and an Order, this Agreement shall prevail. Should SANMINA fail to contact CUSTOMER to resolve these conflicts or inconsistencies, SANMINA will be solely responsible for errors resulting from interpretation conflicts or inconsistencies.

17.3 Assignment. Neither this Agreement nor any rights or obligations hereunder shall be transferred or assigned by either Party without the written consent of the other Party, which consent shall not be unreasonably withheld or delayed. This Agreement may be assigned in whole or in part by either Party to any Affiliate of such Party provided that such Party remains secondarily liable under this Agreement. Notwithstanding the foregoing, either Party may assign this Agreement in connection with the transfer of all or substantially all of the business or assets of such Party to which this Agreement relates (whether by sale of stock or assets, merger, change of control, operation of law or otherwise), provided that (i) the assignee agrees in writing to assume the obligations of such Party under this Agreement, (ii) notice of such assignment is provided to the other Party, and (iii) the assignee reasonably can perform its duties and responsibilities herein (and, in particular, in the case of SANMINA without any disruption or adverse impact on the manufacture and supply of the Products for Customer under this Agreement). Notwithstanding the foregoing, either Party may assign its right to payment to a third party without the need for consent from the other Party, unless payment to a third party potentially violates laws or regulations of the United States of America or of the European Union and its member states.

17.4 Notices. Wherever one Party is required or permitted or required to give written notice to the other under this Agreement, such notice will be given by hand, by certified U.S. mail, return receipt requested, or by overnight courier and addressed as follows:

If to CUSTOMER:	with a copy to:
Keith Brooks	Legal Department

Sr. Director Global MFG
& Process Engineering
Keith.Brooks@FARO.com
508-851-5674

Legal@FARO.com
and

Jason Pollock
Vice President, Global Operations
Jason.Pollock@FARO.com
832-473-9972

Allen Muhich
Chief Financial Officer
Allen.Muhich@faro.com

All at
250 Technology Park
Lake Mary, Florida
32746
407-333-9911

If to SANMINA:

with a copy to:

SANMINA Corporation
2700 N. First Street
San Jose, California 95134
Att'n: EVP, Sales
Phone: (408) 964-3500
Fax: (408) 964-3636

SANMINA Corporation
2700 N. First Street
San Jose, California 95134
Att'n: Legal Department
Phone: (408) 964-3500
Fax: (408) 964-3636

All such notices shall be effective upon receipt. Either Party may designate a different notice address from time to time upon giving ten (10) days' prior written notice thereof to the other Party. Throughout this Agreement, "notice" with respect to operational matters shall require simultaneous posting to SANMINA's online portal shared with CUSTOMER. Any "notice" with respect to any stop shipment or non-routine supply disruption must also be escalated to senior executives designated by each Party at the VP level or above, who must promptly discuss the matter (which may be telephonically) and reasonably cooperate to resolve the matter to avoid any disruption of supply for CUSTOMER.

17.5 Disputes/Choice of Law/Attorneys Fees. The Parties shall attempt to resolve any disputes between them arising out of this Agreement through good faith negotiations. Where the Parties are unable to resolve a dispute arising out of or in connection with this Agreement by means of negotiation, the dispute shall be first referred to mediation administered by the American Arbitration Association's ("AAA") under its Commercial Mediation Rules. Where the Parties are unable to resolve a dispute by means of mediation, which shall also be the case where one Party declares the mediation to have failed, the Parties acknowledge and agree that disputes shall be referred to arbitration under the rules and procedures of the American Arbitration Association in accordance with its Commercial Arbitration Rules then in effect. The decision of said arbitrators shall be final, binding, and conclusive upon the Parties. The arbitrators will have the power to grant any provisional measure deemed appropriate, including, but not limited to, provisional injunctive relief. Notwithstanding the foregoing, a Party may apply to any court of competent jurisdiction for a temporary restraining order, preliminary injunction, or other interim or conservatory relief, as necessary. Given the unique nature of this transaction, each Party agrees that monetary damages may not be a sufficient remedy and that, in addition to all other remedies, a Party is entitled to seek specific performance and injunctive and other equitable relief (without the need to post a bond) for breach or threatened breach of this Agreement. If any state

or federal court obtains jurisdiction despite this arbitration clause, the Parties to this agreement agree that the federal courts within the State of Delaware shall have exclusive and sole jurisdiction. Exclusive place of jurisdiction and exclusive venue shall be within the State of Delaware. This Agreement shall be construed in accordance with the substantive laws of the State of Delaware (excluding its conflicts of laws principles). The provisions of the United Nations Conventions on Contracts for the International Sale of Goods shall not apply to this Agreement. The prevailing Party shall be entitled to recover its costs and reasonable attorney's fees from the non-prevailing Party in any action brought to enforce this Agreement. During the resolution of any dispute, SANMINA will continue to perform its obligations under this Agreement and maintain continuity of supply for CUSTOMER and CUSTOMER will continue to pay any undisputed amounts.

17.6 Relationship of the Parties. The relationship of the Parties is that of independent contractors and is non-exclusive. There is no relationship of agency, partnership, joint venture, employment, or franchise between the Parties. Each Party will act in its own name. Neither Party has the authority to bind the other Party or to incur obligations on behalf of the other Party. This Agreement is not a requirements contract and there is no obligation to order any particular Products or volumes under this Agreement. Each Party reserves the right to engage with other third parties in similar transactions.

17.7 Severability. Should any of these terms and conditions be held by a court of competent jurisdiction to be contrary to law, that term or condition will be enforced to the maximum extent permissible and the remaining terms and conditions will remain in full force and effect.

17.8 Waiver. No failure to exercise and no delay in exercising any right, remedy or power hereunder will operate as a waiver thereof, nor will any single or partial exercise of any right, remedy or power hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy or power provided herein or by law or in equity.

17.9 Construction. The captions or headings in this Agreement are strictly for convenience and will not be considered in interpreting this Agreement. For purposes of interpreting this Agreement, (a) unless the context otherwise requires, the singular includes the plural, and the plural includes the singular; (b) unless otherwise specifically stated, the words "herein," "hereof," and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular section or paragraph; (c) the word "or" has, except where otherwise indicated, the inclusive meaning represented by the phrase "and/or"; and (d) the words "include" and "including" will not be construed as terms of limitation, and will therefore mean "including but not limited to" and "including without limitation".

17.10 Counterparts. This Agreement may be executed in any number of separate counterparts, including facsimile, PDF or other electronic copies, and each counterpart will be considered an original and together will comprise the same agreement. This Agreement may be executed by facsimile or digital signatures and such signatures will be deemed to bind each Party as if they were original signatures.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed as of the Effective Date, by their officers, duly authorized.

SANMINA CORPORATION

DocuSigned by:
Mike Landy
By: 04157DED80F74B8...

Michael Landy

Chief Operating Officer

7/14/2021

Date

CUSTOMER

DocuSigned by:
Allen Muhich
By: 19C60D773E86439

~~Michael Burger~~ Allen Muhich

~~Chief Executive Officer~~ CFO

7/15/2021

Date

EXHIBITS

- A. PRICING AND INVENTORY TURNS
- B. LONG LEAD-TIME COMPONENTS
- C. CUSTOMER FURNISHED EQUIPMENT
- D. TRANSITION TIMELINE
- E. CALIFORNIA TRANSPARENCY IN SUPPLY CHAINS ACT DISCLOSURE
- F. FARO SUPPLIER CODE OF CONDUCT
- G. FARO CONFLICT MINERALS POLICY
- H. FARO THIRD PARTY ANTI CORRUPTION POLICY
- I. INTENTIONALLY LEFT BLANK
- J. REPORTING REQUIREMENTS
- K. FORECAST SPREADSHEET
- L. KEY PERSONNEL
- M. INITIAL SPECIFICATIONS

EXHIBIT A**PRICING AND INVENTORY TURNS**

Term	Rate
Material Overhead	[redacted]
Labor Rate (Thailand)	[redacted]
Labor Rate (Texas)	[redacted]
Labor Rate (Czech Republic)	[redacted]
SG&A	[redacted]
Profit	[redacted]
Inbound Freight	[redacted]

* Labor rate for Carrollton Texas reflects final assembly and fulfillment activities

* Labor rate for Czech Republic reflects final assembly and fulfillment activities

Prior to placement of initial Order and Forecast per Section 4.2(a), the Parties will hold an initial quarterly pricing review per Section 2.1 to reflect any adjustment to pricing based on changes in cost from the Effective Date until such time, as described in Section 2 (Pricing) of the Agreement (consistent with the margin rates set forth in the table above).

The initial pricing and pricing assumptions are as is agreed via electronic documents at the time of signature.

