

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

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

For the fiscal year ended December 31, 2021

or

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

For the transition period from _____ to _____

Commission File Number 0-23081

FARO TECHNOLOGIES, INC.

(Exact name of Registrant as Specified in Its Charter)

Florida
(State or Other Jurisdiction
of Incorporation or Organization)

59-3157093
(I.R.S. Employer
Identification Number)

250 Technology Park,
(Address of Principal Executive Offices)

Lake Mary, Florida

32746
(Zip Code)

Registrant's telephone number, including area code: (407) 333-9911

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

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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the Registrant’s common stock held by non-affiliates of the Registrant on June 30, 2021 (the last business day of the Registrant’s most recently completed second fiscal quarter) was 1,405,017,473 based on the closing price of the Registrant’s common stock on such date on the Nasdaq Global Select Market, and assuming solely for the purposes of this calculation that all directors and executive officers of the Registrant are “affiliates.”

As of February 14, 2022, there were outstanding 18,206,064 shares of the Registrant’s common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant’s proxy statement for the 2021 Annual Meeting of Shareholders are incorporated by reference in Part III of this Annual Report on Form 10-K.

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PART I

CAUTIONARY STATEMENTS FOR FORWARD-LOOKING INFORMATION

FARO Technologies, Inc. (“FARO,” the “Company,” “us,” “we” or “our”) has made “forward-looking statements” in this Annual Report on Form 10-K within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Statements that are not historical facts or that describe our plans, beliefs, goals, intentions, objectives, projections, expectations, assumptions, strategies, or future events are forward-looking statements. In addition, words such as “may,” “might,” “would,” “will,” “will be,” “future,” “strategy,” “believe,” “plan,” “should,” “could,” “seek,” “expect,” “anticipate,” “intend,” “estimate,” “goal,” “objective,” “project,” “forecast,” “target” and similar words identify forward-looking statements.

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

- an economic downturn or other adverse changes in the industries that we serve or the domestic and international economies in the regions of the world where we operate and other general economic, business, and financial conditions;
- the effect of the COVID-19 pandemic, including on our business operations, as well as its impact on general economic and financial market conditions;
- our inability to realize the intended benefits of our undertaking to transition to a company that is reorganized around functions to improve the efficiency of our sales organization and to improve operational effectiveness;
- our inability to 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;
- our inability to successfully execute our new strategic plan and restructuring plan, including but not limited to additional impairment charges and/or higher than expected severance costs and exit costs, and our inability to realize the expected benefits of such plans;
- our inability to realize the anticipated benefits of our partnership with Sanmina and to successfully transition our manufacturing operations to Sanmina’s production facility;
- our inability to reasonably source essential equipment and materials to manufacture our products as a result of global supply shortages or inflationary pressures;
- our inability to achieve and maintain profitability to fully realize the economic benefit of recorded deferred tax assets;
- our inability to further penetrate our customer base and target markets;
- development by others of new or improved products, processes or technologies that make our products less competitive or obsolete;
- our inability to maintain what we believe to be our technological advantage by developing new products and enhancing our existing products;
- risks associated with expanding international operations, such as difficulties in staffing and managing foreign operations, increased political and economic instability, compliance with potentially evolving import and export regulations, and the burdens and potential exposure of complying with a wide variety of U.S. and foreign laws and labor practices;
- changes in trade regulation, which result in rising prices of imported steel, steel byproducts, aluminum and aluminum byproducts and various other raw materials that we use in the production of measurement devices, and our ability to pass those costs on to our customers or require our suppliers to absorb such costs;
- changes in foreign regulation which may result in rising prices of our measurement devices sold as exports to our international customers, our customers’ willingness to absorb incremental import tariffs, and the corresponding impact on our profitability;

- our inability to successfully identify and acquire target companies and achieve expected benefits from, and effectively integrate acquisitions that are consummated;
- our inability to realize the intended benefits of the technology, products, operations, contracts, and personnel of our acquisitions;
- the cyclical nature of the industries of our customers and material adverse changes in our customers' access to liquidity and capital;
- changes in the potential for the computer-aided measurement market and the potential adoption rate for our products, which are difficult to quantify and predict;
- our inability to protect our patents and other proprietary rights in the United States and foreign countries;
- our inability to adequately establish and maintain effective internal controls over financial reporting;
- fluctuations in our annual and quarterly operating results and the inability to achieve our financial operating targets as a result of a number of factors including, without limitation (i) litigation and regulatory action brought against us, (ii) quality issues with our products, (iii) excess or obsolete inventory, shrinkage or other inventory losses due to product obsolescence, change in demand for our products, scrap or material price changes, (iv) raw material price fluctuations and other inflationary pressures, (v) expansion of our manufacturing capability, (vi) the size and timing of customer orders, (vii) the amount of time that it takes to fulfill orders and ship our products, (viii) the length of our sales cycle to new customers and the time and expense incurred in further penetrating our existing customer base, (ix) manufacturing inefficiencies associated with new product introductions, (x) costs associated with new product introductions, such as product development, marketing, assembly line start-up costs and low introductory period production volumes, (xi) the timing and market acceptance of new products and product enhancements, (xii) customer order deferrals in anticipation of new products and product enhancements, (xiii) the inability of our sales and marketing programs to achieve their sales targets, (xiv) start-up costs associated with opening new sales offices outside of the United States, (xv) fluctuations in revenue without proportionate adjustments in fixed costs, (xvi) inefficiencies in the management of our inventories and fixed assets, (xvii) compliance with government regulations including health, safety, and environmental matters, and (xviii) costs associated with the training and ramp-up time for new sales people;
- changes in gross margins due to a changing mix of products sold and the different gross margins on different products and sales channels;
- changes in applicable laws, rules or regulations, or their interpretation or enforcement, or the enactment of new laws, rules or regulations that apply to our business operations or require us to incur significant expenses for compliance;
- our inability to successfully comply with the requirements of the Restriction of Hazardous Substances Directive and the Waste Electrical and Electronic Equipment Directive in the European Union;
- the inability of our products to displace traditional measurement devices and attain broad market acceptance;
- the impact of competitive products and pricing on our current offerings;
- the loss of any of our executive officers or other key personnel;
- difficulties in recruiting research and development engineers and application engineers;
- the failure to effectively manage the effects of any future growth;
- the impact of reductions or projected reductions in government spending, or uncertainty regarding future levels of government expenditures, particularly in the defense sector;
- variations in our effective income tax rate, which makes it difficult to predict our effective income tax rate on a quarterly and annual basis, and the impact of the U.S. Tax Cuts and Jobs Act of 2017 on the global intangible low-taxed income of foreign subsidiaries;
- the loss of key suppliers and the inability to find sufficient alternative suppliers in a reasonable period of time or on commercially reasonable terms;
- the impact of fluctuations in exchange rates;
- the effect of estimates and assumptions with respect to critical accounting policies and the impact of the adoption of recently issued accounting pronouncements;

- the effect of changes in political conditions in the U.S. and other countries in which we operate, including the effect of changes in U.S. trade policies or the United Kingdom's withdrawal from the European Union, on general market conditions, global trade policies and currency exchange rates;
- the magnitude of increased warranty costs from new product introductions and enhancements to existing products;
- the sufficiency of our plants and third party resources to meet manufacturing requirements;
- the continuation of our share repurchase program;
- the sufficiency of our working capital and cash flow from operations to fund our long-term liquidity requirements;
- the impact of geographic changes in the manufacturing or sales of our products on our effective income tax rate; and
- our ability to comply with the requirements for favorable tax rates in foreign jurisdictions.

A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included throughout this filing and particularly in Part I, Item 1A of this Annual Report on Form 10-K. Moreover, new risks and uncertainties emerge from time to time, and we undertake no obligation to update publicly or review the risks and uncertainties included in this Annual Report on Form 10-K, unless otherwise required by law.

ITEM 1. BUSINESS

FARO was founded in 1982 and re-incorporated in Florida in 1992. Our worldwide headquarters are located at 250 Technology Park, Lake Mary, Florida 32746 and our telephone number is (407) 333-9911.

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.

COVID-19

Our business is significantly vulnerable to the economic effects of pandemics and other public health crises, including the ongoing novel coronavirus (“COVID-19”) pandemic that has surfaced in virtually every country of our global operating footprint. During 2020, we experienced a significant decline in the demand for our products and services across all of our served markets as a result of the impact of the spread of COVID-19. While COVID-19 has negatively impacted demand for our products and services overall, it has provided us with the opportunity to adapt to operating in a virtual environment. We significantly increased the utilization of our existing virtual sales demonstration infrastructure which has enabled ongoing customer product education. We launched an updated web-based learning system with FARO Academy that has resulted in an increase in the attendance of our virtual training and product information seminars as our customers take advantage of the opportunity to remotely participate and to better understand the capabilities of our products and software offerings.

During 2021, while we saw a recovery in our revenue across our served industries, we continued to assess the ongoing impact of COVID-19 on our business results and we remained committed to taking actions to mitigate both the impact on the health and safety of our employees, as well as negative business effects resulting from demand disruption, material availability and potential production challenges, including, but not limited to, the following:

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

We continue to maintain a strong capital structure with a cash balance of \$122.0 million and no debt as of December 31, 2021. We believe that our liquidity position is adequate to meet our projected needs in the reasonably foreseeable future.

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

Strategy

As part of our new strategic plan, and based on the recommendation of our CEO, who is also our Chief Operating Decision Maker (“CODM”), in the fourth quarter of 2019, we eliminated our vertical structure in favor of a functional structure. Our new executive leadership team is comprised of functional leaders in areas such as sales, marketing, operations, research and development and general and administrative, and resources are allocated to each function at a consolidated unit level. We no longer have separate business units, segment managers or vertical leaders who report to the CODM with respect to operations, operating results or planning for levels or components below the total Company level. Instead, our CODM now allocates resources and evaluates performance on a company-wide basis. Based on these changes, commencing with the fourth quarter of 2019, we report as one reporting segment that develops, manufactures, markets, supports and sells a suite of 3D imaging and software solutions.

In addition to the reorganization of the Company’s structure, we evaluated our hardware and software product portfolio and the operations of certain of our recent acquisitions. As a result of this evaluation, we simplified our hardware and software product portfolio and divested our Photonics business and 3D Design related assets obtained from our acquisition of Opto-Tech SRL and its subsidiary Open Technologies SRL (collectively, “Open Technologies”) in the second quarter of 2020.

On February 14, 2020, our Board of Directors approved a global restructuring plan (the “Restructuring Plan”), which supports our strategic plan in an effort to improve operating performance and ensure that we are appropriately structured and resourced to deliver sustainable value to our shareholders and customers. Key activities under the Restructuring Plan have achieved \$39.6 million in annualized Non-GAAP savings that were realized by the end of fiscal year 2021 and included decreasing total headcount by approximately 500 employees upon the completion of the Restructuring Plan. The elimination of our vertical structure allowed us to successfully complete our redefined go-to-market strategy which placed increased focus on our customers and enabled our sales employees, supported by our talented pool of field application engineers, to sell all product lines globally.

Our new marketing leadership team has focused its efforts on gaining an increased understanding of customer applications and workflows which enables value-based product positioning while optimizing our customer’s total cost of ownership. By strengthening our understanding of customer applications and workflows, we will continue to develop high-value solutions across our product and software platforms. Also, our marketing leadership team has transformed our lead generation process and implemented technology to provide our sales organization with higher quality leads which optimizes the time and effort spent by our newly organized sales team.

We continue to focus on organizational optimization and improved decision making throughout the Company. Prior to the execution of the Restructuring Plan, the Company had strong geographic organizations with decentralized decision making. Additionally, the previous vertical structure layered on top of the geographic organization led to an overly complex and costly management structure. The newly formed global functional organization has enabled centralized management and clear process ownership, eliminating redundant resources and increasing the Company’s agility and ability to execute the new strategic plan during the COVID-19 global pandemic.

We recorded a pre-tax charge of approximately \$15.8 million and paid \$13.1 million during the year ended December 31, 2020 primarily consisting of severance and related benefits, professional fees and other related charges. We have continued to make significant progress in executing the Restructuring Plan during 2021. We recorded a pre-tax charge of approximately \$7.4 million and paid \$5.8 million during the year ended December 31, 2021 primarily consisting of severance and related benefits, professional fees and other related charges and costs.

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

We continue to evaluate our key initiatives and execution of the Restructuring Plan, and expect to incur additional pre-tax charges in the range of \$6 million to \$10 million through the end of fiscal year 2022.

Acquisition

On June 4, 2021, FARO Technologies, Inc. acquired Holobuilder, Inc. (“Holobuilder”), an American company focused on a photogrammetry-based 3D platform which delivers hardware agnostic image capture, registration and viewing to the Digital Twin market. With an initial focus on Construction Management, Holobuilder’s technology platform provides general contractors a solution to efficiently capture and virtually manage construction progress using off-the-shelf 360° cameras.

Industry Background

We have a wide variety of customers that support a large number of industries, including automotive, aerospace, metal and machine fabrication, surveying, architecture, engineering and construction, as well as, public safety forensics. The pressures in reducing overall manufacturing costs, improving profitability in architecture, engineering and construction (“AEC”) and the need for complete information in public safety are all driving the need for automated solutions to quickly capture accurate 3D data to be made accessible remotely. In each of the industries we serve, there is a growing need for accurate 3D information for high accuracy inspection, machine alignment and calibration, as-built modeling and design, quality control, digital twin and crash and crime scene investigations as well as pre-incident planning. Each of these industries are undergoing a form of transformation where the use of FARO’s digital technology would help improve customers’ yields, reduce costs and drive additional profitability.

In the manufacturing industry, the continued focus on higher yields, cost reductions and decreased time to market all drive the need for accurate information to support overall manufacturing processes which include part quality, machine down time and overall manufacturing yield. The dimensional metrology market will be challenged to continue to provide higher accuracy results and meet the continuing demand of tightening tolerances in both the automotive and aerospace industries. The higher accuracy requirements will also result in trends away from traditional hand measurement tools towards automated and integrated equipment. With increasing pressure on costs, the need for tighter quality control and increased automation will drive the adoption of applications and processes that support real-time 3D information to make quick, accurate decisions resulting in optimized manufacturing processes. Industry 4.0 will also continue to drive the need to have 3D information available on-demand across the entire manufacturing ecosystem.

The emergence of building information modeling (“BIM”) in the AEC market has required improvements in 3D documentation, coordination and simulation across the entire building lifecycle. BIM, in part, is the compilation of a 3D model representation of a project that can be updated real time and compare actual to design. BIM is believed to become more prevalent as it aides in reducing cost associated with scrap and overruns. The ability to obtain accurate, real-time 3D measurements and information will help to replace existing methodologies such as tape measures and chalk lines. In addition, an increase in modular and pre-fab construction is being driven by growing urbanization, government initiatives and a need for affordable housing. Modular and pre-fab construction allow for building all, or large portions of a building and then assembling them on-site. The processes of creating such structures resembles more traditional manufacturing flows where real-time 3D measurements and information can vastly improve the costs associated with re-work of materials and poor quality.

The increased focus in public safety around cost, technology adoption and public scrutiny will increase the acceptance of 3D solutions to accurately capture and analyze crime and crash scenes. Body cams, drones, and advanced analytical software are all examples of increased adoption of technology in the public safety sector. Laser scanning technology is used today to capture crime scenes quickly and accurately before leaving the scene. The 3D point cloud that is generated from this data allows for further detailed analysis around bullet trajectory, blood spatter and cast off with full confidence and without the need to revisit the crime scene. This information can be easily shared between police investigators, district attorneys and defense attorneys across multiple jurisdictions. In addition, crash scenes can also be reconstructed by using the 3D information collected while on-site. This information can also be easily shared among different departments, insurance companies and investigators. 3D data capture and analysis allows pre-incident planning activities to prepare in the event of an emergency such as fires or for tactical planning of safety-relevant events like political summits or schools. The time savings and confidence in data collection and analysis will continue to result in 3D technology becoming an integral set of tools in public safety analytics.

In 2021, we have also acquired HoloBuilder, Inc. "Holobuilder" which addresses a need for less accurate yet higher resolution 3D data. This acquisition brings to FARO its leading photogrammetry-based 3D platform, which delivers hardware agnostic image capture, registration and viewing to the fast-growing Digital Twin market. With an initial focus on construction management, HoloBuilder's technology platform provides general contractors a solution to efficiently capture and virtually manage construction progress using off-the-shelf 360° cameras. Further, HoloBuilder's SaaS platform will add fast and easy reality-capture photo documentation and added remote access capability to FARO's highly-accurate 3D point cloud-based laser scanning to create the industry's first end-to-end Digital Twin solution. The combined solution will provide comprehensive scanning and image management capabilities for the Digital Twin market including robotic assembly 3D simulation, construction management, facilities operations and management, and incident pre-planning.

FARO Products

FaroArm® Portfolio. The FaroArm® portfolio consists of a combination of a portable, articulated measurement arm available in various sizes, a computer, and CAM2® software programs, which are described below under "FARO Software", and optional laser line probes ("LLP") for scanning larger objects. They are primarily sold to customers in the automotive, aerospace, metal and machine fabrication industries.

- **Quantum Max and Gage Max FaroArm®** – The Quantum Max series of articulated arms comes in various sizes ranging from 2.0 meters up to 4.0 meters in probing diameter to allow for measuring a large array of part sizes. The 2.0 meter Quantum Max FaroArm® and 1.5 meter Gage Max FaroArm®, offer the highest accuracy for measuring small parts, molds and assemblies replacing the need for small handheld tools such as micrometers, calipers and height gauges. The Quantum Max and Gage Max FaroArms® are ergonomically designed 6-axis articulated ARMs that have the ability to measure across a wide range of sizes and accuracies in various applications and industries. FaroArm® 8-axis allows additional degrees of freedom to capture the most complex parts.
- **Quantum Max ScanArm** - The FAROBlu™ line of laser line probes ("LLP") offer the ability to upgrade a Quantum Max FaroArm® into a Quantum Max ScanArm providing high accuracy, 3D point-cloud data in full color. As with the Quantum Max FaroArm®, the Quantum Max ScanArm is available from 2.0 meters to 4.0 meters measuring diameter to allow for a wide range of applications at a wide range of part sizes. The LLP provides the user the ability to achieve high-speed point cloud capture with different density through basic, standard and high-definition models. The Quantum Max ScanArm offers the same portability and ease of use as the Quantum Max FaroArm® series.

FARO Laser Tracker. The FARO Vantage® Laser Tracker combines a portable, large-volume laser measurement tool, a computer, and CAM2® software programs, representing a product offering primarily sold to customers in the aerospace, automotive, metal and machine fabrication industries.

- **Laser Tracker Vantage®** – The FARO Laser Tracker Vantage® utilizes a laser beam for ultra-precise measurement of objects of up to 80 meters. It enables manufacturing, engineering, and quality control professionals to build, measure and inspect large parts, machine tools and other large objects on-site and in-process.
- **6DoF FARO Vantage® Laser Tracker** – Together with the hand-held 6Probe, a fully-integrated hand-held probe, the 6DoF FARO Vantage® Laser Tracker expands the capabilities of large volume measurement by allowing users to access hidden, hard-to-reach locations by probing and scanning.

FARO Laser Projector. The FARO Tracer^M and Tracer^{SI} accurately project a laser outline onto a 3D surface or object, providing a virtual template that operators and assemblers can use to quickly and accurately position components. The laser template is created using a 3D Computer-Aided Design ("CAD") model that enables the system to visually project a laser outline of parts, reference points, or areas of interest. The result is a virtual and collaborative 3D template to eliminate scrap and streamline a wide range of assembly and production applications. This product is primarily sold to customers in the aerospace, metal working and AEC industries.

FARO Laser Scanning Portfolio. The laser scanning portfolio utilizes laser technology to measure and collect a cloud of data points, allowing for the detailed and precise 3D rendering of an object or area. This technology is used for factory planning, facility life-cycle management, quality control, forensic analysis and capturing large volumes of 3D data.

- **Focus** - The FARO Focus laser scanner utilizes laser technology to measure and collect a cloud of data points, allowing for the detailed and precise 3D rendering of an object or an area as large as an industrial facility. The Focus is available in several models which allow the customer to choose the best capability for their applications. Faro Focus M70 is ultra-portable and captures high accuracy point cloud data for short range measurements. Faro Focus S150 and S350 are designed to capture high accurate and dense point cloud data at mid to long range distances, respectively. The large distant range of measurement capability ensures there is a model to capture 3D information of almost any device, structure or facility. This product is primarily sold to customers in the AEC and public safety industries.
- **Freestyle 2** - The FARO Freestyle 2 is a high-quality, portable 3D scanner designed for photorealistic 3D reality capture. It is a lightweight, handheld device with a high degree of flexibility, allowing operators to scan anywhere in most conditions. This product is primarily sold to customers in the AEC and public safety industries.
- **ScanPlan** - The FARO ScanPlan is a handheld mapper that captures two-dimensional (“2D”) floor plans. The FARO ScanPlan performs real-time capturing and diagramming of as-built floor plans of buildings for threat assessment, pre-incident planning, fire protection engineering and facility management. This product is primarily sold to customers in the AEC and public safety industries.

FARO Software. We provide a complete portfolio of software solutions that integrate with FARO hardware products to merge data and provide collaborative workflows and applications.

- **CAM2®** allows users in the 3D metrology market to efficiently fulfill quality assurance and inspection tasks. CAM2® is currently offered under either a subscription based plan or licensed product.
- **BuildIT Construction** is a construction quality control software solution that leverages reality data to uncover design deviations compared to construction industry standards. BuildIT Construction is currently offered under either a subscription based plan or licensed product.
- **BuildIT Metrology** is a 3D metrology software platform for alignment, inspection and build applications. BuildIT Metrology is currently offered under either a subscription based plan or licensed product.
- **BuildIT Projector** allows manufacturers to plan and operate imaging laser projection and verification workflows to improve the quality and speed of assembly processes. BuildIT Projector is currently offered under either a subscription based plan or licensed product.
- **FARO SCENE** software combines ease-of-use, networking, and an enhanced 3D experience to deliver a complete scan processing solution. With SCENE, customers can display, analyze, administer and edit 3D point clouds. FARO SCENE is currently offered under either a subscription based plan or licensed product.
- **FARO Zone** allows public safety professionals to diagram, analyze and share any scene, available in both 2D and 3D. The software combines data to accelerate forensic crime investigations, crashes and pre-incident planning. FARO Zone is currently offered under either a subscription based plan or licensed product.
- **FARO As-Built™** enables AEC professionals to integrate reality data into any CAD and virtual design environment for buildings. FARO As-Built™ is currently offered under either a subscription based plan or standalone license.
- **Webshare** is a native cloud platform that allows users to collaborate, view, share and explore 3D reality data securely and directly from any common web browser. Webshare is offered as a subscription based plan.
- **Holobuilder™** is a cloud based virtual reality capturing software that allows construction contractors to create, document, analyze, compare and share virtual 3D views of construction projects utilizing commercially available 360 degree cameras. Holobuilder is offered as a subscription based plan.

Hardware Warranty, Software Maintenance and Repair & Other Services. We generally warrant our products against defects in design, materials and workmanship for one year. To support our product lines, we also separately sell hardware service contracts that typically range from one year to three years, software maintenance contracts which enable our customers to receive the latest software updates and typically range from one year to three years, and comprehensive support, training and technology consulting services to our customers.

Customers

Our sales are diversified across a broad number of over 15,000 customers worldwide in a range of metrology, reverse engineering, factory automation, building information modeling, public safety and other applications. Our metrology, reverse engineering and factory automation applications are purchased primarily by customers in the automotive and aerospace markets and a diverse array of manufacturing customers from small machine shops to large industrial manufacturers. Applications are used by these customers for alignment, part inspection, dimensional analysis, first article inspection, incoming and in-process inspection, machine calibration, non-contact inspection, robot calibration, tool building and setup, and assembly guidance. Our building information modeling applications are purchased primarily by customers in the AEC markets. Applications are used by these customers for as-built documentation, construction monitoring, surveying, asset and facility management, and heritage preservation. Our public safety applications are purchased primarily by law enforcement agencies, private investigators, and forensic experts and are used for capturing environmental or situational scenes, crash and fire scene investigations and environmental safety evaluations. Our ten largest customers by revenue represented an aggregate of approximately 3.7% of our total sales in 2021. No customer represented more than 1.0% of our sales in 2021.

Sales and Marketing

We sell our products worldwide through direct sales and service offices, as well as third-party distributors and resellers. We have direct sales personnel in Australia, Brazil, Canada, China, France, Germany, India, Italy, Japan, Malaysia, Mexico, the Netherlands, Poland, Portugal, Singapore, South Korea, Spain, Sweden, Switzerland, Thailand, Turkey, the United Kingdom, and the United States. Our sales and marketing efforts use a process of integrated lead qualification and sales demonstration. Once a customer opportunity is identified, we employ a team-based sales approach involving inside and outside sales personnel. Each team has the ability to sell multiple product lines. We employ a variety of marketing techniques to promote brand awareness and customer identification. As of December 31, 2021, we employed 594 sales and marketing specialists globally.

Research and Development

We believe that our future success depends, in part, on our ability to maintain what we believe to be our technological leadership, which will require ongoing enhancements of both our hardware and software products and the development of new applications and products that provide 3D measurement and imaging solutions. The field of 3D measurement and imaging continues to expand, and new technologies and applications will be essential to competing in this market. Accordingly, we intend to continue to make substantial investments in the development of new technologies, the commercialization of new products that build on our existing technological base, and the enhancement and development of additional applications for our products.

Our research and development efforts are directed primarily at enhancing the functional adaptability of our current products and developing new and innovative products that respond to specific requirements of the emerging market for 3D measurement and imaging solutions. Research and development activities, especially with respect to new products and technologies, are subject to significant risks, and there can be no assurance that any of our research and development activities will be completed successfully or on schedule, or, if completed, will be commercially accepted.

At December 31, 2021, we employed 322 scientists and technicians in our research and development efforts. Research and development expenses were approximately \$48.8 million in 2021, compared to \$42.9 million in 2020 and \$44.2 million in 2019.

Intellectual Property

We own approximately 725 patents and pending patent applications worldwide, which generally expire on a rolling basis between 2023 and 2043. We also own approximately 122 trademark registrations worldwide, with 158 pending trademark applications.

Our success and ability to maintain a competitive position depends, in large part, on our ability to protect our intellectual property. We rely on a combination of contractual provisions and trade secret laws to protect our proprietary information. However, there can be no assurance that the steps taken by us to protect our trade secrets and proprietary information will be sufficient to prevent misappropriation of our proprietary information or preclude third-party development of similar intellectual property.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. We intend to vigorously defend our proprietary rights against infringement by third parties. However, policing unauthorized use of our products is difficult, particularly in foreign countries,

and we may be unable to determine the extent, if any, to which unauthorized uses of our products exist. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as the laws of the United States.

We do not believe that any of our products infringe on the valid, proprietary rights of third parties. There can be no assurance, however, that third parties will not claim infringement by us with respect to current or future products. Such claims, with or without merit, could be time consuming, result in costly litigation, cause product shipment delays or require us to enter into royalty or licensing agreements, which could have a material adverse effect upon our business, operating results and financial condition. In addition, such royalty or licensing agreements, if required, may not be available on terms acceptable to us, if at all.

Manufacturing and Assembly

Manufacturing consists primarily of assembling and integrating components and subassemblies purchased from suppliers into finished products. The primary components, which include machined parts and electronic circuit boards, are produced by subcontractors according to our specifications. Products are assembled, calibrated and tested for accuracy and functionality before shipment. We perform limited in-house circuit board assembly and component part machining. Typically, we enter into purchase commitments for manufacturing components to cover production requirements for 60 to 120 days. We have entered, and may continue to enter, into longer agreements to purchase sufficient inventory to satisfy warranty commitments or to ensure adequate component availability. To date, we have not experienced any significant difficulty in locating and obtaining the materials necessary to fulfill our production schedules. However, we are continuing to monitor ongoing supply chain disruptions that may constrain the availability of raw materials and components used in our products and remain committed to aggressively pursuing adequate sources to ensure continuity of supply and minimize material cost increases that would negatively impact our business.

Our manufacturing, engineering, and design headquarters have been registered to the ISO 9001 standard since July 1998. Semi-annual surveillance audits have documented continuous improvement to this multinational standard. Currently, our manufacturing sites in Lake Mary, Florida; Exton, Pennsylvania; Stuttgart, Germany; and Singapore are jointly registered to ISO 9001. Our FARO Laser Tracker, FaroArm[®], and FAROBlu[™] laser line probe products are all registered to ISO 17025:2005. We continue to examine our scope of registration as our business evolves, and we have chosen English as the standard business language for our operations.

Our efforts to register our manufacturing, engineering and design headquarters to the ISO 9001 standard in concert with the ISO 9001:2015 Quality Management System Certification verifies our commitment to quality through an internationally recognized standard. Additionally, we take a global approach to ISO 17025:2005 regarding the recognition of the Competence of Calibration and Testing Laboratories, seeking to have all locations registered with similar scopes of accreditation and capabilities for the products generated and serviced.

We manufacture our FARO Quantum Max Arm products in our manufacturing facility located in Florida for customer orders from Europe, the Middle East and Africa (“EMEA”), in our manufacturing facility located in Singapore for customer orders from the Asia-Pacific region, and in our manufacturing facility located in Florida for customer orders from the Americas. We manufacture our FARO Focus laser scanner in our manufacturing facilities located in Germany for customer orders from EMEA and the Asia-Pacific region, and in our manufacturing facility located in Pennsylvania for customer orders from the Americas. We manufacture our FARO Laser Tracker and our FARO Laser Projector products in our facility located in Pennsylvania. Under the manufacturing services agreement dated July 15, 2021 and in connection with the Restructuring Plan, Sanmina will provide manufacturing services for the Company’s measurement device products currently manufactured by the Company at the aforementioned manufacturing facilities. A phased transition to a Sanmina production facility is expected to be completed by the end of the second quarter of 2022 as part of our cost reduction initiative. We expect all of our existing manufacturing facilities and future third party manufacturing facilities to have the production capacity necessary to support our volume requirements during 2022.

Competition

Our measurement systems compete in the broad and highly competitive market for measurement devices for manufacturing and industrial applications, which, in addition to portable articulated arms, laser trackers, 3D imaging and laser scanner products, consist of fixed-base CMMs, templates and go/no-go gages, check fixtures, handheld measurement tools, and various categories of surveying equipment. In the FaroArm® portfolio, FARO Laser Tracker, and FARO Focus solution lines, we compete primarily with Hexagon Manufacturing Intelligence, a division of Hexagon AB; Automated Precision, Inc.; Artec Europe, S.a.r.l.; Leica Geosystems AG, a division of Hexagon AB; Creaform, a division of Ametek; and Trimble Inc. In the FARO Laser Projector product line, we compete primarily with Virtek Vision International, a division of Gerber Technology LLC. In our cloud based virtual reality capturing software, Holobuilder™ product line, we compete primarily with Matterport. We also compete in these product lines with a number of other smaller companies. We compete on the basis of technical innovation, product performance, quality and value with respect to all of our products.

We will be required to make continued investments in technology and product development to maintain and extend the technological advantage that we believe we currently have over our competition. However, we cannot be certain that our technology or our product development efforts will allow us to successfully compete as the industry evolves. As the market for our measurement systems expands, additional competition may emerge, and our existing and future competitors may commit more resources to the markets in which we participate.

Government Regulation

Our operations are subject to numerous governmental laws and regulations, including those governing antitrust and competition, the environment, collection, recycling, treatment and disposal of covered electronic products and components, import and export of products, currency conversions and repatriation, taxation of foreign earnings, and the use of local employees and suppliers. Our foreign operations are subject to the U.S. Foreign Corrupt Practices Act, or FCPA, and similar foreign anti-corruption laws, which makes illegal any payments to government officials or government employees that are intended to induce their influence to assist us or to gain any improper advantage for us. We operate in certain regions in the Middle East, Africa, Latin America and Asia-Pacific that are more prone to risk under these anti-corruption laws.

Manufacturers of electrical goods are subject to the European Union’s RoHS2 and WEEE directives, which took effect during 2006. RoHS2 prohibits the use of lead, mercury and certain other specified substances in electronics products, and WEEE makes producers of electrical goods financially responsible for specified collection, recycling, treatment, and disposal of covered electronic products and components. We currently hold RoHS2 and WEEE registration, and we believe we are in compliance with such directives of the European Union.

In addition, a number of data protection laws impact, or may impact, the manner in which we collect, process and transfer personal data. Most notably, the European Union’s General Data Protection Regulation (“GDPR”), which went into effect in May 2018, expands data protection compliance obligations and authorizes significantly increased fines for noncompliance, requiring additional compliance resources and efforts on our part. Further, a number of other regions where we do business, including the United States, the Asia-Pacific region and Latin America, have enacted or are considering new data protection regulations that may impact our business activities that involve the processing of personal data. In addition, U.S. and international laws that have been applied to protect user privacy (including laws regarding unfair and deceptive practices in the U.S. and GDPR in the EU) may be subject to evolving interpretations or applications in light of privacy developments. For example, evolution of laws governing the cross-border transfer of data, such as the invalidation of the EU–U.S. Privacy Shield, creates additional uncertainty around the legality and logistics of such transfers. Compliance with enhanced data protection laws requires additional resources and efforts, and noncompliance with personal data protection regulations could result in increased regulatory enforcement and significant monetary fines and costs.

