

FARO TECHNOLOGIES INC  
Form 10-Q  
May 01, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, DC 20549

**FORM 10-Q**

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

For the quarterly period ended March 31, 2012

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)

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<b>Florida</b> (State or other Jurisdiction of Incorporation or Organization)	<b>59-3157093</b> (I.R.S. Employer Identification No.)
<b>250 Technology Park, Lake Mary, Florida</b> (Address of Principal Executive Offices)	<b>32746</b> (Zip Code)
<b>Registrant's Telephone Number, including area code: (407) 333-9911</b>	

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> Do not check if a smaller reporting company.	Smaller Reporting Company <input type="checkbox"/>

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 outstanding 16,921,321 shares of the registrant's common stock as of April 25, 2012.

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**FARO TECHNOLOGIES, INC.**

Quarterly Report on Form 10-Q

Quarter Ended March 31, 2012

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(in thousands, except share data)	March 31, 2012 (Unaudited)	December 31, 2011
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 73,588	\$ 64,540
Short-term investments	64,993	64,997
Accounts receivable, net	48,731	57,512
Inventories, net	56,342	49,934
Deferred income taxes, net	5,295	5,297
Prepaid expenses and other current assets	11,426	9,207
<b>Total current assets</b>	<b>260,375</b>	<b>251,487</b>
Property and Equipment:		
Machinery and equipment	30,248	29,171
Furniture and fixtures	6,066	5,963
Leasehold improvements	10,343	10,233
Property and equipment at cost	46,657	45,367
Less: accumulated depreciation and amortization	(30,677)	(29,134)
Property and equipment, net	15,980	16,233
Goodwill	18,962	18,610
Intangible assets, net	6,790	6,849
Service inventory	18,477	17,316
Deferred income taxes, net	2,349	2,296
<b>Total Assets</b>	<b>\$ 322,933</b>	<b>\$ 312,791</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 10,745	\$ 13,396
Accrued liabilities	16,753	18,076
Income taxes payable	746	2,682
Current portion of unearned service revenues	16,475	15,638
Customer deposits	3,933	4,072
Current portion of obligations under capital leases	57	84
Total current liabilities	48,709	53,948
Unearned service revenues - less current portion	9,575	9,540
Deferred tax liability, net	1,159	1,148
Obligations under capital leases - less current portion	392	257
<b>Total Liabilities</b>	<b>59,835</b>	<b>64,893</b>

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Commitments and contingencies - See Note Q

Shareholders' Equity:

Common stock - par value \$.001, 50,000,000 shares authorized; 17,601,556 and 17,381,110 issued; 16,921,321 and 16,700,875 outstanding, respectively	18	17
Additional paid-in capital	176,897	169,780
Retained earnings	88,110	81,360
Accumulated other comprehensive income	7,148	5,816
Common stock in treasury, at cost - 680,235 shares	(9,075)	(9,075)
 Total Shareholders' Equity	 263,098	 247,898
 Total Liabilities and Shareholders' Equity	 \$ 322,933	 \$ 312,791

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

**Table of Contents****FARO TECHNOLOGIES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

(UNAUDITED)

(in thousands, except share and per share data)	Three Months Ended	
	March 31, 2012	April 2, 2011
<b>SALES</b>		
Product	\$ 54,424	\$ 42,958
Service	10,805	9,608
 Total Sales	 65,229	 52,566
<b>COST OF SALES</b>		
Product	20,506	15,573
Service	7,537	6,721
 Total Cost of Sales (exclusive of depreciation and amortization, shown separately below)	 28,043	 22,294
<b>GROSS PROFIT</b>	<b>37,186</b>	<b>30,272</b>
<b>OPERATING EXPENSES:</b>		
Selling	16,038	14,152
General and administrative	6,628	6,590
Depreciation and amortization	1,679	1,614
Research and development	4,408	3,632
 Total operating expenses	 28,753	 25,988
 <b>INCOME FROM OPERATIONS</b>	 <b>8,433</b>	 <b>4,284</b>
<b>OTHER (INCOME) EXPENSE</b>		
Interest income	(101)	(26)
Other (income) expense, net	(140)	(129)
Interest expense	13	29
 <b>INCOME BEFORE INCOME TAX EXPENSE</b>	 <b>8,661</b>	 <b>4,410</b>
<b>INCOME TAX EXPENSE</b>	<b>1,911</b>	<b>1,167</b>
 <b>NET INCOME</b>	 <b>\$ 6,750</b>	 <b>\$ 3,243</b>
 <b>NET INCOME PER SHARE - BASIC</b>	 <b>\$ 0.40</b>	 <b>\$ 0.20</b>
 <b>NET INCOME PER SHARE - DILUTED</b>	 <b>\$ 0.39</b>	 <b>\$ 0.20</b>
 Weighted average shares - Basic	 16,788,241	 16,253,121

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Weighted average shares - Diluted	17,162,959	16,598,797
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The accompanying notes are an integral part of these consolidated financial statements.

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**FARO TECHNOLOGIES, INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(UNAUDITED)

(in thousands)	Three Months Ended	
	March 31, 2012	April 2, 2011
Net income	\$ 6,750	\$ 3,243
Currency translation adjustments	1,334	2,571
Comprehensive income	\$ 8,084	\$ 5,814

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



**Table of Contents****FARO TECHNOLOGIES, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(UNAUDITED)

(in thousands)	Three Months Ended	
	March 31, 2012	April 2, 2011
<b>CASH FLOWS FROM:</b>		
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 6,750	\$ 3,243
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,679	1,614
Compensation for stock options and restricted stock units	773	642
Provision for bad debts	11	329
Deferred income tax (benefit) expense	(5)	291
Change in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	9,254	5,412
Inventories, net	(6,432)	(7,525)
Prepaid expenses and other current assets	(1,979)	(509)
Income tax benefit from exercise of stock options	(1,056)	(237)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(4,290)	(2,447)
Income taxes payable	(774)	(742)
Customer deposits	(258)	762
Unearned service revenues	661	1,389
Net cash provided by operating activities	4,334	2,222
<b>INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(703)	(1,183)
Payments for intangible assets	(193)	(294)
Net cash (used in) investing activities	(896)	