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 March 31, 2022

OR

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

For the transition period from __________ to __________

Commission File Number: 0-23081

FARO TECHNOLOGIES, INC.
(Exact Name of Registrant as Specified in Its Charter)

Florida	**59-3157093**
(State or other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

250 Technology Park,	**Lake Mary,**	**Florida**	**32746**
(Address of Principal Executive Offices)			**(Zip Code)**

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

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

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

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

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

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

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

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 x

There were 18,261,399 shares of the registrant's common stock outstanding as of April 25, 2022.

FARO TECHNOLOGIES, INC.

Quarterly Report on Form 10-Q
Quarter Ended March 31, 2022

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)	March 31, 2022 (unaudited)	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 107,192	$ 121,989
Accounts receivable, net	76,745	78,523
Inventories, net	53,992	53,145
Prepaid expenses and other current assets	23,063	19,793
Total current assets	260,992	273,450
Non-current assets:		
Property, plant and equipment, net	22,454	22,194
Operating lease right-of-use assets	21,141	22,543
Goodwill	81,507	82,096
Intangible assets, net	27,223	25,616
Service and sales demonstration inventory, net	31,894	30,554
Deferred income tax assets, net	20,713	21,277
Other long-term assets	1,979	2,010
Total assets	$ 467,903	$ 479,740
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 14,793	$ 14,199
Accrued liabilities	25,650	28,208
Income taxes payable	5,760	4,499
Current portion of unearned service revenues	40,286	40,838
Customer deposits	5,876	5,399
Lease liabilities	5,653	5,738
Total current liabilities	98,018	98,881
Unearned service revenues - less current portion	22,486	22,350
Lease liabilities - less current portion	17,288	18,648
Deferred income tax liabilities	1,041	1,058
Income taxes payable - less current portion	11,297	11,297
Other long-term liabilities	1,034	1,047
Total liabilities	151,164	153,281
Commitments and contingencies - See Note 12		
Shareholders' equity:		
Common stock - par value $0.001, 50,000,000 shares authorized; 19,637,028 and 19,588,003 issued, respectively; 18,260,677 and 18,205,636 outstanding, respectively	20	20
Additional paid-in capital	302,877	301,061
Retained earnings	63,857	73,544
Accumulated other comprehensive loss	(19,358)	(17,374)
Common stock in treasury, at cost - 1,376,351 and 1,382,367 shares held, respectively	(30,657)	(30,792)
Total shareholders' equity	316,739	326,459
Total liabilities and shareholders' equity	$ 467,903	$ 479,740

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 March 31, 2022	Three Months Ended March 31, 2021
Sales		
Product	$ 56,730	$ 54,635
Service	19,926	21,696
Total sales	76,656	76,331
Cost of Sales		
Product	24,333	24,804
Service	11,297	11,120
Total cost of sales	35,630	35,924
Gross Profit	41,026	40,407
Operating Expenses		
Selling, general and administrative	35,490	33,348
Research and development	12,128	11,973
Restructuring costs	600	1,524
Total operating expenses	48,218	46,845
Loss from operations	(7,192)	(6,438)
Other (income) expense		
Interest expense, net	8	10
Other (income) expense, net	(13)	(1,615)
Loss before income tax benefit	(7,187)	(4,833)
Income tax expense (benefit)	2,500	(1,612)
Net loss	$ (9,687)	$ (3,221)
Net loss per share - Basic	$ (0.53)	$ (0.18)
Net loss per share - Diluted	$ (0.53)	$ (0.18)
Weighted average shares - Basic	18,240,299	18,076,410
Weighted average shares - Diluted	18,240,299	18,076,410

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

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

	Three Months Ended	
(in thousands)	March 31, 2022	March 31, 2021
Net loss	$ (9,687)	$ (3,221)
Currency translation adjustments, net of income taxes	(1,984)	(10,174)
Comprehensive loss	$ (11,671)	$ (13,395)

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)	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Cash flows from:		
Operating activities:		
Net loss	$ (9,687)	$ (3,221)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	3,012	3,190
Stock-based compensation	2,867	2,094
Provisions for bad debts, net of recoveries	16	(89)
Loss on disposal of assets	112	20
Provision for excess and obsolete inventory	229	1,404
Deferred income tax expense (benefit)	66	(1,612)
Change in operating assets and liabilities:		
Decrease (Increase) in:		
Accounts receivable	1,449	3,676
Inventories	(2,065)	(3,999)
Prepaid expenses and other current assets	(3,313)	(1,346)
(Decrease) Increase in:		
Accounts payable and accrued liabilities	(1,682)	(9,823)
Income taxes payable	1,261	(1,153)
Customer deposits	492	896
Unearned service revenues	206	(323)
Net cash used in operating activities	(7,037)	(10,286)
Investing activities:		
Purchases of property and equipment	(2,442)	(1,547)
Cash paid for technology development, patents and licenses	(2,612)	(890)
Net cash used in investing activities	(5,054)	(2,437)
Financing activities:		
Payments on finance leases	(58)	(86)
Payments for taxes related to net share settlement of equity awards	(916)	(3,336)
Proceeds from issuance of stock related to stock option exercises	—	5,118
Net cash (used in) provided by financing activities	(974)	1,696
Effect of exchange rate changes on cash and cash equivalents	(1,732)	(4,649)
Decrease in cash and cash equivalents	(14,797)	(15,676)
Cash and cash equivalents, beginning of period	121,989	185,633
Cash and cash equivalents, end of period	$ 107,192	$ 169,957

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 Shares	Common Stock Amounts	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Common Stock in Treasury	Total
BALANCE JANUARY 1, 2022	18,205,636	$ 20	$ 301,061	$ 73,544	$ (17,374)	$ (30,792)	$ 326,459
Net loss	—	—	—	(9,687)	—	—	(9,687)
Currency translation adjustment	—	—	—	—	(1,984)	—	(1,984)
Stock-based compensation	—	—	2,867	—	—	—	2,867
Common stock issued, net of shares withheld for employee taxes	55,041	—	(1,051)	—	—	135	(916)
BALANCE MARCH 31, 2022	18,260,677	$ 20	$ 302,877	$ 63,857	$ (19,358)	$ (30,657)	$ 316,739

(in thousands, except share data)	Common Stock Shares	Common Stock Amounts	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Common Stock in Treasury	Total
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

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

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

NOTE 1 – DESCRIPTION OF BUSINESS

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

COVID-19 and Impact On Our Business

Our business is significantly vulnerable to the economic effects of pandemics and other public health crises, including the ongoing 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 saw a recovery in our revenue across our served industries. However, we continue to assess the ongoing impact of COVID-19 on our business results and we remain committed to taking actions to mitigate both the impact on the health and safety of our employees, as well as negative business effects resulting from demand disruption, material availability and potential production and shipment challenges, including, but not limited to, the following:

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

We continue to maintain a strong capital structure with a cash balance of $107.2 million and no debt as of March 31, 2022. We believe that our liquidity position is adequate to meet our projected needs in the reasonably foreseeable future.