We historically have sold our products and related services to the U.S. Government (the “Government”) under two General Services Administration (“GSA”) Federal Supply Schedule contracts (the “GSA Contracts”) through the end of 2021. Our sales to the Government under the GSA Contracts represented approximately 1.7% of our total sales for 2021. For sales to the Government beginning in 2022, we expect to sell our products and related services through approved distributors. We chose to make this change in our sales strategy to simplify operations and mitigate compliance risk. The Government, as well as state and local governments, can typically terminate or modify their contracts with our distributors either at their discretion or if these distributors default by failing to perform under the terms of their applicable contract, which could impede our ability to compete in the future for contracts and orders.

Backlog and Seasonality

At December 31, 2021, we had orders representing approximately \$26.1 million in sales outstanding, of which \$10.6 million related to services that we expect to deliver within one year. At December 31, 2020 and 2019, we had orders representing approximately \$19.7 million and \$28.0 million in sales outstanding, respectively.

We typically experience greater order volume during the fourth quarter, as customers spend the remaining balances of their capital expenditure budgets.

Human Capital

At December 31, 2021, we had 1,432 full-time employees worldwide, consisting of 594 sales and marketing professionals, 183 customer service/training/application engineering specialists, 165 production and supply chain staff, 322 research and development staff, and 168 administrative staff. We are not a party to any collective bargaining agreements and believe our employee relations are satisfactory.

The Company believes that our future growth and success will depend in part on our ability to attract and retain highly-skilled personnel. The executive management team is responsible for developing and executing the Company's human capital strategy. The human capital strategy includes the attraction, acquisition, engagement and development of the Company's employees necessary to execute on our strategy and design of employee compensation and benefits programs to fit the needs of our worldwide employees. The CEO and Chief Human Resource Officer regularly update the Company's board of directors on key areas of our human capital strategy, including the following:

Diversity and Inclusion: FARO believes in the benefits workforce diversity can provide. Innovation is critical for any technology company – and we believe that it benefits by the creative thinking that happens when people with different perspectives and backgrounds come together. We believe diverse teams can better relate to the many and varied needs of our customers. We promote a culture where individual differences are valued which also allows us to attract the very best talent further encouraging our people to reach their full potential.

We conduct regular workforce engagement surveys to take the “pulse” of our people and gather their insights, with 77% of our global workforce participating in the September survey. We are committed to taking action on employee feedback and have implemented both corporate and business group action plans to address employee concerns. Further, we are committed to making all benefit and employment-related decisions in compliance with established equal employment opportunity statutes and without regard to religion, national origin, age, gender, race, color, ancestry, sexual orientation, disability, marital status, citizenship, pregnancy, medical condition or any other protected class status, as defined by local, state or federal laws.

We believe strongly in building a global workforce that is diverse and that can build strong working relationships with our customers in the countries we operate. We support an inclusive culture and motivate our workforce to be themselves while at work. We are committed to providing our employees with a positive and safe work environment that is free of discrimination, harassment and workplace violence. We encourage our employees to embrace different ideas, strengths, interests and cultural backgrounds. People development and inclusion are important to us. We understand the importance of giving back to the communities in which we live and work.

Health and Safety: Health, safety, and the well-being of our employees is one of our top priorities. We strive to achieve world-class safety levels on an annual basis. Our safety culture focuses on reducing workplace injuries and is supported by effective communication and reporting of workplace injuries. Due to the COVID-19 pandemic, most of our non-manufacturing and technical service personnel continue to work remote from our offices. Our global manufacturing operations, including facilities located in Pennsylvania, Florida and Germany continue to be designated as essential business and therefore continue to operate. To protect our employees in facilities in which our teams operate, we have employed preventative measures to ensure the health and safety of our employees. We ensure our preventative measures are in compliance with the most recent local governmental regulations and requirements.

Available Information

We make available, free of charge on our Internet website at www.faro.com, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission, or the SEC. You can find these reports on our website at www.faro.com by first clicking “Investor Relations” and then “SEC Filings.” We have included our website address throughout this filing as textual references only. The information on, or accessible through, our website is not a part of, or incorporated into, this Annual Report on Form 10-K. You may also access this information at the SEC’s website at <http://www.sec.gov>. This site contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

ITEM 1A. RISK FACTORS

The statements under this heading describe the most significant risks to our business identified by management and should be considered carefully in conjunction with the discussion in Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part II, Item 7 of this Annual Report on Form 10-K and in our Consolidated Financial Statements and notes thereto included in Part II, Item 8 of this Annual Report on Form 10-K before deciding to invest in, or retain, shares of our common stock.

Any of the following risks and uncertainties could materially and adversely affect our business, results of operations, liquidity, and financial condition. These 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 do not consider to be material to our business.

Risks Related to Our Business and Industry

Competitors may develop products that make our products obsolete or less competitive.

The 3D measurement and imaging solutions market is characterized by rapid technological change. Competitors may develop new or improved products, processes or technologies that may make our products obsolete or less competitive.

As a result, our success depends, in part, on our ability to maintain our technological advantage by developing new products and applications and enhancing our existing products, which can be complex and time-consuming and require substantial investment. Significant delays in new product releases or difficulties in developing new products could adversely affect our business and results of operations. We can provide no assurance that we will be able to adapt to evolving markets and technologies or maintain our technological advantage.

Our growth depends on the ability of our products to attain broad market acceptance.

The market for traditional fixed-base coordinate measurement machines, or CMMs, check fixtures, handheld measurement tools, and surveying equipment is mature. Part of our strategy is to continue to displace these traditional measurement devices. Displacing traditional measurement devices and achieving broad market acceptance for our products requires significant effort to convince customers to reevaluate their historical measurement procedures and methodologies.

We market closely interdependent hardware products and related software for use in measurement, inspection, and high density surveying applications. Substantially all of our revenues are currently derived from sales of these products and software, and we plan to continue our business strategy of focusing on the software-driven, 3D measurement and imaging solutions market. Consequently, our financial performance will depend, in large part, on computer-based measurement, inspection and high density surveying products achieving broad market acceptance. If our products cannot attain broad market acceptance, we will not grow as anticipated and may be required to make increased expenditures on research and development for new applications or new products.

We may not be able to identify or consummate acquisitions or achieve expected benefits from or effectively integrate acquisitions, which could harm our growth.

Our growth strategy partly depends on our ability to obtain additional technologies, complementary product lines and sales channels through selective acquisitions and strategic investments. We may not be able to identify and successfully negotiate suitable acquisitions, obtain financing for future acquisitions, if necessary, on satisfactory terms or otherwise complete acquisitions in the future. In the past, we have used our stock as consideration for acquisitions. Our common stock may not remain at a price at which it can be used as consideration for acquisitions without diluting our existing shareholders, and potential acquisition candidates may not view our stock attractively.

In addition, realization of the benefits of acquisitions often requires integration of some or all of the sales and marketing, distribution, manufacturing, engineering, software development, customer service, finance and administrative organizations of the acquired companies. The integration of acquisitions demands substantial attention from senior management and the management of the acquired companies. Our recent acquisitions are, and any future acquisitions may be, subject to a variety of risks and uncertainties including:

- the inability to assimilate effectively the operations, products, technologies and personnel of the acquired companies (some of which may be located in diverse geographic regions);
- the inability of the acquired business to meet our performance expectations;
- the inability to maintain uniform standards, controls, procedures and policies;
- the need or obligation to divest portions of the acquired companies; and

- the potential impairment of relationships with customers.

We cannot offer any assurance that we will be able to identify, complete or successfully integrate any suitable acquisitions, that any acquired companies will operate profitably, or that we will realize the expected synergies and other benefits from any acquisition.

The buying process for most of our customers for our measurement products is highly decentralized and typically requires significant time and expense for us to further penetrate the potential market of a specific customer, which may delay our ability to generate additional revenue.

Our success depends, in part, on our ability to further penetrate our customer base. During 2021, approximately 82% of our revenue was attributable to sales to our existing customers. If we are not able to continue to further penetrate our existing customer base, our future sales may decline. However, most of our customers have a decentralized buying process for measurement devices, and we must spend significant time and resources to increase revenues from a specific customer. For example, we may provide products to only one of our customer's manufacturing facilities or for a specific product line within a manufacturing facility. We cannot offer any assurance that we will be able to maintain or increase the amount of sales to our existing customers, which could adversely affect our financial results.

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus ("COVID-19") as a global pandemic, which continues to spread throughout the United States and around the world. Our operations are significantly vulnerable to the effects of pandemics, such as COVID-19, which have, and could continue to materially impact our business.

We are significantly vulnerable to the economic effects of pandemics and other public health crises, including the ongoing COVID-19 outbreak that has surfaced in every country of our global operating footprint. The impact of COVID-19 or COVID-19 variants including the severity of other additional periods of increases or spikes in the number of cases in areas in which we operate, disruptions to our business, changes in consumer behaviors, restrictions on individual and business activities, and financial liquidity concerns, has created significant volatility in the macro-economic environment and initially led to reduced economic activity. There have been and continues to be material actions taken by global government authorities to contain and slow the spread of COVID-19, including travel bans, quarantines, and stay-at-home orders to restrict activities for individuals and businesses.

Most of our non-manufacturing and technical service personnel continue to work from home, which began in March 2020. Our global manufacturing operations, including facilities located in Pennsylvania, Florida and Germany continue to be designated as essential business and therefore continue to operate. To protect our employees in facilities in which our teams operate, we have employed preventative measures to ensure the health and safety of our employees. We ensure our preventative measures are in compliance with the most recent local governmental regulations and requirements.

The full impact of the COVID-19 pandemic on our financial condition and results of operations will depend on future events and developments, such as the duration and magnitude of the outbreak and future possible subsequent outbreaks. The impacts of the pandemic include, but are not limited to, the following:

- Potential production slowdowns of our factories in impacted countries or potential supply and distribution chain disruption, which could in the future result in increased costs and decreased efficiency, and which have and could impact our ability to respond to rapid changes in demand;
- The demand for our products and services, and whether the pandemic leads to recessionary conditions in any of our key markets, including potential trade customer financial restructuring or insolvency and increases in uncollectible accounts receivable balances with our trade customer base; Potential future impairment in value of our tangible or intangible assets could be recorded as a result of weaker economic conditions;
- Potential significant disruption of global financial markets, which could have a negative impact on our ability to access capital in the future, and which has, together with operational impacts noted above, necessitated certain recent liquidity creation and preservation actions as a precautionary measure;
- Fluctuations in forecasted earnings before tax and corresponding volatility in our effective tax rate;
- Potential operational disruption if key employees terminate their employment or become ill, as well as diversion of our management team's attention from non-COVID-19 related matters; and
- Potential investigations, legal claims or litigation against us for actions we have taken or may take, or decisions we have made or may make, as a consequence of the pandemic;

As such, the ultimate impact on our financial condition and results of operations cannot be determined at this time. In 2021, we have been adversely affected and continue to expect our business, financial condition and results of operations to be adversely affected.

In addition, we cannot predict the impact that COVID-19 will have on our trade customers, suppliers, consumers, and each of their financial conditions; however, any material effect on these parties could adversely impact us. The impact of COVID-19 may also exacerbate other risks discussed for the year ended December 31, 2021, any of which could have a material adverse effect on our business, financial condition and results of operations.

We have experienced a significant transition in our executive management team in the last three years. Any delay in the integration of our executive management team or our failure to successfully attract and retain qualified personnel could have an adverse effect on our business and results of operations.

Our executive management team has gone through a significant transition in the last three years, including the hiring of a new President and Chief Executive Officer and the hiring of a new Chief Financial Officer. Any delay in the integration of our executive management team could affect our ability to develop, implement and execute our business strategies and plans, which could have an adverse effect on our business and results of operations.

In addition, if we fail to successfully attract qualified personnel or to retain our executive management team and other key personnel, our sales, profitability and growth and our ability to execute our business strategies and plans could be adversely impacted. Turnover of management could also adversely impact our stock price and our client relationships and could make recruiting for future management positions more difficult. We face competition for qualified personnel, which could result in increased salaries and other compensation expenses and could negatively affect our profitability.

We derive a substantial part of our revenues from our international operations, which are subject to greater volatility and often require more management time and expense to achieve profitability than our domestic operations.

We derive more than half of our revenues from international operations. Our international operations are subject to various risks, including:

- difficulties in staffing and managing foreign operations;
- political and economic instability;
- unexpected changes in regulatory requirements and laws;
- longer customer payment cycles and difficulty collecting accounts receivable;
- compliance with export and import regulations, including tariffs, and trade restrictions;
- governmental restrictions on the transfer of funds to us from our operations outside the United States; and
- burdens of complying with a wide variety of foreign laws and labor practices.

Several of the countries where we operate have emerging or developing economies, which may be subject to greater currency volatility, negative growth, high inflation, limited availability of foreign exchange and other risks. These factors may harm our results of operations and any measures that we may implement to reduce the effect of volatile currencies and other risks of our international operations may not be effective.

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;
- 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 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 December 31, 2021, we had approximately 18.1 million shares outstanding held by non-affiliates. Our daily trading volume for the year ended December 31, 2021 averaged approximately 82,794 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 are subject to risks of natural disasters and other catastrophic events.

The occurrence of one or more natural disasters, such as fires, explosions, tornadoes, hurricanes, earthquakes, floods and other forms of severe weather, or the occurrence of acts of war, political unrest, terrorist activities or labor issues, including due to public health crises such as pandemics and epidemics, where we have a manufacturing facility could result in physical damage to, and complete or partial closure of, our manufacturing facilities, which could adversely affect our business, operations and financial performance. Interruptions in our manufacturing operations or damage to our manufacturing facilities could reduce our revenues and increase our costs, and the extent of losses from natural disasters, severe weather and such other events will be a function of both the severity of the event and the total amount of insured exposure. Although we maintain insurance coverage, we can offer no assurance that our insurance coverage will be adequate to cover any losses or that we will be able to maintain insurance at a reasonable cost in the future. If losses from business interruption or property damage exceed the amounts for which we are insured, our business, results of operations and financial condition could be adversely affected.

Developments relating to the United Kingdom's ("UK") exit from European Union membership could adversely impact our business.

On June 23, 2016, the UK held a referendum in which voters approved an exit from the European Union, commonly referred to as "Brexit." Following a protracted period of negotiation, the UK ceased to be a member of the European Union on January 31, 2020, after the ratification and approval of a withdrawal agreement by the European Union and the UK. The withdrawal agreement provided for a transition period until December 31, 2020 (the "Transition Period"), during which the terms of the future trading relationship between the European Union and the UK were negotiated. Throughout the Transition Period, the legal and regulatory framework between the UK and the European Union had remained the same.

Brexit and the perceptions as to its potential impact have and may continue to adversely affect business activity and economic conditions in Europe and globally and could contribute to instability in global financial and foreign exchange markets after the Transition Period. Brexit could also have the effect of imposing greater restrictions on, and costs associated with, imports and exports between the UK and European Union member states, including, without limitation, the imposition of tariffs and increased regulatory complexities. The hiring and retention of skilled labor may also become more challenging if the free movement of workers between the European Union and the UK ends. We may also be impacted by potential exchange rate volatility. Any of these factors could adversely affect our business and operating results by adversely affecting customer demand and our relationships with customers in the UK and the European Union. In addition, as a result of Brexit, other European countries may seek to conduct referenda with respect to their continuing membership with the European Union.

Given these possibilities and others we may not anticipate, as well as the lack of comparable precedent, the full extent to which we will be affected by Brexit is uncertain. Any of the potential negative effects of Brexit could adversely affect our business, results of operations and financial condition.

We may face difficulties managing the effects of any future growth.

If our business grows rapidly in the future, we expect it to result in:

- increased complexity;
- increased responsibility for existing and new management personnel; and
- incremental strain on our operations and financial and management systems.

If we are not able to manage the effects of any future growth, our business, financial condition and operating results may be harmed.

If our efforts to develop our current services towards a subscription based business model do not succeed, we may reduce our revenue growth rate and profitability, fail to keep pace with technological developments and harm our business.

We are currently developing cloud computing application services to deliver new and existing software offerings. The markets for our 3D measurement, imaging and realization clouds remain relatively new and it is uncertain whether our efforts will ever result in significant revenue for us. Further, the introduction of a significant platform change, including our Sphere platform, and introduction of new services, may not be successful, and early stage interest and adoption of such new services may not result in long term success or significant revenue for us. Our continued efforts to develop new and existing services may not succeed and may reduce our revenue growth rate.

Additionally, if we are unable to rapidly enhance or develop new features for the technology underlying our future subscription based business model that keep pace with the current and future technological environment, our business will be harmed. The success of enhancements, new features and services depends on several factors, including the timely completion, introduction and user acceptance of the feature, service or enhancement. Further, because our services will be designed to operate on a variety of network hardware and software platforms using a standard browser, we will need to continuously enhance our services to keep pace with changes in Internet-related hardware, software, communication, browser and database technologies. We may not be successful in identifying the technology trends and developing the enhancements, or in bringing them to market timely. Furthermore, uncertainties about the timing and nature of new network platforms or technologies, or modifications to existing platforms or technologies, could increase our research and development or service delivery expenses. Any failure of our services to operate effectively with future network platforms and technologies could reduce the demand for our services, result in customer dissatisfaction and harm our business.

Reductions in defense spending could adversely affect our business.

Certain of our customers operate in the defense sector and depend significantly on U.S. government spending. In August 2011, Congress enacted the Budget Control Act of 2011, which imposed spending caps and certain reductions in defense spending through 2021. Automatic spending reductions, referred to as sequestration, were implemented in March 2013. Ongoing budgetary discussions in the federal government may result in other cuts to defense spending. Reductions in defense spending that impact the aerospace and defense industries, or uncertainty regarding future levels of government expenditures, could have an adverse effect on our results of operations. Additionally, if Congress is unable to pass appropriations bills in a timely manner, a government shutdown could result, which may have impacts in addition to those resulting from budget cuts, sequestration impacts or program-level appropriations, including payment delays, impairment of our ability to perform work on existing contracts and reductions in future orders.

Anti-takeover provisions in our articles of incorporation, bylaws and provisions of Florida law could delay or prevent a change of control that you may favor.

Our articles of incorporation, bylaws and provisions of Florida law could make it more difficult for a third party to acquire us. Although we believe such provisions are appropriate to protect long-term value for our shareholders, these provisions could discourage potential takeover attempts and could adversely affect the market price of our shares. Because of these provisions, you might not be able to receive a premium on your investment. These provisions include:

- a limitation on shareholders' ability to call a special meeting of our shareholders;
- advance notice requirements to nominate directors for election to our board of directors or to propose matters that can be acted on by shareholders at shareholder meetings;
- our classified board of directors, which means that approximately one-third of our directors are elected each year; and
- the authority of the board of directors to issue, without shareholder approval, preferred stock with such terms as the board of directors may determine.

The provisions described above could delay or make more difficult transactions involving a change in control of the Company or our management.

Our bylaws designate specific courts in Florida as the exclusive forum for certain 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 or breach of a fiduciary duty owed by any director or officer or other employee of the Company to the Company or the Company's shareholders, (iii) any action asserting a claim against the Company or any director or officer or other employee of the Company 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 asserting a claim against the Company or any director or officer of the Company 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"). The Florida Forum Provision will not apply to any causes of action arising under the Securities Act or the Exchange Act. In addition, our amended and restated bylaws provide that any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock is deemed to have notice of and consented to the Florida Forum Provision; 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 Florida Forum Provision in our bylaws may impose additional litigation costs on shareholders in pursuing any such claims. Additionally, the Florida Forum Provision 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 Florida Forum Provision is found to be unenforceable, we may incur additional costs associated with resolving such matters. The Florida Forum Provision may also impose additional litigation costs on shareholders who assert that the provision is not enforceable or invalid. The courts specified in the Florida Forum Provision 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.

Risks Related to Our Financial Position and Need for Additional Capital

Our financial performance is dependent on the conditions of various industries, including the automotive, aerospace, and heavy-equipment industries, which have from time to time experienced, and may again experience, significant disruptions in the economic environment.

A significant portion of our sales are to manufacturers in the automotive, aerospace, and heavy equipment industries. We are dependent upon the continued viability and financial stability of our customers in these industries, which are highly cyclical and dependent upon the general health of the economy and consumer spending.

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

Our results of operations are affected by fluctuations in exchange rates, which have caused, and may in the future cause, significant fluctuations in our quarterly and annual results of operations. Fluctuations in exchange rates may have a material adverse effect on our results of operations and financial condition and could result in potentially significant foreign exchange gains and losses. Additionally, currency fluctuations could require us to increase prices to foreign customers, which could result in lower net sales by us to those customers. If we do not adjust the prices for our products in response to unfavorable currency fluctuations, we could be forced to sell our products at a lower margin or at a net loss. To the extent that the percentage of our non-U.S. dollar revenues derived from international sales increases in the future, our exposure to risks associated with fluctuations in foreign exchange rates will increase.

We may be unable to recognize the anticipated benefits of our Restructuring Plan and our new strategic plan.

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 ensure that we are appropriately structured and resourced to deliver sustainable value to our shareholders and customers. Key activities under the Restructuring Plan include a continued focus on efficiency and cost-saving efforts, which includes decreasing total headcount by approximately 500 employees upon completion of the Restructuring Plan. These activities are expected to be substantially complete by the end of the first half of 2022. Actual results, including the costs of the Restructuring Plan, may differ materially from our expectations, resulting in our inability to realize the expected benefits of the Restructuring Plan and our new strategic plan and negatively impacting our ability to execute our future plans and strategies, which could have a material adverse effect on our business, financial condition and results of operations.

Changes in tariffs and other export regulations could increase the cost of our products sold to our international customers, which could negatively impact our sales and profitability.

Our international sales operations are subject to extensive laws, governmental regulations and policies, including but not limited to tariffs and other export regulations. Changes in export regulations could increase the cost of our products sold as exports to our international customers. If our international customers are not willing to absorb the incremental costs resulting from those tariffs or other export regulations, it could negatively impact our sales to such customers, as well as our profitability.

We may not be able to achieve financial results within our target goals, and our operating results may fluctuate due to a number of factors, many of which are beyond our control.

Our ability to achieve financial results that are within our goals is subject to a number of factors beyond our control. Moreover, our annual and quarterly operating results have varied significantly in the past and likely will vary significantly in the future. Factors that cause our financial results to fluctuate include, but are not limited to, the following:

- adverse changes in the manufacturing industry and general economic conditions;
- the effectiveness of sales promotions;
- geographic expansion in our regions;
- training and ramp-up time for new sales people;
- investments in strategic sales, product or other initiatives;
- investments in technologies and new products and product enhancements, including costs associated with new development and product introductions, and the timing and market acceptance of new products and product enhancements;
- manufacturing inefficiencies related to new product introductions;
- excess or obsolete inventory, shrinkage or other inventory losses due to product obsolescence, change in demand for our products, scrap or material price changes;
- impairment charges of goodwill or intangible assets;
- expansion of our manufacturing capability;
- the size and timing of customer orders, many of which are received towards the end of a quarter;
- the amount of time that it takes to fulfill orders and ship our products;
- the length of our sales cycle to new customers;
- customer order deferrals in anticipation of new products and product enhancements;
- start-up costs and ramp-up time associated with opening new sales offices outside of the United States;
- variations in our effective income tax rate and difficulty in predicting our effective tax rate on a quarterly and annual basis; and
- litigation and regulatory action brought against us.

Any one or a combination of these factors could adversely affect our annual and quarterly operating results in the future and could cause us to fail to achieve our target financial results.

Future impairments of our goodwill, intangible and long-lived assets could adversely affect our financial condition and results of operations.

Because the historical and projected future performance of certain of our recently acquired operations were lower than our expectations, the technologies, intellectual property, know-how and related intangibles were no longer aligned with our go-forward strategies, and due to other initiatives in connection with our new strategic plan, in the fourth quarter of 2019, we recorded an impairment of \$35.2 million related primarily to goodwill and intangible assets which was included in operating expenses. Further, we disposed of certain of our operations in the second quarter of 2020. See Note 19, “Restructuring” to the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K for further information regarding the impairment. We currently hold a total of \$25.6 million in intangible assets, net of accumulated amortization, and \$82.1 million in goodwill at December 31, 2021. Events may occur or circumstances may change such that the carrying value is not recoverable or it becomes more likely than not that the fair value of long-lived assets is reduced below the carrying value of the assets, which could result in a further write-down of our assets.

In addition, certain of our long-lived assets such as leasehold improvements, machinery, equipment, and sales demonstration assets may experience impairment as a result of events such as the closure of sites, introduction of new products, decisions to exit certain products or markets, and changes in technology. We depreciate long-lived assets and amortize intangible assets at levels we believe are adequate; however, an impairment of these assets could have a material adverse impact on our business, financial condition and results of operations.

If we fail to establish and maintain effective internal controls over financial reporting, our financial statements could contain a material misstatement, which could adversely affect our business and financial condition.

Under Section 404 of the Sarbanes-Oxley Act of 2002 and the rules promulgated by the SEC, companies are required to conduct a comprehensive evaluation of their internal controls over financial reporting. As part of this process, we are required to document and test our internal controls over financial reporting, management is required to assess and issue a report concerning our internal controls over financial reporting, and our independent registered public accounting firm is required to attest to the effectiveness of our internal controls over financial reporting. Our internal controls over financial reporting may not prevent or detect misstatements because of their inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be prevented or detected on a timely basis. Even effective internal controls over financial reporting can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. If we fail to adequately establish and maintain effective internal controls over financial reporting, our financial statements may contain material misstatements, and we could be required to restate our financial results. This could cause us to fail to meet our reporting obligations, lead to a loss of investor confidence and adversely affect our business, our financial condition, and the trading price of our common stock.

Our financial results may be adversely affected by exposure to additional tax liabilities.

As a multinational corporation, we are subject to income tax in the United States and numerous foreign jurisdictions. Our effective tax rate is directly impacted by the application of complex tax laws and regulations and is highly dependent upon the geographic mix of our worldwide earnings or losses, the tax regulations in each country or geographic region in which we operate, and the availability of tax credits and loss carry-forwards. Our provision for income taxes and tax liability in the future could be adversely affected by many factors including, but not limited to, income before taxes being lower than anticipated in countries with lower statutory tax rates and higher than anticipated in countries with higher statutory tax rates, changes in the valuation of deferred tax assets and liabilities, and changes in tax laws, regulations, accounting principles or interpretation of accounting principles. Application of tax laws and regulations is also subject to legal and factual interpretation, judgment, and uncertainty. Further, tax laws are subject to change as a result of changes in fiscal policy and legislation and the evolution of regulations and court rulings.

The income and non-income tax regimes we are subject to or operate under may be subject to significant change. Changes in tax laws or tax rulings, or changes in interpretations of existing laws, could materially affect our financial position and results of operations. Certain countries in Europe, as well as a number of other countries and organizations, have recently proposed or recommended changes to existing tax laws that could significantly increase our tax obligations in many countries where we do business or require us to change the manner in which we operate our business. The Organization for Economic Cooperation and Development (“OECD”) has continued to issue guidelines and proposals related to its Base Erosion and Profit Sharing initiative, which could potentially result in legislative changes to the tax treatment of our foreign operations, as well as impact our effective tax rate and the value of our deferred tax assets.

A valuation allowance may be required for our Dutch deferred tax assets, which may reduce our earnings and have a material adverse effect on our business, results of operations and financial condition.

Our balance sheet includes \$21.3 million in deferred tax assets. Approximately 80% of that amount relates to Dutch deferred tax assets. On a quarterly basis, we assess our ability to realize our deferred tax assets to ensure no valuation allowance is required. The ultimate realization of our Dutch deferred tax assets is dependent upon our ability to generate future taxable income in the Netherlands during the periods in which those deferred tax assets would be deductible. Based on an evaluation we conducted, we determined that it was not necessary to establish a valuation allowance against any of our Dutch deferred tax assets as of December 31, 2021. However, we will continue to monitor whether a valuation allowance is necessary, and if we are required to establish a valuation allowance against our deferred tax assets, it could have a material adverse effect on our results of operations and financial condition.

Risks Related To Product Development And Regulatory Process

Product failures or product availability and performance issues could result in increased warranty costs and delays in new product introductions and enhancements, and could adversely affect our business and financial condition.

We regularly introduce new products and enhance existing products. The impact of new product introductions, including the costs associated with new product introductions, such as product development, marketing, assembly line start-up costs and low introductory period production volumes, and manufacturing inefficiencies associated with new product introductions could have an adverse effect on our business and financial condition. Failures in, or performance issues impacting, our new or existing products could result in increased warranty costs, product recall costs, delays in new product introductions or existing product enhancements, and a loss of sales and customers, which would have an adverse effect on our business and financial condition. The supply of raw materials for a new or existing product could be delayed or constrained, or a key vendor could delay shipments, which may decrease product availability, causing a loss of sales and customers.

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

Our products contain various raw materials, including steel, steel byproducts, aluminum, aluminum byproducts, resin products and various electronic components. We use raw materials directly in manufacturing and in components that we purchase from our suppliers. These raw materials are subject to extensive laws, governmental regulations, policies, including tariffs and other import restrictions, inflationary pressures, and supply shortages. Changes to the laws, governmental regulations and policies governing these raw materials, including tariffs and other import restrictions, have increased and could continue to increase the cost of such raw materials and, correspondingly, the cost of manufacturing our products. Further, interruptions in global supply chains and inflationary pressures have increased and could continue to increase the cost of such raw materials, and have constrained and could continue to constrain the availability of such raw materials. If the costs of our raw materials further increase, whether due to changes in laws, governmental regulations, policies, supply shortages or for other reasons, we may not be able to pass on these costs to our customers, which could have a material adverse effect on our business, results of operations and financial condition. Even in the event that increased costs can be substantially passed through to our customers, our gross margin percentages would decline.

We compete with manufacturers of measurement systems and traditional measurement devices, many of which have more resources than us and may develop new products and technologies.

Our measurement systems compete in the broad and highly competitive market for measurement devices for manufacturing and industrial applications, which, in addition to portable articulated arms, laser trackers, 3D imaging and laser scanner products, consist of fixed-base CMMs, templates and go/no-go gages, check fixtures, handheld measurement tools, and various categories of surveying equipment. In the FaroArm[®], FARO ScanArm, FARO Laser Tracker[™], and FARO Focus product lines, we compete primarily with Hexagon Manufacturing Intelligence, a division of Hexagon AB; Automated Precision, Inc.; Artec Europe, S.a.r.l.; Leica Geosystems AG, a division of Hexagon AB; Creaform, a division of Ametek; and Trimble Inc. In the FARO Laser Projector product line, we compete primarily with Virtek Vision International, a division of Gerber Technology LLC. In our cloud based virtual reality capturing software, Holobuilder[™] product line, we compete primarily with Matterport. We also compete in these product lines with a number of other smaller companies. We compete on the basis of technical innovation, product performance, quality and price with respect to all of our products.

We will be required to make continued investments in technology and product development to maintain the technological advantage that we believe we currently have over our competition. Some of our competitors possess substantially greater financial, technical, and marketing resources than we possess. Moreover, we cannot be certain that our technology or our product development efforts will allow us to successfully compete as the industry evolves. If the market for our measurement systems expands, additional competition may emerge and our existing and future competitors may commit more resources to the markets in which we participate. Our results of operations could be adversely affected by pricing strategies pursued by competitors or technological or product developments by competitors.

We are subject to the impact of governmental and other similar certification processes and regulations, which could adversely affect our business and results of operations.

Our operations are subject to numerous governmental laws and regulations, including those governing antitrust and competition, the environment, collection, recycling, treatment and disposal of covered electronic products and components, import and export of products, currency conversions and repatriation, taxation of foreign earnings and use of local employees and suppliers. An inability to comply with these regulations or obtain any necessary certifications in a timely manner could have an adverse effect on our business and results of operations.

Manufacturers of electrical goods are subject to the European Union's RoHS2 and WEEE directives, which took effect during 2006. RoHS2 prohibits the use of lead, mercury and certain other specified substances in electronics products, and WEEE makes producers of electrical goods financially responsible for specified collection, recycling, treatment, and disposal of covered electronic products and components. While we currently hold RoHS2 and WEEE registration and believe we are in compliance with the directives of the European Union, including the RoHS2 directive, parallel initiatives are being proposed in other jurisdictions, including several states in the United States and China. If we do not comply with any such initiatives, our sales and results of operations could be materially impacted.

In addition, a number of data protection laws impact, or may impact, the manner in which we collect, process and transfer personal data. Most notably, the GDPR, which went into effect in May 2018, expands data protection compliance obligations and authorizes significantly increased fines for noncompliance, requiring additional compliance resources and efforts on our part. Further, a number of other regions where we do business, including the United States, the Asia-Pacific region and Latin America, have enacted or are considering new data protection regulations that may impact our business activities that involve the processing of personal data. Compliance with enhanced data protection laws requires additional resources and efforts, and noncompliance with personal data protection regulations could result in increased regulatory enforcement and significant monetary fines and costs, which could have an adverse effect on our business, results of operations and financial condition.

Our sales to the U.S. government are subject to compliance with regulatory and contractual requirements, and noncompliance could expose us to liability or impede current or future business.

