

REFINITIV

DELTA REPORT

10-Q

FARO - FARO TECHNOLOGIES INC

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS 881

█ **CHANGES** 206

█ **DELETIONS** 393

█ **ADDITIONS** 282

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

ACT OF 1934

For the quarterly period ended **September 30, 2023** **March 31, 2024**

OR

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

For the transition period from _____ to _____

Commission File Number: 0-23081

FARO TECHNOLOGIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Florida

59-3157093

(State or other Jurisdiction of Incorporation or
Organization)

(I.R.S. Employer Identification No.)

150 125 Technology Park,

Lake Mary

32746

Florida

32746

(Address of Principal Executive Offices)

(Zip Code)

(407) 333-9911

(Registrant's Telephone Number, including Area Code)

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

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

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

There were 18,954,257 19,205,873 shares of the registrant's common stock outstanding as of **October 30, 2023** **April 29, 2024**.

FARO TECHNOLOGIES, INC.

Quarterly Report on Form 10-Q
Quarter Ended **September 30, 2023** **March 31, 2024**

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

FARO TECHNOLOGIES, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS

		September				March 31,	December
(in thousands, except share and per share data)	(in thousands, except share and per share data)	30,	December	2023	31,	2024	31, 2023
ASSETS		ASSETS		(in thousands, except share and per share data)			
Current assets:	Current assets:						
Current assets:	Current assets:						
Cash and cash equivalents	Cash and cash equivalents	\$ 79,919	\$ 37,812				
Cash and cash equivalents	Cash and cash equivalents						
Short-term investments							
Accounts receivable, net	Accounts receivable, net	88,363	90,326				
Inventories, net	Inventories, net	40,095	50,026				
Prepaid expenses and other current assets	Prepaid expenses and other current assets	37,325	41,201				
Total current assets	Total current assets	245,702	219,365				
Non-current assets:	Non-current assets:						
Property, plant and equipment, net	Property, plant and equipment, net						
Property, plant and equipment, net	Property, plant and equipment, net						
Property, plant and equipment, net	Property, plant and equipment, net	22,207	19,720				
Operating lease right-of-use assets	Operating lease right-of-use assets	12,521	18,989				
Goodwill	Goodwill	106,873	107,155				
Intangible assets, net	Intangible assets, net	46,999	48,978				
Service and sales demonstration inventory, net	Service and sales demonstration inventory, net	22,662	30,904				
Deferred income tax assets, net	Deferred income tax assets, net	24,093	24,192				
Other long-term assets	Other long-term assets	4,047	4,044				

Total assets	Total assets	\$485,104	\$473,347
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Current liabilities:	Current liabilities:		
Current liabilities:			
Current liabilities:			
Accounts payable	Accounts payable	\$ 23,408	\$ 27,286
Accrued liabilities	Accrued liabilities	24,994	23,345
Income taxes payable	Income taxes payable	12,083	6,767
Current portion of unearned service revenues	Current portion of unearned service revenues	34,493	36,407
Customer deposits	Customer deposits	5,237	6,725
Lease liabilities	Lease liabilities	5,258	5,709
Total current liabilities	Total current liabilities	105,473	106,239
Loan - 5.50% Convertible Senior Notes	Loan - 5.50% Convertible Senior Notes	72,604	—
Unearned service revenues - less current portion	Unearned service revenues - less current portion	20,893	20,947
Lease liabilities - less current portion	Lease liabilities - less current portion	11,495	14,649
Deferred income tax liabilities	Deferred income tax liabilities	11,497	11,708
Income taxes payable - less current portion	Income taxes payable - less current portion	4,020	8,706
Other long-term liabilities	Other long-term liabilities	30	49
Total liabilities	Total liabilities	226,012	162,298

Commitments and contingencies - See
Note 13

Commitments and contingencies - See Note 12

Shareholders' equity:

Common stock - par value \$0.001, 50,000,000 shares authorized; 20,328,417 and 20,156,233 issued, respectively; 18,953,725 and

18,780,013 outstanding, respectively

20 20

Common stock - par value \$0.001, 50,000,000 shares authorized; 20,578,403 and 20,343,359 issued, respectively; 19,205,361 and 18,968,798 outstanding, respectively

Common stock - par value \$0.001, 50,000,000 shares authorized; 20,578,403 and 20,343,359 issued, respectively; 19,205,361 and 18,968,798 outstanding, respectively

Common stock - par value \$0.001, 50,000,000 shares authorized; 20,578,403 and 20,343,359 issued, respectively; 19,205,361 and 18,968,798 outstanding, respectively

Additional paid-in capital	Additional paid-in capital	340,414	328,227
Retained earnings	Retained earnings	(11,377)	46,788
Accumulated other comprehensive loss	Accumulated other comprehensive loss	(39,310)	(33,331)

Common stock in treasury, at cost - 1,374,692 and 1,376,220 shares held, respectively

(30,655) (30,655)

Common stock in treasury, at cost - 1,373,042 and 1,374,561 shares held, respectively

Total shareholders' equity	Total shareholders' equity	259,092	311,049
Total liabilities and shareholders' equity	Total liabilities and shareholders' equity	\$485,104	\$473,347

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

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

		Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands, except share and per share data)	(in thousands, except share and per share data)	2023	2022	2023	2022
(in thousands, except share and per share data)					
(in thousands, except share and per share data)					
Sales	Sales				
Sales	Sales				
Product	Product	\$ 66,911	\$ 65,581	\$ 199,754	\$ 182,015
Product					
Product					
Service					
Service	Service	19,902	19,751	60,237	59,891
Total sales	Total sales	86,813	85,332	259,991	241,906
Total sales					
Total sales					
Cost of sales	Cost of sales				
Cost of sales	Cost of sales				
Cost of sales	Cost of sales				
Product	Product	34,640	30,375	112,691	82,879
Product					
Product					
Service					
Service					
Service	Service	10,499	11,692	32,587	34,299

Total cost of sales	Total cost of sales	45,139	42,067	145,278	117,178
Total cost of sales					
Total cost of sales					
Gross profit					
Gross profit	Gross profit	41,674	43,265	114,713	124,728
Operating expenses	Operating expenses				
Operating expenses					
Operating expenses					
Selling, general and administrative					
Selling, general and administrative					
Selling, general and administrative	Selling, general and administrative	37,970	37,226	117,907	108,734
Research and development	Research and development	8,188	12,586	32,568	36,756
Research and development					
Research and development					
Restructuring costs					
Restructuring costs					
Restructuring costs	Restructuring costs	2,442	580	15,130	2,512
Total operating expenses	Total operating expenses	48,600	50,392	165,605	148,002
Total operating expenses					
Total operating expenses					
Loss from operations					
Loss from operations					
Loss from operations	Loss from operations	(6,926)	(7,127)	(50,892)	(23,274)
Other (income) expense	Other (income) expense				
Interest expense (income)					
Interest expense (income)	Interest expense (income)	691	(24)	2,529	(28)
Other income, net					
Other income, net	Other income, net	(381)	(1,428)	(125)	(3,077)
Other (income) expense					
Interest expense					
Interest expense					
Interest expense					

Other (expense) income, net					
Other (expense) income, net					
Other (expense) income, net					
Loss before income tax					
Loss before income tax					
Loss before income tax	Loss before income tax	(7,236)	(5,675)	(53,296)	(20,169)
Income tax expense	Income tax expense	1,520	586	4,869	4,352
Income tax expense					
Income tax expense					
Net loss					
Net loss	Net loss	\$ (8,756)	\$ (6,261)	\$ (58,165)	\$ (24,521)
Net loss per share -	Net loss per share -				
Basic	Basic	\$ (0.46)	\$ (0.34)	\$ (3.08)	\$ (1.34)
Net loss per share - Basic					
Net loss per share - Basic					
Net loss per share - Diluted					
Net loss per share - Diluted					
Net loss per share -	Net loss per share -				
Diluted	Diluted	\$ (0.46)	\$ (0.34)	\$ (3.08)	\$ (1.34)
Weighted average shares - Basic	Weighted average shares - Basic	18,953,251	18,436,615	18,899,954	18,336,537
Weighted average shares - Basic					
Weighted average shares - Basic					
Weighted average shares - Diluted					
Weighted average shares - Diluted					
Weighted average shares -	Weighted average shares -				
Diluted	Diluted	18,953,251	18,436,615	18,899,954	18,336,537

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	(in thousands)	2023	2022	2023

(in thousands)							
(in thousands)							
Net loss							
Net loss							
Net loss	Net loss	\$ (8,756)	\$ (6,261)	\$ (58,165)	\$ (24,521)		
Currency translation	Currency translation						
adjustments, net of income taxes	adjustments, net of income taxes	(7,080)	(11,796)	(5,979)	(26,791)		
Net unrealized loss on short-term investments		(238)	—	—	—		
Currency translation adjustments, net of income taxes							
Currency translation adjustments, net of income taxes							
Comprehensive loss	Comprehensive loss	\$ (16,074)	\$ (18,057)	\$ (64,144)	\$ (51,312)		
Comprehensive loss							
Comprehensive loss							

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

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

(in thousands)	(in thousands)	Nine Months Ended		Three Months Ended March 31,		2023
		September 30,	2023	2022	(in thousands)	
Cash flows from:	Cash flows from:					
Operating activities:	Operating activities:					
Operating activities:						
Operating activities:						
Net loss						
Net loss						
Net loss	Net loss	\$ (58,165)	\$ (24,521)			

Adjustments to reconcile net loss to net cash used in operating activities:	Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	Depreciation and amortization	11,728	10,061	
Depreciation and amortization	Depreciation and amortization			
Stock-based compensation	Stock-based compensation	12,276	10,024	
Inventory write-downs		8,132	—	
Asset impairment charges		5,333	—	
Deferred income tax (benefit) expense and other non-cash charges		(82)	568	
Deferred income tax (benefit) and other non-cash charges	Deferred income tax (benefit) and other non-cash charges			
Deferred income tax (benefit) and other non-cash charges	Deferred income tax (benefit) and other non-cash charges			
Provision for excess and obsolete inventory	Provision for excess and obsolete inventory	1,754	209	
Amortization of debt discount and issuance costs	Amortization of debt discount and issuance costs	294	—	
Loss on disposal of assets	Loss on disposal of assets	(155)	356	
Provisions for bad debts, net of recoveries	Provisions for bad debts, net of recoveries	834	80	
Change in operating assets and liabilities:	Change in operating assets and liabilities:			
Change in operating assets and liabilities:	Change in operating assets and liabilities:			
Decrease (Increase) in:	Decrease (Increase) in:			

Decrease (Increase) in:				
Decrease (Increase) in:				
Accounts receivable				
Accounts receivable				
Accounts receivable				
Inventories				
Prepaid expenses and other current assets				
(Decrease) Increase in:				
Accounts payable and accrued liabilities				
Accounts payable and accrued liabilities				
Income taxes payable				
Customer deposits				
Unearned service revenues				
Other liabilities				
Net cash used in operating activities				
Net cash provided by (used in) operating activities				
Investing activities:	Investing activities:			
Purchases of property and equipment	Purchases of property and equipment			

Purchases of property and equipment		
Purchases of property and equipment		
Purchases of short-term investments		
Cash paid for technology development, patents and licenses		
Cash paid for technology development, patents and licenses	(5,071)	(9,154)
Acquisition of business, net of cash acquired	—	(29,068)
Net cash used in investing activities		
Net cash used in investing activities		
Net cash used in investing activities	(10,087)	(43,200)
Financing activities:	Financing activities:	
Payments on finance leases	Payments on finance leases	(154) (172)
Payments for taxes related to net share settlement of equity awards	(89) (1,584)	
Payments on finance leases		
Payments on finance leases		
Cash settlement of equity awards		
Proceeds from issuance of 5.50% Convertible Senior Notes, due 2028, net of discount, issuance cost and accrued interest	Proceeds from issuance of 5.50% Convertible Senior Notes, due 2028, net of discount, issuance cost and accrued interest	72,310 —
Payment of contingent consideration for business acquisition	(1,098) —	
Net cash provided by (used in) financing activities	70,969	(1,756)