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

NOTE 2 – PRINCIPLES OF CONSOLIDATION

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

NOTE 3 – BASIS OF PRESENTATION

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

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

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

	Three Months Ended	
	March 31, 2022	March 31, 2021
Cost of Sales		
Product	$ 160	$ 110
Service	39	(44)
Total cost of sales	$ 199	$ 66
Operating Expenses		
Selling, general and administrative	$ 2,221	$ 1,682
Research and development	447	346
Total operating expenses	$ 2,668	$ 2,028

NOTE 4 – IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Impact of Recently Adopted Accounting Standards

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

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

NOTE 5 – REVENUES

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

	For the Three Months Ended March 31,	
	2022	2021
Product sales		
Product transferred to customers at a point in time	$ 51,480	$ 50,870
Product transferred to customers over time	5,250	3,765
	$ 56,730	$ 54,635

	For the Three Months Ended March 31,	
	2022	2021
Service sales		
Service transferred to customers at a point in time	$ 8,703	$ 9,997
Service transferred to customers over time	11,223	11,699
	$ 19,926	$ 21,696

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 March 31,	
	2022	2021
Total sales to external customers		
Americas (1)	$ 36,677	$ 32,549
EMEA (1)	22,136	25,454
APAC (1)	17,843	18,328
	$ 76,656	$ 76,331

(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 March 31, 2022, the deferred cost asset related to deferred commissions was approximately $3.5 million. For classification purposes, $2.3 million and $1.2 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 March 31, 2022. As of December 31, 2021, the deferred cost asset related to deferred commissions was approximately $3.5 million. For classification purposes, $2.3 million and $1.2 million were comprised within the Prepaid expenses and other current assets and Other long-term assets, respectively, on our condensed consolidated balance sheet as of December 31, 2021.

The unearned service revenue liabilities reported on our condensed consolidated balance sheets reflect the contract liabilities to satisfy the remaining performance obligations for extended warranties, subscription based software and software maintenance. The current portion of unearned service revenues on our condensed consolidated balance sheets is what we expect to recognize as revenue within twelve months after the applicable balance sheet date relating to extended warranties, subscription based software and software maintenance contract liabilities. The unearned service revenues - less current portion on our condensed consolidated balance sheets is what we expect to recognize as revenue extending beyond twelve months after the applicable balance sheet date relating to extended warranties, subscription based software and software maintenance contract liabilities. Customer deposits on our condensed consolidated balance sheets represent customer prepayments on contracts for performance obligations that we must satisfy in the future to recognize the related contract revenue. These amounts are generally related to performance obligations which are delivered in less than 12 months. During the three months ended March 31, 2022, we recognized $10.9 million of revenue that was deferred on our condensed consolidated balance sheet as of December 31, 2021. During the three months ended March 31, 2021, we recognized $11.9 million of revenue that was deferred on our condensed consolidated balance sheet as of December 31, 2020.

The nature of certain of our contracts gives rise to variable consideration, primarily related to an allowance for sales returns. We are required to estimate the contract asset related to sales returns and record a corresponding adjustment to Cost of Sales. Our allowance for sales returns for March 31, 2022 and March 31, 2021 were both approximately $0.2 million.

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

NOTE 6 – ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	As of March 31, 2022	As of December 31, 2021
Accounts receivable	$ 78,992	$ 80,754
Allowance for credit losses	(2,247)	(2,231)
Total	$ 76,745	$ 78,523

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

	Three Months Ended March 30, 2022
Beginning balance of the allowance for credit losses	$ (2,231)
Current period provision for expected credit losses, net of recoveries	(16)
Charge-offs of amounts previously expensed	—
Ending balance of the allowance for credit losses	$ (2,247)

NOTE 7 – INVENTORIES

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

Inventories consist of the following:

	As of March 31, 2022	As of December 31, 2021
Raw materials	$ 37,077	$ 34,617
Finished goods	16,915	18,528
Inventories, net	$ 53,992	$ 53,145
Service and sales demonstration inventory, net	$ 31,894	$ 30,554

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 market-based awards. Our potential common stock is included in the diluted earnings per share calculation when adding such potential common stock would not be anti-dilutive. Market-based awards are included in the computation of diluted earnings per share only to the extent that the underlying conditions (and any applicable market condition) (i) are satisfied as of the end of the reporting period or (ii) would be considered satisfied if the end of the reporting period were the end of the related contingency period and the result would be dilutive under the treasury stock method. When we report a net loss for the period presented, the calculation of diluted net loss per share excludes our potential common stock, as the effect would be anti-dilutive.

For the three months ended March 31, 2022, there were approximately 599,083 shares issuable upon the exercise of options, the vesting of time-based restricted stock and the contingent vesting of market-based restricted stock units that were excluded from the dilutive calculations, as they were anti-dilutive. For the three months ended March 31, 2021, there were approximately 446,650 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			
	March 31, 2022		March 31, 2021	
	Shares	Per-Share Amount	Shares	Per-Share Amount
Basic loss per share	18,240,299	$ (0.53)	18,076,410	$ (0.18)
Effect of dilutive securities	—	—	—	—
Diluted loss per share	18,240,299	$ (0.53)	18,076,410	$ (0.18)

NOTE 9 – ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	As of March 31, 2022	As of December 31, 2021
Accrued compensation and benefits	$ 13,294	$ 15,723
Accrued restructuring costs	3,845	3,919
Accrued warranties	1,748	1,880
Professional and legal fees	2,688	2,053
Taxes other than income	2,797	3,674
Other accrued liabilities	1,278	959
	$ 25,650	$ 28,208

Activity related to accrued warranties was as follows:

	Three Months Ended	
	March 31, 2022	March 31, 2021
Balance, beginning of period	$ 1,880	$ 1,683
Provision for warranty expense	618	620
Fulfillment of warranty obligations	(750)	(724)
Balance, end of period	$ 1,748	$ 1,579

NOTE 10 – FAIR VALUE MEASUREMENTS

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

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

	As of March 31, 2022		
	Level 1	Level 2	Level 3
Liabilities:			
Contingent consideration (1)	$ —	$ —	$ 1,008
Total	$ —	$ —	$ 1,008

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

(1) Contingent consideration liability represents arrangements to pay the former owners of certain companies we acquired based on the attainment of future product release milestones and is reported in other long-term liabilities. We use a probability-weighted discounted cash flow model to estimate the fair value of contingent consideration liabilities. These probability weightings are developed internally and assessed on a quarterly basis. The remaining undiscounted maximum payment under these arrangements was $1.1 million as of March 31, 2022. We expect to make payments earned by former owners under these arrangements on August 31, 2023.