The Government, as well as state and local governments, can typically terminate or modify their contracts with us either at their discretion or if we default by failing to perform under the terms of the applicable contract, which could expose us to liability and impede our ability to compete in the future for contracts and orders. The failure to comply with regulatory and contractual requirements could subject us to investigations, price reductions, up to treble damages, fines or other sanctions and penalties. Additionally, violations of certain regulatory and contractual requirements could also result in us being suspended or debarred from future government contracting.

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

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

Effective as of February 25, 2021, as a result of the review, we entered into a settlement agreement with the GSA. Pursuant to the settlement agreement, we agreed to, among other things, pay to the GSA \$12.3 million in full and final satisfaction of any and all claims, causes of actions, appeals and the like, including damages, costs, attorney's fees and interest

arising under or related to the GSA Matter. As of March 31, 2021, we settled and paid the full \$12.3 million and no longer have any outstanding liability related to this matter.

For sales to the Government beginning in 2022, we expect to sell our products and related services through approved distributors. We chose to make this change in our sales strategy to simplify operations and mitigate compliance risk. The Government, as well as state and local governments, can typically terminate or modify their contracts with our distributors either at their discretion or if these distributors default by failing to perform under the terms of their applicable contract, which could impede our ability to compete in the future for contracts and orders.

Any failure to comply with the Foreign Corrupt Practices Act or similar anti-corruption laws could subject us to fines and penalties.

In 2012, our monitorship expired pursuant to our settlement with the SEC and the United States Department of Justice, or DOJ, concerning certain payments made by our subsidiary in China that may have violated the FCPA and other applicable laws. We are, of course, still subject to such laws and have adopted and maintain a compliance program designed to ensure compliance with these laws; however, in light of our prior conduct, any future failure to comply with any such continuing obligations could result in the SEC and the DOJ aggressively seeking to impose penalties against us. In addition, many countries in which we operate have increased regulation regarding anti-corruption practices generally. Compliance with such regulations could be costly and could adversely impact our results of operations or delay entry into new markets.

Risks Related to Intellectual Property

Any failure to protect our patents and proprietary rights in the United States and foreign countries could adversely affect our revenues.

Our success depends, in large part, on our ability to obtain and maintain patents and other proprietary rights protection for our processes and products in the United States and other countries. We also rely upon trade secrets, technical know-how and continuing inventions to maintain our competitive position. We seek to protect our technology and trade secrets, in part, by confidentiality agreements with our employees and contractors. However, our employees may breach these agreements, or our trade secrets may otherwise become known or be independently discovered by inventors. If we are unable to obtain or maintain protection of our patents, trade secrets and other proprietary rights, we may not be able to prevent third parties from using our proprietary rights, which could have a material adverse effect on our results of operations.

In addition, despite our efforts to protect our patents and other proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary. Policing unauthorized use of our products is difficult, particularly in foreign countries, and we may be unable to determine the extent, if any, to which unauthorized uses of our products exist. In addition, the laws of some foreign countries do not protect our proprietary rights to the same extent as the laws of the United States.

Our patent protection involves complex legal and technical questions. Our patents may be challenged, narrowed, invalidated or circumvented. Further, we may be able to protect our proprietary rights from infringement by third parties only to the extent that our proprietary processes and products are covered by valid and enforceable patents or are effectively maintained as trade secrets. Furthermore, others may independently develop similar or alternative technologies or design around our patented technologies. Litigation or other proceedings to defend or enforce our intellectual property rights could require us to spend significant time and money, which could have an adverse impact on our financial condition.

Claims from others that we infringed on their intellectual property rights may adversely affect our business and financial condition.

From time to time, we receive notices from others claiming that we infringed on their intellectual property rights. Resolving these claims may require us to enter into royalty or licensing agreements on unfavorable terms, require us to stop selling or to redesign affected products, or require us to pay damages. In addition, from time to time, we are involved in intellectual property lawsuits. We could, in the future, incur judgments or enter into settlements of lawsuits and claims that could have a material adverse effect on our financial condition. Any litigation or interference proceedings, regardless of their outcome, may be costly and may require significant time and attention of our management and technical personnel.

Risks Related To Reliance On Third Parties

Our dependence on suppliers for materials could impair our ability to manufacture our products.

Outside vendors provide key components, such as electronic components and semiconductors, used in the manufacture of our products. Any supply interruption in a limited source component would hinder our ability to manufacture our products until a new source of supply is identified. In addition, an uncorrected defect or supplier's variation in a component, either known or unknown, or incompatibility with our manufacturing processes, could hinder our ability to manufacture our products. We may not be able to find a sufficient alternative supplier in a reasonable period of time, or on commercially reasonable terms, if at all. If we fail to obtain a supplier for the manufacture of components of our products, we may experience delays or interruptions in our operations, which would adversely affect our business, results of operations and financial condition.

Risks generally associated with our information systems could adversely affect our business reputation and results of operations.

We rely on our information systems to obtain, rapidly process, analyze and manage data to, among other things:

- facilitate the purchase and distribution of thousands of inventory items;
- receive, process and ship orders on a timely basis;
- accurately bill and collect from customers;
- process payments to suppliers and employees; and
- summarize results and manage our business.

Our primary and back-up computer systems are subject to damage or interruption from power outages, computer and telecommunication failures, security breaches, natural disasters and errors by employees. Though losses arising from some of these issues may be covered by insurance, interruptions of our critical business computer systems or failure of our back-up systems could lead to a loss of sales or decreased profitability.

A cyberattack or security breach of our systems may compromise the confidentiality, integrity, or availability of our internal data and the availability of our products and websites designed to support our customers or their data. Computer hackers, foreign governments or cyber terrorists may attempt to penetrate our network security and our website. Unauthorized access to our proprietary business information or customer data may be obtained through break-ins, sabotage, breach of our secure network by an unauthorized party, computer viruses, computer denial-of-service attacks, employee theft or misuse or other misconduct. Cyber incidents have been increasing in sophistication and frequency and can include third parties gaining access to employee or customer data using stolen or inferred credentials, computer malware, viruses, spamming, phishing attacks, ransomware, card skimming code, and other deliberate attacks and attempts to gain unauthorized access. Because the techniques used by computer programmers who may attempt to penetrate and sabotage our network security or our website change frequently and may not be recognized until launched against a target, we may be unable to anticipate these techniques. It is also possible that unauthorized access to customer data may be obtained through inadequate use of security controls by customers, suppliers or other vendors.

Any security breach, cyberattack or cyber security breach, and any incident involving the misappropriation, loss or other unauthorized disclosure of, or access to, sensitive or confidential customer information, whether involving us or involving one of our vendors, could require us to expend significant resources to remediate any damage, could interrupt our operations and damage our reputation, and could also result in regulatory enforcement actions, material fines and penalties, litigation or other actions which could have a material adverse effect on our business, reputation and results of operations. We have in the past experienced security incidents, and we may in the future experience other data security incidents or breaches affecting personally identifiable information or other confidential business information. If new customers or existing customers believe that our systems do not provide adequate security for the storage of personally identifiable information or other confidential or sensitive information, they may choose not to engage in business with us. Additionally, actual, potential or anticipated attacks may cause us to incur increasing costs, including costs to deploy additional personnel and protection technologies, train employees, and engage third-party experts and consultants. Although we maintain cyber liability insurance, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Americas

Our headquarters is located in a leased building in Lake Mary, Florida containing approximately 46,500 square feet. This facility houses our sales, marketing, customer service/application operations and administrative staff. Our U.S. production, research and development, service operations and manufacturing are located in another leased building in Lake Mary, Florida, which consists of approximately 35,000 square feet, as well as a leased facility consisting of approximately 90,400 square feet located in Exton, Pennsylvania containing research and development, manufacturing and service operations of our FARO Laser Tracker™, FARO Focus, and FARO Laser Projector product lines. We also lease a facility in Nuevo Leon, Mexico containing service and sales operations, which consists of approximately 36,000 square feet.

Europe/Middle East/Africa

In EMEA, our primary operations are located in a leased building in Stuttgart, Germany containing approximately 105,300 square feet. This facility houses the manufacturing, research and development, administration, sales, marketing and service management personnel for our EMEA operations. Additionally, we also have a leased service and sales facility located in Warwickshire, Great Britain consisting of approximately 12,700 square feet.

Asia-Pacific

In APAC, our primary operations are located in a leased building in Singapore containing approximately 22,000 square feet. This facility houses the administration, sales, marketing, service management personnel and manufacturing for our Asia-Pacific operations. Our Japan operations are located in a leased building in Nagoya, Japan containing approximately 15,900 square feet. This facility houses our Japanese sales, marketing and service operations. Our China operations are located in a leased building in Shanghai, China containing approximately 24,700 square feet for sales, marketing and service operations. Our India operations are located in a leased building in New Delhi, India containing approximately 10,510 square feet for sales, distribution and service operations.

We believe our current facilities and future third party resources will be adequate for our needs in 2022 and that we will be able to locate suitable space for additional regional offices or enhanced production needs as necessary.

The information required by the remainder of this Item is incorporated herein by reference to Exhibit 99.1 to this Annual Report on Form 10-K.

ITEM 3. 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.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information and Holders

Our common stock is listed and traded on the Nasdaq Global Select Market under the symbol "FARO".

As of February 14, 2022, we had 34 holders of record of our common stock.

Dividends

To date, we have not paid any cash dividends on our common stock. We expect to retain future earnings for use in operating and expanding our business, and we do not anticipate paying any cash dividends in the reasonably foreseeable future.

Recent Sales of Unregistered Securities

During the years ended December 31, 2021, 2020 and 2019, we did not sell any equity securities that were not registered under the Securities Act.

Purchases of Equity Securities

On November 24, 2008, our Board of Directors approved a \$30.0 million share repurchase program. Subsequently, in October 2015, our Board of Directors authorized an increase to the existing share repurchase program from \$30.0 million to \$50.0 million. In December 2018, our Board of Directors authorized management to utilize the share repurchase program, beginning January 1, 2019, to maintain the number of our issued and outstanding shares to address the dilutive impact of stock options exercises and the settlement of restricted stock units. 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 under this program. 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. We made no stock repurchases during the years ended December 31, 2021, 2020 and 2019 under this program. As of December 31, 2021, we had authorization to repurchase \$18.3 million of the \$50.0 million authorized by our Board of Directors under the existing share repurchase program.

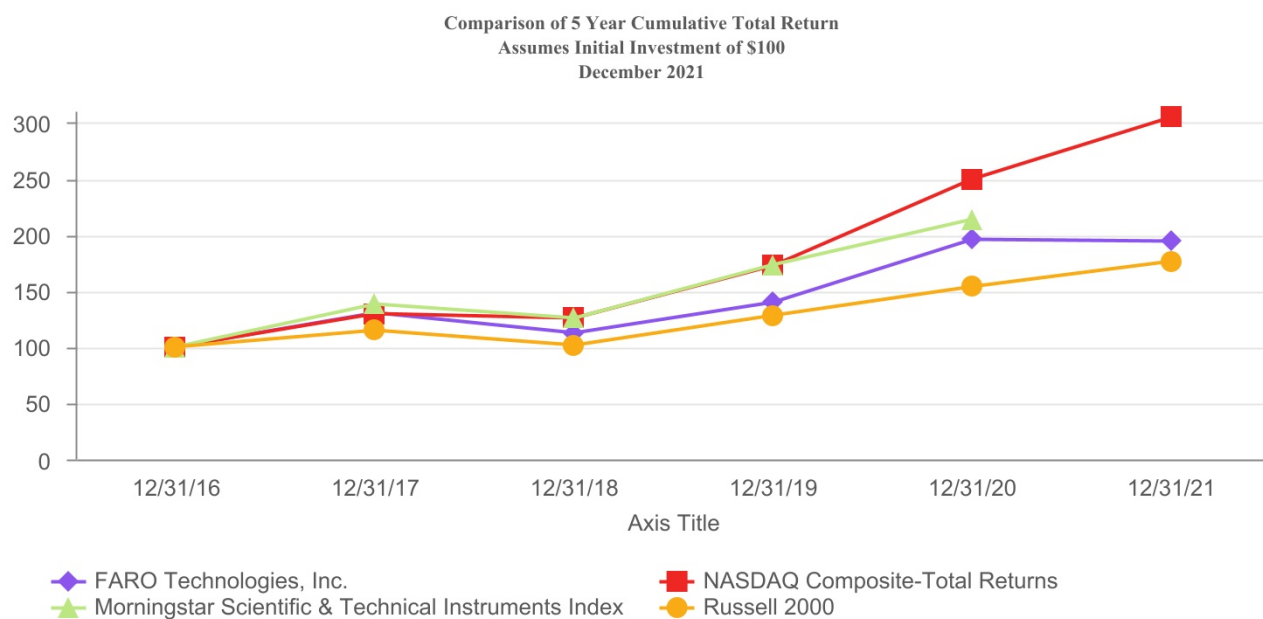
Performance Graph

The following performance graph and related information shall not be deemed to be "soliciting material" or to be "filed" with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act or the Exchange Act, except to the extent that we specifically incorporate it by reference into such filing.

The following graph shows a comparison of the cumulative total stockholder return on our common stock with the cumulative total returns of the NASDAQ Composite Index and the Russell 2000 Index. The Russell 2000 Index replaces the Morningstar Scientific and Technical Instruments Index in this analysis and going forward, as the latter data is no longer accessible. The latter index has been included with data through 2020.

The graph tracks the performance of a \$100 investment in our common stock and in each of the indexes during the last five fiscal years ended December 31, 2021. Data for the NASDAQ Composite Index and the Russell 2000 Index assume reinvestment of dividends.

The comparison in the graph below is based on historical data. The stock price performance shown on the graph is not necessarily indicative of future price performance. Information used in the graph and table was obtained from Zacks Investment Research, a source believed to be reliable, but we are not responsible for any errors or omissions in such information.



Group	Company/Market/Peer	2016	2017	2018	2019	2020	2021
FARO Technologies, Inc.		\$ 100.00	\$ 130.56	\$ 112.90	\$ 139.87	\$ 196.20	\$ 194.51
Nasdaq Composite-Total Returns		\$ 100.00	\$ 129.64	\$ 125.96	\$ 172.18	\$ 249.52	\$ 304.85
Morningstar Scientific & Technical Instruments Index		\$ 100.00	\$ 138.52	\$ 125.44	\$ 173.40	\$ 213.80	N/A
Russell 2000		\$ 100.00	\$ 114.65	\$ 102.02	\$ 128.06	\$ 153.62	\$ 176.39

ITEM 6. SELECTED FINANCIAL DATA

Not Applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following information should be read in conjunction with our Consolidated Financial Statements, including the notes thereto, included in Part II, Item 8 of this Annual Report on Form 10-K.

Overview

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

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

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

We manufacture our FARO Quantum Max Arm products in our manufacturing facility located in Florida for customer orders from Europe, the Middle East and Africa (“EMEA”), in our manufacturing facility located in Singapore for customer orders from the Asia-Pacific region, and in our manufacturing facility located in Florida for customer orders from the Americas. We manufacture our FARO Focus laser scanner in our manufacturing facilities located in Germany for customer orders from EMEA and the Asia-Pacific region, and in our manufacturing facility located in Pennsylvania for customer orders from the Americas. We manufacture our FARO Laser Tracker and our FARO Laser Projector products in our facility located in Pennsylvania. Under the manufacturing services agreement dated July 15, 2021 and in connection with the Restructuring Plan, Sanmina will provide manufacturing services for the Company’s measurement device products currently manufactured by the Company at the aforementioned manufacturing facilities. A phased transition to a Sanmina production facility is expected to be completed by the end of the second quarter of 2022 as part of our cost reduction initiative. We expect all of our existing manufacturing facilities and future third party manufacturing facilities to have the production capacity necessary to support our volume requirements during 2022.

We account for wholly-owned foreign subsidiaries in the currency of the respective foreign jurisdiction; therefore, fluctuations in exchange rates may have an impact on the value of the intercompany account balances denominated in different currencies and reflected in our consolidated financial statements. We are aware of the availability of off-balance sheet financial instruments to hedge exposure to foreign currency exchange rates, including cross-currency swaps, forward contracts and foreign currency options. However, we have not used such instruments in the past, and none were utilized in 2021, 2020 or 2019.

Executive Summary

COVID-19 and Impact On Our Business

Our business is significantly vulnerable to the economic effects of pandemics and other public health crises, including the ongoing novel coronavirus (“COVID-19”) pandemic that has surfaced in virtually every country of our global operating footprint. During 2020, we experienced a significant decline in the demand for our products and services across all of our served markets as a result of the impact of the spread of COVID-19. While COVID-19 has negatively impacted demand for our products and services overall, it has provided us with the opportunity to adapt to operating in a virtual environment. We significantly increased the utilization of our existing virtual sales demonstration infrastructure which has enabled ongoing customer product education. We launched an updated web-based learning system with FARO Academy that has resulted in an increase in the attendance of our virtual training and product information seminars as our customers take advantage of the opportunity to remotely participate and to better understand the capabilities of our products and software offerings.

During 2021, while we saw a recovery in our revenue across our served industries, we continued to assess the ongoing impact of COVID-19 on our business results and we remained committed to taking actions to address the health and safety of our employees and customers, as well as the negative effects from demand disruption and production impacts, including, but not limited to, the following:

- Operating our business with a focus on our employee health and safety, which includes minimizing travel, implementing remote work policies, maintaining employee distancing and enhancing the sanitation of all of our facilities;
- Recommending that our employees receive vaccinations to help protect our colleagues, families, and communities;
- Confidentially collecting proof of vaccination from our employees or requiring weekly COVID-19 testing to use certain facilities;
- Monitoring our liquidity, disciplined inventory management, and limiting capital expenditures; and
- Continuously reviewing our financial strategy to enhance financial flexibility in these volatile financial markets.

We continue to maintain a strong capital structure with a cash balance of \$122.0 million and no debt as of December 31, 2021. We believe that our liquidity position is adequate to meet our projected needs in the reasonably foreseeable future.

Future developments, such as the potential resurgence of COVID-19 in countries that have begun to recover from the early impact of the pandemic and actions taken by governments in response to future resurgence, are highly uncertain. Therefore, the Company is not able to predict the extent to which the COVID-19 outbreak continues to impact the Company’s results of operations and financial conditions. See Item 1A, Risk Factors, included in Part I of this Annual Report on Form 10-K for an additional discussion of risks related to COVID-19.

Our total sales increased by \$34.0 million, or 11.2%, to \$337.8 million for the year ended December 31, 2021 from \$303.8 million for the year ended December 31, 2020. Our product sales increased by \$32.5 million, or 14.9%, to \$251.1 million for the year ended December 31, 2021 from \$218.6 million for the year ended December 31, 2020 primarily due to the recovery from the economic effect of the COVID-19 pandemic which adversely affected the prior year. Service revenue increased \$1.5 million, or 1.8%, to \$86.7 million for the year ended December 31, 2021 remaining fairly consistent with the \$85.2 million for the year ended December 31, 2020. Also, foreign exchange rates had a positive impact on sales of \$4.1 million, or 1.3 percentage points, primarily due to the strengthening of the Euro and the Renminbi relative to the U.S. dollar.

Change in Organizational Structure and Segment Reporting

As part of our new strategic plan, and based on the recommendation of our CEO, who is also our Chief Operating Decision Maker (“CODM”), in the fourth quarter of 2019, we eliminated our vertical structure in favor of a functional structure. Our new executive leadership team is comprised of functional leaders in areas such as sales, marketing, operations, research and development and general and administrative, and resources are allocated to each function at a consolidated unit level. We no longer have separate business units, segment managers or vertical leaders who report to the CODM with respect to operations, operating results or planning for levels or components below the total Company level. Instead, our CODM now allocates resources and evaluates performance on a company-wide basis. Based on these changes, commencing with the fourth quarter of 2019, we report as one reporting segment that develops, manufactures, markets, supports and sells a suite of 3D imaging and software solutions.

In addition to the reorganization of the Company’s structure, we evaluated our hardware and software product portfolio and the operations of certain of our recent acquisitions. As a result of this evaluation, we simplified our hardware and software product portfolio and divested our Photonics business and 3D Design related assets obtained from our acquisition of Opto-Tech SRL and its subsidiary Open Technologies SRL (collectively, “Open Technologies”) in the second quarter of 2020.

On February 14, 2020, our Board of Directors approved a global restructuring plan (the “Restructuring Plan”), which supports our strategic plan in an effort to improve operating performance and ensure that we are appropriately structured and resourced to deliver sustainable value to our shareholders and customers. Key activities under the Restructuring Plan have achieved \$39.6 million in annualized Non-GAAP savings that were realized by the end of fiscal year 2021 and included decreasing total headcount by approximately 500 employees upon the completion of the Restructuring Plan. The elimination of our vertical structure allowed us to successfully complete our redefined go-to-market strategy which placed increased focus on our customers and enabled our sales employees, supported by our talented pool of field application engineers, to sell all product lines globally.

Our new marketing leadership team has focused its efforts on gaining an increased understanding of customer applications and workflows which enables value-based product positioning while optimizing our customer's total cost of ownership. By strengthening our understanding of customer applications and workflows, we will continue to develop high-value solutions across our product and software platforms. Also, our marketing leadership team has transformed our lead generation process and implemented technology to provide our sales organization with higher quality leads which optimizes the time and effort spent by our newly organized sales team.

We continue to focus on organizational optimization and improved decision making throughout the Company. Prior to the execution of the Restructuring Plan, the Company had strong geographic organizations with decentralized decision making. Additionally, the previous vertical structure layered on top of the geographic organization led to an overly complex and costly management structure. The newly formed global functional organization has enabled centralized management and clear process ownership, eliminating redundant resources and increasing the Company's agility and ability to execute the new strategic plan during the COVID-19 global pandemic.

We recorded a pre-tax charge of approximately \$15.8 million and paid \$13.1 million during the year ended December 31, 2020 primarily consisting of severance and related benefits, professional fees and other related charges. We have continued to make significant progress in executing the Restructuring Plan during 2021. We recorded a pre-tax charge of approximately \$7.4 million and paid \$5.8 million during the year ended December 31, 2021 primarily consisting of severance and related benefits, professional fees and other related charges and costs.

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

We continue to evaluate our key initiatives and execution of the Restructuring Plan, and expect to incur additional pre-tax charges in the range of \$6 million to \$10 million through the end of fiscal year 2022.

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 automated laser scan, data uploads from any location, access to our existing suite of 3D software applications, cloud-based data analysis and global user access as well as ultimately, the ability for our customers to purchase, renew or manage all of their FARO software and hardware assets. FARO Sphere represents the first step into expansion of our cloud-based software offerings that we believe will deliver greater value to our customers and to our shareholders. The FARO Sphere environment could be adopted globally across a wide range of markets, including construction management, facilities, operations and maintenance, robotic simulation and incident preplanning. This potential adoption would 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 anticipate FARO Sphere to be released to our customers within the second quarter of 2022.

Revenue from our current software products was \$45.1 million, \$38.3 million and \$46.9 million for the years ended December 31, 2021, December 31, 2020, and December 31, 2019, respectively. Our recurring revenue which is comprised of hardware service contracts, software maintenance contracts, and subscription based software applications was \$64.1 million, \$61.2 million, and \$56.1 million for the years ended December 31, 2021, December 31, 2020, and December 31, 2019, respectively.

Acquisition of Holobuilder

On June 4, 2021, we acquired all of the outstanding shares of Holobuilder, Inc. (“Holobuilder”), a company focused on 3D photogrammetry-based technology for a purchase price of \$33.8 million paid, net of cash acquired and was paid with cash on hand. We believe this acquisition enables the Company to provide reality-capture photo documentation and added remote access capability for industries such as construction management further expanding the Company’s Digital Twin solution portfolio. The results of Holobuilder’s operations as of and after the date of acquisition have been included in our consolidated financial statements as of December 31, 2021.

Presentation of Information

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

Results of Operations

2021 Compared to 2020

(dollars in millions)	Years ended December 31,				Change (\$) 2021 vs 2020
	2021		2020		
		% of Sales		% of Sales	
SALES					
Product	\$ 251.1	74.3 %	\$ 218.6	72.0 %	\$ 32.5
Service	86.7	25.7 %	85.2	28.0 %	1.5
Total sales	337.8	100.0 %	303.8	100.0 %	34.0
COST OF SALES					
Product	109.0	32.3 %	98.9	32.5 %	10.2
Service	44.9	13.3 %	45.1	14.8 %	(0.2)
Total cost of sales	153.9	45.6 %	143.9	47.4 %	10.0
GROSS PROFIT	183.9	54.4 %	159.8	52.6 %	24.1
OPERATING EXPENSES					
Selling, general and administrative	136.2	40.3 %	131.8	43.4 %	4.4
Research and development	48.8	14.4 %	42.9	14.1 %	5.9
Restructuring costs	7.4	2.2 %	15.8	5.2 %	(8.4)
Total operating expenses	192.4	57.0 %	190.5	62.7 %	1.9
LOSS FROM OPERATIONS	(8.5)	(2.5)%	(30.7)	(10.1)%	22.2
Other expense	0.1	— %	0.1	— %	—
LOSS BEFORE INCOME TAX EXPENSE (BENEFIT)	(8.6)	(2.5)%	(30.8)	(10.1)%	22.2
INCOME TAX EXPENSE (BENEFIT)	31.4	9.3 %	(31.4)	(10.3)%	62.8
NET (LOSS) INCOME	\$ (40.0)	(11.8)%	\$ 0.6	0.2 %	\$ (40.6)

Consolidated Results

Sales. Total sales increased by \$34.0 million, or 11.2%, to \$337.8 million for the year ended December 31, 2021 from \$303.8 million for the year ended December 31, 2020. Total product sales increased by \$32.5 million, or 14.9%, to \$251.1 million for the year ended December 31, 2021 from \$218.6 million for the year ended December 31, 2020. The increase in product sales is primarily due to the recovery from the economic effect of the COVID-19 pandemic which adversely affected the prior year. Service revenue increased by \$1.5 million, or 1.8%, to \$86.7 million for the year ended December 31, 2021 remaining fairly consistent with the \$85.2 million for the year ended December 31, 2020. Foreign exchange rates had a positive impact on sales of \$4.1 million, or 1.3 percentage points, primarily due to the strengthening of the Euro and the Renminbi relative to the U.S. dollar.

Gross profit. Gross profit increased by \$24.1 million, or 15.1%, to \$183.9 million for the year ended December 31, 2021 from \$159.8 million for the year ended December 31, 2020. Gross margin increased to 54.4% for the year ended December 31, 2021 from 52.6% in the prior year period. Gross margin from product revenue increased by 1.8 percentage points to 56.6% for the year ended December 31, 2021 from 54.8% in the prior year period. This increase in gross margin from product revenue was primarily due to change in product mix, and the favorable impact of the recovery from the economic effect of the COVID-19 pandemic which adversely affected our product fixed cost absorption in the prior year, partially offset by unfavorable price variances of purchased materials in the current year due to global supply shortages. Gross margin from service revenue increased by 1.1 percentage points to 48.2% for the year ended December 31, 2021 from 47.1% for the prior year period, primarily due to a reduction in departmental costs as a result of the Restructuring Plan.

Selling, general and administrative expenses. Selling, general and administrative (“SG&A”) expenses increased by \$4.4 million, or 3.3%, to \$136.2 million, for the year ended December 31, 2021 from \$131.8 million for the year ended December 31, 2020. This increase was driven primarily by an increase in selling commission expense due to higher global sales and an increase in travel expense as there were pandemic stay-at-home orders in the prior year. SG&A expenses as a percentage of sales decreased to 40.3% for the year ended December 31, 2021 from 43.4% for the year ended December 31, 2020.

Research and development expenses. Research and development expenses increased \$5.9 million, or 13.7%, to \$48.8 million for the year ended December 31, 2021 from \$42.9 million for the year ended December 31, 2020. This increase was primarily driven by higher compensation expense resulting from increased engineering headcount and costs to accelerate new product development. Research and development expenses as a percentage of sales increased to 14.4% for the year ended December 31, 2021 from 14.1% for the year ended December 31, 2020.

Restructuring costs. In February 2020, we initiated the Restructuring Plan to improve business effectiveness, streamline operations and achieve a stated target cost level for the Company as a whole. Restructuring costs included in operating expenses decreased by \$8.4 million, or 53.4% to \$7.4 million for the year ended December 31, 2021 from \$15.8 million for the year ended December 31, 2020. The decrease was driven primarily by a reduction in severance and related benefit charges from lower headcount reduction in the current year.

Other expense. Other expense was \$0.1 million for the year ended December 31, 2021 compared to \$0.1 million for the year ended December 31, 2020.

Income tax expense (benefit). Income tax expense for the year ended December 31, 2021 was \$31.4 million compared with an income tax benefit of \$31.4 million for the year ended December 31, 2020. Our effective tax rate was (366.8)% for the year ended December 31, 2021 compared to 102.0% for the year ended December 31, 2020. The change was primarily due to a \$26.5 million expense attributable to a valuation allowance against US and certain other jurisdictions deferred tax assets for the year ended December 31, 2021 compared to a deferred tax asset benefit of \$19.2 million pursuant to an intra-entity transfer of certain intellectual property rights (“IP Rights”), based on the fair value of the IP rights transferred in December 2020.

Net (loss) income. Net loss was \$40.0 million for the year ended December 31, 2021 compared with net income of \$0.6 million for the year ended December 31, 2020, reflecting the impact of the factors described above.

2020 Compared to 2019

(dollars in millions)	Years ended December 31,				Change (\$) 2020 vs 2019
	2020		2019		
		% of Sales		% of Sales	
SALES					
Product	\$ 218.6	72.0 %	\$ 289.7	75.9 %	\$ (71.1)
Service	85.2	28.0 %	92.1	24.1 %	(6.9)
Total sales	303.8	100.0 %	381.8	100.0 %	(78.0)
COST OF SALES					
Product	98.9	32.5 %	133.2	34.9 %	(34.4)
Service	45.1	14.8 %	50.4	13.2 %	(5.3)
Total cost of sales	143.9	47.4 %	183.6	48.1 %	(39.7)
GROSS PROFIT	159.8	52.6 %	198.1	51.9 %	(38.3)
OPERATING EXPENSES					
Selling, general and administrative	131.8	43.4 %	177.4	46.5 %	(45.6)
Research and development	42.9	14.1 %	44.2	11.6 %	(1.3)
Restructuring costs	15.8	5.2 %	—	— %	15.8
Impairment loss	—	— %	35.2	9.2 %	(35.2)
Total operating expenses	190.5	62.7 %	256.8	67.3 %	(66.3)
LOSS FROM OPERATIONS	(30.7)	(10.1)%	(58.7)	(15.4)%	28.0
Other expense	0.1	— %	2.4	0.6 %	(2.3)
LOSS BEFORE INCOME TAX (BENEFIT)					
EXPENSE	(30.8)	(10.1)%	(61.0)	(16.0)%	30.2
INCOME TAX (BENEFIT) EXPENSE	(31.4)	(10.3)%	1.1	0.3 %	(32.5)
NET INCOME (LOSS)	\$ 0.6	0.2 %	\$ (62.1)	(16.3)%	\$ 62.7

Consolidated Results

Sales. Total sales decreased by \$78.0 million, or 20.4%, to \$303.8 million for the year ended December 31, 2020 from \$381.8 million for the year ended December 31, 2019. Total product sales decreased by \$71.1 million, or 24.5%, to \$218.6 million for the year ended December 31, 2020 from \$289.7 million for the year ended December 31, 2019. Our product sales decreased due to the unfavorable impact of end market demand softness related to the COVID-19 pandemic and other fluctuations in market conditions. Service sales decreased by \$6.9 million, or 7.5%, to \$85.2 million for the year ended December 31, 2020 from \$92.1 million for the year ended December 31, 2019, primarily due to the unfavorable impact of end market demand softness related to the COVID-19 pandemic and other fluctuations in market conditions. Foreign exchange rates had a positive impact on sales of \$0.7 million, reducing our overall sales decline by approximately 0.2 percentage points, primarily due to the strengthening of the Euro relative to the U.S. dollar.

Gross profit. Gross profit decreased by \$38.3 million, or 19.3%, to \$159.8 million for the year ended December 31, 2020 from \$198.1 million for the year ended December 31, 2019. Gross margin increased to 52.6% for the year ended December 31, 2020 from 51.9% in the prior year period. Gross margin from product revenue increased by 0.8 percentage points to 54.8% for the year ended December 31, 2020 from 54.0% in the prior year period. This increase in gross margin from product revenue was primarily due to 2019 including a \$12.8 million increase in our reserve for excess and obsolete inventory recorded in connection with our strategic decisions to simplify our hardware and software product portfolio and cease selling certain products. Gross margin from service revenue increased by 1.8 percentage points to 47.1% for the year ended December 31, 2020 from 45.3% for the prior year period, primarily due to a reduction in departmental costs as a result of the Restructuring Plan.

Selling, general and administrative expenses. Selling, general and administrative (“SG&A”) expenses decreased by \$45.6 million, or 25.7%, to \$131.8 million, for the year ended December 31, 2020 from \$177.4 million for the year ended December 31, 2019. This decrease was driven primarily by decreased salaries and wages and other cost savings initiatives to reduce non-personnel costs that resulted from the Restructuring Plan. Additionally, a decrease in selling commission expense and travel expense was driven by reduced global sales and pandemic stay-at-home orders, respectively. SG&A expenses as a percentage of sales decreased to 43.4% for the year ended December 31, 2020 from 46.5% for the year ended December 31, 2019.

