

FARO TECHNOLOGIES INC
Form DEF 14A
April 13, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

FARO Technologies, Inc.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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(1) Amount previously paid:

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(3) Filing Party:

(4) Date Filed:

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FARO TECHNOLOGIES, INC.

250 Technology Park

Lake Mary, Florida 32746

NOTICE OF 2012 ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON MAY 16, 2012

To our shareholders:

You are cordially invited to attend the 2012 Annual Meeting of Shareholders of FARO Technologies, Inc. on May 16, 2012, at 10:00 a.m., Eastern time, at our principal executive offices, located at 250 Technology Park, Lake Mary, Florida 32746. At the meeting, shareholders will vote on the following matters:

1. The election of two directors, Lynn Brubaker and Simon Raab, to the Board of Directors to serve for a three-year term expiring at the Annual Meeting of Shareholders in 2015.
2. The ratification of Grant Thornton LLP as our independent registered public accounting firm for 2012.
3. A non-binding resolution to approve the compensation of our named executive officers.
4. Any other business that may properly come before the meeting or any postponements or adjournments of the Annual Meeting. Holders of record of FARO common stock at the close of business on April 5, 2012 are entitled to vote at the Annual Meeting.

Your vote is important, and it is important that your shares be represented at the Annual Meeting, no matter how many shares you own. Even if you plan to attend the Annual Meeting, please complete, date and sign the proxy card and mail it as soon as possible in the envelope provided, or vote by telephone or the Internet according to the instructions on your proxy card. Even if you return a proxy card or vote by telephone or the Internet, if you attend the Annual Meeting, you may revoke your proxy and vote your shares in person if you would like to do so.

Thank you for your continued support.

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By Order of the Board of Directors

April 13, 2012

JAY W. FREELAND
President and Chief Executive Officer

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FARO TECHNOLOGIES, INC.

250 Technology Park

Lake Mary, Florida 32746

PROXY STATEMENT FOR

2012 ANNUAL MEETING OF SHAREHOLDERS

This Proxy Statement is furnished in connection with the solicitation of proxies on behalf of the Board of Directors of FARO Technologies, Inc. (the "Company") for use at the 2012 Annual Meeting of Shareholders (the "Annual Meeting"), to be held on May 16, 2012, at 10:00 a.m., Eastern time, at the Company's principal executive offices, located at 250 Technology Park, Lake Mary, Florida 32746, and at any adjournment or postponement of the Annual Meeting. The Company's telephone number at its principal executive offices is (407) 333-9911.

This Proxy Statement and the accompanying proxy card, together with the Company's Annual Report to Shareholders, is first being mailed on or about April 13, 2012 to shareholders entitled to vote at the Annual Meeting. A list of shareholders entitled to vote at the Annual Meeting will be available for inspection by any shareholder at our principal executive offices for a period of ten days prior to the Annual Meeting and at the Annual Meeting itself.

Important Notice Regarding the Availability of Proxy Materials for

the Shareholder Meeting to be held on May 16, 2012.

This Proxy Statement and a proxy card, along with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 and our 2011 Annual Report, are available at: www.faro.com/proxyvote.

ABOUT THE MEETING

What is the purpose of the Annual Meeting?

At the Annual Meeting, shareholders will vote on the following matters:

1. The election of two directors, Lynn Brubaker and Simon Raab, to the Board of Directors to serve for a three-year term expiring at the Annual Meeting of Shareholders in 2015.
2. The ratification of Grant Thornton LLP as our independent registered public accounting firm for 2012.
3. A non-binding resolution to approve the compensation of our named executive officers.

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Shareholders will also transact any other business that may properly come before the Annual Meeting. Once the business of the Annual Meeting is concluded, shareholders will have an opportunity to ask questions as time permits. Members of our management and representatives of Grant Thornton LLP, our independent registered public accounting firm, will be present to respond to appropriate questions from shareholders. A brief report by members of management on the Company's 2011 performance will follow the Annual Meeting.

