

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

**FORM 10-Q**

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

For the quarterly period ended September 30, 2024

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-23081

**FARO TECHNOLOGIES, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Florida**  
(State or other Jurisdiction of Incorporation or Organization)

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

**125 Technology Park,  
Lake Mary  
Florida**  
(Address of Principal Executive Offices)

**32746**  
(Zip Code)

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  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

There were 18,917,323 shares of the registrant's common stock outstanding as of November 4, 2024.



**FARO TECHNOLOGIES, INC.**

Quarterly Report on Form 10-Q  
Quarter Ended September 30, 2024

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

| <i>(in thousands, except share and per share data)</i>   | September 30,<br>2024 (unaudited) | December 31,<br>2023 |
|--|-----------------------------------|----------------------|
| <b>ASSETS</b>  |                                   |                      |
| Current assets:  |                                   |                      |
| Cash and cash equivalents  | \$ 88,913                         | \$ 76,787            |
| Short-term investments   | —                                 | 19,496               |
| Accounts receivable, net   | 83,208                            | 92,028               |
| Inventories, net   | 39,055                            | 34,529               |
| Prepaid expenses and other current assets  | 34,252                            | 38,768               |
| Total current assets   | 245,428                           | 261,608              |
| Non-current assets:  |                                   |                      |
| Property, plant and equipment, net   | 19,544                            | 21,181               |
| Operating lease right-of-use assets  | 17,208                            | 12,231               |
| Goodwill   | 110,972                           | 109,534              |
| Intangible assets, net   | 46,325                            | 47,891               |
| Service and sales demonstration inventory, net   | 21,436                            | 23,147               |
| Deferred income tax assets, net  | 24,826                            | 25,027               |
| Other long-term assets   | 3,891                             | 4,073                |
| Total assets   | \$ 489,630                        | \$ 504,692           |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                                   |                      |
| Current liabilities:   |                                   |                      |
| Accounts payable   | \$ 30,438                         | \$ 27,404            |
| Accrued liabilities  | 25,208                            | 29,930               |
| Income taxes payable   | 6,881                             | 5,699                |
| Current portion of unearned service revenues   | 41,495                            | 40,555               |
| Customer deposits  | 4,282                             | 4,251                |
| Lease liabilities  | 4,645                             | 5,434                |
| Total current liabilities  | 112,949                           | 113,273              |
| Loan - 5.50% Convertible Senior Notes  | 70,096                            | 72,760               |
| Unearned service revenues - less current portion   | 20,051                            | 20,256               |
| Lease liabilities - less current portion   | 15,412                            | 10,837               |
| Deferred income tax liabilities  | 13,048                            | 13,308               |
| Income taxes payable - less current portion  | 2,510                             | 5,629                |
| Other long-term liabilities  | 46                                | 23                   |
| Total liabilities  | 234,112                           | 236,086              |
| Commitments and contingencies - See Note 13  |                                   |                      |
| Shareholders' equity:  |                                   |                      |
| Common stock - par value \$0.001, 50,000,000 shares authorized; 20,869,974 and 20,343,359 issued, respectively;<br>18,908,076 and 18,968,798 outstanding, respectively | 20                                | 20                   |
| Additional paid-in capital   | 354,765                           | 346,277              |
| Retained earnings  | (17,869)                          | (9,789)              |
| Accumulated other comprehensive loss   | (40,729)                          | (37,247)             |
| Common stock in treasury, at cost - 1,961,898 and 1,374,561 shares held, respectively  | (40,669)                          | (30,655)             |
| Total shareholders' equity   | 255,518                           | 268,606              |
| Total liabilities and shareholders' equity   | \$ 489,630                        | \$ 504,692           |

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 September 30, |            | Nine Months Ended September 30, |             |
|---|----------------------------------|------------|---------------------------------|-------------|
|   | 2024                             | 2023       | 2024                            | 2023        |
| <b>Sales</b>                                    |                                  |            |                                 |             |
| Product   | \$ 61,461                        | \$ 66,911  | \$ 186,309                      | \$ 199,754  |
| Service   | 21,102                           | 19,902     | 62,583                          | 60,237      |
| Total sales                                     | 82,563                           | 86,813     | 248,892                         | 259,991     |
| <b>Cost of sales</b>                            |                                  |            |                                 |             |
| Product   | 26,246                           | 34,640     | 82,817                          | 112,691     |
| Service   | 10,341                           | 10,499     | 32,003                          | 32,587      |
| Total cost of sales                             | 36,587                           | 45,139     | 114,820                         | 145,278     |
| <b>Gross profit</b>                             | 45,976                           | 41,674     | 134,072                         | 114,713     |
| <b>Operating expenses</b>                       |                                  |            |                                 |             |
| Selling, general and administrative             | 34,041                           | 37,970     | 106,224                         | 117,907     |
| Research and development                        | 9,771                            | 8,188      | 28,628                          | 32,568      |
| Restructuring costs                             | —                                | 2,442      | 616                             | 15,130      |
| Total operating expenses                        | 43,812                           | 48,600     | 135,468                         | 165,605     |
| <b>Income (loss) from operations</b>            | 2,164                            | (6,926)    | (1,396)                         | (50,892)    |
| <b>Other (income) expense</b>                   |                                  |            |                                 |             |
| Interest expense                                | 1,023                            | 691        | 2,615                           | 2,529       |
| Other (income) expense, net                     | 175                              | (381)      | 157                             | (125)       |
| <b>Income (loss) before income tax</b>          | 966                              | (7,236)    | (4,168)                         | (53,296)    |
| <b>Income tax expense</b>                       | 1,255                            | 1,520      | 3,912                           | 4,869       |
| <b>Net loss</b>                                 | \$ (289)                         | \$ (8,756) | \$ (8,080)                      | \$ (58,165) |
| <b>Net loss per share - Basic</b>               | \$ (0.02)                        | \$ (0.46)  | \$ (0.42)                       | \$ (3.08)   |
| <b>Net loss per share - Diluted</b>             | \$ (0.02)                        | \$ (0.46)  | \$ (0.42)                       | \$ (3.08)   |
| <b>Weighted average shares - Basic</b>          | 19,266,217                       | 18,953,251 | 19,218,004                      | 18,899,954  |
| <b>Weighted average shares - Diluted</b>        | 19,266,217                       | 18,953,251 | 19,218,004                      | 18,899,954  |

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

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

| (in thousands)  | Three Months Ended September 30, |             | Nine Months Ended September 30, |             |
|---|----------------------------------|-------------|---------------------------------|-------------|
|   | 2024                             | 2023        | 2024                            | 2023        |
| Net loss  | \$ (289)                         | \$ (8,756)  | \$ (8,080)                      | \$ (58,165) |
| Currency translation adjustments, net of income taxes | 6,309                            | (7,080)     | (3,482)                         | (5,979)     |
| Net unrealized loss on short-term investments         | —                                | (238)       | —                               | —           |
| Comprehensive loss                                    | \$ 6,020                         | \$ (16,074) | \$ (11,562)                     | \$ (64,144) |

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

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

| (in thousands)  | Nine Months Ended September 30, |                  |
|---|---------------------------------|------------------|
|   | 2024                            | 2023             |
| <b>Cash flows from:</b>   |                                 |                  |
| <b>Operating activities:</b>  |                                 |                  |
| Net loss  | \$ (8,080)                      | \$ (58,165)      |
| Adjustments to reconcile net loss to net cash used in operating activities:   |                                 |                  |
| Depreciation and amortization   | 11,709                          | 11,728           |
| Stock-based compensation  | 8,471                           | 12,276           |
| Inventory write-downs   | —                               | 8,132            |
| Asset impairment charges  | —                               | 5,333            |
| Deferred income tax (benefit) and other non-cash charges  | (1,230)                         | (82)             |
| Provision for excess and obsolete inventory   | 861                             | 1,754            |
| Amortization of debt discount and issuance costs  | 336                             | 294              |
| Loss on disposal of assets  | 974                             | (155)            |
| Provisions for bad debts, net of recoveries   | 966                             | 834              |
| Change in operating assets and liabilities:   |                                 |                  |
| Decrease (Increase) in:   |                                 |                  |
| Accounts receivable   | 6,864                           | 1,282            |
| Inventories   | (8,097)                         | (544)            |
| Prepaid expenses and other current assets   | 4,298                           | 4,047            |
| (Decrease) Increase in:   |                                 |                  |
| Accounts payable and accrued liabilities  | (1,722)                         | (2,802)          |
| Income taxes payable  | (1,884)                         | 653              |
| Customer deposits   | 144                             | (1,534)          |
| Unearned service revenues   | 778                             | (1,198)          |
| Other liabilities   | (1,033)                         | 567              |
| Net cash provided by (used in) operating activities   | <u>13,355</u>                   | <u>(17,580)</u>  |
| <b>Investing activities:</b>  |                                 |                  |
| Purchases of property and equipment   | (3,559)                         | (5,016)          |
| Maturity of short-term investments  | 20,009                          | —                |
| Cash paid for technology development, patents and licenses  | (4,822)                         | (5,071)          |
| Net cash provided by (used in) investing activities   | <u>11,628</u>                   | <u>(10,087)</u>  |
| <b>Financing activities:</b>  |                                 |                  |
| Payments on finance leases  | (135)                           | (154)            |
| Cash settlement of equity awards  | —                               | (89)             |
| Repurchases of common stock   | (10,014)                        | —                |
| Proceeds from issuance of 5.50% Convertible Senior Notes, due 2028, net of discount, issuance cost and accrued interest | —                               | 72,310           |
| Repayment of 5.50% Convertible Senior Notes, due 2028   | (2,685)                         | —                |
| Payment of contingent consideration for business acquisition  | —                               | (1,098)          |
| Net cash (used in) provided by financing activities   | <u>(12,834)</u>                 | <u>70,969</u>    |
| Effect of exchange rate changes on cash and cash equivalents  | (23)                            | (1,195)          |
| Increase in cash and cash equivalents   | 12,126                          | 42,107           |
| Cash and cash equivalents, beginning of period  | 76,787                          | 37,812           |
| Cash and cash equivalents, end of period  | <u>\$ 88,913</u>                | <u>\$ 79,919</u> |