INVENTORY TURNS:**Excess Components and Reconciliation using Inventory Reserve Account**

Under this Agreement SANMINA shall purchase, order or acquire Components in accordance with the requirements of this Agreement based on CUSTOMER's then-current Forecast or Orders and shall hold certain Component inventory ("**Component Inventory**") as set forth below.

1. Component Inventory and Excess Components

1.1 It is expressly acknowledged and agreed that SANMINA's pricing for the manufacture of the Products is based on SANMINA maintaining an inventory turns model of [redacted] as described below. Components that SANMINA purchases to meet the requirements set forth under this Agreement will be financed by SANMINA, except for purchased Initial Component Inventory, which will be financed by CUSTOMER through the below described IRA to the extent exceeding the amount of inventory needed to operate at [redacted]. Any Excess Components will, unless otherwise agreed, be managed through an Offset Inventory Reserve Account ("IRA") established for this purpose. The IRA will be used going forward to maintain the agreed inventory turns. Alternatively, any Excess Components shall be purchased by Customer by issuing purchase orders.

1.2 The Parties agree SANMINA shall purchase the Initial Component Inventory (which will not include any Obsolete Components) from CUSTOMER. In relation to the purchased Initial Component Inventory, CUSTOMER will prepay to SANMINA a deposit against future consumption for the amount of inventory that is anticipated to be in excess of the amount of inventory needed to operate at [redacted], which creates the initial balance for the IRA. SANMINA will book all Components in SANMINA's ERP system which means the Components will be visible in the SANMINA ERP system as existing and on-hand.

2. IRA Adjustment Based On Inventory Turns

2.1 The IRA shall mean a (contra asset) account established by SANMINA to offset the change in asset value for Excess Components, by debiting and crediting this account ensuring that the cost impact associated with such Excess Component Inventory is reflected accurately in the financial records. The Excess Components will be reviewed and determined as set forth below.

2.2 SANMINA shall provide CUSTOMER with an inventory report of the inventory that SANMINA has on hand during the month prior to quarter end which shall include a listing of the following: (i) Component inventory that SANMINA has on-hand for CUSTOMER, and (ii) any work in process.

2.3 The quarter end inventory report will not include any finished Products or any SANMINA induced Component inventory not purchased according to the terms of the Agreement. The quarter end inventory report shall include inventory on hand and Cost of Goods Sold (“**COGS**”), with a calculation of the inventory turns for the then current calendar quarter and identification of any Excess Components difference required to achieve the agreed inventory turns.

2.4 SANMINA shall provide CUSTOMER a list of Components which represents the Components and quantities financed by CUSTOMER through the IRA. The underlying list of Components covered by the IRA amount shall be approved in writing by the CUSTOMER (“**Excess List**”) prior to balancing the account as set forth below.

3. Calculation of Inventory Turns

3.1 SANMINA will book all Components in SANMINA’s MRP system which means all Components (SANMINA financed and any CUSTOMER financed) will be visible in the SANMINA MRP system as existing and on hand. As SANMINA runs weekly MRP based upon loaded Forecasts from CUSTOMER, any on hand Components will be consumed before new purchases will be executed, and if SANMINA will use CUSTOMER financed Components, it will be considered in the inventory reserve mechanism and be credited to CUSTOMER as set forth below. The Parties agree that after netting the quarter ending inventory in relation to the IRA inventory, the Parties shall determine the inventory turns by dividing the annualized quarters COGS (as quarter end COGS multiplied by four (4)), by the net inventory (“**Inventory Turns**”).

3.2 If the Inventory Turns is calculated at less than the agreed turns as set forth above or as otherwise agreed to in writing, CUSTOMER shall provide an additional payment to the Inventory Reserve Account to reduce the net inventory value to an amount, that when calculated, will bring the Inventory Turns equal to the agreed turns. CUSTOMER shall provide a purchase order prior to quarter end for any applicable payments, and such payment shall be made within thirty (30) days of invoice. Parties shall place purchase orders to either credit or debit the Inventory Reserve Account to reduce the net inventory value to an amount that when calculated, will bring it to the agreed number of inventory turns. The Excess Component inventory, or Inventory Reserve amount, to be credited or debited from the IRA is calculated by subtracting the total SANMINA inventory at the agreed turns from the total inventory. If the Excess Inventory value is greater than the amount in the IRA, then CUSTOMER shall issue a purchase order for the difference to SANMINA, who shall then credit the funds to the IRA. If the Excess Inventory value is less than the amount in the IRA, SANMINA shall issue a purchase order and refund the difference to CUSTOMER. However, for the avoidance of doubt, SANMINA can only refund amounts paid by CUSTOMER into and held in the Inventory Reserve Account.

3.3 Excess Components shall be kept in the Inventory Reserve Account for a maximum period of twelve (12) months, at which time such Excess Components will be deemed to be Obsolete Components. The Parties shall use the calculation during each calendar quarter to determine the new Inventory Reserve Account. The payment term is thirty (30) calendar days from the date of the respective CUSTOMER or SANMINA invoice.

3.4 Obsolete Components. Within five (5) business days after receiving CUSTOMER’s first Forecast or Order of the first month following the end of each calendar quarter (but no later than the fifteenth business day following the end of each of SANMINA’s calendar quarters), SANMINA shall advise CUSTOMER in writing of any Obsolete Components and their Delivered Cost (the “**Obsolete List**”). The Obsolete List shall include all former Excess Components which have been deemed Obsolete Components in accordance with Section 2.6 above. Notwithstanding the foregoing, SANMINA’s failure to timely provide the Obsolete List to CUSTOMER shall not affect CUSTOMER’s obligations hereunder.

3.5 To the extent that any of the amount in the CUSTOMER’s Offset Inventory Reserve Account relates to any Obsolete Component (e.g., the Obsolete Component was formerly included in the

Excess List, and CUSTOMER included that Component in its funding of the Offset Inventory Reserve Account), SANMINA shall debit the Offset Inventory Reserve Account in the amount of the Delivered Cost of such Component. In the event the CUSTOMER's Offset Inventory Reserve Account does not include funding for any Obsolete Component (e.g., the Component was recently rendered obsolete as a result of a design change), SANMINA shall invoice CUSTOMER for the Delivered Cost of the Obsolete Component, CUSTOMER shall pay SANMINA's invoice within thirty (30) days after the date of invoice. SANMINA will ship or dispose of the Obsolete Component in accordance with the CUSTOMER's instructions.

4. Example – Calculation of Turns and the IRA adjustment amount (quarterly)

[redacted]

4.1 Calculate annualized cost of goods sold (“COGS”).

After netting quarter end inventory of all Reserves, the Parties shall determine the inventory turns by dividing the annualized quarters COGS (Quarter end COGS x 4) by the net inventory (“**Inventory on Hand**”).

4.2 Prepaid Reserve; Adjustments.

4.2.1 If the Turns Target is less than [redacted], CUSTOMER shall provide an additional payment to SANMINA to the Inventory Reserve Account to reduce the net inventory value to an amount, that when calculated, will bring the Inventory Turns equal to [redacted].

4.2.2 If the Turns Target is greater than [redacted] SANMINA shall pay CUSTOMER an amount, that when calculated will bring the Inventory Turns equal to [redacted]. SANMINA can only refund amounts paid by CUSTOMER into and held in the Inventory Reserve Account.

EXHIBIT B

LONG LEAD-TIME COMPONENTS

Long lead-time Components will be identified and reported on monthly.

EXHIBIT C

CUSTOMER FURNISHED EQUIPMENT

The list of Customer furnished equipment can be found at:
[redacted]

EXHIBIT D

TRANSITION TIMELINE

The transition timeline is subject to change upon mutual written agreement of the parties. At the time of execution, the agreed transition timeline was sent as an electronic attachment.

EXHIBIT E

CALIFORNIA TRANSPARENCY IN SUPPLY CHAINS ACT DISCLOSURE

SANMINA agrees to comply with the following except:

- As is agreed in this MSA, either Party's pre-printed terms stated on purchase orders, acknowledgements or otherwise are to be of no effect, and the terms of this Agreement shall apply.



At the time of execution, this disclosure was sent as an electronic attachment.

EXHIBIT F

FARO SUPPLIER CODE OF CONDUCT

SANMINA agrees to comply with the Faro Supplier Code of Conduct with the following exceptions:

- 1) In relation to Section A 1, the sentence stating “Additionally, Supplier will ensure that the products, services and shipments for FARO adhere to all applicable international trade compliance, antitrust and import/export laws (including, without limitation, the antidumping laws under the U.S. Tariff Act of 1930), rules and regulations” is revised and agreed as follows: “Additionally, Supplier will ensure that its manufacturing process and SANMINA-Furnished Items adhere to all applicable international trade compliance, antitrust and import/export laws (including, without limitation, the antidumping laws under the U.S. Tariff Act of 1930), rules and regulations.
- 2) In relation to Section 4 (e), the Parties agree that Sections 7.4 and 12.7 in the Agreement describes each Party’s responsibilities related to hazardous substances, as opposed to this section 4 (e).
- 3) In relation to Section 5 (g), the Parties acknowledge that SANMINA is responsible for buying Components only from FARO’s AVL unless otherwise approved by FARO, and is not responsible for whether such Components are counterfeit.
- 4) In relation to Section 5 (h), the Parties agree SANMINA is responsible for ensuring it’s process materials do not include any conflict minerals, and FARO is responsible for ensuring it’s Products do not use any Components containing conflict minerals.

