

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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2023

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.)

**250 Technology Park,  
(Address of Principal Executive Offices)**

**Lake Mary, Florida**

**32746  
(Zip Code)**

**(407) 333-9911**

(Registrant's Telephone Number, including Area Code)

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

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

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

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

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

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

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

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

There were 18,949,528 shares of the registrant's common stock outstanding as of July 31, 2023.



**FARO TECHNOLOGIES, INC.**

Quarterly Report on Form 10-Q  
Quarter Ended June 30, 2023

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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>	June 30, 2023 (unaudited)	December 31, 2022
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 68,228	\$ 37,812
Short-term investments	20,240	—
Accounts receivable, net	88,293	90,326
Inventories, net	41,560	50,026
Prepaid expenses and other current assets	38,551	41,201
Total current assets	<u>256,872</u>	<u>219,365</u>
Non-current assets:		
Property, plant and equipment, net	23,247	19,720
Operating lease right-of-use assets	13,315	18,989
Goodwill	108,883	107,155
Intangible assets, net	48,643	48,978
Service and sales demonstration inventory, net	23,063	30,904
Deferred income tax assets, net	24,221	24,192
Other long-term assets	4,039	4,044
Total assets	<u>\$ 502,283</u>	<u>\$ 473,347</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 21,241	\$ 27,286
Accrued liabilities	29,979	23,345
Income taxes payable	10,056	6,767
Current portion of unearned service revenues	35,767	36,407
Customer deposits	5,584	6,725
Lease liabilities	5,140	5,709
Total current liabilities	<u>107,767</u>	<u>106,239</u>
Loan - 5.50% Convertible Senior Notes	72,491	—
Unearned service revenues - less current portion	21,017	20,947
Lease liabilities - less current portion	12,463	14,649
Deferred income tax liabilities	11,928	11,708
Income taxes payable - less current portion	5,292	8,706
Other long-term liabilities	39	49
Total liabilities	<u>230,997</u>	<u>162,298</u>
Commitments and contingencies - See Note 13		
Shareholders' equity:		
Common stock - par value \$0.001, 50,000,000 shares authorized; 20,321,490 and 20,156,233 issued, respectively; 18,946,798 and 18,780,013 outstanding, respectively	20	20
Additional paid-in capital	336,534	328,227
Retained earnings	(2,621)	46,788
Accumulated other comprehensive loss	(31,992)	(33,331)
Common stock in treasury, at cost - 1,374,692 and 1,376,220 shares held, respectively	(30,655)	(30,655)
Total shareholders' equity	<u>271,286</u>	<u>311,049</u>
Total liabilities and shareholders' equity	<u>\$ 502,283</u>	<u>\$ 473,347</u>

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

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

(in thousands, except share and per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
<b>Sales</b>				
Product	\$ 67,603	\$ 59,702	\$ 132,843	\$ 116,432
Service	20,608	20,215	40,335	40,141
Total sales	88,211	79,917	173,178	156,573
<b>Cost of sales</b>				
Product	44,094	28,169	78,051	52,504
Service	10,794	11,311	22,088	22,607
Total cost of sales	54,888	39,480	100,139	75,111
Gross profit	33,323	40,437	73,039	81,462
<b>Operating expenses</b>				
Selling, general and administrative	38,561	36,018	79,937	71,508
Research and development	11,662	12,042	24,380	24,170
Restructuring costs	8,450	1,333	12,688	1,932
Total operating expenses	58,673	49,393	117,005	97,610
Loss from operations	(25,350)	(8,956)	(43,966)	(16,148)
<b>Other (income) expense</b>				
Interest expense (income)	1,003	(12)	1,838	(4)
Other expense (income), net	476	(1,636)	256	(1,649)
Loss before income tax	(26,829)	(7,308)	(46,060)	(14,495)
Income tax expense	1,416	1,266	3,349	3,766
Net loss	\$ (28,245)	\$ (8,574)	\$ (49,409)	\$ (18,261)
Net loss per share - Basic	\$ (1.49)	\$ (0.47)	\$ (2.62)	\$ (1.00)
Net loss per share - Diluted	\$ (1.49)	\$ (0.47)	\$ (2.62)	\$ (1.00)
Weighted average shares - Basic	18,920,675	18,266,747	18,871,007	18,267,783
Weighted average shares - Diluted	18,920,675	18,266,747	18,871,007	18,267,783

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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net loss	\$ (28,245)	\$ (8,574)	\$ (49,409)	\$ (18,261)
Currency translation adjustments, net of income taxes	(1,679)	(13,011)	1,101	(14,995)
Net unrealized gain (loss) on short-term investments	238	—	238	—
Comprehensive loss	\$ (29,686)	\$ (21,585)	\$ (48,070)	\$ (33,256)

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

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

(in thousands)	Six Months Ended June 30,	
	2023	2022
<b>Cash flows from:</b>		
<b>Operating activities:</b>		
Net loss	\$ (49,409)	\$ (18,261)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	7,925	6,655
Stock-based compensation	8,584	6,358
Inventory write-downs	8,132	—
Asset impairment charges	4,571	—
Deferred income tax expense (benefit) and other non-cash charges	(41)	80
Provision for excess and obsolete inventory	1,033	82
Amortization of debt discount and issuance costs	181	—
Loss on disposal of assets	130	6
Provisions for bad debts, net of recoveries	408	(48)
<b>Change in operating assets and liabilities:</b>		
Decrease (Increase) in:		
Accounts receivable	3,280	5,102
Inventories	1,587	4,311
Prepaid expenses and other current assets	3,105	(6,101)
(Decrease) Increase in:		
Accounts payable and accrued liabilities	(277)	(2,398)
Income taxes payable	(263)	1,007
Customer deposits	(1,210)	1,769
Unearned service revenues	(750)	(1,822)
Other liabilities	(193)	—
Net cash used in operating activities	(13,207)	(3,260)
<b>Investing activities:</b>		
Purchases of property and equipment	(4,312)	(3,481)
Purchases of short-term investments	(20,024)	—
Cash paid for technology development, patents and licenses	(3,616)	(5,548)
Net cash used in investing activities	(27,952)	(9,029)
<b>Financing activities:</b>		
Payments on finance leases	(105)	(116)
Payments for taxes related to net share settlement of equity awards	(277)	(1,165)
Proceeds from issuance of 5.50% Convertible Senior Notes, due 2028, net of discount, issuance cost and accrued interest	72,310	—
Net cash provided by (used in) financing activities	71,928	(1,281)
Effect of exchange rate changes on cash and cash equivalents	(353)	(6,450)
Increase (Decrease) in cash and cash equivalents	30,416	(20,020)
Cash and cash equivalents, beginning of period	37,812	121,989
Cash and cash equivalents, end of period	\$ 68,228	\$ 101,969

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

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

(in thousands, except share data)	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Common Stock in Treasury	Total
	Shares	Amounts					
BALANCE JANUARY 1, 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

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

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



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

NOTE 1 – DESCRIPTION OF BUSINESS

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

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 six months ended June 30, 2023 are not necessarily indicative of results that may be expected for the year ending December 31, 2023, 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, 2022. The accompanying December 31, 2022 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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
<b>Cost of sales</b>				
Product	\$ 364	\$ 244	\$ 604	\$ 404
Service	56	40	88	79
Total cost of sales	420	284	692	483
<b>Operating expenses</b>				
Selling, general and administrative	3,554	2,512	6,122	4,733
Research and development	976	695	1,770	1,142
Total operating expenses	4,530	3,207	7,892	5,875
Total stock-based compensation	\$ 4,950	\$ 3,491	\$ 8,584	\$ 6,358

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

##### Impact of Recently Adopted Accounting Standards

In October 2021, the FASB issued ASU No. 2021-08, Business Combinations (Topic 805): Accounting for Contract Asset and Contract Liabilities from Contracts with Customers, which intends to simplify the accounting for acquired revenue contracts with customers in a business combination and to also remove inconsistencies in this topic related to recognition of an acquired contract liability and payment terms and their effect on subsequent revenue recognized by the acquirer. ASU No. 2021-08 allows an acquirer to recognize and measure contract assets and contract liabilities acquired in a business combination in a similar manner to how they are recorded on the acquiree's financial statements at book value. Early adoption is permitted and we early adopted ASU No. 2021-08 in the fourth quarter of 2021. As a result of the early adoption of ASU No.2021-08, we recorded the deferred revenue associated with the acquisition of Holobuilder in 2021 at its book value of approximately \$4.0 million. Further, we recorded the deferred revenue associated with the acquisition of GeoSLAM in 2022 at its book value of approximately \$1.3 million.

In August 2020, the FASB issued ASU No. 2020-06—Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity. The update simplifies the accounting for convertible instruments that were previous separated into a debt component and an equity component, and our convertible debt was already determined to be a single debt instrument that did not require bifurcation. The Company adopted ASU 2020-06 as of January 1, 2022, and therefore, the Notes (as defined below) would not be subject any beneficial conversion or cash conversion guidance. Moreover, the Company did not elect the fair value option - as defined in ASC 825 and 815 - to present the Notes on its financial statements.

#### NOTE 5 – REVENUES

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
<b>Product sales</b>				
Product transferred to customers at a point in time	\$ 62,737	\$ 54,178	\$ 122,629	\$ 105,659
Product transferred to customers over time	4,866	5,524	10,214	10,774
Total product sales	\$ 67,603	\$ 59,702	\$ 132,843	\$ 116,433

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
<b>Service sales</b>				
Service transferred to customers at a point in time	\$ 9,078	\$ 8,620	\$ 17,468	\$ 17,322
Service transferred to customers over time	11,530	11,595	22,867	22,818
<b>Total service sales</b>	<b>\$ 20,608</b>	<b>\$ 20,215</b>	<b>\$ 40,335</b>	<b>\$ 40,140</b>

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
<b>Total sales to external customers</b>				
Americas <sup>(1)</sup>	\$ 41,358	\$ 34,667	\$ 83,701	\$ 71,344
EMEA <sup>(1)</sup>	24,855	21,555	49,020	43,691
APAC <sup>(1)</sup>	21,998	23,695	40,457	41,538
	<b>\$ 88,211</b>	<b>\$ 79,917</b>	<b>\$ 173,178</b>	<b>\$ 156,573</b>

<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 June 30, 2023, the deferred cost asset related to deferred commissions was approximately \$2.9 million. For classification purposes, \$1.9 million and \$1.0 million are comprised within the Prepaid expenses and other current assets and Other long-term assets, respectively, on our condensed consolidated balance sheet as of June 30, 2023. As of December 31, 2022, the deferred cost asset related to deferred commissions was approximately \$3.0 million. For classification purposes, \$2.0 million and \$1.0 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, 2022.