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

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

| (in thousands, except share data)                              | Common Stock |         | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Common<br>Stock in<br>Treasury | Total      |
|--|--------------|---------|----------------------------------|----------------------|---|--------------------------------|------------|
|  | Shares       | Amounts |                                  |                      |   |                                |            |
| BALANCE JANUARY 1, 2024  | 18,968,798   | \$ 20   | \$ 346,277                       | \$ (9,789)           | \$ (37,247)                                   | \$ (30,655)                    | \$ 268,606 |
| Net loss   | —            | —       | —                                | (7,267)              | —   | —                              | (7,267)    |
| Currency translation adjustment                                | —            | —       | —                                | —                    | (3,898)                                       | —                              | (3,898)    |
| Stock-based compensation                                       | —            | —       | 4,539                            | —                    | —   | —                              | 4,539      |
| Common stock issued, net of shares withheld for employee taxes | 236,563      | —       | —                                | —                    | —   | —                              | —          |
| BALANCE MARCH 31, 2024   | 19,205,361   | 20      | 350,816                          | (17,056)             | (41,145)                                      | (30,655)                       | 261,980    |
| Net loss   | —            | —       | —                                | (524)                | —   | —                              | (524)      |
| Currency translation adjustment                                | —            | —       | —                                | —                    | (5,893)                                       | —                              | (5,893)    |
| Stock-based compensation                                       | —            | —       | 1,164                            | —                    | —   | —                              | 1,164      |
| Common stock issued, net of shares withheld for employee taxes | 201,308      | —       | (131)                            | —                    | —   | —                              | (131)      |
| BALANCE JUNE 30, 2024  | 19,406,669   | 20      | 351,849                          | (17,580)             | (47,038)                                      | (30,655)                       | 256,596    |
| Net loss   | —            | —       | —                                | (289)                | —   | —                              | (289)      |
| Currency translation adjustment                                | —            | —       | —                                | —                    | 6,309   | —                              | 6,309      |
| Stock-based compensation                                       | —            | —       | 2,768                            | —                    | —   | —                              | 2,768      |
| Common stock repurchased                                       | (588,856)    | —       | —                                | —                    | —   | (10,014)                       | (10,014)   |
| Common stock issued, net of shares withheld for employee taxes | 90,263       | —       | 148                              | —                    | —   | —                              | 148        |
| BALANCE SEPTEMBER 30, 2024                                     | 18,908,076   | \$ 20   | \$ 354,765                       | \$ (17,869)          | \$ (40,729)                                   | \$ (40,669)                    | \$ 255,518 |

| (in thousands, except share data)                              | Common Stock |         | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Common<br>Stock in<br>Treasury | Total      |
|--|--------------|---------|----------------------------------|----------------------|---|--------------------------------|------------|
|  | Shares       | Amounts |                                  |                      |   |                                |            |
| BALANCE JANUARY 1, 2023  | 18,780,013   | \$ 20   | \$ 328,227                       | \$ 46,788            | \$ (33,331)                                   | \$ (30,655)                    | \$ 311,049 |
| Net loss   | —            | —       | —                                | (21,164)             | —   | —                              | (21,164)   |
| Currency translation adjustment                                | —            | —       | —                                | —                    | 2,780   | —                              | 2,780      |
| Stock-based compensation                                       | —            | —       | 3,634                            | —                    | —   | —                              | 3,634      |
| Common stock issued, net of shares withheld for employee taxes | 122,108      | —       | 14                               | —                    | —   | —                              | 14         |
| BALANCE MARCH 31, 2023   | 18,902,121   | 20      | 331,875                          | 25,624               | (30,551)                                      | (30,655)                       | 296,313    |
| Net loss   | —            | —       | —                                | (28,245)             | —   | —                              | (28,245)   |
| Currency translation adjustment                                | —            | —       | —                                | —                    | (1,679)                                       | —                              | (1,679)    |
| Unrealized gain (loss) on short-term investment                | —            | —       | —                                | —                    | 238   | —                              | 238        |
| Stock-based compensation                                       | —            | —       | 4,950                            | —                    | —   | —                              | 4,950      |
| Common stock issued, net of shares withheld for employee taxes | 44,677       | —       | (291)                            | —                    | —   | —                              | (291)      |
| BALANCE JUNE 30, 2023  | 18,946,798   | 20      | 336,534                          | (2,621)              | (31,992)                                      | (30,655)                       | 271,286    |
| Net loss   | —            | —       | —                                | (8,756)              | —   | —                              | (8,756)    |
| Currency translation adjustment                                | —            | —       | —                                | —                    | (7,080)                                       | —                              | (7,080)    |
| Unrealized gain (loss) on short-term investment                | —            | —       | —                                | —                    | (238)   | —                              | (238)      |
| Stock-based compensation                                       | —            | —       | 3,692                            | —                    | —   | —                              | 3,692      |
| Common stock issued, net of shares withheld for employee taxes | 6,927        | —       | 188                              | —                    | —   | —                              | 188        |
| BALANCE SEPTEMBER 30, 2023                                     | 18,953,725   | \$ 20   | \$ 340,414                       | \$ (11,377)          | \$ (39,310)                                   | \$ (30,655)                    | \$ 259,092 |

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 manufacturing, 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 4D, 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.

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 income (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 nine months ended September 30, 2024 are not necessarily indicative of results that may be expected for the year ending December 31, 2024, 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, 2023. The accompanying December 31, 2023 condensed consolidated balance sheet has been derived from those audited consolidated financial statements.

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

|                                       | Three Months Ended September 30, |                 | Nine Months Ended September 30, |                  |
|---------------------------------------|----------------------------------|-----------------|---------------------------------|------------------|
|                                       | 2024                             | 2023            | 2024                            | 2023             |
| <b>Cost of sales</b>                  |                                  |                 |                                 |                  |
| Product                               | \$ 298                           | \$ 229          | \$ 872                          | \$ 833           |
| Service                               | 83                               | 51              | 213                             | 139              |
| <b>Total cost of sales</b>            | <b>381</b>                       | <b>280</b>      | <b>1,085</b>                    | <b>972</b>       |
| <b>Operating expenses</b>             |                                  |                 |                                 |                  |
| Selling, general and administrative   | 1,858                            | 3,588           | 5,996                           | 9,710            |
| Research and development              | 529                              | (176)           | 1,390                           | 1,594            |
| <b>Total operating expenses</b>       | <b>2,387</b>                     | <b>3,412</b>    | <b>7,386</b>                    | <b>11,304</b>    |
| <b>Total stock-based compensation</b> | <b>\$ 2,768</b>                  | <b>\$ 3,692</b> | <b>\$ 8,471</b>                 | <b>\$ 12,276</b> |

#### NOTE 4 – IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

##### Recently Issued Accounting Pronouncements Not Yet Adopted

In November 2023, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures (“ASU 2023-07”), which requires disclosure of significant segment expenses and other segment items on an annual and interim basis under Accounting Standards Codification 280. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023, and for interim periods beginning after December 15, 2024. Early adoption is permitted and the amendments in ASU 2023-07 should be applied on a retrospective basis to all periods presented. The Company is currently evaluating the impact of ASU 2023-07 on its disclosures.

In December 2023, the FASB issued ASU No. 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures (“ASU 2023-09”), which improves income tax disclosures by requiring (1) consistent categories and greater disaggregation of information in the rate reconciliation and (2) income taxes paid disaggregated by jurisdiction. It also includes certain other amendments to improve the effectiveness of income tax disclosures. ASU 2023-09 is effective for annual periods beginning after December 15, 2024. Early adoption is permitted. ASU 2023-09 indicates that all entities will apply its guidance prospectively with an option for retroactive application to each period in the financial statements. The Company is currently evaluating the impact of ASU 2023-09 on its disclosures.

#### 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:

|   | Three Months Ended September 30, |                  | Nine Months Ended September 30, |                   |
|---|----------------------------------|------------------|---------------------------------|-------------------|
|   | 2024                             | 2023             | 2024                            | 2023              |
| <b>Product sales</b>                                |                                  |                  |                                 |                   |
| Product transferred to customers at a point in time | \$ 55,039                        | \$ 60,882        | \$ 167,732                      | \$ 183,511        |
| Product transferred to customers over time          | 6,422                            | 6,029            | 18,577                          | 16,243            |
| <b>Total product sales</b>                          | <b>\$ 61,461</b>                 | <b>\$ 66,911</b> | <b>\$ 186,309</b>               | <b>\$ 199,754</b> |

|   | Three Months Ended September 30, |           | Nine Months Ended September 30, |           |
|---|----------------------------------|-----------|---------------------------------|-----------|
|   | 2024                             | 2023      | 2024                            | 2023      |
| <b>Service sales</b>                                |                                  |           |                                 |           |
| Service transferred to customers at a point in time | \$ 10,093                        | \$ 8,875  | \$ 29,873                       | \$ 26,343 |
| Service transferred to customers over time          | 11,009                           | 11,027    | 32,710                          | 33,894    |
| Total service sales                                 | \$ 21,102                        | \$ 19,902 | \$ 62,583                       | \$ 60,237 |

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

|  | Three Months Ended September 30, |           | Nine Months Ended September 30, |            |
|--|----------------------------------|-----------|---------------------------------|------------|
|  | 2024                             | 2023      | 2024                            | 2023       |
| <b>Total sales to external customers</b> |                                  |           |                                 |            |
| Americas <sup>(1)</sup>                  | \$ 40,353                        | \$ 41,033 | \$ 117,748                      | \$ 124,734 |
| EMEA <sup>(1)</sup>                      | 25,461                           | 25,621    | 75,496                          | 74,641     |
| APAC <sup>(1)</sup>                      | 16,749                           | 20,159    | 55,648                          | 60,616     |
|  | \$ 82,563                        | \$ 86,813 | \$ 248,892                      | \$ 259,991 |

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

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

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

We capitalize commission expenses related to deliverables transferred to a customer over time and amortize such costs ratably over the term of the contract. As of September 30, 2024, the deferred cost asset related to deferred commissions was approximately \$4.0 million. For classification purposes, \$3.1 million and \$0.9 million are comprised within the Prepaid expenses and other current assets and Other long-term assets, respectively, on our condensed consolidated balance sheet as of September 30, 2024. As of December 31, 2023, the deferred cost asset related to deferred commissions was approximately \$4.6 million. For classification purposes, \$3.5 million and \$1.1 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, 2023.