Research and development expenses. Research and development expenses decreased \$1.3 million, or 2.9%, to \$42.9 million for the year ended December 31, 2020 from \$44.2 million for the year ended December 31, 2019. This decrease was mainly driven by a decrease in purchased technology intangible amortization expense as a result of the impairment of certain intangible assets in connection with the Restructuring Plan. Research and development expenses as a percentage of sales increased to 14.1% for the year ended December 31, 2020 from 11.6% for the year ended December 31, 2019.

Restructuring costs. In February 2020, we initiated the Restructuring Plan to improve business effectiveness, streamline operations and achieve a stated target cost level for the Company as a whole. Restructuring costs included in operating expenses for the year ended December 31, 2020 were \$15.8 million primarily consisting of severance and related benefits charges.

Impairment loss. As a result of our annual goodwill and intangible asset impairment test performed in the prior year, we recorded an impairment loss of \$35.2 million in the fourth quarter of 2019, which included \$21.2 million in goodwill, \$10.5 million in intangible assets associated with recent acquisitions, \$1.4 million in intangible assets related to capitalized patents, and \$2.1 million in other asset write-downs. There were no similar impairments in 2020.

Other expense. Other expense was \$0.1 million for the year ended December 31, 2020 compared to \$2.4 million for the year ended December 31, 2019. This decrease was primarily driven by the impairment charge related to our equity investment in present4D GmbH (“present4D”) recorded in the second quarter of 2019 and the impairment charge related to our note receivable due from present4D recorded in the fourth quarter of 2019.

Income tax (benefit) expense. Income tax benefit for the year ended December 31, 2020 was \$31.4 million compared with an income tax expense of \$1.1 million for the year ended December 31, 2019. Our effective tax rate was 102.0% for the year ended December 31, 2020 compared to 1.9% for the year ended December 31, 2019. The change in income tax (benefit) expense was primarily due to the Company completing an intra-entity transfer of certain intellectual property rights (“IP Rights”) which resulted in the Company establishing a deferred tax asset benefit of \$19.2 million, based on the fair value of the IP rights transferred in December 2020.

Net income (loss). Net income was \$0.6 million for the year ended December 31, 2020 compared with net loss of \$62.1 million for the year ended December 31, 2019, reflecting the impact of the factors described above.

Liquidity and Capital Resources

Cash and cash equivalents decreased by \$63.6 million to \$122.0 million at December 31, 2021 from \$185.6 million at December 31, 2020. The decrease was primarily driven by net cash used in operating and investing activities. Cash used in operating activities was \$13.5 million during the year ended December 31, 2021 compared to \$21.4 million of cash provided by operating activities during the year ended December 31, 2020. The change was due to changes in working capital accounts, primarily an increase in net accounts receivable from higher sales, a decrease in accounts payable and accrued liabilities driven by the \$12.3 million settlement of liability related to the GSA matter, as well as an increase in raw material inventories in preparation for our phased transition to our third party contract manufacturer, Sanmina.

Cash used in investing activities during the year ended December 31, 2021 was \$45.7 million compared with cash flows provided by investing activities of \$13.9 million during the year ended December 31, 2020. The change was primarily due to \$33.8 million used in the acquisition of Holobuilder during the year ended December 31, 2021, as compared to the maturity of U.S. Treasury Bills amounting to \$25.0 million during the year ended December 31, 2020 without such activity during the year ended December 31, 2021.

Cash flows provided by financing activities during the year ended December 31, 2021 was \$1.6 million compared with \$11.1 million during the year ended December 31, 2020. The change was primarily due to less proceeds from fewer exercises of stock options during the year ended December 31, 2021 as compared to during the year ended December 31, 2020 .

Of our cash and cash equivalents, \$95.2 million was held by foreign subsidiaries as of December 31, 2021. On December 22, 2017, the United States enacted the U.S. Tax Cuts and Jobs Act, resulting in significant modifications to existing law, which included a transition tax on the mandatory deemed repatriation of foreign earnings. As a result of the U.S. Tax Cuts and Jobs Act, the Company can repatriate foreign earnings and profits to the U.S. with minimal U.S. income tax consequences, other than the transition tax and global intangible low-taxed income (“GILTI”) tax. The Company reinvested a large portion of its undistributed foreign earnings and profits in acquisitions and other investments and intends to bring back a portion of foreign cash in certain jurisdictions where the Company will not be subject to local withholding taxes and which were subject already to transition tax and GILTI tax.

On November 24, 2008, our Board of Directors approved a \$30.0 million share repurchase program. Subsequently, in October 2015, our Board of Directors authorized an increase to the existing share repurchase program from \$30.0 million to \$50.0 million. In December 2018, our Board of Directors authorized management to utilize the share repurchase program, beginning January 1, 2019, to maintain the number of our issued and outstanding shares to address the dilutive impact of stock options exercises and the settlement of restricted stock units. 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 under this program. 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. We made no stock repurchases during the years ended December 31, 2021, 2020 and 2019 under this program. As of December 31, 2021, we had authorization to repurchase \$18.3 million of the \$50.0 million authorized by our Board of Directors under the existing share repurchase program.

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

We have no off-balance sheet arrangements.

Inflation

Inflation did not have a material impact on our results of operations in recent years. However, we are closely monitoring the current economic climate and its continued impact on our business to adequately respond to price changes which may impact our profitability. In the second half of 2021, we observed raw material cost increases specifically amongst various electronic components we use in our products, and we expect to see the continued pressure on material cost through 2022 to impact our global businesses, worldwide. We have also observed salary pressures on existing and new headcount.

Critical Accounting Policies

The preparation of our 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. While for any given estimate or assumption made by our management that there may be other estimates or assumptions that are reasonable, we believe that, given the current facts and circumstances, it is unlikely that applying any such other reasonable estimate or assumption would materially impact the financial statements.

In response to the SEC's financial reporting release, FR-60, “Cautionary Advice Regarding Disclosure About Critical Accounting Policies,” we have selected our critical accounting policies for purposes of explaining the methodology used in our calculation, in addition to any inherent uncertainties pertaining to the possible effects on our financial condition. The critical policies discussed below are our processes of recognizing revenue, the reserve for excess and obsolete inventory, income taxes, the reserve for warranties, goodwill impairment, business combinations and stock-based compensation. These policies affect current assets, current liabilities and operating results and are therefore critical in assessing our financial and operating status. These policies involve certain assumptions that, if incorrect, could have an adverse impact on our operating results and financial position.

Revenue Recognition

For arrangements with multiple performance obligations, which represent promises within an arrangement that are capable of being distinct, we allocate revenue to all distinct performance obligations based on their relative standalone selling prices (“SSP”). When available, we use observable prices to determine the SSP. When observable prices are not available, SSPs are established that reflect our best estimates of what the selling prices of the performance obligations would be if they were sold regularly on a standalone basis.

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's 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. Fees billed to customers associated with the distribution of products are classified as revenue. We generally warrant our products against defects in design, materials and workmanship for one year. A provision for estimated future costs relating to warranty expense is recorded when products are shipped. To support our product lines, we also sell hardware service contracts that typically range from one year to three years. Hardware service contract revenues are recognized on a straight-line basis over the term of the contract. Costs relating to hardware service contracts are recognized as incurred. Revenue from sales of licensed software only is recognized when no further significant production, modification or customization of the software is required and when the risks and rewards of ownership have passed to the customer. These software arrangements generally include short-term maintenance that is considered post-contract support (“PCS”), which is considered to be a separate performance obligation. We generally establish a standalone sales price for this PCS component based on our software maintenance contract renewals. Software maintenance contracts, when sold, are recognized on a straight-line basis over the term of the contract. Revenue from sales of subscription based software are recognized as such services are performed and are deferred when billed in advance of the performance of services. Revenues resulting from sales of comprehensive support, training and technology consulting services are recognized as such services are performed and are deferred when billed in advance of the performance of services. Payment for products and services is collected within a short period of time following transfer of control or commencement of delivery of services, as applicable. Revenues are presented net of sales-related taxes.

Reserve for Excess and Obsolete Inventory

Because the value of inventory that will ultimately be realized cannot be known with exact certainty, we rely upon both past sales history and future sales forecasts to provide a basis for the determination of the reserve. Inventory is considered potentially obsolete if we have withdrawn those products from the market or had no sales of the product for the past 12 months and have no sales forecasted for the next 12 months. Inventory is considered potentially excess if the quantity on hand exceeds 12 months of expected remaining usage. The resulting obsolete and excess parts are then reviewed to determine if a substitute usage or a future need exists. Items without an identified current or future usage are reserved in an amount equal to 100% of the first-in first-out cost of such inventory. Our products are subject to changes in technologies that may make certain of our products or their components obsolete or less competitive, which may increase our historical provisions to the reserve. We review these assumptions regularly for all of our inventories which include sales demonstration and service inventories.

Income Taxes

We review our deferred tax assets on a regular basis to evaluate their recoverability based upon expected future reversals of deferred tax liabilities, projections of future taxable income, and tax planning strategies that we might employ to utilize such assets, including net operating loss carryforwards. Based on the positive and negative evidence of recoverability, we establish a valuation allowance against the net deferred assets of a taxing jurisdiction in which we operate, unless it is “more likely than not” that we will recover such assets through the above means. Our evaluation of the need for the valuation allowance is significantly influenced by our ability to achieve profitability and our ability to predict and achieve future projections of taxable income.

Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of operating a global business, there are many transactions for which the ultimate tax outcome is uncertain. We establish provisions for income taxes when, despite the belief that tax positions are fully supportable, there remain certain positions that do not meet the minimum probability threshold as described by FASB ASC Topic 740, which is a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority. In the ordinary course of business, we are examined by various federal, state, and foreign tax authorities. We regularly assess the potential outcome of these examinations and any future examinations for the current or prior years in determining the adequacy of our provision for income taxes. We assess the likelihood and amount of potential adjustments and adjust the income tax provision, the current tax liability and deferred taxes in the period in which the facts that gave rise to a revision become known.

Reserve for Warranties

We establish at the time of sale a liability for the one-year warranty included with the initial purchase price of our products, based upon an estimate of the repair expenses likely to be incurred for the warranty period. The warranty period is measured in installation-months for each major product group. The warranty reserve is included in accrued liabilities in the accompanying consolidated balance sheets. The warranty expense is estimated by applying the actual total repair expenses for each product group in the prior period and determining a rate of repair expense per installation-month. This repair rate is multiplied by the number of installation-months of warranty for each product group to determine the provision for warranty expenses for the period. We evaluate our exposure to warranty costs at the end of each period using the estimated expense per installation-month for each major product group, the number of units remaining under warranty, and the remaining number of months each unit will be under warranty. We have a history of new product introductions and enhancements to existing products, which may result in unforeseen issues that increase our warranty costs. While such expenses have historically been within expectations, we cannot guarantee this will continue in the future.

Goodwill Impairment

Goodwill represents the excess cost of a business acquisition over the fair value of the net assets acquired. We do not amortize goodwill; however, we perform an annual review each year, or more frequently if indicators of potential impairment exist (i.e., that it is more likely than not that the fair value of the reporting unit is less than the carrying value), to determine if the carrying value of the recorded goodwill or indefinite lived intangible assets is impaired.

Each period, we can elect to perform a qualitative assessment to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. If we believe, as a result of our qualitative assessment, that it is not more likely than not that the fair value of a reporting unit containing goodwill is less than its carrying amount, then the quantitative goodwill impairment test is unnecessary. If we elect to bypass the qualitative assessment option, or if the qualitative assessment was performed and resulted in the Company being unable to conclude that it is not more likely than not that the fair value of a reporting unit containing goodwill is greater than its carrying amount, we will perform the quantitative goodwill impairment test. We perform the quantitative goodwill impairment test by calculating the fair value of the reporting unit using a discounted cash flow method and market approach method, and then comparing the respective fair value with the carrying amount of the reporting unit. If the carrying amount of the reporting unit exceeds its fair value, we impair goodwill for the excess amount of the reporting unit compared to its fair value, not to be reduced below zero. Management concluded there was no goodwill impairment for the years ended December 31, 2021 and 2020. However, during 2019 as a result of this test and under our historical reporting unit structure, the estimated fair value of each of the Photonics reporting unit, which included goodwill recognized with the Instrument Associates, LLC d/b/a Nutfield Technology (“Nutfield”), Laser Control Systems Limited (“Laser Control Systems”) and Lanmark Controls, Inc. (“Lanmark”) acquisitions, and the 3D Design reporting unit, which included goodwill recognized with the acquisition of Opto-Tech SRL and its subsidiary Open Technologies SRL (collectively, “Open Technologies”), were determined to be significantly less than the carrying value of such reporting unit, indicating a full impairment. This impairment was driven primarily by historical and projected financial performance lower than our expectations and changes in our go-forward strategy in connection with our new strategic plan.

Business Combinations

We allocate the fair value of purchase consideration to the assets acquired and liabilities assumed based generally on their fair values at the acquisition date. The excess of the fair value of purchase consideration over the fair value of the assets acquired and liabilities assumed is recorded as goodwill. When determining the fair values of assets acquired and liabilities assumed, management makes significant estimates and assumptions, especially with respect to intangible assets. Critical estimates in valuing intangible assets include, but are not limited to, expected future cash flows, which include consideration of future growth rates and margins, customer attrition rates, future changes in technology and brand awareness, loyalty and position, and discount rates. Critical estimates are also made in valuing contingent considerations, which represent arrangements to pay former owners based on the satisfaction of performance criteria. Fair value estimates are based on the assumptions management believes a market participant would use in pricing the asset or liability. Amounts recorded in a business combination may change during the measurement period, which is a period not to exceed one year from the date of acquisition, as additional information about conditions existing at the acquisition date becomes available.

Stock-Based Compensation

We measure and record compensation expense using the applicable accounting guidance for share-based payments related to stock options, restricted stock awards, restricted stock units and market-based awards granted to our directors and employees. The fair value of stock options, including performance awards, without a market condition is determined by using the Black-Scholes option valuation model. The fair value of restricted stock units and stock options with a market condition is

estimated, at the date of grant, using the Monte Carlo Simulation valuation model. The Black-Scholes and Monte Carlo Simulation valuation models incorporate assumptions as to stock price volatility, the expected life of options or awards, a risk-free interest rate and dividend yield. In valuing our stock options, significant judgment is required in determining the expected volatility of our common stock and the expected life that individuals will hold their stock options prior to exercising. Expected volatility for stock options is based on the historical and implied volatility of our own common stock while the volatility for our restricted stock units with a market condition is based on the historical volatility of our own stock and the stock of companies within our defined peer group. The expected life of stock options is derived from the historical actual term of option grants and an estimate of future exercises during the remaining contractual period of the option. While volatility and estimated life are assumptions that do not bear the risk of change subsequent to the grant date of stock options, these assumptions may be difficult to measure, as they represent future expectations based on historical experience. Further, our expected volatility and expected life may change in the future, which could substantially change the grant-date fair value of future awards of stock options and, ultimately, the expense we record. The fair value of restricted stock, including performance awards, without a market condition is estimated using the current market price of our common stock on the date of grant. We elect to account for forfeitures related to the service condition-based awards as they occur.

We expense stock-based compensation for stock options, restricted stock awards, restricted stock units and performance awards over the requisite service period. For awards with only a service condition, we expense stock-based compensation using the straight-line method over the requisite service period for the entire award. For awards with both performance and service conditions, we expense the stock-based compensation on a straight-line basis over the requisite service period for each separately vesting portion of the award, taking into account the probability that we will satisfy the performance condition. Furthermore, we expense awards with a market condition over the three-year vesting period regardless of the value that the award recipients ultimately receive.

Our non-employee directors may elect to have their annual cash retainers and annual equity retainers paid in the form of deferred stock units pursuant to the 2014 Equity Incentive Plan and the 2018 Non-Employee Director Deferred Compensation Plan. Each deferred stock unit represents the right to receive one share of our common stock upon the non-employee director's separation of service from the Company. We record compensation cost associated with our deferred stock units over the period of service.

Impact of Recently Adopted Accounting Standards

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

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

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Exchange Exposure

We conduct a significant portion of our business outside the United States. In 2021, 62% of our revenue was invoiced, and a significant portion of our operating expenses were paid, in foreign currencies. At December 31, 2021, 46% of our assets were denominated in foreign currencies. Fluctuations in exchange rates between the U.S. dollar and such foreign currencies may have a material adverse effect on our results of operations and financial condition and could specifically result in foreign exchange gains and losses. The impact of future exchange rate fluctuations on the results of our operations cannot be accurately predicted due to the constantly changing exposure to various currencies, the fact that all foreign currencies do not react in the same manner in relation to the U.S. dollar and the number of currencies involved, although our most significant exposures are to the Euro, Swiss franc, Japanese yen, Chinese renminbi and Brazilian real. To the extent that the percentage of our non-U.S. dollar revenues derived from international sales increases in the future, our exposure to risks associated with fluctuations in foreign exchange rates may increase. We are aware of the availability of off-balance sheet financial instruments to hedge exposure to foreign currency exchange rates, including cross-currency swaps, forward contracts and foreign currency options. However, we have not used such instruments in the past, and none were utilized in 2021, 2020 or 2019.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
FARO Technologies, Inc.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of FARO Technologies, Inc. (a Florida corporation) and subsidiaries (the “Company”) as of December 31, 2021 and 2020, the related consolidated statements of operations, comprehensive income (loss), changes in shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2021, based on criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), and our report dated February 16, 2022 expressed an unqualified opinion.

Basis for opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical audit matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Reserve for excess and obsolete inventory

As described further in Note 1 to the financial statements, the reserve for excess and obsolete inventory is established utilizing the Company’s past sales history and future sales forecasts. Inventory is considered to be potentially obsolete if the product has been withdrawn from the market or the product had no sales for the past 12 months and the product has no sales forecasted for the next 12 months. Inventory is considered potentially excess if the quantity on hand exceeds 12 months of expected usage. The resulting excess and obsolete items are then reviewed to determine if a substitute usage exists, and items without an identified current or future usage are reserved in an amount equal to 100% of the first-in first-out cost of the inventory. We identified the reserve for excess and obsolete inventory as a critical audit matter.

The principal consideration for our determination that the reserve for excess and obsolete inventory was a critical audit matter was the high risk of estimation uncertainty due to significant judgments in management’s analysis, which included management’s assessment of current and future usage of identified potentially excess and obsolete inventory. Management’s assessment was based on qualitative and quantitative factors, such as the impact from competitors, impact of competing

products, product market acceptance, introduction of newer product offerings, product failures, dependence on suppliers for materials, and other considerations evaluated by management in making its assessment of excess and obsolete inventories.

Our audit procedures related to the reserve for excess and obsolete inventory included the following, among others:

- We evaluated the design and tested the operating effectiveness of key controls relating to the excess and obsolete reserve.
- We tested the calculation of current inventories within the excess and obsolete reserve by recalculating the analysis of the previous 12 months' usage and evaluating the reasonableness of forecasted sales.
- We tested the significant assumptions made by management for not reserving potentially excess and obsolete inventory. As part of our procedures, we obtained and inspected corroborating information to support the expected future usage, which included evidence such as forecasts of future sales, evaluation of product repair rates, outstanding products in the field, as well as need for replacement parts. We also inquired if any outstanding purchase orders from customers, or any other relevant evidence was available to corroborate management's assertions, as applicable.

Income taxes

As described further in Note 11 to the financial statements, the Company is a multinational corporation that is subject to income taxes in the United States and numerous foreign jurisdictions. The Company's effective tax rate is directly impacted by the application of complex tax laws and regulations, which are highly dependent upon the geographic mix of worldwide earnings or losses, the tax regulations in each country or geographic region, and the availability of tax credit and loss carryforwards. In addition, the realization of the Company's U.S. based deferred tax assets is based on the weight of positive and negative evidence of recoverability, which includes projections of future taxable income, reversals of deferred tax liabilities, and tax planning strategies. We identified the completeness of the Company's foreign deferred tax assets and liabilities and the valuation, net of the Company's U.S. deferred tax assets as critical audit matters.

The principal consideration for our determination that the completeness of the foreign deferred tax assets and liabilities and valuation, net of the Company's U.S. based deferred tax assets were critical audit matters was due to the multinational presence of the Company in numerous foreign jurisdictions, with varying complex tax laws and regulations. These rules may be subject to interpretation depending on the jurisdiction and may involve significant management judgment. In addition, there is a high risk of estimation uncertainty due to significant management judgment related to recording a valuation allowance against the U.S. deferred tax assets, which may be based on various forms of positive and negative evidence as well as prospective financial information. The audit effort involved the use of professionals with specialized skills and knowledge to assist in evaluating the audit evidence obtained.

Our audit procedures related to the completeness of foreign deferred tax assets and liabilities and the valuation allowance for the U.S. deferred tax assets included the following, amongst others:

- We evaluated the design and tested the operating effectiveness of the key controls relating to the foreign deferred tax assets and liabilities calculations. We also evaluated the design and tested the operating effectiveness of key controls related to the development of future earnings and assumptions around the timing of reversals of existing taxable temporary differences within the U.S. jurisdiction. We also tested management's controls around the review of the completeness and accuracy of the qualitative and quantitative valuation allowance analysis.
- We involved tax specialists to assess significant foreign deferred tax assets and liabilities and perform procedures over foreign deferred tax assets and liabilities calculations for completeness and accuracy.
- We involved tax specialists to test the Company's assumptions regarding its geographic mix of worldwide earnings or losses.
- We tested the Company's analysis of recoverability of its U.S. based deferred tax assets, including the assessment of the weight of the positive and negative evidence evaluated by management.

/s/ GRANT THORNTON LLP

We have served as the Company's auditor since 2004.

Orlando, Florida
February 16, 2022

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(in thousands, except share and per share data)	December 31, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 121,989	\$ 185,633
Accounts receivable, net	78,523	64,616
Inventories, net	53,145	47,391
Prepaid expenses and other current assets	19,793	26,295
Total current assets	<u>273,450</u>	<u>323,935</u>
Non-current assets:		
Property, plant and equipment, net	22,194	23,091
Operating lease right-of-use asset	22,543	26,107
Goodwill	82,096	57,541
Intangible assets, net	25,616	13,301
Service and sales demonstration inventory, net	30,554	31,831
Deferred income tax assets, net	21,277	47,450
Other long-term assets	2,010	2,336
Total assets	<u>\$ 479,740</u>	<u>\$ 525,592</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 14,199	\$ 14,121
Accrued liabilities	28,208	42,593
Income taxes payable	4,499	3,442
Current portion of unearned service revenues	40,838	39,149
Customer deposits	5,399	2,807
Lease liability	5,738	5,835
Total current liabilities	<u>98,881</u>	<u>107,947</u>
Unearned service revenues - less current portion	22,350	21,757
Lease liability - less current portion	18,648	22,131
Deferred income tax liabilities	1,058	787
Income taxes payable - less current portion	11,297	11,583
Other long-term liabilities	1,047	1,084
Total liabilities	<u>153,281</u>	<u>165,289</u>
Commitments and contingencies - See Note 12		
Shareholders' equity:		
Preferred stock - par value \$0.01, 10,000,000 shares authorized; none issued	—	—
Common stock - par value \$0.001, 50,000,000 shares authorized; 19,588,003 and 19,384,350 issued; 18,205,636 and 17,990,707 outstanding, respectively	20	19
Additional paid-in capital	301,061	287,979
Retained earnings	73,544	113,508
Accumulated other comprehensive loss	(17,374)	(10,160)
Common stock in treasury, at cost - 1,382,367 and 1,393,643 shares held, respectively	(30,792)	(31,043)
Total shareholders' equity	<u>326,459</u>	<u>360,303</u>
Total liabilities and shareholders' equity	<u>\$ 479,740</u>	<u>\$ 525,592</u>

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

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share data)	Years ended December 31,		
	2021	2020	2019
SALES			
Product	\$ 251,103	\$ 218,587	\$ 289,679
Service	86,711	85,181	92,086
Total sales	<u>337,814</u>	<u>303,768</u>	<u>381,765</u>
COST OF SALES			
Product	109,024	98,864	133,246
Service	44,863	45,057	50,387
Total cost of sales	<u>153,887</u>	<u>143,921</u>	<u>183,633</u>
GROSS PROFIT	<u>183,927</u>	<u>159,847</u>	<u>198,132</u>
OPERATING EXPENSES			
Selling, general and administrative	136,234	131,827	177,378
Research and development	48,761	42,896	44,175
Restructuring costs	7,368	15,806	—
Impairment loss	—	—	35,213
Total operating expenses	<u>192,363</u>	<u>190,529</u>	<u>256,766</u>
LOSS FROM OPERATIONS	<u>(8,436)</u>	<u>(30,682)</u>	<u>(58,634)</u>
OTHER EXPENSE (INCOME)			
Interest income	—	(340)	(714)
Other expense, net	70	431	2,313
Interest expense	55	—	781
LOSS BEFORE INCOME TAX EXPENSE (BENEFIT)	<u>(8,561)</u>	<u>(30,773)</u>	<u>(61,014)</u>
INCOME TAX EXPENSE (BENEFIT)	<u>31,403</u>	<u>(31,402)</u>	<u>1,133</u>
NET (LOSS) INCOME	<u>\$ (39,964)</u>	<u>\$ 629</u>	<u>\$ (62,147)</u>
NET (LOSS) INCOME PER SHARE - BASIC	<u>\$ (2.20)</u>	<u>\$ 0.04</u>	<u>\$ (3.58)</u>
NET (LOSS) INCOME PER SHARE - DILUTED	<u>\$ (2.20)</u>	<u>\$ 0.04</u>	<u>\$ (3.58)</u>
Weighted average shares - Basic	<u>18,187,946</u>	<u>17,769,958</u>	<u>17,383,415</u>
Weighted average shares - Diluted	<u>18,187,946</u>	<u>17,926,324</u>	<u>17,383,415</u>

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

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

(in thousands)	Years ended December 31,		
	2021	2020	2019
Net (loss) income	\$ (39,964)	\$ 629	\$ (62,147)
Currency translation adjustments, net of income tax	(7,214)	7,239	1,084
Comprehensive (loss) income	<u>\$ (47,178)</u>	<u>\$ 7,868</u>	<u>\$ (61,063)</u>

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

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020, AND 2019

(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, 2019	17,253,011	\$ 19	\$ 251,329	\$ 175,353	\$ (18,483)	\$ (31,609)	\$ 376,609
Net loss				(62,147)			(62,147)
Currency translation adjustment, net of income tax					1,084		1,084
Stock-based compensation			11,071				11,071
Common stock issued, net of shares withheld for employee taxes	323,607		5,468			234	5,702
Cumulative effect of the adoption of ASU 2014-09				(327)			(327)
BALANCE DECEMBER 31, 2019	17,576,618	\$ 19	\$ 267,868	\$ 112,879	\$ (17,399)	\$ (31,375)	\$ 331,992
Net income				629			629
Currency translation adjustment, net of income tax					7,239		7,239
Stock-based compensation			8,314				8,314
Common stock issued, net of shares withheld for employee taxes	414,089		11,797			332	12,129
BALANCE DECEMBER 31, 2020	17,990,707	\$ 19	\$ 287,979	\$ 113,508	\$ (10,160)	\$ (31,043)	\$ 360,303
Net loss				(39,964)			(39,964)
Currency translation adjustment, net of income tax					(7,214)		(7,214)
Stock-based compensation			11,456				11,456
Common stock issued, net of shares withheld for employee taxes	214,929	1	1,626			251	1,878
BALANCE DECEMBER 31, 2021	18,205,636	\$ 20	\$ 301,061	\$ 73,544	\$ (17,374)	\$ (30,792)	\$ 326,459

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

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)	Years Ended December 31,		
	2021	2020	2019
CASH FLOWS FROM:			
OPERATING ACTIVITIES:			
Net (loss) income	\$ (39,964)	\$ 629	\$ (62,147)
Adjustments to reconcile net (loss) income to net cash used by operating activities:			
Depreciation and amortization	13,396	14,239	18,516
Stock-based compensation	11,456	8,314	11,071
Provision for bad debts (net of recoveries)	176	440	2,090
Loss on disposal of assets	218	383	2,639
Provision for excess and obsolete inventory	2,297	1,349	16,886
Impairment of goodwill	—	—	21,233
Impairment of acquired intangibles	—	—	10,548
Impairment of loan to affiliate	—	—	549
Deferred income tax expense (benefit)	24,706	(28,444)	(6,304)
Change in operating assets and liabilities, net of acquisitions:			
(Increase) decrease in:			
Accounts receivable, net	(15,577)	12,346	10,406
Inventories	(6,706)	10,343	(4,136)
Prepaid expenses and other assets	5,996	3,862	1,188
(Decrease) increase in:			
Accounts payable and accrued liabilities	(13,260)	2,390	(2,518)
Income taxes payable	847	(3,357)	1,041
Customer deposits	2,627	(374)	(30)
Unearned service revenues	312	(726)	11,436
Net cash (used in) provided by operating activities	<u>(13,476)</u>	<u>21,394</u>	<u>32,468</u>
INVESTING ACTIVITIES:			
Purchases of investments	—	—	(50,000)
Proceeds from sale of investments	—	25,000	50,000
Purchases of property and equipment	(7,035)	(4,774)	(6,675)
Cash paid for technology development, patents and licenses	(4,905)	(1,298)	(2,118)
Acquisition of business, net of cash received	(33,800)	(6,036)	—
Other	—	1,015	(549)
Net cash (used in) provided by investing activities	<u>(45,740)</u>	<u>13,907</u>	<u>(9,342)</u>
FINANCING ACTIVITIES:			
Payments on capital leases	(296)	(338)	(358)
Payments of contingent consideration for acquisitions	—	(733)	(3,101)
Payments for taxes related to net share settlement of equity awards	(4,002)	(2,602)	(2,199)
Proceeds from issuance of stock related to stock option exercises	5,880	14,731	7,901
Net cash provided by financing activities	<u>1,582</u>	<u>11,058</u>	<u>2,243</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>(6,010)</u>	<u>5,640</u>	<u>(518)</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(63,644)</u>	<u>51,999</u>	<u>24,851</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>185,633</u>	<u>133,634</u>	<u>108,783</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 121,989</u>	<u>\$ 185,633</u>	<u>\$ 133,634</u>

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

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021, 2020 and 2019
(in thousands, except share and per share data or as otherwise noted)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Principles of Consolidation—Our 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).

Revenue Recognition, Product Warranty and Extended Warranty Contracts—Revenue is recognized as performance obligations within a contract are satisfied in an amount that reflects the consideration we expect to receive in exchange for satisfaction of those performance obligations, or standalone selling price. Our contracts with customers may include multiple performance obligations. For such arrangements, we allocate revenues to each performance obligation based on its relative 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's 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. Fees billed to customers associated with the distribution of products are classified as revenue. We generally warrant our products against defects in design, materials and workmanship for one year. A provision for estimated future costs relating to warranty expense is recorded when products are shipped. To support our product lines, we also sell hardware service contracts which revenues are recognized on a straight-line basis over the term of the contract. Hardware service contracts generally extend between one month and three years. Costs relating to hardware service contracts are recognized as incurred. Revenue from sales of software only is recognized when no further significant production, modification or customization of the software is required and when the risks and rewards of ownership have passed to the customer. These software arrangements generally include short-term maintenance that is considered post-contract support (“PCS”), which is considered to be a separate performance obligation. We generally establish a standalone sales price for this PCS component based on our software maintenance contract renewals. Software maintenance contracts, when sold, are recognized on a straight-line basis over the term of the contract. Revenues resulting from sales of comprehensive support, training and technology consulting services are recognized as such services are performed and are deferred when billed in advance of the performance of services. Payment for products and services is collected within a short period of time following transfer of control or commencement of delivery of services, as applicable. Revenues are presented net of sales-related taxes.

Cash and Cash Equivalents—We consider cash on hand and amounts on deposit with financial institutions with maturities of three months or less when purchased to be cash and cash equivalents. We had deposits with foreign banks totaling \$95.2 million and \$119.2 million as of December 31, 2021 and 2020, respectively.

Accounts Receivable and Related Allowance for Credit Losses—Credit is extended to customers based on an evaluation of a customer's financial condition and, generally, collateral is not required. Accounts receivable are generally due within 30 to 90 days and are stated at amounts due from customers, net of an allowance for credit losses. Accounts outstanding longer than the contractual payment terms are considered past due. We make judgments as to the collectability of accounts receivable based

on historical trends and future expectations. Management estimates an allowance for credit losses, which adjusts gross trade accounts receivable to their net realizable value. The allowance for credit losses is based on an analysis of all receivables for possible impairment issues and historical write-off percentages. We write off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for credit losses. We do not generally charge interest on past due receivables.

Inventories—Inventories are stated at the lower of cost or net realizable value using the first-in first-out (“FIFO”) method. Shipping and handling costs are classified as a component of cost of sales in the consolidated statements of operations. Sales demonstration inventory is comprised of measuring and imaging devices utilized by sales representatives to present our products to customers. Management expects sales demonstration inventory to be held by our sales representatives for up to three years, at which time it is refurbished and transferred to finished goods as used equipment, stated at the lower of cost or net realizable value. Management expects these refurbished units to remain in finished goods inventory and be sold within 12 months at prices that produce reduced gross margins. Sales demonstration inventory remains classified as inventory, as it is available for sale and any required refurbishment prior to sale is minimal.