NOTE 11 – RESTRUCTURING

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

On July 15, 2021, we entered into a manufacturing services agreement (the “Agreement”) with Sanmina Corporation (“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. Additionally, all other activities under the Restructuring Plan are expected to be substantially completed by the end of the first half of 2022.

In connection with the Restructuring Plan, we paid $0.7 million during the three months ended March 31, 2022, primarily consisting of severance and related benefits. Since the approval of the Restructuring Plan, we have paid $19.6 million, primarily consisting of severance and related benefits. Activity related to the accrued restructuring charge and cash payments during the three months ended March 31, 2022 and March 31, 2021 was as follows:

	Severance and other benefits	Professional fees and other related charges	Total
Balance at December 31, 2021	$ 3,442	$ 477	$ 3,919
Additions charged to expense	431	169	600
Cash payments	(458)	(216)	(674)
Balance at March 31, 2022	$ 3,415	$ 430	$ 3,845
Balance at December 31, 2020	$ 1,481	$ 866	$ 2,347
Additions charged to expense	1,043	481	1,524
Cash payments	(841)	(576)	(1,417)
Balance at March 31, 2021	$ 1,683	$ 771	$ 2,454

We continue to evaluate our key initiatives and execution of the Restructuring Plan, and expect to incur additional pre-tax charges in the range of $3 million to $5 million through the end of fiscal year 2022. The Company expects to make cash payments of approximately $6 million in the remainder of fiscal year 2022, consisting of severance and related benefits.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Purchase Commitments — We enter into purchase commitments for products and services in the ordinary course of business. These purchases generally cover production requirements for 60 to 120 days as well as materials necessary to service customer units through the product lifecycle and for warranty commitments. As of March 31, 2022, we had approximately $37.6 million in purchase commitments that are expected to be delivered within the next 12 months. To ensure adequate component availability, as of March 31, 2022, we also had $7.3 million in long-term commitments for purchases to be delivered after 12 months.

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

U.S. Government Contracting Matter — We have sold our products and related services to the U.S. Government (the “Government”) under General Services Administration (“GSA”) Federal Supply Schedule contracts (the “GSA Contracts”) since 2002 and are currently selling our products and related services to the Government under two such GSA Contracts. Each GSA Contract is subject to extensive legal and regulatory requirements and includes, among other provisions, a price reduction clause (the “Price Reduction Clause”), which generally requires us to reduce the prices billed to the Government under the GSA Contracts to correspond to the lowest prices billed to certain benchmark customers.

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

Effective as of February 25, 2021, as a result of the review, we entered into a settlement agreement with the GSA. Pursuant to the settlement agreement, we agreed to, among other things, pay to the GSA $12.3 million in full and final satisfaction of any and all claims, causes of actions, appeals and the like, including damages, costs, attorney's fees and interest arising under or related to the GSA Matter. As of March 31, 2022, we no longer have any outstanding liability related to this matter.

NOTE 13 – LEASES

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

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

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

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

The components of lease expense were as follows:

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Operating lease cost	$ 1,806	$ 1,970
Finance lease cost:		
Amortization of ROU assets	48	84
Interest on lease liabilities	5	5
Total finance lease cost	$ 53	$ 89

We recognize lease payments made for short-term leases where terms are 12 months or less as the payments are incurred. Our short-term lease costs for the three months ended March 31, 2022 and March 31, 2021 were both less than $0.1 million respectively.

Supplemental balance sheet information related to leases was as follows:

	As of March 31, 2022	As of December 31, 2021
Operating leases:		
Operating lease right-of-use assets	$ 21,141	$ 22,543
Current operating lease liabilities	$ 5,458	$ 5,601
Operating lease liabilities - less current portion	17,102	18,538
Total operating lease liabilities	$ 22,560	$ 24,139
Finance leases:		
Property and equipment, at cost	$ 1,481	$ 1,380
Accumulated depreciation	(1,359)	(1,222)
Property and equipment, net	$ 122	$ 158
Current finance lease liabilities	$ 195	$ 137
Finance lease liabilities - less current portion	186	110
Total finance lease liabilities	$ 381	$ 247
Weighted Average Remaining Lease Term (in years):		
Operating leases	5.52	5.69
Finance leases	2.04	2.12
Weighted Average Discount Rate:		
Operating leases	5.69 %	5.67 %
Finance leases	5.35 %	5.02 %

Supplemental cash flow information related to leases was as follows:

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 1,853	$ 1,873
Operating cash flows from finance leases	$ 5	$ 5
Financing cash flows from finance leases	$ 58	$ 86
ROU assets obtained in exchange for lease obligations:		
Operating leases	$ —	$ 567

Maturities of lease liabilities are as follows:

Year Ending December 31,	Operating leases		Finance leases	
2022 (excluding the first 3 months)	$	5,076	$	165
2023		5,674		172
2024		4,594		59
2025		3,177		5
2026		2,264		1
Thereafter		5,650		—
Total lease payments	$	26,435	$	402
Less imputed interest		(3,875)		(21)
Total	$	22,560	$	381

NOTE 14 – INCOME TAXES

For the three months ended March 31, 2022, we recorded an income tax expense of $2.5 million compared with an income tax benefit of $1.6 million for the three months ended March 31, 2021. Our effective tax rate was 34.8% for the three months ended March 31, 2022 compared with 33.4% in the prior year period. The tax rate for 2022 reflects a tax expense on a pre-tax loss and the tax rate for 2021 reflects a tax benefit on a pre-tax loss. The change in our income tax expense and our effective tax rate were primarily due to the impact of the capitalization of research and development (“R&D”) expenditures for income tax purposes. The Tax Cuts and Jobs Act (the “Act”) requires the capitalization and amortization of R&D costs incurred after December 31, 2021. We have considered the effects of the Act on the forecasted domestic cash tax payments for the year ending December 31, 2022. Our entity in the United States remains in a full valuation allowance position, hence we were not able to recognize the tax benefits associated with the capitalization of these R&D expenditures.

