FARO Technologies, Inc. and its international subsidiaries are pioneers and market leaders in the computer-aided manufacturing measurement (CAM2) market, which is the final frontier of the computer-aided design (CAD) and the computer-aided manufacturing (CAM) revolution. The many benefits of computer-aided design have been unavailable to the manufacturing floor because of software and hardware barriers to entry which FARO products overcome.

FARO’s product line includes portable, 3D measurement equipment, a broad range of CAD-based inspection software for portable and fixed-base coordinate measurement machines, as well as factory-level statistical process control (SPC) and manufacturing quality consulting services. FARO’s products are developed internally, sold by a direct sales force and supported by a global direct sales, engineering and support organization.

The company’s products play a key role in the worldwide trend toward CAD-based total quality management for shortened production cycles and for the reduction in scrap and rework. FARO’s products are used worldwide by a wide variety of large and small manufacturing companies. The company has more than 1,800 customers including some of the most widely recognized names in the world such as Boeing, General Motors, Johnson Controls, DaimlerChrysler, Ford, British Aerospace, Caterpillar, and Honda.

For the year ended December 31, 1999, Faro’s revenues increased 20.4% to $33.1 million from $27.5 million in the prior year. Gross profit increased by $2.7 million, or 16.7%, from $16.2 million in 1998 to $18.9 million in 1999. Earnings per share excluding interest, taxes, depreciation and amortization expenses (EBITDA) and unusual items* decreased to $(0.4) million in 1999 from $(0.5) million in 1998, a decrease of 0.9 million.

**Highlights**

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>1998</th>
<th>1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$33.1</td>
<td>$27.5</td>
<td>$23.5</td>
</tr>
<tr>
<td>Gross Profit*</td>
<td>19.5</td>
<td>16.2</td>
<td>13.9</td>
</tr>
<tr>
<td>Gross margin%</td>
<td>58.9%</td>
<td>58.9%</td>
<td>59.1%</td>
</tr>
<tr>
<td>Earnings before interest, taxes, depreciation and amortization*</td>
<td>($0.4)</td>
<td>0.5</td>
<td>5.3</td>
</tr>
<tr>
<td>Earnings per share*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic</td>
<td>$(0.25)</td>
<td>$(0.16)</td>
<td>0.67</td>
</tr>
<tr>
<td>Diluted</td>
<td>$(0.25)</td>
<td>$(0.16)</td>
<td>0.65</td>
</tr>
</tbody>
</table>

* Excluding unusual charges and credits.
The 1999 year was the second full year of operations after our initial public offering in late 1997. Our plan has been to establish brand awareness, define our market, expand our product line to satisfy market demand, establish geographic presence and penetrate important international markets, develop our product for the mainstream user, and grow at a greater than 30% rate. We have made great progress on all these fronts. In 1999, we introduced new logos, product names and positioning statements that are consistent with our effort to define the CAM2 or computer-aided manufacturing measurement market. The CAM2 market is tied to the $6 billion CAD market and the $1 billion three-dimensional measurement market. Strong revenue growth in Europe is due to our organizational and sales efforts there, which further establish our geographic presence and support our successful 1998 acquisition in Germany. We are delighted by our fourth quarter 1999 growth rate of 30%, but our yearly growth rates of 17% and 20% in 1998 and 1999, respectively, are below internal expectations. We are pursuing all possible avenues to accelerate this growth. As an example, in 2000 our new international web site will act as an e-commerce platform for newly developed web-based quality control products to be announced in the first half of 2000.

We understand that the write downs in Q4 cast a cloud over the very strong Q4 results, however they were the correct actions required to remain consistent with our changing priorities and product mix. Long term, these actions will bring strong balance sheet gains and enhanced profitability.

FARO develops and manufactures advanced hardware and software products for manufacturing measurement and holds numerous important U.S. and worldwide patents in the new CAM2 market. In 2000, FARO expects to operate directly in eight countries - the United States, Canada, France, Germany, United Kingdom, Spain, Japan and Brazil - and many more through distribution. FARO will have more than 4,000 installed sites, more than 1,800 customers, and operations in six languages, including Chinese and Japanese. Approximately 50% of sales will be outside of the United States. We currently sell and service products directly around the world through an integrated work force of more than 220 professionals and operate in three primary languages.