Why am I receiving this Proxy Statement and proxy card?

You are receiving this Proxy Statement and proxy card because you owned shares of FARO Technologies, Inc. common stock on the record date, April 5, 2012. This Proxy Statement describes matters we would like you to vote on at the Annual Meeting. It also provides you with information about these matters so that you can make an informed decision.

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What is a proxy?

A proxy is your legal designation of another person, also referred to as a proxy, to vote your shares of stock. The written document providing notice of the Annual Meeting and describing the matters to be considered and voted on is called a proxy statement. The document used to designate a proxy to vote your shares of stock is called a proxy card. Our board of directors has designated two of our officers, Jay Freeland, our President and Chief Executive Officer, and Keith Bair, our Senior Vice President and Chief Financial Officer, as proxies for the Annual Meeting.

Who is entitled to vote?

Holders of our common stock outstanding as of the close of business on April 5, 2012 (the Record Date) are entitled to vote at the Annual Meeting. Each shareholder is entitled to one vote for each share of common stock he or she held on the Record Date.

If your shares are held by a bank or brokerage firm, you are considered the beneficial owner of shares held in street name. If your shares are held in street name, your bank or brokerage firm (the record holder of your shares) forwarded these proxy materials, along with a voting instruction card, to you. As the beneficial owner, you have the right to direct your record holder how to vote your shares, and the record holder is required to vote your shares in accordance with your instructions. If you do not give instructions to your bank or brokerage firm, it will nevertheless be entitled to vote your shares with respect to routine items, but it will not be permitted to vote your shares with respect to non-routine items. In the case of a non-routine item, your shares will be considered broker non-votes on that proposal.

Who can attend the Annual Meeting?

All holders of shares of stock of FARO Technologies, Inc., or individuals holding their duly appointed proxies, may attend the Annual Meeting. Appointing a proxy in response to this solicitation will not affect a shareholder's right to attend the Annual Meeting and to vote in person. Please note that if you hold your shares in street name, you will need to bring a copy of your bank or brokerage statement reflecting your stock ownership as of the Record Date to gain admittance to the Annual Meeting. Shareholders also must present a form of personal photo identification to be admitted to the Annual Meeting.

How many shares must be present to hold the meeting?

A quorum of shareholders is necessary to hold a valid shareholders meeting. A majority of the 16,921,321 shares of common stock outstanding on the Record Date and entitled to be cast on any matter at the Annual Meeting must be represented, in person or by proxy, to constitute a quorum at the Annual Meeting. If you vote, your shares will be included in the number of shares to establish the quorum. Shares represented by proxy cards either marked ABSTAIN, or returned without voting instructions and shares treated as broker non-votes will be counted as present for the purpose of determining whether the quorum requirement is satisfied.

Once a share is represented at the Annual Meeting, it will be deemed present for quorum purposes throughout the Annual Meeting (including any adjournment or postponement of the Annual Meeting unless a new record date is or must be set for such adjournment or postponement).

If a quorum is not present at the scheduled time of the Annual Meeting, a majority of the shareholders who are represented, in person or by proxy at the meeting, may adjourn the Annual Meeting until a quorum is present. The time and place of the adjourned meeting will be announced at the time the adjournment is taken, and no other notice will be given.

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How many shares must be present to consider each matter at the Annual Meeting?

The presence, in person or by proxy, of a majority of the votes entitled to be cast on a specific proposal will constitute a quorum for that proposal. Even if a quorum is established for the Annual Meeting, it is possible that a quorum may not be established for a specific proposal presented at the Annual Meeting. Shares represented by proxy cards either marked **ABSTAIN** or returned without voting instructions will be counted as present for the purpose of determining whether the quorum requirement is satisfied for all proposals at the Annual Meeting. If your shares are held in street name and you do not provide voting instructions to your bank or broker, your shares will not affect the determination of whether a quorum exists for proposals 1 or 3, but your shares will be counted as present for the purpose of determining whether the quorum requirement is satisfied for proposal 2.