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

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

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

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;
- the effect of shipping disruptions caused by COVID-19 related lockdowns in China and its impact on our ability to deliver our products to customers;
- our inability to realize the intended benefits of reorganizing our business functions to improve the efficiency of our sales organization and to improve operational effectiveness;
- our inability to realize the intended benefits of our undertaking to transition to a subscription based business model to deliver new and existing software offerings on a cloud computing based platform, including but not limited to impairment charges of capitalized expenditures related to the development of Sphere, our cloud computing based platform, and our inability to realize the expected benefits;
- our inability to successfully execute our strategic plan and restructuring plan, including but not limited to additional impairment charges including existing leasehold improvements and/or higher than expected severance costs and exit costs, and our inability to realize the expected benefits of such plans;
- our inability to realize the anticipated benefits of our partnership with Sanmina and to successfully transition our manufacturing operations to Sanmina’s production facility;
- our inability to reasonably source essential equipment and materials to manufacture our products as a result of global supply shortages 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 defend against a cyberattack or security breach of our systems may compromise the confidentiality, integrity, or availability of our internal data and the availability of our products and websites designed to support our customers or their data;
- our inability to adequately maintain effective internal controls over financial reporting;
- fluctuations in our annual and quarterly operating results and the inability to achieve our financial operating targets as a result of a number of factors including, without limitation (i) litigation and regulatory action brought against us, (ii) quality issues with our products, (iii) excess or obsolete inventory, shrinkage or other inventory losses due to product obsolescence, change in demand for our products, scrap or material price changes, (iv) raw material price fluctuations and other inflationary pressures, (v) expansion of our manufacturing capability, (vi) the size and timing of customer orders, (vii) the amount of time that it takes to fulfill orders and ship our products, (viii) the length of our sales cycle to new customers and the time and expense incurred in further penetrating our existing customer base, (ix) manufacturing inefficiencies associated with new product introductions, (x) costs associated with new product introductions, such as product development, marketing, assembly line start-up costs and low introductory period production volumes, (xi) the timing and market acceptance of new products and product enhancements, (xii) customer order deferrals in anticipation of new products and product enhancements, (xiii) the inability of our sales and marketing programs to achieve their sales targets, (xiv) start-up costs associated with opening new sales offices outside of the United States, (xv) fluctuations in revenue without proportionate adjustments in fixed costs, (xvi) inefficiencies in the management of our inventories and fixed assets, (xvii) compliance with government regulations including health, safety, and environmental matters, and (xviii) costs associated with the training and ramp-up time for new sales people;
- changes in gross margins due to a changing mix of products sold and the different gross margins on different products and sales channels;
- changes in applicable laws, rules or regulations, or their interpretation or enforcement, or the enactment of new laws, rules or regulations that apply to our business operations or require us to incur significant expenses for compliance;
- our inability to successfully comply with the requirements of the Restriction of Hazardous Substances Directive and the Waste Electrical and Electronic Equipment Directive in the European Union;
- the inability of our products to displace traditional measurement devices and attain broad market acceptance;
- the impact of competitive products and pricing on our current offerings;
- the loss of any of our executive officers or other key personnel which may include an inability to competitively address inflationary pressures on employee compensation and flexibility in employee work arrangements;
- difficulties in recruiting research and development engineers and application engineers;
- the failure to effectively manage the effects of any future growth;
- the impact of reductions or projected reductions in government spending, or uncertainty regarding future levels of government expenditures, particularly in the defense sector;
- variations in our effective income tax rate, which makes it difficult to predict our effective income tax rate on a quarterly and annual basis, and the impact of the U.S. Tax Cuts and Jobs Act of 2017 on the global intangible low-taxed income of foreign subsidiaries;

- the loss of key suppliers and the inability to find sufficient alternative suppliers in a reasonable period of time or on commercially reasonable terms;
- the impact of fluctuations in exchange rates;
- the effect of estimates and assumptions with respect to critical accounting policies and the impact of the adoption of recently issued accounting pronouncements;
- the effect of changes in political conditions in the U.S. and other countries in which we operate, including the effect of changes in U.S. trade policies or the United Kingdom's withdrawal from the European Union, on general market conditions, global trade policies and currency exchange rates;
- the magnitude of increased warranty costs from new product introductions and enhancements to existing products;
- the sufficiency of our plants and third party resources to meet manufacturing requirements;
- the continuation of our share repurchase program;
- the sufficiency of our working capital and cash flow from operations to fund our long-term liquidity requirements;
- the impact of geographic changes in the manufacturing or sales of our products on our effective income tax rate;
- our ability to comply with the requirements for favorable tax rates in foreign jurisdictions; and
- other risks and uncertainties discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2021 and in other SEC filings.

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

Overview

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

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

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

We manufacture our FARO Quantum Max Arm products in our manufacturing facility located in Florida for customer orders from Europe, the Middle East and Africa (“EMEA”), in our manufacturing facility located in Singapore for customer orders from the Asia-Pacific region, and in our manufacturing facility located in Florida for customer orders from the Americas. 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. Under the manufacturing services agreement dated July 15, 2021 and in connection with the Restructuring Plan, Sanmina will provide manufacturing services for the Company’s measurement device products currently manufactured by the Company at the aforementioned manufacturing facilities. 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. We expect all of our existing manufacturing facilities and future third party manufacturing facilities to have the production capacity necessary to support our volume requirements during 2022.

We account for wholly-owned foreign subsidiaries in the currency of the respective foreign jurisdiction; therefore, fluctuations in exchange rates may have an impact on the value of the intercompany account balances denominated in different currencies and reflected in our consolidated financial statements. We are aware of the availability of off-balance sheet financial instruments to hedge exposure to foreign currency exchange rates, including cross-currency swaps, forward contracts and foreign currency options. However, we have not used such instruments in the past, and none were utilized in 2021 or the three months ended March 31, 2022.

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.

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. Additionally, all other activities under the Restructuring Plan are expected to be substantially completed by the end of the first half of 2022.

We continue to evaluate our key initiatives and execution of the Restructuring Plan, and expect to incur additional pre-tax charges in the range of $3 million to $5 million through the end of fiscal year 2022. In connection with the Restructuring Plan, we paid $0.7 million during the three months ended March 31, 2022, primarily consisting of severance and related benefits. Since the approval of the Restructuring Plan, we have paid $19.6 million, primarily consisting of severance and related benefits. The Company expects to pay approximately $6 million in the remainder of fiscal year 2022, consisting of severance and related benefits.

Faro Sphere and the Unified Software Environment

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

Revenue from our current software products was $10.3 million and $10.2 million for the three months ended March 31, 2022 and March 31, 2021, respectively. Our recurring revenue which is comprised of hardware service contracts, software maintenance contracts, and subscription based software applications was $16.5 million and $15.5 million for the three months ended March 31, 2022 and March 31, 2021, respectively.

Research and development costs incurred relating to the development of internal-use software and website development, including software used to upgrade and enhance our websites and applications to be sold as a service are capitalized in the period incurred and amortized over 1 year to 5 years. These costs include external direct costs of materials and services and internal costs such as payroll and benefits of those employees directly associated with the development of new functionality in internal use software to be sold as a service. The amount of costs capitalized relating to internally developed computer software to be sold as a service was $1.5 million and $0.2 million for the three months ended March 31, 2022 and March 31, 2021, respectively.

Acquisition of Holobuilder

On June 4, 2021, we acquired all of the outstanding shares of Holobuilder, Inc. ("Holobuilder"), a company focused on 3D photogrammetry-based technology for a purchase price of $33.8 million paid, net of cash acquired and was paid with cash on hand. 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 and for the period ended March 31, 2022.