Our customers include the “Who’s Who” of blue chip companies and small businesses. In 1999, we introduced our MQC service line to deliver manufacturing measurement service solutions to large and small companies. We will train more than 2,000 new users in multiple languages during 2000.

FARO’s complexity befits a company that is dedicated to establishing a strong position as a leader in high technology that affects the worldwide manufacturing arena. We are proud of our accomplishments and our ability to conserve capital in preparation for tomorrow’s growth.

Sincerely,

Simon Raab, Ph.D.
Chairman of the Board, President and Chief Executive Officer
pursuant to the growth and development philosophies outlined in the letter to shareholders, management has devised and is executing a strategic investment plan that influences virtually every area of the Company. The following review outlines 1999’s primary initiatives and accomplishments, which are described in the context of selected additions to FARO’s management team.

Corporate Chief Engineer Allen Sajedi, Director of Installations and Applications Daniel Perreault, and FARO Europe Director of Research and Development Sigfried Buss are working together to pursue an aggressive product development plan. The integration of the U.S. and German components of the CAM2 software product line continued in 1999 with the addition of CAD data import capabilities from worldwide CAD standards. The products now use a unified CAD data format and significant increases have occurred in shared code and functionality. Heightened integration is also planned for 2000. New products in 2000 will include unique new web-delivered and maintained quality control software products and a new line of quality control services called MQC (Manufacturing Quality Consulting).
New CAM2 positioning and new logos

In 1999, FARO’s new Product Marketing Manager Shaun Mymudes took on the task of completely remodeling the FARO web site. The resulting web page rolled out in December, 1999 as testimony to FARO’s use of the latest web technology and the company’s global stature. In 2000, significant additions to the web site will include an advanced interactive e-commerce and customer service component. Visit us at www.faro.com. Director of Product Publications Tom Schenck continues our efforts to make FARO products truly international.

The Product Publications department introduced a Japanese version of our popular CAM2 Measure Software in 1999, with the goal of adding a Chinese version in 2000.
International Production, Service and ISO Registration

Vice President of Manufacturing Ed Pelshaw and Director of Quality David Feist work together to develop U.S. systems and export them to FARO’s new European headquarters. Product manufacturing, inventory and service are part of a coordinated U.S./E.U. operation aimed at on-time delivery of quality products around the world. They further expect to expand the ISO 9000 registration from the United States to Europe in 2000.

Strong Sales Growth in US and Europe

Company co-founder and Vice President of Sales and Marketing Gregory Fraser and his team of Director of U.S. Sales Scott Adams and Director of Enterprise Solutions Jayke Simon generated strong sales growth in 1999. The company’s new product positioning included the challenges of introducing the MQC services and new software categories. The successes were due in part to a well-focused sales and marketing plan, strong new blue chip client contracts, and an expanding and more effective sales force.

International Operations

Stuart Jones joined FARO in mid-1999 as chief financial officer and has systematically implemented new rigorous budgeting and reporting processes, while integrating the expanded European administration. His goals for 2000 include improved investor relations activity and replacement of the existing accounting software to accommodate the challenges of significant foreign activity and expected development in e-commerce related products. In 1999, Director of Strategic Operations John Batache maintained responsibility for mergers and acquisitions, introduced a new human resources information system to better serve our growing employee base around the world, and led the continuing search and implementation of new accounting and customer resource management systems.
A company is no better than its employees and in a period of high growth, finding and retaining the right people is extremely important to the long-term health of the company. Director of Human Resource Systems Joanne Karimi joined FARO in 1999, bringing a wealth of experience from several world-class employers including Disney. Working with Director of Administration Sharon Trowbridge, she set out to define and implement innovative systems for recruitment, compensation and employee training. The challenges are particularly acute since almost one third of FARO’s 250 employees are international and are primarily based in Europe.