What is the effect of not voting?

If you are a registered shareholder and you submit a proxy but do not provide any voting instructions, your shares will be voted:

FOR the election of Lynn Brubaker and Simon Raab to the Board of Directors;

FOR the ratification of Grant Thornton LLP as our independent registered public accounting firm for 2012; and

FOR the approval of the compensation of our named executive officers.

If you are a registered shareholder and you do not vote, your un-voted shares will not count toward the quorum requirement for the Annual Meeting or any proposal considered at the Annual Meeting. If a quorum is obtained, your un-voted shares will not affect the outcome of any proposal.

If you own shares in street name and do not instruct your bank or brokerage firm how to vote your shares, your bank, broker, or other holder of record may not vote your shares on non-routine matters such as Proposal 1 Election of Directors or Proposal 3 Advisory Vote on Executive Compensation, and your shares will be considered broker non-votes on those proposals. However, it may vote your shares in its discretion on routine proposals such as Proposal 2 Ratification of Independent Registered Public Accounting Firm.

Abstentions and broker non-votes will not affect the outcome of any proposals considered at the Annual Meeting.

How do I vote?

If you own shares registered directly with the Company's transfer agent on the close of business on the Record Date, you may vote:

over the Internet, through the website shown on your proxy card;

by telephone, by calling the number shown on your proxy card; or

by mail, by mailing your signed proxy card in the enclosed envelope.

If your shares are held in street name, your bank or brokerage firm forwarded these proxy materials, as well as a voting instruction card, to you. Please follow the instructions on the voting instruction card to vote your shares. Your bank or brokerage firm may also allow you to vote by telephone or the Internet.

If you are a registered shareholder and you attend the Annual Meeting, you may deliver your completed proxy card in person. Additionally, we will pass out written ballots to registered shareholders who wish to vote in person at the meeting. Beneficial owners of shares held in street name who wish to vote at the Annual Meeting will need to obtain a power of attorney or proxy from their record holder to do so.

Can I change my vote after I return my proxy card or vote by telephone or the Internet?

Yes. Even after you have submitted your proxy, you can change your vote:

by properly completing and signing another proxy card with a later date and returning the proxy card prior to the Annual Meeting;

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by voting again by telephone or the Internet until 11:59 pm, Eastern time, on May 15, 2012;

if you are a registered shareholder, by giving written notice of your revocation to FARO Technologies, Inc., Attention: Secretary, 250 Technology Park, Lake Mary, Florida 32746, prior to or at the Annual Meeting; or

by voting in person at the Annual Meeting.

Your presence at the Annual Meeting will not in itself revoke your proxy; you must obtain a ballot and vote at the Annual Meeting to revoke your proxy. Unless properly changed or revoked, the shares represented by proxies received prior to the Annual Meeting will be voted at the Annual Meeting.

What are the Board's recommendations on the proposals?

The Board recommends that you vote your shares as follows:

Proposal 1 FOR the election of the two nominees for director, Lynn Brubaker and Simon Raab, each with a three-year term expiring at the Annual Meeting of Shareholders in 2015;

Proposal 2 FOR ratification of Grant Thornton LLP as our independent registered public accounting firm for 2012; and

Proposal 3 FOR the approval of the compensation of our named executive officers.

What vote is required to elect the director nominees?

The affirmative vote of a plurality of the votes cast is required for the election of directors, which means that the two nominees for director receiving the greatest number of votes will be elected. If you vote **Withhold** with respect to one or more nominees, your shares will not be voted with respect to the person or persons indicated, although they will be counted for purposes of determining whether there is a quorum. Broker non-votes on the election of directors will have no impact on either the determination of a quorum or the outcome of the election.

What happens if a nominee is unable to stand for election?

If a nominee is unable to stand for election, the Board of Directors may either reduce the number of directors to be elected or select a substitute nominee. If a substitute nominee is selected, the proxy holders will vote your shares for the substitute nominee, unless you have voted **Withhold** with respect to the original nominee.