The unearned service revenue liabilities reported on our condensed consolidated balance sheets reflect the contract liabilities to satisfy the remaining performance obligations for extended warranties, subscription-based software and software maintenance. The current portion of unearned service revenues on our condensed consolidated balance sheets is what we expect to recognize as revenue within twelve months after the applicable balance sheet date relating to extended warranties, subscription-based software and software maintenance contract liabilities. The unearned service revenues less the current portion on our condensed consolidated balance sheets is what we expect to recognize as revenue extending beyond twelve months after the applicable balance sheet date relating to extended warranties, subscription-based software and software maintenance contract liabilities. Customer deposits on our condensed consolidated balance sheets represent customer prepayments on contracts for performance obligations that we must satisfy in the future to recognize the related contract revenue. These amounts are generally related to performance obligations which are delivered in less than 12 months. During the three and six months ended June 30, 2023, we recognized \$9.1 million and \$20.5 million of revenue that was deferred on our condensed consolidated balance sheet as of March 31, 2023 and December 31, 2022. During the three and six months ended June 30, 2022, we recognized \$9.5 million and \$20.4 million of revenue that was deferred on our condensed consolidated balance sheet as of March 31, 2022 and December 31, 2021.

The nature of certain of our contracts gives rise to variable consideration, primarily related to an allowance for sales returns. We are required to estimate the contract asset related to sales returns and record a corresponding adjustment to Cost of Sales. Our allowance for sales returns for June 30, 2023 and December 31, 2022 was approximately \$0.1 million, and \$0.3 million, respectively.

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

#### NOTE 6 – ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	As of June 30, 2023	As of December 31, 2022
Accounts receivable	\$ 90,931	\$ 92,611
Allowance for credit losses	(2,638)	(2,285)
Total	<u>\$ 88,293</u>	<u>\$ 90,326</u>

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

	Six Months Ended June 30, 2023
Beginning balance of the allowance for credit losses	\$ (2,285)
Current period provision for expected credit losses, net of recoveries	(408)
Charge-offs of amounts previously expensed	55
Ending balance of the allowance for credit losses	<u>\$ (2,638)</u>

#### NOTE 7 – INVENTORIES

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

Inventories consist of the following:

	As of June 30, 2023		As of December 31, 2022	
Raw materials	\$	25,042	\$	33,076
Finished goods		16,518		16,950
Inventories, net		41,560		50,026
Service and sales demonstration inventory, net	\$	23,063	\$	30,904

#### NOTE 8 – GOODWILL

The Company recognizes the excess of the purchase price over the fair value of identifiable net assets acquired as goodwill. The Company performs a qualitative assessment on goodwill at least annually on December 31 or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable. If it is determined in the qualitative assessment that the fair value of a reporting unit is more likely than not below its carrying amount, then the Company will perform a quantitative impairment test.

During the second quarter ended June 30, 2023, the Company's common stock declined significantly and dropped below its equity book value, which triggered a goodwill impairment analysis under FASB Topic 350 *Intangibles – Goodwill and Other*. For the purposes of the impairment analysis, goodwill is tested at the entity level as the Company has only one reporting unit. In determining the fair value of the reporting unit, the Company uses a combination of the income approach and the market approach, with each method weighted equally. Under the income approach, fair value is determined based on our estimates of future after-tax cash flows, discounted using the appropriate weighted average cost of capital. Under the market approach, the fair value is derived based on the valuation multiples of comparable publicly traded companies. As of June 30, 2023, the fair value of the reporting unit exceeded its net book value by approximately 45%. There was no impairment charge for the three and six month ended June 30, 2023 and 2022.

The underlying valuation techniques deployed in the analysis are highly judgmental and entail significant estimates, including but not limited to, future growth and profitability, discount rates, and selection of peer companies and valuation multiples. Estimates are made based on the information available at the time of the valuation. Future changes in estimates and assumptions could result in material changes in the valuation.

We had \$108.9 million and \$107.2 million of goodwill as of June 30, 2023 and December 31, 2022, respectively.

#### NOTE 9 – NET LOSS PER SHARE

Basic net loss per share is computed by dividing net loss by the weighted average number of shares outstanding. Diluted net loss per share is computed by also considering the impact of potential common stock on both net loss and the weighted average number of shares outstanding. Our potential common stock consists of employee stock options, time-based restricted stock units, market-based restricted stock unit awards, and common stock issued for settlement of Notes (as defined in Note 17). Our potential common stock is included in the diluted earnings per share calculation when adding such potential common stock would not be anti-dilutive. Market-based awards are included in the computation of diluted earnings per share only to the extent that the underlying conditions (and any applicable market condition) (i) are satisfied as of the end of the reporting period or (ii) would be considered satisfied if the end of the reporting period were the end of the related contingency period and the result would be dilutive under the treasury stock method. When we report a net loss for the period presented, the calculation of diluted net loss per share excludes our potential common stock, as the effect would be anti-dilutive.

For the three and six months ended June 30, 2023, there were approximately 1,223,344 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 and six months ended June 30, 2022, there were approximately 582,595 issuable upon the exercise of options that were excluded from the dilutive calculations, as they were anti-dilutive. In addition, the Company has issued \$75 million aggregate principal amount of Notes on January 24, 2023, which, if converted, would result in the issuance of a maximum of 2,124,645 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 June 30,			
	2023		2022	
	Shares	Per-Share Amount	Shares	Per-Share Amount
Basic net loss per share	18,920,675	\$(1.49)	18,266,747	\$(0.47)
Effect of dilutive securities	—	—	—	—
Diluted net loss per share	18,920,675	\$(1.49)	18,266,747	\$(0.47)

  

	Six Months Ended June 30,			
	2023		2022	
	Shares	Per-Share Amount	Shares	Per-Share Amount
Basic EPS	18,871,007	\$ (2.62)	18,267,783	\$ (1.00)
Effect of dilutive securities	—	—	—	—
Diluted EPS	18,871,007	\$ (2.62)	18,267,783	\$ (1.00)

#### NOTE 10 – ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	As of June 30, 2023	As of December 31, 2022
Accrued compensation and benefits	\$ 12,733	\$ 12,483
Accrued restructuring costs	3,957	528
Accrued warranties	2,753	2,610
Professional and legal fees	4,917	1,662
Taxes other than income	2,291	3,737
Other accrued liabilities	3,328	2,325
Total accrued liabilities	\$ 29,979	\$ 23,345

Activity related to accrued warranties was as follows:

	Six Months Ended June 30,	
	2023	2022
Balance, beginning of period	\$ 2,610	\$ 1,880
Provision for warranty expense	1,769	1,497
Fulfillment of warranty obligations	(1,626)	(1,512)
Balance, end of period	\$ 2,753	\$ 1,865

**NOTE 11 – FAIR VALUE MEASUREMENTS AND INVESTMENTS**
**Fair Value Measurements**

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

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

	June 30, 2023		
	Level 1	Level 2	Level 3
<b>Assets</b>			
Short-term investments:			
U.S. Treasury securities (6 months maturity)	\$ 20,240	\$ —	\$ —
<b>Liabilities</b>			
Contingent consideration	—	—	1,043
<b>Total</b>	<b>\$ 20,240</b>	<b>\$ —</b>	<b>\$ 1,043</b>
	As of December 31, 2022		
	Level 1	Level 2	Level 3
<b>Liabilities</b>			
Contingent consideration	\$ —	\$ —	\$ 1,043
<b>Total</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 1,043</b>

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

**Investments**

At June 30, 2023, the Company's cash equivalents and marketable securities were as follows:

	June 30, 2023		
	Amortized cost	Gross unrealized gain (loss)	Fair value
<b>Short-term investments:</b>			
U.S. Treasury securities (6 months maturity)	\$ 20,002	\$ 238	\$ 20,240
<b>Total</b>	<b>\$ 20,002</b>	<b>\$ 238</b>	<b>\$ 20,240</b>

**NOTE 12 – RESTRUCTURING**

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

On July 15, 2021, we entered into a manufacturing services agreement (the "Agreement") with Sanmina Corporation ("Sanmina"), in connection with the Restructuring Plan. Under the Agreement, Sanmina will provide manufacturing services for the Company's measurement device products 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 have 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 June 30, 2023, we expected to incur total pre-tax charges in the range of \$22 million to \$28 million through the end of fiscal year 2023, with a targeted annualized savings of approximately \$20 million to \$30 million. As of June 30, 2023, in relation with the Integration Plan, we have incurred total restructuring charges of \$21.4 million, and have made cash payments of \$4.0 million.

In the second quarter of 2023, we completed an evaluation of our leased facilities located in Lake Mary, Florida, Stuttgart, Germany and Portugal and determined that portions of these facilities will be abandoned. Consequently, we recorded right-of-use asset and leasehold improvement impairment charges of \$3.7 million, which was included in restructuring costs on the condensed consolidated statements of operations. As a part of the Integration Plan, we also evaluated our product portfolio and decided to discontinue certain legacy products. This led to inventory and related purchase commitments impairment charges of \$8.1 million in the second quarter of 2023, and these charges were included in the cost of sales on the condensed consolidated statements of operations.

In the second quarter of 2023 and 2022, we have recognized \$3.1 million and \$1.0 million, respectively, in employee severance and other professional costs associated with the restructuring plans. Additionally, we paid \$3.2 million and \$1.6 million, respectively, for the same periods, primarily consisting of severance and related benefits.

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

	Severance and other benefits	Professional fees and other related charges	Total
Balance at 12/31/2022	\$ 318	\$ 210	\$ 528
Additions charged to expense	7,197	220	7,417
Cash payments	(3,988)		(3,988)
Balance at June 30, 2023	<u>\$ 3,527</u>	<u>\$ 430</u>	<u>\$ 3,957</u>

	Severance and other benefits	Professional fees and other related charges	Total
Balance at December 31, 2021	\$ 3,442	\$ 477	\$ 3,919
Additions charged to expense	1,422	510	1,932
Cash payments	(2,016)	(819)	(2,835)
Balance at June 30, 2022	<u>\$ 2,848</u>	<u>\$ 168</u>	<u>\$ 3,016</u>

#### 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 June 30, 2023, we had approximately \$19.5 million in purchase commitments that are expected to be delivered within the next 12 months. To ensure adequate component availability, as of June 30, 2023, we also had \$28.7 million in long-term commitments for purchases to be delivered after 12 months.

**Legal Proceedings** — We are not involved in any legal proceedings other than routine litigation arising in the normal course of business, none of which we believe will have a material adverse effect on our business, financial condition or results of operations.