The unearned service revenue liabilities reported on our condensed consolidated balance sheets reflect the contract liabilities to satisfy the remaining performance obligations for extended warranties, subscription-based software and software maintenance. The current portion of unearned service revenues on our condensed consolidated balance sheets is what we expect to recognize as revenue within twelve months after the applicable balance sheet date relating to extended warranties, subscription-based software and software maintenance contract liabilities. The unearned service revenues less the current portion on our condensed consolidated balance sheets is what we expect to recognize as revenue extending beyond twelve months after the applicable balance sheet date relating to extended warranties, subscription-based software and software maintenance contract liabilities. Customer deposits on our condensed consolidated balance sheets represent customer prepayments on contracts for performance obligations that we must satisfy in the future to recognize the related contract revenue. These amounts are generally related to performance obligations which are delivered in less than 12 months. During the three and nine months ended September 30, 2024, we recognized \$16.2 million and \$34.7 million of revenue that was deferred on our condensed consolidated balance sheet as of June 30, 2024 and December 31, 2023. During the three and nine months ended September 30, 2023, we recognized \$13.8 million and \$30.8 million of revenue that was deferred on our condensed consolidated balance sheet as of June 30, 2023 and December 31, 2022.

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 each of September 30, 2024 and December 31, 2023 was less than \$0.1 million.

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

#### NOTE 6 – ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

|                             | As of September 30, 2024 | As of December 31, 2023 |
|-----------------------------|--------------------------|-------------------------|
| Accounts receivable         | \$ 87,182                | \$ 95,195               |
| Allowance for credit losses | (3,974)                  | (3,167)                 |
| <b>Total</b>                | <b>\$ 83,208</b>         | <b>\$ 92,028</b>        |

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

|  | Nine Months Ended September 30, |                 |
|--|---------------------------------|-----------------|
|  | 2024                            | 2023            |
| Beginning balance of the allowance for credit losses                   | \$ 3,167                        | \$ 2,285        |
| Current period provision for expected credit losses, net of recoveries | 966                             | 834             |
| Charge-offs of amounts previously expensed                             | (159)                           | (81)            |
| Ending balance of the allowance for credit losses                      | <b>\$ 3,974</b>                 | <b>\$ 3,038</b> |

#### 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 September 30, 2024 |        | As of December 31, 2023 |        |
|--|--------------------------|--------|-------------------------|--------|
| Raw materials                                  | \$                       | 18,720 | \$                      | 18,460 |
| Finished goods                                 |                          | 20,335 |                         | 16,069 |
| Inventories, net                               |                          | 39,055 |                         | 34,529 |
| Service and sales demonstration inventory, net | \$                       | 21,436 | \$                      | 23,147 |

#### NOTE 8 – INTANGIBLE ASSETS

Intangible assets consist of the following:

|                                | As of September 30, 2024 |                          |                |
|--------------------------------|--------------------------|--------------------------|----------------|
|                                | Carrying Value           | Accumulated Amortization | Net Intangible |
| Amortizable intangible assets: |                          |                          |                |
| Product technology             | \$ 24,373                | \$ 17,933                | \$ 6,440       |
| Patents and trademarks         | 17,630                   | 10,296                   | 7,334          |
| Customer relationships         | 25,944                   | 8,539                    | 17,405         |
| Other                          | 27,919                   | 12,773                   | 15,146         |
| Total                          | \$ 95,866                | \$ 49,541                | \$ 46,325      |
|                                |                          |                          |                |
|                                | As of December 31, 2023  |                          |                |
|                                | Carrying Value           | Accumulated Amortization | Net Intangible |
| Amortizable intangible assets: |                          |                          |                |
| Product technology             | \$ 24,127                | \$ 15,742                | \$ 8,385       |
| Patents and trademarks         | 19,687                   | 11,509                   | 8,178          |
| Customer relationships         | 25,164                   | 7,279                    | 17,885         |
| Other                          | 22,062                   | 8,619                    | 13,443         |
| Total                          | \$ 91,040                | \$ 43,149                | \$ 47,891      |

Amortization expense, was \$2.2 million and \$6.4 million for the three and nine months ended September 30, 2024, respectively. Amortization expense was \$1.9 million and \$5.8 million for the three and nine months ended September 30, 2023, respectively. The estimated amortization expense for each of the years 2024 through 2028 and thereafter is as follows:

| Years ending December 31,           | Amount    |
|-------------------------------------|-----------|
| 2024 (excluding the first 9 months) | \$ 2,256  |
| 2025                                | 8,649     |
| 2026                                | 7,303     |
| 2027                                | 4,608     |
| 2028                                | 2,136     |
| Thereafter                          | 21,373    |
| Total                               | \$ 46,325 |

## NOTE 9 – LOSS PER SHARE

Basic net loss per share is computed by dividing net loss by the weighted average number of shares outstanding. Diluted net loss per share is computed by also considering the impact of potential common stock on both net loss and the weighted average number of shares outstanding. Our potential common stock consists of employee stock options, time-based restricted stock units, market-based restricted stock unit awards, and common stock issued for settlement of the Notes (as defined in Note 16 to the condensed consolidated financial statements). 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 September 30, 2024, there were approximately 1,350,436 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 September 30, 2023, there were approximately 1,439,944 issuable upon the exercise of options that were excluded from the dilutive calculations, as they were anti-dilutive. In addition, the Company had \$72.0 million aggregate principal amount of the Notes outstanding on September 30, 2024, which, if converted, would result in the issuance of a maximum of 2,039,659 shares of common stock. These shares were excluded from the dilutive calculations, as their effect would have been anti-dilutive.

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

|                                   | Three Months Ended September 30, |            | Nine Months Ended September 30, |             |
|-----------------------------------|----------------------------------|------------|---------------------------------|-------------|
|                                   | 2024                             | 2023       | 2024                            | 2023        |
| <b>Numerator:</b>                 |                                  |            |                                 |             |
| Net loss                          | \$ (289)                         | \$ (8,756) | \$ (8,080)                      | \$ (58,165) |
| <b>Denominator:</b>               |                                  |            |                                 |             |
| Weighted average shares - Basic   | 19,266,217                       | 18,953,251 | 19,218,004                      | 18,899,954  |
| Weighted average shares - Diluted | 19,266,217                       | 18,953,251 | 19,218,004                      | 18,899,954  |
| Net loss per share - Basic        | \$ (0.02)                        | \$ (0.46)  | \$ (0.42)                       | \$ (3.08)   |
| Net loss per share - Diluted      | \$ (0.02)                        | \$ (0.46)  | \$ (0.42)                       | \$ (3.08)   |

## NOTE 10 – ACCRUED LIABILITIES

Accrued liabilities consist of the following:

|                                   | As of September 30, 2024 | As of December 31, 2023 |
|-----------------------------------|--------------------------|-------------------------|
| Accrued compensation and benefits | \$ 14,494                | \$ 15,347               |
| Accrued restructuring costs       | 865                      | 1,609                   |
| Accrued warranties                | 2,351                    | 2,831                   |
| Professional and legal fees       | 1,766                    | 2,851                   |
| Accrued interest                  | 763                      | 1,712                   |
| Taxes other than income           | 2,803                    | 3,313                   |
| Other accrued liabilities         | 2,166                    | 2,267                   |
| Total accrued liabilities         | <u>\$ 25,208</u>         | <u>\$ 29,930</u>        |

Activity related to accrued warranties was as follows:

|                                     | Nine Months Ended September 30, |                 |
|-------------------------------------|---------------------------------|-----------------|
|                                     | 2024                            | 2023            |
| Balance, beginning of period        | \$ 2,831                        | \$ 2,610        |
| Provision for warranty expense      | 2,424                           | 2,731           |
| Fulfillment of warranty obligations | (2,904)                         | (2,623)         |
| Balance, end of period              | <u>\$ 2,351</u>                 | <u>\$ 2,718</u> |

## NOTE 11 – FAIR VALUE MEASUREMENTS AND INVESTMENTS

***Fair Value Measurements***

The guidance on fair value measurements and disclosures defines fair value, establishes a framework for measuring fair value, and requires enhanced disclosures about assets and liabilities measured at fair value. Fair value is defined as the price at which an asset could be exchanged in a current transaction between knowledgeable, willing parties. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor, not the amount that would be paid to settle the liability with the creditor. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are used to determine fair value. These models employ valuation techniques that involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity.

Assets and liabilities recorded at fair value on a recurring basis in our condensed consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by the guidance on fair value measurements, are directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities and are as follows:

Level 1 - Valuation is based upon quoted market prices for identical instruments traded in active markets.

Level 2 - Valuation is based on quoted market prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 - Valuation is generated from model-based techniques that use significant assumptions not observable in the market. Valuation techniques include use of discounted cash flow models and similar techniques.

The fair values of our cash and cash equivalents, accounts receivable, and accounts payable, approximate their carrying amounts due to their short duration.

Financial assets subject to the fair value disclosure requirements are included in the table below. All of our financial assets are classified as Level 1. At September 30, 2024 and December 31, 2023, the fair value of these investments approximated its carrying amount.

| Assets                                     | As of September 30, 2024 |         |         |
|--|--------------------------|---------|---------|
|  | Level 1                  | Level 2 | Level 3 |
| Cash equivalents: U.S. Treasury securities | \$ 30,008                | \$ —    | \$ —    |
| Total                                      | \$ 30,008                | \$ —    | \$ —    |

  

| Assets   | As of December 31, 2023 |         |         |
|--|-------------------------|---------|---------|
|  | Level 1                 | Level 2 | Level 3 |
| Cash equivalents: U.S. Treasury securities       | \$ 9,871                | \$ —    | \$ —    |
| Short-term investments: U.S. Treasury securities | 19,496                  | —       | —       |
| Total  | \$ 29,367               | \$ —    | \$ —    |

The fair value of the Notes (as defined in Note 16 to the condensed consolidated financial statements) was approximately \$66.6 million and \$65.3 million as of September 30, 2024 and December 31, 2023, respectively. Fair value was determined based on the closing trading price of the Notes as of the last trading day of the quarter and was primarily affected by the trading price of the Company's common stock and market interest rates. The fair value of the Notes is considered a Level 2 measurement as they are not actively traded.

#### NOTE 12 – RESTRUCTURING

On February 14, 2020, our Board of Directors approved a global restructuring plan (the “Restructuring Plan”) to improve operating performance and help ensure that we are appropriately structured and resourced to deliver sustainable value to our shareholders and customers. We believe we have successfully redefined our go-to-market strategy to place an increased focus on our customers and to help enable our sales employees, supported by our talented pool of field application engineers, to sell all product lines globally.