Net cash (used in) provided by financing activities			
Net cash (used in) provided by financing activities			
Net cash (used in) provided by financing activities			
Effect of exchange rate changes on cash and cash equivalents	Effect of exchange rate changes on cash and cash equivalents		
		(1,195)	(10,343)
Increase (Decrease) in cash and cash equivalents		42,107	(73,455)
Increase in cash and cash equivalents			
Cash and cash equivalents, beginning of period	Cash and cash equivalents, beginning of period	37,812	121,989
Cash and cash equivalents, end of period	Cash and cash equivalents, end of period	\$ 79,919	\$ 48,534

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

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

BALANCE							
JANUARY 1,							
2024							
Net loss	Net loss	—	—	—	(21,164)	—	—
Currency translation adjustment	Currency translation adjustment	—	—	—	—	2,780	—
Stock-based compensation	Stock-based compensation	—	—	3,634	—	—	3,634
Common stock issued, net of shares withheld for employee taxes	Common stock issued, net of shares withheld for employee taxes	122,108	—	14	—	—	14
BALANCE MARCH 31, 2023							
Net loss	—	—	—	(28,245)	—	—	(28,245)
Currency translation adjustment	—	—	—	—	(1,679)	—	(1,679)
Unrealized gain (loss) on short-term investment	—	—	—	—	238	—	238
Stock-based compensation	—	—	4,950	—	—	—	4,950
Common stock issued, net of shares withheld for employee taxes	44,677	—	(291)	—	—	—	(291)
BALANCE JUNE 30, 2023							
Net loss	—	—	—	(8,756)	—	—	(8,756)
Currency translation adjustment	—	—	—	—	(7,080)	—	(7,080)
Unrealized gain (loss) on short-term investment	—	—	—	—	(238)	—	(238)
Stock-based compensation	—	—	3,692	—	—	—	3,692
Common stock issued, net of shares withheld for employee taxes	6,927	—	188	—	—	—	188
BALANCE SEPTEMBER 30, 2023							
	18,953,725	\$ 20	\$ 340,414	\$ (11,377)	\$ (39,310)	\$ (30,655)	\$ 259,092
BALANCE							
MARCH 31,							

				Accumulated			
				Paid-in	Retained	Other	Common
		Common Stock		Capital	Earnings	Comprehensive	Stock in
		Common Stock		Additional		Loss	Treasury
		Common Stock		Paid-in			
		Common Stock		Capital			
		Common Stock					
(in thousands, except share data)		(in thousands, except share data)					
		Shares	Amounts				
BALANCE JANUARY 1, 2022		18,205,636	\$ 20	Additional Paid-in Capital	Retained Earnings \$(17,374)	Total	Accumulated Other Common Comprehensive Stock in Loss Treasury
(in thousands, except share data)							
(in thousands, except share data)							
BALANCE JANUARY 1, 2023							Shares Amounts Total
Net loss	Net loss	—	—	—	(9,687)	—	— (9,687)
Currency translation	Currency translation						
adjustment	adjustment	—	—	—	—	(1,984)	— (1,984)
Stock-based compensation	Stock-based compensation	—	—	2,867	—	—	— 2,867
Common stock issued, net of shares withheld for employee taxes	Common stock issued, net of shares withheld for employee taxes	55,041	—	(1,051)	—	— 135	— (916)
BALANCE MARCH 31, 2022	18,260,677	20	302,877	63,857	(19,358)	(30,657)	316,739
Net loss	—	—	—	(8,574)	—	—	(8,574)
Currency translation adjustment		—	—	—	—	(13,011)	— (13,011)
Stock-based compensation	Stock-based compensation	—	—	3,491	—	—	— 3,491
Common stock issued, net of shares withheld for employee taxes	Common stock issued, net of shares withheld for employee taxes	6,080	—	(249)	—	—	— (249)
BALANCE JUNE 30, 2022	18,266,757	20	306,119	55,283	(32,369)	(30,657)	298,396

Net loss	—	—	—	(6,261)	—	—	(6,261)
Currency translation							
adjustment	—	—	—	—	(11,796)	—	(11,796)
Stock-based compensation	—	—	3,666	—	—	—	3,666
Common stock issued, net of shares withheld for employee taxes	4,617	—	(419)	—	—	—	(419)
Acquisition of business	495,562	—	15,878	—	—	—	15,878
BALANCE SEPTEMBER 30, 2022	<u>18,766,936</u>	<u>\$ 20</u>	<u>\$ 325,244</u>	<u>\$49,022</u>	<u>\$ (44,165)</u>	<u>\$ (30,657)</u>	<u>\$ 299,464</u>
BALANCE MARCH 31, 2023							

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

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

NOTE 1 – DESCRIPTION OF BUSINESS

FARO Technologies, Inc. and its subsidiaries (collectively “FARO,” the “Company,” “us,” “we” or “our”) design, develop, manufacture, market and support software driven, three-dimensional (“3D”) measurement, imaging, and realization solutions for the **3D metrology, manufacturing**, architecture, engineering and construction (“AEC”), Operations and Maintenance (“O&M”) and public safety analytics markets. We enable our customers to capture, measure, manipulate, interact with and share **4D, 3D** and 2D data from the physical world in a virtual environment and then translate this information back into the physical domain. Our broad technology set equips our customers with a wide range of 3D capture technologies that range from ultra-high accuracy laser-scanner-based technology to lower accuracy, photogrammetry-based technology. Our FARO suite of 3D products and software solutions are used for inspection of components and assemblies, rapid prototyping, reverse engineering, documenting large volume or structures in 3D, surveying and construction, construction management, assembly layout, machine guidance as well as in investigation and reconstructions of crash and crime scenes. We sell the majority of our solutions through a direct sales force, with an increasing volume being sold through an indirect channel across a range of **industries** sectors including **automotive, aerospace, metal and machine fabrication, manufacturing**, surveying, architecture, engineering and construction, public safety forensics and other industries.

NOTE 2 – PRINCIPLES OF CONSOLIDATION

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

NOTE 3 – BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements and notes thereto have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information and with the instructions of Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. These condensed consolidated financial statements include all normal recurring accruals and adjustments considered necessary by management for a fair presentation in conformity with U.S. GAAP. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates. The condensed consolidated results of operations for the **nine** **three** months ended **September 30, 2023** **March 31, 2024** are not necessarily indicative of results that may be expected for the year ending **December 31, 2023** **December 31, 2024**, or any future period.

The information included in this Quarterly Report on Form 10-Q, including the interim condensed consolidated financial statements and the accompanying notes, should be read in conjunction with the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended **December 31, 2022** **December 31, 2023**. The accompanying **December 31, 2022** **December 31, 2023** condensed consolidated balance sheet has been derived from those audited consolidated financial statements.

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

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022
		Three Months Ended March 31,			
		Three Months Ended March 31,			
		Three Months Ended March 31,			
		2024			
		2024			
		2024			
Cost of sales					
Cost of sales					
Cost of sales	Cost of sales				
Product	Product	\$ 229	\$ 231	\$ 833	\$ 635
Product					
Product					
Service	Service	51	42	139	121
Service					
Service					
Total cost of sales					
Total cost of sales					

Total cost of sales	Total cost of sales	280	273	972	756
Operating expenses	Operating expenses				
Operating expenses					
Operating expenses					
Selling, general and administrative					
Selling, general and administrative					
Selling, general and administrative	Selling, general and administrative	3,588	2,742	9,710	7,475
Research and development	Research and development	(176)	651	1,594	1,793
Research and development					
Research and development					
Total operating expenses					
Total operating expenses					
Total operating expenses	Total operating expenses	3,412	3,393	11,304	9,268
Total stock-based compensation	Total stock-based compensation	\$ 3,692	\$ 3,666	\$ 12,276	\$ 10,024
Total stock-based compensation					
Total stock-based compensation					

NOTE 4 – IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Impact of Recently Adopted Issued Accounting Standards Pronouncements Not Yet Adopted

In October 2021, November 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures ("ASU 2023-07"), which requires disclosure of significant segment expenses and other segment items on an annual and interim basis under Accounting Standards Codification 280. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023, and for interim periods beginning after December 15, 2024. Early adoption is permitted and the amendments in ASU 2023-07 should be applied on a retrospective basis to all periods presented. The Company is currently evaluating the impact of ASU 2023-07 on its disclosures.

In December 2023, the FASB issued ASU No. 2021-08, Business Combinations 2023-09, Income Taxes (Topic 805) 740: Accounting Improvements to Income Tax Disclosures ("ASU 2023-09"), which improves income tax disclosures by requiring (1) consistent categories and greater disaggregation of information in the rate reconciliation and (2) income taxes paid disaggregated by jurisdiction. It also includes certain other amendments to improve the effectiveness of income tax disclosures. ASU 2023-09 is effective for 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. annual periods beginning after December 15, 2024. Early adoption is permitted and we early adopted permitted. ASU No. 2021-08 2023-09 indicates that all entities will apply its guidance prospectively with an option for retroactive application to each period in the fourth quarter of 2021. As a result of financial statements. The Company is currently evaluating the early adoption impact of ASU No.2021-08, we recorded the deferred revenue associated with the acquisition of Holobuilder in 2021 at its book value of approximately \$4.0 million. Further, we recorded the deferred revenue associated with the acquisition of GeoSLAM in 2022 at its book value of approximately \$1.3 million.

In August 2020, the FASB issued ASU No. 2020-06—Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity. The update simplifies the accounting for convertible instruments that were previously separated into a debt component and an equity component, and our convertible debt was already determined to be a single debt instrument that did not require bifurcation. The Company adopted ASU 2020-06 as of January 1, 2022, and therefore, the Notes (as defined below) would not be subject to any beneficial conversion or cash conversion guidance. Moreover, the Company did not elect the fair value option - as defined in ASC 825 and 815 - to present the Notes 2023-09 on its financial statements. disclosures.

NOTE 5 – REVENUES

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

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022
Product sales	Product sales				
Product sales					
Product transferred to customers at a point in time					
Product transferred to customers at a point in time					
Product transferred to customers at a point in time	Product transferred to customers at a point in time	\$ 60,882	\$ 60,090	\$ 183,511	\$ 165,750
Product transferred to customers over time	Product transferred to customers over time	6,029	5,491	16,243	16,265
Product transferred to customers over time					
Product transferred to customers over time					
Total product sales	Total product sales	\$ 66,911	\$ 65,581	\$ 199,754	\$ 182,015
Total product sales					

Total product sales									
Service sales	Service sales	Three Months Ended September 30,				Nine Months Ended September 30,			
		2023		2022		2023		2022	
		Service transferred to customers at a point in time	Service transferred to customers at a point in time	Service transferred to customers over time	Service transferred to customers over time	Service transferred to customers at a point in time	Service transferred to customers at a point in time	Service transferred to customers over time	Service transferred to customers over time
Service transferred to customers at a point in time	Service transferred to customers at a point in time	\$ 8,875	\$ 8,651	\$ 26,343	\$ 25,973				
Service transferred to customers over time	Service transferred to customers over time	11,027	11,100	33,894	33,918				
Total service sales	Total service sales	\$ 19,902	\$ 19,751	\$ 60,237	\$ 59,891				
Total service sales									
Total service sales									

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

Total sales to external customers	Total sales to external customers	Three Months Ended September 30,				Nine Months Ended September 30,			
		2023		2022		2023		2022	
		North America	Europe	North America	Europe	North America	Europe	North America	Europe
Total sales to external customers									

Total sales to external customers								
Americas (1)								
Americas (1)								
Americas (1)	Americas (1)	\$ 41,033	\$ 38,732	\$ 124,734	\$ 110,077			
EMEA (1)	EMEA (1)	25,621	22,802	74,641	66,494			
EMEA (1)								
EMEA (1)								
APAC (1)	APAC (1)	20,159	23,798	60,616	65,335			
		\$ 86,813	\$ 85,332	\$ 259,991	\$ 241,906			
APAC (1)		\$	\$	\$	\$			
APAC (1)		\$	\$	\$	\$			
		\$	\$	\$	\$			
		\$	\$	\$	\$			

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

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

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

We capitalize commission expenses related to deliverables transferred to a customer over time and amortize such costs ratably over the term of the contract. As of **September 30, 2023** **March 31, 2024**, the deferred cost asset related to deferred commissions was approximately **\$2.9 million**, **\$4.4 million**. For classification purposes, **\$1.9** **\$3.4 million** and **\$1.0** **\$1.0 million** are comprised within the Prepaid expenses and other current assets and Other long-term assets, respectively, on our condensed consolidated balance sheet as of **September 30, 2023** **March 31, 2024**. As of **December 31, 2022** **December 31, 2023**, the deferred cost asset related to deferred commissions was approximately **\$3.0** **\$4.6 million**. For classification purposes, **\$2.0 million** **\$3.5 million** and **\$1.0 million** **\$1.1 million** were comprised within the Prepaid expenses and other current assets and Other long-term assets, respectively, on our condensed consolidated balance sheet as of **December 31, 2022** **December 31, 2023**.