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

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

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

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

The components of lease expense were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Operating lease cost	\$ 1,841	\$ 1,842	\$ 3,571	\$ 3,648
Finance lease cost:				
Amortization of ROU assets	34	29	49	77
Interest on lease liabilities	6	5	9	10
Total finance lease cost	\$ 40	\$ 34	\$ 58	\$ 87

We recognize lease payments made for short-term leases where terms are 12 months or less as the payments are incurred. Our short-term lease costs for the three months ended June 30, 2023 and June 30, 2022 were both less than \$0.1 million. Our short-term lease costs for the six months ended June 30, 2023 and June 30, 2022 were both less than \$0.1 million.

Supplemental balance sheet information related to leases was as follows:

	As of June 30, 2023	As of December 31, 2022
<b>Operating leases:</b>		
Operating lease right-of-use assets	\$ 13,315	\$ 18,989
Current operating lease liabilities	5,140	5,535
Operating lease liabilities - less current portion	12,463	14,532
Total operating lease liabilities	17,603	20,067
<b>Finance leases:</b>		
Property and equipment, at cost	1,526	1,523
Accumulated amortization	(1,401)	(1,387)
Property and equipment, net	125	136
Current finance lease liabilities	137	174
Finance lease liabilities - less current portion	86	117
Total finance lease liabilities	\$ 223	\$ 291
<b>Weighted Average Remaining Lease Term (in years):</b>		
Operating leases	4.94	4.97
Finance leases	2.08	2.24
<b>Weighted Average Discount Rate:</b>		
Operating leases	5.73 %	5.67 %
Finance leases	5.24 %	5.31 %

Supplemental cash flow information related to leases was as follows:

	Six Months Ended June 30,	
	2023	2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 3,722	\$ 3,748
Operating cash flows from finance leases	9	10
Financing cash flows from finance leases	105	116
ROU assets obtained in exchange for lease obligations:		
Operating leases	\$ —	\$ 826

Maturities of lease liabilities are as follows:

Year Ending December 31,	Operating leases	Finance leases
2023 (excluding the first 6 months)	\$ 3,123	\$ 92
2024	5,273	80
2025	3,505	32
2026	2,466	22
2027	1,649	9
Thereafter	4,292	—
Total lease payments	20,308	235
Less imputed interest	(2,705)	(12)
Total	\$ 17,603	\$ 223

#### NOTE 15 – INCOME TAXES

For the three months ended June 30, 2023, we recorded an income tax expense of \$1.4 million compared with an income tax expense of \$1.3 million for the three months ended June 30, 2022. Our effective tax rate was -5.3% for the three months ended June 30, 2023, compared with -17.3% in the prior year period. The tax rate for the three months ended June 30, 2023 reflects a tax expense on a pre-tax loss consistent with the prior year period as our United States and Singapore entities remain in a full valuation allowance. Accordingly, 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 - BUSINESS COMBINATIONS

On September 1, 2022, we completed the acquisition of UK-based GeoSLAM, a leading provider of mobile scanning solutions with proprietary high-productivity simultaneous localization and mapping (SLAM) software. We believe this acquisition enables the Company to provide mobile scanning solutions using SLAM software to create 3D models for use in Digital Twin applications. We believe these newly acquired capture technologies integrate into our 4D digital reality-based SaaS offering that will allow customers to access multiple 4D data sources for visualization and analysis through a single user experience. We acquired all voting equity interests of GeoSLAM held by the previous owners. The results of GeoSLAM's operations as of and after the date of acquisition have been included in our condensed consolidated financial statements as of and for the period ended June 30, 2023. The total purchase price included \$29 million of cash paid, net of cash acquired and a non-cash payment of 495,562 shares of FARO stock valued at \$15.9 million that is subject to customary lock-up provisions for a total purchase price of \$44.9 million.

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

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

	<u>Fair Value</u>
<b>Tangible assets acquired:</b>	
Accounts receivable	\$ 2,452
Inventory	6,576
Property, plant and equipment, net	270
Other assets	505
<b>Total assets acquired</b>	<b>9,803</b>
<b>Liabilities assumed:</b>	
Accounts payable and accrued liabilities	(2,187)
Deferred revenue	(1,282)
Other current liabilities	(289)
<b>Total liabilities assumed</b>	<b>(3,758)</b>
Intangible assets	18,610
<b>Net assets acquired</b>	<b>24,655</b>
Deferred income tax liability	4,472
Goodwill	24,763
<b>Purchase price paid, net of cash acquired</b>	<b>\$ 44,946</b>

The goodwill arising from the acquisition consists largely of the expected synergies from combining operations as well as the value of the workforce. This goodwill is not tax deductible. Acquisition and integration costs are not included as components of consideration transferred, but are recorded as expense in the period in which such costs are incurred. As of June 30, 2023, we have incurred \$2.1 million of acquisition or integration costs for the GeoSLAM acquisition. Accounts receivable acquired represent a gross contractual amount of \$2.6 million of which we expect to collect \$2.5 million. We believe that the fair value of these receivables approximates the net book value given their short term nature. Pro forma financial results for GeoSLAM have not been presented because the effects of these transactions, individually and in the aggregate, were not material to our condensed consolidated financial results.

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

	Amount	Weighted Average Life (Years)
Brand	\$ 466	3
Technology	3,828	5
Customer relationships	14,316	15
<b>Fair value of intangible assets acquired</b>	<b>\$ 18,610</b>	<b>13</b>

On December 1, 2022, we completed the acquisition of SiteScape, an innovator in LiDAR 3D scanning software solutions for the AEC and O&M markets. SiteScape enables LiDAR equipped mobile devices to easily capture indoor spaces digitally, providing a readily available entry-point to scanning physical spaces for a broad range of applications. We believe integrating SiteScape's iOS-enabled low-resolution LiDAR capture capability into the FARO Sphere Platform will allow streamlining multiple capture methods into a single centralized environment on a single coordinate system. We believe this enables FARO's construction and facilities customers to access a portfolio which now contains low-resolution Lidar, 360° photo, video, mobile mapping and terrestrial laser scanning. The total purchase price included \$1.9 million of cash paid, net of cash acquired. The results of SiteScape's operations as of and after the date of acquisition have been included in our consolidated financial statements as of and for the period ended June 30, 2023.

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

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

		<u>Fair Value</u>
Intangible assets	\$	807
Goodwill		1,109
Purchase price paid, net of cash acquired	\$	1,916

The goodwill arising from the acquisition consists largely of the expected synergies from combining operations as well as the value of the workforce. This goodwill is not tax deductible. Acquisition and integration costs are not included as components of consideration transferred, but are recorded as expense in the period in which such costs are incurred. As of June 30, 2023, we have incurred \$0.2 million of acquisition or integration costs for the SiteScape acquisition. Pro forma financial results for SiteScape have not been presented because the effects of these transactions, individually and in the aggregate, were not material to our condensed consolidated financial results.

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

	Amount	Weighted Average Life (Years)
Technology	\$ 807	3
Fair value of intangible assets acquired	\$ 807	3

#### NOTE 17 - 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 will 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 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 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 June 30, 2023, the conditions allowing holders of the 2025 Notes to convert have not been met. The Notes are therefore not convertible as of June 30, 2023 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. As of June 30, 2023, the outstanding principal balance of the Notes was \$75 million. The Company is in compliance with all covenants under the indenture governing the Notes.

The net carrying amount of the Notes was as follows:

	As of June 30, 2023	
Principal	\$	75,000
Unamortized discount and insurance costs		(2,509)
Net carrying amount	\$	72,491

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

	2023	
	Three Months Ended June 30,	Six Months Ended June 30,
Contractual interest expense	\$ 1,147	\$ 1,990
Amortization of discount and issuance costs	116	171
Total interest expense related to the Notes	\$ 1,263	\$ 2,161

As of June 30, 2023, the future minimum payments for interest on our outstanding convertible debt for the next five years are as follows:

Year Ending	Minimum Interest Payments	
2023	\$	2,154
2024		4,125
2025		4,125
2026		4,125
2027	\$	4,125

## **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, 2022, as filed with the Securities and Exchange Commission on February 15, 2023 (the Annual Report”).*

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

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

Forward-looking statements are not guarantees of future performance and are subject to a number of known and unknown risks, uncertainties, assumptions, 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 otherwise required by law. Important factors that could cause actual results to differ materially from those contemplated in such forward-looking statements include, among others, the following:

- an economic downturn or other adverse changes in the industries that we serve or the domestic and international economies in the regions of the world where we operate and other general economic, business, and financial conditions;
- the effects of the ongoing COVID-19 pandemic, including on our business operations, as well as its impact on general economic and financial market conditions;
- the effects of shipping and other supply chain disruptions caused by the ongoing COVID-19 pandemic and its impact on our ability to deliver our products to customers;
- our inability to realize the intended benefits of reorganizing our business functions to improve the efficiency of our sales organization and to improve operational effectiveness;
- our inability to realize the intended benefits of our undertaking to transition to a subscription-based business model to deliver new and existing software offerings on a cloud-computing-based platform, including but not limited to impairment charges of capitalized expenditures related to the development of Sphere, our cloud-computing-based platform, and our inability to realize the expected benefits;
- our inability to successfully execute our strategic plan, 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;
- the effect of inflationary pressures, rising interest rates, and instability in the banking sector, and its impact on our business operations;
- our inability to successfully realize changes to the pricing of our products and services;
- our inability to achieve and maintain profitability to fully realize the economic benefit of recorded deferred tax assets;
- our inability to further penetrate our customer base and target markets;