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.

	Three months ended March 31,			
(dollars in thousands)	2022	% of Sales	2021	% of Sales
Sales				
Product	$ 56,730	74.0 %	$ 54,635	71.6 %
Service	19,926	26.0 %	21,696	28.4 %
Total sales	76,656	100.0 %	76,331	100.0 %
Cost of Sales				
Product	24,333	31.7 %	24,804	32.5 %
Service	11,297	14.7 %	11,120	14.6 %
Total cost of sales	35,630	46.5 %	35,924	47.1 %
Gross Profit	41,026	53.5 %	40,407	52.9 %
Operating Expenses				
Selling, general and administrative	35,490	46.3 %	33,348	43.7 %
Research and development	12,128	15.8 %	11,973	15.7 %
Restructuring costs	600	0.8 %	1,524	2.0 %
Total operating expenses	48,218	62.9 %	46,845	61.4 %
Loss from operations	(7,192)	(9.4) %	(6,438)	(8.4) %
Other (income) expense				
Interest expense, net	8	— %	10	— %
Other (income) expense, net	(13)	— %	(1,615)	(2.1) %
Loss before income tax benefit	(7,187)	(9.4) %	(4,833)	(6.3) %
Income tax expense (benefit)	2,500	3.3 %	(1,612)	(2.1) %
Net loss	$ (9,687)	(12.6) %	$ (3,221)	(4.2) %

Consolidated Results

Three Months Ended March 31, 2022 Compared to the Three Months Ended March 31, 2021

Sales. Total sales increased by $0.4 million, or 0.4%, to $76.7 million for the three months ended March 31, 2022 from $76.3 million for the three months ended March 31, 2021. Total product sales increased by $2.1 million, or 3.8%, to $56.7 million for the three months ended March 31, 2022 from $54.6 million for the three months ended March 31, 2021. Product sales reflect continued recovery in global demand from the economic effect of the COVID-19 pandemic which adversely affected the prior year and acceptance of our new Quantum Max Arm products and was partially offset by temporary closures of third party shipping facilities in Shanghai due to COVID-19 delaying our shipments during the three months ended March 31, 2022. Service revenue decreased by $1.8 million, or 8.2%, to $19.9 million for the three months ended March 31, 2022 from $21.7 million for the three months ended March 31, 2021, primarily due to depressed product sales in prior periods driven by the COVID-19 pandemic resulting in a smaller serviceable product base. Foreign exchange rates had a negative impact on total sales of $2.2 million, or 2.9 percentage points, primarily due to the weakening of the Euro and the Yen relative to the U.S. dollar.

Gross profit. Gross profit increased by $0.6 million, or 1.5%, to $41.0 million for the three months ended March 31, 2022 from $40.4 million for the three months ended March 31, 2021, and gross margin increased to 53.5% for the three months ended March 31, 2022 from 52.9% for the three months ended March 31, 2021. Gross margin from product revenue increased by 2.5 percentage points to 57.1% for the three months ended March 31, 2022 from 54.6% for the prior year period primarily due to changes in product mix and was partially offset by unfavorable price variances in the current year due to global supply shortages. Gross margin from service revenue decreased by 5.4 percentage points to 43.3% for the three months ended March 31, 2022 from 48.7% for the prior year period, primarily due to the aforementioned decrease in service revenue with relatively consistent fixed costs.

Selling, general and administrative expenses. Selling, general and administrative expenses increased by $2.2 million, or 6.4%, to $35.5 million for the three months ended March 31, 2022 from $33.3 million for the three months ended March 31, 2021. This increase was driven primarily by higher personnel costs resulting from headcount additions. Selling, general and administrative expenses as a percentage of sales increased to 46.3% for the three months ended March 31, 2022 from 43.7% for the three months ended March 31, 2021. Our worldwide period-ending selling, general and administrative headcount increased by 46, or 6.3%, to 773 at March 31, 2022, from 727 at March 31, 2021.

Research and development expenses. Research and development expenses increased by $0.1 million, or 1.3%, to $12.1 million for the three months ended March 31, 2022 from $12.0 million for the three months ended March 31, 2021. 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 15.8% for the three months ended March 31, 2022 from 15.7% for the three months ended March 31, 2021.

Restructuring costs. In February 2020, we initiated the Restructuring Plan to improve business effectiveness, streamline operations and achieve a stated target cost level for the Company as a whole. Restructuring costs included in operating expenses decreased by $0.9 million to $0.6 million for the three months ended March 31, 2022 from $1.5 million for the three months ended March 31, 2021 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 for both the three months ended March 31, 2022 and three months ended March 31, 2021.

Other (income) expense, net. For the three months ended March 31, 2022, other income was less than $0.1 million compared with other income of $1.6 million for the three months ended March 31, 2021. This change was primarily driven by the effect of foreign exchange rates.

Income tax expense (benefit). For the three months ended March 31, 2022 we recorded an income tax expense of $2.5 million compared with an income tax benefit of $1.6 million for the three months ended March 31, 2021. Our effective tax rate was 34.8% for the three months ended March 31, 2022 compared with 33.4% in the prior year period. The tax rate for 2022 reflects a tax expense on a pre-tax loss and the tax rate for 2021 reflects a tax benefit on a pre-tax loss. The change in our income tax expense and our effective tax rate were primarily due to the impact of the capitalization of research and development (“R&D”) expenditures for income tax purposes. The Tax Cuts and Jobs Act (the “Act”) requires the capitalization and amortization of R&D costs incurred after December 31, 2021. We have considered the effects of the Act on the forecasted domestic cash tax payments for the year ending December 31, 2022. Our entity in the United States remains in a full valuation allowance position, hence we were not able to recognize the tax benefits associated with the capitalization of these R&D expenditures.

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

Net loss. Our net loss was $9.7 million for the three months ended March 31, 2022 compared with net loss of $3.2 million for the prior year period, reflecting the impact of the factors described above.

Liquidity and Capital Resources

Cash and cash equivalents decreased by $14.8 million to $107.2 million at March 31, 2022 from $122.0 million at December 31, 2021. The decrease was primarily driven by net cash used in operating and investing activities.

Cash used in operating activities was $7.0 million during the three months ended March 31, 2022, compared to $10.3 million of cash used in operating activities during the three months ended March 31, 2021. The change was due to changes in working capital accounts, primarily an increase in inventories in preparation for our phased transition to our third party contract manufacturer, Sanmina and an increase in prepaid expenses and other current assets. Separately, the accounts receivable balance as of March 31, 2022, remained consistent with the December 31, 2021 balance, as a result of a large number of our shipments occurring during the third month of the quarter, and due to delays in collections. We do not, however, have concerns about the orderly collection of our stated net accounts receivable balance as of March 31, 2022.