The unearned service revenue liabilities reported on our condensed consolidated balance sheets reflect the contract liabilities to satisfy the remaining performance obligations for extended warranties, subscription-based software and software maintenance. The current portion of unearned service revenues on our condensed consolidated balance sheets is what we expect to recognize as revenue within twelve months after the applicable balance sheet date relating to extended warranties, subscription-based software and software maintenance contract liabilities. The unearned service revenues less the current portion on our condensed consolidated balance sheets is what we expect to recognize as revenue extending beyond twelve months after the applicable balance sheet date relating to extended warranties, subscription-based software and software maintenance contract liabilities. Customer deposits on our condensed consolidated balance sheets represent customer prepayments on contracts for performance obligations that we must satisfy in the future to recognize the related contract revenue. These amounts are generally related to performance obligations which are delivered in less than 12 months. During the three and nine months ended **September 30, 2023** **March 31, 2024**, we recognized **\$19.0 million** and **\$27.5 million** of revenue that was deferred on our condensed consolidated balance sheet as of **June 30, 2023** and **December 31, 2022** **December 31, 2023**. During the three and nine months ended **September 30, 2022** **March 31, 2023**, we recognized **\$8.7 million** and **\$29.1 million** of revenue that was deferred on our condensed consolidated balance sheet as of **June 30, 2022** and **December 31, 2021** **December 31, 2022**.

The nature of certain of our contracts gives rise to variable consideration, primarily related to an allowance for sales returns. We are required to estimate the contract asset related to sales returns and record a corresponding adjustment to Cost of sales. Our allowance for sales returns for **September 30, 2023** **each of March 31, 2024** and **December 31, 2022** **December 31, 2023** was approximately **less than \$0.1 million**, and **\$0.3 million**, respectively.

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

NOTE 6 – ACCOUNTS RECEIVABLE

Accounts receivable consist of the following:

	As of September 30, 2023	As of December 31, 2022	
	As of March 31, 2024		As of March 31, 2024
			As of December 31, 2023
Accounts receivable	Accounts receivable	\$91,401	\$92,611
Allowance for credit losses	Allowance for credit losses	(3,038)	(2,285)
Total	Total	\$88,363	\$90,326

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

	Nine Months Ended September 30, 2023
Beginning balance of the allowance for credit losses	\$ (2,285)
Current period provision for expected credit losses, net of recoveries	(834)
Charge-offs of amounts previously expensed	81
Ending balance of the allowance for credit losses	\$ (3,038)

	Three Months Ended March 31,		Three Months Ended March 31,
	2024	2023	
Beginning balance of the allowance for credit losses	\$ 3,167	\$ 2,285	
Current period provision for expected credit losses, net of recoveries	300	33	
Charge-offs of amounts previously expensed	(129)	(90)	
Ending balance of the allowance for credit losses	\$ 3,338	\$ 2,228	

NOTE 7 – INVENTORIES

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

Inventories consist of the following:

	As of	As of	
	September	December	
	30, 2023	31, 2022	
As of March 31,			
	2024		As of March 31, 2024
Raw materials	Raw materials	\$21,679	\$33,076
Finished goods	Finished goods	18,416	16,950
Inventories, net	Inventories, net	40,095	50,026
Service and sales demonstration inventory, net	Service and sales demonstration inventory, net	\$22,662	\$30,904

NOTE 8 – GOODWILL

The Company recognizes the excess of the purchase price over the fair value of identifiable net assets acquired as goodwill. The Company performs a qualitative assessment on goodwill at least annually on December 31 or more frequently if events or changes in circumstances indicate that the carrying value of goodwill may not be recoverable. If it is determined in the qualitative assessment that

the fair value of a reporting unit is more likely than not below its carrying amount, then the Company will perform a quantitative impairment test.

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

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

During the three months ended September 30, 2023, the trading price of the Company's common stock was higher than the net book value of equity at September 30, 2023. As a result, the Company determined that a triggering event had not occurred for the Company's reporting unit for goodwill impairment assessment during the three months ended September 30, 2023.

We had \$106.9 million and \$107.2 million of goodwill as of September 30, 2023 and December 31, 2022, respectively.

NOTE 9 – NET LOSS PER SHARE

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

As of September 30, 2023 [March 31, 2024], there were approximately 1,439,944 [1,754,711] shares issuable upon the exercise of options, the vesting of time-based restricted stock and the contingent vesting of market-based restricted stock units that were excluded from the dilutive calculations, as they were anti-dilutive. For the three and nine months ended September 30, 2022 [March 31, 2023], there were approximately 578,121 [1,077,583] issuable upon the exercise of options that were excluded from the dilutive calculations, as they were anti-dilutive. In addition, the Company issued \$75 million aggregate principal amount of the Notes on January 24, 2023, which, if converted, would result in the issuance of a maximum of 2,124,645 shares of common stock. These shares were excluded from the dilutive calculations, as their effect would have been anti-dilutive.

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

	Three Months Ended September 30,	
	2023	2022

	Per-Share		Per-Share	
	Shares	Amount	Shares	Amount
Basic net loss per share	18,953,251	\$ (0.46)	18,436,615	\$ (0.34)
Effect of dilutive securities	—	—	—	—
Diluted net loss per share	18,953,251	\$ (0.46)	18,436,615	\$ (0.34)
Nine Months Ended September 30,				
	2023		2022	
	Shares	Per-Share	Shares	Per-Share
	Shares	Amount	Shares	Amount
Basic net loss per share	18,899,954	\$ (3.08)	18,336,537	\$ (1.34)
Effect of dilutive securities	—	—	—	—
Diluted net loss per share	18,899,954	\$ (3.08)	18,336,537	\$ (1.34)
Three Months Ended March 31,				
	2024		2023	
Numerator:				
Net loss		\$ (7,267)	\$ (21,164)	
Denominator:				
Weighted average shares - Basic		19,046,855	18,816,110	
Weighted average shares - Diluted		19,046,855	18,816,110	
Net loss per share - Basic		\$ (0.38)	\$ (1.12)	
Net loss per share - Diluted		\$ (0.38)	\$ (1.12)	

NOTE 109 – ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	As of September 30, 2023	As of December 31, 2022	
	As of March 31,		
	2024		As of December 31, 2023
Accrued compensation and benefits	Accrued compensation and benefits	\$14,656	\$12,483
Accrued restructuring costs	Accrued restructuring costs	2,482	528

Accrued warranties	Accrued warranties	2,718	2,610
Professional and legal fees	Professional and legal fees	3,263	1,662
Accrued interest			
Taxes other than income	Taxes other than income	127	3,737
Other accrued liabilities	Other accrued liabilities	1,748	2,325
Total accrued liabilities	Total accrued liabilities	<u>\$24,994</u>	<u>\$23,345</u>

Activity related to accrued warranties was as follows:

		Nine Months Ended		Three Months Ended March 31,		2023	
		September 30,		2024			
		2023	2022				
Balance, beginning of period	Balance, beginning of period	\$2,610	\$1,880				
Provision for warranty expense	Provision for warranty expense	2,731	2,548				
Fulfillment of warranty obligations	Fulfillment of warranty obligations	(2,623)	(2,236)				
Balance, end of period	Balance, end of period	<u>\$2,718</u>	<u>\$2,192</u>				

NOTE 11.10 – FAIR VALUE MEASUREMENTS AND INVESTMENTS

Fair Value Measurements

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

Liabilities measured Assets and liabilities recorded at fair value on a recurring basis in our condensed consolidated balance sheets are categorized in the tables below based upon the **lowest** level of **significant input** 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 valuations, amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities and are as follows:

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

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

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

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

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

	As of December 31, 2022			March 31, 2024
Assets	Level 1	Level 2	Level 3	
Liabilities Short-term investments: U.S. Treasury securities	\$ 19,763			
Contingent consideration	\$ —	\$ —	\$ 1,0	
Total	\$ —19,763	\$ —	\$ —	

	As of December 31, 2023		
Assets	Level 1	Level 2	Level 3
Cash and cash equivalents: U.S. Treasury securities	\$ 1,043 9,871	\$ —	\$ —
Short-term investments: U.S. Treasury securities		19,496	\$ —
Total	\$ 29,367	\$ —	\$ —

Contingent consideration liability represents arrangements The fair value of the Notes (as defined in Note 15 to pay the former owners condensed consolidated financial statements) was approximately \$64.9 million and \$65.3 million as of certain companies we acquired March 31, 2024 and December 31, 2023, respectively. Fair value was determined based on the attainment closing trading price of future product release milestones the Notes as of the last trading day of the quarter and is reported in Other long-term liabilities. We use a probability-weighted discounted cash flow model to estimate was primarily affected by the trading price of the Company's common stock and market interest rates. The fair value of contingent consideration liabilities. These probability weightings the Notes is considered a Level 2 measurement as they are developed internally and assessed on a quarterly basis. The remaining undiscounted

maximum payment under these arrangements was approximately \$1.0 million and was paid in full to former owners under these arrangements on August 30, 2023, leaving a zero balance as of September 30, 2023, not actively traded.

NOTE 1211 – RESTRUCTURING

In the first quarter of 2020, On February 14, 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 help 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 have targeted and achieved approximately \$40 million in annualized savings. We believe we have successfully redefined our go-to-market strategy to place an increased focus on efficiency our customers and cost-saving efforts, which included a planned decrease to help enable our sales employees, supported by our talented pool of total headcount. field application engineers, to sell all product lines globally.

On In conjunction with the Restructuring Plan, on July 15, 2021, we entered into a manufacturing services agreement (the "Agreement") with Sanmina Corporation ("Sanmina"), in connection with the Restructuring Plan. Under the Agreement, Sanmina will provide manufacturing services for the Company's measurement device products previously manufactured by the Company at the Company's Lake Mary, Florida, Exton, Pennsylvania, Stuttgart, Germany and Portugal manufacturing sites. This phased transition to a Sanmina production facility was completed at the beginning of the third quarter of 2022 as part of our cost reduction initiative. As a result of an evaluation on the usage of our manufacturing spaces, we decided to abandon 17,000 square feet of unused space at our Exton, Pennsylvania facility in the third quarter of 2022. Since the approval of the Restructuring Plan, we paid \$24.8 million, primarily consisting of severance and related benefits. All actions under this plan were completed as of March 31, 2023, and the remaining amounts payable of \$0.5 million were rolled forward to the Integration Plan discussed below.

On February 7, 2023, our Board of Directors approved an integration plan (the "Integration Plan"), which is intended to streamline and simplify operations, particularly around our recent acquisitions and the resulting redundant operations and offerings. The Integration Plan was amended on May 3, 2023, and the Board approved increases to both the expected pre-tax charges and the annualized cost savings. Key activities under the Integration Plan include a planned decrease in headcount, consolidation of our cloud-based offerings from 3 platforms (2 acquired, 1 organic) into a single customer offering, and the optimization of our facility assets to align with current and expected future utilization. We expected to incur total pre-tax charges in the range of \$22 million to \$28 million for the Integration Plan predominantly through the end of fiscal year 2023, with a targeted annualized savings of approximately \$20 million to \$30 million. As of September 30, 2023 March 31, 2024, in relation with the Integration Plan, we have incurred total restructuring charges of \$24.2 \$26.1 million, and have made cash payments of \$7.1 \$9.1 million.