How many votes are required to ratify the appointment of the Company's independent registered public accounting firm?

The ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm requires the affirmative vote of a majority of the votes cast by the shareholders. Abstentions will have no impact on the outcome of this matter. Because this matter is a routine proposal, there will be no broker non-votes associated with this proposal.

How many votes are required to approve the advisory vote on the compensation of the Company's named executive officers?

The approval of the non-binding resolution to approve the compensation of our named executive officers requires the affirmative vote of a majority of the votes cast by the shareholders. Abstentions and broker non-votes will have no impact on the outcome of this matter.

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Are there any other items to be discussed during the Annual Meeting?

The Company is not aware of any other matters that you will be asked to vote on at the Annual Meeting. If other matters are properly brought before the Annual Meeting and you have returned a proxy card, with or without voting instructions, or have voted by telephone or the Internet, the proxy holders will use their discretion in voting your shares on these matters as they may arise.

Who will count the vote?

American Stock Transfer & Trust Co. will count the vote and will serve as the inspector of the election.

Who pays to prepare, mail, and solicit the proxies?

Proxies may be solicited by personal meeting, Internet, e-mail, advertisement, telephone, and facsimile machine, as well as by use of the mails. Solicitations may be made by directors, officers, and other employees of the Company, as well as the Company's investor relations firm, none of whom will receive additional compensation for such solicitations. The Company will bear the cost of soliciting proxies. Arrangements will be made, as appropriate, with banks, brokerage houses, and other custodians, nominees or fiduciaries to forward soliciting materials to the beneficial owners of the shares, and we will reimburse such persons for their out-of-pocket expenses incurred in providing those services.

Will I receive a copy of the annual report?

We are enclosing a copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, as well as our 2011 Annual Report, with this Proxy Statement. You may also obtain a copy by writing to our Investor Relations department at 250 Technology Park, Lake Mary, Florida 32746, by calling 1-800-736-0234, by e-mailing our Investor Relations department at InvestorRelations@faro.com, by accessing www.faro.com/proxyvote or by accessing the Securities and Exchange Commission's (SEC) EDGAR database at www.sec.gov. Our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 and our 2011 Annual Report are not incorporated by reference into this Proxy Statement and are not considered proxy soliciting material.

Where can I find Corporate Governance materials for the Company?

The Company's Code of Ethics for Senior Financial Officers, Global Ethics Policy and Corporate Governance Guidelines and the Charters for the Audit, Operational Audit, Compensation, and Governance and Nominating Committees of the Company's Board of Directors, are published on the Company's website at www.faro.com, by first clicking Investors and then Leadership. We are not including the information contained on or available through our website as a part of, or incorporating such information by reference into, this Proxy Statement.

How can I contact the members of the Board?

Shareholders may communicate with the full Board or individual directors by submitting such communications in writing to FARO Technologies, Inc., Attention: Board of Directors (or the individual director(s)), 250 Technology Park, Lake Mary, Florida 32746. Communications should be sent by overnight or certified mail, return receipt requested. Such communications will be delivered directly to the Board or the individual director(s), as designated on such communication.

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THE BOARD OF DIRECTORS RECOMMENDS THAT OUR SHAREHOLDERS VOTE FOR PROPOSAL 1, THE ELECTION OF LYNN BRUBAKER AND SIMON RAAB, TO THE BOARD OF DIRECTORS.

The Board of Directors is divided into three classes, as nearly equal as possible, with one class of directors elected each year for a three-year term. Each director's term is subject to the election and qualification of his or her respective successor, or such director's earlier death, resignation or removal. The Board currently consists of seven members. Two directors have terms that expire at this year's Annual Meeting, two directors have terms that expire at the 2013 Annual Meeting of Shareholders, and three directors have terms that expire at the 2014 Annual Meeting of Shareholders.