Service inventory is typically 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 which we deem as no longer available for sale is transferred to fixed assets at the lower of cost or net realizable value and depreciated over its remaining useful life, typically three years. See Note 5, “Inventories” for further information regarding inventories.

Reserve for Excess and Obsolete Inventory—Because the value of inventory that will ultimately be realized cannot be known with exact certainty, we rely upon both past sales history and future sales forecasts to provide a basis for the determination of the reserve. Inventory is considered potentially obsolete if we have withdrawn those products from the market or had no sales of the product for the past 12 months and have no sales forecasted for the next 12 months. Inventory is considered potentially excess if the quantity on hand exceeds 12 months of expected remaining usage. The resulting potentially obsolete and excess parts are then reviewed to determine if a substitute usage or a future need exists. Items without an identified current or future usage are reserved in an amount equal to 100% of the FIFO cost of such inventory. Our products are subject to changes in technologies that may make certain of our products or their components obsolete or less competitive, which may increase our historical provisions to the reserve. We review these assumptions regularly for all of our inventories which include sales demonstration and service inventories.

Property and Equipment—Property and equipment purchases exceeding one thousand dollars are capitalized and recorded at cost. Depreciation is computed beginning on the date that the asset is placed into service using the straight-line method over the estimated useful lives of the various classes of assets

Machinery, equipment and software	2 to 5 years
Furniture and fixtures	3 to 10 years

as follows:

Leasehold improvements are amortized on a straight-line basis over the lesser of the life of the asset or the remaining term of the lease.

Depreciation expense was \$9.2 million, \$10.8 million and \$13.0 million in 2021, 2020 and 2019, respectively. Accelerated methods of depreciation are used for income tax purposes in contrast to book purposes, and as a result, appropriate provisions are made for the related deferred income taxes. Balances of major classes of depreciable assets and total accumulated depreciation as of December 31, 2021 and 2020 are as follows:

	December 31, 2021	December 31, 2020
Property, plant and equipment:		
Machinery and equipment	\$ 87,028	\$ 91,
Furniture and fixtures	6,377	6,
Leasehold improvements	22,931	21,
Property, plant and equipment at cost	116,336	120,
Less: accumulated depreciation and amortization	(94,142)	(96,
Property, plant and equipment, net	\$ 22,194	\$ 23,

Business Combinations—We allocate the fair value of purchase consideration to the assets acquired and liabilities assumed based generally on their fair values at the acquisition date. The excess of the fair value of purchase consideration over the fair value of these assets acquired and liabilities assumed is recorded as goodwill. When determining the fair values of assets acquired and liabilities assumed, management makes significant estimates and assumptions, especially with respect to intangible assets. Critical estimates in valuing intangible assets include, but are not limited to, expected future cash flows, which include consideration of future growth rates and margins, customer attrition rates, future changes in technology and brand awareness, loyalty and position, and discount rates. Critical estimates are also made in valuing contingent considerations, which represent arrangements to pay former owners based on the satisfaction of performance criteria. Fair value estimates are based on the assumptions management believes a market participant would use in pricing the asset or liability. Amounts recorded in a business combination may change during the measurement period, which is a period not to exceed one year from the date of acquisition, as additional information about conditions existing at the acquisition date becomes available.

Goodwill and Intangible Assets—Goodwill represents the excess cost of a business acquisition over the fair value of the net assets acquired. We do not amortize goodwill; however, we perform an annual review each year, or more frequently if indicators of potential impairment exist (i.e., that it is more likely than not that the fair value of the reporting unit is less than the carrying value), to determine if the carrying value of the recorded goodwill or indefinite lived intangible assets is impaired.

Each period, and for our single reporting unit, we can elect to perform a qualitative assessment to determine whether it is necessary to perform a quantitative goodwill impairment test. If we believe, as a result of our qualitative assessment, that it is not more likely than not that the fair value of our reporting unit containing goodwill is less than its carrying amount, then the quantitative goodwill impairment test is unnecessary. If we elect to bypass the qualitative assessment option, or if the qualitative assessment was performed and resulted in the Company being unable to conclude that it is not more likely than not that the fair value of a reporting unit containing goodwill is greater than its carrying amount, we will perform the quantitative goodwill impairment test. We calculate the fair value of the reporting unit using a discounted cash flow method and market approach method, and then comparing the respective fair value with the carrying amount of the reporting unit. If the carrying amount of the reporting unit exceeds its fair value, we record the amount of the impairment loss, if any.

Management concluded there was no goodwill impairment for the year ended December 31, 2021, no goodwill impairment for the year ended December 31, 2020 and \$21.2 million impairment loss for the year ended December 31, 2019. We test goodwill for impairment annually on December 31 of each reporting year or more frequently if an event occurs or circumstances would indicate that it is more likely than not the fair value of the reporting unit is less than the carrying value. We performed our annual quantitative test of goodwill during 2021 and 2020 as of December 31. We changed the timing of our annual test of goodwill during 2019 to align with our updated strategic plan and annual budgetary process. Accordingly, we performed our annual quantitative test for impairment of our recorded goodwill as of December 10, 2019. As a result of this test, the estimated fair value of each of the Photonics reporting unit, which included goodwill recognized with the Instrument Associates, LLC d/b/a Nutfield Technology (“Nutfield”), Laser Control Systems Limited (“Laser Control Systems”) and Lanmark Controls, Inc. (“Lanmark”) acquisitions, and the 3D Design reporting unit, which included goodwill recognized with the acquisition of Opto-Tech SRL and its subsidiary Open Technologies SRL (collectively, “Open Technologies”), were determined to be significantly less than the carrying value of such reporting unit, indicating a full impairment. This \$21.2 million impairment loss was driven primarily by historical and projected financial performance lower than our expectations and changes in our go-forward strategy in connection with our new strategic plan. See Note 6, “Goodwill” for further information regarding goodwill.

Other intangible assets principally include patents, existing product technology and customer relationships that arose in connection with our acquisitions. Other intangible assets are recorded at fair value at the date of acquisition and are amortized over their estimated useful lives of 3 to 20 years. As of December 31, 2021 and 2020, there were no indefinite-lived intangible assets.

Product technology and patents are recorded at cost. Amortization expense is computed using the straight-line method over the estimated useful lives of the product technology and patents of 7 to 20 years.

Internally developed software exceeding one thousand dollars are capitalized and recorded at cost. Amortization expense is computed using the straight-line method over the estimated useful lives of the internally developed software ranging between 1 to 5 years.

The remaining weighted-average amortization period for all our intangible assets is 9 years.

As a result of historical and projected financial performance being lower than our expectations and changes in our go-forward strategy in connection with our new strategic plan, the estimated fair value of acquired intangibles recognized with the Nutfield, Laser Control Systems, Lanmark and Open Technologies acquisitions were determined to be less than the net carrying value for such assets. We recognized an impairment charge related to such acquired intangibles of \$10.5 million in 2019. We recognized no impairment charges related to intangibles in 2021 or 2020. See Note 7, “Intangible Assets” for further information regarding intangible assets.

Research and Development—Research and development costs incurred in the discovery of new knowledge and the resulting translation of this new knowledge into plans and designs for new products prior to the attainment of the related products’ technological feasibility are recorded as expenses in the period incurred. To date, the time incurred between the attainment of the related products’ technological feasibility and general release to customers has been short. 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. Any costs related to preliminary project activities and post implementation activities of internal-use software are expensed as incurred. The amount of costs capitalized during 2021 relating to internally developed computer software to be sold as a service was \$2.0 million and no costs were capitalized in 2020. No amounts were charged to expense during 2021, 2020 or 2019. These capitalized costs, which total \$2.0 million as of December 31, 2021 and zero as of December 31, 2020 are primarily included in net intangible assets in our consolidated balance sheet.

Reserve for Warranties—We establish at the time of sale a liability for the one-year warranty included with the initial purchase price of our products, based upon an estimate of the repair expenses likely to be incurred for the warranty period. The warranty period is measured in installation-months for each major product group. The warranty reserve is included in accrued liabilities in the accompanying consolidated balance sheets. The warranty expense is estimated by applying the actual total repair expenses for each product group in the prior period and determining a rate of repair expense per installation-month. This repair rate is multiplied by the number of installation-months of warranty for each product group to determine the provision for warranty expenses for the period. We evaluate our exposure to warranty costs at the end of each period using the estimated expense per installation-month for each major product group, the number of units remaining under warranty, and the remaining number of months each unit will be under warranty. We have a history of new product introductions and enhancements to existing products, which may result in unforeseen issues that increase our warranty costs. While such expenses have historically been within expectations, we cannot guarantee this will continue in the future.

Income Taxes—We account for income taxes using the asset and liability method in accordance with ASC Topic 740, *Income Taxes*. The objectives of accounting for income taxes under ASC Topic 740 are to recognize the amount of taxes payable or refundable for the current year and to recognize the deferred tax assets and liabilities that relate to tax consequences in future years, which result from differences between the respective tax basis of assets and liabilities and their financial reporting amounts and tax attribute carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates in effect for the year in which the respective temporary differences or tax credit carryforwards are expected to be recovered or settled. We review our deferred tax assets on a regular basis to evaluate their recoverability based upon expected future reversals of deferred tax assets and liabilities, projections of future taxable income, and tax planning strategies that we might employ to utilize such assets, including net operating loss carryforwards. The realization of deferred tax assets is contingent upon the generation of future taxable income and other restrictions that may exist under the tax laws of the jurisdiction in which a deferred tax asset exists. We assess the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit the use of existing deferred tax assets. Management’s evaluation begins with a jurisdictional review of cumulative gains or losses incurred over recent years. A significant piece of objective negative evidence exists when a jurisdiction has incurred cumulative losses over recent years. Such objective evidence limits the ability to consider other subjective evidence, such as our projections for future growth. Based on the positive and negative evidence for recoverability, we establish a valuation allowance against the net deferred tax assets of a taxing jurisdiction in which we operate unless it is “more likely than not” that we will recover such assets through the above means.

We recognize tax benefits related to uncertain tax positions only if it is more likely than not that the tax position will be sustained upon examination by taxing authorities. For those positions where it is not more likely than not that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements. In the ordinary course of business, we are examined by various federal, state, and foreign tax authorities. We regularly assess the potential outcomes of these examinations and any future examinations for the current or prior years in determining the adequacy of our provision for income taxes. See Note 11, “Income Taxes” for further information regarding income taxes.

Earnings (Loss) Per Share (“EPS”)—Basic (loss) earnings per share is computed by dividing net (loss) income by the weighted average number of shares outstanding. Diluted earnings per share is computed by also considering the impact of potential common stock on both net income and the weighted average number of shares outstanding. Our potential common stock consists of employee stock options, restricted stock, restricted stock units and market-based awards. Our potential common stock is excluded from the basic earnings per share calculation and is included in the diluted earnings per share calculation when doing so 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 performance conditions (and any applicable market condition) (i) are satisfied as of the end of the reporting period or (ii) would be considered satisfied if the end of the reporting period were the end of the related contingency period and the result would be dilutive under the treasury stock method. When we report a loss for the period presented, the diluted loss per share calculation does not include our potential common stock, as the inclusion of these shares in the calculation would have an anti-dilutive effect. A reconciliation of the number of common shares used in the calculation of basic and diluted EPS is presented in Note 14, “(Loss) Earnings Per Share.”

Accounting for Stock-Based Compensation—We have two stock-based employee and director compensation plans, which are described more fully in Note 13, “Stock Compensation Plans.”

We measure and record compensation expense using the applicable accounting guidance for share-based payments related to stock options, restricted stock, restricted stock units and market-based awards granted to our directors and employees. The fair value of stock options, including performance awards, without a market condition is estimated, at the date of grant, using the Black-Scholes option-valuation model. The fair value of restricted stock unit awards and stock options with a market condition is estimated, at the date of grant, using the Monte Carlo Simulation valuation model. The Black-Scholes and Monte Carlo Simulation valuation models incorporate assumptions as to stock price volatility, the expected life of options or awards, a risk-free interest rate and dividend yield. In valuing our stock options, significant judgment is required in determining the expected volatility of our common stock and the expected life that individuals will hold their stock options prior to exercising. Expected volatility for stock options is based on the historical and implied volatility of our own common stock while the volatility for our restricted stock units with a market condition is based on the historical volatility of our own stock and the stock of companies within our defined peer group. The expected life of stock options is derived from the historical actual term of option grants and an estimate of future exercises during the remaining contractual period of the option. While volatility and estimated life are assumptions that do not bear the risk of change subsequent to the grant date of stock options, these assumptions may be difficult to measure as they represent future expectations based on historical experience. Further, our expected volatility and expected life may change in the future, which could substantially change the grant-date fair value of future awards of stock options and, ultimately, the expense we record. The fair value of restricted stock and restricted stock units, including performance awards, without a market condition is estimated using the current market price of our common stock on the date of grant.

We expense stock-based compensation for stock options, restricted stock, restricted stock units and performance awards over the requisite service period. For awards with only a service condition, we expense stock-based compensation using the straight-line method over the requisite service period for the entire award. For awards with both performance and service conditions, we expense the stock-based compensation on a straight-line basis over the requisite service period for each separately vesting portion of the award, taking into account the probability that we will satisfy the performance conditions. Furthermore, we expense awards with a market condition over the three-year vesting period regardless of the value that the award recipients ultimately receive. All income tax-related cash flows resulting from share-based payments are reported as operating activities in the statement of cash flows in the deferred income tax benefit line item. We elect to account for forfeitures related to the service condition-based awards as they occur.

Concentration of Credit Risk—Financial instruments that expose us to concentrations of credit risk consist principally of operating demand deposit accounts. Our policy is to place our operating demand deposit accounts with high credit quality financial institutions, the balances of which at times may exceed federally insured limits. We continually monitor our banking relationships and believe we are not exposed to any significant credit risk on our operating demand deposit accounts.

Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 from those estimates.

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

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

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

2. SUPPLEMENTAL CASH FLOW INFORMATION

Selected cash payments and non-cash activities were as follows:

	Years ended December 31,		
	2021	2020	2019
Supplemental cash flow information:			
Cash paid for interest	\$ 1,186	\$ 21	\$ 6
Cash paid for income taxes	\$ 4,365	\$ 3,409	\$ 5,498
Supplemental noncash investing and financing activities:			
Transfer of service and sales demonstration inventory to fixed assets	\$ 2,226	\$ 1,688	\$ 3,044
Assumption of contingent consideration from acquisition	\$ —	\$ 980	\$ —
Purchases of Property, plant, equipment and Intangibles accrued but not paid	\$ 754	\$ —	\$ —

3. REVENUES

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

	Years ended December 31,		
	2021	2020	2019
Product Sales			
Products transferred to a customer at a point in time	\$ 234,188	\$ 205,849	\$ 277,841
Products transferred to a customer over time	16,915	12,738	11,838
	<u>\$ 251,103</u>	<u>\$ 218,587</u>	<u>\$ 289,679</u>
	Years ended December 31,		
	2021	2020	2019
Service Sales			
Service transferred to a customer at a point in time	\$ 39,559	\$ 36,732	\$ 48,593
Service transferred to a customer over time	47,152	48,449	43,493
	<u>\$ 86,711</u>	<u>\$ 85,181</u>	<u>\$ 92,086</u>

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

	Years ended December 31,		
	2021	2020	2019
Total Sales to External Customers			
Americas ⁽¹⁾	\$ 140,633	\$ 128,826	\$ 165,756
EMEA ⁽¹⁾	104,350	91,390	122,279
APAC ⁽¹⁾	92,831	83,552	93,730
	<u>\$ 337,814</u>	<u>\$ 303,768</u>	<u>\$ 381,765</u>

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

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 December 31, 2021, the deferred cost asset related to deferred commissions was approximately \$3.5 million. For classification purposes, \$2.3 million and \$1.2 million are comprised within the Prepaid expenses and other current assets and Other long-term assets, respectively, on our consolidated balance sheet as of December 31, 2021. As of December 31, 2020, the deferred cost asset related to deferred commissions was approximately \$4.1 million. For classification purposes, \$2.6 million and \$1.5 million are comprised within the Prepaid expenses and other current assets and Other long-term assets, respectively, on our consolidated balance sheet as of December 31, 2020.

The unearned service revenue liabilities reported on our 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 consolidated balance sheets is what we expect to recognize to revenue within twelve months after the applicable balance sheet date relating to extended warranty, subscription based software and software maintenance contract liabilities. The Unearned service revenues - less current portion on our consolidated balance sheets is what we expect to recognize to revenue extending beyond twelve months after the applicable balance sheet date relating to extended warranty, subscription based software and software maintenance contract liabilities. Customer deposits on our 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 year ended December 31, 2021, we recognized \$34.4 million of revenue that was deferred on our consolidated balance sheet as of December 31, 2020. During the year ended December 31, 2020, we recognized \$35.2 million of revenue that was deferred on our consolidated balance sheet as of December 31, 2019.

The nature of certain of our contracts gives rise to variable consideration, primarily related to an allowance for sales returns. 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 December 31, 2021 and December 31, 2020 was approximately \$0.2 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.

4. ALLOWANCE FOR CREDIT LOSSES

Activity in the allowance for credit losses was as follows:

	Years ended December 31,		
	2021	2020	2019
Balance, beginning of year	\$ 3,888	\$ 3,449	\$ 1,748
Provision (net of recovery)	176	440	2,090
Amounts written off, net of recoveries	(1,833)	(1)	(389)
Balance, end of year	\$ 2,231	\$ 3,888	\$ 3,449

5. INVENTORIES

Inventories are stated at the lower of cost or net realizable value using the first-in first-out 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 consolidated statements of operations. Sales demonstration inventory is held by our sales representatives for up to three years, at which time it is 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 to be 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:

	December 31, 2021	December 31, 2020
Raw materials	\$ 34,617	\$ 29,955
Finished goods	18,528	17,436
Inventories, net	\$ 53,145	\$ 47,391
Service and sales demonstration inventory, net	\$ 30,554	\$ 31,831

6. GOODWILL

We had approximately \$82.1 million and \$57.5 million of goodwill as of December 31, 2021 and 2020, net of accumulated impairments of \$35.2 million as of December 31, 2021 and 2020, respectively. Changes in these balances are shown below:

(in thousands)	December 31, 2021	December 31, 2020
Goodwill, beginning	\$ 57,541	\$ 49,704
Recognized goodwill	26,723	5,467
Foreign currency translation	(2,168)	2,370
Goodwill, ending	\$ 82,096	\$ 57,541

We test goodwill for impairment annually on December 31 of each reporting year or more frequently if an event occurs or circumstances would indicate that it is more likely than not the fair value of the reporting unit is less than the carrying value. We performed our annual qualitative test of goodwill during 2021 as of December 31, 2021, and recorded no impairment expense for the year ended December 31, 2021 and we performed an annual quantitative test of goodwill during 2020 as of December 31, 2020, and recorded no impairment expense for the year ended December 31, 2020.

We report as a single reporting segment that develops, manufactures, markets, supports and sells CAD-based quality assurance products integrated with CAD-based inspection and statistical process control software and 3D documentation systems. Our reporting segment sells into a variety of end markets, including automotive, aerospace, metal and machine fabrication, architecture, engineering, construction and public safety.

7. INTANGIBLE ASSETS

Intangible assets consist of the following:

	As of December 31, 2021		
	Carrying Value	Accumulated Amortization	Net Intangible
Amortizable intangible assets:			
Product technology	\$ 20,944	\$ 12,337	\$ 8,607
Patents and trademarks	15,535	8,294	7,241
Customer relationships	9,892	4,811	5,081
Other	10,369	5,682	4,687
Total	\$ 56,740	\$ 31,124	\$ 25,616

	As of December 31, 2020		
	Carrying Value	Accumulated Amortization	Net Intangible
Amortizable intangible assets:			
Product technology	\$ 14,625	\$ 10,785	\$ 3,840
Patents and trademarks	14,325	7,495	6,830
Customer relationships	6,541	4,002	2,539
Other	5,265	5,173	92
Total	\$ 40,756	\$ 27,455	\$ 13,301

Amortization expense was \$4.2 million, \$3.4 million and \$5.6 million in 2021, 2020 and 2019, respectively. The estimated amortization expense for each of the years 2022 through 2026 and thereafter is as follows:

Years ending December 31,	Amount
2022	\$ 3,571
2023	3,175
2024	2,767
2025	2,642
2026	1,590
Thereafter	11,871
	\$ 25,616

8. ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	As of December 31,	
	2021	2020
Accrued compensation and benefits	\$ 15,723	\$ 17,457
Accrued restructuring costs	3,919	2,347
Accrued warranties	1,880	1,683
Professional and legal fees	2,053	1,810
Taxes other than income	3,674	5,013
General services administration contract contingent liability (see Note 12)	—	12,325
Other accrued liabilities	959	1,958
	<u>\$ 28,208</u>	<u>\$ 42,593</u>

Activity related to accrued warranties was as follows:

	Years ended December 31,		
	2021	2020	2019
Balance, beginning of year	\$ 1,683	\$ 2,090	\$ 2,571
Provision for warranty expense	2,851	2,727	3,600
Fulfillment of warranty obligations	(2,654)	(3,134)	(4,081)
Balance, end of year	<u>\$ 1,880</u>	<u>\$ 1,683</u>	<u>\$ 2,090</u>

9. FAIR VALUE MEASUREMENTS

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

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

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

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

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

Fair Value on a Recurring Basis

Assets and 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.

	December 31, 2021		
	Level 1	Level 2	Level 3
Liabilities:			
Contingent consideration ⁽¹⁾	\$ —	\$ —	\$ 1,028
Total	\$ —	\$ —	\$ 1,028
	December 31, 2020		
	Level 1	Level 2	Level 3
Liabilities:			
Contingent consideration ⁽¹⁾	\$ —	\$ —	\$ 1,056
Total	\$ —	\$ —	\$ 1,056

- (1) Contingent consideration liability represents arrangements to pay the former owners of certain companies we acquired based on the attainment of future product release milestones and is reported in other long-term liabilities. We use a probability-weighted discounted cash flow model to estimate the fair value of contingent consideration liabilities. These probability weightings are developed internally and assessed on a quarterly basis. The remaining undiscounted maximum payment under these arrangements was \$1.1 million as of December 31, 2021. We expect to make payments earned by former owners under these arrangements on August 31, 2023.

10. OTHER EXPENSE (INCOME), NET

Other expense (income), net consists of the following:

	Years ended December 31,		
	2021	2020	2019
Foreign exchange transaction losses	\$ 560	\$ 1,680	\$ 1,211
Present4D impairment	—	—	2,152
Contingent consideration fair value adjustment	—	—	(1,562)
Other	(490)	(1,249)	512
Total other expense, net	\$ 70	\$ 431	\$ 2,313

11. INCOME TAXES

Income (loss) before income tax (benefit) expense consists of the following:

	Years ended December 31,		
	2021	2020	2019
Domestic	\$ (13,202)	\$ (33,991)	\$ (40,963)
Foreign	4,641	3,218	(20,051)
(Loss) Income before income taxes	\$ (8,561)	\$ (30,773)	\$ (61,014)

The components of the income tax expense (benefit) for income taxes are as follows:

	Years ended December 31,		
	2021	2020	2019
Current:			
Federal	\$ 211	\$ (3,557)	\$ 3,215
State	114	169	400
Foreign	6,372	(2,032)	3,809
Current income tax expense (benefit)	6,697	(5,420)	7,424
Deferred:			
Federal	15,464	(2,886)	(7,630)
State	6,418	(2,937)	(1,667)
Foreign	2,824	(20,159)	3,006
Deferred income tax expense (benefit)	24,706	(25,982)	(6,291)
Income tax expense (benefit)	\$ 31,403	\$ (31,402)	\$ 1,133

During fiscal year 2020, we completed intra-entity transfers of certain intellectual property rights (“IP Rights”) which resulted in the Company establishing deferred tax assets and related tax benefits of \$19.2 million, based on fair value of the IP rights transferred in December 2020. The determination of the fair value involves significant judgment on future revenue growth, operating profit and discount rates. Unforeseen events and circumstances may occur that could affect either the accuracy or validity of such assumptions, estimates or actual results

Reconciliations of the income tax expense at the U.S. federal statutory income tax rate compared to our actual income tax expense (benefit) are summarized below:

	Years ended December 31,		
	2021	2020	2019
Tax expense at statutory rate	\$ (1,798)	\$ (6,462)	\$ (12,812)
State income taxes, net of federal benefit	106	(1,400)	(1,564)
Foreign tax rate difference	303	1,999	(1,954)
Change in valuation allowance	26,475	(3,736)	8,485
Impact of intra-entity IP transfers	231	(19,227)	—
Prepaid tax on intercompany profit	3,390	—	—
Impact of permanent differences of non-deductible cost	1,658	(602)	1,550
Withholding/other foreign taxes	838	—	—
Research and development credit	(737)	(662)	(753)
Global intangible low-taxed income (“GILTI”)	763	—	1,795
Foreign currency gain/loss	594	—	—
Provision to return adjustments & deferred adjustments	313	(572)	356
Change in enacted tax rates	(306)	(1,138)	359
Equity based compensation	(245)	(42)	(25)
Uncertain tax positions	(185)	—	—
Intangible & goodwill impairment	—	—	4,999
Other	3	440	697
Income tax expense (benefit)	\$ 31,403	\$ (31,402)	\$ 1,133

The components of our net deferred income tax assets and liabilities are as follows:

	As of December 31,	
	2021	2020
Net deferred income tax asset - Non-current		
Warranty cost	\$ 305	\$ 310
Inventory reserve	2,287	5,234
Unearned service revenue	9,913	11,607
Employee stock options	3,282	3,271
Tax credits	3,688	2,828
Loss carryforwards	18,487	8,530
Depreciation	1,295	1,419
Other, net	1,402	735
Intangibles & goodwill	14,400	19,295
Lease liability	4,749	6,986
Total deferred tax assets	59,808	60,215
Valuation allowance	(35,148)	(6,916)
Total deferred tax assets net of valuation allowance	24,660	53,299
Net deferred income tax liability - Non-current		
Operating lease right-of-use asset	(4,441)	(6,636)
Total deferred tax liabilities	(4,441)	(6,636)
Net deferred tax assets	\$ 20,219	\$ 46,663

Our domestic entities had a net deferred tax liability in the amount of \$0.4 million, and a deferred tax asset of \$21.4 million as of December 31, 2021 and December 31, 2020, respectively. Our foreign entities had net deferred tax assets in the amount of \$20.6 million and \$25.3 million as of December 31, 2021, and December 31, 2020, respectively. At December 31, 2021 we had U.S. federal and state net operating loss carryforwards of \$34.4 million and \$67.6 million, respectively. \$31.0 million of our federal net operating losses carryforward indefinitely while a portion of our federal and state net operating loss carryforwards will begin to expire in 2035 and 2029, respectively. We also had federal and state R&D credit carryforwards of \$3.2 million and \$0.4 million, respectively. The federal credits will begin to expire in 2039 and our state credits carryforward indefinitely. Foreign net operating losses are \$40.5 million, the majority of which can be carried forward indefinitely.

At December 31, 2021, our foreign subsidiaries had deferred tax assets primarily relating to Intangibles of \$17.3 million and net operating losses of \$7.8 million, the majority of which can be carried forward indefinitely. At December 31, 2020, our foreign subsidiaries had deferred tax assets primarily relating to Intangibles of \$19.4 million and net operating losses of \$7.1 million, the majority of which can be carried forward indefinitely.

The realization of deferred tax assets is contingent upon the generation of future taxable income and other restrictions that may exist under the tax laws of the jurisdiction in which a deferred tax asset exists. We assess the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit the use of existing deferred tax assets. Management's evaluation begins with a jurisdictional review of cumulative gains or losses incurred over recent years. A significant piece of objective negative evidence exists when a jurisdiction has incurred cumulative losses over recent years. Such objective evidence limits the ability to consider other subjective evidence, such as our projections for future growth. Based on the positive and negative evidence for recoverability, we establish a valuation allowance against the net deferred tax assets of a taxing jurisdiction in which we operate unless it is "more likely than not" that we will recover such assets through the above means. We have valuation allowances of \$35.1 million and \$6.9 million for the years December 31, 2021 and 2020, respectively. The net change in the total valuation allowance for each of the years ended December 31, 2021, 2020 and 2019 was a \$26.5 million increase, \$3.7 million decrease and \$8.5 million increase, respectively. The increase in the valuation allowance for the year ended December 31, 2021 primarily relates to recording valuation allowance against our net U.S. and Singapore deferred tax assets.

On December 22, 2017, the United States enacted the U.S. Tax Cuts and Jobs Act, resulting in significant modifications to existing 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 GILTI tax. The Company reinvested a large portion of its undistributed foreign earnings and profits in acquisitions and other investments and intends to bring back a portion of foreign cash in certain jurisdictions where the Company will not be subject to local withholding taxes and which were subject already to transition tax and GILTI tax. At December 31, 2021, we have not provided for approximately \$0.9 million of withholding tax on foreign earnings and profits in certain jurisdictions that we intend to invest these earnings indefinitely.

Significant judgment is required in determining our worldwide provision for income taxes. In the ordinary course of a global business, there are many transactions for which the ultimate tax outcome is uncertain. We review our tax contingencies on a regular basis and make appropriate accruals as necessary.

As of December 31, 2021, 2020 and 2019, our unrecognized tax benefits totaled \$1.7 million, \$1.9 million and \$1.9 million, respectively, which are included in Income taxes payable and offsetting an associated deferred tax asset.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

	Years ended December 31,		
	2021	2020	2019
Balance at January 1	\$ 1,873	\$ 1,924	\$ 1,924
Additions based on tax positions related to the current year	53	273	—
Additions for tax positions of prior years	—	—	1,924
Lapse of statute of limitations	(262)	(324)	(—)
Balance at December 31	\$ 1,664	\$ 1,873	\$ 1,924

We file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The table below summarizes the open tax years and ongoing tax examinations in major jurisdictions as of December 31, 2021.

Jurisdiction	Open Years	Examination in Process
United States - Federal Income Tax	2018-2021	N/A
United States - various states	2017-2021	N/A
Germany	2013-2021	2013-2014
Switzerland	2019-2021	N/A
Singapore	2017-2021	N/A

We recognize accrued interest and penalties related to unrecognized tax benefits in income tax expense. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is \$1.6 million. We do not currently anticipate that the total amount of unrecognized tax benefits will result in material changes to our financial position. We are subject to income taxes at the federal, state and foreign country level. Our tax returns are subject to examination at the U.S. state level and are subject to a three to four year statute of limitations, depending on the state.

12. COMMITMENTS AND CONTINGENCIES

Purchase Commitments — We enter into purchase commitments for products and services in the ordinary course of business. These purchases generally cover production requirements for 60 to 120 days as well as materials necessary to service customer units through the product lifecycle and for warranty commitments. As of December 31, 2021, we had approximately \$40.0 million in purchase commitments that are expected to be delivered within the next 12 months. To ensure adequate component availability, as of December 31, 2021, we also had \$6.6 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.

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

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

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

13. STOCK COMPENSATION PLANS

We have two compensation plan that provides for the granting of stock options and other share-based awards to key employees and non-employee members of the Board of Directors. The 2009 Equity Incentive Plan (“2009 Plan”), and the 2014 Equity Incentive Plan (“2014 Plan”) provide for granting options, restricted stock, restricted stock units or stock appreciation rights to employees and non-employee directors.

We were authorized to grant awards for up to 1,781,546 shares of common stock under the 2009 Plan, as well as any shares underlying awards outstanding under our 2004 Equity Incentive Plan (the “2004 Plan”) as of the effective date of the 2009 Plan that thereafter terminated or expired unexercised or were canceled, forfeited or lapsed for any reason. There were no options outstanding under the 2009 Plan at December 31, 2021.

In May 2014, our shareholders approved the 2014 Plan authorizing us to grant awards for up to 1,974,543 shares of common stock, as well as any shares underlying awards outstanding under the 2004 Plan and 2009 Plan as of the effective date of the 2014 Plan that thereafter terminate or expire unexercised or are canceled, forfeited or lapse for any reason. In May 2018, our shareholders approved an amendment to the 2014 Plan, which increased the number of shares available for issuance under the 2014 Plan by 1,000,000 shares. A maximum of 2,974,543 shares are available for issuance under the 2014 Plan, as amended, plus the number of shares (not to exceed 891,960) underlying awards outstanding under the 2004 Plan and the 2009 Plan as of May 29, 2014 that thereafter terminate or expire unexercised or are canceled, forfeited or lapse for any reason. There were 44,524 options outstanding at December 31, 2021 under the 2014 Plan at exercise prices between \$33.05 and \$61.30. The options outstanding under the 2014 Plan have a 7-year term and generally vest over a 3-year period.

Upon election to the Board, each non-employee director receives an initial equity grant of shares of restricted common stock with a value equal to \$100,000, calculated using the closing share price on the date of the non-employee director’s election to the Board. The initial restricted stock grant vests on the third anniversary of the grant date, subject to the non-employee director’s continued membership on the Board. Annually, the non-employee directors are granted restricted shares equal to \$175,000 on the first business day following the annual meeting of shareholders, calculated using the closing price of our common stock on that day. The shares of restricted stock granted annually to our non-employee directors and our independent Chairman of the Board vest on the day prior to the following year’s annual meeting date, subject to a non-employee director’s continued membership on the Board. We record compensation cost associated with our restricted stock grants on a straight-line basis over the vesting term. Our non-employee directors also may elect to have their annual cash retainers and annual equity retainers paid in the form of deferred stock units pursuant to the 2014 Plan and the 2018 Non-Employee Director Deferred Compensation Plan. Each deferred stock unit represents the right to receive one share of our common stock upon the non-employee director’s separation of service from the Company. We record compensation cost associated with our deferred stock units over the period of service.