- development by others of new or improved products, processes or technologies that make our products less competitive or obsolete;
- our inability to maintain what we believe to be our technological advantage by developing new products and enhancing our existing products;
- risks associated with expanding international operations, such as difficulties in staffing and managing foreign operations, increased political and economic instability, compliance with potentially evolving import and export regulations, and the burdens and potential exposure of complying with a wide variety of U.S. and foreign laws and labor practices;
- changes in trade regulation, which result in rising prices of imported steel, steel byproducts, aluminum and aluminum byproducts and various other raw materials that we use in the production of measurement devices, and our ability to pass those costs on to our customers or require our suppliers to absorb such costs;
- changes in foreign regulation which may result in rising prices of our measurement devices sold as exports to our international customers, our customers' willingness to absorb incremental import tariffs, and the corresponding impact on our profitability;
- our inability to successfully identify and acquire target companies and achieve expected benefits from, and effectively integrate, acquisitions that are consummated, including the operations from Holobuilder, Inc., UK-based NGH Holdings Limited and its subsidiaries (collectively, "GeoSLAM") 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 may compromise the confidentiality, integrity, or availability of our internal data and the availability of our products and websites designed to support our customers or their data;
- our inability to adequately maintain effective internal controls over financial reporting;
- fluctuations in our annual and quarterly operating results and the inability to achieve our financial operating targets as a result of a number of factors including, without limitation (i) litigation and regulatory action brought against us, (ii) quality issues with our products, (iii) excess or obsolete inventory, shrinkage or other inventory losses due to product obsolescence, change in demand for our products, scrap or material price changes, (iv) raw material price fluctuations and other inflationary pressures, (v) expansion of our manufacturing capability, (vi) the size and timing of customer orders, (vii) the amount of time that it takes to fulfill orders and ship our products, (viii) the length of our sales cycle to new customers and the time and expense incurred in further penetrating our existing customer base, (ix) manufacturing inefficiencies associated with new product introductions, (x) costs associated with new product introductions, such as product development, marketing, assembly line start-up costs and low introductory period production volumes, (xi) the timing and market acceptance of new products and product enhancements, (xii) customer order deferrals in anticipation of new products and product enhancements, (xiii) the inability of our sales and marketing programs to achieve their sales targets, (xiv) start-up costs associated with opening new sales offices outside of the United States, (xv) fluctuations in revenue without proportionate adjustments in fixed costs, (xvi) inefficiencies in the management of our inventories and fixed assets, (xvii) compliance with government regulations including health, safety, and environmental matters, and (xviii) costs associated with the training and ramp-up time for new sales people;
- changes in gross margins due to a changing mix of products sold and the different gross margins on different products and sales channels;
- changes in applicable laws, rules or regulations, or their interpretation or enforcement, or the enactment of new laws, rules or regulations that apply to our business operations or require us to incur significant expenses for compliance;
- our inability to successfully comply with the requirements of the Restriction of Hazardous Substances Directive and the Waste Electrical and Electronic Equipment Directive in the European Union;
- the inability of our products to displace traditional measurement devices and attain broad market acceptance;



- the impact of competitive products and pricing on our current offerings;
- the loss or change 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;
- 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 on Form 10-Q, and in other SEC filings.

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

### **Overview**

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

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

We operate in international markets throughout the world and maintain sales offices in Australia, Brazil, Canada, China, France, Germany, India, Italy, Japan, Malaysia, Mexico, the Netherlands, Poland, 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 2023.

We account for wholly-owned foreign subsidiaries in the currency of the respective foreign jurisdiction; therefore, fluctuations in exchange rates may have an impact on the value of the intercompany account balances denominated in different currencies and reflected in our condensed consolidated financial statements. We are aware of the availability of off-balance sheet financial instruments to hedge exposure to foreign currency exchange rates, including cross-currency swaps, forward contracts and foreign currency options. No such instruments were utilized by the Company in 2023 or 2022. We have not used hedging instruments in the past 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*

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

On July 15, 2021, we entered into a manufacturing services agreement (the "Agreement") with Sanmina Corporation ("Sanmina"), in connection with the Restructuring Plan. Under the Agreement, Sanmina will provide manufacturing services for the Company's measurement device products 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 have 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 June 30, 2023, we expected to incur total pre-tax charges in the range of \$22 million to \$28 million through the end of fiscal year 2023, with a targeted annualized savings of approximately \$20 million to \$30 million. As of June 30, 2023, in relation with the Integration Plan, we have incurred total restructuring charges of \$21.4 million, and have made cash payments of \$4.0 million.

In the second quarter of 2023, we completed an evaluation of our leased facilities located in Lake Mary, Florida, Stuttgart, Germany and Portugal and determined that portions of these facilities will be abandoned. Consequently, we recorded right-of-use asset and leasehold improvement impairment charges of \$3.7 million, which was included in restructuring costs on the condensed consolidated statements of operations. As a part of the Integration Plan, we also evaluated our product portfolio and decided to discontinue certain legacy products. This led to an inventory and related purchase commitments impairment charges of \$8.1 million in the second quarter of 2023 that was included in cost of sales on the condensed consolidated statements of operations.

In the second quarter of 2023 and 2022, we have recognized \$3.1 million and \$1.0 million, respectively, in employee severance and other professional costs associated with the restructuring plans. Additionally, we paid \$3.2 million and \$1.6 million, respectively, for the same periods, primarily consisting of severance and related benefits.

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

FARO Sphere is our new cloud-based platform that is the foundation to our new software and solution strategy. Our objective is to provide differentiated value by offering workflow enhancements which include data uploads from any location, access to our existing suite of 3D software applications, cloud-based data analysis and global user access. FARO Sphere represents the first step into expansion of our cloud-based software offerings that we believe will deliver greater value to our customers and to our shareholders. The FARO Sphere environment could be adopted globally across a wide range of markets, including construction management, facilities, operations and maintenance, robotic simulation and incident preplanning. This potential adoption would 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. A key aspect of our Integration Plan is to consolidate our cloud-based offerings into a single Unified Software Environment.

Revenue from our current software products was \$10.8 million and \$10.5 million for the three months ended June 30, 2023 and 2022, respectively, and Revenue from our current software products was \$21.1 million and \$20.8 million for the six months ended June 30, 2023 and 2022, respectively. Our recurring revenue which is comprised of hardware service contracts, software maintenance contracts, and subscription-based software applications was \$16.4 million and \$17.1 million for the three months ended June 30, 2023 and 2022, respectively, and \$33.1 million and \$33.6 million for the six months ended June 30, 2023 and 2022, respectively.

Research and development costs incurred relating to the development of internal-use software and website development, including software used to upgrade and enhance our websites and applications to be sold as a service are capitalized in the period incurred and amortized over 1 year to 5 years. These costs include external direct costs of materials and services and internal costs such as payroll and benefits of those employees directly associated with the development of new functionality in internal use software to be sold as a service. The amount of costs capitalized relating to internally developed computer software to be sold as a service was \$1.5 million and \$1.7 million for the three months ended June 30, 2023 and 2022, respectively, and \$2.8 million and \$3.2 million for the six months ended June 30, 2023 and 2022, 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.

### *Acquisitions*

On September 1, 2022, we acquired UK-based GeoSLAM, a leading provider of mobile scanning solutions with proprietary high-productivity simultaneous localization and mapping (“SLAM”) software. GeoSLAM’s software enables mobile 3D documentation of indoor or enclosed environments without the need for global positioning system (“GPS”). GeoSLAM’s products and solutions are primarily used today in the geospatial and mining markets. However, there is a growing demand for high productivity mobile scanning in the construction, operations and maintenance markets as well.

On December 1, 2022, we acquired SiteScape, an innovator in light detecting and ranging (“LiDAR”) 3D scanning software solutions for the architecture, engineering and construction (“AEC”) and operations and maintenance (“O&M”) markets. SiteScape enables LiDAR equipped mobile devices to easily capture indoor spaces digitally, providing a readily available entry-point to scanning physical spaces for a broad range of applications. The SiteScape software is available for all LiDAR equipped iPhone operating system (“iOS”) devices, which enables quick and easily accessible data capture to be available to the consumer-based market.

### *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 June 30, 2023 and December 31, 2022.

	June 30, 2023	December 31, 2022
Current Assets:		
Prepaid expenses and other current assets	\$ 10,184	\$ 14,674
Current Liabilities:		
Accounts payable <sup>(1)</sup>	\$ 4,181	\$ 5,137

(1) As of June 30, 2023, we had a net payable balance of \$4.2 million, which includes \$10.3 million of accounts receivable due from Sanmina and \$14.5 million of accounts payable owed to Sanmina. As of December 31, 2022, we had a net payable balance of \$5.1 million, which included \$10.6 million of accounts receivable due from Sanmina and \$15.7 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 June 30,				Six Months Ended June 30,			
	2023	% of Sales	2022	% of Sales	2023	% of Sales	2022	% of Sales
<b>Sales</b>								
Product	\$ 67,603	76.6 %	\$ 59,702	74.7 %	\$ 132,843	76.7 %	\$ 116,432	74.4 %
Service	20,608	23.4 %	20,215	25.3 %	40,335	23.3 %	40,141	25.6 %
<b>Total sales</b>	<b>88,211</b>	<b>100.0 %</b>	<b>79,917</b>	<b>100.0%</b>	<b>173,178</b>	<b>100.0 %</b>	<b>156,573</b>	<b>100.0 %</b>
<b>Cost of sales</b>								
Product	44,094	50.0 %	28,169	35.2 %	78,051	45.1 %	52,504	33.5 %
Service	10,794	12.2 %	11,311	14.2 %	22,088	12.8 %	22,607	14.4 %
<b>Total cost of sales</b>	<b>54,888</b>	<b>62.2 %</b>	<b>39,480</b>	<b>49.4 %</b>	<b>100,139</b>	<b>57.8 %</b>	<b>75,111</b>	<b>48.0 %</b>
Gross profit	33,323	37.8 %	40,437	50.6 %	73,039	42.2 %	81,462	52.0 %
<b>Operating expenses</b>								
Selling, general and administrative	38,561	43.7 %	36,018	45.1 %	79,937	46.2 %	71,508	45.7 %
Research and development	11,662	13.2 %	12,042	15.1 %	24,380	14.1 %	24,170	15.4 %
Restructuring costs	8,450	9.6 %	1,333	1.7 %	12,688	7.3 %	1,932	1.2 %
<b>Total operating expenses</b>	<b>58,673</b>	<b>66.5 %</b>	<b>49,393</b>	<b>61.8 %</b>	<b>117,005</b>	<b>67.6 %</b>	<b>97,610</b>	<b>62.3 %</b>
Loss from operations	(25,350)	(28.7)%	(8,956)	(11.2)%	(43,966)	(25.4)%	(16,148)	(10.3)%
<b>Other (income) expense</b>								
Interest expense (income)	1,003	1.1 %	(12)	— %	1,838	1.1 %	(4)	— %
Other expense (income), net	476	0.5 %	(1,636)	(2.0)%	256	0.1 %	(1,649)	(1.1)%
Loss before income tax	(26,829)	(30.4)%	(7,308)	(9.1)%	(46,060)	(26.6)%	(14,495)	(9.3)%
Income tax expense	1,416	1.6 %	1,266	1.6 %	3,349	1.9 %	3,766	2.4 %
<b>Net loss</b>	<b>\$ (28,245)</b>	<b>(32.0)%</b>	<b>\$ (8,574)</b>	<b>(10.7)%</b>	<b>\$ (49,409)</b>	<b>(28.5)%</b>	<b>\$ (18,261)</b>	<b>(11.7)%</b>

## Consolidated Results

### Three Months Ended June 30, 2023 Compared to the Three Months Ended June 30, 2022

**Sales.** Total sales increased by \$8.3 million, or 10.4%, to \$88.2 million for the three months ended June 30, 2023 from \$79.9 million for the three months ended June 30, 2022. The increase was primarily driven by our product sales, as our service sales remained consistent with the comparable period. Total product sales increased by \$7.9 million, or 13.2%, to \$67.6 million for the three months ended June 30, 2023 from \$59.7 million for the three months ended June 30, 2022. Total product sales increased due to the continued demand for the Quantum Max Arm, improved Tracker sales, combined with the addition of GeoSLAM product sales.