During In the nine months ended September 30, 2023, first quarter of 2024, we have completed an evaluation of our leased facilities located in Lake Mary, Florida, Stuttgart and Dresden, Germany, Portugal and Singapore and determined that we will abandon portions of these facilities. Consequently, we recorded right-of-use asset and leasehold improvement impairment charges of \$0.3 million and \$4.0 million for the three and nine months ended September 30, 2023, which was included in restructuring did not incur costs on the condensed consolidated statements of operations. We expect relating to make cash payments for the remaining duration of the contractual lease period approximating the right-of-use asset write-off value. As a part of the Integration Plan, we also evaluated as substantially all of our product portfolio planned activities under the Restructuring Plan and decided to discontinue certain legacy products. This led to inventory and related purchase commitments impairment charges of \$8.1 million, which were included in the cost of sales on the condensed consolidated statements of operations.

Integration Plan are complete. In the third first quarter of 2023, and 2022, we recognized \$1.6 \$4.2 million and \$17.0 thousand, respectively, in employee severance and other professional costs associated with the restructuring plans. Additionally, we paid \$3.1 \$0.4 million and \$2.6 \$0.8 million, respectively, for the same periods, three month ended March 31, 2024 and 2023, primarily consisting of severance and related benefits.

Activity related to the accrued restructuring charges for the Integration Plan and cash payments during the nine three months ended September 30, 2023 March 31, 2024 and 2023 is as follows:

		Professional fees and other related charges			Total
		Severance and other benefits	Professional fees and other related charges	Total	
Balance at December 31, 2022		\$ 318	\$ 210	\$ 528	
Severance and other benefits					
Balance at December 31, 2023					
Additions charged to expense	Additions charged to expense	8,836	220	9,056	
Cash payments	Cash payments	(7,102)	—	(7,102)	
Balance at September 30, 2023		\$ 2,052	\$ 430	\$2,482	
Balance at March 31, 2024					

		Professional fees and other related charges			Total
		Severance and other benefits	Professional fees and other related charges	Total	
Balance at December 31, 2021		\$ 3,442	\$ 477	\$3,919	
Severance and other benefits					
Balance at December 31, 2022					
Additions charged to expense	Additions charged to expense	1,439	1,072	2,511	
Cash payments	Cash payments	(4,619)	(1,291)	(5,910)	

Balance at September 30, 2022	\$ 262	\$ 258	\$ 520
Balance at March 31, 2023			

NOTE 13 12 – COMMITMENTS AND CONTINGENCIES

Purchase Commitments — We enter into purchase commitments for products and services in the ordinary course of business. These purchases generally cover production requirements for 60 to 120 days as well as materials necessary to service customer units through the product lifecycle and for warranty commitments. As of **September 30, 2023** **March 31, 2024**, we had approximately **\$26.4** **\$27.0** million in purchase commitments that are expected to be delivered within the next 12 months. The Company's long-term purchase commitments were immaterial as a result of the ongoing transition towards direct sourcing with Sanmina.

Legal Proceedings — We are not involved in any disputes, claims and other legal proceedings other than routine litigation actions arising in the normal course of business, none of our business. Although it is not possible to predict the outcome of which these matters, we believe that the results of these proceedings will not have a material adverse effect on our business, financial condition or results of operations. However, any litigation, regardless of its outcome, may be costly and may require significant time and attention of our management and technical personnel.

NOTE 14 13 – LEASES

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

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

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

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

The components of lease expense were as follows:

Three Months Ended September 30,

Nine Months Ended September 30,

	2023	2022	2023	2022
	2024			
	2024			
	2024			
Operating lease cost				
Operating lease cost				
Operating lease cost	Operating lease cost	\$ 1,598	\$ 1,805	\$ 5,169
Finance lease cost:	Finance lease cost:			\$ 5,453
Finance lease cost:				
Finance lease cost:				
Amortization of ROU assets				
Amortization of ROU assets				
Amortization of ROU assets	Amortization of ROU assets	21	18	70
Interest on lease liabilities	Interest on lease liabilities	3	4	12
Interest on lease liabilities				15
Interest on lease liabilities				
Total finance lease cost				
Total finance lease cost				
Total finance lease cost	Total finance lease cost	\$ 24	\$ 22	\$ 82
				\$ 111

We recognize lease payments made for short-term leases where terms are 12 months or less as the payments are incurred. Our short-term lease costs for each of the three months ended September 30, 2023 March 31, 2024 and September 30, 2022 March 31, 2023 were both less than \$0.1 million. Our short-term lease costs for the nine months ended September 30, 2023 and September 30, 2022 were both less than \$0.1 million.

Supplemental balance sheet information related to leases was as follows:

	As of	As of		
	September 30, 2023	December 31, 2022		
	As of		As of	
	March 31, 2024		March 31, 2024	December 31, 2023
Operating leases:	Operating leases:			

Operating lease right-of-use assets	Operating lease right-of-use assets	\$12,521	\$18,989
Operating lease right-of-use assets			
Operating lease right-of-use assets			
Current operating lease liabilities			
Current operating lease liabilities			
Current operating lease liabilities	Current operating lease liabilities	5,258	5,535
Operating lease liabilities - less current portion	Operating lease liabilities - less current portion	11,495	14,532
Total operating lease liabilities	Total operating lease liabilities	16,753	20,067
Finance leases:	Finance leases:		
Finance leases:			
Finance leases:			
Property and equipment, at cost	Property and equipment, at cost		
Property and equipment, at cost	Property and equipment, at cost		
Property and equipment, at cost	Property and equipment, at cost	1,589	1,523
Accumulated amortization	Accumulated amortization	(1,442)	(1,387)
Property and equipment, net	Property and equipment, net	147	136

Current finance lease liabilities	Current finance lease liabilities	120	174
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Current finance lease liabilities	
Current finance lease liabilities	

Finance lease liabilities - less current portion	Finance lease liabilities - less current portion	95	117
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Total finance lease liabilities	Total finance lease liabilities	\$ 215	\$ 291
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Weighted Average Remaining Lease Term (in years):	Weighted Average Remaining Lease Term (in years):
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Weighted Average Remaining Lease Term (in years):	
Operating leases	
Operating leases	

Operating leases	Operating leases	4.67	4.97	4.50	4.57
Finance leases	Finance leases	2.16	2.24	Finance leases	2.41
Weighted Average Discount Rate:	Weighted Average Discount Rate:				2.40

Weighted Average Discount Rate:	
Weighted Average Discount Rate:	
Operating leases	
Operating leases	

Operating leases	Operating leases	5.68 %	5.67 %	5.73 %	5.71 %	
Finance leases	Finance leases	5.12 %	5.31 %	Finance leases	4.98 %	5.02 %

Supplemental cash flow information related to leases was as follows:

Nine Months Ended September 30,						
2023						
Three Months Ended March 31,						
Three Months Ended March 31,						
Three Months Ended March 31,						
2024						
2024						
2024						
Cash paid for amounts included in the measurement of lease liabilities:						
Cash paid for amounts included in the measurement of lease liabilities:						
Cash paid for amounts included in the measurement of lease liabilities:	Cash paid for amounts included in the measurement of lease liabilities:					
Operating cash flows from operating leases	Operating cash flows from operating leases	\$ 5,535		\$ 5,686		
Operating cash flows from operating leases						
Operating cash flows from operating leases						
Operating cash flows from finance leases	Operating cash flows from finance leases	12		15		
Operating cash flows from finance leases						
Operating cash flows from finance leases						
Financing cash flows from finance leases						
Financing cash flows from finance leases						
Financing cash flows from finance leases	Financing cash flows from finance leases	154		172		
ROU assets obtained in exchange for lease obligations:	ROU assets obtained in exchange for lease obligations:					
ROU assets obtained in exchange for lease obligations:						

ROU assets obtained in exchange for lease obligations:

Operating leases	Operating leases	\$ 721	\$ 808
Operating leases			
Operating leases			

Maturities of lease liabilities are as follows:

Year Ending	Year Ending	December 31,	December 31,	Operating leases	Year Ending December 31,	Operating leases	Finance leases
2023 (excluding the first 9 months)		31,	31,	leases	leases		
				\$ 1,695	\$ 48		
2024				5,955	95		
2024 (excluding the first 3 months)							
2025	2025			3,718	47		
2026	2026			2,428	28		
2027	2027			1,598	9		
2028							
Thereafter	Thereafter			3,801	—		
Total lease payments	Total lease payments			19,195	227		
Less imputed interest	Less imputed interest			(2,442)	(12)		
Total	Total			\$16,753	\$ 215		

NOTE 15 – INCOME TAXES

For the three months ended **September 30, 2023** **March 31, 2024**, we recorded an income tax expense of **\$1.5** **\$1.1** million compared with an income tax expense of **\$0.6** **\$1.9** million for the three months ended **September 30, 2022** **March 31, 2023**. Our effective tax rate was **21.0%** **17.9%** for the three months ended **September 30, 2023** **March 31, 2024**, compared with **10.3%** **10.1%** in the prior year period. The tax rate for the three months ended **September 30, 2023** **March 31, 2024** reflects a tax expense on a pre-tax loss consistent with the prior year period as our United States and Singapore entities remain in a full valuation allowance. Accordingly, we are not able to recognize the tax benefits associated with pre-tax losses generated in those jurisdictions.

Our quarterly estimate of our annual effective tax rate, and our quarterly provision for income tax (benefit) expense, are subject to significant variation due to numerous factors, including variability in accurately predicting our pre-tax and taxable income or loss and

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

NOTE 16 - BUSINESS COMBINATIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 17 15 - DEBT

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

The Notes will be convertible at the option of the holders of the Notes at any time prior to November 1, 2027 only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on March 31, 2023 (and only during such fiscal quarter), if the last reported sale price of the Company's common stock, par value \$0.001 per share (hereinafter referred to as "common stock"), for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on and including, the last trading day of the immediately preceding calendar quarter exceeds 130% of the conversion price on each applicable trading day; (2) during the five-business day period after any ten consecutive trading day period (the "measurement period") in which the trading price per \$1,000 principal amount of the Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate for the Notes on each such trading day; (3) upon the occurrence of certain corporate events or distributions on the Company's common stock; (4) if the Company calls such Notes for redemption; or (5) upon the occurrence of specified corporate events. On or after November 1, 2027, holders may convert all or any portion of their Notes at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date regardless of the foregoing conditions. Upon conversion, the Company will satisfy its conversion obligation by paying or delivering, as the case may be, cash, shares of common stock or a combination of cash and shares of common stock, at the Company's election. The conversion rate for the Notes will initially be 23.6072 shares of the common stock per \$1,000 principal amount of the Notes, which is equivalent to an initial conversion price of approximately \$42.36 per share of the common stock. The initial conversion price of the Notes represents a premium of approximately 20% to the \$35.30 per share last reported sale price of the common stock on January 19, 2023. The conversion rate is subject to adjustment under certain circumstances in accordance with the terms of the Indenture. During the three months ended **September 30, 2023** **March 31, 2024**, the conditions allowing holders of the 2025 Notes to convert have not been met. The Notes are therefore not convertible as of **September 30, 2023** **March 31, 2024** and are classified in long term liabilities in the condensed consolidated balance sheet.

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

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

The proceeds from the issuance of the Notes are presented under the long term liabilities of our condensed consolidated balance sheet. The net proceeds from the issuance of the Notes were approximately \$72.3 million, after deducting underwriting discounts of \$2.3 million and other offering expenses of \$0.4 million. As of **September 30, 2023** **March 31, 2024**, the outstanding principal balance of the Notes was \$75 million. The Company is in compliance with all covenants under the indenture governing the Notes as of **September 30, 2023** **March 31, 2024**.