In conjunction with 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 provides manufacturing services for the Company’s measurement device products previously manufactured by the Company at the Company’s Lake Mary, Florida, Exton, Pennsylvania, Stuttgart, Germany and Portugal manufacturing sites. This phased transition to a Sanmina production facility was completed at the beginning of the third quarter of 2022 as part of our cost reduction initiative. As a result of an evaluation on the usage of our manufacturing spaces, we decided to abandon 17,000 square feet of unused space at our Exton, Pennsylvania facility in the third quarter of 2022. Since the approval of the Restructuring Plan, we paid \$24.8 million, primarily consisting of severance and related benefits. All actions under this plan were completed as of March 31, 2023, and the remaining amounts payable of \$0.5 million were rolled forward to the Integration Plan discussed below.

On February 7, 2023, our Board of Directors approved an integration plan (the "Integration Plan") to streamline and simplify operations, particularly around our recent acquisitions and the resulting redundant operations and offerings. The Integration Plan was amended on May 3, 2023, and the Board approved increases to both the expected pre-tax charges and the annualized cost savings. Key activities under the Integration Plan include a decrease in headcount, consolidation of our cloud-based offerings from 3 platforms (2 acquired, 1 organic) into a single customer offering, and the optimization of our facility assets to align with current and expected future utilization. As of September 30, 2024, in relation with the Integration Plan, we have incurred total restructuring charges of \$26.7 million, and have made cash payments of \$10.1 million.

In the third quarter of 2024, we did not incur any costs associated with the Integration and Restructuring plans. In the same period in 2023, we recognized \$1.6 million in employee severance and other professional costs associated with the Integration and Restructuring plans, and paid \$3.1 million primarily consisting of severance and related benefits.

Activity related to the accrued restructuring charges for the Integration Plan and cash payments during the nine months ended September 30, 2024 and 2023 is as follows:



|                               | Severance and other benefits | Professional fees and other related charges | Total    |
|-------------------------------|------------------------------|---|----------|
| Balance at December 31, 2023  | \$ 1,489                     | \$ 120                                      | \$ 1,609 |
| Additions charged to expense  | 325                          | 291   | 616      |
| Cash payments                 | (1,360)                      | —   | (1,360)  |
| Balance at September 30, 2024 | \$ 454                       | \$ 411                                      | \$ 865   |

|                               | Severance and other benefits | Professional fees and other related charges | Total    |
|-------------------------------|------------------------------|---|----------|
| Balance at December 31, 2022  | \$ 318                       | \$ 210                                      | \$ 528   |
| Additions charged to expense  | 8,836                        | 220   | 9,056    |
| Cash payments                 | (7,102)                      | —   | (7,102)  |
| Balance at September 30, 2023 | \$ 2,052                     | \$ 430                                      | \$ 2,482 |

Substantially all of our planned activities under the Restructuring Plan and the Integration Plan are complete.

#### NOTE 13 – COMMITMENTS AND CONTINGENCIES

**Purchase Commitments** — We enter into purchase commitments for products and services in the ordinary course of business. These purchases generally cover production requirements for 60 to 120 days as well as materials necessary to service customer units through the product lifecycle and for warranty commitments. As of September 30, 2024, we had approximately \$25.1 million in purchase commitments that are expected to be delivered within the next 12 months. The Company’s long-term purchase commitments were immaterial as a result of the ongoing transition towards direct sourcing with Sanmina.

**Legal Proceedings** — We are involved in disputes, claims and other legal actions arising in the normal course of our business. Although it is not possible to predict the outcome of these matters, we believe that the results of these proceedings will not have a material adverse effect on our business, financial condition or results of operations. However, any litigation, regardless of its outcome, may be costly and may require significant time and attention of our management and technical personnel.

#### NOTE 14 – 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 eight years, some of which include options to extend the leases for up to fifteen years, and some of which include options to terminate the leases within three months. We do not participate in any material subleasing.

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

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

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

The components of lease expense were as follows:

|                               | Three Months Ended September 30, |          | Nine Months Ended September 30, |          |
|-------------------------------|----------------------------------|----------|---------------------------------|----------|
|                               | 2024                             | 2023     | 2024                            | 2023     |
| Operating lease cost          | \$ 1,677                         | \$ 1,598 | \$ 4,481                        | \$ 5,169 |
| Finance lease cost:           |                                  |          |                                 |          |
| Amortization of ROU assets    | 27                               | 21       | 103                             | 70       |
| Interest on lease liabilities | 2                                | 3        | 8                               | 12       |
| Total finance lease cost      | \$ 29                            | \$ 24    | \$ 111                          | \$ 82    |

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 each of the three and nine months ended September 30, 2024 and 2023 were less than \$0.1 million.

Supplemental balance sheet information related to leases was as follows:

|  | As of<br>September 30, 2024 | As of<br>December 31, 2023 |
|--|-----------------------------|----------------------------|
| <b>Operating leases:</b>                                 |                             |                            |
| Operating lease right-of-use assets                      | \$ 17,208                   | \$ 12,231                  |
| Current operating lease liabilities                      | 4,645                       | 5,434                      |
| Operating lease liabilities - less current portion       | 15,412                      | 10,837                     |
| Total operating lease liabilities                        | 20,057                      | 16,271                     |
| <b>Finance leases:</b>                                   |                             |                            |
| Property and equipment, at cost                          | 1,122                       | 1,722                      |
| Accumulated amortization                                 | (1,046)                     | (1,547)                    |
| Property and equipment, net                              | 76                          | 175                        |
| Current finance lease liabilities                        | 75                          | 108                        |
| Finance lease liabilities - less current portion         | 112                         | 112                        |
| Total finance lease liabilities                          | \$ 187                      | \$ 220                     |
| <b>Weighted Average Remaining Lease Term (in years):</b> |                             |                            |
| Operating leases   | 5.30                        | 4.57                       |
| Finance leases   | 2.93                        | 2.40                       |
| <b>Weighted Average Discount Rate:</b>                   |                             |                            |
| Operating leases   | 5.68 %                      | 5.71 %                     |
| Finance leases   | 5.02 %                      | 5.02 %                     |

Supplemental cash flow information related to leases was as follows:

|   | Nine Months Ended September 30, |          |
|---|---------------------------------|----------|
|   | 2024                            | 2023     |
| Cash paid for amounts included in the measurement of lease liabilities: |                                 |          |
| Operating cash flows from operating leases                              | \$ 5,420                        | \$ 5,535 |
| Operating cash flows from finance leases                                | 8                               | 12       |
| Financing cash flows from finance leases                                | 135                             | 154      |
| ROU assets obtained in exchange for lease obligations:                  |                                 |          |
| Operating leases  | \$ 7,742                        | \$ 721   |

Maturities of lease liabilities are as follows:

| Year Ending December 31,            | Operating leases | Finance leases |
|-------------------------------------|------------------|----------------|
| 2024 (excluding the first 9 months) | \$ 1,474         | \$ 24          |
| 2025                                | 5,445            | 78             |
| 2026                                | 4,343            | 53             |
| 2027                                | 3,420            | 27             |
| 2028                                | 3,106            | 15             |
| Thereafter                          | 5,567            | 4              |
| Total lease payments                | 23,355           | 201            |
| Less imputed interest               | (3,298)          | (14)           |
| Total                               | \$ 20,057        | \$ 187         |

#### NOTE 15 – INCOME TAXES

For the three months ended September 30, 2024, we recorded an income tax expense of \$1.3 million compared with \$1.5 million for the three months ended September 30, 2023. Our effective tax rate was 129.9% for the three months ended September 30, 2024, compared with 21.0% in the prior year period. The change in our income tax expense was primarily due to pre-tax income during the three months ended September 30, 2024 compared to a pre-tax loss during the three months ended September 30, 2023. Our United States and Singapore entities remain in a full valuation allowance, therefore, we are not able to recognize the tax benefits associated with pre-tax losses generated in those jurisdictions.

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 pre-tax and taxable income or loss and the mix of jurisdictions to which they relate, as well as the amount of pre-tax income or loss recognized during the quarter.

#### NOTE 16 - DEBT

On January 24, 2023, the Company issued \$75 million aggregate principal amount of 5.50% Convertible Senior Notes due 2028 (the “Notes”). The Notes are general senior unsecured obligations of the Company and will mature on February 1, 2028, unless earlier redeemed, repurchased or converted. The Notes bear interest from January 24, 2023, at a rate of 5.50% per annum payable semiannually in arrears on February 1 and August 1 of each year, beginning August 1, 2023. The annual effective interest rate of the Notes is 6.27% when including discounts and offering expenses incurred by the Company.

The Notes will be convertible at the option of the holders of the Notes at any time prior to November 1, 2027 only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on March 31, 2023 (and only during such fiscal quarter), if the last reported sale price of the Company’s common stock, par value \$0.001 per share (hereinafter referred to as “common stock”), for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on and including, the last trading day of the immediately preceding calendar quarter exceeds 130% of the conversion price on each applicable trading day; (2) during the five-business day period after any ten consecutive trading day period (the “measurement period”) in which the trading price per \$1,000 principal amount of the Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company’s common stock and the conversion rate for the Notes on each such trading day; (3) upon the occurrence of certain corporate events or distributions on the Company’s common stock; (4) if the Company calls such Notes for redemption; or (5) upon the occurrence of specified corporate events. On or after November 1, 2027, holders may convert all or any portion of their Notes at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date regardless of the foregoing conditions. Upon conversion, the Company will satisfy its conversion obligation by paying or delivering, as the case may be, cash, shares of common stock or a combination of cash and shares of common stock, at the Company’s election. The conversion rate for the Notes will initially be 23.6072 shares of the common stock per \$1,000 principal amount of the Notes, which is equivalent to an initial conversion price of approximately \$42.36 per share of the common stock. The initial conversion price of the Notes represents a premium of approximately 20% to the \$35.30 per share last reported sale price of the common stock on January 19, 2023. The conversion rate is subject to adjustment under certain circumstances in accordance with the terms of the Indenture. During the three months ended September 30, 2024, the conditions allowing holders of the Notes to convert have not been met. The Notes are therefore not convertible as of September 30, 2024 and are classified in long term liabilities in the condensed consolidated balance sheet.

The Company may not redeem the Notes prior to February 5, 2026. The Company may redeem for cash all or any portion of the Notes, at its option, on or after February 5, 2026 and on or before the 50th scheduled trading day immediately before the maturity date, if the last reported sale price of the common stock exceeds 130% of the conversion price on (i) each of at least 20 trading days (whether or not consecutive) during the 30 consecutive trading days ending on and including the last trading day immediately before the date on which the Company provides notice of redemption and (ii) the trading day immediately before the date the Company provides such notice. The redemption price will be equal to 100% of the principal amount of the Notes to be redeemed, plus any accrued and unpaid interest to, but excluding, the redemption date. No sinking fund is provided for the Notes, which means that the Company is not required to redeem or retire the Notes periodically.