**Gross profit.** Gross profit decreased by \$7.1 million, or 17.6%, to \$33.3 million for the three months ended June 30, 2023 from \$40.4 million for the three months ended June 30, 2022, and gross margin decreased by 12.8 percentage points to 37.8% for the three months ended June 30, 2023 from 50.6% for the three months ended June 30, 2022. Gross margin from product revenue decreased by 18.0 percentage points to 34.8% for the three months ended June 30, 2023, from 52.8% for the prior year period primarily due to \$8.1 million in inventory impairment charges incurred in the second quarter of 2023 as a part of our Integration Plan, and to a lesser extent by the unfavorable price variances due to global supply shortages. The higher cost of raw materials primarily stems from sourcing semiconductor components in an extremely tight broker market, since the third quarter of 2022. We anticipate continued unfavorable price variances until global supply and cost conditions normalize. This unfavorability, however, is expected to be mitigated with our continued shift in supply chain sourcing to Southeast Asia and we are expecting a positive impact on gross margins in 2024. Gross margin from service revenue increased by 3.6 percentage points to 47.6% for the three months ended June 30, 2023 from 44.0% for the prior year period, primarily due to higher service component pricing with a relatively consistent fixed cost structure.

*Selling, general and administrative expenses.* Selling, general and administrative expenses increased by \$2.6 million, or 7.1%, to \$38.6 million for the three months ended June 30, 2023 from \$36.0 million for the three months ended June 30, 2022. This increase was primarily driven by higher personnel costs resulting from additional headcount obtained primarily from both of our recent acquisitions of GeoSLAM and SiteScape, and base compensation increases. Selling, general and administrative expenses as a percentage of sales increased by 1.4 percentage points to 43.7% for the three months ended June 30, 2023 from 45.1% for the three months ended June 30, 2022.

*Research and development expenses.* Research and development expenses decreased by \$0.3 million, or 2.5%, to \$11.7 million for the three months ended June 30, 2023 from \$12.0 million for the three months ended June 30, 2022. Research and development expenses as a percentage of sales decreased to 13.2% for the three months ended June 30, 2023 from 15.1% for the three months ended June 30, 2022.

*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 increased by \$7.2 million to \$8.5 million for the three months ended June 30, 2023 from \$1.3 million for the three months ended June 30, 2022. 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 for the three months ended June 30, 2023 and net interest expense of less than \$0.1 million for the three months ended June 30, 2022. This change was primarily due to interest expense associated with the Notes issued in January 2023.

*Other income, net.* For the three months ended June 30, 2023, other income was \$0.5 million compared with other expense of less than \$0.1 million for the three months ended June 30, 2022. This increase was driven by interest income on our three-month treasury-bill which matured in the second quarter of 2023.

*Income tax expense (benefit).* For the three months ended June 30, 2023 we recorded an income tax expense of \$1.4 million compared with \$1.3 million for the three months ended June 30, 2022. Our effective tax rate was -5.3% for the three months ended June 30, 2023 compared with -17.3% in the prior year period. The tax rate for the three months ended June 30, 2023, reflects a tax expense on a pre-tax loss consistent with the prior year period as our United States and Singapore entities remain in a full valuation allowance. Accordingly, 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 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 \$28.2 million for the three months ended June 30, 2023 compared with net loss of \$8.6 million for the prior year period, reflecting the impact of the factors described above.

#### **Six Months Ended June 30, 2023 Compared to the Six Months Ended June 30, 2022**

*Sales.* Total sales increased by \$16.6 million, or 10.6%, to \$173.2 million for the six months ended June 30, 2023 from \$156.6 million for the six months ended June 30, 2022. This increase is primarily driven by our product sales, as service remained consistent for comparable period. Total product sales increased by \$16.4 million, or 14.1%, to \$132.8 million for the six months ended June 30, 2023 from \$116.4 million for the six months ended June 30, 2022 due to continued demand for our Quantum Max Arm products and the addition of GeoSLAM product sales. Service sales increased by \$0.2 million, or 0.5%, to \$40.3 million for the six months ended June 30, 2023 from \$40.1 million for the six months ended June 30, 2022.

*Gross profit.* Gross profit decreased by \$8.4 million, or 10.3%, to \$73.0 million for the six months ended June 30, 2023 from \$81.5 million for the six months ended June 30, 2022 and gross margin decreased by 9.8 percentage points to 42.2% for the six months ended June 30, 2023 from 52.0% for the six months ended June 30, 2022. Gross margin from product revenue decreased by 13.7 percentage points to 41.2% for the six months ended June 30, 2023 from 54.9% for the prior year period, primarily due to \$8.1 million in inventory impairment charges incurred in the second quarter of 2023 as a part of our Integration Plan, and to a lesser extent by the unfavorable price variances due to global supply shortages. Gross margin from service revenue increased by 1.5 percentage points to 45.2% for the six months ended June 30, 2023 from 43.7% for the prior year period, primarily due to higher service component pricing with relatively consistent fixed cost structure.

*Selling, general and administrative expenses.* Selling, general and administrative expenses increased by \$8.4 million, or 11.8%, to \$79.9 million for the six months ended June 30, 2023 from \$71.5 million for the six months ended June 30, 2022. This increase was primarily driven by higher personnel costs resulting from additional headcount obtained primarily from both of our recent acquisitions of GeoSLAM and SiteScape, and base compensation increases. Selling, general and administrative

expenses as a percentage of sales increased by 0.5% percentage points to 46.2% for the six months ended June 30, 2023, compared with 45.7% of sales for the six months ended June 30, 2022.

*Research and development expenses.* Research and development expenses increased by \$0.2 million, or 0.8%, remaining relatively consistent at \$24.4 million for the six months ended June 30, 2023 from \$24.2 million for the six months ended June 30, 2022. Research and development expenses as a percentage of sales decreased to 14.1% for the six months ended June 30, 2023 from 15.4% for the six months ended June 30, 2022.

*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 increased by \$10.8 million to \$12.7 million for the six months ended June 30, 2023 from \$1.9 million for the six months ended June 30, 2022. 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 six months ended June 30, 2023, we recorded interest expense of \$1.8 million compared with interest expense of less than \$0.1 million for the six months ended June 30, 2022. This change was primarily due to interest expense associated with the Notes issued in January 2023.

*Other (income) expense, net.* For the six months ended June 30, 2023, other expense was \$0.3 million compared to other income of 1.6 million for the six months ended June 30, 2022. This change was primarily driven by the effect of foreign exchange rates on our non-U.S.dollar-denominated balance sheet.

*Income tax expense (benefit).* For the six months ended June 30, 2023, we recorded an income tax expense of \$3.3 million compared with income tax expense of \$3.8 million for the six months ended June 30, 2022. Our effective tax rate was -7.3% for the six months ended June 30, 2023 compared with -26.0% 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 2023. The change in our effective tax rate was primarily due to the increase in the pre-tax loss during the six months ended June 30, 2023 compared to the same period of 2022.

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 \$49.4 million for the six months ended June 30, 2023 compared to \$18.3 million for the prior year period, reflecting the impact of the factors described above.

### **Liquidity and Capital Resources**

Cash and cash equivalents increased by \$30.4 million to \$68.2 million at June 30, 2023, from \$37.8 million at December 31, 2022. The increase was primarily driven by our issuance of the Notes.

Cash used in operating activities was \$13.2 million during the six months ended June 30, 2023, compared to \$3.3 million of cash used in operating activities during the six months ended June 30, 2022. The increased cash usage was primarily due to a larger current year net loss, partially offset by favorable changes in working capital accounts.

Cash used in investing activities during the six months ended June 30, 2023, was \$28.0 million compared to cash used in investing activities of \$9.0 million during the six months ended June 30, 2022. The increase was primarily due to the Company's investment of \$20.2 million in U.S. Treasury securities with a 6-month maturity.

Cash provided by financing activities was \$71.9 million during the six months ended June 30, 2023, compared to cash used in financing activities of \$1.3 million for the six months ended June 30, 2022. Financing cash increase was driven by the Company's issuance of the Notes. The Notes are general senior unsecured obligations of the Company.

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.

Of our cash and cash equivalents, \$41.8 million was held by foreign subsidiaries as of June 30, 2023. On December 22, 2017, the United States enacted the U.S. Tax Cuts and Jobs Act, resulting in significant modifications to existing tax law, which included a transition tax on the mandatory deemed repatriation of foreign earnings. As a result of the U.S. Tax Cuts and Jobs Act, the Company can repatriate foreign earnings and profits to the U.S. with minimal U.S. income tax consequences, other than the transition tax and global intangible low-taxed income (“GILTI”) tax. We have reinvested a large portion of our undistributed foreign earnings and profits in acquisitions and other investments and intends to bring back a portion of foreign cash in certain jurisdictions where we will not be subject to local withholding taxes and which were subject already to transition tax and GILTI tax.

On November 24, 2008, our Board of Directors approved a \$30.0 million share repurchase program. Acquisitions for the share repurchase program may be made from time to time at prevailing prices, as permitted by securities laws and other legal requirements, and subject to market conditions and other factors. The share repurchase program may be discontinued at any time. There is no expiration date or other restriction governing the period over which we can repurchase shares under the program. In October 2015, our Board of Directors authorized an increase to the existing share repurchase program from \$30.0 million to \$50.0 million. We made no stock repurchases during the six-month period ended June 30, 2023, under this program. As of June 30, 2023, we had authorization to repurchase \$18.3 million remaining under the repurchase program.

We believe that our working capital and anticipated cash flow from operations will be sufficient to fund our short- and long-term liquidity operating requirements for at least the next 12 months 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 June 30, 2023, we had \$19.5 million in purchase commitments that are expected to be delivered within the next 12 months. We also had \$28.7 million in long-term commitments for purchases to be delivered after 12 months. Other than as described in the preceding sentences, there have been no material changes to the contractual obligations and commercial commitments table included in Part II, Item 7 of our Annual Report.

### **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 June 30, 2023, 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 six months ended June 30, 2023, 58% of our revenue was invoiced, and a significant portion of our operating expenses and manufacturing costs were paid, in foreign currencies, and 61% of our assets were denominated in foreign currencies. Fluctuations in exchange rates between the U.S. dollar and such foreign currencies may have a material effect on our results of operations and financial condition and could specifically result in foreign exchange gains and losses. The impact of future exchange rate fluctuations on the results of our operations cannot be accurately predicted due to our constantly changing exposure to various currencies, and the fact that all foreign currencies do not react in the same manner in relation to the U.S. dollar. Our most significant exposures are to the Euro, Japanese Yen, Swiss Franc, Chinese Yuan and Brazilian Real. To the extent that the percentage of our non-U.S. dollar revenues derived from international sales increases in the future, our exposure to risks associated with fluctuations in foreign exchange rates may increase.