Annually, upon approval by our Compensation Committee, we grant stock-based awards, which historically have been in the form of stock options and/or restricted stock units, to certain employees. We also grant stock-based awards, which historically have been in the form of stock options and/or restricted stock units, to certain new employees throughout the year. The fair value of these stock-based awards is determined by using (a) the current market price of our common stock on the grant date in the case of restricted stock units without a market condition, (b) the Monte Carlo Simulation valuation model in the case of market-based restricted stock units with a market condition, or (c) the Black-Scholes option valuation model in the case of stock options.

For the stock-based awards granted in 2021 and 2020, the time-based restricted stock units vest in three equal annual installments beginning one year after the grant date. The market-based restricted stock unit awards vest at the end of the 3-year performance period if the applicable market-based measure is achieved. The related stock-based compensation expense will be recognized over the requisite service period, taking into account the probability that we will satisfy the performance measure. The market-based restricted stock units granted in 2021 will be earned and will vest based upon our total shareholder return (“TSR”) relative to the TSR attained by companies within our defined benchmark group, the Russell 2000 Growth Index. Due to the TSR presence in these market-based restricted stock units, the fair value of these awards was determined using the Monte Carlo Simulation valuation model. We expense these market condition awards over the three-year vesting period regardless of the value the award recipients ultimately receive.

The Monte Carlo Simulation valuation model incorporates assumptions as to stock price volatility, the expected life of options or awards, a risk-free interest rate and dividend yield. The weighted-average grant-date fair value of the market-based restricted stock units that were granted during 2021 and 2020 valued using the Monte Carlo Simulation valuation model was \$145.67 and \$80.38, respectively. For market-based restricted stock units granted during 2021 and 2020 valued using the Monte Carlo Simulation valuation model, we used the following assumptions:

	Year ended December 31			
	2021		2020	
Risk-free interest rate	0.2	%	1.2	%
Expected dividend yield	—	%	—	%
Term	3 years		3 years	
Expected volatility	45.0	%	40.0	%
Weighted-average expected volatility	45.0	%	40.0	%

Historical information was the primary basis for the selection of the expected dividend yield and expected volatility. The risk-free interest rate was based on the yields of U.S. zero coupon issues and U.S. Treasury issues, with a term equal to the term of the award being valued.

A summary of stock option activity and weighted average exercise prices follows:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value as of December 31, 2021
Outstanding at January 1, 2021	155,048	\$ 56.53		
Granted	—	—		
Forfeited	(6,701)	58.08		
Exercised	(103,823)	56.61		
Outstanding at December 31, 2021	44,524	\$ 56.11	1.5	\$ 667
Options exercisable at December 31, 2021	44,524	\$ 56.11	0.2	\$ 667

The aggregate intrinsic value of stock options exercised during the years ended December 31, 2021, 2020, and 2019 was \$3.0 million, \$4.2 million and \$3.4 million, respectively. The total fair value of stock options vested during the years ended December 31, 2021, 2020, and 2019 was \$0.2 million, \$0.8 million and \$5.1 million, respectively.

The following table summarizes the restricted stock and restricted stock unit activity and weighted-average grant date fair values for the year ended December 31, 2021:

	Shares	Weighted-Average Grant Date Fair Value
Non-vested at January 1, 2021	377,447	\$ 60.92
Granted	168,573	100.66
Forfeited	(36,288)	80.07
Vested	(159,153)	57.73
Non-vested at December 31, 2021	<u>350,579</u>	<u>\$ 79.11</u>

We recorded total stock-based compensation expense associated with our stock incentive plans of \$11.5 million, \$8.3 million and \$11.1 million in 2021, 2020 and 2019, respectively.

As of December 31, 2021, there was \$16.1 million in total unrecognized stock-based compensation expense related to non-vested stock-based compensation arrangements. The expense is expected to be recognized over a weighted-average period of 1.83.

The following table summarizes total stock-based compensation expense for each of the line items on our consolidated statement of operations:

	Years ended December 31,		
	2021	2020	2019
Cost of Sales			
Product	\$ 566	\$ 356	\$ 628
Service	69	346	373
Total cost of sales	<u>\$ 635</u>	<u>\$ 702</u>	<u>\$ 1,001</u>
Operating Expenses			
Selling, general and administrative	\$ 8,985	\$ 6,327	\$ 8,786
Research and development	1,836	1,285	1,282
Total operating expenses	<u>\$ 10,821</u>	<u>\$ 7,612</u>	<u>\$ 10,068</u>

14. (LOSS) EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income by the weighted average number of shares outstanding. Diluted earnings per share is computed by also considering the impact of potential common stock on both net income and the weighted average number of shares outstanding. Our potential common stock consists of employee stock options, restricted stock units and market-based awards. Our potential common stock is excluded from the basic earnings per share calculation and is included in the diluted earnings per share calculation when doing so 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 diluted loss per share calculation does not include our potential common stock, as the inclusion of these shares in the calculation would have an anti-dilutive effect. A reconciliation of the number of common shares used in the calculation of basic and diluted earnings per share is presented below:

	Years Ended December 31,					
	2021		2020		2019	
	Shares	Per-Share Amount	Shares	Per-Share Amount	Shares	Per-Share Amount
Basic earnings per share	18,187,946	\$ (2.20)	17,769,958	\$ 0.04	17,383,415	\$ (3.58)
Effect of dilutive securities	—	—	156,366	—	—	—
Diluted earnings per share	18,187,946	\$ (2.20)	17,926,324	\$ 0.04	17,383,415	\$ (3.58)
Securities excluded from the determination of weighted average shares for the calculation of diluted earnings per share, as they were potentially antidilutive	395,387		—		886,274	

15. EMPLOYEE RETIREMENT BENEFIT PLAN

We maintain a 401(k) defined contribution retirement plan for our eligible U.S. employees. Costs charged to operations in connection with the 401(k) plan during 2021, 2020 and 2019 aggregated to \$1.8 million, \$1.8 million, and \$2.2 million, respectively.

16. GEOGRAPHIC INFORMATION

As part of our new strategic plan, and based on the recommendation of our CEO, who is also our Chief Operating Decision Maker (“CODM”), in the fourth quarter of 2019, we eliminated our vertical structure and began reorganizing the Company into a functional structure. Our executive leadership team is now comprised of functional leaders in areas such as sales, marketing, operations, research and development and general and administrative, and resources are allocated to each function at a consolidated unit level. We no longer have separate business units, or segment managers or vertical leaders who report to the CODM with respect to operations, operating results or planning for levels or components below the total Company level. Instead, our CODM now allocates resources and evaluates performance on a company-wide basis. Based on these changes, commencing with the fourth quarter of 2019, we are now reporting as one reporting segment that develops, manufactures, markets, supports and sells CAD-based quality assurance products integrated with CAD-based inspection and statistical process control software and 3D documentation systems. Our reporting segment sells into a variety of end markets, including automotive, aerospace, metal and machine fabrication, architecture, engineering, construction and public safety. These activities represent more than 99% of consolidated sales.

Total sales to external customers is based upon the geographic location of the customer.

	For the Years Ended December 31,		
	2021	2020	2019
Total sales to external customers			
United States and Canada	\$ 127,661	\$ 119,769	\$ 151,646
Americas-Other	12,973	9,057	14,110
Germany	48,772	46,166	52,083
Europe-Other	55,577	45,224	70,196
Japan	25,997	4,998	33,361
China	40,808	31,748	32,934
Asia-Other	26,026	46,806	27,435
	<u>\$ 337,814</u>	<u>\$ 303,768</u>	<u>\$ 381,765</u>

Long-lived assets consist primarily of property, plant, and equipment, goodwill, and intangible assets, and are attributed to the geographic area in which they are located or originated, as applicable.

	As of December 31,		
	2021	2020	2019
Long-Lived Assets			
United States	\$ 82,845	\$ 42,729	\$ 45,225
Americas-Other	9,794	10,415	10,889
Germany	24,415	26,671	26,295
Europe-Other	10,063	10,966	4,984
Japan	1,039	1,192	1,423
Asia-Other	1,750	1,960	2,313
	<u>\$ 129,906</u>	<u>\$ 93,933</u>	<u>\$ 91,129</u>

17. 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 consolidated balance sheets. Finance leases are included in Property and equipment, net, Lease liability, and Lease liability - less current portion in our 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:

	Year Ended December 31, 2021	Year Ended December 31, 2020
Operating lease cost	\$ 7,805	\$ 8,506
Finance lease cost:		
Amortization of ROU assets	\$ 295	\$ 307
Interest on lease liabilities	\$ 20	\$ 29
Total finance lease cost	<u>\$ 315</u>	<u>\$ 336</u>

We recognize lease payments made for short-term leases where terms are 12 months or less as the payments are incurred. Our short-term lease cost for the year ended December 31, 2021 and December 31, 2020 was \$0.1 million and \$0.1 million respectively.

Supplemental balance sheet information related to leases was as follows:

	As of December 31, 2021	As of December 31, 2020
Operating leases:		
Operating lease right-of-use asset	\$ 22,543	\$ 26,107
Current operating lease liability	\$ 5,601	\$ 5,557
Operating lease liability - less current portion	18,538	21,985
Total operating lease liability	\$ 24,139	\$ 27,542
Finance leases:		
Property and equipment, at cost	\$ 1,380	\$ 1,813
Accumulated depreciation	(1,222)	(1,415)
Property and equipment, net	\$ 158	\$ 398
Current finance lease liability	\$ 137	\$ 278
Finance lease liability - less current portion	110	146
Total finance lease liability	\$ 247	\$ 424
Weighted Average Remaining Lease Term (in years):		
Operating leases	5.69	6.55
Finance leases	2.12	1.93
Weighted Average Discount Rate:		
Operating leases	5.67 %	5.66 %
Finance leases	5.02 %	5.07 %

Supplemental cash flow information related to leases was as follows:

	Year Ended December 31, 2021	Year Ended December 31, 2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 7,860	\$ 8,272
Operating cash flows from finance leases	\$ 20	\$ 29
Financing cash flows from finance leases	\$ 296	\$ 309
ROU assets obtained in exchange for lease obligations:		
Operating leases	\$ 1,210	\$ 13,611

Maturities of lease liabilities are as follows:

Year Ending December 31,	Operating leases	Finance leases
2022	\$ 6,795	\$ 146
2023	5,664	68
2024	4,628	40
2025	3,219	5
2026	2,305	1
Thereafter	5,794	—
Total lease payments	\$ 28,405	\$ 260
Less imputed interest	(4,266)	(13)
Total	\$ 24,139	\$ 247

18. BUSINESS COMBINATIONS

On June 4, 2021, we acquired all of the outstanding shares of Holobuilder, Inc. (“Holobuilder”), a company focused on 3D photogrammetry-based technology for a purchase price of \$33.8 million paid, net of cash acquired and paid with cash on hand. We believe this acquisition enables the Company to provide reality-capture photo documentation and added remote access capability for industries such as construction management which further expand the Company’s Digital Twin solution portfolio. The results of Holobuilder’s operations as of and after the date of acquisition have been included in our consolidated financial statements as of December 31, 2021.

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

Following is a 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 (Final)</u>
Tangible assets acquired:	
Accounts receivable	\$ 375
Property, plant and equipment, net	46
Other assets	7
Total assets acquired	<u>428</u>
Liabilities assumed:	
Accounts payable and accrued liabilities	(55)
Deferred revenue	(3,966)
Total liabilities assumed	<u>(4021)</u>
Intangible assets	10,670
Net assets acquired	<u>7,077</u>
Goodwill	<u>26,723</u>
Purchase price paid, net of cash acquired	\$ 33,800

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. To date, we have incurred \$0.5 million in acquisition or integration costs for the Holobuilder acquisition. Pro forma financial results for Holobuilder has not been presented because the effect of this transaction was not material to our consolidated financial results.

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

	Amount	Weighted Average Life (Years)
Brand	\$ 370	3
Technology	6,800	5
Customer relationships	3,500	12
Fair value of intangible assets acquired	<u>\$ 10,670</u>	7

19. RESTRUCTURING

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

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

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

In connection with the Restructuring Plan, we recorded a pre-tax charge of approximately \$15.8 million during the year ended December 31, 2020 primarily consisting of severance and related benefits, professional fees and other related charges and costs including a non-cash expense of \$0.4 million related to the disposal of our Photonics business and 3D Design related assets. We paid approximately \$13.1 million during the year ended December 31, 2020 primarily consisting of severance and related benefits, and had \$2.3 million in accrual for future cash payments. We received \$0.7 million in cash payments for the disposal of our Photonics business and 3D Design related assets in the second quarter of 2020. We have continued to make significant progress in executing the Restructuring Plan during 2021. We recorded a pre-tax charge of approximately \$7.4 million and paid \$5.8 million during the year ended December 31, 2021 primarily consisting of severance and related benefits, professional fees and other related charges and costs.

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

We continue to evaluate our key initiatives and execution of the Restructuring Plan, and expect to incur additional pre-tax charges in the range of \$6 million to \$10 million through the end of fiscal year 2022. Activity related to the accrued restructuring charge and cash payments during the year ended December 31, 2021 was as follows:

	Severance and other benefits	Professional fees and other related charges	Total
Balance at December 31, 2020	\$ 1,481	\$ 866	\$ 2,347
Additions charged to expense	5,197	2,171	7,368
Cash payments	(3,236)	(2,560)	(5,796)
Balance at December 31, 2021	<u>\$ 3,442</u>	<u>\$ 477</u>	<u>\$ 3,919</u>
Balance at February 14, 2020	\$ —	\$ —	\$ —
Additions charged to expense	12,107	3,349	15,456
Cash payments	(10,626)	(2,483)	(13,109)
Balance at December 31, 2020	<u>\$ 1,481</u>	<u>\$ 866</u>	<u>\$ 2,347</u>

20. QUARTERLY RESULT OF OPERATIONS (UNAUDITED)

Quarter ended	March 31, 2021	June 30, 2021	September 30, 2021	December 31, 2021
Sales	\$ 76,331	\$ 82,110	\$ 79,169	\$ 100,204
Gross profit	40,407	45,482	42,331	55,707
Net (loss) income ⁽¹⁾	(3,221)	(1,176)	(3,855)	(31,712)
Net (loss) income per share:				
Basic	\$ (0.18)	\$ (0.06)	\$ (0.21)	\$ (1.74)
Diluted	\$ (0.18)	\$ (0.06)	\$ (0.21)	\$ (1.74)

⁽¹⁾ During 2021, in connection with the Restructuring Plan, we recorded a pre-tax charge of approximately \$1.5 million during the first quarter 2021, \$0.8 million during the second quarter, \$1.4 million during the third quarter and \$3.7 million during the fourth quarter primarily consisting of severance and related benefits, professional fees and other related charges.

Quarter ended	March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020
Sales ⁽¹⁾	\$ 79,515	\$ 60,564	\$ 70,736	\$ 92,953
Gross profit ⁽²⁾	43,873	28,896	36,298	50,780
Net income (loss)	(14,823)	(8,932)	(3,024)	27,408
Net income (loss) per share:				
Basic	\$ (0.84)	\$ (0.50)	\$ (0.17)	\$ 1.53
Diluted	\$ (0.84)	\$ (0.50)	\$ (0.17)	\$ 1.52

⁽¹⁾ For the second quarter of 2020, sales were reduced by an incremental \$0.6 million sales adjustment related to our GSA Contracts based on the results of the Review conducted by our outside legal counsel and forensic accountants.

⁽²⁾ During 2020, in connection with the Restructuring Plan, we recorded a pre-tax charge of approximately \$13.7 million during the first quarter 2020, \$0.6 million during the second quarter, \$0.3 million during the third quarter and \$1.2 million during the fourth quarter primarily consisting of severance and related benefits, professional fees and other related charges and costs including a non-cash expense of \$0.4 million related to the disposal of our Photonics business and 3D Design related assets.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2021. 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”)) are designed to provide reasonable assurance that information required to be disclosed in our reports filed under the Exchange Act, such as this Annual Report on Form 10-K, is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures also include, without limitation, controls and procedures that are designed to provide reasonable assurance that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The evaluation of our disclosure controls and procedures included a review of the control objectives and design, our implementation of the controls and the effect of the controls on the information generated for use in this Annual Report on Form 10-K. In conducting this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures, as defined by Rule 13a-15(e) under the Exchange Act, were effective as of December 31, 2021 to provide reasonable assurance that information required to be disclosed in this Annual Report on Form 10-K was recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and was accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the quarter ended December 31, 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management’s Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act). Internal control over financial reporting is the process designed under the Chief Executive Officer’s and the Chief Financial Officer’s supervision, and effected by our Board of Directors, management and other personnel, 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 in the United States.

There are inherent limitations in the effectiveness of internal control over financial reporting, including the possibility that misstatements may not be prevented or detected. Accordingly, an effective control system, no matter how well designed and operated, can provide only reasonable assurance of achieving the designed control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2021, as required by Exchange Act Rule 13a-15(c). In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in the 2013 *Internal Control - Integrated Framework*. We have excluded from the scope of our assessment of internal control over financial reporting the operations and related assets of Holobuilder, Inc. and its subsidiary, Bitstars GmbH (collectively, “Holobuilder”), which we acquired in 2021. At December 31, 2021 and for the period from acquisition through December 31, 2021, total assets and sales subject to Holobuilder’s internal control over financial reporting represented less than one percent of our consolidated total assets and total sales, respectively, as of and for the year ended December 31, 2021. Based on our assessment under the framework in the 2013 Internal Control - Integrated Framework, management concluded that our internal control over financial reporting was effective as of December 31, 2021.

Grant Thornton LLP, the independent registered public accounting firm that audited our consolidated financial statements and internal control over financial reporting, has issued an attestation report on our internal control over financial reporting as of December 31, 2021, which appears below.

FARO Technologies, Inc.
Lake Mary, Florida

February 16, 2022

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
FARO Technologies, Inc.

Opinion on internal control over financial reporting

We have audited the internal control over financial reporting of FARO Technologies, Inc. (a Florida corporation) and subsidiaries (the “Company”) as of December 31, 2021, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated financial statements of the Company as of and for the year ended December 31, 2021, and our report dated February 16, 2022 expressed an unqualified opinion on those financial statements.

Basis for opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Our audit of, and opinion on, the Company’s internal control over financial reporting does not include the internal control over financial reporting of Holobuilder, Inc., a wholly-owned subsidiary, whose financial statements’ total assets and sales represented less than 1% percent, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2021. As indicated in Management’s Report, Holobuilder, Inc. was acquired during 2021. Management’s assertion on the effectiveness of the Company’s internal control over financial reporting excluded internal control over financial reporting of Holobuilder, Inc.

Definition and limitations of internal control over financial reporting

A company’s internal control over financial reporting is a process designed 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. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ GRANT THORNTON LLP

Orlando, Florida
February 16, 2022

ITEM 9B. OTHER INFORMATION

On and effective February 15, 2022, the Company's Board of Directors, upon the recommendation of the Nominating, Governance and Sustainability Committee of the Board, approved and adopted an amendment (the "Florida Forum Provision") to the Company's bylaws to 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 or breach of a fiduciary duty owed by any director or officer or other employee of the Company to the Company or the Company's shareholders, (iii) any action asserting a claim against the Company or any director or officer or other employee of the Company 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 asserting a claim against the Company or any director or officer of the Company 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). In addition, the Florida Forum Provision provides that any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock is deemed to have notice of and consented to the Florida Forum Provision; 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 foregoing summary of the Florida Forum Provision is qualified in its entirety by reference to the full text of the Company's bylaws, as amended and restated and filed as Exhibit 3.2 to this Annual Report on Form 10-K and incorporated by reference herein.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item with respect to directors and executive officers is incorporated herein by reference to the information under the headings “Election of Directors” and “Executive Officers” contained in our definitive proxy statement for our 2022 Annual Meeting of Shareholders, which we refer to as the Proxy Statement.

The information required by this Item regarding compliance with Section 16(a) of the Exchange Act appears under the heading “Delinquent Section 16(a) Reports” in the Proxy Statement and is incorporated herein by reference.

The information required by this Item with respect to corporate governance and our Code of Ethics is incorporated herein by reference to the information contained in the Proxy Statement under the heading “Corporate Governance and Board Matters.”

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item regarding executive compensation is incorporated herein by reference to the information contained in the Proxy Statement under the headings “Executive Compensation” and “2021 Director Compensation.”

The information required by this Item regarding Compensation Committee interlocks and insider participation is incorporated herein by reference to the information contained in the Proxy Statement under the heading “Corporate Governance and Board Matters.”

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item regarding security ownership of certain beneficial owners and management and related stockholder matters is incorporated herein by reference to the information contained in the Proxy Statement under the headings “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information.”

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item about certain relationships and related transactions appears under the heading “Certain Relationships and Related Transactions” in the Proxy Statement and is incorporated herein by reference.

The information required by this Item regarding director independence is incorporated herein by reference to the information contained in the Proxy Statement under the heading “Corporate Governance and Board Matters.”

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item about principal accountant fees and services as well as related pre-approval policies appears under the heading “Independent Public Accountants” in the Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) (1) Financial Statements.

The following consolidated financial statements required by this item are included in Part II, Item 8 of this Annual Report on Form 10-K under the caption “Financial Statements and Supplementary Data”:

Report of Independent Registered Public Accounting Firm (PCAOB ID Number 248)

Consolidated Balance Sheets

Consolidated Statements of Operations

Consolidated Statements of Comprehensive Income (Loss)

Consolidated Statements of Shareholders’ Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules.

All financial statement schedules have been omitted as they are either not required or not applicable, or the required information is otherwise included in our consolidated financial statements or the notes thereto.

(b) Exhibits. The exhibits listed in the accompanying Exhibit Index are filed or incorporated by reference as part of this Annual Report on Form 10-K.

EXHIBIT INDEX

Exhibit No.	Description
2.1	Stock Purchase Agreement, dated as of August 26, 2016, by and among FARO Technologies, Inc., Laser Projection Technologies, Inc., each of the shareholders of Laser Projection Technologies, Inc. and Steven P. Kaufman in the capacity of the Seller Representative (Filed as Exhibit 2.1 to Registrant's Current Report on Form 8-K filed August 30, 2016, and incorporated herein by reference)**
2.2	Quota Purchase Agreement, dated as of July 13, 2018, by and among FARO Technologies, Inc., Opto-Tech SRL, each of the shareholders of Opto-Tech SRL, and Mr. Gianfranco Chiapparini, in the capacity as the Seller Representative (Filed as Exhibit 2.1 to Registrant's Current Report on Form 8-K, filed July 19, 2018, and incorporated herein by reference)**
3.1	Amended and Restated Articles of Incorporation, as amended (Filed as Exhibit 3.1 to Registrant's Registration Statement on Form S-1/A filed September 10, 1997, No. 333-32983, and incorporated herein by reference)
3.2	Amended and Restated Bylaws
4.1	Specimen Stock Certificate (Filed as Exhibit 4.1 to Registrant's Registration Statement on Form S-1/A, filed September 10, 1997, No. 333-32983, and incorporated herein by reference)
4.2	Description of the Registrant's Securities Registered under Section 12 of the Securities Exchange Act of 1934
10.1	2009 Equity Incentive Plan (Filed as Appendix A to Registrant's Definitive Proxy Statement on Schedule 14A filed April 15, 2009, and incorporated herein by reference)*
10.2	First Amendment to the 2009 Equity Incentive Plan (Filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K, filed April 15, 2011, and incorporated herein by reference)*
10.3	2014 Incentive Plan (Filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K, filed June 3, 2014, and incorporated herein by reference)*
10.4	2014 Incentive Plan, as amended May 11, 2018 (Filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K filed May 15, 2018, and incorporated herein by reference)*
10.5	Summary of Director Compensation Program (Filed as Exhibit 10.7 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2015, and incorporated herein by reference)*
10.6	Form of Intellectual Property and Confidentiality Agreement between FARO Technologies, Inc. and new employees (Filed as Exhibit 10.8 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2015, and incorporated herein by reference)
10.7	Form of Stock Option Award Agreement under the 2009 Equity Incentive Plan (Filed as Exhibit 10.10 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2015, and incorporated herein by reference)*
10.8	Form of performance-based Stock Option Award Agreement under the 2014 Incentive Plan (Filed as Exhibit 10.12 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2015, and incorporated herein by reference)*
10.9	Form of performance-based Restricted Stock Unit Award Agreement under the 2014 Incentive Plan (Filed as Exhibit 10.13 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2015, and incorporated herein by reference)*
10.10	Form of Restricted Stock Unit Award Agreement under the 2014 Incentive Plan (Filed as Exhibit 10.4 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016, and incorporated herein by reference)*
10.11	Form of time-based Stock Option Award Agreement under the 2014 Incentive Plan (Filed as Exhibit 10.15 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2016, and incorporated herein by reference)*

10.12	Form of Restricted Stock Award Agreement under the 2014 Incentive Plan (Filed as Exhibit 10.14 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2017, and incorporated herein by reference)*
10.13	Form of 2019 Restricted Stock Unit Award Agreement under the 2014 Incentive Plan (Filed as Exhibit 10.5 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019, and incorporated herein by reference)*
10.14	Form of 2019 Restricted Stock Unit Award Agreement (Performance-Based) under the 2014 Incentive Plan (Filed as Exhibit 10.6 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019, and incorporated herein by reference)*
10.15	Form of Amendment to 2019 Performance-Based Restricted Stock Unit Award Agreement (Filed as Exhibit 10.15 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2019, filed February 19, 2020, and incorporated herein by reference)*
10.16	Employment Agreement between FARO Technologies, Inc. and Joseph Arezone, dated as of April 27, 2016 (Filed as Exhibit 10.2 to Registrant's Current Report on Form 8-K, filed April 29, 2016, and incorporated herein by reference)*
10.17	Letter Agreement between FARO Technologies, Inc. and Joseph Arezone dated March 5, 2018 (Filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K filed March 5, 2018, and incorporated herein by reference)*
10.18	Transition and Separation Agreement between FARO Technologies, Inc. and Joseph Arezone effective June 5, 2018 (Filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K filed June 8, 2018, and incorporated herein by reference)*
10.19	Amended and Restated Employment Agreement between FARO Technologies, Inc. and Kathleen J. Hall, dated as of April 27, 2016 (Filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K filed April 29, 2016, and incorporated herein by reference)*
10.20	Addendum to Amended and Restated Employment Agreement between FARO Technologies, Inc. and Kathleen J. Hall dated June 17, 2019 (Filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K, filed June 18, 2019, and incorporated herein by reference)*
10.21	Confidential Separation Agreement and General Release by and between FARO Technologies, Inc. and Kathleen J. Hall, dated August 26, 2019 (Filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K, filed August 27, 2019, and incorporated herein by reference)*
10.22	Amended and Restated Employment Agreement between FARO Technologies, Inc. and Jody S. Gale, dated as of April 27, 2016 (Filed as Exhibit 10.3 to Registrant's Current Report on Form 8-K filed April 29, 2016, and incorporated herein by reference)*
10.23	Employment Agreement between FARO Technologies, Inc. and Robert E. Seidel, dated December 21, 2016 (Filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K filed December 21, 2016, and incorporated herein by reference)*
10.24	Transition and Separation Agreement by and between FARO Technologies, Inc. and Robert E. Seidel, dated July 31, 2019 (Filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K, filed August 2, 2019, and incorporated herein by reference)*
10.25	Letter Agreement between FARO Technologies, Inc. and Simon Raab dated January 9, 2019 (Filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K filed January 11, 2019, and incorporated herein by reference)*
10.26	Employment Agreement between FARO Technologies, Inc. and Michael Burger dated April 5, 2019 (Filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K, filed April 9, 2019, and incorporated herein by reference)*
10.27	Offer Letter between FARO Technologies, Inc. and Allen Muhich, dated July 15, 2019 (Filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K, filed July 16, 2019, and incorporated herein by reference)*
10.28	FARO Technologies, Inc. Amended and Restated Change in Control Severance Policy, dated as of April 9, 2015 (Filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K, filed April 10, 2015, and incorporated herein by reference)*
10.29	2018 Non-Employee Director Deferred Compensation Plan (Filed as Exhibit 10.24 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2018, and incorporated herein by reference)*

10.30	Form of Deferred Stock Unit Award Agreement under the 2014 Incentive Plan and the 2018 Non-Employee Director Deferred Compensation Plan (Filed as Exhibit 10.25 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2018, and incorporated herein by reference)*
10.31	Form of Restricted Stock Unit Award Agreement under the 2014 Incentive Plan and the 2018 Non-Employee Director Deferred Compensation Plan (Filed as Exhibit 10.26 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2018, and incorporated herein by reference)*
10.32	FARO Technologies, Inc. Executive Severance Plan and Summary Plan Description, dated as of February 14, 2019 (Filed as Exhibit 10.27 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2018, and incorporated herein by reference)*
10.33	Office Flex Lease, dated September 26, 2007, by and between FARO Technologies, Inc. and Sun Life Assurance Company of Canada (Filed as Exhibit 10.15 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2007, and incorporated herein by reference)
10.34	First Amendment to Lease Agreement, dated October 1, 2009, by and between FARO Technologies, Inc. and Sun Life Assurance Company of Canada (Filed as Exhibit 10.27 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2009, and incorporated herein by reference)
10.35	Second Amendment to Office Flex Lease between RCS - Tech Park, LLC and FARO Technologies, Inc., dated as of February 27, 2019 (Filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K, filed March 5, 2019, and incorporated herein by reference)*
10.36	Amended and Restated Lease Agreement, dated October 1, 2009, by and between FARO Technologies, Inc. and Emma Investments, LLC (Filed as Exhibit 10.26 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2009, and incorporated herein by reference)
10.37	First Amendment to Amended and Restated Lease Agreement between Emma Investments, LLC and FARO Technologies, Inc., dated as of May 14, 2014 (Filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K filed May 16, 2014, and incorporated herein by reference)
10.38	Second Amendment to Amended and Restated Lease Agreement, dated as of January 29, 2019, by and between FARO Technologies, Inc. and Emma Investments, LLC (Filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K filed January 31, 2019, and incorporated herein by reference)
10.39	Agreement of Lease (Amendment and Restatement) between 290 National Road Limited Partnership and FARO Technologies, Inc., dated as of September 9, 2014 (Filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K filed September 12, 2014, and incorporated herein by reference)
10.40	Assignment and Assumption of Lease, dated April 21, 2017, by and between FARO Technologies, Inc., Instrument Associates, LLC and Century Park, L.L.C. (Filed as Exhibit 10.27 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2017, and incorporated herein by reference)
10.41	Non-residential Tenancy Agreement, dated July 1, 2017, by and between Eredi Martinelli Marmi E Graniti S.p.A. and Opto-tech S.R.L. (Filed as Exhibit 10.35 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2018, and incorporated herein by reference)
10.42	Form of Director Indemnification Agreement (Filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K filed October 28, 2020)
10.43	Form of Officer Indemnification Agreement (Filed as Exhibit 10.2 to Registrant's Current Report on Form 8-K filed October 28, 2020)
10.44	Settlement Agreement between General Services Administration and FARO Technologies, Inc. executed February 25, 2021 (Filed as Exhibit 10.1 to our Current Report on Form 8-K, filed March 17, 2021 and incorporated herein by reference)
10.45	Transition and Separation Agreement by and Between FARO Technologies, Inc. and Katrona Tyrrell dated June 28, 2021 (Filed as Exhibit 10.1 to our Current Report on Form 8-K, filed July 2, 2021 and incorporated herein by reference)
10.46	Summary of Director Compensation Program (Effective July 1, 2021)

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10.47	Manufacturing Services Agreement by and Between FARO Technologies, Inc. and Sanmina corporation dated July 15, 2021
21.1	List of Subsidiaries
23.1	Consent of Grant Thornton LLP
24.1	Power of Attorney relating to subsequent amendments (included on the signature page(s) of this report).
31-A	Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31-B	Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32-A	Certification of the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32-B	Certification of the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	Properties
	The following information from our Annual Report on Form 10-K for the year ended December 31, 2021, formatted in Inline XBRL: (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Operations; (iii) Consolidated Statements of Comprehensive (Loss) Income; (iv) Consolidated Statements of Shareholders' Equity; (v) Consolidated Statements of Cash Flows; and (vi) Notes to Consolidated Financial Statements
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104	Cover Page Interactive Data File (Formatted in Inline XBRL and contained in Exhibit 101)
*	Indicates management contracts or compensatory plans or arrangements
**	Schedules and exhibits are omitted pursuant to Item 601(b)(2) of Regulation S-K. Registrant agrees to furnish supplementally a copy of any omitted schedules or exhibits to the Securities and Exchange Commission upon request.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: February 16, 2022

By: /s/ Allen Muhich
Allen Muhich, Chief Financial Officer
(Duly Authorized Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. Each person whose signature appears below constitutes and appoints each of MICHAEL BURGER AND ALLEN MUHICH his or her true and lawful attorney-in-fact and agent, with full power of substitution and revocation, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this report and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, may lawfully do or cause to be done by virtue hereof.