Upon the occurrence of a fundamental change (as defined in the indenture governing the Notes) prior to the maturity date, subject to certain conditions, holders of the Notes may require the Company to repurchase all or a portion of the Notes for cash at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus any accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

The proceeds from the issuance of the Notes are presented under the long term liabilities of our condensed consolidated balance sheet. The net proceeds from the issuance of the Notes were approximately \$72.3 million, after deducting underwriting discounts of \$2.3 million and other offering expenses of \$0.4 million.

In June 2024, the Company entered into separate, privately negotiated transactions with certain holders of the Notes to repurchase \$3.0 million aggregate principal amount of the Notes for an aggregated cash repurchase price of \$2.7 million and a gain on debt extinguishment of \$0.3 million, which was recorded in Other income (expense), net, on the condensed consolidated statements of operations. After the repurchase, \$72.0 million aggregate principal amount of the Notes remained outstanding on September 30, 2024. The Company is in compliance with all covenants under the indenture governing the Notes as of September 30, 2024.

The net carrying amount of the Notes was as follows:

|   | As of September 30, 2024 | As of December 31, 2023 |
|---|--------------------------|-------------------------|
| Principal                               | \$ 72,000                | \$ 75,000               |
| Unamortized discount and issuance costs | (1,904)                  | (2,240)                 |
| Net carrying amount                     | <u>\$ 70,096</u>         | <u>\$ 72,760</u>        |

The following table sets forth the interest expense recognized related to the Notes:

|   | Three Months Ended September 30, |                 | Nine Months Ended September 30, |                 |
|---|----------------------------------|-----------------|---------------------------------|-----------------|
|   | 2024                             | 2023            | 2024                            | 2023            |
| Contractual interest expense                | \$ 1,112                         | \$ 1,161        | \$ 3,420                        | \$ 3,152        |
| Amortization of discount and issuance costs | 113                              | 130             | 336                             | 301             |
| Total interest expense related to the Notes | <u>\$ 1,225</u>                  | <u>\$ 1,291</u> | <u>\$ 3,756</u>                 | <u>\$ 3,453</u> |

#### NOTE 17 - SUBSEQUENT EVENTS

On November 1, 2024, our Board of Directors approved a restructuring plan (the “2024 Restructuring Plan”), which is intended to support its strategic plan in an effort to improve operating performance and streamline and simplify operations, particularly around our redundant operations and underperforming countries primarily driven by economic and demand challenges in the manufacturing and construction sectors. Key activities under the 2024 Restructuring Plan include a planned decrease in headcount, consolidation of our manufacturing operations from recent acquisitions to our global manufacturing partner, Sanmina Corporation, and the continued optimization of our facilities assets to align with current and expected future utilization. As a result, we expect to incur potentially \$6 million to \$9 million in pre-tax charges, primarily in the fourth quarter of 2024 and first quarter of 2025, comprised primarily of \$5 million to \$8 million of one-time severance and other employee-related termination benefits.

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

*The following information should be read in conjunction with the condensed consolidated financial statements, including the notes thereto, included elsewhere in this Quarterly Report on Form 10-Q (the "Quarterly Report") 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, 2023, as filed with the Securities and Exchange Commission on February 28, 2024 (the Annual Report").*

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

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

Forward-looking statements are not guarantees of future performance and are subject to a number of known and unknown risks, uncertainties, assumptions, including those described in the section titled "Risk Factors" and elsewhere in this Quarterly Report, and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. Consequently, undue reliance should not be placed on these forward-looking statements. These forward-looking statements speak only as of the date of this Quarterly Report. We do not intend to update any forward-looking statements, whether as a result of new information, future events, or otherwise, unless 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 effects of shipping and other supply chain disruptions and the impact of supply chain disruptions on our ability to deliver our products to customers;
- the effect of any changes in our executive management team and the loss of any of our executive officers or other key personnel, which may be impacted by factors such as our inability to competitively address inflationary pressures on employee compensation and flexibility in employee work arrangements;
- our inability to realize the intended benefits of reorganizing our business functions and 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, Integration Plan (defined below) and Restructuring Plan (defined below), 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 (defined below);
- our inability to reasonably source essential equipment and materials to manufacture our products as a result of global supply shortages;
- global macroeconomic conditions, including inflationary pressures, rising interest rates, and instability in the banking sector;
- our inability to successfully realize increases to the pricing of our products and services;
- our inability to achieve and maintain profitability to fully realize the economic benefit of recorded deferred tax assets;
- our inability to further penetrate our customer base and target markets;

- development by others of new or improved products, processes or technologies that make our products less competitive or obsolete;
- our inability to maintain what we believe to be our technological advantage by developing new products and enhancing our existing products;
- risks associated with expanding international operations, such as difficulties in staffing and managing foreign operations, increased political and economic instability, compliance with potentially evolving import and export regulations, and the burdens and potential exposure of complying with a wide variety of U.S. and foreign laws and labor practices;
- changes in trade regulation, which result in rising prices of imported steel, steel byproducts, aluminum and aluminum byproducts and various other raw materials that we use in the production of measurement devices, and our ability to pass those costs on to our customers or require our suppliers to absorb such costs;
- changes in foreign regulation which may result in rising prices of our measurement devices sold as exports to our international customers, our customers' willingness to absorb incremental import tariffs, and the corresponding impact on our profitability;
- our inability to successfully identify and acquire target companies and achieve expected benefits from, and effectively integrate, acquisitions that are consummated, including the operations from Holobuilder, Inc., UK-based NGH Holdings Limited and its subsidiaries and US-based SiteScape Inc., and the intellectual property acquired;
- 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, security or other data breach of our systems, which 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 product compliance regulations, including but not limited to 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;
- difficulties in recruiting research and development engineers, application engineers, or other key personnel;
- the failure to effectively manage the effects of any future growth;
- the impact of reductions or projected reductions in government spending, or uncertainty regarding future levels of government expenditures, particularly in the defense sector;
- variations in our effective income tax rate, which makes it difficult to predict our effective income tax rate on a quarterly and annual basis, and the impact of the U.S. Tax Cuts and Jobs Act of 2017 on the global intangible low-taxed income of foreign subsidiaries;
- the loss of key suppliers and the inability to find sufficient alternative suppliers in a reasonable period of time or on commercially reasonable terms;
- the impact of fluctuations in exchange rates on non-U.S. dollar-denominated revenues and expenses;
- 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 flows from operations to fund our short- and long-term liquidity requirements;
- the impact of geographic changes in the manufacturing or sales of our products on our effective income tax rate;
- our ability to comply with the requirements for favorable tax rates in foreign jurisdictions; and
- other risks and uncertainties discussed in Part I, Item 1A. Risk Factors in our Annual Report, elsewhere in this Quarterly Report, and in our other SEC filings.

Moreover, new risks and uncertainties emerge from time to time, and we undertake no obligation to update publicly or review such risks and uncertainties included in this Quarterly Report, unless 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 manufacturing, 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 4D, 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 Brazil, China, Germany, India, Italy, Japan, Mexico, Singapore, South Korea, Spain, Switzerland, Thailand, the United Kingdom and the United States.



Sanmina currently manufactures our FARO Quantum Max Arm, FARO Focus Laser Scanner, FARO Laser Tracker and our FARO Laser Projector products in their facility located in Thailand. We expect these third-party manufacturing facilities to have the production capacity necessary to support our volume requirements during 2024.

We account for wholly-owned foreign subsidiaries in the currency of the respective foreign jurisdiction; therefore, fluctuations in exchange rates may have an impact on the value of the intercompany account balances denominated in different currencies and reflected in our condensed consolidated financial statements. We have not used off-balance sheet financial instruments or other hedging instruments to hedge exposure to foreign currency exchange rates, including cross-currency swaps, forward contracts and foreign currency options, as fluctuations in exchange rate on our revenue were mostly offset by those same fluctuations in exchange rate on our expenses, providing a natural hedge in foreign jurisdictions. Our exchange rate exposure may change as a result of our current or future operational strategies and we will continue assessing the appropriateness of hedging for our business.

#### *Restructuring Plan and Integration Plan*

On February 14, 2020, our Board of Directors approved a global restructuring plan (the "Restructuring Plan") to improve operating performance and help ensure that we are appropriately structured and resourced to deliver sustainable value to our shareholders and customers. Key activities under the Restructuring Plan have targeted and achieved approximately \$40 million in annualized savings. We believe we have successfully redefined our go-to-market strategy to place an increased focus on our customers and to help enable our sales employees, supported by our talented pool of field application engineers, to sell all product lines globally.

In conjunction with 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 provides manufacturing services for the Company's measurement device products previously manufactured by the Company at the Company's Lake Mary, Florida, Exton, Pennsylvania, Stuttgart, Germany and Portugal manufacturing sites. This phased transition to a Sanmina production facility was completed at the beginning of the third quarter of 2022 as part of our cost reduction initiative. As a result of an evaluation on the usage of our manufacturing spaces, we decided to abandon 17,000 square feet of unused space at our Exton, Pennsylvania facility in the third quarter of 2022. Since the approval of the Restructuring Plan, we paid \$24.8 million, primarily consisting of severance and related benefits. All actions under this plan were completed as of March 31, 2023, and the remaining amounts payable of \$0.5 million were rolled forward to the Integration Plan discussed below.

On February 7, 2023, our Board of Directors approved an integration plan (the "Integration Plan"), which is intended to streamline and simplify operations, particularly around our recent acquisitions and the resulting redundant operations and offerings. The Integration Plan was amended on May 3, 2023, and the Board approved increases to both the expected pre-tax charges and the annualized cost savings. Key activities under the Integration Plan include a planned decrease in headcount, consolidation of our cloud-based offerings from 3 platforms (2 acquired, 1 organic) into a single customer offering, and the optimization of our facility assets to align with current and expected future utilization. As of September 30, 2024, in relation with the Integration Plan, we have incurred total restructuring charges of \$26.7 million, and have made cash payments of \$10.1 million.

In the third quarter of 2024, we did not incur any costs associated with the Integration and Restructuring plans. In the same period in 2023, we recognized \$1.6 million in employee severance and other professional costs associated with the Integration and Restructuring plans, and paid \$3.1 million primarily consisting of severance and related benefits.

Substantially all of our planned activities under the Restructuring Plan and the Integration Plan are complete.