#### **Interest Rate Exposure**

We had short-term investment \$20.2 million as of June 30, 2023, consisting of 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 short-term investment 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 100 basis points 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 are responsible for establishing and maintaining disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), that are designed to provide reasonable assurance that information required to be disclosed in our reports filed under the Exchange Act, such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s (the “SEC”) rules and forms. Disclosure controls and procedures also include, without limitation, controls and procedures that are designed to provide reasonable assurance that such information is accumulated and communicated to our management, including our Principal Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

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

#### **Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our Principal Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of June 30, 2023. Based on that evaluation, our Principal Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2023 to provide reasonable assurance that information required to be disclosed in this Quarterly Report on Form 10-Q was recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and was accumulated and communicated to our management, including our Principal Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

#### **Changes in Internal Control Over Financial Reporting**

During the quarter ended June 30, 2023, there was no change in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### **Item 1. Legal Proceedings**

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

### **Item 1A. Risk Factors**

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed under “Risk Factors” in this Item 1A and in our Annual Report, 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, other than as set forth below.

***Our executive management team has gone through significant changes and any failure to attract and retain qualified personnel could lead to a loss of sales or decreased profitability.***

The loss of any of our current executive officers, or other key personnel, could adversely affect our sales, profitability or growth. Our executive management team has gone through a significant transition over the course of the last four years, including the hiring of a new President and Chief Executive Officer and a new Chief Financial Officer in 2019; the retirement of our President and Chief Executive Officer in 2023; the appointment of our current Chairman, Yuval Wasserman, as our Executive Chairman, who also assumed the role of Interim Chief Executive Officer in 2023; and, most recently, the appointment of Peter J. Lau as the President and Chief Executive Officer and a member of our Board of Directors in 2023. Any changes and turnover of management could also adversely impact our stock price, and our client relationships and could make recruiting for future management positions more difficult. Moreover, we face competition for qualified personnel and we continue to rely, in part, on equity awards to attract and retain qualified personnel. Our ability to attract and retain qualified personnel could result in increased salaries and other compensation expenses and could negatively affect our profitability.

***We may experience volatility in our stock price.***

The price of our common stock has been, and may continue to be, highly volatile in response to various factors, many of which are beyond our control, including:

- fluctuations in demand for, and sales of, our products or prolonged downturns in the industries that we serve;
- actual or anticipated variations in quarterly or annual operating results;
- general economic uncertainties;
- issuances of shares of our common stock, whether in connection with an acquisition or upon conversion of some or all of our outstanding Notes;
- speculation in the press or investment community; and
- announcements of technological innovations or new products by us or our competitors.

The market price of our common stock may also be affected by announcements of executive leadership changes or our inability to meet analyst and investor expectations and failure to achieve projected financial results. Any failure to meet such expectations or projected financial results, even if minor, could cause the market price of our common stock to decline significantly. Volatility in our stock price may result in the inability of our shareholders to sell their shares at or above the price at which they purchased them.

Our relatively small public float and daily trading volume have in the past caused, and may in the future result in, significant volatility in our stock price. At June 30, 2023, we had approximately 19.9 million shares outstanding held by non-affiliates. Our daily trading volume for the quarter ended June 30, 2023 averaged approximately 393,793 shares.

In addition, stock markets have experienced in the past and may in the future experience a high level of price and volume volatility, and the market prices of equity securities of many companies have experienced in the past and may in the future experience wide price fluctuations not necessarily related to the operating performance of such companies. These broad market fluctuations may adversely affect the market price of our common stock. In the past, securities class action lawsuits frequently have been instituted against companies following periods of volatility in the market price of such companies' securities. If any

such litigation is instigated against us, it could result in substantial costs and a diversion of management's attention and resources, which could have a material adverse effect on our results of operations and financial condition.

***We may be unable to recognize the anticipated benefits of our Restructuring Plan, our new strategic plan, and any future restructuring and strategic plans.***

On February 14, 2020, our Board of Directors approved a global restructuring plan, which is intended to support our new strategic plan in an effort to improve operating performance and to help ensure that we are appropriately structured and resourced to deliver sustainable value to our shareholders and customers. 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 recent acquisitions and the resulting redundant operations and offerings, and on May 3, 2023, amended the Integration Plan, to further increase savings. Actual results, including the final costs of these restructuring plans, our new strategic plan and our ability to sustain savings, may differ materially from our expectations, resulting in our inability to realize the expected benefits of these restructuring plans and negatively impact our ability to execute our future plans and strategies, which could have a material adverse effect on our business, financial condition and results of operations.

***Our bylaws designate specific courts in Florida and the federal district courts of the United States of America are the exclusive forums for substantially all litigation that may be initiated by the Company's shareholders, which could limit our shareholders' ability to obtain a favorable judicial forum for disputes with us.***

Our amended and restated bylaws provide that, unless the Company consents in writing to the selection of an alternative forum, the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the Company, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director or officer or other employee or shareholder of the Company to the Company or the Company's shareholders, (iii) any action asserting a claim arising pursuant to any provision of the Florida Business Corporation Act or the Company's articles of incorporation or bylaws (as either may be amended from time to time), or (iv) any action governed by the internal affairs doctrine, will be a state court located within Seminole County in the State of Florida (or, if no such state court within Seminole County has jurisdiction, another state court located within the State of Florida, or if no such other state court located within the State of Florida has jurisdiction, the federal district court for the Middle District of Florida) (the "Florida Forum Provision"), except for, as to each of (i) through (iv) above, any claim as to which such court determines that there is an indispensable party not subject to the jurisdiction of such court (and the indispensable party does not consent to the personal jurisdiction of such court within ten days following such determination), which is vested in the exclusive jurisdiction of a court or forum other than such court or for which such court does not have subject matter jurisdiction.

Unless the Company consents in writing to the selection of an alternative forum, the federal district courts of the United States of America shall be the sole and exclusive forum for the resolution of any complaint asserting a cause of action arising under the Securities Act, against any person in connection with any offering of the Company's securities, including, without limitation and for the avoidance of doubt, any auditor, underwriter, expert, control person or other defendant.

In addition, our amended and restated bylaws provide that any person or entity purchasing, holding or otherwise acquiring any interest in any security of the Company is deemed to have notice of and consented to the provisions of our amended and restated bylaws; provided, however, that shareholders cannot and will not be deemed to have waived our compliance with the U.S. federal securities laws and the rules and regulations thereunder.

The exclusive-forum provisions in our bylaws may impose additional litigation costs on shareholders in pursuing any such claims. Additionally, the exclusive-forum provisions may limit our shareholders' ability to bring a claim in a judicial forum that they find favorable for disputes with us or our directors, officers or employees, which may discourage the filing of lawsuits against us and our directors, officers and employees, even though an action, if successful, might benefit our shareholders. In addition, if the exclusive-forum are found to be unenforceable, we may incur additional costs associated with resolving such matters. The exclusive-forum provisions may also impose additional litigation costs on shareholders who assert that the provision is not enforceable or invalid. The courts specified in the exclusive-forum provisions may also reach different judgments or results than would other courts, including courts where a shareholder considering an action may be located or would otherwise choose to bring the action, and such judgments may be more or less favorable to us than our shareholders.

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

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

On November 24, 2008, our Board of Directors approved a \$30.0 million share repurchase program. Acquisitions for the share repurchase program may be made from time to time at prevailing prices, as permitted by securities laws and other legal requirements, and subject to market conditions and other factors. The share repurchase program may be discontinued at any time. There is no expiration date or other restriction governing the period over which we can repurchase shares under the program. In October 2015, our Board of Directors authorized an increase to the existing share repurchase program from \$30.0 million to \$50.0 million. We made no stock repurchases during the six month period ended June 30, 2023 under this program. As of June 30, 2023, we had authorization to repurchase \$18.3 million remaining under the repurchase program.

**Item 3. Defaults Upon Senior Securities.**

None.

**Item 4. Mine Safety Disclosures.**

None.

**Item 5. Other Information.**

***Amended and Restated Bylaws.***

As disclosed under Item 5.03 of our Current Report on Form 8-K filed with the SEC on May 30, 2023, on May 26, 2023, our Board of Directors approved the Company's amended and restated bylaws, effective immediately. The amended and restated bylaws were amended and restated, among other things, to:

- a. enhance procedural mechanics and disclosure requirements in connection with shareholder nominations of directors and submissions of proposals regarding other business at the Company's annual meeting of shareholders (except for proposals properly made in accordance with Rule 14a-8 under the Exchange Act), including by requiring additional background information and disclosures regarding proposing shareholders, proposed nominees and business, and other persons related to a shareholder's solicitation of proxies;
- b. change certain provisions relating to shareholder nominees for election as a director to limit the number of director candidates a shareholder may nominate for election and to address the universal proxy rules adopted by the SEC;
- c. clarify the procedures around calling a special meeting of shareholders, the notice required for special meetings, who can vote at shareholder meetings, and the process for adjourning a shareholder meeting;
- d. clarify the Company's exclusive forum provisions; and
- e. make other updates, including ministerial, clarifying and conforming changes, and technical edits.

The foregoing description is qualified in its entirety by reference to our amended and restated bylaws, a copy of which was filed as Exhibit 3.1 to our Form 8-K filed with the SEC on May 30, 2023, and is incorporated herein by reference.

***Securities Trading Plans of Directors and Executive Officers.***

During our last fiscal quarter, 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**

<b>EXHIBIT INDEX</b>						
<b>Exhibit Number</b>	<b>Exhibit Description</b>	<b>Incorporated by Reference</b>				<b>Provided Herewith</b>
		<b>Form</b>	<b>File No.</b>	<b>Exhibit</b>	<b>Filing Date</b>	
<a href="#">3.1</a>	<a href="#">Amended and Restated Articles of Incorporation, as amended</a>	S-1/A	333-32983	3.1	September 10, 1997	
<a href="#">3.2</a>	<a href="#">Amended and Restated Bylaws</a>	8-K	000-23081	3.1	May 30, 2023	
<a href="#">4.1</a>	<a href="#">Specimen Stock Certificate</a>	S-1/A	333-32983	4.1	September 10, 1997	
<a href="#">4.2</a>	<a href="#">Indenture, dated as of January 24, 2023, between FARO Technologies, Inc. and U.S. Bank Trust Company, National Association</a>	8-K	000-23081	4.1	January 24, 2023	
<a href="#">4.3</a>	<a href="#">Form of 5.50% Convertible Senior Notes due 2028 (Included as Exhibit A to the Indenture Filed as Exhibit 4.3 to this Form 10-K)</a>	8-K	000-23081	4.1, Exhibit A	January 24, 2023	
<a href="#">10.1#</a>	<a href="#">2022 Equity Incentive Plan, as amended, and forms of agreement thereunder</a>					X
<a href="#">10.2#</a>	<a href="#">Transition and Retirement Agreement, dated as of May 12, 2023, by and between Michael Burger and FARO Technologies, Inc.</a>	8-K/A	000-23081	10.1	May 18, 2023	
<a href="#">10.3#</a>	<a href="#">Offer Letter between FARO Technologies, Inc. and Peter J. Lau</a>	8-K	000-23081	10.1	June 29, 2023	
<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.