The net carrying amount of the Notes was as follows:

	As of September 30, 2023	
Principal	\$	75,000
Unamortized discount and issuance costs		(2,396)
Net carrying amount	\$	72,604
<hr/>		
	As of March 31, 2024	As of December 31, 2023
Principal	\$	75,000
Unamortized discount and issuance costs		(2,128)
Net carrying amount	\$	72,872
<hr/>		

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

		Three Months		Nine Months		Three months ended March 31, 2024	Three months ended March 31, 2023		
		Ended September 30,		Ended September 30,					
		2023		2023					
Contractual interest expense	Contractual interest expense	\$	1,161	\$	3,152				
Amortization of discount and issuance costs	Amortization of discount and issuance costs		130		301				
Amortization of discount and issuance costs									
Amortization of discount and issuance costs									
Total interest expense related to the Notes	Total interest expense related to the Notes	\$	1,291	\$	3,453				
Total interest expense related to the Notes									
Total interest expense related to the Notes									

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

The following information should be read in conjunction with the condensed consolidated financial statements, including the notes thereto, included elsewhere in this Quarterly Report on Form 10-Q (the "Quarterly Report") and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended **December 31, 2022** **December 31, 2023**, as filed with the Securities and Exchange Commission on **February 15, 2023** (the **February 28, 2024** (the "Annual Report").

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

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

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

- an economic downturn or other adverse changes in the industries that we serve or the domestic and international economies in the regions of the world where we operate and other general economic, business, and financial conditions;
- the effects of the ongoing COVID-19 pandemic, including on our business operations, as well as its impact on general economic and financial market conditions;
- the effects of shipping and other supply chain disruptions and the impact of supply chain disruptions on our ability to deliver our products to customers;
- the changes in our executive management team in 2023 and 2024 and the loss of any of our executive officers or other key personnel, which may be impacted by factors such as our inability to competitively address inflationary pressures on employee compensation and flexibility in employee work arrangements;
- our inability to realize the intended benefits of reorganizing our business functions to improve the efficiency of our sales organization and to improve operational effectiveness;
- our inability to realize the intended benefits of our undertaking to transition to a subscription-based business model to deliver new and existing software offerings on a cloud-computing-based platform, including but not limited to impairment charges of capitalized expenditures related to the development of Sphere, our cloud-computing-based platform, and our inability to realize the expected benefits;
- our inability to successfully execute our strategic plan, Integration Plan (defined below) and Restructuring Plan (defined below), including but not limited to additional impairment charges including existing leasehold improvements and/or higher than expected severance costs and exit costs, and our inability to realize the expected benefits of such plans;
- our inability to realize the anticipated benefits of our partnership with Sanmina (defined below);
- our inability to reasonably source essential equipment and materials to manufacture our products as a result of global supply shortages;
- global macroeconomic conditions, including inflationary pressures, rising interest rates, and instability in the banking sector;
- our inability to successfully realize changes increases to the pricing of our products and services;
- our inability to achieve and maintain profitability to fully realize the economic benefit of recorded deferred tax assets;

- our inability to further penetrate our customer base and target markets;
- development by others of new or improved products, processes or technologies that make our products less competitive or obsolete;
- our inability to maintain what we believe to be our technological advantage by developing new products and enhancing our existing products;
- risks associated with expanding international operations, such as difficulties in staffing and managing foreign operations, increased political and economic instability, compliance with potentially evolving import and export regulations, and the burdens and potential exposure of complying with a wide variety of U.S. and foreign laws and labor practices;
- changes in trade regulation, which result in rising prices of imported steel, steel byproducts, aluminum and aluminum byproducts and various other raw materials that we use in the production of measurement devices, and our ability to pass those costs on to our customers or require our suppliers to absorb such costs;
- changes in foreign regulation which may result in rising prices of our measurement devices sold as exports to our international customers, our customers' willingness to absorb incremental import tariffs, and the corresponding impact on our profitability;
- our inability to successfully identify and acquire target companies and achieve expected benefits from, and effectively integrate, acquisitions that are consummated, including the operations from Holobuilder, Inc., UK-based NGH Holdings Limited and its subsidiaries (collectively, "GeoSLAM") and US-based SiteScape Inc., and the intellectual property acquired;
- our inability to realize the intended benefits of the technology, products, operations, contracts, and personnel of our acquisitions;
- the cyclical nature of the industries of our customers and material adverse changes in our customers' access to liquidity and capital;
- changes in the potential for the computer-aided measurement market and the potential adoption rate for our products, which are difficult to quantify and predict;
- our inability to protect our patents and other proprietary rights in the United States and foreign countries;
- our inability to defend against a cyberattack, security or other data breach of our systems, which may compromise the confidentiality, integrity, or availability of our internal data and the availability of our products and websites designed to support our customers or their data;
- our inability to adequately maintain effective internal controls over financial reporting;
- fluctuations in our annual and quarterly operating results and the inability to achieve our financial operating targets as a result of a number of factors including, without limitation (i) litigation and regulatory action brought against us, (ii) quality issues with our products, (iii) excess or obsolete inventory, shrinkage or other inventory losses due to product obsolescence, change in demand for our products, scrap or material price changes, (iv) raw material price fluctuations and other inflationary pressures, (v) expansion of our manufacturing capability, (vi) the size and timing of customer orders, (vii) the amount of time that it takes to fulfill orders and ship our products, (viii) the length of our sales cycle to new customers and the time and expense incurred in further penetrating our existing customer base, (ix) manufacturing inefficiencies associated with new product introductions, (x) costs associated with new product introductions, such as product development, marketing, assembly line start-up costs and low introductory period production volumes, (xi) the timing and market acceptance of new products and product enhancements, (xii) customer order deferrals in anticipation of new products and product enhancements, (xiii) the inability of

our sales and marketing programs to achieve their sales targets, (xiv) start-up costs associated with opening new sales offices outside of the United States, (xv) fluctuations in revenue without proportionate adjustments in fixed costs, (xvi) inefficiencies in the management of our inventories and fixed assets, (xvii) compliance with government regulations including health, safety, and environmental matters, and (xviii) costs associated with the training and ramp-up time for new sales people;

- changes in gross margins due to a changing mix of products sold and the different gross margins on different products and sales channels;
- changes in applicable laws, rules or regulations, or their interpretation or enforcement, or the enactment of new laws, rules or regulations that apply to our business operations or require us to incur significant expenses for compliance;
- our inability to successfully comply with the requirements of product compliance regulations, including but not limited to the Restriction of Hazardous Substances Directive and the Waste Electrical and Electronic Equipment Directive in the European Union;
- the inability of our products to displace traditional measurement devices and attain broad market acceptance;
- the impact of competitive products and pricing on our current offerings;
- the loss or change of any of our executive officers or other key personnel, which may be impacted by factors such as our inability to competitively address inflationary pressures on employee compensation and flexibility in employee work arrangements;
- difficulties in recruiting research and development engineers, application engineers, or other key personnel;
- the failure to effectively manage the effects of any future growth;
- the impact of reductions or projected reductions in government spending, or uncertainty regarding future levels of government expenditures, particularly in the defense sector;
- variations in our effective income tax rate, which makes it difficult to predict our effective income tax rate on a quarterly and annual basis, and the impact of the U.S. Tax Cuts and Jobs Act of 2017 on the global intangible low-taxed income of foreign subsidiaries;
- the loss of key suppliers and the inability to find sufficient alternative suppliers in a reasonable period of time or on commercially reasonable terms;
- the impact of fluctuations in exchange rates on non-U.S. dollar-denominated revenues and expenses;
- the effect of estimates and assumptions with respect to critical accounting policies and the impact of the adoption of recently issued accounting pronouncements;
- the effect of changes in political conditions in the U.S. and other countries in which we operate, including the effect of changes in U.S. trade policies or the United Kingdom's withdrawal from the European Union, on general market conditions, global trade policies and currency exchange rates;
- the magnitude of increased warranty costs from new product introductions and enhancements to existing products;

- the sufficiency of our plants and third-party resources to meet manufacturing requirements;
- the continuation of our share repurchase program;
- the sufficiency of our working capital and cash flows from operations to fund our short- and long-term liquidity requirements;
- the impact of geographic changes in the manufacturing or sales of our products on our effective income tax rate;
- our ability to comply with the requirements for favorable tax rates in foreign jurisdictions; and
- other risks and uncertainties discussed in Part I, Item 1A. Risk Factors in our Annual Report, elsewhere in this Quarterly Report, and in our other SEC filings.

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

Overview

We are a global technology company that designs, develops, manufactures, markets and supports software driven, three-dimensional ("3D") measurement, imaging, and realization solutions for the 3D metrology, manufacturing, architecture, engineering and construction ("AEC"), Operations and Maintenance ("O&M") and public safety analytics markets. We enable our customers to capture, measure, manipulate, interact with and share 4D, 3D and 2D data from the physical world in a virtual environment and then translate this information back into the physical domain. Our broad technology set equips our customers with a wide range of 3D capture technologies that range from ultra-high accuracy laser-scanner-based technology to lower accuracy, photogrammetry-based technology. Our FARO suite of 3D products and software solutions are used for inspection of components and assemblies, rapid prototyping, reverse engineering, documenting large volume or structures in 3D, surveying and construction, construction management, assembly layout, machine guidance as well as in investigation and reconstructions of crash and crime scenes. We sell the majority of our solutions through a direct sales force, with an increasing volume being sold through an indirect channel across a range of industries including automotive, aerospace, metal and machine fabrication, surveying, architecture, engineering and construction, public safety forensics and other industries.

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

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

Sanmina currently manufactures our FARO Quantum Max Arm, FARO Focus Laser Scanner, FARO Laser Tracker and our FARO Laser Projector products in their facility located in Thailand. We expect these third-party manufacturing facilities to have the production capacity necessary to support our volume requirements during 2023, 2024.

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

change as a result of our current or future operational strategies and we will continue assessing the appropriateness of hedging for our business.

Restructuring Plan and Integration Plan

In the first quarter of 2020, On February 14, 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 help 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 have targeted and achieved approximately \$40 million in annualized savings. We believe we have successfully redefined our go-to-market strategy to place an increased focus on efficiency our customers and cost-saving efforts, which included a planned decrease to help enable our sales employees, supported by our talented pool of total headcount. field application engineers, to sell all product lines globally.

On In conjunction with the Restructuring Plan, on July 15, 2021, we entered into a manufacturing services agreement (the "Agreement") with Sanmina Corporation ("Sanmina"), in connection with the Restructuring Plan. Under the Agreement, Sanmina will provide manufacturing services for the Company's measurement device products previously manufactured by the Company at the Company's Lake Mary, Florida, Exton, Pennsylvania, Stuttgart, Germany and Portugal manufacturing sites. This phased transition to a Sanmina production facility was completed at the beginning of the third quarter of 2022 as part of our cost reduction initiative. As a result of an evaluation on the usage of our manufacturing spaces, we decided to abandon 17,000 square feet of unused space at our Exton, Pennsylvania facility in the third quarter of 2022. Since the approval of the Restructuring Plan, we paid \$24.8 million, primarily consisting of severance and related benefits. All actions under this plan were completed as of March 31, 2023, and the remaining amounts payable of \$0.5 million were rolled forward to the Integration Plan discussed below.

On February 7, 2023, our Board of Directors approved an integration plan (the "Integration Plan"), which is intended to streamline and simplify operations, particularly around our recent acquisitions and the resulting redundant operations and offerings. The Integration Plan was amended on May 3, 2023, and the Board approved increases to both the expected pre-tax charges and the annualized cost savings. Key activities under the Integration Plan include a planned decrease in headcount, consolidation of our cloud-based offerings from 3 platforms (2 acquired, 1 organic) into a single customer offering, and the optimization of our facility assets to align with current and expected future utilization. We expected to incur total pre-tax charges in the range of \$22 million to \$28 million for the Integration Plan, predominantly through the end of fiscal year 2023, with a targeted annualized savings of approximately \$20 million to \$30 million. As of September 30, 2023 March 31, 2024, in relation with the Integration Plan, we have incurred total restructuring charges of \$24.2 \$26.1 million, and have made cash payments of \$7.1 \$9.1 million.