The FARO Supplier code of conduct was supplied as an electronic document at the time of Execution.



EXHIBIT G

FARO CONFLICT MINERALS POLICY

SANMINA agrees to comply with the Faro Conflict Minerals Policy with the following exceptions:

It is agreed that SANMINA is not responsible for Components from third parties.



The Faro Conflict Minerals document was supplied as an electronic document at time of execution.

EXHIBIT H

FARO THIRD PARTY ANTI CORRUPTION POLICY



Anti-Corruption
Policy for Third Parties

The Faro Third Party Antitrust document was supplied as an electronic document at time of execution.

EXHIBIT I – INTENTIONALLY OMITTED

EXHIBIT J**REPORTING REQUIREMENTS**

All reports shall be posted to SANMINA's online portal shared with CUSTOMER.

Exhibit (J) Operational and QBR Reporting Requirements

KPI / Report	Definition		Update Cadence
Backlog Reports	Total daily backlog by \$\$, based on commitment, aging, part number		Weekly
Manufacturing Cycle Time	Total cycle time for sub-assembly process and top-level assembly process. Derived from MES system with break down by stage in the process. Used for continuous improvement efforts.		Monthly
On Time Delivery	Average weekly % delivered to committed last 12 weeks		Weekly / Daily if below goal
First Pass Yield	First pass yield all test stages AOI, AXI, ICT, FCT, System Test rolling 12 weeks control chart		Weekly
Material Shortages	Clear to build report		Weekly/Monthly
Cost Reviews for materials, assembly, and test	Review against goals set		Quarterly
Select Supplier Quality Reviews (can be tied to Cost Reviews)	Review Partner's key supplier's Quality KPI's		Quarterly
Audit reports	ISO, 17025, etc.		Once performed
(Quality)Out of Box Audit Results	Conducted by Sanmina, control chart		Based on AQL sampling plan for OBA reported weekly
(Quality)Stability (drop test) yield	Control chart, current sample available with rules for notification and alert		Part of first pass yield data. Will distribute as agreed.
(Quality) ISO Internal audit results	Nonconformities on FARO lines		As dictated by internal audit plan
(Quality) List of 17025 certified operators	By product listed in ANAB scope documents		Initial list, then updated as additions or removals are made
(Quality) 17025 Operator re-certification testing results	By Operator		Initial list then as re – certifications are conducted
(Quality) 17025 as received out of compliance condition	Customer notification process when the as received conditions of 17025 certified products fail to meet accuracy requirements		Daily, time constraints on our response to our customers

(Quality) 17025 impact analysis for out of calibration tooling	If a tool or fixture is found to be out of spec in its normal calibration cycle, a list of all serial numbers and dates built with that device since its last verified in specification state is required to perform an impact analysis		Daily, time constraints on our response to our customers
Scrap reports with Aging	Total scrap parts by \$\$, part numbers, and cycle time		Monthly
Safety Reports (For FARO cell only)	Days without accidents/incidents		Monthly
FARO Production Status	% of units complete relative to committed production schedule		Weekly
DPPM	Calculate the number of defective supplier rejects / total direct material receipts monthly		Report monthly
DPPM	Calculate the number of defective supplier rejects / total direct material receipts monthly		8D requests on key issues opened.
Corrective actions	Report on # of 8Ds issued and closed / month.	8D issued for any issues impacting manufacturing	Review 8D reports with FARO SQE monthly
Corrective actions	Past due 8Ds		Review 8D reports with FARO SQE monthly
FAI acceptance rate	Suppliers passing FAIs / Divided by total submitted. (Monthly / yearly) (select suppliers)	100%	Monthly
FAI acceptance rate	FAI NC management. (Review 8Ds / Corrective actions issued for each failing FAI submittal.	As needed	Quarterly
SPC / CPK data on machined components produced by Sanmina (Machining Group)	Report # of parts running Cpk < 1.33 on critical characteristics.		Quarterly
PCBAs (Sanmina produced only)	Board testing (Flying probe, ICT, etc.) pass rates.		Quarterly
Freight Spend	Broken into Freight In, Freight Out, Warranty, Non-Warranty, or SG&A Other, and broken down by Destination Country - Heat Map, Charts and raw data		Monthly 1st Monday
Duty Spend	Broken down by Destination Country - Heat Map, Charts and raw data		Monthly 1st Monday
Count of Total Shipments	Broken down by Destination Country - Heat Map and raw data		Monthly 1st Monday

Count of Shipment Pieces	Broken down by Destination Country - Heat Map and raw data		Monthly 1st Monday
Shipment Weights totals	Report both Actual Weights and Billable Weights - Charts and raw data by mutual agreement		Monthly 1st Monday
FARO Shipment Data Integrity Errors	Defined as: Wrong, incomplete, or missing data sent over from FARO and prevents Sanmina from shipping. How many occurrences and what type of error to be reported- raw data		Monthly 1st Monday
Expedites: Order processing and Shipping requests	Quantity of requests and costs for requests - Charts and raw data		Monthly 1st Monday
Packaging Consumable Costs	Costs of packaging used that is not on any BOM, including void fills, corrugated, non-standard labels, etc. - Charts and raw data		Quarterly (or Faro can add to the Thailand BOM for tracking)
Inventory Accuracy	100% target, <98% triggers corrective action: Total items counted with cost /extended cost and items out of tolerance with cost / extended cost and Accuracy as a % - Charts and raw data		Monthly 1st Monday
Inventory Scrap	Report cost, item numbers, quantities - charts and raw data		Monthly 1st Monday

EXHIBIT K

FORECAST SPREADSHEET

The Faro forecast document was supplied as an electronic document at time of execution.

EXHIBIT L

INITIAL KEY PERSONNEL

[redacted]

[redacted]

EXHIBIT M

INITIAL SPECIFICATIONS

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]



California Transparency in Supply Chains Act Disclosure

As of January 1, 2012, the California Transparency in Supply Chains Act of 2010 (SB 657) is effective in the State of California. As a result, many companies manufacturing or selling products in California are required to disclose their efforts (if any) to address the issues of human trafficking and slavery, thereby allowing consumers to make better, more informed choices regarding the products they buy and the companies they choose to support.

FARO Technologies, Inc. and its subsidiaries (collectively, "FARO") strive to achieve and maintain the highest possible standards of corporate integrity and ethical behavior. FARO expects that its suppliers will conduct their businesses not only in a lawful manner but also in compliance with the same high standards of integrity and ethics. In order to establish guidelines for such standards, FARO has established a Supplier Code of Conduct. The Supplier Code of Conduct sets forth and highlights important legal, ethical, behavioral and other requirements for parties who wish to be FARO suppliers. Specifically, the Supplier Code of Conduct states that suppliers must not traffic persons or use any form of slave, forced, bonded, indentured or prison labor, and it requires suppliers to comply with the laws regarding slavery and human trafficking of the country or countries in which they are doing business. FARO suppliers are further expected to take reasonable and necessary steps to help ensure that their sub-contractors and sub-suppliers conduct business in compliance with the Supplier Code of Conduct. FARO currently requires its suppliers to certify both by acceptance of the "FARO Technologies, Inc. Purchase Order Terms and Conditions" and by a separate written certification that they will abide by the Supplier Code of Conduct. Suppliers are expected to promptly take corrective action to address any deficiencies identified with respect to compliance with FARO's Supplier Code of Conduct. If a supplier is found to be in violation of the Supplier Code of Conduct, FARO will take prompt, remedial measures to address the violation. FARO reserves the right to terminate its relationship with any supplier for failure to comply with the Supplier Code of Conduct. While FARO has no current intention of utilizing an independent third party to verify suppliers' compliance with the Supplier Code of Conduct, FARO audits its suppliers on an as-needed basis using FARO personnel and has incorporated compliance with the Supplier Code of Conduct into its audit program for suppliers.