The Company does not know of any reason why any nominee would be unable or, if elected, will decline to serve as a director. If any nominee is unable or unwilling to serve as a director, the Board of Directors may either reduce the number of directors to be elected or select a substitute nominee. If the Board selects a substitute nominee, the shares represented by all valid proxies will be voted for the substitute nominee, other than shares voted Withhold with respect to the original nominee.

The two nominees for director, Lynn Brubaker and Simon Raab, currently are directors of the Company and are proposed to be elected at the Annual Meeting to serve until the 2015 Annual Meeting of Shareholders. The remaining five directors, whose terms do not expire at the Annual Meeting, will continue to serve as members of the Board for the terms set forth below.

Directors are elected by a plurality of the votes cast, meaning that the two nominees receiving the highest number of affirmative votes cast for the election of directors at the Annual Meeting will be elected as directors. Shares may not be voted cumulatively, and proxies cannot be voted for a greater number of persons than the number of nominees named. Shares voted by the accompanying proxy card will be voted FOR Lynn Brubaker and Simon Raab, unless the proxy card is marked to withhold authority or to vote for alternative candidates. If you vote Withhold with respect to one or more nominees, your shares will not be voted with respect to the person or persons indicated. Broker non-votes on the election of directors will have no impact on the outcome of the election.

The names, ages, and principal occupations for at least the past five years of each of the current directors and the nominees and the names of any other public companies of which each has served as a director during the past five years are set forth below:

Nominees for Election at the Annual Meeting

Name	Age	Director Since	Term Expires	Position
Lynn Brubaker	54	2009	2015	Director and Nominee
Simon Raab	59	1982	2015	Director and Nominee

Lynn Brubaker has served as a director of the Company since July 2009. Ms. Brubaker is a seasoned executive with over 30 years' experience in aviation and aerospace in a variety of executive, operations, sales, marketing, customer support and independent consultant roles. She has 15 years of Board experience and seven years advising high technology, international, multi-industry and global companies. Since 2005, Ms. Brubaker has had an advisory practice focused on strategy, business development, go-to-market approach, sales and marketing, customer management, organizational design, manufacturing approach, talent assessment, and executive coaching. She is currently a director of Hexcel, a New York Stock Exchange-listed company in leading

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advanced materials and technology, and The Nordam Group, a private aerospace company in high technology manufacturing and repair. Ms. Brubaker also served on the board of directors of Force Protection, Inc., a NASDAQ-listed developer and manufacturer of military survivability technology from March 2011 until its merger with an affiliate of General Dynamics Corporation in December 2011. Ms. Brubaker spent 10 years at Honeywell International, retiring as Vice President and General Manager Commercial Aerospace for Honeywell International, a position she held from 1999 to 2005. Ms. Brubaker held a variety of management positions with McDonnell Douglas, Northwest Airlines, and ComAir. Ms. Brubaker currently serves on the board of a variety of private companies and other business organizations.

Relevant experience and skills: sales and marketing management, executive management, technology, business development, international operations, manufacturing, financial reporting, audit and compensation committee experience.

Simon Raab is a co-founder of the Company and has served as Chairman of the Board of Directors of the Company since its inception in 1982. Mr. Raab served as Chief Executive Officer of the Company from its inception in 1982 until January 2006, as Co-Chief Executive Officer from January 2006 until December 2006, and as President of the Company from 1986 until 2004. Mr. Raab also serves as a director of Cynvenio Biosystems, Inc. and True Vision Systems, Inc. Mr. Raab holds a Ph.D. in Mechanical Engineering from McGill University, Montreal, Canada, a Masters of Engineering Physics from Cornell University and a Bachelor of Science in Physics from the University of Waterloo, Canada.

Relevant experience and skills: executive management, mechanical engineering, physics.