During In the nine months ended September 30, 2023, first quarter of 2024, we have completed an evaluation of our leased facilities located in Lake Mary, Florida, Stuttgart and Dresden, Germany, Portugal and Singapore and determined that we will abandon portions of these facilities. Consequently, we recorded right-of-use asset and leasehold improvement impairment charges of \$0.3 million and \$4.0 million for the three and nine months ended September 30, 2023, which was included in restructuring did not incur costs on the condensed consolidated statements of operations. As a part of relating to the Integration Plan, we also evaluated as substantially all of our product portfolio planned activities under the Restructuring Plan and decided to discontinue certain legacy products. This led to inventory and related purchase commitments impairment charges of \$8.1 million, which were included in the cost of sales on the condensed consolidated statements of operations.

Integration Plan are complete. In the third first quarter of 2023, and 2022, we recognized \$1.6 \$4.2 million and \$17.0 thousand, respectively, in employee severance and other professional costs associated with the restructuring plans. Additionally, we paid \$3.1 \$0.4 million and \$2.6 \$0.8 million, respectively, for the same periods, three month ended March 31, 2024 and 2023, primarily consisting of severance and related benefits.

Substantially all of our planned activities under the Restructuring Plan and the Integration Plan are complete and as part of our final steps, we expect to potentially incur remaining pre-tax charges in the range of \$0.5 million to \$1.0 million through the first half of

fiscal year 2024.

FARO Sphere and the Unified Software Environment

FARO Sphere XG is our new cloud-based platform that is the foundation to our new software and solution strategy. Our objective is to provide differentiated value by offering workflow enhancements which include data uploads from any location, access to our existing suite of 3D software applications, cloud-based data analysis and global user access. FARO Sphere XG represents the next 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 XG environment could be adopted globally across a wide range of markets, including construction management, facilities, operations and maintenance, robotic simulation and incident preplanning. This potential adoption would lead to an increase in the number of users and thus enable revenue growth of our software and a shift toward increased levels of recurring revenue over time. We released the first phase of FARO Sphere to our customers during the second quarter of 2022 with the next generation with additional features and functionality FARO Sphere XG announced on October 23, 2023 which is the culmination of the consolidation of our cloud-based offerings into a single **Unified Software Environment**, **unified software environment**.

Revenue from our current software products was **\$11.2** **\$10.9** million and **\$10.6** **\$10.3** million for the three months ended **September 30, 2023** **March 31, 2024** and **2022**, respectively, and revenue from our current software products was **\$32.3** million and **\$31.4** million for the nine months ended **September 30, 2023** and **2022, 2023**, respectively. Our recurring revenue which is comprised of hardware service contracts, software maintenance contracts, and subscription-based software applications was **\$17.1** **\$16.7** million and **\$16.6** **\$16.7** million for the three months ended **September 30, 2023** **March 31, 2024** and **2022**, respectively, and **\$50.1** million and **\$50.2** million for the nine months ended **September 30, 2023** and **2022, 2023**, respectively.

Research and development costs incurred relating to the development of internal-use software and website development, including software used to upgrade and enhance our websites and applications to be sold as a service are capitalized in the period incurred and amortized over 1 year to 5 years. These costs include external direct costs of materials and services and internal costs such as payroll and benefits of those employees directly associated with the development of new functionality in internal use software to be sold as a service. The amount of costs capitalized relating to internally developed computer software to be sold as a service was **\$1.2** **\$1.1** million and **\$1.3** million for the three months ended **September 30, 2023** **March 31, 2024** and **2022**, respectively, and **\$4.0** million and **\$4.5** million for the nine months ended **September 30, 2023** and **2022, 2023**, respectively. Cash paid relating to these development costs are included as an investing activity within the Cash paid for technology development, patents and licenses line of our condensed consolidated statement of cash flows.

Acquisitions

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

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

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

In order to provide greater transparency on our financial transactions with Sanmina, the following table presents the components of Sanmina relationship with the Company, as presented on our condensed consolidated balance sheets as of **September 30, 2023**, **March 31, 2024** and **December 31, 2022** **December 31, 2023**.

(1) As of **September 30, 2023** **March 31, 2024**, we had a net payable balance of **\$5.0 million** **\$7.5 million**, which includes **\$7.6 million** **\$6.1 million** of accounts receivable due from Sammina and **\$12.6 million** **\$13.7 million** of accounts payable owed to Sammina. As of **December 31, 2022** **December 31, 2023**, we had a net payable balance of **\$5.1 million** **\$6.5 million**, which included **\$10.6 million** **\$5.4 million** of accounts receivable due from Sammina and **\$15.7 million** **\$11.9 million** of accounts payable owed to Sammina.

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

Results of Operations

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

	Three Months Ended September 30,	Nine Months Ended September 30,
Three Months Ended March 31,		
Three Months Ended March 31,		
Three Months Ended March 31,		
(dollars in thousands)		
(dollars in thousands)		

(dollars in thousands)	(dollars in thousands)	2023	% of Sales	2022	% of Sales	2023	% of Sales	2022	% of Sales
Sales	Sales								
Sales									
Product									
Product									
Product	Product	\$ 66,911	77.1 %	\$ 65,581	76.9 %	\$ 199,754	76.8 %	\$ 182,015	75.2 %
Service	Service	19,902	22.9 %	19,751	23.1 %	60,237	23.2 %	59,891	24.8 %
Service									
Service									
Total sales									
Total sales									
Total sales	Total sales	86,813	100.0 %	85,332	100.0 %	259,991	100.0 %	241,906	100.0 %
Cost of sales	Cost of sales								
Cost of sales									
Cost of sales									
Product									
Product									
Product	Product	34,640	39.9 %	30,375	35.6 %	112,691	43.3 %	82,879	34.3 %
Service	Service	10,499	12.1 %	11,692	13.7 %	32,587	12.5 %	34,299	14.2 %
Service									
Service									
Total cost of sales									
Total cost of sales									
Total cost of sales	Total cost of sales	45,139	52.0 %	42,067	49.3 %	145,278	55.9 %	117,178	48.4 %
Gross profit	Gross profit	41,674	48.0 %	43,265	50.7 %	114,713	44.1 %	124,728	51.6 %
Gross profit									
Gross profit									
Operating expenses									
Operating expenses									
Operating expenses	Operating expenses								
Selling, general and administrative	Selling, general and administrative	37,970	43.7 %	37,226	43.6 %	117,907	45.4 %	108,734	44.9 %
Selling, general and administrative									
Selling, general and administrative									

Selling, general and administrative									
Research and development									
Research and development									
Research and development	Research and development	8,188	9.4 %	12,586	14.7 %	32,568	12.5 %	36,756	15.2 %
Restructuring costs	Restructuring costs	2,442	2.8 %	580	0.7 %	15,130	5.8 %	2,512	1.0 %
Restructuring costs									
Restructuring costs									
Total operating expenses									
Total operating expenses									
Total operating expenses	Total operating expenses	48,600	56.0 %	50,392	59.1 %	165,605	63.7 %	148,002	61.2 %
Loss from operations	Loss from operations	(6,926)	(8.0) %	(7,127)	(8.4) %	(50,892)	(19.6) %	(23,274)	(9.6) %
Loss from operations									
Loss from operations									
Other (income) expense	Other (income) expense								
Interest expense (income)	Interest expense (income)	691	0.8 %	(24)	— %	2,529	1.0 %	(28)	— %
Other income, net	Other income, net	(381)	(0.4) %	(1,428)	(1.7) %	(125)	— %	(3,077)	(1.3) %
Other (income) expense									
Other (income) expense									
Interest expense									
Interest expense									
Interest expense									
Other (expense) income, net									
Other (expense) income, net									
Other (expense) income, net									
Loss before income tax									
Loss before income tax									
Loss before income tax	Loss before income tax	(7,236)	(8.3) %	(5,675)	(6.7) %	(53,296)	(20.5) %	(20,169)	(8.3) %
Income tax expense	Income tax expense	1,520	1.8 %	586	0.7 %	4,869	1.9 %	4,352	1.8 %
Income tax expense									
Income tax expense									
Net loss	Net loss	\$ (8,756)	(10.1) %	\$ (6,261)	(7.3) %	\$ (58,165)	(22.4) %	\$ (24,521)	(10.1) %

Net loss
Net loss

Consolidated Results

Three Months Ended September 30, 2023 March 31, 2024 Compared to the Three Months Ended September 30, 2022 March 31, 2023

Sales. Total sales increased by \$1.5 million, or 1.7%, to \$86.8 million were \$84.2 million for the three months ended September 30, 2023 from \$85.3 million March 31, 2024 compared to \$85.0 million for the three months ended September 30, 2022 March 31, 2023. The increase was driven by our product sales, while our service total sales remained consistent with the comparable period. Total product sales increased decreased by \$1.3 million \$1.7 million, or 2.0% 2.6%, to \$66.9 million \$63.5 million for the three months ended September 30, 2023 March 31, 2024 from \$65.6 million \$65.2 million for the three months ended September 30, 2022 March 31, 2023. The increase in product Product sales was were impacted primarily driven by the Laser Scanner and Tracker products.

Gross profit. Gross profit decreased increased by \$1.6 million \$3.6 million, or 3.7% 9.0%, to \$41.7 million for the three months ended September 30, 2023 from \$43.3 million for the three months ended September 30, 2022, and gross margin decreased by 2.7 percentage points to 48.0% March 31, 2024 from \$39.7 million for the three months ended September 30, 2023 from 50.7% March 31, 2023, and gross margin increased by 4.7 percentage points to 51.4% for the three months ended September 30, 2022 March 31, 2024 from 46.7% for the three months ended March 31, 2023. Gross margin from product revenue decreased increased by 5.5 4.1 percentage points to 48.2% 52.1% for the three months ended September 30, 2023 March 31, 2024, from 53.7% 48.0% for the prior year period primarily due to higher cost of raw materials caused driven by global supply chain shortages, better average selling price on our Arm and to a lesser extent, Scanner products, and by the favorable foreign exchange impact of the U.S. dollar in 2023 compared to the third quarter of 2022. We anticipate continued unfavorable price variances until global supply and cost conditions normalize. We expect that this unfavorability will be mitigated with our continued shift in supply chain sourcing to Southeast Asia, and, as a result, are expecting a positive impact on gross margins in 2024. lower material costs. Gross margin from service revenue increased by 6.4 6.7 percentage points to 47.2% 49.4% for the three months ended September 30, 2023 March 31, 2024 from 40.8% 42.7% for the prior year period, primarily due to higher service component pricing with a relatively consistent fixed cost structure. revenue and generally higher software sales which have higher gross margin compared to our hardware products.

Selling, general and administrative expenses. Selling, general and administrative expenses increased decreased moderately by \$0.8 million \$1.8 million, or 2.0% 4.3%, to \$38.0 million \$39.6 million for the three months ended September 30, 2023 March 31, 2024 from \$37.2 million \$41.4 million for the three months ended September 30, 2022 March 31, 2023. This increase decrease was primarily driven by the annual base compensation increases, mostly offset by the

savings realized from the Integration Plan. Selling, general and administrative expenses as a percentage of sales increased by 0.1 1.7 percentage points to 43.7% 47.0% for the three months ended September 30, 2023 March 31, 2024 from 43.6% 48.7% for the three months ended September 30, 2022 March 31, 2023.

Research and development expenses. Research and development expenses decreased by \$4.4 million \$3.7 million, or 35.0% 29.1%, to \$8.2 million \$9.0 million for the three months ended September 30, 2023 March 31, 2024 from \$12.6 million \$12.7 million for the three months ended September 30, 2022 March 31, 2023. Research and development expenses as a percentage of

sales decreased to 9.4% 10.7% for the three months ended September 30, 2023 March 31, 2024 from 14.7% 15.0% for the three months ended September 30, 2022 March 31, 2023, primarily due to the cost savings realized from the Integration Plan.