FARO also has an established Global Ethics Policy, which applies to all FARO personnel, including employees, officers and board members (collectively, "Employees"). FARO expects its business partners and contractors to share the general principles stated in the Global Ethics Policy. The Global Ethics Policy requires FARO Employees to comply with all applicable laws and regulations, including but not limited to those relating to human trafficking and slavery. While FARO does not provide specific training on human trafficking and slavery, it conducts regular training on the Global Ethics Policy generally. All reports of alleged violations will be investigated by FARO. If the results of an investigation indicate that corrective action is required, the Company will decide the appropriate steps to take, including discipline, dismissal, and possible legal proceedings. If appropriate, the investigation may be turned over to the applicable outside authorities, and outside investigators may assist in the inquiry. Disregard or deliberate ignorance of the law is not tolerated and may lead to disciplinary action.

FARO takes the issues of slavery and human trafficking very seriously and will continue doing its part by responsibly managing its supply chains in an effort to eradicate slavery and human trafficking.



Supplier Code of Conduct

The FARO Technologies, Inc. Supplier Code of Conduct sets forth minimum workplace standards and business practices that are expected of any third-party supplier ("Supplier") doing business with FARO Technologies Inc. or any of its affiliates or subsidiaries (collectively "FARO"), consistent with our Company's values. These requirements are applicable to Suppliers of FARO globally.

A. Code of Conduct

1. Compliance with Laws. Supplier's personnel and operations shall operate in full compliance with the laws of their respective countries and with all other applicable laws, rules and regulations. Additionally, Supplier will ensure that products, services and shipments for FARO adhere to all applicable international trade compliance, antitrust and import/export laws (including, without limitation, the antidumping laws under the U.S. Tariff Act of 1930), rules and regulations.

2. Labor. Supplier shall uphold the human rights of workers and treat them with dignity and respect.

(a) Supplier shall employ only workers who meet the applicable minimum legal age requirement, except that in no event shall Supplier employ any person under the age of 15, even if local law permits otherwise. Supplier shall also comply with all other applicable child labor laws according to local regulations.

(b) Supplier shall ensure that all work is voluntary. Supplier shall not traffic persons or use any form of slave, forced, bonded, indentured or prison labor. Involuntary labor includes the transportation, harboring, recruitment, transfer, receipt or employment of persons by means of threat, force, coercion, abduction, fraud or payments to any person having control over another person for the purpose of exploitation.

(c) Supplier's plants shall set working hours, wages and over-time pay in compliance with all applicable laws. Workers shall be paid at least the minimum legal wage or a wage that meets local industry standards, whichever is greater.

(d) Supplier shall treat employees with dignity and respect and will not engage in or permit corporal punishment, threats of violence, or other forms of harassment whether based on gender, race, color, religion, ethnicity, age, sexual orientation, national origin, disability, or any other legally protected characteristic.

(e) Supplier shall employ workers on the basis of their ability to do the job, not on the basis of their personal characteristics or beliefs (including race, color, gender, nationality, religion, age, maternity or marital status).

(f) Supplier shall respect employees' right to join or not join any lawful organization, including trade unions and works councils, and shall comply with all applicable local and national laws pertaining to freedom of association and collective bargaining.

3. Health & Safety. FARO is committed to being a global leader in safeguarding the health and safety of our employees.

(a) While engaged in any activities supporting FARO, whether Supplier is on-site at any FARO location, at any FARO customer location on behalf of FARO or elsewhere, Supplier shall comply with FARO's Global Ethics Policy and any site-specific requirements.



(b) Supplier shall ensure a safe work environment and minimize physical and chemical hazards through proper design, engineering and administrative controls, preventative maintenance and safe work procedures as well as ongoing safety training.

(c) Supplier shall provide workers with appropriate personal protective equipment where hazards cannot be adequately controlled by other means.

(d) Supplier shall provide and properly maintain physical guards, interlocks and barriers where machinery presents an injury hazard to workers.

(e) Supplier shall minimize the impact of emergency situations through the implementation of emergency plans and response procedures.

4. Environment. At FARO, environmental considerations are an integral part of our business practices and our production of world-class products. Supplier shall comply with all applicable environmental laws and regulations.

(a) Supplier shall maintain all required environmental permits and registrations and follow the operational and reporting requirements of such permits.

(b) Supplier shall comply with regulated substance specifications and with any applicable laws and regulations prohibiting or restricting the use or handling of specific substances.

(c) Supplier shall endeavor to reduce or eliminate solid waste, wastewater and air emissions by implementing appropriate conservation measures in their production, maintenance and facility processes.

(d) Supplier shall manage, control, treat and/or dispose of non-hazardous solid waste, wastewater and/or air emissions generated from operations as required by applicable laws and regulations, before discharge.

(e) Supplier shall comply with the European Union's Restriction of Hazardous Substances (RoHS) Directive (2011/65/EU) for all goods it manufactures for and provides to FARO. Supplier shall also comply with the European Union's regulation regarding Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) (EC 1907/2006). Supplier agrees to comply with both RoHS and REACH even if Supplier is located outside of the European Union.

5. Ethics. Supplier shall commit to the highest standards of ethical conduct when dealing with its employees, suppliers and customers.

(a) Supplier shall prohibit any and all forms of corruption, extortion and embezzlement by its employees, officers, directors or agents.

(b) Supplier shall adhere to standards of fair business, advertising and competition.

~~(c) Supplier shall not offer or accept (i) bribes or (ii) other means to obtain an undue or improper advantage.~~

(d) Supplier shall accurately record and disclose information regarding their business activities, structure, financial situation and performance in accordance with applicable laws and regulations as well as prevailing industry business practices.



(e) Supplier shall respect intellectual property rights and safeguard customer information. Transfer of technology and know-how shall be done in a manner that protects intellectual property rights.

(f) Supplier shall incorporate international Supply Chain Security (SCS) measures into its business processes as described by the World Trade Organization's SAFE framework or similar SCS guidelines (e.g., Business Anti-Smuggling Coalition (BASC) Security Program; Customs-Trade Partnership Against Terrorism (C-TPAT); Authorized Economic Operator (AEO), and Partners in Protections (PIP)).

(g) Supplier shall implement appropriate processes and procedures and exercise due diligence to detect and avoid counterfeit parts.

(h) FARO is committed to ensuring that the products it sells do not incorporate "conflict minerals" (tin, tantalum, tungsten and/or gold, commonly referred to as "3TG") sourced from entities which directly or indirectly finance conflict in the Democratic Republic of Congo or adjoining countries. FARO requires its Suppliers to:

- Perform sufficient due diligence into their respective supply chains to determine whether products sold to us contain 3TG, and, if so, whether and to what extent those metals are sourced from conflict-free smelters;
- Report to FARO the results of such due diligence to enable FARO to comply with its legal obligations and policy goals; and
- Commit to being or becoming "conflict-free", so that any such metals are sourced only from conflict-free smelters.

(i) Supplier shall implement a comprehensive business continuity plan throughout its operations and supply chain to preserve the safety of workers, protect physical property from loss and damage, safeguard intellectual property, prevent interruptions in the manufacturing process and ensure the integrity of shipments at the point of origin. Supplier shall provide this business continuity plan to FARO upon request.

(j) Supplier shall implement processes to address the confidentiality and protection of an employee who in good faith raises a concern, makes a report, or assists with an investigation related to potential ethical or criminal violations.

(k) Supplier shall only accept an approved FARO purchase order or executed supply agreement (or equivalent) as a means for confirming business commitments. Supplier shall make no deliveries of products or services and claim payments based on verbal, email or other correspondence from FARO.

6. Anti-Corruption. FARO is committed to complying with all applicable anti-corruption laws, including those that prohibit bribes, kickbacks or other corrupt actions to obtain or retain business or obtain any improper advantage. Supplier is expected to comply with all applicable anti-corruption laws while conducting business with or on behalf of FARO. Supplier is prohibited from directly or indirectly receiving or offering any form of bribe, kickback or other corrupt payment, to or from any person or organization, including government agencies or officials, private companies or employees of those private companies. Supplier affirms that Supplier is fully aware of and understands the provisions of the U.S. Foreign Corrupt Practices Act of 1977 as amended, the U.K. Bribery Act and any other applicable anti-corruption laws, including those of the country or countries in which Supplier is to manufacture, sell, or provide goods or services to FARO, and Supplier has not violated and will not violate, nor caused FARO to violate, any applicable anti-corruption laws in connection with



providing goods or services to FARO.

7. Gifts and Entertainment. FARO recognizes that it is customary for some of its Suppliers, customers and other business associates to occasionally give small gifts or offer modest business entertainment to those with whom they do business. It is important, however, that these gifts and entertainment events do not affect any FARO employee's business judgment, or give the appearance that judgment may be affected.

B. Compliance Monitoring

Supplier will allow FARO and/or any of its representatives or agents access to its facilities and all relevant records associated with the products and services provided to FARO. Supplier and FARO will establish a mutually agreeable date and time for access. However, risks to FARO's business may require immediate access to the products, services and associated records and Supplier will accommodate FARO's access as required. Supplier also agrees to cooperate with FARO to investigate any allegations of wrongdoing, misconduct or corruption.