Directors Whose Terms Will Continue After the Annual Meeting

Name	Age	Director Since	Term Expires	Position
John Caldwell	62	2002	2013	Director
John Donofrio	50	2008	2013	Director
Stephen R. Cole	60	2000	2014	Director
Marvin R. Sambur, Ph.D.	66	2007	2014	Director
Jay W. Freeland	42	2006	2014	Director

John E. Caldwell has been a director of the Company since 2002. In March 2010, Mr. Caldwell retired as President and Chief Executive Officer and from the board of directors of SMTC Corporation, a publicly held electronics manufacturing services company whose shares are traded on the Nasdaq Global Market and on the Toronto Stock Exchange. Mr. Caldwell had served as a President and CEO and as a director of SMTC since 2003. Before joining SMTC, Mr. Caldwell held positions in the Mosaic Group, a marketing services provider, as Chair of the Restructuring Committee of the Board, from October 2002 to September 2003, in GEAC Computer Corporation Limited, a computer software company, as President and Chief Executive Officer from October 2000 to December 2001, and in CAE Inc., a provider of simulation technologies and integrated training solutions for the civil aviation and defense industries, as President and Chief Executive Officer from June 1993 to October 1999. In addition, Mr. Caldwell served in a variety of senior executive positions in finance, including Senior Vice President of Finance and Corporate Affairs of CAE and Executive Vice President of Finance and Administration of Carling O'Keefe Breweries of Canada. Over the course of his career, Mr. Caldwell has served on the audit committees of 11 public companies. Also, for the past several years, Mr. Caldwell has been a lecturer on board oversight responsibility for enterprise risk as part of an accredited board of director education program through McMaster University in Canada. Mr. Caldwell has been a director of Advanced Micro Devices, Inc., an innovative semiconductor provider, since 2006 and of IAMGOLD Corporation, a mid-tier gold producer, since 2006. Mr. Caldwell has also served on the board of directors of ATI Technologies Inc. from 2003 to 2006, Rothmans Inc. from 2004 to 2008, Cognos Inc. from 2000 to 2008, Stelco Inc. from 1997 to 2006 and Sleeman Breweries Ltd. from 2003 to 2005.

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Relevant experience and skills: executive of electronics, other complex manufacturing and software businesses, mergers and acquisitions, financial management, corporate finance, financial reporting, accounting, oversight of financial performance, corporate governance, audit committee experience.

John Donofrio has served as a director of the Company since January 2008. Mr. Donofrio is Executive Vice President, General Counsel and Secretary for The Shaw Group Inc., a position he has held since October 2009. Mr. Donofrio is also presently an Adjunct Professor of Law at Louisiana State University, where he teaches Corporate Governance. Prior to joining Shaw, Mr. Donofrio was Senior Vice President, General Counsel and Chief Compliance Officer at Visteon Corporation, a global automotive supplier, a position he held from 2005 until October 2009. Before joining Visteon, Mr. Donofrio was with Honeywell International (or its predecessor company AlliedSignal Inc) from 1996 until 2005. At Honeywell, Mr. Donofrio was Vice President of Intellectual Property and later also served as Vice President and General Counsel for Honeywell Aerospace. Previously he was a Partner at Kirkland & Ellis LLP, where he worked from 1989 through 1996. Before joining Kirkland & Ellis, Mr. Donofrio was a law clerk at the U.S. Court of Appeals for the Federal Circuit and he worked as a Patent Examiner at the U.S. Patent and Trademark Office.

Relevant experience and skills: legal, risk management, intellectual property protection and licensing, corporate governance, manufacturing, government regulation.