### *FARO Sphere and the Unified Software Environment*

FARO Sphere XG is our cloud-based platform that is the foundation to our software and solution strategy. We 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. FARO Sphere XG represents the next step into expansion of our cloud-based software offerings that will deliver greater value to our customers and to our shareholders. The FARO Sphere XG environment could be adopted globally across a wide range of markets, including construction management, facilities, operations and maintenance, robotic simulation and incident preplanning. This adoption would 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 released the first phase of FARO Sphere to our customers during the second quarter of 2022 with the next generation with additional features and functionality FARO Sphere XG announced on October 23, 2023 which is the culmination of the consolidation of our cloud-based offerings into a single unified software environment.

Revenue from our software products for each of the three months ended September 30, 2024 and 2023 was \$11.2 million, and revenue from our software products was \$33.3 million and \$32.3 million for the nine months ended September 30, 2024 and 2023, respectively. Our recurring revenue which is comprised of hardware service contracts, software maintenance contracts, and subscription-based software applications was \$17.4 million and \$17.1 million for the three months ended September 30, 2024 and 2023, respectively, and \$51.3 million and \$50.1 million for the nine months ended September 30, 2024 and 2023, 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 \$1.2 million for each of the three months ended September 30, 2024 and 2023, and \$3.4 million and \$4.0 million for the nine months ended September 30, 2024 and 2023, respectively. Cash paid relating to these development costs are included as an investing activity within the Cash paid for technology development, patents and licenses line of our condensed consolidated statement of cash flows.

### *Sanmina Relationship Components: As presented on our Condensed Consolidated Balance Sheets*

In order to provide greater transparency on our financial transactions with Sanmina, the following table presents the components of Sanmina relationship with the Company, as presented on our condensed consolidated balance sheets as of September 30, 2024 and December 31, 2023.

|   | September 30, 2024 |        | December 31, 2023 |       |
|---|--------------------|--------|-------------------|-------|
| Current Assets:                           |                    |        |                   |       |
| Prepaid expenses and other current assets | \$                 | 10,150 | \$                | 9,540 |
| Current Liabilities:                      |                    |        |                   |       |
| Accounts payable <sup>(1)</sup>           | \$                 | 7,604  | \$                | 6,454 |

(1) As of September 30, 2024, we had a net payable balance of \$7.6 million, which includes \$3.1 million of accounts receivable due from Sanmina and \$10.7 million of accounts payable owed to Sanmina. As of December 31, 2023, we had a net payable balance of \$6.5 million, which included \$5.4 million of accounts receivable due from Sanmina and \$11.9 million of accounts payable owed to Sanmina.

The amounts presented in the table above are based on the balances in the above captions, as of the dates indicated, and do not reflect our entire financial relationship with Sanmina.

## Results of Operations

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

| (dollars in thousands)                 | Three Months Ended September 30, |                |                   |                | Nine Months Ended September 30, |                |                    |                |
|--|----------------------------------|----------------|-------------------|----------------|---------------------------------|----------------|--------------------|----------------|
|  | 2024                             | % of Sales     | 2023              | % of Sales     | 2024                            | % of Sales     | 2023               | % of Sales     |
| <b>Sales</b>                           |                                  |                |                   |                |                                 |                |                    |                |
| Product                                | \$ 61,461                        | 74.4 %         | \$ 66,911         | 77.1 %         | \$ 186,309                      | 74.9 %         | \$ 199,754         | 76.8 %         |
| Service                                | 21,102                           | 25.6 %         | 19,902            | 22.9 %         | 62,583                          | 25.1 %         | 60,237             | 23.2 %         |
| <b>Total sales</b>                     | <b>82,563</b>                    | <b>100.0 %</b> | <b>86,813</b>     | <b>100.0 %</b> | <b>248,892</b>                  | <b>100.0 %</b> | <b>259,991</b>     | <b>100.0 %</b> |
| <b>Cost of sales</b>                   |                                  |                |                   |                |                                 |                |                    |                |
| Product                                | 26,246                           | 31.8 %         | 34,640            | 39.9 %         | 82,817                          | 33.3 %         | 112,691            | 43.3 %         |
| Service                                | 10,341                           | 12.5 %         | 10,499            | 12.1 %         | 32,003                          | 12.9 %         | 32,587             | 12.5 %         |
| <b>Total cost of sales</b>             | <b>36,587</b>                    | <b>44.3 %</b>  | <b>45,139</b>     | <b>52.0 %</b>  | <b>114,820</b>                  | <b>46.1 %</b>  | <b>145,278</b>     | <b>55.9 %</b>  |
| <b>Gross profit</b>                    | <b>45,976</b>                    | <b>55.7 %</b>  | <b>41,674</b>     | <b>48.0 %</b>  | <b>134,072</b>                  | <b>53.9 %</b>  | <b>114,713</b>     | <b>44.1 %</b>  |
| <b>Operating expenses</b>              |                                  |                |                   |                |                                 |                |                    |                |
| Selling, general and administrative    | 34,041                           | 41.2 %         | 37,970            | 43.7 %         | 106,224                         | 42.7 %         | 117,907            | 45.4 %         |
| Research and development               | 9,771                            | 11.8 %         | 8,188             | 9.4 %          | 28,628                          | 11.5 %         | 32,568             | 12.5 %         |
| Restructuring costs                    | —                                | — %            | 2,442             | 2.8 %          | 616                             | 0.2 %          | 15,130             | 5.8 %          |
| <b>Total operating expenses</b>        | <b>43,812</b>                    | <b>53.1 %</b>  | <b>48,600</b>     | <b>56.0 %</b>  | <b>135,468</b>                  | <b>54.4 %</b>  | <b>165,605</b>     | <b>63.7 %</b>  |
| <b>Income (loss) from operations</b>   | <b>2,164</b>                     | <b>2.6 %</b>   | <b>(6,926)</b>    | <b>(8.0)%</b>  | <b>(1,396)</b>                  | <b>(0.6)%</b>  | <b>(50,892)</b>    | <b>(19.6)%</b> |
| <b>Other (income) expense</b>          |                                  |                |                   |                |                                 |                |                    |                |
| Interest expense                       | 1,023                            | 1.2 %          | 691               | 0.8 %          | 2,615                           | 1.1 %          | 2,529              | 1.0 %          |
| <b>Other (income) expense, net</b>     | <b>175</b>                       | <b>0.2 %</b>   | <b>(381)</b>      | <b>(0.4)%</b>  | <b>157</b>                      | <b>0.1 %</b>   | <b>(125)</b>       | <b>— %</b>     |
| <b>Income (loss) before income tax</b> | <b>966</b>                       | <b>1.2 %</b>   | <b>(7,236)</b>    | <b>(8.3)%</b>  | <b>(4,168)</b>                  | <b>(1.7)%</b>  | <b>(53,296)</b>    | <b>(20.5)%</b> |
| <b>Income tax expense</b>              | <b>1,255</b>                     | <b>1.5 %</b>   | <b>1,520</b>      | <b>1.8 %</b>   | <b>3,912</b>                    | <b>1.6 %</b>   | <b>4,869</b>       | <b>1.9 %</b>   |
| <b>Net loss</b>                        | <b>\$ (289)</b>                  | <b>(0.4)%</b>  | <b>\$ (8,756)</b> | <b>(10.1)%</b> | <b>\$ (8,080)</b>               | <b>(3.2)%</b>  | <b>\$ (58,165)</b> | <b>(22.4)%</b> |

## **Consolidated Results**

### **Three Months Ended September 30, 2024 Compared to the Three Months Ended September 30, 2023**

*Sales.* Total sales were \$82.6 million for the three months ended September 30, 2024 compared to \$86.8 million for the three months ended September 30, 2023. Total product sales decreased by \$5.4 million, or 8.1%, to \$61.5 million for the three months ended September 30, 2024 from \$66.9 million for the three months ended September 30, 2023. Total sales were impacted primarily by the APAC region being down \$3.4 million driven by all end markets within China.

*Gross profit.* Gross profit increased by \$4.3 million, or 10.3%, to \$46.0 million for the three months ended September 30, 2024 from \$41.7 million for the three months ended September 30, 2023, and gross margin increased by 7.7 percentage points to 55.7% for the three months ended September 30, 2024 from 48.0% for the three months ended September 30, 2023. Gross margin from product revenue increased by 9.1 percentage points to 57.3% for the three months ended September 30, 2024, from 48.2% for the prior year period primarily driven by better average selling price on our Arm and Scanner products, and by lower material costs driven by the consolidation of our production activities. Gross margin from service revenue increased by 3.8 percentage points to 51.0% for the three months ended September 30, 2024 from 47.2% for the prior year period, due to higher revenue and favorable product mix.

*Selling, general and administrative expenses.* Selling, general and administrative expenses decreased by \$4.0 million, or 10.3%, to \$34.0 million for the three months ended September 30, 2024 from \$38.0 million for the three months ended September 30, 2023. This decrease was primarily driven by the savings realized from the Integration Plan and lower sales commission expenses driven by lower sales. Selling, general and administrative expenses as a percentage of sales decreased by 2.5 percentage points to 41.2% for the three months ended September 30, 2024 from 43.7% for the three months ended September 30, 2023.

*Research and development expenses.* Research and development expenses increased by \$1.6 million, or 19.5%, to \$9.8 million for the three months ended September 30, 2024 from \$8.2 million for the three months ended September 30, 2023. Research and development expenses as a percentage of sales increased to 11.8% for the three months ended September 30, 2024 from 9.4% for the three months ended September 30, 2023, primarily due to the certain Integration Plan cost savings realized in the third quarter of 2023, which did not repeat in 2024.

*Restructuring costs.* In February 2023, we initiated the Integration Plan to streamline and simplify operations, particularly around our recent acquisitions and the resulting redundant operations and offerings. The Integration Plan was amended on May 3, 2023. Restructuring costs included in operating expenses decreased by \$2.4 million for the three months ended September 30, 2024 from \$2.4 million for the three months ended September 30, 2023, as substantially all of our planned activities under the Restructuring Plan and the Integration Plan were completed in 2023. The restructuring charges include accruals for severance and related benefits, professional fees, and impairment of right-of-use assets and leasehold improvement assets related to facilities optimization as a part of the Integration Plan.

*Interest (income) expense, net.* We recorded net interest expense of \$1.0 million and \$0.7 million for the three month ended September 30, 2024 and 2023, respectively. Interest expense is primarily associated with the Notes issued in January 2023 offset by interest income earned on cash equivalents and short-term investments.

*Other income (expense), net.* For the three months ended September 30, 2024, other expense was \$0.2 million compared with other income of \$0.4 million for the three months ended September 30, 2023.