C. Application to Sub-Contractors

This Code also applies to any sub-contractor(s) to Supplier that provides goods or services to Supplier. The Supplier Code of Conduct shall be cascaded down to all sub-tier subcontractors. Each Supplier is fully responsible for ensuring compliance by any such sub-contractor(s) as if it were Supplier itself. FARO reserves the right to audit Supplier's sub-contractors for compliance to FARO's Supplier Code of Conduct and Supplier will accommodate FARO's audit as required.

D. Event of Violation

Supplier shall promptly report to FARO notice of known breach of this Code and implement a corrective action plan to cure the non-compliance within a specified time period (furnished to FARO in writing). If Supplier fails to meet the corrective action plan commitment, FARO may terminate the business relationship, including suspending placement of future orders and potentially terminating current production immediately and with no further obligations of payment to Supplier, including payment obligations relating to goods already shipped to FARO. FARO reserves the right to hold Supplier responsible for reasonable costs of investigating non-compliance.

Adopted March 30, 2017

FARO

Conflict Minerals Policy

In August 2012, the U.S. Securities and Exchange Commission (“SEC”) adopted final rules to implement reporting and disclosure requirements related to “conflict minerals,” as directed by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. The rules require manufacturers such as FARO Technologies, Inc. (“FARO” or the “Company”) who file certain reports with the SEC to disclose whether the products they manufacture contain “conflict minerals necessary to the functionality or production” of those products, that directly or indirectly finance or benefit armed groups in the Democratic Republic of the Congo or an adjoining country (the “Covered Countries”).

The term “conflict minerals” refers to tantalum, tin, tungsten and gold (collectively and commonly referred to as “3TG”), as well as any other mineral or derivatives determined by the U.S. Secretary of State to be financing conflict in the Covered Countries.

To demonstrate FARO’s commitment to eliminating the use of any conflict minerals in our products, we have adopted the following policy statement.

It is a policy of FARO:

1. To make reasonable efforts: a) to know, and to require each FARO supplier to disclose to the Company, the sources of 3TG used in its products; and b) to eliminate procurement, as soon as commercially practicable, of products containing 3TG obtained from sources that fund or support armed conflict in the Covered Countries.
2. To require FARO suppliers to assist the Company to comply with the disclosure requirements of Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, and the rules of the U.S. Securities and Exchange Commission promulgated pursuant to that law, as well as any related laws and rules.

FARO strives to achieve and maintain the highest possible standards of corporate integrity and ethical behavior. FARO expects that its suppliers will conduct their businesses not only in a lawful manner but also in compliance with the same high standards of integrity and ethics.

FARO is committed to eliminating the use of any conflict minerals in our products. In our Supplier Code of Conduct, FARO requires its suppliers to certify that they will only source 3TG from “conflict free” smelters identified at <http://www.conflictreesourcing.org/>.



Anti-Corruption Policy for Third Parties

January 2021

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INTRODUCTION

FARO is excited to partner with your organization and looks forward to a strong working relationship. At FARO, we are committed to upholding the highest standards of ethical business conduct. Obeying the law, both in letter and in spirit, is the foundation of FARO's ethical standards. We recognize the importance of and highly value our network of well-qualified business partners, and we go to great lengths to ensure that all of our partners are aware of and fully committed to the ethical way we insist on conducting business in all countries and markets.

For this purpose, we are providing your organization (also, the "Third Party") with this Anti-Corruption Policy for Third Parties. Section A presents some background definitions regarding anti-corruption laws and details the requirements that your organization must adhere to while working with FARO. Section B is comprised by FARO's Anti-Corruption Policy, which all FARO employees must abide by. It provides your organization with background on how FARO employees must conduct themselves when interacting with Third Parties such as your organization. Exhibit A is the Global Meal Business Record, used for FARO employees to record all expenditures relating to third party business meals. Exhibit B is the Pre-Approval Request Form, used for FARO employees to request pre-approval for gifts, meals, or items of value to be provided to third parties. Exhibit C is a Statement of Compliance with FARO's Anti-Corruption policy, which is executed by FARO employees to confirm their compliance with FARO's Anti-Corruption Policy. Exhibit D is a Statement of Compliance with FARO's Anti-Corruption Policy for Third Parties. Your organization will be required to execute this statement of compliance to confirm your compliance with this Anti-Corruption Policy for Third Parties.

For questions or comments, please feel free to contact FARO's Global Compliance Department at compliance@faro.com.

SECTION A: Anti-Corruption Laws and Third Party Commitments

Anti-Corruption Laws

The U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, and various other codes or national or international conventions relating to bribery (collectively the “Anti-Corruption Laws”) make it unlawful for a company, citizens, or anyone acting on a company's behalf, to either directly or indirectly, offer, promise, give, or authorize another to offer, promise, or give anything to any Government Official in order to influence official action, or to anyone to obtain an unfair or improper business advantage for or on behalf of the company, or cause that person otherwise to perform his/her work duties disloyally or improperly. A Government Official means any officer or employee of any government or government-controlled entity or of a public international organization, or any person acting in an official capacity for or on behalf of any such government, entity or organization, or any political party or official thereof, or any candidate for public office.

In addition, the Anti-Corruption Laws contain record-keeping and accounting provisions which require companies, including all of their divisions and subsidiaries, both to maintain detailed and accurate books and records and to maintain a system of internal accounting controls in order to accurately and completely reflect all transactions and dispositions of such companies' assets. These record-keeping and accounting provisions apply to all payments, regardless of the amount or form of the payment.

Your organization confirms its understanding of such provisions of the Anti-Corruption Laws and agrees to comply with those provisions and not to take or fail to take any action that might in any way cause FARO Technologies, Inc., its affiliates or subsidiaries to be in violation of the Anti-Corruption Laws.

Third Party Commitments

Your organization makes the following commitments to FARO and agrees as follows:

No Improper Payment or Transfer - Your organization represents, warrants and covenants to FARO that your organization has not, and covenants and agrees that it will not, in connection with the transactions during the course of the partnership or in connection with any other business transactions involving FARO, directly or indirectly, offer, promise, give, or authorize another to offer, promise, or give anything to any Government Official in order to influence official action, or to anyone to obtain an unfair or improper business advantage for or on behalf of the company, or cause that person otherwise to perform his/her work duties disloyally or improperly. “Government Official” means any officer or employee of any government or government-controlled entity or of a public international organization, or any person acting in an official capacity for or on behalf of any such government, entity or organization, or any political party or official thereof, or any candidate for political office

No Governmental Ownership of Third Party – Your organization represents and warrants to FARO that there is no current or prospective ownership interest, direct or

indirect, in your organization or in the contractual relationship established with FARO that is held or controlled by any Government Official.

Third Party's Continuing Obligation to Disclose Governmental Ownership - If, during the term of this partnership, a Government Official acquires an interest of any sort or nature, direct or indirect, in your organization, your organization agrees to make immediate, complete and accurate written disclosure to FARO. Following such disclosure, the partnership (including underlying agreements) shall immediately become terminable by FARO, at its discretion, upon FARO's written notice to your organization.

Third Party Anti-Corruption Compliance Procedures – Your organization agrees (i) that any payments to your organization by FARO shall be made by check or wire transfer only, directly to your organization or to a bank account in your organization's name, and no requests for cash payments or other payments in non-bearer form shall be accepted; (ii) that any payments to your organization by FARO shall be made in the agreed-upon territory of operation or in the United States; (iii) that books and records showing expenses shall reflect the purpose of each expenditure made and for whose benefit the expenditure was made and that there will be written records of each and every service that your organization performs for FARO or on FARO's behalf; (iv) that your organization shall retain accurate, detailed records of, and permit FARO to review at its discretion, any expenses or costs of your organization which FARO is required to reimburse during the partnership; and (v) the terms of the partnership (including underlying agreements) may be disclosed to government agencies and other persons with a legitimate need for such information, including, but not limited to, the U.S. Department of Justice, the U.S. Department of State or the U.S. Securities and Exchange Commission.

Third Party Anti-Corruption Certifications – Your organization agrees that it will provide FARO, or on request by FARO, with a Statement of Compliance with FARO's Anti-Corruption Policy for Third Parties in the form hereto attached as Exhibit D that is signed by an authorized officer or director of your organization.

Third Party's Continuing Obligation to Advise – Your organization agrees that should it learn or have reason to know of (i) any violation, suspected violation, or imminent violation of the Anti-Corruption Laws, or (ii) any other development during the term of the partnership that in any way makes inaccurate or incomplete the commitments and agreements of your organization relating to anti-corruption, your organization will immediately advise FARO's Global Compliance Department at compliance@faro.com, in writing, of such knowledge or suspicion and the entire basis known to your organization.