Cash used in investing activities during the three months ended March 31, 2022 was $5.1 million compared to cash used in investing activities of $2.4 million during the three months ended March 31, 2021. The change was primarily due to purchases of property and equipment and cash paid for technology development, patents, and licenses during the three months ended March 31, 2022, as compared to lower purchase activity of property and equipment and cash paid for technology development, patents, and licenses during the three months ended March 31, 2021.

Cash used in financing activities was $1.0 million during the three months ended March 31, 2022 compared to cash provided by financing activities of $1.7 million for the three months ended March 31, 2021. The change was primarily due to lower proceeds from the issuance of stock related to stock option exercises during the three months ended March 31, 2022 compared to during the three months ended March 31, 2021.

Of our cash and cash equivalents, $93.9 million was held by foreign subsidiaries as of March 31, 2022. On December 22, 2017, the United States enacted the U.S. Tax Cuts and Jobs Act, resulting in significant modifications to existing tax law, which included a transition tax on the mandatory deemed repatriation of foreign earnings. As a result of the U.S. Tax Cuts and Jobs Act, the Company can repatriate foreign earnings and profits to the U.S. with minimal U.S. income tax consequences, other than the transition tax and global intangible low-taxed income (“GILTI”) tax. 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 three month period ended March 31, 2022 under this program. As of March 31, 2022, we had authorization to repurchase $18.3 million remaining under the repurchase program.

We believe that our working capital and anticipated cash flow from operations will be sufficient to fund our 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 March 31, 2022, we had $37.6 million in purchase commitments that are expected to be delivered within the next 12 months. We also had $7.3 million in long-term commitments for purchases to be delivered after 12 months. Other than as described in the preceding sentences, there have been no material changes to the contractual obligations and commercial commitments table included in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2021.

Critical Accounting Policies

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Exchange Exposure

We conduct a significant portion of our business outside the United States. As of and for the three months ended March 31, 2022, 56% of our revenue was invoiced, and a significant portion of our operating expenses were paid, in foreign currencies, and 37% 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 2021 or the three months ended March 31, 2022.

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 March 31, 2022. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2022 to provide reasonable assurance that information required to be disclosed in this Quarterly Report on Form 10-Q was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and was accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

During the quarter ended March 31, 2022, there was no change in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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 three month period ended March 31, 2022 under this program. As of March 31, 2022, we had authorization to repurchase $18.3 million remaining under the repurchase program.

Item 5. Other Information

As disclosed in the Company’s Form 8-K filed with the SEC on April 15, 2022, on April 11, 2022, Kevin Beadle, at that time the Senior Vice President of Sales of the Company, announced his intention to resign as Senior Vice President of Sales in connection with his retirement from the Company. Mr. Beadle will remain with the Company through April 29, 2022 to aid in a smooth transition.

On April 21, 2022, the Company and Mr. Beadle entered into a Severance Agreement and General Release relating to this resignation (the “Transition Agreement”). The Transition Agreement provides that, among other benefits contemplated therein, (i) the Company will pay Mr. Beadle a lump sum payment equal to his current base salary and (ii) the Company will pay Mr. Beadle an additional lump sum payment equal to $255,000. In return for these payments and benefits, among other agreements by Mr. Beadle, (a) Mr. Beadle has agreed to enter into and not revoke a general release of claims in favor of the Company and (b) Mr. Beadle has reaffirmed his obligations under the Intellectual Property & Confidentiality Agreement and Non-Competition Addendum dated December 17, 2019, by and between the Company and Mr. Beadle. The foregoing description of the Transition Agreement is not complete and is qualified in its entirety by reference to the full text of the Transition Agreement, a copy of which is attached hereto as Exhibit 10.1 and incorporated herein by reference.

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 3.2 to our Annual Report on Form 10-K, filed February 16, 2022 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	Severance Agreement and General Release by and between FARO Technologies, Inc. and Kevin Beadle dated April 21, 2022
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

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: April 27, 2022	By:	/s/ Allen Muhich
		Name: Allen Muhich Title: Chief Financial Officer (Duly Authorized Officer and Principal Financial Officer)

SEVERANCE AGREEMENT AND GENERAL RELEASE

This Severance Agreement and General Release (this "Agreement") dated this 21st day of April 2022, is entered into by and between FARO Technologies, Inc. (the "Company"), and Kevin Beadle ("Executive").

Recitals

WHEREAS, in connection with Executive's separation from the Company, and in order to promote a smooth and amicable transition of duties, the Company has decided to offer the separation compensation and other consideration described herein, conditioned upon Executive's compliance with the terms and conditions described in this Agreement.

NOW THEREFORE, in consideration of the promises and the mutual covenants contained herein, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

Agreement

1) **Separation**. Executive's last date of employment with the Company shall be April 29, 2022 (the "Separation Date"). Executive hereby resigns from any and all officer, director, employee, consultant, service provider or equivalent positions that Executive may hold or be deemed to hold with the Company, effective as of the Separation Date.

2) **Consideration**. Contingent upon: (i) Executive's execution of this Agreement and this Agreement becoming irrevocable and effective; (ii) Executive's compliance with the terms of this Agreement; (iii) Executive behaving professionally and complying with all workplace policies between the date of this Agreement and the Separation Date; and (iv) Executive reaffirming the terms of this Agreement including the release so that it covers the period between the date of this Agreement and the Separation Date by signing and returning the Certificate attached as Exhibit A hereto after the Separation Date but no later than seven days after the Separation Date, the Company agrees to pay Executive the following consideration (the "Separation Compensation"):

   (a) A lump sum payment equal to Executive's current base salary in the amount of **$310,000**, which shall be made within thirty (30) days following Certificate Effective Date (as defined in Exhibit A below);

   (b) Executive's health insurance benefits with the Company shall continue on the same terms and conditions through the Separation Date, and cease to be effective at the conclusion of the Separation Date. Following the Separation Date, in the event that Executive chooses to exercise his rights under COBRA to continue his participation in the Company's health insurance plan, the Company shall directly pay the premium for Executive and his covered dependents through the earlier of (A) April 30, 2023, or (B) the date

Executive and Executive's covered dependents, if any, become eligible for healthcare coverage under another employer's plan(s) (the "Subsidized COBRA Period"), provided that if the Company determines that it cannot provide the foregoing benefit without potentially violating applicable law (including, without limitation, Section 2716 of the Public Health Service Act) or incurring an excise tax, then, in lieu of the foregoing benefit, a taxable amount equal to each remaining Company subsidy payment will thereafter be paid to Executive in substantially equal monthly installments. Should the Executive or covered dependents, if any, become eligible for healthcare coverage under another employer's plan(s), Executive must notify the Company immediately regardless if Executive has elected to enroll in such coverage. Per the terms of this Agreement, the COBRA subsidy will cease when Executive becomes eligible under another employer's plan(s).