Restructuring costs. In February 2023, we initiated the Integration Plan to streamline and simplify operations, particularly around our recent acquisitions and the resulting redundant operations and offerings. The Integration Plan was amended on May 3, 2023. Restructuring costs included in operating expenses increased decreased by \$1.8 million to \$2.4 million \$4.2 million for the three months ended September 30, 2023 March 31, 2024 from \$0.6 million \$4.2 million for the three months ended September 30, 2022, March 31, 2023, as substantially all of our planned activities under the Restructuring Plan and the Integration Plan were completed in 2023. The restructuring charges include accruals for severance and related benefits, professional fees, and impairment of right-of-use assets and leasehold improvement assets related to facilities optimization as a part of the Integration Plan.

Interest (income) expense, net. We recorded net interest expense of \$0.7 million \$0.8 million for each of the three months ended September 30, 2023 month periods ending March 31, 2024, and net interest income of less than \$0.1 million for the three months ended September 30, 2022 March 31, 2023. This change was Interest expense is primarily due to interest expense associated with the Notes issued in January 2023.

Other income (expense), net. For the three months ended September 30, 2023 March 31, 2024, other income was \$0.4 million less than \$0.1 million compared with other income expense of \$1.4 million \$0.2 million for the three months ended September 30, 2022 March 31, 2023. This decrease was driven by interest income on our six-month treasury-bill which matured in the second quarter of 2023.

Income tax expense (benefit). For the three months ended September 30, 2023 March 31, 2024 we recorded an income tax expense of \$1.5 million \$1.1 million compared with \$0.6 million \$1.9 million for the three months ended September 30, 2022 March 31, 2023. Our effective tax rate was -21.0% (17.9)% for the three months ended September 30, 2023 March 31, 2024 compared with -10.3% (10.1)% in the prior year period. The fluctuations observed in both our income tax expense and effective tax rate are primarily associated with shifts in the geographic mix of pretax income projected for the three months ended September 30, 2023, reflects a tax expense on a pre-tax loss consistent with the prior year period as our United States and Singapore entities remain in a full valuation allowance. Accordingly, we are not able to recognize the tax benefits associated with pre-tax losses generated in those jurisdictions. entirety of 2024.

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

Net loss. Our net loss was \$8.8 million \$7.3 million for the three months ended September 30, 2023 March 31, 2024 compared with net loss of \$6.3 million \$21.2 million for the prior year period, reflecting the impact of the factors described above.

Nine Months Ended September 30, 2023 Compared to the Nine Months Ended September 30, 2022

Sales. Total sales increased by \$18.1 million, or 7.5%, to \$260.0 million for the nine months ended September 30, 2023 from \$241.9 million for the nine months ended September 30, 2022. This increase is primarily driven by our product sales, as service remained consistent for comparable period. Total product sales increased by \$17.7 million, or 9.7%, to \$199.8 million for the nine months ended September 30, 2023 from \$182.0 million for the nine months ended September 30, 2022 due to continued demand for our Quantum Max Arms, Laser Scanner and Tracker products and the addition of GeoSLAM product sales. Service sales increased by \$0.3 million, or 0.6%, to \$60.2 million for the nine months ended September 30, 2023 from \$59.9 million for the nine months ended September 30, 2022.

Gross profit. Gross profit decreased by \$10.0 million, or 8.0%, to \$114.7 million for the nine months ended September 30, 2023 from \$124.7 million for the nine months ended September 30, 2022 and gross margin decreased by 7.5 percentage points to 44.1% for the nine months ended September 30, 2023 from 51.6% for the nine months ended September 30, 2022. Gross margin from product revenue decreased by 10.9 percentage points to 43.6% for the nine months ended September 30, 2023 from 54.5% for the prior year period, primarily due to \$8.1 million in inventory impairment charges incurred in the second quarter of 2023 as a part of our Integration

Plan, and to a lesser extent by the unfavorable price variances due to global supply shortages. Gross margin from service revenue increased by 3.2 percentage points to 45.9% for the nine months ended September 30, 2023 from 42.7% for the prior year period, primarily due to higher service component pricing with relatively consistent fixed cost structure.

Selling, general and administrative expenses. Selling, general and administrative expenses increased by \$9.2 million, or 8.4%, to \$117.9 million for the nine months ended September 30, 2023 from \$108.7 million for the nine months ended September 30, 2022. This increase was primarily driven by higher personnel costs resulting from additional headcount obtained primarily from both of our recent acquisitions of GeoSLAM and SiteScape, and base compensation increases. Selling, general

and administrative expenses as a percentage of sales increased by 0.5 percentage points to 45.4% for the nine months ended September 30, 2023, compared with 44.9% of sales for the nine months ended September 30, 2022.

Research and development expenses. Research and development expenses decreased by \$4.2 million, or 11.4%, to \$32.6 million for the nine months ended September 30, 2023 from \$36.8 million for the nine months ended September 30, 2022. Research and development expenses as a percentage of sales decreased to 12.5% for the nine months ended September 30, 2023 from 15.2% for the nine months ended September 30, 2022, primarily due to the cost savings realized from the Integration Plan.

Restructuring costs. In February 2023, we initiated the Integration Plan to streamline and simplify operations, particularly around our recent acquisitions and the resulting redundant operations and offerings. The Integration Plan was amended on May 3, 2023. Restructuring costs included in operating expenses increased by \$12.6 million to \$15.1 million for the nine months ended September 30, 2023 from \$2.5 million for the nine months ended September 30, 2022. The restructuring charges include accruals for severance and related benefits, professional fees, and impairment of right-of-use assets and leasehold improvement assets related to facilities optimization as a part of the Integration Plan.

Interest (income) expense, net. For the nine months ended September 30, 2023, we recorded interest expense of \$2.5 million compared with interest income of less than \$0.1 million for the nine months ended September 30, 2022. This change was primarily due to interest expense associated with the Notes issued in January 2023.

Other (income) expense, net. For the nine months ended September 30, 2023, other income was \$0.1 million compared to \$3.1 million for the nine months ended September 30, 2022. This change was primarily driven by the effect of foreign exchange rates on our non-U.S.-dollar-denominated balance sheet.

Income tax expense (benefit). For the nine months ended September 30, 2023, we recorded an income tax expense of \$4.9 million compared with income tax expense of \$3.8 million for the nine months ended September 30, 2022. Our effective tax rate was -9.1% for the nine months ended September 30, 2023 compared with -21.6% in the prior year period. The change in our income tax expense was primarily associated with a shift in the geographic mix of pre-tax income expected for the full year 2023. The change in our effective tax rate was primarily due to the increase in the pre-tax loss during the nine months ended September 30, 2023 compared to the same period of 2022, largely attributable to fluctuations in the valuation allowance.

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

Net loss. Our net loss was \$58.2 million for the nine months ended September 30, 2023 compared to \$24.5 million for the prior year period, reflecting the impact of the factors described above.

Liquidity and Capital Resources

Cash and cash equivalents increased by \$42.1 million \$2.7 million to \$79.9 million \$79.5 million at September 30, 2023 March 31, 2024, from \$37.8 million \$76.8 million at December 31, 2022 December 31, 2023. We also had \$19.8 million in U.S. Treasury Bills recorded as short-term investments on our condensed consolidated balance sheet. The increase was primarily driven by our issuance cash generated from operating activities, partially offset by purchase of the Notes, property and equipment in investing activities.

Cash used in provided by operating activities was \$17.6 million \$6.6 million during the nine three months ended September 30, 2023 March 31, 2024, compared to \$18.2 million \$18.3 million of cash used in operating activities during the nine three months ended September 30, 2022 March 31, 2023. The decreased change in cash usage was primarily due to favorable changes in working capital accounts partially offset by and a larger smaller current year net loss.

Cash used in investing activities during the nine three months ended September 30, 2023 March 31, 2024, was \$10.1 million \$2.8 million compared to cash used in investing activities of \$43.2 million \$23.5 million during the nine three months ended September 30, 2022 March 31, 2023. The decrease was primarily due to the acquisition purchase of GeoSLAM short-term investments in the third first quarter of 2022, 2023, in the amount of \$29.1 million, net \$20.0 million which did not repeat in the first quarter of cash acquired. 2024.

Cash used in financing activities was less than \$0.1 million during the three months ended March 31, 2024, compared to cash provided by financing activities was \$71.0 million during of \$72.3 million for the nine three months ended September 30, 2023, compared to cash used in financing activities of \$1.8 million for the nine months ended September 30, 2022 March 31, 2023. Financing cash increase change was primarily driven by the Company's issuance of the Notes. Notes in January 2023. The Notes are general senior unsecured obligations of the Company.

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

Of our cash and cash equivalents, \$34.9 million \$49.0 million was held by foreign subsidiaries as of September 30, 2023 March 31, 2024. On December 22, 2017, the United States enacted the U.S. Tax Cuts and Jobs Act, resulting in significant modifications to existing tax law, which included a transition tax on the mandatory deemed repatriation of foreign earnings. As a result of the U.S. Tax Cuts and Jobs Act, the Company can repatriate foreign earnings and profits to the U.S. with minimal U.S. income tax consequences, other than the transition tax and global intangible low-taxed income ("GILTI") tax. We have reinvested a large portion of our undistributed foreign earnings and profits in acquisitions and other investments and intends intend to bring back a portion of foreign cash in certain jurisdictions where we will not be subject to local withholding taxes and which were subject already to transition tax and GILTI tax.

On November 24, 2008, our Board of Directors approved a \$30.0 million share repurchase program. Acquisitions for the share repurchase program may be made from time to time at prevailing prices, as permitted by securities laws and other legal requirements, and subject to market conditions and other factors. The share repurchase program may be discontinued at any time. There is no expiration date or other restriction governing the period over which we can repurchase shares under the program. In October 2015, our Board of Directors authorized an increase to the existing share repurchase program from \$30.0 million to \$50.0 million. We made no stock repurchases during the nine-month three-month period ended September 30, 2023 March 31, 2024, under this program. As of September 30, 2023 March 31, 2024, we had authorization to repurchase \$18.3 million remaining under the repurchase program.

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

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

We have no off-balance sheet arrangements.

Contractual Obligations and Commercial Commitments

We enter into purchase commitments for products and services in the ordinary course of business. These purchases generally cover production requirements for 60 to 120 days as well as materials necessary to service customer units through the product lifecycle and for warranty commitments. As of **September 30, 2023** **March 31, 2024**, we had **\$26.4** **\$27.0** million in purchase commitments that are expected to be delivered within the next 12 months. Other than as described in the preceding sentences, there have been no material changes to the contractual obligations and commercial commitments table included in Part II, Item 7 of our Annual Report.

Critical Accounting Estimates and Policies

The preparation of our condensed consolidated financial statements requires our management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, as well as disclosure of contingent assets and liabilities. We base our estimates on historical experience, along with various other factors believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Some of these judgments can be subjective and complex and, consequently, actual results may differ from these estimates under different assumptions or conditions. A discussion of our critical accounting policies is included in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report. As of **September 30, 2023** **March 31, 2024**, our critical accounting policies have not changed from those described in our Annual Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Exchange Exposure

We conduct a significant portion of our business outside the United States. As of and for the **nine** **three** months ended **September 30, 2023** **March 31, 2024**, **57%** **62%** of our revenue was invoiced, and a significant portion of our operating expenses and manufacturing costs were paid, in foreign currencies, and **60%** **43%** of our assets were denominated in foreign currencies. Fluctuations in exchange rates between the U.S. dollar and such foreign currencies may have a material **adverse** effect on our results of operations and financial condition and could specifically result in foreign exchange gains and losses. The impact of future exchange rate fluctuations on the results of our operations cannot be accurately predicted due to **our** **the** constantly changing exposure to various currencies, **and** the fact that all foreign currencies do not react in the same manner in relation to the U.S. **dollar**. **Our** **dollar** and the **number** **of** **currencies** **involved**, **although** **our** **most** **significant** **exposures** **are** **to** **the** **Euro**, **Swiss** **franc**, **Japanese** **Yen**, **Swiss** **Franc**, **yen**, **Chinese** **Yuan** **renminbi**, **British** **pound** and **Brazilian** **Real**. **real**. To the extent that the percentage of our non-U.S. dollar revenues derived from international sales increases in the future, our exposure to risks associated with fluctuations in foreign exchange rates may increase. **We** **have** **not** **used** **off-balance** **sheet** **financial** **instruments** **to** **hedge** **exposure** **to** **foreign** **currency** **exchange** **rates**, **including** **cross-currency** **swaps**, **forward** **contracts** **and** **foreign** **currency** **options**, **as** **fluctuations** **in** **exchange** **rate** **on** **our** **revenue** **were** **mostly** **offset** **by** **those** **same** **fluctuations** **in** **exchange** **rate** **on** **our** **expenses**, **providing** **a** **natural** **hedge** **in** **foreign** **jurisdictions**. **No** **such** **instruments** **were** **utilized** **by** **the** **Company** **in** **the** **three** **months** **ended** **March** **31**, **2024**. **Our** **exchange** **rate** **exposure** **may** **change** **as** **a** **result** **of** **our** **current** **or** **future** **operational** **strategies** **and** **we** **will** **continue** **assessing** **the** **appropriateness** **of** **hedging** **for** **our** **business**.