FARO's Right of Audit/Investigation - At FARO's sole discretion, your organization agrees that FARO shall have the right, upon written notice to your organization, to conduct an investigation and/or audit of your organization to determine whether or not any actions or failures to act on behalf of your organization may subject FARO to liability under any law, governmental rule, or regulation. Your organization agrees to cooperate fully with such investigation, the scope, method, nature and duration of which shall be at the sole reasonable discretion of FARO. If your organization fails to reasonably cooperate with FARO's investigation and/or audit, FARO may immediately

terminate the partnership (including underlying agreements,) without liability to FARO. In addition, in the event that FARO has a reasonable basis to believe that your organization has commingled personal assets of any officers, directors, employees, agents or representatives of your organization with your organization's corporate assets in engaging in the partnership, your organization agrees to use its best efforts to secure the cooperation of any such individual or entity in FARO's investigation and/or audit of the individual's or entity's books and records.

FARO's Rights upon any Law Default - In the event FARO reasonably believes that your organization has violated any law, governmental rule, or regulation, that a violation of any law, governmental rule, or regulation is imminent, or that your organization has acted in any way that may subject FARO to liability under any law, governmental rule, or regulation, FARO may immediately terminate the partnership (including underlying agreements,) without liability to FARO. FARO may disclose information relating to the violation or suspected violation of any law to any appropriate governmental authority, including, but not limited to, the U.S. Department of Justice, the U.S. Department of State or the U.S. Securities and Exchange Commission.

SECTION B: FARO's Anti-Corruption Policy

All officers, directors, full and part-time employees, and contract workers of FARO ("FARO Personnel") are prohibited from, either directly or indirectly, offering, promising, giving, or authorizing another to offer, promise, or give *anything* to any government official¹ in order to influence official action, or to anyone to obtain an unfair or improper business advantage for or on behalf of FARO, or cause that person otherwise to perform his/her work duties disloyally or improperly. This Policy also applies to FARO's agents, representatives, distributors, resellers, referral agents, joint venture partners, business partners, and anyone else who conducts business on behalf of FARO or in furtherance of FARO's interests, including third party service providers that interact with government officials on FARO's behalf, such as customs brokers, freight forwarders, tax consultants, and lawyers ("Third Party Representatives").

It is FARO's policy to comply fully with all applicable anti-corruption laws, including local laws and the U.S. Foreign Corrupt Practices Act (FCPA) and the U.K. Bribery Act (the "Anti-Corruption Laws"). The purpose of this Anti-Corruption Policy (the "Policy") is to help ensure compliance with all such laws. In many respects, this Policy is more restrictive than the Anti-Corruption Laws. This is intentional, and serves to promote legal and ethical behavior by FARO Personnel and all of FARO's Third Party Representatives at all times. If there is any instance in which the Anti-Corruption Laws are more strict, the stricter requirements apply.

The only things that are permitted to be offered, promised, or given in connection with FARO's business are specifically set forth below.

FARO Personnel and Third Party Representatives have an individual responsibility to establish and maintain a high standard of ethical business conduct in compliance with this Policy. Each manager has a duty to aid FARO Personnel and Third Party Representatives in understanding the content, scope, and importance of this Policy and to illustrate by his or her own behavior, the spirit and practice of ethical business conduct. ***FARO Personnel and Third Party Representatives must read and understand this entire Policy.***

Integrity, FARO's first core value, provides the foundation for the Company's policies, procedures and guidelines. As such, FARO expects and demands compliance with this Policy and all applicable laws. FARO's ethics and reputation must never be compromised. Your continued commitment to FARO's high ethical standards is expected and appreciated.

¹ Certain anti-corruption laws criminalize corruption as it relates to government officials while others criminalize corruption as it relates to commercial parties as well as government officials. For reference, and because it is used in this Policy, the term "government official" means any officer or employee of any government or government-controlled entity or of a public international organization, or any person acting in an official capacity for or on behalf of any such government, entity or organization, or any political party or official thereof, or any candidate for political office.

Meals, Entertainment and Gifts of Other Similar Things of Value

Before giving anything to anyone for or on behalf of FARO, it must (1) be reasonable in value given the circumstances and the position of the recipient, (2) be permitted under local laws, (3) not be given to influence official action or obtain an unfair or improper business advantage or cause any person to perform his/her work duties disloyally or improperly, and (4) not be likely to reflect negatively on FARO or the recipient.

- Without pre-approval, FARO Personnel may offer, promise, or give (i) a business meal of up to \$40 per person (\$20 in China) and for no more than 10 people at any one meal; and/or (ii) a FARO-logoed promotional item of up to \$25 per person.
- Anything else offered, promised, or given requires ***prior written pre-approval***, using the attached Pre-Approval Request Form, of the FARO Regional Manager, Area Vice President or District Manager AND the Chief Compliance Officer (“CCO”), or, in the case of travel or donations, the approval of the Chief Executive Officer. Examples include the following:
 - any gift (including a seasonal or holiday gift) other than a \$25 or less FARO-logoed promotional item;
 - any business meal costing more than \$40 per person (\$20 in China);
 - any entertainment;
 - any FARO-logoed promotional item if a FARO-logoed promotional item has been provided to the same person during the previous 3 month period;
 - any business meal costing less than \$40 per person (\$20 in China) if provided to the same person more than once in any 3 month period;
 - travel paid to or on behalf of any customer, potential customer or government official; and
 - anything contributed/given on behalf of FARO to any charities or foundations.
- FARO Personnel are prohibited from making a cash or in-kind contribution or incurring an expenditure using a FARO account, to any political campaign, political party, political candidate, elected official or any of their affiliated organizations.
- Facilitation payments (*i.e.*, payments to expedite or secure a routine governmental action) are prohibited.
- No Third Party Representative may offer, promise, give or authorize the giving of any gift, meal, entertainment, travel, donation, facilitation payment, gratuity or anything else of value, directly or indirectly, to anyone on behalf of, or in an effort to obtain a benefit for, FARO, or to cause any person to perform his/her work duties disloyally or improperly.

Recordkeeping and Documentation Requirements

FARO Personnel and Third Party Representatives (in connection with their services on behalf of FARO) are required to maintain books, records and accounts that, in reasonable detail, accurately and fairly reflect all payments, expenses and transactions. No undisclosed or unrecorded FARO fund or asset is to be established for any purpose, and no false or misleading entries, such as an entry calling an extravagant dinner a “consulting fee,” are to be made in FARO’s books or records. Reports of all kinds, including expense reports and those forms listed below, are to be completed accurately and honestly. No payment on FARO’s behalf is to be made without adequate supporting documentation, or made for any purpose other than as described in such documents. FARO Personnel are to comply with FARO’s internal control policies at all times.

The required documentation is as follows:

- A *Global Business Meal Record* form (attached to this Policy as Exhibit A) must be completed and submitted to Accounting for all business meals - regardless of whether pre-approval is required under this Policy.
- The *Pre-Approval Request Form* (attached to this Policy as Exhibit B) as required based on the guidance above.
- A *Statement of Compliance with FARO’s Anti-Corruption Policy* (attached to this Policy as Exhibit C) must be completed annually by relevant FARO Personnel and, unless the requirement is waived or modified by the CCO, by each Third Party Representative.

Third Parties

FARO’s *Global Third Party Representative Policy* outlines the specific due diligence and compliance verification processes when using and working with Third Party Representatives and must be read and understood by all FARO Personnel who have responsibility for the engagement, management and/or monitoring of Third Party Representatives.

If a Third Party Representative is a prospective Joint Venture Partner or co-investor, the CCO must be consulted at the outset of the relationship and on an ongoing basis so that protective steps can be tailored to the circumstances.

Questions and Reporting Suspected Violations

Any questions about this Policy should be addressed to your designated Regional Manager, Area Vice President, District Manager or the CCO.

Any suspected violations of this Policy must be disclosed immediately to your Regional Manager, Area Vice President or District Manager AND to FARO’s CCO. Alternatively, you may confidentially report violations, or suspicions of violations, through the EthicsPoint website (www.ethicspoint.com).

Potential Disciplinary Actions

FARO Personnel who violate the spirit or letter of this Policy are subject to disciplinary actions. Below is an illustrative list of disciplinary actions that could result upon the occurrence of a violation. The approach FARO takes to discipline in connection with such infractions may vary from the examples set forth below depending on, among other things, local country laws regarding labor and employment or other obligations of the Company relating to employment, the circumstances under which the infraction occurred, the nature of an employee's duties, and an employee's overall work record, including any prior misconduct.