(c) Executive shall have use of the Employee Assistance Plan provided by the Company during the Subsidized COBRA Period; and

(d) An additional lump sum payment equal to **$255,000**, which shall be made within thirty (30) days following Certificate Effective Date (as defined in Exhibit A below).

3) **General Release and Covenant Not to Sue.** In return for the Separation Compensation described in Section 2, Executive fully and forever discharges and releases the Company, its subsidiaries and affiliates, and each of their respective officers, directors, managers, employees, agents, attorneys and successors and assigns (collectively, the "FARO Companies") from any and all claims or causes of action, known or unknown, for relief of any nature, arising on or before the date of this Agreement, which Executive now has or claims to have or which Executive at any time prior to signing this Agreement had, against the FARO Companies, including, but in no way limited to: any claim arising from or related to Executive's employment by FARO or the termination of Executive's employment with FARO, including but not limited to any claim under the Age Discrimination in Employment Act ("ADEA"), the Older Workers Benefit Protection Act ("OWBPA"), Title VII of the Civil Rights Act of 1964, as amended, 42 U.S.C. § 1981, the Americans With Disabilities Act ("ADA"), the Family and Medical Leave Act ("FMLA"), the Employee Retirement Income Security Act ("ERISA"), the Equal Pay Act ("EPA"), the Occupational Safety and Health Act ("OSHA"), the Florida Civil Rights Act, Florida Civil Rights Act (§§ 760.01 to 760.11, Fla. Stat.), Florida Whistleblower Protection Act (§§ 448.101 to 448.105, Fla. Stat.), Florida Workers' Compensation Retaliation provision (§ 440.205, Fla. Stat.), Florida Minimum Wage Act (§ 448.110, Fla. Stat.), Article X, and Section 24 of the Florida Constitution (Fla. Const. art. X, § 24); Texas Labor Code (specifically including the Texas Payday Law, the Texas Anti-Retaliation Act, Chapter 21 of the Texas Labor Code, and the Texas Whistleblower Act) and any and any and all other local, state, and federal law claims arising under statute or common law. Executive further represents that he has not assigned to any other person any of such claims, and that he has the full right to grant this release. It is agreed that this is a general release and it is to be broadly construed as a release of all claims, except those that cannot be released by law. By signing this Agreement, Executive acknowledges that he is doing so knowingly and

voluntarily, that he understands that he may be releasing claims he may not know about, and that he is waiving all rights he may have had under any law that is intended to protect him from waiving unknown claims.

4) **Protected Disclosures.** Nothing contained in this Agreement limits Executive’s ability to file a charge or complaint with any federal, state or local governmental agency or commission (a “Government Agency”). In addition, nothing contained in this Agreement limits Executive’s ability to communicate with any Government Agency or otherwise participate in any investigation or proceeding that may be conducted by any Government Agency, including Executive’s ability to provide documents or other information, without notice to the Company, nor does anything contained in this Agreement apply to truthful testimony in litigation. If Executive files any charge or complaint with any Government Agency and if the Government Agency pursues any claim on Executive’s behalf, or if any other third party pursues any claim on Executive’s behalf, Executive waives any right to monetary or other individualized relief (either individually, or as part of any collective or class action); provided that nothing in this Agreement limits any right Executive may have to receive a whistleblower award or bounty for information provided to the Securities and Exchange Commission.

5) **No Admission of Liability.** The signing of this Agreement, the payment of the Separation Compensation, and the conferring of any other consideration upon Executive is not an admission by the Company of fault or potential liability on the part of the Company. Rather, this Agreement is entered into in an effort to provide Executive with a separation package and to end the parties’ employment relationship on an amicable basis. Executive agrees that neither this Agreement nor any of its terms shall be offered or admitted into evidence or referenced in any judicial or administrative proceedings for the purpose or with the effect of attempting to prove fault or liability on the part of the Company, except as may be necessary to consummate or enforce the express terms of this Agreement.

6) **Announcement to Employees and Third Parties.** Both Executive and the Company agree to announce Executive's separation from the Company as a voluntary retirement. Executive and the Company agree to represent to employees, customers, and other third parties, unless otherwise required by law or process, that Executive is voluntarily retiring as of the Separation Date.

7) **Confidentiality and Non-Disparagement.** Executive remains subject to the obligations set forth in the Intellectual Property & Confidentiality Agreement and Non-Competition Addendum dated December 17, 2019 (the “Restrictive Covenant Agreement”). Executive hereby reaffirms his obligations under Restrictive Covenant Agreement, the terms of which are incorporated herein by reference. Executive agrees not to make any disparaging statements concerning the Company, its parent, or any of their affiliates, services, products, or current or former officers, directors, shareholders, employees or agents. This obligation extends to and includes statements on social media and any other medium.

8) **Return of Property.** Executive agrees that within one (1) day following the Separation Date, Executive will have returned all Company business records and

property, including as applicable all financial files, notes, computers, cell phone, keys, contracts, employee records, files, correspondence, thumb drives, or the like containing information which was provided by the Company or obtained as a result of Executive's employment relationship with the Company.

9) **Future Assistance.** In partial consideration for receiving the Separation Compensation, Executive agrees that he will reasonably cooperate and make himself reasonably available to the Company in the event his assistance is needed to locate, understand, or clarify work previously performed by his or other work-related issues relating to his employment. Executive further agrees, upon the Company's request, to cooperate, assist and make himself reasonably available to the Company or its attorneys, on an as-needed basis, to provide information related to the Company in connection with any matter of which Executive had personal knowledge or involvement during the term of employment with the Company. This may include, but is not limited to, making himself reasonably available to provide information to the Company's attorneys, providing truthful and accurate sworn testimony in the form of deposition, affidavit and/or otherwise requested by the Company or providing testimony to government agencies.

10) **Taxes.** All payments under this Separation Agreement shall be reduced by any applicable tax withholdings. It is intended that the benefits provided under this Separation Agreement shall comply with the provisions of Section 409A of the Internal Revenue Code ("Section 409A") or qualify for an exemption to Section 409A, and this Separation Agreement shall be construed and interpreted in accordance with such intent. Each payment pursuant to this Agreement is intended to constitute a separate payment for purposes of Treasury Regulation Section 1.409A-2(b)(2). The parties agree that this Agreement may be amended, as reasonably requested by either party, and as may be necessary to fully comply with Section 409A of the Code and all related rules and regulations in order to preserve the payments and benefits provided hereunder without additional cost to either party. The Company makes no representation or warranty and shall have no liability to the Executive or any other person if any provisions of this Agreement are determined to constitute deferred compensation subject to Section 409A of the Code but do not satisfy an exemption from, or the conditions of, such Section.