Interest Rate Exposure

We had short-term investment of \$19.8 million and cash and cash equivalent of \$79.9 million as of September 30, 2023 March 31, 2024, consisting of cash and investments in U.S. Treasury obligations. Our investments are made for capital preservation purposes. We do not enter into investments for trading or speculative purposes. All our investments are denominated in U.S. dollars.

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

We do not believe that an increase or decrease in interest rates of 100 basis points 5 percent would have a material effect on our business, financial condition or results of operations.

Global Inflation Exposure

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

Item 4. Controls and Procedures

We are responsible for establishing and maintaining disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) conducted an evaluation, under the Securities Exchange Act supervision and with the participation of 1934, as amended (the "Exchange Act"), that are designed to provide reasonable assurance that information required to be disclosed in our reports filed under the Exchange Act, such as this Quarterly Report on Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's (the "SEC") rules and forms. Disclosure controls and procedures also include, without limitation, controls and procedures that are designed to provide reasonable assurance that such information is accumulated and communicated to our management, including our Principal Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as appropriate, to allow timely decisions regarding required disclosure.

of the end of the period covered by this quarterly report. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objective. In addition, the design of disclosure controls objective and procedures must reflect the fact that there are resource constraints and that our management is required to apply necessarily applies its judgment in evaluating the benefits cost-benefit relationship of possible controls and procedures relative to their costs.

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Principal Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of September 30, 2023. Based on that evaluation, our Principal Chief Executive Officer and Chief Financial Officer have concluded that, as a result of the material weakness in our internal control over financial reporting discussed below, our disclosure controls and procedures were not effective as of September 30, 2023 to provide reasonable assurance that information required to be disclosed as of March 31, 2024.

Material Weakness

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

Remediation

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

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

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

Changes in Internal Control Over Financial Reporting

During Except for the quarter ended September 30, 2023, material weakness and remediation plan actions discussed above, there was have been no change changes in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under that occurred during the Exchange Act) three months ended March 31, 2024, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

In addition to the other information set forth in this Quarterly Report, you should carefully consider the factors discussed under "Risk Factors" in this Item 1A and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023, before deciding to invest in, or retain, shares of our common stock. These risks and uncertainties could materially and adversely affect our business, financial condition, and results of operations. The risks described in our Annual Report, in this Quarterly Report, and in subsequent periodic reports filed with the SEC are not the only risks we face. Our operations could also be affected by additional factors that are not presently known by us or by factors that we currently consider to be immaterial to our business. There have been no material changes in our risk factors from those set forth in our Annual Report other than as set forth below.

Our executive management team has gone through significant changes and any failure to attract and retain qualified personnel could lead to on Form 10-K for the fiscal year ended December 31, 2023. For a loss of sales or decreased profitability.

The loss of any detailed description of our current executive officers, or other key personnel, could adversely affect our sales, profitability or growth. Our executive management team has gone through a significant transition over the course of the last four years, including the hiring of a new President and Chief Executive Officer and a new Chief Financial Officer in 2019; the retirement risk factors, refer to Part I, Item 1A, "Risk Factors" of our President and Chief Executive Officer in 2023; the appointment of our current Chairman, Yuval Wasserman, as our Executive Chairman, who also assumed the role of Interim Chief Executive Officer in 2023; and, most recently, the appointment of Peter J. Lau as the President and Chief Executive Officer and a member of our Board of Directors in 2023. Any changes or turnover of management could also adversely impact our stock price, and our client relationships and could make recruiting for management positions in the future more difficult. Moreover, we face competition for qualified personnel and we continue to rely, in part, Annual Report on equity awards to attract and retain qualified personnel. Our ability to attract and retain qualified personnel could result in increased salaries and other compensation expenses and could negatively affect our profitability.

We have experienced volatility in our stock price.

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

- fluctuations in demand for, and sales of, our products or prolonged downturns in the industries that we serve;
- actual or anticipated variations in quarterly or annual operating results;

- general economic uncertainties;
- issuances of shares of our common stock, whether in connection with an acquisition or upon conversion of some or all of our outstanding Notes;
- speculation in the press or investment community; and
- announcements of technological innovations or new products by us or our competitors.

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

Our relatively small public float and daily trading volume have in the past caused, and may in the future result in, significant volatility in our stock price. At September 30, 2023, we had approximately 18.7 million shares outstanding held by non-affiliates. Our daily trading volume Form 10-K for the quarter fiscal year ended September 30, 2023 averaged approximately 199,059 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 have and may continue to adversely affect the market price of our common stock. In the past, securities class action lawsuits frequently have been instituted against companies following periods of volatility in the market price of such companies' securities. If any such litigation is instigated against us, it could result in substantial costs and a diversion of management's attention and resources, which could have a material adverse effect on our results of operations and financial condition.

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

On February 14, 2020, our Board of Directors approved a global restructuring plan, which is intended to support our new strategic plan in an effort to improve operating performance and to help ensure that we are appropriately structured and resourced to deliver sustainable value to our shareholders and customers. On February 7, 2023, our Board of Directors approved an integration plan (the "Integration Plan"), which is intended to streamline and simplify operations particularly around recent acquisitions and the resulting redundant operations and offerings, and on May 3, 2023, amended the Integration Plan, to further increase savings. Actual results, including the final costs of these restructuring plans, our new strategic plan and our ability to sustain savings, may differ materially from our expectations, resulting in our inability to realize the expected benefits of these restructuring plans and negatively impact our ability to execute our future plans and strategies, which could have a material adverse effect on our business, financial condition and results of operations.

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

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

following such determination), which is vested in the exclusive jurisdiction of a court or forum other than such court or for which such court does not have subject matter jurisdiction.

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

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

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

December 31, 2023.

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

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

On November 24, 2008, our Board of Directors approved a \$30.0 million share repurchase program. Acquisitions for the share repurchase program may be made from time to time at prevailing prices, as permitted by securities laws and other legal requirements, and subject to market conditions and other factors. The share repurchase program may be discontinued at any time. There is no expiration date or other restriction governing the period over which we can repurchase shares under the program. In October 2015, our Board of Directors authorized an increase to the existing share repurchase program from \$30.0 million to \$50.0 million. We made no stock repurchases during the **nine** **three** month period ended **September 30, 2023** **March 31, 2024** under this program. As of **September 30, 2023** **March 31, 2024**, we had authorization to repurchase \$18.3 million remaining under the repurchase program.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

(a) Principal Executive Officer ("PEO") Designation

In connection with and as of the filing of this Quarterly Report on Form 10-Q, Peter J. Lau, our President and Chief Executive Officer, assumed the responsibilities of the Company's PEO, replacing Yuval Wasserman, our Executive Chairman, who previously served as our PEO. Mr. Wasserman will continue to serve as our Executive Chairman and his role will not otherwise change or be affected by the designation of Mr. Lau as our PEO.

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

During our last fiscal quarter ended March 31, 2024, no director or officer, as defined in Rule 16a-1(f), adopted or terminated a “Rule 10b5-1 trading arrangement” or a “non-Rule 10b5-1 trading arrangement,” each as defined in Regulation S-K Item 408.

Item 6. Exhibits

Exhibit Number	Exhibit Description	EXHIBIT INDEX			Provided Herewith
		Form	Exhibit	Filing Date	
3.1	Amended and Restated Articles of Incorporation, as amended	S-1/A	3.1	September 10, 1997	
3.2	Amended and Restated Bylaws	8-K	3.1	May 30, 2023	
4.1	Specimen Stock Certificate	S-1/A	4.1	September 10, 1997	
4.2	Indenture, dated as of January 24, 2023, between FARO Technologies, Inc. and U.S. Bank Trust Company, National Association	8-K	4.1	January 24, 2023	
4.3	Form of 5.50% Convertible Senior Notes due 2028 (Included as Exhibit A to the Indenture Filed as Exhibit 4.3 to this Form 10-K)	8-K	4.1, Exhibit A	January 24, 2023	
31.1	Certification of the Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
31.2	Certification of the Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
32.1*	Certification of the Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
32.2*	Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
101.SCH	Inline XBRL Taxonomy Extension Schema Document				X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document				X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document				X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document				X

104	Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101.)	X
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Exhibit Number	Exhibit Description	Incorporated by Reference			Provided Herewith
		Form	Exhibit	Filing Date	
3.1	Amended and Restated Articles of Incorporation, as amended	S-1/A	3.1	September 10, 1997	
3.2	Amended and Restated Bylaws	8-K	3.1	May 30, 2023	
4.1	Specimen Stock Certificate	S-1/A	4.1	September 10, 1997	
10.1	Promotion Letter between FARO Technologies, Inc. and Matthew Horwath	8-K	10.1	January 16, 2024	
10.2	Transition and Separation Agreement between FARO Technologies, Inc. and Allen Muhich	8-K	10.2	January 16, 2024	
31.1	Certification of the Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
31.2	Certification of the Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002				X
32.1*	Certification of the Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
32.2*	Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002				X
101.SCH	Inline XBRL Taxonomy Extension Schema Document				X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document				X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document				X
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document				X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document				X
104	Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101.)				X

* - The certifications attached as Exhibit 32.1 and 32.2 that accompany this Quarterly Report are deemed furnished and not filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of the Registrant under the

Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report, irrespective of any general incorporation language contained in such filing.

SIGNATURE

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

FARO Technologies, Inc.

(Registrant)

Date: **November 1, 2023** **May 1, 2024**

By: **/s/ Allen Muhich Matthew Horwath**

Name: **Allen Muhich Matthew Horwath**

Title: Chief Financial Officer

(Duly Authorized Officer and Principal Financial Officer)

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EXHIBIT 31.1

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

I, Peter J. Lau, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of FARO Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us

by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **November 1, 2023** **May 1, 2024**

/s/ Peter J. Lau

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

EXHIBIT 31.2

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

I, **Allen Muhich**, **Matthew Horwath**, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of FARO Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act

Rules 13a-15(f) and 15d-15(f) for the registrant and have:

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
- c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2023 May 1, 2024

/s/ Allen Muhich Matthew Horwath

Allen Muhich Matthew Horwath

Chief Financial Officer

(Principal Financial Officer)

EXHIBIT 32.1

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

Solely for the purposes of complying with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, the undersigned President, Chief Executive Officer and Principal Executive Officer of FARO Technologies, Inc. (the Company), hereby certify that the Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 March 31, 2024 (the Report) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 1, 2023 May 1, 2024

/s/ Peter J. Lau

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

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EXHIBIT 32.2

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

Solely for the purposes of complying with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, I, the undersigned Chief Financial Officer of FARO Technologies, Inc. (the Company), hereby certify that the Quarterly Report on Form 10-Q for the quarter ended **September 30, 2023** **March 31, 2024** (the Report) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: **November 1, 2023** **May 1, 2024**

/s/ **Allen Muhich** **Matthew Horwath**

Allen Muhich **Matthew Horwath**
Chief Financial Officer
(Principal Financial Officer)

DISCLAIMER

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