LEVEL OF VIOLATION	EXAMPLE(S) OF CONDUCT	POSSIBLE DISCIPLINARY ACTION(S)
Minor violation	<ul style="list-style-type: none"> • Not reporting a business meal under \$40 per person (\$20 in China); • Failing to fully complete documentation required by this Policy; or • Not attending a required training session on the Policy. 	<ul style="list-style-type: none"> • Verbal Counseling • Written Warning
Medium violation	<ul style="list-style-type: none"> • Spending an amount on meals, gifts, or entertainment that is significantly greater than was pre-approved; • Not obtaining prior authorization when required; • Approving any action by another that violates this Policy; • Not reporting a reasonable suspicion of a violation by another; or • Repeated minor violations of the Policy. 	<ul style="list-style-type: none"> • Written Warning • Probation • Suspension from Work (with or without pay)
Major violation	<ul style="list-style-type: none"> • Giving anything of value as an inducement to arrange a product demonstration; • Giving anything of value to a government official to influence official action such as the grant of a license/authorization, or to expedite or secure a routine governmental action; • Giving anything on behalf of FARO to politicians, political parties, or candidates for any political office; • Approving any action by another that violates applicable Anti-Corruption Laws; • Approving or making false entries to FARO's books, records or reports; or • Repeated medium violations of the Policy. 	<ul style="list-style-type: none"> • Suspension from Work (with or without pay) • Termination • Reporting to government authorities

FARO

Global Business Meal Record

This form should be used to document all business meals provided by FARO Personnel to any third party regardless of whether pre-approval is required.

FARO Personnel Name, Title and Region: _____

Business Purpose of Meal: _____

Date: _____ **Per Person Cost of Meal:** _____

Location of Meal: _____

Name, Job Title, Company Name and Location, of each Person Present:

Name of each Person Present	Company Name and Location	Job Title	Government Official (yes or no)

To the best of my knowledge the Meal paid for by FARO did OR did not involve a Government Official.

I hereby confirm that the information above is accurate and complete, and I have a reasonable basis for making this confirmation.

I confirm that the business meal was/is (1) reasonable in value, given the circumstances and the position of the attendee/recipient, (2) to the best of my knowledge permitted under local laws, (3) not given to influence official action or obtain an unfair or improper business advantage or cause a person to perform his/her work duties disloyally or improperly, and (4) not likely to reflect negatively on FARO or the attendee/recipient.

Name: _____ **Signature:** _____ **Date:** _____

=====

APPROVAL:

Manager: _____ **Signature:** _____ **Date:** _____

**** Please attach the completed and approved form to your expense report when submitting to your regional Accounting Department ****

FARO

PRE-APPROVAL REQUEST FORM

Your Name, Title, and Region: _____

Description of proposed gift/activity (including proposed date of gift or activity and, if activity, proposed location):

What is the business purpose of the gift/activity?

Explain whether the proposed gift/activity is necessary, and if so, why?

Name, Job Title, Company Name and Location, of each Person Proposed to be Present:

Name of each Person Proposed to be Present	Company Name and Location	Job Title	Government Official (yes or no)

Value of Proposed Gift/Activity

	Per Person	Total
Value (USD)		
Value (Local Currency)		

To your knowledge, have any of the non-FARO attendees/recipients received or been promised, offered or given anything else of value from or on behalf of FARO during the last 3 months?

Yes No

If Yes, please describe what else has been promised, offered or given:

1. Are any of the proposed non-FARO recipients/attendees (e.g., government officials or employees of customers or potential customers) in a position to take or influence action for or against FARO?

Yes No

If Yes, please explain:

If the answer to Question 1 is yes, please answer Questions 1.a – 1.c:

1.a. Was the proposed gift/activity suggested by the recipient/attendee?

Yes No

If Yes, please explain:

1.b. Do you know that each recipient/attendee is permitted to accept the thing of value (e.g., gift, meal, etc.) under the rules or policies that apply to them?

Yes No

If No, please explain what you have done to try to determine this:

1.c. To your knowledge, is there an action or FARO-related business decision pending before any of the recipients/attendees?

Yes No

If Yes, what action or decision and when is it expected to happen?

2. If a gift has been proposed to anyone, will the gift benefit someone who is in a position to take or influence action that would benefit FARO?

Yes No

If Yes, please explain:

* * *

I confirm that the subject of the request proposed herein is (1) reasonable in value, given the circumstances and the position of the attendee/recipient, (2) to the best of my knowledge permitted under local laws, (3) not given to influence official action or otherwise obtain an unfair or improper business advantage or cause a person to perform his/her work duties disloyally or improperly, and (4) not likely to reflect negatively on FARO or the attendee/recipient.

Name: _____ Signature: _____ Date: _____

* * *

APPROVALS:

Regional/District Manager or Area Vice President

Name: _____ Signature: _____ Date: _____

Chief Compliance Officer

Name: _____ Signature: _____ Date: _____



STATEMENT OF COMPLIANCE WITH FARO'S ANTI-CORRUPTION POLICY

I, _____, confirm that I am fully aware of and understand the provisions of FARO's Anti-Corruption Policy and am fully aware of and understand the provisions of the U.S. Foreign Corrupt Practices Act of 1977 as amended (the "FCPA"), the U.K. Bribery Act and any other applicable anti-corruption laws, including those of the country or countries in which I am to provide services (the "Applicable Anti-Corruption Laws") and that I have not violated, nor caused FARO to violate, FARO's Anti-Corruption Policy or any Applicable Anti-Corruption Laws in connection with my services for, or representation of, FARO in any country.

Specifically, I have not offered, promised, given or authorized, and will not promise, give or authorize the giving of any gift, meal, entertainment, travel, donation, facilitation payment, gratuity or anything else of value, directly or indirectly, to anyone – whether a "government official" or any other person – in order to influence official action, obtain an unfair or improper business advantage for or on behalf of FARO, or cause that person otherwise to perform his/her work duties disloyally or improperly.

I confirm that I understand that the term "government official" means any officer or employee of any government or government-controlled entity or of a public international organization, or any person acting in an official capacity for or on behalf of any such government, entity or organization, or any political party or official thereof, or any candidate for political office.

I confirm that I will continue to fully comply with FARO's Anti-Corruption Policy and with all Applicable Anti-Corruption Laws.

I confirm that the representations and undertakings set forth in this Statement of Compliance apply to me and to any person or entity that I represent (including any company identified below) in connection with the services to be provided to or on behalf of FARO by a third party, and that I have been duly authorized to execute this Statement of Compliance on behalf of such entity.

I confirm that if, in connection with my work for FARO, I learn of or suspect a possible violation of any Applicable Anti-Corruption Law or of FARO's Anti-Corruption Policy, I will immediately advise FARO's Internal Audit Department or its Chief Executive Officer at:

**250 Technology Park
Lake Mary, FL 32746 USA
+1-407-333-9911**

Signature

Job Title

Date

Company



**STATEMENT OF COMPLIANCE WITH
FARO’S ANTI-CORRUPTION POLICY FOR THIRD PARTIES**

Third Party confirms full awareness of, understanding of, and compliance with the provisions of the Anti-Corruption Policy for Third Parties, which includes the FARO’s Anti-Corruption Policy, and confirms full awareness of, understanding of, and compliance with the U.S. Foreign Corrupt Practices Act of 1977 as amended (the “FCPA,”) the U.K. Bribery Act, and any other applicable anti-corruption laws, including those of the country or countries in which Third Party provides services (the “Applicable Anti-Corruption Laws”) and that Third Party has not violated, nor caused FARO to violate, FARO’s Anti-Corruption Policy or any Applicable Anti-Corruption Laws in connection with Third Party’s services for, or representation of, FARO in any country.

Specifically, Third Party has not offered, promised, given or authorized, and will not promise, give or authorize the giving of any gift, meal, entertainment, travel, donation, facilitation payment, gratuity or anything else of value, directly or indirectly, to anyone – whether a “government official” or any other person – in order to influence official action, obtain an unfair or improper business advantage for or on behalf of FARO, or cause that person otherwise to perform his/her work duties disloyally or improperly.

Third Party confirms understanding that the term “government official” means any officer or employee of any government or government-controlled entity or of a public international organization, or any person acting in an official capacity for or on behalf of any such government, entity or organization, or any political party or official thereof, or any candidate for political office.

Third Party will continue to fully comply with FARO’s Anti-Corruption Policy and with all Applicable Anti-Corruption Laws.

Third Party confirms that the representations and undertakings set forth in the Anti-Corruption Policy for Third Parties and this Statement of Compliance bind Third Party and its employees and representatives, including sub-distributors.