In 1998, FARO completed the acquisition of a German software company, which has since been consolidated with the original FARO organization into FARO Europe, based in Stuttgart, Germany. FARO Europe’s business operations are managed by Managing Director Wendelin Scharbach and Director of Operations Helmut Steinhauser. The 24.7% increase in European sales to $10.6 million in 1999 is a credit to their aggressive management of that market.

The European operation includes an office in Paris under the direction of Sales Manager Nicolas Tanalas in France and an office in the United Kingdom led by Sales Manager David Homewood. The U.K. and French sales teams have generated important improvements in sales while making the investments required to develop new territories.

The new E.U. headquarters combines the sales, research and development, service and accounting functions into one location, which dramatically improves corporate efficiency. The new service organization provides full repair, calibration and training services, and represents a significant service improvement for E.U. clients who previously needed to send product to the United States for repair.
The evolution of CAD

The CAD revolution really started two decades ago as it transitioned from mainframe computers to immensely powerful Computer Aided Design software tools running on ever smaller and more powerful personal computers and work stations. In 1999, the CAD/CAM CAE (computer aided design and manufacturing and computer aided engineering) markets grew by 16.7% to approximately $6.2 billion.

The evolution of CAD in manufacturing measurement traditionally has been unable to overcome the two primary barriers to effective use in assembly and manufacturing. The first barrier is the lack of adaptable hardware and reliable tools for manufacturing-based measurement. The second barrier is the lack of appropriate software or staff untrained in computers or CAD. Industry innovation requires access in manufacturing to CAD design data for problem resolution, complex 3D dimensional quality control and SPC statistical process control. These hardware and software barriers have been overcome by FARO's CAM2 products which continue to further FARO's leadership position in this exciting new market.

FARO products are installed in more than 4,000 sites and serve more than 1,800 customers in a diverse range of product areas. While the high profile automotive and aerospace markets dominate FARO news announcements, only 30% of sales can be attributed directly to the blue chip members of that sector or any other. The majority of FARO sales are to small- and medium-sized businesses in a wide variety of sectors. This points to the success of FARO's product design, pricing and support focus, which combine to meet the needs of the mainstream manufacturing market.
Executive Officers

Simon Raab  
Chairman of the Board, President and Chief Executive Officer

Gregory A. Fraser  
Executive Vice President

Stuart W. Jones  
Vice President and Chief Financial Officer

Directors

Simon Raab(1)  
Chairman of the Board, President and Chief Executive Officer; Co-founder; Director since 1982

Gregory A. Fraser  
Executive Vice President, Secretary and Treasurer; Co-founder; Director since 1982

Hubert d’Amours(2)  
President, Montroyal Capital Inc. and Capimont Inc., Montreal, Canada (venture capital investment); Director, FARO Technologies, Inc. since 1990

Philip R. Colley  
President, Colley, Borland and Yule Insurance Brokers Ltd., Ontario, Canada; Director, FARO Technologies, Inc. since 1984

Andre Julien(1)  
Independent Consultant and Former President, LAB Pharmacological Research International, Montreal, Canada; Director, FARO Technologies, Inc. since 1986

Alexandre Raab  
Chairman, privately-held Advanced Agro Enterprises, Ontario, Canada; Director, FARO Technologies, Inc. since 1982

Norman H. Schipper, Q.C.  
Of Counsel to Goodman, Phillips & Vineberg, Toronto, Canada; Director, FARO Technologies, Inc. since 1982

(1) Member, Audit Committee

Transfer Agent & Registrar  
Firstar Trust Company  
Milwaukee, Wisconsin

Auditors  
Deloitte & Touche LLP  
Tampa, Florida

Legal Counsel  
Foley & Lardner  
Tampa, Florida

10-K Report  
FARO Technologies, Inc.’s annual report to the Securities and Exchange Commission on Form 10-K will be provided to holders of the Company’s securities at no charge when available. Contact: Investor Relations at 800-756-0256.

Annual Stockholders’ Meeting  
Date: April 27, 2000  
Time: 10 A.M.  
Location: 125 Technology Park Drive  
Lake Mary, Florida 32746