*Income tax expense.* For the three months ended September 30, 2024 we recorded an income tax expense of \$1.3 million compared with \$1.5 million for the three months ended September 30, 2023. Our effective tax rate was 129.9% for the three months ended September 30, 2024 compared with 21.0% in the prior year period. The fluctuations observed in both our income tax expense and effective tax rate are primarily associated with shifts in the geographic mix of pretax income projected for the entirety of 2024.

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 pre-tax and taxable income or loss and the mix of jurisdictions to which they relate, as well as the amount of pre-tax income or loss recognized during the quarter.

*Net loss.* Our net loss was \$0.3 million for the three months ended September 30, 2024 compared with net loss of \$8.8 million for the prior year period, reflecting the impact of the factors described above.

## Nine Months Ended September 30, 2024 Compared to the Nine Months Ended September 30, 2023

*Sales.* Total sales decreased by \$11.1 million, or 4.3%, to \$248.9 million for the nine months ended September 30, 2024 from \$260.0 million for the nine months ended September 30, 2023. This decrease was primarily driven by our product sales, which decreased by \$13.4 million, or 6.7%, to \$186.3 million for the nine months ended September 30, 2024 from \$199.8 million for the nine months ended September 30, 2023. Service sales increased by \$2.3 million, or 3.9%, to \$62.6 million for the nine months ended September 30, 2024 from \$60.2 million for the nine months ended September 30, 2023. The overall decrease in sales was mainly influenced by weakened demand across most product lines, particularly in the China and United States markets, which together accounted for a \$10.2 million decrease in sales. This decline is attributed to the challenging macroeconomic environment. Additionally, the weakening of the Japanese Yen against the US Dollar contributed to a \$1.4 million reduction in net sales, as higher Yen values translated to lower reported revenue in USD.

*Gross profit.* Gross profit increased by \$19.4 million, or 16.9%, to \$134.1 million for the nine months ended September 30, 2024 from \$114.7 million for the nine months ended September 30, 2023 and gross margin increased by 9.8 percentage points to 53.9% for the nine months ended September 30, 2024 from 44.1% for the nine months ended September 30, 2023. Gross margin from product revenue increased by 11.9 percentage points to 55.5% for the nine months ended September 30, 2024 from 43.6% for the prior year period, primarily driven by better average selling price on our Arm and Scanner products, and by lower material costs driven by the consolidation of our production activities. Margins were also favorably impacted by favorable product and geographical mix. Gross margin from service revenue increased by 3.0 percentage points to 48.9% for the nine months ended September 30, 2024 from 45.9% for the prior year period, primarily due to higher revenue levels with a relatively consistent fixed cost structure.

*Selling, general and administrative expenses.* Selling, general and administrative expenses decreased by \$11.7 million, or 9.9%, to \$106.2 million for the nine months ended September 30, 2024 from \$117.9 million for the nine months ended September 30, 2023. This decrease was primarily driven by the savings realized from the Integration Plan and lower stock compensation expense driven by senior executive transitions. Selling, general and administrative expenses as a percentage of sales decreased by 2.7 percentage points to 42.7% for the nine months ended September 30, 2024, compared with 45.4% of sales for the nine months ended September 30, 2023.

*Research and development expenses.* Research and development expenses decreased by \$3.9 million, or 12.3%, to \$28.6 million for the nine months ended September 30, 2024 from \$32.6 million for the nine months ended September 30, 2023. This decrease was primarily driven by the savings realized from the Integration Plan. Research and development expenses as a percentage of sales decreased to 11.5% for the nine months ended September 30, 2024 from 12.5% for the nine months ended September 30, 2023, primarily due to the cost savings realized from the Integration Plan.

*Restructuring costs.* In February 2023, we initiated the Integration Plan to streamline and simplify operations, particularly around our recent acquisitions and the resulting redundant operations and offerings. The Integration Plan was amended on May 3, 2023. Restructuring costs included in operating expenses decreased by \$14.5 million, to \$0.6 million for the nine months ended September 30, 2024 from \$15.1 million for the nine months ended September 30, 2023, as substantially all of our planned activities under the Restructuring Plan and the Integration Plan were completed in 2023. The restructuring charges include accruals for severance and related benefits, professional fees, and impairment of right-of-use assets and leasehold improvement assets related to facilities optimization as a part of the Integration Plan.

*Interest (income) expense, net.* For the nine months ended September 30, 2024, we recorded interest expense, net of \$2.6 million compared with \$2.5 million for the nine months ended September 30, 2023. This charges primarily related to interest expense associated with the Notes issued in January 2023 offset by interest income earned on short-term investments.

*Other (income) expense, net.* For the nine months ended September 30, 2024, we recorded other expense, net of \$0.2 million compared with other income, net of \$0.1 million for the nine months ended September 30, 2023. This change was primarily driven by the effect of foreign exchange rates on our non-U.S.-dollar-denominated balance sheet.

*Income tax expense.* For the nine months ended September 30, 2024, we recorded an income tax expense of \$3.9 million compared with income tax expense of \$3.8 million for the nine months ended September 30, 2023. Our effective tax rate was 93.9% for the nine months ended September 30, 2024 compared with 9.1% in the prior year period. The change in our income tax expense was primarily associated with a shift in the geographic mix of pre-tax income expected for the full year 2024. The change in our effective tax rate was primarily due to the decrease in the pre-tax loss during the nine months ended September 30, 2024 compared to the same period of 2023.

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

*Net loss.* Our net loss was \$8.1 million for the nine months ended September 30, 2024 compared to \$58.2 million for the prior year period, reflecting the impact of the factors described above.

### **Liquidity and Capital Resources**

Cash and cash equivalents increased by \$12.1 million to \$88.9 million at September 30, 2024, from \$76.8 million at December 31, 2023. The increase was primarily driven by maturities of short-term investments, cash generated from operating activities, partially offset by repurchases of common stock and Notes in financing activities, and purchase of property and equipment in investing activities.

Cash provided by operating activities was \$13.4 million during the nine months ended September 30, 2024, compared to \$17.6 million of cash used in operating activities during the nine months ended September 30, 2023. The change in cash usage was primarily due to a smaller current year net loss.

Cash provided by investing activities during the nine months ended September 30, 2024, was \$11.6 million compared to cash used in investing activities of \$10.1 million during the nine months ended September 30, 2023. The increase was primarily due to the maturities of short-term investments in the second quarter of 2024, in the amount of \$20.0 million.

Cash used in financing activities was \$12.8 million during the nine months ended September 30, 2024, compared to cash provided by financing activities of \$71.0 million for the nine months ended September 30, 2023. Financing cash change was primarily driven by the Company's issuance of the Notes in January 2023. In the second quarter of 2024, the Company repurchased \$3.0 million aggregate principal amount of the Notes for an aggregated cash repurchase price of \$2.7 million. The Notes are general senior unsecured obligations of the Company. In the third quarter of 2024, the Company purchased a total of 588,856 shares for a total cash payment of \$10.0 million as a part of our share repurchase program. As of September 30, 2023, we had authorization to repurchase \$8.3 million shares remaining under the repurchase program.

The Notes will mature on February 1, 2028, unless earlier redeemed, repurchased or converted. The Notes bear interest from January 24, 2023, at a rate of 5.50% per annum payable semiannually in arrears on February 1 and August 1 of each year, beginning August 1, 2023. The Notes may bear additional interest under specified circumstances relating to the Company's failure to comply with its reporting obligations under the indenture governing the Notes or if the Notes are not freely tradeable as required by the indenture.

In June 2024, the Company entered into separate, privately negotiated transactions with certain holders of the Notes to repurchase \$3.0 million aggregate principal amount of the Notes for an aggregated cash repurchase price of \$2.7 million and a gain on debt extinguishment of \$0.3 million, which was recorded in Other income (expense), net, on the condensed consolidated statements of operations. After the repurchase, \$72.0 million aggregate principal amount of the Notes remained outstanding on September 30, 2024.

Of our cash and cash equivalents, \$47.0 million was held by foreign subsidiaries as of September 30, 2024. On December 22, 2017, the United States enacted the U.S. Tax Cuts and Jobs Act, resulting in significant modifications to existing tax law, which included a transition tax on the mandatory deemed repatriation of foreign earnings. As a result of the U.S. Tax Cuts and Jobs Act, the Company can repatriate foreign earnings and profits to the U.S. with minimal U.S. income tax consequences, other than the transition tax and global intangible low-taxed income ("GILTI") tax. We have reinvested a large portion of our undistributed foreign earnings and profits in acquisitions and other investments and intend to bring back a portion of foreign cash in certain jurisdictions where we will not be subject to local withholding taxes and which were subject already to transition tax and GILTI tax.

On November 24, 2008, our Board of Directors approved a \$30.0 million share repurchase program. Acquisitions for the share repurchase program may be made from time to time at prevailing prices, as permitted by securities laws and other legal requirements, and subject to market conditions and other factors. The share repurchase program may be discontinued at any time. There is no expiration date or other restriction governing the period over which we can repurchase shares under the program. In October 2015, our Board of Directors authorized an increase to the existing share repurchase program from \$30.0 million to \$50.0 million. During the nine months ended September 30, 2024, we purchased a total of 588,856 shares for a total cash payment of \$10.0 million. As of September 30, 2024, we had authorization to repurchase \$8.3 million remaining under the repurchase program.

In order to reduce future cash interest payments, as well as future amounts due at maturity or upon redemption, we may, from time to time, purchase our debt for cash in open-market purchases and/or privately negotiated transactions and upon such terms and at such prices as we may determine. We will evaluate any such transactions in light of then-existing market conditions, taking into account our current liquidity and prospects for future access to capital. The amounts involved in any such transactions, individually or in the aggregate, may be material.

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

We have no off-balance sheet arrangements.

### **Contractual Obligations and Commercial Commitments**

We enter into purchase commitments for products and services in the ordinary course of business. These purchases generally cover production requirements for 60 to 120 days as well as materials necessary to service customer units through the product lifecycle and for warranty commitments. As of September 30, 2024, we had \$25.1 million in purchase commitments that are expected to be delivered within the next 12 months. Other than as described in the preceding sentences, there have been no material changes to the contractual obligations and commercial commitments table included in Part II, Item 7 of our Annual Report.