Third Party shall notify FARO immediately of any known or suspected violation of any Applicable Anti-Corruption Law or of FARO’s Anti-Corruption Policy by contacting FARO’s Global Compliance Department or its Chief Executive Officer at:

**250 Technology Park
Lake Mary, FL 32746 USA
+1-407-333-9911**

Signature

Job Title

Date

Third Party Name

Exhibit (J) Operational and QBR Reporting Requirements

KPI / Report	Definition		Update Cadence
Backlog Reports	Total daily backlog by \$\$, based on commitment, aging, part number		Weekly
Manufacturing Cycle Time	Total cycle time for sub-assembly process and top-level assembly process. Derived from MES system with break down by stage in the process. Used for continuous improvement efforts.		Monthly
On Time Delivery	Average weekly % delivered to committed last 12 weeks		Weekly / Daily if below goal
First Pass Yield	First pass yield all test stages AOI, AXI, ICT, FCT, System Test rolling 12 weeks control chart		Weekly
Material Shortages	Clear to build report		Weekly/Monthly
Cost Reviews for materials, assembly, and test	Review against goals set		Quarterly
Select Supplier Quality Reviews (can be tied to Cost Reviews)	Review Partner's key supplier's Quality KPI's		Quarterly
Audit reports	ISO, 17025, etc.		Once performed
(Quality)Out of Box Audit Results	Conducted by Sanmina, control chart		Based on AQL sampling plan for OBA reported weekly
(Quality)Stability (drop test) yield	Control chart, current sample available with rules for notification and alert		Part of first pass yield data. Will distribute as agreed.
(Quality) ISO Internal audit results	Nonconformities on FARO lines		As dictated by internal audit plan
(Quality) List of 17025 certified operators	By product listed in ANAB scope documents		Initial list, then updated as additions or removals are made
(Quality) 17025 Operator re-certification testing results	By Operator		Initial list then as re – certifications are conducted
(Quality) 17025 as received out of compliance condition	Customer notification process when the as received conditions of 17025 certified products fail to meet accuracy requirements		Daily, time constraints on our response to our customers
(Quality) 17025 impact analysis for out of calibration tooling	If a tool or fixture is found to be out of spec in its normal calibration cycle, a list of all serial numbers and dates built with that		Daily, time constraints on our response to our customers

	device since its last verified in specification state is required to perform an impact analysis		
Scrap reports with Aging	Total scrap parts by \$\$, part numbers, and cycle time		Monthly
Safety Reports (For FARO cell only)	Days without accidents/incidents		Monthly
FARO Production Status	% of units complete relative to committed production schedule		Weekly
DPPM	Calculate the number of defective supplier rejects / total direct material receipts monthly		Report monthly
DPPM	Calculate the number of defective supplier rejects / total direct material receipts monthly		8D requests on key issues opened.
Corrective actions	Report on # of 8Ds issued and closed / month.	8D issued for any issues impacting manufacturing	Review 8D reports with FARO SQE monthly
Corrective actions	Past due 8Ds		Review 8D reports with FARO SQE monthly
FAI acceptance rate	Suppliers passing FAIs / Divided by total submitted. (Monthly / yearly) (select suppliers)	100%	Monthly
FAI acceptance rate	FAI NC management. (Review 8Ds / Corrective actions issued for each failing FAI submittal.	As needed	Quarterly
SPC / CPK data on machined components produced by Sanmina (Machining Group)	Report # of parts running Cpk's ≤ 1.33 on critical characteristics.		Quarterly
PCBAs (Sanmina produced only)	Board testing (Flying probe, ICT, etc.) pass rates.		Quarterly
Freight Spend	Broken into Freight In, Freight Out, Warranty, Non-Warranty, or SG&A Other, and broken down by Destination Country - Heat Map, Charts and raw data		Monthly 1st Monday
Duty Spend	Broken down by Destination Country - Heat Map, Charts and raw data		Monthly 1st Monday

Count of Total Shipments	Broken down by Destination Country - Heat Map and raw data		Monthly 1st Monday
Count of Shipment Pieces	Broken down by Destination Country - Heat Map and raw data		Monthly 1st Monday
Shipment Weights totals	Report both Actual Weights and Billable Weights - Charts and raw data by mutual agreement		Monthly 1st Monday
FARO Shipment Data Integrity Errors	Defined as: Wrong, incomplete, or missing data sent over from FARO and prevents Sanmina from shipping. How many occurrences and what type of error to be reported- raw data		Monthly 1st Monday
Expedites: Order processing and Shipping requests	Quantity of requests and costs for requests - Charts and raw data		Monthly 1st Monday
Packaging Consumable Costs	Costs of packaging used that <u>is not on any BOM</u> , including void fills, corrugated, non-standard labels, etc. - Charts and raw data		Quarterly (or Faro can add to the Thailand BOM for tracking)
Inventory Accuracy	100% target, <98% triggers corrective action: Total items counted with cost /extended cost and items out of tolerance with cost / extended cost and Accuracy as a % - Charts and raw data		Monthly 1st Monday
Inventory Scrap	Report cost, item numbers, quantities - charts and raw data		Monthly 1st Monday

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

Certificate Of Completion

Envelope Id: 6A4FAD594B55473C9D6326D6D02DAC15	Status: Completed
Subject: Please DocuSign: Execution copy of FARO MSA with Exhibits attached	
Source Envelope:	
Document Pages: 105	Signatures: 1
Certificate Pages: 5	Initials: 0
AutoNav: Enabled	Envelope Originator:
Envelopeld Stamping: Enabled	[redacted]
Time Zone: (UTC-08:00) Pacific Time (US & Canada)	30 E. Plumeria Drive
	nil
	San Jose, CA 95134
	[redacted]


Record Tracking

Status: Original	Holder: [redacted]	Location: DocuSign
7/14/2021 8:38:40 AM		

Signer Events

Mike Landy
 mike.landy@sanmina.com
 Security Level: Email, Account Authentication (None)

Signature

DocuSigned by:

 04157DED60F74B8...
 Signature Adoption: Pre-selected Style
 Using IP Address: [redacted]

Timestamp

Sent: 7/14/2021 8:49:40 AM
 Viewed: 7/14/2021 10:17:34 AM
 Signed: 7/14/2021 10:19:11 AM

Electronic Record and Signature Disclosure:
 Accepted: 4/26/2021 1:38:42 PM
 ID: cfe4a430-357c-49f3-a70f-545d5c0ab21b

In Person Signer Events	Signature	Timestamp
Editor Delivery Events	Status	Timestamp
Agent Delivery Events	Status	Timestamp
Intermediary Delivery Events	Status	Timestamp
Certified Delivery Events	Status	Timestamp
Carbon Copy Events	Status	Timestamp

[redacted]
 EVP IMS Sales and Customer Relations
 Security Level: Email, Account Authentication (None)

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Sent: 7/14/2021 10:19:14 AM

Electronic Record and Signature Disclosure:
 Accepted: 7/5/2021 7:38:56 AM
 ID: 9c06065a-ad99-4dd4-9d17-e4525338df15

[redacted]
 Security Level: Email, Account Authentication (None)

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Electronic Record and Signature Disclosure:
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Carbon Copy Events	Status	Timestamp
[redacted] Security Level: Email, Account Authentication (None) Electronic Record and Signature Disclosure: Not Offered via DocuSign	COPIED	Sent: 7/14/2021 10:19:16 AM Viewed: 7/14/2021 10:28:06 AM
[redacted] Security Level: Email, Account Authentication (None) Electronic Record and Signature Disclosure: Not Offered via DocuSign	COPIED	Sent: 7/14/2021 10:19:17 AM

Witness Events	Signature	Timestamp
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Notary Events	Signature	Timestamp
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Envelope Summary Events	Status	Timestamps
Envelope Sent	Hashed/Encrypted	7/14/2021 8:49:40 AM
Certified Delivered	Security Checked	7/14/2021 10:17:34 AM
Signing Complete	Security Checked	7/14/2021 10:19:11 AM
Completed	Security Checked	7/14/2021 10:19:17 AM

Payment Events	Status	Timestamps
Electronic Record and Signature Disclosure		

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To contact us by email send messages to: amy.monbourquette@sanmina.com

To advise Sanmina Corporation of your new email address

To let us know of a change in your email address where we should send notices and disclosures electronically to you, you must send an email message to us at amy.monbourquette@sanmina.com and in the body of such request you must state: your previous email address, your new email address. We do not require any other information from you to change your email address.

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FARO Technologies, Inc.
Certification Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted 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: October 27, 2021

/s/ Michael Burger

Name: Michael Burger
Title: President and Chief Executive Officer
(Principal Executive Officer)

FARO Technologies, Inc.
Certification Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted 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: October 27, 2021

/s/ Allen Muhich

Name: Allen Muhich
Title: Chief Financial Officer
(Principal Financial Officer)

FARO Technologies, Inc.
Certification 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 September 30, 2021 (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: October 27, 2021

/s/ Michael Burger

Name: Michael Burger
Title: President and Chief Executive Officer
(Principal Executive Officer)

FARO Technologies, Inc.
Certification 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 September 30, 2021 (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: October 27, 2021

/s/ Allen Muhich

Name: Allen Muhich
Title: Chief Financial Officer
(Principal Financial Officer)