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<u>Signature</u>	<u>Title</u>	<u>Date</u>
<hr/> <u>/s/ Michael Burger</u> Michael Burger	Director, President and Chief Executive Officer (Principal Executive Officer)	February 16, 2022
<hr/> <u>/s/ Allen Muhich</u> Allen Muhich	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 16, 2022
<hr/> <u>/s/ John Donofrio</u> John Donofrio	Chairman of the Board and Director	February 16, 2022
<hr/> <u>/s/ Lynn Brubaker</u> Lynn Brubaker	Director	February 16, 2022
<hr/> <u>/s/ Stephen R. Cole</u> Stephen R. Cole	Director	February 16, 2022
<hr/> <u>/s/ Yuval Wasserman</u> Yuval Wasserman	Director	February 16, 2022
<hr/> <u>/s/ Jeroen van Rotterdam</u> Jeroen van Rotterdam	Director	February 16, 2022
<hr/> <u>/s/ Alex Davern</u> Alex Davern	Director	February 16, 2022
<hr/> <u>/s/ Moonhie Chin</u> Moonhie Chin	Director	February 16, 2022

**AMENDED AND RESTATED BYLAWS
OF
FARO TECHNOLOGIES, INC.
(a Florida corporation)
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ARTICLE 1. DEFINITIONS

Section 1.1 Definitions. The following terms shall have the following meanings for purposes of these bylaws:

“Act” means the Florida Business Corporation Act, as it may be amended from time to time, or any successor legislation thereto.

“Corporation” means FARO Technologies, Inc., a Florida corporation.

“Deliver” or “delivery” includes delivery by hand; United States mail; facsimile, telegraph, teletype or other form of electronic transmission, with written confirmation or other acknowledgment of receipt; and private mail carriers handling nationwide mail services.

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Principal office” means the office (within or without the State of Florida) where the Corporation’s principal executive offices are located, as designated in the Articles of Incorporation until an annual report has been filed with the Florida Department of State, and thereafter as designated in the annual report.

ARTICLE 2. OFFICES

Section 2.1 Principal and Business Offices. The Corporation may have such principal and other business offices, either within or without the State of Florida, as the Board of Directors may designate or as the business of the Corporation may require from time to time.

Section 2.2 Registered Office. The registered office of the Corporation required by the Act to be maintained in the State of Florida may but need not be identical with the principal office if located in the State of Florida, and the address of the registered office may be changed from time to time by the Board of Directors or by the registered agent. The business office of the registered agent of the Corporation shall be identical to such registered office.

ARTICLE 3. SHAREHOLDERS

Section 3.1 Annual Meeting.

(a) Call by Directors. The annual meeting of shareholders shall be held within six months after the close of each fiscal year of the Corporation on a date and at a time and place, or no place and solely by means of remote communication, as designated by the Board of Directors, for the purpose of electing directors and for the transaction of such other business as may come before the meeting. If the election of directors shall not be held on the day established pursuant to the procedures set forth herein for any annual meeting of shareholders, or at any adjournment

thereof, the Board of Directors shall cause the election to be held at a special meeting of shareholders as soon thereafter as is practicable. The failure to hold the annual meeting of the shareholders within the time stated in these bylaws shall not affect the terms of office of the officers or directors of the Corporation or the validity of any corporate action.

(b) **Business at Annual Meeting.** At an annual meeting of the shareholders of the Corporation, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business (other than the nomination of directors) must be (1) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (2) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (3) otherwise properly brought before the meeting by a shareholder of record of the Corporation who was a shareholder of record both at the time of the giving of the notice provided for below and at the time of the annual meeting of shareholders, who is entitled to vote at the annual meeting, and who has complied with the notice procedures set forth in this Section 3.1. For business (other than the nomination of directors) to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in writing to the Secretary of the Corporation and such business must be a proper matter for shareholder action.

(c) **Shareholder's Notice.** To be timely, a shareholder's notice shall be received at the principal business office of the Corporation not less than 90 days nor more than 120 days prior to the first anniversary of the preceding year's annual meeting of shareholders; provided, however, that in the event that no annual meeting was held the preceding year or the date of the annual meeting is advanced more than 30 days before or delayed more than 60 days after such anniversary date, notice by the shareholder must be received not more than 120 days prior to such annual meeting and not less than the later of 90 days prior to such annual meeting or ten days following the day on which public announcement of the date of the annual meeting is first made. In no event shall any adjournment or postponement of an annual meeting or the announcement thereof commence a new time period (or extend any time period) for the giving of a shareholder's notice as described above. Nothing in this Section 3.1 shall be deemed to affect any rights of shareholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act. A shareholder's notice to the Secretary shall set forth as to each matter the shareholder proposes to bring before the annual meeting: (i) a brief description of the business the shareholder proposes to bring before the annual meeting and the reasons for conducting such business at the annual meeting (including the text of the proposal, the text of any resolutions proposed for consideration and, in the event that such business includes a proposal to amend the Articles of Incorporation or bylaws of the Corporation, the text of the proposed amendment); (ii) as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the proposal is made, (A) the name and address of such shareholder, as they appear on the Corporation's books, and of such beneficial owner, (B) the class or series and number of shares of the Corporation's stock that are, directly or indirectly, owned beneficially and of record by such shareholder and such beneficial owner, and (C) whether and the extent to which any hedging or other transaction or series of transactions has been entered into by or on behalf of, or any other agreement, arrangement or understanding (including any short position or any borrowing or lending of shares of stock) has been made, an effect or intent of which is to mitigate loss to or manage risk of stock price changes for, or to increase the voting power of, such shareholder or such beneficial owner with respect to any share of stock of the Corporation; (iii) any material interest of the shareholder and of the beneficial owner, if any, on whose behalf the proposal is made, in such business; (iv) a description of all agreements, arrangements and understandings between such shareholder and beneficial owner, if any, and any other person or persons (including their names) in connection with the proposal of such business by the shareholder; and (v) a representation as to whether the shareholder or the beneficial owner, if any, intends, or is or intends to be part of a group that intends, (A) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Corporation's outstanding capital stock required to approve or adopt the proposal or (B) otherwise to solicit proxies from shareholders in support of such proposal.

(d) **Definitions.** For purposes of these bylaws, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable news service or in a document publicly filed or furnished by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(b) of the Exchange Act, and the meaning of the term "group" shall be within the meaning ascribed to such term under Section 13(d)(3) of the Exchange Act.

(e) No Other Business. Notwithstanding anything in these bylaws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section 3.1. The Chairman of an annual meeting shall, if the facts warrant, determine and declare to the annual meeting that a matter of business was not properly brought before the meeting in accordance with the provisions of this Section 3.1, and if the Chairman shall so determine, the Chairman shall so declare at the meeting and any such business not properly brought before the meeting shall not be transacted.

Section 3.2 Special Meetings.

(a) Call by Directors or President. Special meetings of shareholders of the Corporation, for any purpose or purposes, may be called by the Board of Directors, the Chairman of the Board (if any) or the President.

(b) Call by Shareholders. The Corporation shall call a special meeting of shareholders in the event that the holders of at least fifty percent (50%) of all of the votes entitled to be cast on any issue proposed to be considered at the proposed special meeting sign, date, and deliver to the Secretary one or more written demands for the meeting describing one or more purposes for which it is to be held. The Corporation shall give notice of such a special meeting within 60 days after the date that the demand is delivered to the Corporation.

(c) Business at Special Meeting. Only such business shall be conducted at a special meeting of shareholders as shall have been specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors.

Section 3.3 Place of Meeting or Means of Remote Communication. The Board of Directors may designate the place, if any, either within or without the State of Florida, as the place of meeting for any annual or special meeting of shareholders, or the means of remote communication, if any, by which shareholders and proxy holders may be deemed to be present in person and vote at any such meeting. If no designation is made, the place of meeting shall be the principal office of the Corporation.

Section 3.4 Notice of Meeting.

(a) Content and Delivery. Written notice stating the date, time, and place, if any, of any meeting of shareholders and the means of remote communication, if any, by which shareholders and proxy holders may be deemed to be present in person and vote at such meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than ten days nor more than 60 days before the date of the meeting by or at the direction of the President or the Secretary, or the officer or persons duly calling the meeting, to each shareholder of record entitled to vote at such meeting and to such other persons as required by the Act. Unless the Act requires otherwise, notice of an annual meeting need not include a description of the purpose or purposes for which the meeting is called. If mailed, notice of a meeting of shareholders shall be deemed to be delivered when deposited in the United States mail, addressed to the shareholder at his or her address as it appears on the stock record books of the Corporation, with postage thereon prepaid.

(b) Notice of Adjourned Meetings. If an annual or special meeting of shareholders is adjourned to a different date, time, or place (or no place and solely by means of remote communication), the Corporation shall not be required to give notice of the new date, time, or place, if any, or means of remote communication, if any, if the new date, time, or place, if any, or means of remote communication, if any, is announced at the meeting before adjournment; provided, however, that if a new record date for an adjourned meeting is or must be fixed, the Corporation shall give notice of the adjourned meeting to persons who are shareholders as of the new record date who are entitled to notice of the meeting.

(c) No Notice Under Certain Circumstances. Notwithstanding the other provisions of this Section, no notice of a meeting of shareholders need be given to a shareholder if: (1) an annual report and proxy statement for two consecutive annual meetings of shareholders, or (2) all, and at least two, checks in payment of dividends or interest on securities during a 12 month period have been sent by first-class, United States mail, addressed to the shareholder

at his or her address as it appears on the share transfer books of the Corporation, and returned undeliverable. The obligation of the Corporation to give notice of a shareholders' meeting to any such shareholder shall be reinstated once the Corporation has received a new address for such shareholder for entry on its share transfer books.

Section 3.5 Waiver of Notice.

(a) Written Waiver. A shareholder may waive any notice required by the Act or these bylaws before or after the date and time stated for the meeting in the notice. The waiver shall be in writing and signed by the shareholder entitled to the notice, and be delivered to the Corporation for inclusion in the minutes or filing with the corporate records. Neither the business to be transacted at nor the purpose of any regular or special meeting of shareholders need be specified in any written waiver of notice.

(b) Waiver by Attendance. A shareholder's attendance at a meeting, in person or by proxy, waives objection to all of the following: (1) lack of notice or defective notice of the meeting, unless the shareholder at the beginning of the meeting objects to holding the meeting or transacting business at the meeting; and (2) consideration of a particular matter at the meeting that is not within the purpose or purposes described in the meeting notice, unless the shareholder objects to considering the matter when it is presented.

Section 3.6 Fixing of Record Date.

(a) General. The Board of Directors may fix in advance a date as the record date for the purpose of determining shareholders entitled to notice of a shareholders' meeting, entitled to vote, or take any other action. In no event may a record date fixed by the Board of Directors be a date preceding the date upon which the resolution fixing the record date is adopted or a date more than 70 days before the date of meeting or action requiring a determination of shareholders.

(b) Special Meeting. The record date for determining shareholders entitled to demand a special meeting shall be the close of business on the date the first shareholder delivers his or her demand to the Corporation.

(c) Shareholder Action by Written Consent. If no prior action is required by the Board of Directors pursuant to the Act, the record date for determining shareholders entitled to take action without a meeting shall be the close of business on the date the first signed written consent with respect to the action in question is delivered to the Corporation, but if prior action is required by the Board of Directors pursuant to the Act, such record date shall be the close of business on the date on which the Board of Directors adopts the resolution taking such prior action unless the Board of Directors otherwise fixes a record date. Any action of the shareholders of the Corporation taken without a meeting shall be effected only upon the written consent of shareholders made in accordance with Section 3.14.

(d) Absence of Board Determination for Shareholders' Meeting. If the Board of Directors does not determine the record date for determining shareholders entitled to notice of and to vote at an annual or special shareholders' meeting, such record date shall be the close of business on the day before the first notice with respect thereto is delivered to shareholders.

(e) Adjourned Meeting. A record date for determining shareholders entitled to notice of or to vote at a shareholders' meeting is effective for any adjournment of the meeting unless the Board of Directors fixes a new record date, which it must do if the meeting is adjourned to a date more than 120 days after the date fixed for the original meeting.

Section 3.7 Shareholders' List for Meetings.

(a) Preparation and Availability. After a record date for a meeting of shareholders has been fixed, the Corporation shall prepare an alphabetical list of the names of all of the shareholders entitled to notice of the meeting. The list shall be arranged by class or series of shares, if any, and show the address of and number of shares held by each shareholder. Such list shall be available for inspection by any shareholder for a period of ten days prior to the

meeting or such shorter time as exists between the record date and the meeting date, and continuing through the meeting, at the Corporation's principal office, at a place identified in the meeting notice in the city where the meeting will be held, or at the office of the Corporation's transfer agent or registrar, if any. A shareholder or his or her agent may, on written demand, inspect the list, subject to the requirements of the Act, during regular business hours and at his or her expense, during the period that it is available for inspection pursuant to this Section. A shareholder's written demand to inspect the list shall describe with reasonable particularity the purpose for inspection of the list, and the Corporation may deny the demand to inspect the list if the Secretary determines that the demand was not made in good faith and for a proper purpose or if the list is not directly connected with the purpose stated in the shareholder's demand, all subject to the requirements of Section 607.1602(3) of the Act. Notwithstanding anything herein to the contrary, the Corporation shall make the shareholders' list available at any annual meeting or special meeting of shareholders and any shareholder or his or her agent or attorney may inspect the list at any time during the meeting or any adjournment thereof.

(b) Prima Facie Evidence. The shareholders' list is *prima facie* evidence of the identity of shareholders entitled to examine the shareholders' list or to vote at a meeting of shareholders.

(c) Failure to Comply. If the requirements of this Section have not been substantially complied with, or if the Corporation refuses to allow a shareholder or his or her agent or attorney to inspect the shareholders' list before or at the meeting, on the demand of any shareholder, in person or by proxy, who failed to get such access, the meeting shall be adjourned until such requirements are complied with.

(d) Validity of Action Not Affected. Refusal or failure to prepare or make available the shareholders' list shall not affect the validity of any action taken at a meeting of shareholders.

Section 3.8 Quorum.

(a) What Constitutes a Quorum. Shares entitled to vote as a separate voting group may take action on a matter at a meeting only if a quorum of those shares exists with respect to that matter. If the Corporation has only one class of stock outstanding, such class shall constitute a separate voting group for purposes of this Section. Except as otherwise provided in the Act, a majority of the votes entitled to be cast on the matter shall constitute a quorum of the voting group for action on that matter.

(b) Presence of Shares. Once a share is represented for any purpose at a meeting, other than for the purpose of objecting to holding the meeting or transacting business at the meeting, it is considered present for purposes of determining whether a quorum exists for the remainder of the meeting and for any adjournment of that meeting unless a new record date is or must be set for the adjourned meeting.

(c) Adjournment in Absence of Quorum. Where a quorum is not present, the holders of a majority of the shares represented and who would be entitled to vote at the meeting if a quorum were present may adjourn such meeting from time to time.

Section 3.9 Voting of Shares. Except as provided in the Articles of Incorporation or the Act, each outstanding share, regardless of class, is entitled to one vote on each matter voted on at a meeting of shareholders.

Section 3.10 Vote Required.

(a) Matters Other Than Election of Directors. If a quorum exists, except in the case of the election of directors, action on a matter shall be approved by a majority of the votes cast at such meeting, unless the Act or the Articles of Incorporation require a greater number of affirmative votes.

(b) Election of Directors. Each director shall be elected by a plurality of the votes cast by the shares entitled to vote in the election of directors at a meeting at which a quorum is present. Each shareholder who is entitled to vote at an

election of directors has the right to vote the number of shares owned by him or her for as many persons as there are directors to be elected. Shareholders do not have a right to cumulate their votes for directors.

Section 3.11 Conduct of Meeting. The Chairman of the Board of Directors, and if there be none, or in his or her absence, the President, and in his or her absence, the Lead Director, and if there be none, or in his or her absence, any person chosen by the shareholders present shall call a shareholders' meeting to order and shall act as presiding officer of the meeting, and the Secretary of the Corporation shall act as secretary of all meetings of the shareholders, but, in the absence of the Secretary, the presiding officer may appoint any other person to act as secretary of the meeting. The presiding officer of the meeting shall have broad discretion in determining the order of business at a shareholders' meeting. The presiding officer's authority to conduct the meeting shall include, but in no way be limited to, recognizing shareholders entitled to speak, calling for the necessary reports, stating questions and putting them to a vote, calling for nominations, and announcing the results of voting. The presiding officer also shall take such actions as are necessary and appropriate to preserve order at the meeting. The rules of parliamentary procedure need not be observed in the conduct of shareholders' meetings.

Section 3.12 Inspectors of Election. Inspectors of election may be appointed by the Board of Directors to act at any meeting of shareholders at which any vote is taken. If inspectors of election are not so appointed, the presiding officer of the meeting may, and on the request of any shareholder shall, make such appointment. Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath faithfully to execute the duties of inspector at such meeting with strict impartiality and according to the best of his or her ability. The inspectors of election shall determine the number of shares outstanding, the voting rights with respect to each, the shares represented at the meeting, the existence of a quorum, and the authenticity, validity, and effect of proxies; receive votes, ballots, consents, and waivers; hear and determine all challenges and questions arising in connection with the vote; count and tabulate all votes, consents, and waivers; determine and announce the result; and do such acts as are proper to conduct the election or vote with fairness to all shareholders. No inspector, whether appointed by the

Board of Directors or by the person acting as presiding officer of the meeting, need be a shareholder. The inspectors may appoint and retain other persons or entities to assist the inspectors in the performance of the duties of the inspectors. On request of the person presiding at the meeting, the inspectors shall make a report in writing of any challenge, question or matter determined by them and execute a certificate of any fact found by them.

Section 3.13 Proxies.

(a) Appointment. At all meetings of shareholders, a shareholder may vote his or her shares in person or by proxy. A shareholder may appoint a proxy to vote or otherwise act for the shareholder by signing an appointment form, either personally or by his or her attorney-in-fact. If an appointment form expressly provides, any proxy holder may appoint, in writing, a substitute to act in his or her place. A telegraph, telex, or a cablegram, a facsimile transmission of a signed appointment form, or a photographic, photostatic, or equivalent reproduction of a signed appointment form is a sufficient appointment form.

(b) When Effective. An appointment of a proxy is effective when received by the Secretary or other officer or agent of the Corporation authorized to tabulate votes. An appointment is valid for up to 11 months unless a longer period is expressly provided in the appointment form. An appointment of a proxy is revocable by the shareholder unless the appointment form conspicuously states that it is irrevocable and the appointment is coupled with an interest.

Section 3.14 Action by Shareholders Without Meeting.

(a) Requirements for Written Consent. Any action required or permitted by the Act to be taken at any annual or special meeting of shareholders may be taken without a meeting, without prior notice, and without a vote if one or more written consents describing the action taken shall be signed and dated by the holders of at least sixty-six and two-thirds percent (66 2/3%) of the total number of votes of the then outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class. Such consents must be delivered to the principal office of the Corporation in Florida, the Corporation's principal place of business,

the Secretary, or another officer or agent of the Corporation having custody of the books in which proceedings of meetings of shareholders are recorded. No written consent shall be effective to take the corporate action referred to therein unless, within 60 days of the date of the earliest dated consent delivered in the manner required herein, written consents signed by the number of holders required to take action are delivered to the Corporation by delivery as set forth in this Section.

(b) Revocation of Written Consents. Any written consent may be revoked prior to the date that the Corporation receives the required number of consents to authorize the proposed action. No revocation is effective unless in writing and until received by the Corporation at its principal office in Florida or its principal place of business, or received by the Secretary or other officer or agent having custody of the books in which proceedings of meetings of shareholders are recorded.

(c) Same Effect as Vote at Meeting. A consent signed under this Section has the effect of a meeting vote and may be described as such in any document. Whenever action is taken by written consent pursuant to this Section, the written consent of the shareholders consenting thereto or the written reports of inspectors appointed to tabulate such consents shall be filed with the minutes of proceedings of shareholders.

Section 3.15 Acceptance of Instruments Showing Shareholder Action. If the name signed on a vote, consent, waiver, or proxy appointment corresponds to the name of a shareholder, the Corporation, if acting in good faith, may accept the vote, consent, waiver, or proxy appointment and give it effect as the act of a shareholder. If the name signed on a vote, consent, waiver, or proxy appointment does not correspond to the name of a shareholder, the Corporation, if acting in good faith, may accept the vote, consent, waiver, or proxy appointment and give it effect as the act of the shareholder if any of the following apply:

(a) The shareholder is an entity and the name signed purports to be that of an officer or agent of the entity;

(b) The name signed purports to be that of an administrator, executor, guardian, personal representative, or conservator representing the shareholder and, if the Corporation requests, evidence of fiduciary status acceptable to the Corporation is presented with respect to the vote, consent, waiver, or proxy appointment;

(c) The name signed purports to be that of a receiver or trustee in bankruptcy, or assignee for the benefit of creditors of the shareholder and, if the Corporation requests, evidence of this status acceptable to the Corporation is presented with respect to the vote, consent, waiver, or proxy appointment;

(d) The name signed purports to be that of a pledgee, beneficial owner, or attorney-in-fact of the shareholder and, if the Corporation requests, evidence acceptable to the Corporation of the signatory's authority to sign for the shareholder is presented with respect to the vote, consent, waiver, or proxy appointment; or

(e) Two or more persons are the shareholder as cotenants or fiduciaries and the name signed purports to be the name of at least one of the co-owners and the person signing appears to be acting on behalf of all co-owners.

The Corporation may reject a vote, consent, waiver, or proxy appointment if the Secretary or other officer or agent of the Corporation who is authorized to tabulate votes, acting in good faith, has reasonable basis for doubt about the validity of the signature on it or about the signatory's authority to sign for the shareholder.

ARTICLE 4. BOARD OF DIRECTORS

Section 4.1 Board of Directors. All corporate powers shall be exercised by or under the authority of, and the business and affairs of the Corporation managed under the direction of, the Board of Directors. The number of directors shall be set and may be increased or decreased from time to time by vote of a majority of the Board of Directors, but shall never be less than three nor more than 15.

Section 4.2 Qualifications. Directors must be natural persons who are 18 years of age or older but need not be residents of the State of Florida or shareholders of the Corporation.

Section 4.3 Term of Office. The directors shall be classified, with respect to the time for which they severally hold office, into three classes, Class I, Class II and Class III, each of which shall be as nearly equal in number as possible. Class I shall be established for a term expiring at the annual meeting of shareholders to be held in 2000 and shall consist initially of three directors. Class II shall be established for a term expiring at the annual meeting of shareholders to be held in 1999 and shall consist initially of three directors. Class III shall be established for a term expiring at the annual meeting of shareholders to be held in 1998 and shall consist initially of two directors. Each director shall hold office until his or her successors are elected and qualified, or until such director's earlier death, resignation or removal as hereinafter provided. At each annual meeting of the shareholders of the Corporation, the successors of the class of directors whose terms expire at that meeting shall be elected to hold office for a term expiring at the annual meeting of shareholders held in the third year following the year of their election. Unless otherwise provided in the Articles of Incorporation, when the number of directors of the Corporation is changed, the Board of Directors shall determine the class or classes to which the increased or decreased number of directors shall be apportioned; provided, however, that no decrease in the number of directors shall affect the term of any director then in office.

Section 4.4 Nominations of Directors.

(a) Procedure for Nominating Directors. Except as otherwise provided pursuant to the provisions of the Articles of Incorporation, as they may be amended from time to time, relating to the rights of the holders of any class or series of Preferred Stock, voting separately by class or series, to elect directors under specified circumstances, nominations of persons for election to the Board of Directors at an annual meeting of shareholders or at a special meeting of shareholders at which directors are to be elected may be made (i) by or at the direction of the Board of Directors or (ii) by any shareholder of record of the Corporation who was a shareholder of record both at the time of the giving of notice provided for below and at the time of the meeting, who is entitled to vote for the election of directors at the meeting, and who has complied with the notice procedures set forth in this Section 4.4. For nominations of directors to be properly brought by a shareholder, the shareholder must have given timely notice thereof in writing to the Secretary of the Corporation.

(b) Shareholder's Notice. To be timely with respect to an election at an annual meeting of shareholders, a shareholder's notice shall be received at the principal business office of the Corporation not less than 90 days nor more than 120 days prior to the first anniversary of the preceding year's annual meeting of shareholders; provided, however, that in the event that no annual meeting was held the preceding year or the date of the annual meeting is advanced more than 30 days before or delayed more than 60 days after such anniversary date, notice by the shareholder must be received not more than 120 days prior to such annual meeting and not less than the later of 90 days prior to such annual meeting or ten days following the day on which public announcement of the date of the annual meeting is first made. In no event shall any adjournment or postponement of an annual meeting or the announcement thereof commence a new time period (or extend any time period) for the giving of a shareholder's notice as described above. To be timely with respect to an election at a special meeting of shareholders, a shareholder's notice shall be received at the principal business office of the Corporation not less than the later of 90 days prior to such special meeting or ten days following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. A shareholder's notice to the Secretary shall set forth (i) as to each person the shareholder proposes to nominate for election or re-election as a director, (A) all information relating to such person that would be required to be disclosed in solicitations of proxies for the election of directors, or is otherwise required, pursuant to Regulation 14A under the Exchange Act (including such person's written consent to being named as a nominee and to serving as a director if elected), and (B) a description of all direct and indirect compensation and other material monetary agreements, arrangements and understandings during the past three years, and any other material relationships, between or among such shareholder and the beneficial owner, if any, on whose behalf the nomination is made, and their respective affiliates and associates, or others acting in concert therewith, on the one hand, and each proposed nominee, and his or her respective affiliates and associates, or others acting in concert therewith, on the other hand, including all information that would be required to be disclosed pursuant to Rule 404 of Regulation S-K if the shareholder making the nomination and any beneficial owner on whose behalf the nomination is made, if any, or any affiliate or associate thereof or person acting in concert therewith, were the "registrant" for purposes of such rule and the nominee were a director or executive officer of such registrant; (ii) as to the shareholder giving the notice and the

beneficial owner, if any, on whose behalf the nomination is made, (A) the name and address of such shareholder, as they appear on the Corporation's books, and of such beneficial owner, (B) the class or series and number of shares of the Corporation's stock that are, directly or indirectly, owned beneficially and of record by such shareholder and such beneficial owner, and (C) whether and the extent to which any hedging or other transaction or series of transactions has been entered into by or on behalf of, or any other agreement, arrangement or understanding (including any short position or any borrowing or lending of shares of stock) has been made, an effect or intent of which is to mitigate loss to or manage risk of stock price changes for, or to increase the voting power of, such shareholder or such beneficial owner with respect to any share of stock of the Corporation; and (iii) a representation as to whether the shareholder or the beneficial owner, if any, on whose behalf the nomination is made intends, or is or intends to be part of a group that intends, (A) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Corporation's outstanding capital stock required to elect the nominee or (B) otherwise to solicit proxies from shareholders in support of such nomination. The Corporation may require any proposed nominee to furnish such other information as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as an independent director of the Corporation or that could be material to a reasonable shareholder's understanding of the independence, or lack thereof, of such nominee.

(c) Additional Directorships. Notwithstanding anything in the first sentence of Section 4.1(b) to the contrary, in the event that the number of directors to be elected to the Board of Directors at an annual meeting of shareholders is increased and there is no public announcement naming all the nominees for the additional directorships at least 100 days prior to the first anniversary of the preceding year's annual meeting, a shareholder's notice required by this Section 4.1 shall also be considered timely, but only with respect to nominees for such additional directorships, if it shall be received at the principal business office of the Corporation not later than 10 days following the day on which such public announcement is first made by the Corporation.

(d) No Other Nominees. No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the procedures set forth in this Section 4.4. The Chairman of the meeting shall, if the facts warrant, determine and declare to the annual meeting that a nomination was not made in accordance with the provisions of this Section 4.4, and if the Chairman shall so determine, the Chairman shall so declare at the meeting and the defective nomination shall be disregarded.

Section 4.5 Removal.

(a) Generally. Except as otherwise provided pursuant to the provisions of the Articles of Incorporation or Articles of Amendment relating to the rights of the holders of any class or series of Preferred Stock, voting separately by class or series, to elect directors under specified circumstances, any director or directors may be removed from office at any time, but only for cause (as defined in Section 4.5(b) hereof) and only by the affirmative vote, at a special meeting of the shareholders called for such a purpose, of not less than sixty-six and two-thirds percent (66 2/3%) of the total number of votes of the then outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, but only if notice of such proposed removal was contained in the notice of such meeting. At least 30 days prior to such special meeting of shareholders, written notice shall be sent to the director or directors whose removal will be considered at such meeting. Any vacancy on the Board of Directors resulting from such removal or otherwise shall be filled only by vote of a majority of the directors then in office, although less than a quorum, and any director so chosen shall hold office until the next election of the class for which such directors shall have been chosen and until his or her successor shall have been elected and qualified or until any such director's earlier death, resignation or removal.

(b) "Cause" Defined. For the purposes of this Section 4.5, "cause" shall mean (i) misconduct as a director of the Corporation or any subsidiary of the Corporation which involves dishonesty with respect to a substantial or material corporate activity or corporate assets, or (ii) conviction of an offense punishable by one or more years of imprisonment (other than minor regulatory infractions and traffic violations which do not materially and adversely affect the Corporation).

Section 4.6 Resignation. A director may resign at any time by delivering written notice to the Board of Directors or its Chairman (if any) or to the Corporation. A director's resignation is effective when the notice is delivered unless the notice specifies a later effective date.

Section 4.7 Vacancies.

(a) Who May Fill Vacancies. Except as provided below, whenever any vacancy occurs on the Board of Directors, including a vacancy resulting from an increase in the number of directors, it may be filled by the affirmative vote of a majority of the remaining directors though less than a quorum of the Board of Directors. Any director elected in accordance with the preceding sentence shall hold office until his or her successor is duly elected and qualified, and such successor shall complete such director's remaining term.

(b) Directors Electing by Voting Groups. Whenever the holders of shares of any voting group are entitled to elect a class of one or more directors by the provisions of the Articles of Incorporation, vacancies in such class may be filled by holders of shares of that voting group or by a majority of the directors then in office elected by such voting group or by a sole remaining director so elected. If no director elected by such voting group remains in office, unless the Articles of Incorporation provide otherwise, directors not elected by such voting group may fill vacancies.

(c) Prospective Vacancies. A vacancy that will occur at a specific later date, because of a resignation effective at a later date or otherwise, may be filled before the vacancy occurs, but the new director may not take office until the vacancy occurs.

Section 4.8 Compensation. The Board of Directors, irrespective of any personal interest of any of its members, may establish reasonable compensation of all directors for services to the Corporation as directors, officers, or otherwise, or may delegate such authority to an appropriate committee. The Board of Directors also shall have authority to provide for or delegate authority to an appropriate committee to provide for reasonable pensions, disability or death benefits, and other benefits or payments, to directors, officers, and employees and to their families, dependents, estates, or beneficiaries on account of prior services rendered to the Corporation by such directors, officers, and employees.

Section 4.9 Regular Meetings. A regular meeting of the Board of Directors shall be held without other notice than this bylaw immediately after the annual meeting of shareholders and each adjourned session thereof. The place of such regular meeting shall be the same as the place of the meeting of shareholders which precedes it, or such other suitable place as may be announced at such meeting of shareholders. The Board of Directors may provide, by resolution, the date, time, and place, either within or without the State of Florida, for the holding of additional regular meetings of the Board of Directors without notice other than such resolution.

Section 4.10 Special Meetings. Special meetings of the Board of Directors may be called by the Chairman of the Board (if any), the President or not less than one-third (1/3) of the members of the Board of Directors. The person or persons calling the meeting may fix any place, either within or without the State of Florida, as the place for holding any special meeting of the Board of Directors, and if no other place is fixed, the place of the meeting shall be the principal office of the Corporation in the State of Florida.

Section 4.11 Notice. Special meetings of the Board of Directors must be preceded by at least two days' notice of the date, time, and place of the meeting. The notice need not describe the purpose of the special meeting.

Section 4.12 Waiver of Notice. Notice of a meeting of the Board of Directors need not be given to any director who signs a waiver of notice either before or after the meeting. Attendance of a director at a meeting shall constitute a waiver of notice of such meeting and waiver of any and all objections to the place of the meeting, the time of the meeting, or the manner in which it has been called or convened, except when a director states, at the beginning of the meeting or promptly upon arrival at the meeting, any objection to the transaction of business because the meeting is not lawfully called or convened.

Section 4.13 Quorum and Voting. A quorum of the Board of Directors consists of a majority of the number of directors prescribed by these bylaws (or if no number is prescribed, the number of directors in office immediately before the meeting begins). If a quorum is present when a vote is taken, the affirmative vote of a majority of directors present is the act of the Board of Directors. A director who is present at a meeting of the Board of Directors or a committee of the Board of Directors when corporate action is taken is deemed to have assented to the action taken unless:

- (a) he or she objects at the beginning of the meeting (or promptly upon his or her arrival) to holding it or transacting specified business at the meeting; or
- (b) he or she votes against or abstains from the action taken.

Section 4.14 Conduct of Meetings.