### **Critical Accounting Estimates and 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. As of September 30, 2024, our critical accounting policies have not changed from those described in our Annual Report.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

#### **Foreign Exchange Exposure**

We conduct a significant portion of our business outside the United States. As of and for the nine months ended September 30, 2024, 58% of our revenue was invoiced, and a significant portion of our operating expenses and manufacturing costs were paid, in foreign currencies, and 43% 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 adverse 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 the constantly changing exposure to various currencies, the fact that all foreign currencies do not react in the same manner in relation to the U.S. dollar and the number of currencies involved, although our most significant exposures are to the Euro, Swiss franc, Japanese yen, Chinese renminbi, British pound 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 have not used off-balance sheet financial instruments to hedge exposure to foreign currency exchange rates, including cross-currency swaps, forward contracts and foreign currency options, as fluctuations in exchange rate on our revenue were mostly offset by those same fluctuations in exchange rate on our expenses, providing a natural hedge in foreign jurisdictions. No such instruments were utilized by the Company in the nine months ended September 30, 2024. Our exchange rate exposure may change as a result of our current or future operational strategies and we will continue assessing the appropriateness of hedging for our business.

#### **Interest Rate Exposure**

We had cash and cash equivalent of \$88.9 million as of September 30, 2024, consisting of cash and investments in U.S. Treasury obligations. Our investments are made for capital preservation purposes. We do not enter into investments for trading or speculative purposes. All our investments are denominated in U.S. dollars.

Our investments in U.S. Treasury obligations are subject to market risk due to changes in interest rates. Fixed rate securities may have their market value negatively impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates or we may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in interest rates.

We do not believe that an increase or decrease in interest rates of 5 percent would have a material effect on our business, financial condition or results of operations.

#### **Global Inflation Exposure**

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



#### **Item 4. Controls and Procedures**

We conducted an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this quarterly report. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objective and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as a result of the material weakness in our internal control over financial reporting discussed below, our disclosure controls and procedures were not effective to provide reasonable assurance as of September 30, 2024.

#### **Material Weakness**

As described in Part II, Item 9A of our Annual Report on Form 10-K for the year ended December 31, 2023, we identified a material weakness related to information technology general controls (“ITGCs”) in the area of user access over certain IT systems that support the Company’s financial reporting process. The material weakness noted by management specifically related to our design and maintenance of effective user access controls that consistently and adequately detect and monitor the use of user accounts with elevated access to ensure that those accounts were being used by appropriate personnel and only authorized activities were performed. Additionally, deficiencies across multiple systems were identified related to the provisioning of access, deprovisioning of access, and the monitoring and restriction of access with identified segregation of duties conflicts. We believe that these control deficiencies were a result of: IT control processes lacking sufficient documentation such that the successful operation of ITGCs was overly dependent upon knowledge of certain individuals with IT expertise, which led to issues resulting from changes in IT personnel; insufficient knowledge and training of IT personnel on the importance of ITGCs; and risk-assessment processes inadequate to identify and assess the implementation of new IT systems and assess changes in IT environments that could impact internal control over financial reporting. Although this control deficiency did not result in any identified material misstatements to our previously filed financial statements, the aforementioned material weakness could result in a material misstatement to the Company’s financial statements that would not be prevented or detected on a timely basis.

#### **Remediation**

Management has been implementing and continues to implement measures designed to ensure that control deficiencies contributing to the material weakness are remediated, such that these controls are designed, implemented, and operating effectively. The remediation actions include:

- hiring new and reassigning existing information technology leadership with public company experience to enhance public company information technology services and solutions;
- formalizing certain roles and review responsibilities within key financial applications, including ensuring appropriate segregation of duties;
- revising user access controls to ensure appropriate segregation of duties and adequately restrict user and privileged access to financial information technology applications to appropriate Company personnel;
- designing information technology operation controls to ensure critical jobs are monitored and privileges are appropriately granted;
- implementing a more robust logging and monitoring procedures to track user activities and system changes, designed to allow for better visibility into user access and detect any unauthorized or suspicious activities;
- establishing procedures for ongoing monitoring and improvement of access controls and system accountability to assess the effectiveness of controls more frequently, identify any gaps or weaknesses, and take corrective actions as needed to strengthen the overall security posture in a timely manner; and
- enhancing our regular training and awareness programs to employees on the importance of maintaining strong access controls aimed at mitigating the risk of insider threats and unauthorized access.

We believe that these actions will remediate the material weakness. The weakness will not be considered remediated, however, until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. We expect that the remediation of this material weakness will be completed prior to the end of fiscal 2024.

**Changes in Internal Control Over Financial Reporting**

Except for the material weakness and remediation plan actions discussed above, there have been no changes in our internal control over financial reporting that occurred during the three months ended September 30, 2024, 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 involved in disputes, claims and other legal actions arising in the normal course of our business. Although it is not possible to predict the outcome of these matters, we believe that the results of these proceedings will not have a material adverse effect on our business, financial condition or results of operations. However, any litigation, regardless of its outcome, may be costly and may require significant time and attention of our management and technical personnel.

**Item 1A. Risk Factors**

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed under “Risk Factors” in Item 1A in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023, before deciding to invest in, or retain, shares of our common stock. These risks and uncertainties could materially and adversely affect our business, financial condition, and results of operations. The risks described in our Annual Report, in this Quarterly Report, 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 fiscal year ended December 31, 2023. For a detailed description of our risk factors, refer to Part I, Item 1A, “Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2023.

**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. The following table summarizes the repurchase activity during the three months ended September 30, 2024. As of September 30, 2024, we had authorization to repurchase \$8.3 million remaining under the repurchase program.

| Period                                 | Total Number of Shares Purchased | Average Prices Paid per Share | Total Number of Shares Purchased as part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that may yet be Purchased Under the Plans or Programs |
|--|----------------------------------|-------------------------------|--|--|
| July 1, 2024 - July 30, 2024           |                                  |                               |  | \$ 18,331,103  |
| August 1, 2024 - August 31, 2024       | 373,426                          | \$ 16.88                      | 373,426  | \$ 12,029,266  |
| September 1, 2024 - September 30, 2024 | 215,430                          | \$ 17.18                      | 215,430  | \$ 8,328,691   |
| Total                                  | 588,856                          |                               | 588,856  |  |

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Other Information*****(a) 2024 Restructuring Plan***

On November 1, 2024, our Board of Directors approved a restructuring plan (the “2024 Restructuring Plan”), which is intended to support its strategic plan in an effort to improve operating performance and streamline and simplify operations, particularly around our redundant operations and underperforming countries primarily driven by economic and demand

challenges in the manufacturing and construction sectors. Key activities under the 2024 Restructuring Plan include a planned decrease in headcount, consolidation of our manufacturing operations from recent acquisitions to our global manufacturing partner, Sanmina Corporation, and the continued optimization of our facilities assets to align with current and expected future utilization. As a result, we expect to incur potentially \$6 million to \$9 million in pre-tax charges, primarily in the fourth quarter of 2024 and first quarter of 2025, comprised primarily of \$5 million to \$8 million of one-time severance and other employee-related termination benefits. We expect to realize approximately \$6 million in annualized cost savings when the plan is complete that is expected to be largely offset by continued higher costs to run our business over the near and longer term.

***(c) Securities Trading Plans of Directors and Executive Officers***

During the fiscal quarter ended September 30, 2024, no director or officer, as defined in Rule 16a-1(f), adopted or terminated a “Rule 10b5-1 trading arrangement” or a “non-Rule 10b5-1 trading arrangement,” each as defined in Regulation S-K Item 408.

**Item 6. Exhibits**

**EXHIBIT INDEX**

| Exhibit Number        | Exhibit Description   | Incorporated by Reference |         |                    | Provided Herewith |
|-----------------------|---|---------------------------|---------|--------------------|-------------------|
|                       |   | Form                      | Exhibit | Filing Date        |                   |
| <a href="#">3.1</a>   | <a href="#">Amended and Restated Articles of Incorporation, as amended</a>  | S-1/A                     | 3.1     | September 10, 1997 |                   |
| <a href="#">3.2</a>   | <a href="#">Amended and Restated Bylaws</a>   | 8-K                       | 3.1     | May 30, 2023       |                   |
| <a href="#">4.1</a>   | <a href="#">Specimen Stock Certificate</a>  | S-1/A                     | 4.1     | September 10, 1997 |                   |
| <a href="#">31.1</a>  | <a href="#">Certification of the Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a> |                           |         |                    | X                 |
| <a href="#">31.2</a>  | <a href="#">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</a>     |                           |         |                    | X                 |
| <a href="#">32.1*</a> | <a href="#">Certification of the Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>   |                           |         |                    | X                 |
| <a href="#">32.2*</a> | <a href="#">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</a>       |                           |         |                    | X                 |
| 101.SCH               | Inline XBRL Taxonomy Extension Schema Document  |                           |         |                    | X                 |
| 101.CAL               | Inline XBRL Taxonomy Extension Calculation Linkbase Document  |                           |         |                    | X                 |
| 101.LAB               | Inline XBRL Taxonomy Extension Label Linkbase Document  |                           |         |                    | X                 |
| 101.PRE               | Inline XBRL Taxonomy Presentation Linkbase Document   |                           |         |                    | X                 |
| 101.DEF               | Inline XBRL Taxonomy Extension Definition Linkbase Document   |                           |         |                    | X                 |
| 104                   | Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101.)                                       |                           |         |                    | X                 |

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

**SIGNATURE**

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

**FARO Technologies, Inc.**  
(Registrant)

Date: November 6, 2024

By: /s/ Matthew Horwath  
Name: Matthew Horwath  
Title: Chief Financial Officer  
(Duly Authorized Officer and Principal Financial Officer)

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

I, Peter J. Lau, 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: November 6, 2024

/s/ Peter J. Lau

Peter J. Lau  
President and Chief Executive Officer  
(Principal Executive Officer)

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

I, Matthew Horwath, 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: November 6, 2024

/s/ Matthew Horwath

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Matthew Horwath  
Chief Financial Officer  
(Principal Financial Officer)



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

Solely for the purposes of complying with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, the undersigned President, Chief Executive Officer and Principal Executive Officer of FARO Technologies, Inc. (the Company), hereby certify that the Quarterly Report on Form 10-Q for the quarter ended September 30, 2024 (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: November 6, 2024

/s/ Peter J. Lau

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Peter J. Lau  
President and Chief Executive Officer  
(Principal Executive Officer)

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

Solely for the purposes of complying with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, the undersigned Chief Financial Officer of FARO Technologies, Inc. (the Company), hereby certify that the Quarterly Report on Form 10-Q for the quarter ended September 30, 2024 (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: November 6, 2024

/s/ Matthew Horwath

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Matthew Horwath  
Chief Financial Officer  
(Principal Financial Officer)