# - Indicates management contract or compensatory plan.

**SIGNATURE**

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

**FARO Technologies, Inc.**

(Registrant)

Date: August 2, 2023

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



**FARO TECHNOLOGIES, INC.**  
**2022 EQUITY INCENTIVE PLAN**  
**(As Amended May 25, 2023)**

SECTION 1. GENERAL PURPOSE OF THE PLAN; DEFINITIONS

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

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

The following terms shall be defined as set forth below:

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

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

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

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

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

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

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

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

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

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

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

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

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

“Fair Market Value” of the Stock on any given date means the fair market value of the Stock determined in good faith by the Administrator; provided, however, that if the Stock is listed on the National Association of Securities Dealers Automated Quotation System (“NASDAQ”), NASDAQ Global Market, The New York Stock Exchange or another national securities exchange or traded on any established market, the determination shall be made by

reference to market quotations. If there are no market quotations for such date, the determination shall be made by reference to the last date preceding such date for which there are market quotations.

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

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

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

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

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

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

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

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

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

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

“*Sale Event*” shall mean (i) the sale of all or substantially all of the assets of the Company on a consolidated basis to an unrelated person or entity, (ii) a merger, reorganization or consolidation pursuant to which the holders of the Company’s outstanding voting power and outstanding stock immediately prior to such transaction do not own a majority of the outstanding voting power and outstanding stock or other equity interests of the resulting or successor entity (or its ultimate parent, if applicable) immediately upon completion of such transaction, (iii) the sale of all of the Stock of the Company to an unrelated person, entity or group thereof acting in concert, (iv) any other transaction in which the owners of the Company’s outstanding voting power immediately prior to such transaction do not own at least a majority of the outstanding voting power of the Company or any successor entity immediately upon completion of the transaction other than as a result of the acquisition of securities directly from the Company; or (v) individuals who, as of the Effective Date, constitute the Board (the “*Incumbent Directors*”) cease for any reason to constitute at least a majority of the Board or other governing body or entity of the Company, its successor or survivor, provided that any person becoming a director

subsequent to the Effective Date but prior to any Sale Event, whose election or nomination for election was approved or recommended by a vote of a majority of the Incumbent Directors then on the Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director, without written objection to such nomination), shall be an Incumbent Director; provided, however, that no individual initially elected or nominated as a director of the Company as a result of an actual or threatened election contest with respect to directors or as a result of any other actual or threatened solicitation of proxies or consents by or on behalf of any person other than the Board shall be deemed to be an Incumbent Director.

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

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

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

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

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

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

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

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

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

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

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

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

- (i) to select the individuals to whom Awards may from time to time be granted;
- (ii) to determine the time or times of grant, and the extent, if any, of Incentive Stock Options, Non-Qualified Stock Options, Stock Appreciation Rights, Restricted Stock Awards, Restricted Stock Units, Unrestricted Stock Awards, Cash-Based Awards, and Dividend Equivalent Rights, or any combination of the foregoing, granted to any one or more grantees;
- (iii) to determine the number of shares of Stock to be covered by any Award;
- (iv) to determine and modify from time to time the terms and conditions, including restrictions, not inconsistent with the terms of the Plan, of any Award, which terms and conditions may differ among individual Awards and grantees, and to approve the forms of Award Certificates;
- (v) to accelerate at any time the exercisability or vesting of all or any portion of any Award;
- (vi) subject to the provisions of Section 5(c), to extend at any time the period in which Stock Options may be exercised; and
- (vii) at any time to adopt, alter and repeal such rules, guidelines and practices for administration of the Plan and for its own acts and proceedings as it shall deem advisable; to interpret the terms and provisions of the Plan and any Award (including related written instruments); to make all determinations it deems advisable for the administration of the Plan; to decide all disputes arising in connection with the Plan; and to otherwise supervise the administration of the Plan.

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

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

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

(e) Indemnification. Neither the Board nor the Administrator, nor any member of either or any delegate thereof, shall be liable for any act, omission, interpretation, construction or determination made in good faith in connection with the Plan, and the members of the Board and the Administrator (and any delegate thereof) shall be entitled in all cases to indemnification and reimbursement by the Company in respect of any claim, loss, damage or expense (including, without limitation, reasonable attorneys' fees) arising or resulting therefrom to the fullest extent

permitted by law and/or under the Company's articles or bylaws or any directors' and officers' liability insurance coverage which may be in effect from time to time and/or any indemnification agreement between such individual and the Company.

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

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

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

(a) Stock Issuable. The maximum number of shares of Stock reserved and available for issuance under the Plan shall be 2,000,000 shares, subject to adjustment as provided in this Section 3, plus (i) 366,511 shares which represent any shares that, as of the business day immediately prior to the Effective Date, have been reserved but not issued pursuant to any awards granted under the 2014 Plan and are not subject to any awards granted thereunder and (ii) any shares subject to stock options, restricted stock units, or similar awards granted under the Prior Plans that, on or after the Effective Date, expire or otherwise terminate without having been exercised in full or are forfeited to or repurchased by the Company due to failure to vest, with the maximum number of shares that may be added under the foregoing clause (ii) equal to 1,433,480 shares. For purposes of this limitation, (x) the shares of Stock underlying any awards under the Plan and under the Prior Plans that are forfeited, canceled or otherwise terminated (other than by exercise) shall be added back to the shares of Stock available for issuance under the Plan and, to the extent permitted under Section 422 of the Code and the regulations promulgated thereunder, the shares of Stock that may be issued as Incentive Stock Options and (y) each share of Stock

underlying Full Value Awards granted under the Prior Plans that again become available as provided in this Section 3(b) shall increase the share reserve under this Section 3(a) by 1.7 shares of Stock. Notwithstanding the foregoing, the following shares shall not be added to the shares authorized for grant under the Plan: (i) shares tendered or held back upon exercise of an Option or settlement of an Award to cover the exercise price or tax withholding, and (ii) shares subject to a Stock Appreciation Right that are not issued in connection with the stock settlement of the Stock Appreciation Right upon exercise thereof. In the event the Company repurchases shares of Stock on the open market, such shares shall not be added to the shares of Stock available for issuance under the Plan. Subject to such overall limitations, shares of Stock may be issued up to such maximum number pursuant to any type or types of Award; provided, however, that no more than 2,000,000 shares of the Stock may be issued in the form of Incentive Stock Options. The shares available for issuance under the Plan may be authorized but unissued shares of Stock or shares of Stock reacquired by the Company. Awards that may be settled solely in cash shall not be counted against the share reserve.

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

(c) Mergers and Other Transactions. In the case of and subject to the consummation of a Sale Event, the parties thereto may cause the assumption or continuation of Awards theretofore granted by the successor entity, or the substitution of such Awards with new Awards of the successor entity or parent thereof, with appropriate adjustment as to the number and kind of shares and, if appropriate, the per share exercise prices, as such parties shall agree. To the extent the parties to such Sale Event do not provide for the assumption, continuation or substitution of Awards, upon the effective time of the Sale Event, the Plan and all outstanding Awards granted hereunder shall terminate. In such case, except as may be otherwise provided in the relevant Award Certificate, (i) all Options and Stock Appreciation Rights with time-based vesting conditions or restrictions that are not vested and/or exercisable immediately prior to the effective time of the Sale Event shall become fully vested and exercisable as of the effective time of the Sale Event, (ii) all other Awards with time-based vesting, conditions or restrictions shall become fully vested and nonforfeitable as of the effective time of the Sale Event, and (iii) the target payout opportunities attainable under outstanding performance-based Awards shall be

deemed to have been fully earned as of the effective date of the Sale Event based upon the actual level of achievement of all relevant performance goals against target measured as of the date of the Sale Event, and there shall be a payout to grantees within sixty (60) days following the Sale Event (unless a later date is required by Section 409A). In the event of such termination, (i) the Company shall have the option (in its sole discretion) to make or provide for a payment, in cash or in kind, to the grantees holding Options and Stock Appreciation Rights, in exchange for the cancellation thereof, in an amount equal to the difference between (A) the Sale Price multiplied by the number of shares of Stock subject to outstanding Options and Stock Appreciation Rights (to the extent then exercisable at prices not in excess of the Sale Price) and (B) the aggregate exercise price of all such outstanding Options and Stock Appreciation Rights (provided that, in the case of an Option or Stock Appreciation Right with an exercise price equal to or greater than the Sale Price, such Option or Stock Appreciation Right shall be cancelled for no consideration); or (ii) each grantee shall be permitted, within a specified period of time prior to the consummation of the Sale Event as determined by the Administrator, to exercise all outstanding Options and Stock Appreciation Rights (to the extent then exercisable) held by such grantee. The Company shall also have the option (in its sole discretion) to make or provide for a payment, in cash or in kind, to the grantees holding other Awards in an amount equal to the Sale Price multiplied by the number of vested shares of Stock under such Awards.

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

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

(e) Substitute Awards. Substitute Awards may be granted on such terms as the Administrator deems appropriate, notwithstanding limitations on Awards in the Plan. Substitute Awards shall not reduce the shares of Stock authorized for grant under the Plan, except as may be required by reason of Code Section 422, and shares of Stock subject to such Substitute Awards shall not be added to the shares of Stock available for Awards under the Plan as provided in Section 3(a) above. Additionally, in the event that a company acquired by the Company or any Subsidiary or with which the Company or any Subsidiary combines has shares available under a pre-existing plan approved by its shareholders and not adopted in contemplation of such



acquisition or combination, the shares available for grant pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the holders of common stock of the entities party to such acquisition or combination) may, if allowed under applicable law, be used for Awards under the Plan and shall not reduce the shares of Stock authorized for grant under the Plan (and shares of Stock subject to such Awards shall not be added to the shares of Stock available for Awards under the Plan as provided in Section 3(a) above); provided that Awards using such available shares of Stock shall not be made after the date awards or grants could have been made under the terms of the pre-existing plan, absent the acquisition or combination, and shall only be made to individuals who were not employed by or providing services to the Company or its Subsidiaries immediately prior to such acquisition or combination.