(a) Presiding Officer. The Board of Directors may elect from among its members a Chairman of the Board of Directors, who shall preside at meetings of the Board of Directors and shareholders of the Corporation. The Chairman, and if there be none, or in his or her absence, the President, and in his or her absence, the Lead Director, and if there be none, or in his or her absence, any director chosen by the directors present, shall call meetings of the Board of Directors to order and shall act as presiding officer of the meeting.

(b) Minutes. The Secretary of the Corporation shall act as secretary of all meetings of the Board of Directors but in the absence of the Secretary, the presiding officer may appoint any other person present to act as secretary of the meeting. Minutes of any regular or special meeting of the Board of Directors shall be prepared and distributed to each director.

(c) Adjournments. A majority of the directors present, whether or not a quorum exists, may adjourn any meeting of the Board of Directors to another time and place. Notice of any such adjourned meeting shall be given to the directors who are not present at the time of the adjournment and, unless the time and place of the adjourned meeting are announced at the time of the adjournment, to the other directors.

(d) Participation by Conference Call or Similar Means. The Board of Directors may permit any or all directors to participate in a regular or a special meeting by, or conduct the meeting through the use of, any means of communication by which all directors participating may simultaneously hear each other during the meeting. A director participating in a meeting by this means is deemed to be present in person at the meeting.

Section 4.15 Committees. The Board of Directors, by resolution adopted by a majority of the full Board of Directors, may designate from among its members an Executive Committee and one or more other committees, which may include, by way of example and not as a limitation, a Compensation Committee (for the purpose of establishing and implementing an executive compensation policy) and an Audit Committee (for the purpose of examining and considering matters relating to the financial affairs of the Corporation). Each committee shall have two or more members, who serve at the pleasure of the Board of Directors, provided that the Compensation Committee and the Audit Committee shall consist of at least two Independent Directors. For purposes of this section, "Independent Director" shall mean a person other than an officer or employee of the Corporation or any subsidiary of the Corporation or any other individual having a relationship which, in the opinion of the Board of Directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. To the extent provided in the resolution of the Board of Directors establishing and constituting such committees, such committees shall have and may exercise all the authority of the Board of Directors, except that no such committee shall have the authority to:

- (a) approve or recommend to shareholders actions or proposals required by the Act to be approved by shareholders;
- (b) fill vacancies on the Board of Directors or any committee thereof;

(c) adopt, amend, or repeal these bylaws;

(d) authorize or approve the reacquisition of shares unless pursuant to a general formula or method specified by the Board of Directors; or

(e) authorize or approve the issuance or sale or contract for the sale of shares, or determine the designation and relative rights, preferences, and limitations of a voting group except that the Board of Directors may authorize a committee (or a senior executive officer of the Corporation) to do so within limits specifically prescribed by the Board of Directors.

The Board of Directors, by resolution adopted in accordance with this Section, may designate one or more directors as alternate members of any such committee, who may act in the place and stead of any absent member or members at any meeting of such committee. The provisions of these bylaws which govern meetings, notice and waiver of notice, and quorum and voting requirements of the Board of Directors apply to committees and their members as well.

Section 4.16 Action Without Meeting. Any action required or permitted by the Act to be taken at a meeting of the Board of Directors or a committee thereof may be taken without a meeting if the action is taken by all members of the Board or of the committee. The action shall be evidenced by one or more written consents describing the action taken, signed by each director or committee member and retained by the Corporation. Such action shall be effective when the last director or committee member signs the consent, unless the consent specifies a different effective date. A consent signed under this Section has the effect of a vote at a meeting and may be described as such in any document.

ARTICLE 5. OFFICERS

Section 5.1 Number. The principal officers of the Corporation shall be a President, the number of Vice Presidents, if any, as authorized from time to time by the Board of Directors, a Secretary, and a Treasurer, each of whom shall be elected by the Board of Directors. Such other officers and assistant officers as may be deemed necessary may be elected or appointed by the Board of Directors. The Board of Directors may also authorize any duly appointed officer to appoint one or more officers or assistant officers. The same individual may simultaneously hold more than one office.

Section 5.2 Election and Term of Office. The officers of the Corporation to be elected by the Board of Directors shall be elected annually by the Board of Directors at the first meeting of the Board of Directors held after each annual meeting of the shareholders. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as is practicable. Each officer shall hold office until his or her successor shall have been duly elected or until his or her prior death, resignation, or removal.

Section 5.3 Removal. The Board of Directors may remove any officer and, unless restricted by the Board of Directors, an officer may remove any officer or assistant officer appointed by that officer, at any time, with or without cause and notwithstanding the contract rights, if any, of the officer removed. The appointment of an officer does not of itself create contract rights.

Section 5.4 Resignation. An officer may resign at any time by delivering notice to the Corporation. The resignation shall be effective when the notice is delivered, unless the notice specifies a later effective date and the Corporation accepts the later effective date. If a resignation is made effective at a later date and the Corporation accepts the future effective date, the pending vacancy may be filled before the effective date but the successor may not take office until the effective date.

Section 5.5 Vacancies. A vacancy in any principal office because of death, resignation, removal, disqualification, or otherwise, shall be filled as soon thereafter as practicable by the Board of Directors for the unexpired portion of the term.

Section 5.6 President. The President shall be the chief executive officer of the Corporation and, subject to the direction of the Board of Directors, shall in general supervise and control all of the business and affairs of the Corporation. If the Chairman of the Board is not present, the President shall preside at all meetings of the Board of Directors and shareholders. The President shall have authority, subject to such rules as may be prescribed by the Board of Directors, to appoint such agents and employees of the Corporation as he or she shall deem necessary, to prescribe their powers, duties and compensation, and to delegate authority to them. Such agents and employees shall hold office at the discretion of the President. The President shall have authority to sign certificates for shares of the Corporation the issuance of which shall have been authorized by resolution of the Board of Directors, and to execute and acknowledge, on behalf of the Corporation, all deeds, mortgages, bonds, contracts, leases, reports, and all other documents or instruments necessary or proper to be executed in the course of the Corporation's regular business, or which shall be authorized by resolution of the Board of Directors; and, except as otherwise provided by law or the Board of Directors, the President may authorize any Vice President or other officer or agent of the Corporation to execute and acknowledge such documents or instruments in his or her place and stead. In general he or she shall perform all duties incident to the office of President and such other duties as may be prescribed by the Board of Directors from time to time.

Section 5.7 Vice Presidents. In the absence of the President or in the event of the President's death, inability or refusal to act, or in the event for any reason it shall be impracticable for the President to act personally, the Vice President, if any (or in the event there be more than one Vice President, the Vice Presidents in the order designated by the Board of Directors, or in the absence of any designation, then in the order of their election), shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. Any Vice President may sign certificates for shares of the Corporation the issuance of which shall have been authorized by resolution of the Board of Directors; and shall perform such other duties and have such authority as from time to time may be delegated or assigned to him or her by the President or by the Board of Directors. The execution of any instrument of the Corporation by any Vice President shall be conclusive evidence, as to third parties, of his or her authority to act in the stead of the President. The Corporation may have one or more Executive Vice Presidents and one or more Senior Vice Presidents, who shall be Vice Presidents for purposes hereof.

Section 5.8 Secretary. The Secretary shall: (a) keep, or cause to be kept, minutes of the meetings of the shareholders and of the Board of Directors (and of committees thereof) in one or more books provided for that purpose (including records of actions taken by the shareholders or the Board of Directors (or committees thereof) without a meeting); (b) be custodian of the corporate records and of the seal of the Corporation, if any, and if the Corporation has a seal, see that it is affixed to all documents the execution of which on behalf of the Corporation under its seal is duly authorized; (c) authenticate the records of the Corporation; (d) maintain a record of the shareholders of the Corporation, in a form that permits preparation of a list of the names and addresses of all shareholders, by class or series of shares and showing the number and class or series of shares held by each shareholder; (e) have general charge of the stock transfer books of the Corporation; and (f) in general perform all duties incident to the office of Secretary and have such other duties and exercise such authority as from time to time may be delegated or assigned by the President or by the Board of Directors.

Section 5.9 Treasurer. The Treasurer shall: (a) have charge and custody of and be responsible for all funds and securities of the Corporation; (b) maintain appropriate accounting records; (c) receive and give receipts for moneys due and payable to the Corporation from any source whatsoever, and deposit all such moneys in the name of the Corporation in such banks, trust companies, or other depositories as shall be selected in accordance with the provisions of these bylaws; and (d) in general perform all of the duties incident to the office of Treasurer and have such other duties and exercise such other authority as from time to time may be delegated or assigned by the President or by the Board of Directors. If required by the Board of Directors, the Treasurer shall give a bond for the faithful discharge of his or her duties in such sum and with such surety or sureties as the Board of Directors shall determine.

Section 5.10 Assistant Secretaries and Assistant Treasurers. There shall be such number of Assistant Secretaries and Assistant Treasurers as the Board of Directors may from time to time authorize. The Assistant Treasurers shall respectively, if required by the Board of Directors, give bonds for the faithful discharge of their duties in such sums and with such sureties as the Board of Directors shall determine. The Assistant Secretaries and Assistant Treasurers, in general, shall perform such duties and have such authority as shall from time to time be delegated or assigned to them by the Secretary or the Treasurer, respectively, or by the President or the Board of Directors.

Section 5.11 Other Assistants and Acting Officers. The Board of Directors shall have the power to appoint, or to authorize any duly appointed officer of the Corporation to appoint, any person to act as assistant to any officer, or as agent for the Corporation in his or her stead, or to perform the duties of such officer whenever for any reason it is impracticable for such officer to act personally, and such assistant or acting officer or other agent so appointed by the Board of Directors or an authorized officer shall have the power to perform all the duties of the office to which he or she is so appointed to be an assistant, or as to which he or she is so appointed to act, except as such power may be otherwise defined or restricted by the Board of Directors or the appointing officer.

Section 5.12 Salaries. The salaries of the principal officers shall be fixed from time to time by the Board of Directors or by a duly authorized committee thereof, and no officer shall be prevented from receiving such salary by reason of the fact that he or she is also a director of the Corporation.

ARTICLE 6. CONTRACTS; CHECKS & DEPOSITS; SPECIAL CORPORATE ACTS

Section 6.1 Contracts. The Board of Directors may authorize any officer or officers, or any agent or agents to enter into any contract or execute or deliver any instrument in the name of and on behalf of the Corporation, and such authorization may be general or confined to specific instances. In the absence of other designation, all deeds, mortgages, and instruments of assignment or pledge made by the Corporation shall be executed in the name of the Corporation by the President or one of the Vice Presidents; the Secretary or an Assistant Secretary, when necessary or required, shall attest and affix the corporate seal, if any, thereto; and when so executed no other party to such instrument or any third party shall be required to make any inquiry into the authority of the signing officer or officers.

Section 6.2 Checks, Drafts, etc. All checks, drafts or other orders for the payment of money, notes, or other evidences of indebtedness issued in the name of the Corporation, shall be signed by such officer or officers, agent or agents of the Corporation and in such manner as shall from time to time be determined by or under the authority of a resolution of the Board of Directors.

Section 6.3 Deposits. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies, or other depositories as may be selected by or under the authority of a resolution of the Board of Directors.

Section 6.4 Voting of Securities Owned by Corporation. Subject always to the specific directions of the Board of Directors, (a) any shares or other securities issued by any other corporation and owned or controlled by the Corporation may be voted at any meeting of security holders of such other corporation by the President of the Corporation if he or she be present, or in his or her absence by any Vice President of the Corporation who may be present, and (b) whenever, in the judgment of the President, or in his or her absence, of any Vice President, it is desirable for the Corporation to execute a proxy or written consent in respect of any such shares or other securities, such proxy or consent shall be executed in the name of the Corporation by the President or one of the Vice Presidents of the Corporation, without necessity of any authorization by the Board of Directors, affixation of corporate seal, if any, or countersignature or attestation by another officer. Any person or persons designated in the manner above stated as the proxy or proxies of the Corporation shall have full right, power, and authority to vote the shares or other securities issued by such other corporation and owned or controlled by the Corporation the same as such shares or other securities might be voted by the Corporation.

ARTICLE 7. CERTIFICATES FOR SHARES; TRANSFER OF SHARES

Section 7.1 Consideration for Shares. The Board of Directors may authorize shares to be issued for consideration consisting of any tangible or intangible property or benefit to the Corporation, including cash, promissory notes, services performed, promises to perform services evidenced by a written contract, or other securities of the Corporation. Before the Corporation issues shares, the Board of Directors shall determine that the consideration received or to be received for the shares to be issued is adequate. The determination of the Board of Directors is conclusive insofar as the adequacy of consideration for the issuance of shares relates to whether the shares are validly issued, fully paid, and nonassessable. The Corporation may place in escrow shares issued for future services or benefits or a promissory note, or make other arrangements to restrict the transfer of the shares, and may credit distributions in respect of the shares against their purchase price, until the services are performed, the note is paid, or the benefits are received. If the services are not performed, the note is not paid, or the benefits are not received, the Corporation may cancel, in whole or in part, the shares escrowed or restricted and the distributions credited.

Section 7.2 Certificates for Shares. The Corporation's shares may be certificated or uncertificated and shall be registered on the books of the Corporation with the name and address of the person to whom the shares are issued, the number of shares and the date of issue. Any certificates representing shares of the Corporation shall be in such form, consistent with the Act, as shall be determined by the Board of Directors. Any certificates issued to any shareholder of the Corporation shall be signed (either manually or in facsimile) by the President or any Vice President or any other persons designated by the Board of Directors and may be sealed with the seal of the Corporation or a facsimile thereof. Any certificates surrendered to the Corporation for transfer shall be canceled and no new certificate or uncertificated shares shall be issued until the former certificate for a like number of shares shall have been surrendered and canceled, except as provided in these bylaws with respect to lost, destroyed, or stolen certificates. The validity of any share certificate is not affected if a person who signed the certificate (either manually or in facsimile) no longer holds office when the certificate is issued.

Section 7.3 Transfer of Shares. Shares of the stock of the Corporation shall be transferred on the books of the Corporation by the registered holder of such shares in person or by his attorney, and, in the case of certificated shares, upon surrender for cancellation of certificates for the same number of shares, with duly executed assignment and power of transfer endorsed thereon or attached thereto. Where shares are presented to the Corporation with a request to register a transfer, the Corporation shall not be liable to the owner or any other person suffering loss as a result of such registration of transfer if (a) there were delivered in connection with such registration or transfer, the necessary endorsements on or with any certificate or, with respect to uncertificated shares, duly executed stock powers, and (b) the Corporation had no duty to inquire into adverse claims or has discharged any such duty. The Corporation may require reasonable assurance that such endorsements or stock powers are genuine and effective and in compliance with such other regulations as may be prescribed by or under the authority of the Board of Directors.

Section 7.4 Restrictions on Transfer. The face or reverse side of any certificate representing shares shall bear a conspicuous notation as required by the Act or the Articles of Incorporation of the restrictions imposed by the Corporation upon the transfer of such shares.

Section 7.5 Lost, Destroyed, or Stolen Certificates. If the owner of any certificate for shares claims that such certificate has been lost, destroyed, or wrongfully taken, either uncertificated shares or a new certificate, in the Board's discretion, shall be issued in place thereof if the owner (a) so requests before the Corporation has notice that such shares have been acquired by a bona fide purchaser, (b) files with the Corporation a sufficient indemnity bond if required by the Board of Directors or any principal officer, and (c) satisfies such other reasonable requirements as may be prescribed by or under the authority of the Board of Directors.

Section 7.6 Stock Regulations. The Board of Directors shall have the power and authority to make all such further rules and regulations not inconsistent with law as they may deem expedient concerning the issue, transfer, and registration of shares of the Corporation.

ARTICLE 8. SEAL

Section 8.1 Seal. The Board of Directors may provide for a corporate seal for the Corporation.

ARTICLE 9. BOOKS AND RECORDS

Section 9.1 Books and Records.

(a) The Corporation shall keep as permanent records minutes of all meetings of the shareholders and Board of Directors, a record of all actions taken by the shareholders or Board of Directors without a meeting, and a record of all actions taken by a committee of the Board of Directors in place of the Board of Directors on behalf of the Corporation.

(b) The Corporation shall maintain accurate accounting records.

(c) The Corporation or its agent shall maintain a record of the shareholders in a form that permits preparation of a list of the names and addresses of all shareholders in alphabetical order by class of shares showing the number and series of shares held by each.

(d) The Corporation shall keep a copy of all written communications within the preceding three years to all shareholders generally or to all shareholders of a class or series, including the financial statements required to be furnished by the Act, and a copy of its most recent annual report delivered to the Department of State.

Section 9.2 Shareholders' Inspection Rights. Shareholders are entitled to inspect and copy records of the Corporation as permitted by the Act.

Section 9.3 Distribution of Financial Information. The Corporation shall prepare and disseminate financial statements to shareholders as required by the Act.

Section 9.4 Other Reports. The Corporation shall disseminate such other reports to shareholders as are required by the Act, including reports regarding indemnification in certain circumstances and reports regarding the issuance or authorization for issuance of shares in exchange for promises to render services in the future.

ARTICLE 10. INDEMNIFICATION

Section 10.1 Provision of Indemnification. The Corporation shall, to the fullest extent permitted or required by the Act, including any amendments thereto (but in the case of any such amendment, only to the extent such amendment permits or requires the Corporation to provide broader indemnification rights than prior to such amendment), indemnify its Directors and Executive Officers against any and all Liabilities, and advance any and all reasonable Expenses, incurred thereby in any Proceeding to which any such Director or Executive Officer is a Party or in which such Director or Executive Officer is deposed or called to testify as a witness because he or she is or was a Director or Executive Officer of the Corporation. The rights to indemnification granted hereunder shall not be deemed exclusive of any other rights to indemnification against Liabilities or the advancement of Expenses which a Director or Executive Officer may be entitled under any written agreement, Board of Directors' resolution, vote of shareholders, the Act, or otherwise. The Corporation may, but shall not be required to, supplement the foregoing rights to indemnification against Liabilities and advancement of Expenses by the purchase of insurance on behalf of any one or more of its Directors or Executive Officers whether or not the Corporation would be obligated to indemnify or advance Expenses to such Director or Executive Officer under this Article. For purposes of this Article, the term "Directors" includes former directors of the Corporation and any director who is or was serving at the request of the Corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise, including, without limitation, any employee benefit plan (other than in the capacity as an agent separately retained and compensated for the provision of goods or services to the enterprise, including, without limitation, attorneys-at-law, accountants, and financial consultants). The term "Executive

Officers” includes those individuals who are or were at any time “executive officers” of the Corporation as defined in Securities and Exchange Commission Rule 3b-7 promulgated under the Exchange Act. All other capitalized terms used in this Article 10 and not otherwise defined herein have the meaning set forth in Section 607.0850, Florida Statutes (1995). The provisions of this Article 10 are intended solely for the benefit of the indemnified parties described herein, their heirs and personal representatives and shall not create any rights in favor of third parties. No amendment to or repeal of this Article 10 shall diminish the rights of indemnification provided for herein with respect to acts or omissions occurring prior to such amendment or repeal.

ARTICLE 11. AMENDMENTS

Section 11.1 Power to Amend. These bylaws may be amended or repealed by either the Board of Directors or the shareholders, unless the Act reserves the power to amend these bylaws generally or any particular bylaw provision, as the case may be, exclusively to the shareholders or unless the shareholders, in amending or repealing these bylaws generally or any particular bylaw provision, provide expressly that the Board of Directors may not amend or repeal these bylaws or such bylaw provision, as the case may be. The affirmative vote of sixty-six and two-thirds percent (66 2/3%) of the total number of votes of the then outstanding shares of the capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class, shall be required to amend these bylaws. The shareholders of the Corporation may adopt or amend a bylaw provision which fixes a greater quorum or voting requirement for shareholders (or voting groups of shareholders) than is required by the Act. The adoption or amendment of a bylaw provision that adds, changes or deletes a greater quorum or voting requirement for shareholders must meet the same quorum or voting requirement and be adopted by the same vote and voting groups required to take action under the quorum or voting requirement then in effect or proposed to be adopted, whichever is greater.

ARTICLE 12. SOLE AND EXCLUSIVE FORUM

Section 12.1 Sole and Exclusive Forum. Unless the Corporation 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 Corporation, (ii) any action asserting a claim or breach of a fiduciary duty owed by any director or officer or other employee of the Corporation to the Corporation or the Corporation’s shareholders, (iii) any action asserting a claim against the Corporation or any director or officer or other employee of the Corporation arising pursuant to any provision of the Act or the Articles of Incorporation or these bylaws (as either may be amended from time to time), or (iv) any action asserting a claim against the Corporation or any director or officer of the Corporation governed by the internal affairs doctrine, shall 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). Any person or entity purchasing or otherwise acquiring any interest in shares of capital stock of the Corporation shall be deemed to have notice of and consented to the provisions of this Section 12.1.

**DESCRIPTION OF THE REGISTRANT'S SECURITIES
REGISTERED UNDER SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934**

As of December 31, 2021, FARO Technologies, Inc. ("FARO," the "Company," "we," "us" and "our") had one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"): our common stock, par value \$0.001 per share (the "Common Stock").

Description of Common Stock

The following description of our Common Stock is a summary and does not purport to be complete. It is subject to and is qualified in its entirety by reference to our Amended and Restated Articles of Incorporation (the "Articles of Incorporation"), our Amended and Restated Bylaws (the "Bylaws"), and the applicable provisions of the Florida Business Corporation Act, as amended (the "FBCA"). Our Articles of Incorporation and Bylaws are incorporated by reference as exhibits to the Annual Report on Form 10-K for the year ended December 31, 2021. We encourage you to read our Articles of Incorporation, Bylaws and the applicable provisions of the FBCA for additional information.

General

Under our Articles of Incorporation, we are authorized to issue a total of 50,000,000 shares of Common Stock and 10,000,000 shares of preferred stock, par value \$0.001 per share. All outstanding shares of our Common Stock are fully paid and nonassessable. Our Common Stock is listed on the Nasdaq Global Select Market under the symbol "FARO."

Dividends

Subject to preferences that might be applicable to any then outstanding preferred stock, holders of our Common Stock are entitled to participate equally in dividends when our Board of Directors declares dividends on our Common Stock out of legally available funds. We have never declared or paid any cash dividends on our Common Stock and do not anticipate paying any such cash dividends in the reasonably foreseeable future. Future dividends, if any, will be determined by our Board of Directors and will be based on our earnings, capital requirements and operating and financial condition, among other factors, at the time any such dividends are considered by our Board of Directors.

Voting Rights

The holders of our Common Stock are entitled to one vote for each share of Common Stock held; our Articles of Incorporation do not provide for cumulative voting. Directors are elected by a plurality of votes cast by shares entitled to vote in the election of directors. On all other matters, unless a greater number of affirmative votes is required, an action is approved by a majority of the votes cast at the meeting.

Liquidation and Dissolution

In the event of our liquidation, dissolution or winding up, voluntarily or involuntarily, holders of our Common Stock will have the right to a ratable portion of the assets remaining after satisfaction in full of the prior rights of our creditors and of all liabilities, subject to prior distribution rights of any preferred stock then outstanding.

Other

Holders of our Common Stock are not entitled to any preemptive or preferential right to purchase or subscribe for shares of capital stock of any class and have no conversion, redemption or sinking fund rights.

Certain Statutory and Other Provisions

Certain provisions in our Articles of Incorporation, our Bylaws and the FBCA summarized below may be deemed to have an anti-takeover effect and may delay, deter or prevent a tender offer or takeover attempt, may discourage potential acquisition proposals and may delay or prevent a change in control that a shareholder might consider to be in its best interests, including attempts that might result in a premium being paid over the market price

for the shares held by the shareholders. Such provisions also may have the effect of preventing changes in our management.

We are subject to several anti-takeover provisions under Florida law that apply to certain corporations organized under Florida law unless the corporation has elected to opt out of those provisions in its articles of incorporation or (depending on the provision in question) its bylaws. We have not elected to opt out of these provisions.

Control Share Acquisitions. The FBCA prohibits the voting of shares in an “issuing public corporation” that are acquired in a “control share acquisition” unless the board of directors of the corporation approves the control share acquisition before the acquisition or the holders of a majority of the corporation’s voting shares (excluding shares held by officers of the corporation, inside directors of the corporation or the acquiring party) approve the granting of voting rights as to the shares acquired in the control share acquisition. A “control share acquisition” is defined as an acquisition that immediately thereafter entitles the acquiring party to, directly or indirectly, alone or as part of a group, exercise voting power in the election of directors within any of the following ranges: (i) one-fifth or more but less than one-third of all voting power, (ii) one-third or more but less than a majority of all voting power and (iii) a majority or more of all voting power. An “issuing public corporation” is defined as a corporation which has (A) 100 or more shareholders, (B) its principal place of business, its principal office or substantial assets within the state of Florida, and (C) (1) more than 10% of its shareholders resident in Florida, (2) more than 10% of its shares owned by Florida residents, or (3) more than 1,000 shareholders resident in Florida. This statutory voting restriction is not applicable in certain circumstances set forth in the FBCA.

Affiliated Transactions. The FBCA also contains an “affiliated transactions” provision that prohibits a publicly held Florida corporation from engaging in a broad range of business combinations or other extraordinary corporate transactions (each such transaction, an “affiliated transaction”) with an “interested shareholder” for a period of three years following the time that such shareholder became an interested shareholder unless:

- (i) prior to such shareholder becoming an interested shareholder, the board of directors of the corporation approved either the affiliated transaction or the transaction which resulted in the shareholder becoming an interested shareholder;
- (ii) upon consummation of the transaction that resulted in the shareholder becoming an interested shareholder, the interested shareholder owned at least 85 percent of the outstanding voting shares of the corporation (other than shares held by directors who are also officers and certain employee benefit plans); or
- (iii) the affiliated transaction is approved by the board of directors and authorized at an annual or special meeting of shareholders, and not by written consent, by the affirmative vote of at least two thirds of the outstanding voting shares which are not owned by the interested shareholder.

The above voting requirements do not apply to an affiliated transaction if:

- (A) the transaction is approved by a majority of disinterested directors;
- (B) the corporation has not had more than 300 shareholders of record at any time during the past three years;
- (C) the interested shareholder has beneficially owned at least 80% of the corporation’s outstanding voting shares for at least three years;
- (D) the interested shareholder is the beneficial owner of at least 90% of the outstanding voting shares (excluding shares acquired directly from the corporation in a transaction not approved by a majority of the disinterested directors); or
- (E) consideration is paid to the holders of the corporation’s shares equal to the highest price per share paid by the interested shareholder for any acquisition of the corporation’s shares in the last two years or the fair market value per share and certain other conditions are met.

An interested shareholder is defined as a person who, together with affiliates and associates, beneficially owns (as defined in Section 607.0901(1)(e) of the FBCA) more than 15% of the corporation’s outstanding voting shares.

Board Authority - Issuance of Shares. Our Board of Directors has the power to issue any or all of the shares of our capital stock, including the authority to establish one or more series of preferred stock and to fix the designations, powers, preferences, rights and limitations of such class or series, without seeking shareholder approval, which could delay, defer or prevent any attempt to acquire or control us.

Classified Board of Directors. Our Articles of Incorporation and Bylaws provide that our Board of Directors will be divided into three classes, with staggered terms of three years for each class. The term of one class expires each year. Our Articles of Incorporation and Bylaws provide that any vacancies on the Board of Directors will be filled only by the affirmative vote of a majority of the directors then in office, even if less than a quorum. Our Articles of Incorporation and Bylaws also provide that any director may be removed from office, but only for cause and only upon the affirmative vote of the holders of at least two-thirds of the then-outstanding voting shares of the capital stock of the Company entitled to vote generally in the election of directors (the “outstanding voting shares”) at a special meeting called for such purpose.

Special Voting Requirements. Our Articles of Incorporation provide that all actions taken by the shareholders must be taken at an annual or special meeting of the shareholders or by written consent of the holders of not less than two-thirds of our outstanding voting shares. Our Articles of Incorporation and Bylaws provide that special meetings of the shareholders may be called only by the President, the Chairman of the Board, a majority of the members of the Board of Directors, even if less than a quorum, or the holders of not less than 50% of our outstanding voting shares. Under our Bylaws, shareholders will be required to comply with advance notice provisions with respect to any proposal submitted for shareholder approval, including nominations for elections to the Board of Directors. Our Articles of Incorporation and Bylaws contain provisions requiring the affirmative vote of the holders of at least two-thirds of our outstanding voting shares to amend our Bylaws and certain provisions of our Articles of Incorporation.

Florida Forum Provision. Our 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 or breach of a fiduciary duty owed by any director or officer or other employee of the Company to the Company or the Company’s shareholders, (iii) any action asserting a claim against the Company or any director or officer or other employee of the Company 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 asserting a claim against the Company or any director or officer of the Company 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”). In addition, our Bylaws provide that any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock is deemed to have notice of and consented to the Florida Forum Provision; 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.

Transfer Agent

American Stock Transfer and Trust Company serves as the transfer agent and registrar for all of our Common Stock.

FARO TECHNOLOGIES, INC. LIST OF SUBSIDIARIES

Name	Jurisdiction of Organization
Antares-Desenvolvimento de Software, Lda.	Portugal
Cam2 SRL	Italy
FARO Benelux BV	Netherlands
FARO Business Technologies India Pvt. Ltd	India
FARO Cayman LP	Cayman Islands
FARO Cayman Ltd	Cayman Islands
FARO Delaware LLC	Delaware
FARO Europe GmbH	Germany
FARO FHN Netherlands Holdings BV	Netherlands
FARO Japan Inc.	Japan
FARO International (Shanghai) Co., Ltd	China
FARO Singapore Pte Ltd	Singapore
FARO Spain SLU	Spain
FARO Swiss Holding GmbH	Switzerland
FARO Swiss Manufacturing GmbH	Switzerland
FARO Technology Polska sp.zo.o	Poland
FARO Turkey Olcu Sistemleri Ltd. Sti	Turkey
FARO Technologies (Thailand) Ltd	Thailand
3D Measurement Technologies, S de RL de CV	Mexico
OOO FARO RUS	Russia
FARO Technologies UK Ltd.	United Kingdom
FARO Technologies do Brasil Ltda	Brazil
FARO Technologies Canada, Inc.	Canada
Open Technologies SRL	Italy
Laser Control Systems Limited.	United Kingdom
Photocore AG	Switzerland
Advanced Technical Solutions in Scandinavia AB	Sweden
ATS Real Reality AB	Sweden
ATS China Ltd.	China
Holobuilder, Inc.	Delaware
Bitstars GmbH	Germany

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports dated February 16, 2022, with respect to the consolidated financial statements and internal control over financial reporting included in the Annual Report of FARO Technologies, Inc. and subsidiaries on Form-10K for the year ended December 31, 2021. We consent to the incorporation by reference of said reports in the Registration Statements of FARO Technologies, Inc. and subsidiaries on Form S-8 (File No. 333-160660, File No. 333-197762, File No. 333-226491, and File No. 333-197762) and on Form S-3 (File No. 333-185654).

/s/ GRANT THORNTON LLP

Orlando, Florida
February 16, 2022

FARO Technologies, Inc.
Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Michael Burger, certify that:

1. I have reviewed this Annual Report on Form 10-K 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 officers 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 officers 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: February 16, 2022

/s/ Michael Burger

Name: Michael Burger

Title: President and Chief Executive Officer (Principal Executive Officer)

FARO Technologies, Inc.
Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Allen Muhich, certify that:

1. I have reviewed this Annual Report on Form 10-K 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 officers 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 officers 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: February 16, 2022

/s/ Allen Muhich

Name: Allen Muhich

Title: Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

FARO Technologies, Inc.
Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Solely for the purposes of complying with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, the undersigned President and Chief Executive Officer of FARO Technologies, Inc. (the Company), hereby certify that the Annual Report on Form 10-K for the year ended December 31, 2021 (the Report) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 16, 2022

/s/ Michael Burger

Name: Michael Burger

Title: President and Chief Executive Officer (Principal Executive Officer)

FARO Technologies, Inc.
Certification 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 Annual Report on Form 10-K for the year ended December 31, 2021 (the Report) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 16, 2022

/s/ Allen Muhich

Name: Allen Muhich

Title: Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

FARO TECHNOLOGIES INC. PROPERTIES

No.	Location	Sq. Ft.	Owned/ Leased	Purposes
1	125 Technology Park, Lake Mary, Florida	35,000	Leased	Manufacturing, research and development, service
2	250 Technology Park, Lake Mary, Florida	46,500	Leased	Headquarters, sales, marketing, administration
3	290 National Road Exton, Pennsylvania	90,400	Leased	Manufacturing, research and development, service
4	Lingwiesenstrasse 11/2 70825 Korntal-Muenchingen BW, Germany	105,300	Leased	European headquarters, manufacturing, sales, research and development, service
5	Unit 1° Great Central Way Butlers Leap Rugby Warwickshire CV21 3Xh, Great Britain	12,700	Leased	Sales, service
6	716 Kumada Nagakute-shi, Aichi 480-1144, Japan	15,900	Leased	Sales, service
7	188 Pingfu Road, Shanghai, China	24,700	Leased	Sales, service
8	No. 3 Changi South St 2 #01-01 Xilin Districentre Building B, Singapore	22,000	Leased	Asia headquarters, manufacturing, sales, service
9	215 Avenida Centuria, Parque Industrial, Apodaca, Nuevo Leon 66600 - Mexico	36,000	Leased	Sales, service