11) **Miscellaneous.**

a) Executive shall pay all damages (including, but not limited to, litigation and/or defense costs, expenses, prejudgment interest, and reasonable attorneys' fees) incurred by the Company as a result of Executive's material breach of this Agreement. The Company shall pay all damages (including, but not limited to, litigation and/or defense costs, expenses, prejudgment interest, and reasonable attorneys' fees) incurred by Executive as a result of the Company's material breach of this Agreement.

b) Executive agrees that the Company shall have no other obligations or liabilities to him except as provided herein. This Agreement shall be construed as a whole in accordance with its fair meaning and the laws of the State of Florida. Any dispute under this Agreement shall be adjudicated by a court of competent jurisdiction in the state or federal courts of Orange County, Florida. Except as otherwise provided for herein, this Agreement constitutes the entire agreement between the Company and Executive on the matters described herein and it shall not be modified unless in writing and executed by a duly authorized officer of the Company. The provisions of this Agreement are severable and if any provision is held to be invalid or unenforceable, it shall not affect the validity or enforceability of any other provision.

c) EXECUTIVE ACKNOWLEDGES THAT HE VOLUNTARILY ENTERS INTO THIS AGREEMENT WITH A FULL AND COMPLETE UNDERSTANDING OF ITS TERMS AND LEGAL EFFECT. EXECUTIVE REPRESENTS THAT HE WAS ADVISED TO CONSULT WITH AN ATTORNEY ABOUT THE PROVISIONS OF THIS AGREEMENT BEFORE SIGNING BELOW.

d) Executive further represents that by entering into this Agreement, Executive is not relying on any statements or representations made by the Company, its officers, directors, agents, or employees, which are not specifically incorporated in this Agreement; rather, Executive is relying upon Executive's own judgment and the advice of Executive's attorney, if applicable.

e) The offer embodied in this Agreement shall remain open and capable of acceptance by Executive until May 2, 2022 after which time the offer shall be revoked. Executive acknowledges that he has been given at least 21 calendar days from the date of this Agreement to accept the terms of this Agreement, although he may accept it at any time within those 21 days. After Executive executes this Agreement, Executive will still have an additional 7 days in which to revoke his acceptance. To revoke, Executive must notify the Company's CEO in writing delivered via hand delivery or certified mail, return receipt requested, and the Company's CEO must receive such written notification before the end of the 7-day revocation period. If Executive does not execute this Agreement within the 21-day period, or if he timely revokes this Agreement during the 7-day revocation period, this Agreement will not become effective and he will not be entitled to the Separation Compensation provided for in Section 2 above, and he will return to the Company any and all Separation Compensation already received by him under this Agreement.

f) This Agreement may not be revoked at any time after the expiration of the 7-day revocation period referenced in Section 11(e) above. This Agreement is not intended to and shall not affect the right of Executive to file a lawsuit, complaint or charge that challenges the validity of this Agreement under the Older Workers Benefit Protection Act, 29 U.S.C. §626(f), with respect to claims under the ADEA. Executive agrees, however, that, with the exception of an action to challenge his waiver of claims under the ADEA, if he ever attempts to make, assert or prosecute any claim(s) covered by the General Release and Covenant Not to Sue in Section 3, he will, prior to filing or instituting such claim(s), return to the Company any and all the Separation Compensation payments already received by him under this Agreement, plus interest at the highest legal rate, and, with the exception of an action to challenge his waiver of claims under the ADEA, if the Company prevails in defending the enforceability of any portion of the Agreement or in defending itself against any such claim, he will pay the Company's attorneys' fees and costs incurred in defending itself against the claim(s) and/or the attempted revocation, recession or annulment of all or any portion of this Agreement.

g) The rights and obligations of the Company under this Agreement shall inure to the benefit of, and shall be binding upon the successors and assigns of the Company and by this Section 11(g), Executive expressly consents to the Company's right to assign this agreement. This Agreement cannot be assigned by Executive.

h) Except for those agreements specifically preserved herein, this Agreement sets forth the entire agreement between the parties concerning the termination of Executive's employment with the Company and supersedes any other written or oral promises concerning the subject matter of this Agreement.

i) This Agreement may be signed in counterparts or transmitted by electronic means, but shall be considered duly executed if so signed by the parties.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement the day and year indicated below.

FARO TECHNOLOGIES, INC.

By: /s/ Michael D. Burger
Its: President & CEO
Date: April 11, 2022

By: /s/ Kevin Beadle
Date: April 21,2022

EXHIBIT A

CERTIFICATE UPDATING RELEASE OF CLAIMS

I, hereby acknowledge and certify that I entered into a Severance Agreement and General Release with FARO Technologies, Inc. (the "Company"), dated this 21st day of April 2022 (the "Agreement"). Capitalized but undefined terms in this Certificate are defined in the Agreement. Pursuant to the Agreement, I am required to sign this "Certificate," which updates the release of claims in the Agreement, in order to receive the severance benefits described in the Agreement. ***For this Certificate to become effective and for me to receive such severance benefits, I must sign this Certificate after the Separation Date but no later than seven days after the Separation Date. I will not sign this Certificate before the Separation Date.*** Subject to the foregoing, the date I sign this Certificate is the "Certificate Effective Date." I further agree as follows:

1. A copy of this Certificate was attached as an Exhibit to the Agreement.
2. In consideration of the benefits described in the Agreement, for which I become eligible only if I sign this Certificate, I hereby extend the release of claims set forth in the Agreement to any and all claims that arose after the date I signed the Agreement through the date I signed this Certificate, subject to all other exclusions and terms set forth in the Agreement.
3. I have carefully read and fully understand all of the provisions of this Certificate, I knowingly and voluntarily agree to all of the terms set forth in this Certificate, and I acknowledge that in entering into this Certificate, I am not relying on any representation, promise or inducement made by the Company or its officers, directors, employees, agents or other representatives with the exception of those promises expressly contained in this Certificate and the Agreement.
4. I also represent that I have not been subject to any retaliation or any other form of adverse action by the released parties for any action taken by me as an employee or resulting from my exercise of or attempt to exercise any statutory rights recognized under federal, state or local law. I agree that I have been paid all unpaid wages and other compensation owed to me as of the Separation Date. I also agree that none of my rights have been violated under any statute, common law or Company policy, program or agreement. I represent that I have reported any and all workplace injuries that I suffered during my employment, if any, to the Company before executing this Certificate.
5. I agree that this Certificate is part of the Agreement.
   Accepted and Agreed:

____
Kevin Beadle

____
Date

EXHIBIT 31-A

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: April 27, 2022

/s/ Michael Burger

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

EXHIBIT 31-B

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: April 27, 2022

/s/ Allen Muhich

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

EXHIBIT 32-A

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 March 31, 2022 (the Report) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 27, 2022

/s/ Michael Burger

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

EXHIBIT 32-B

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 March 31, 2022 (the Report) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 27, 2022

/s/ Allen Muhich

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