#### SECTION 4. ELIGIBILITY

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

#### SECTION 5. STOCK OPTIONS

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

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

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

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

(c) Option Term. The term of each Stock Option shall be fixed by the Administrator, but no Stock Option shall be exercisable more than ten years after the date the Stock Option is

granted. In the case of an Incentive Stock Option that is granted to a Ten Percent Owner, the term of such Stock Option shall be no more than five years from the date of grant.

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

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

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

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

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

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

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

(f) Annual Limit on Incentive Stock Options. To the extent required for "incentive stock option" treatment under Section 422 of the Code, the aggregate Fair Market Value (determined as of the time of grant) of the shares of Stock with respect to which Incentive Stock

Options granted under this Plan and any other plan of the Company or its parent and subsidiary corporations become exercisable for the first time by an optionee during any calendar year shall not exceed \$100,000. To the extent that any Stock Option exceeds this limit, it shall constitute a Non-Qualified Stock Option.

#### SECTION 6. STOCK APPRECIATION RIGHTS

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

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

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

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

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

#### SECTION 7. RESTRICTED STOCK AWARDS

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

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

(c) Restrictions. Restricted Shares may not be sold, assigned, transferred, pledged or otherwise encumbered or disposed of except as specifically provided herein or in the Restricted Stock Award Certificate. Except as may otherwise be provided by the Administrator either in the Award Certificate or, subject to Section 16 below, in writing after the Award is issued, if a grantee's employment (or other Service Relationship) with the Company and its Subsidiaries terminates for any reason, any Restricted Shares that have not vested at the time of termination shall automatically and without any requirement of notice to such grantee from or other action by or on behalf of, the Company be deemed to have been reacquired by the Company at its original purchase price (if any) from such grantee or such grantee's legal representative simultaneously with such termination of employment (or other Service Relationship), and thereafter shall cease to represent any ownership of the Company by the grantee or rights of the grantee as a shareholder. Following such deemed reacquisition of Restricted Shares that are represented by physical certificates, a grantee shall surrender such certificates to the Company upon request without consideration.

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

## SECTION 8. RESTRICTED STOCK UNITS

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

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

(c) Rights as a Shareholder. A grantee shall have the rights as a shareholder only as to shares of Stock acquired by the grantee upon settlement of Restricted Stock Units; provided,

however, that the grantee may be credited with Dividend Equivalent Rights with respect to the stock units underlying his Restricted Stock Units, subject to the provisions of Section 11 and such terms and conditions as the Administrator may determine.

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

#### SECTION 9. UNRESTRICTED STOCK AWARDS

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

#### SECTION 10. CASH-BASED AWARDS

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

#### SECTION 11. DIVIDEND EQUIVALENT RIGHTS

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

(ii) in no event shall any Stock Options or Stock Appreciation Rights provide for any Dividend Equivalent Rights.

(b) Termination. Except as may otherwise be provided by the Administrator either in the Award Certificate or, subject to Section 16 below, in writing after the Award is issued, a grantee's rights in all Dividend Equivalent Rights shall automatically terminate upon the grantee's termination of employment (or cessation of Service Relationship) with the Company and its Subsidiaries for any reason.

## SECTION 12. TRANSFERABILITY OF AWARDS

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

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

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

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

## SECTION 13. TAX WITHHOLDING

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

obligation to deliver evidence of book entry (or stock certificates) to any grantee is subject to and conditioned on tax withholding obligations being satisfied by the grantee.

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

#### SECTION 14. SECTION 409A AWARDS

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

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

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

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

(i) a transfer to the employment of the Company from an Affiliate or from the Company to an Affiliate, or from one Affiliate to another; or

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

#### SECTION 16. AMENDMENTS AND TERMINATION

The Board may, at any time, amend or discontinue the Plan and the Administrator may, at any time, amend or cancel any outstanding Award for the purpose of satisfying changes in law or

for any other lawful purpose, but no such action shall materially and adversely affect rights under any outstanding Award without the holder's consent. Except as provided in Section 3(b) or 3(c), without prior shareholder approval, in no event may the Administrator exercise its discretion to reduce the exercise price of outstanding Stock Options or Stock Appreciation Rights or effect repricing through cancellation and re-grants or cancellation of Stock Options or Stock Appreciation Rights in exchange for cash or other Awards. To the extent required under the rules of any securities exchange or market system on which the Stock is listed, to the extent determined by the Administrator to be required by the Code to ensure that Incentive Stock Options granted under the Plan are qualified under Section 422 of the Code, Plan amendments shall be subject to approval by Company shareholders. Nothing in this Section 16 shall limit the Administrator's authority to take any action permitted pursuant to Section 3(b) or 3(c).

#### SECTION 17. STATUS OF PLAN

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

#### SECTION 18. GENERAL PROVISIONS

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

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



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

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

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

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

#### SECTION 19. EFFECTIVE DATE OF PLAN

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

#### SECTION 20. GOVERNING LAW

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

## FARO Technologies, Inc. 2022 Equity Incentive Plan

### Restricted Stock Unit Award Agreement

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

**Grantee:**

**Grant Date:**

**Number of Restricted Stock Units Granted:**

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

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

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

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

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

Restricted Stock Units equal to the product of the Fair Market Value of a Share on the applicable vesting date, multiplied by the number of vested Restricted Stock Units. If settled in Shares, the Grantee will receive one Share in payment and settlement of each vested Restricted Stock Unit, and such Shares will be registered in the Grantee's name on the books of the Company as of the vesting date.

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

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

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

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

part of the Company's assets or business or any other corporate act or proceeding, whether of a similar character or otherwise.

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

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

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

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

The Grantee acknowledges and agrees that he or she understands that in order for the Company to process this Award and maintain a record of Shares under the Plan, the Company shall collect, use, transfer and disclose Personal Data within the Company and among its Affiliates electronically or otherwise, as necessary for the implementation and administration of the Plan including, in the case of a social insurance number, for income reporting purposes as required by law. The Grantee further understands that the Company may transfer Personal Data, electronically or otherwise, to third parties, including but not limited to such third parties as outside tax, accounting, technical and legal consultants when such third parties are assisting the Company or its Affiliates in the implementation and administration of the Plan. The Grantee understands that such recipients may be located within the jurisdiction of his or her residence, or within the United States or elsewhere and are subject to the legal requirements in those jurisdictions. The Grantee understands that the employees of the Company, its Affiliates and third parties performing work related to the implementation and administration of the Plan shall have access to the Personal Data as is necessary to fulfill their duties related to the implementation and administration of the Plan. By accepting this Award, the Grantee consents,

to the fullest extent permitted by law, to the collection, use, transfer and disclosure, electronically or otherwise, of the Grantee's Personal Data by or to such entities for such purposes and accepts that this may involve the transfer of Personal Data to a country which may not have the same level of data protection law as the country in which this Agreement is executed. The Grantee confirms that if he or she has provided or, in the future, will provide Personal Data concerning third parties including beneficiaries, he or she has the consent of such third party to provide their Personal Data to the Company for the same purposes.

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

#### 11. **Miscellaneous.**

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

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

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

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

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

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

(g) The Company may, in its sole discretion, decide to deliver any documents related to current or future participants in the Plan by electronic means. The Grantee hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an

online or electronic system established and maintained by the Company or a third party designated by the Company.

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

\*\*\*\*\*

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

**FARO TECHNOLOGIES, INC.**

By:

Name: Yuval Wasserman

Title: Executive Chairman

**GRANTEE**

Signed Electronically

Name:

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

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

**Grantee:**  
**Grant Date:**  
**Vesting Commencement Date:**  
**Target Number of Restricted Stock Units:**

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

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

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

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



right to immediately vest all or any portion of such Restricted Stock Units, subject to such terms as the Committee, in its sole discretion, deems appropriate.

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

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

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

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

benefit plan offered to employees of the Company or its subsidiaries unless otherwise specifically provided for in such plan.

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

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

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

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

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

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

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

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

11. **Miscellaneous.**

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

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

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

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

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

(f) The award of Restricted Stock Units as provided in this Agreement and any issuance of Shares or payment pursuant to this Agreement are intended to be exempt from

Section 409A of the Code under the short-term deferral exception specified in Treas. Reg. § 1.409A-1(b)(4).

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

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

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

**FARO TECHNOLOGIES, INC.**

By:

Name: Yuval Wasserman

Title: Executive Chairman

**GRANTEE**

Electronic Signature

Name:

PERFORMANCE METRICS

Performance Period:

Scheduled Vesting Date:

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

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

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

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

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

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

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

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

$$N - 1$$

where:

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

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

“R” represents the Company’s ranking among the Peer Companies.

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

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

(c) “Opening Value” means, with respect to any company, the average of the closing prices per share of the company’s common stock for all trading days in the 90 calendar day period beginning on and including the first day of the Performance Period, assuming any dividends paid during the 90 calendar day period are reinvested in the company’s common stock on the ex-dividend date.

(d) “Closing Value” means, with respect to any company, the average of the closing prices per share of the company’s common stock for all trading days in the 90 calendar day period ending on and including the last day of the Performance Period, assuming any dividends paid during the 90 calendar day period are reinvested in the company’s common stock on the ex-dividend date.

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

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

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

5. *Change in Control.*

(a) In the event of a Change in Control: (i) the Performance Period shall be deemed to have ended as of the date of the consummation of the Change in Control (the “CIC Date,” and

such Performance Period, the “Abbreviated Performance Period”), (ii) the TSR for the Company and each of the Peer Companies shall be calculated by using the Closing Value of each company’s common stock as of the CIC Date, and (iii) the number of earned Restricted Stock Units for such Abbreviated Performance Period (the “CIC Earned Units”) shall be determined in accordance with section 3 above, provided that any reference to “Performance Period” in section 3 above shall be deemed to be a reference to the Abbreviated Performance Period for purposes of this calculation.

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

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

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



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

I, Yuval Wasserman, certify that:

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

Date: August 2, 2023

/s/ Yuval Wasserman

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Yuval Wasserman  
Executive Chairman  
(Principal Executive Officer)

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

I, Allen Muhich, certify that:

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

Date: August 2, 2023

/s/ Allen Muhich

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Allen Muhich  
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 Executive Chairman and Principal Executive Officer of FARO Technologies, Inc. (the Company), hereby certify that the Quarterly Report on Form 10-Q for the quarter ended March 31, 2023 (the Report) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 2, 2023

/s/ Yuval Wasserman

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Yuval Wasserman  
Executive Chairman  
(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 March 31, 2023 (the Report) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 2, 2023

/s/ Allen Muhich

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Allen Muhich  
Chief Financial Officer  
(Principal Financial Officer)