Stephen R. Cole has been a director of the Company since 2000 and has served as Lead Director since 2005. From 1975 until June 2010, Mr. Cole was President and Founding Partner of Cole & Partners, a Toronto, Canada based mergers and acquisition and corporate finance advisory service company. In June 2010, Cole & Partners was sold to Duff & Phelps Corporation, a NYSE listed company, providing global financial advisory and investment banking services. Since June 2010, Mr. Cole has been President of Duff & Phelps Canada Limited. Mr. Cole is a Fellow of the Institute of Chartered Accountants of Ontario, Fellow of the Canadian Chartered Institute of Business Valuators, Senior Member of the American Society of Appraisers and Full Member of the ADR Institute of Canada, Inc. He is currently a director of H. Paulin & Co. Limited, a TSX listed company, and an advisory committee member to several private companies. Mr. Cole has held a position as an advisory committee member or director of various private companies and charitable and professional organizations, including Bosa Group, GPX International Tire Corporation, Enterprise Capital LP II, The Canadian Institute of Chartered Business Valuators, Quetico Foundation, Nature Conservancy of Canada (Ontario Division), UJA Federation and Foundation and past Chairman of The Baycrest Centre.

Relevant experience and skills: mergers and acquisitions, financial management, corporate finance, financial reporting, accounting, oversight of financial performance, corporate governance.

Marvin R. Sambur, Ph.D. has served as a director of the Company since January 2007. Dr. Sambur started his career at Bell Laboratories in 1968 and later held top executive positions at ITT Corporation, including President and CEO of ITT Defense, a \$2 billion group with over 10,000 employees. From 2001 until 2005, Dr. Sambur served as Assistant Secretary of the United States Air Force for Acquisition and Research. In this position, Dr. Sambur formulated and executed a \$220 billion Air Force investment strategy to acquire systems and support services. Dr. Sambur currently holds the position of Professor of the Practice at the University of Maryland's Clark School of Engineering and is a consultant to global technology and aerospace companies. Dr. Sambur previously served on several Government Advisory Boards, including the U.S. Air Force Scientific Advisory Board and the National Academy of Science AF Study Board. Dr. Sambur received a Ph.D. from MIT in Electrical Engineering. Dr. Sambur has had over 100 papers published in referred journals on signal processing and Systems Engineering, and he developed the Systems Engineering Master's program for The Clark School of Engineering at the University of Maryland.

Relevant experience and skills: senior operations and engineering management, high level executive and financial management, research and development management, government acquisitions management, international negotiations.

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Jay W. Freeland has served as President and Chief Executive Officer of the Company since December 2006 and as a director since February 2006. Mr. Freeland served as President and Co-Chief Executive Officer of the Company from January 2006 to December 2006 and as President and Chief Operating Officer of the Company from November 2004 to January 2006. Mr. Freeland began his career at General Electric in their financial management program in 1991, spent four years on GE's corporate audit staff and served in financial, business development, strategic planning, sales and operational management roles of increasing responsibility at GE, including General Manager of Business Development, General Manager of Customer Quality, General Manager of Strategic Initiatives, VP of Sales and Marketing, and President of the Energy Controls business, until 2003. Mr. Freeland holds a Bachelor of Arts in Economics from Union College, Schenectady, New York.

Relevant experience and skills: executive and financial management, international operations, business development, strategic planning.

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CORPORATE GOVERNANCE AND BOARD MATTERS

Role and Risk Oversight of the Board of Directors

The Board provides general oversight and direction for the Company, monitors the Company's performance and also acts as an advisor and counselor to senior management. In particular, the Board performs the following functions:

Reviews and approves operating, organizational, financial and strategic plans;

Reviews the Company's operational, financial and strategic performance;

Oversees and evaluates management's systems for internal control, financial reporting and public disclosure;

Oversees the Company's global risk management framework;

Establishes corporate governance standards;*

Selects, evaluates and compensates the Company's executive officers, including the Chief Executive Officer;

Oversees and evaluates senior management performance and compensation; and

Plans for effective development and succession of the Chief Executive Officer and senior management.

*In 2010, the Board of Directors adopted Corporate Governance Guidelines, which are available on the Company's website at www.faro.com, by first clicking "Investors" and then "Leadership."

In its oversight of the Company's global risk management, the Board reviews the overall risk exposure of the Company and discusses with management the Company's risk assessment and risk management policies, including management's efforts to identify, monitor, control and report risk exposure. Management regularly reports to the Board on significant operational, financial, strategic, and regulatory risks the Company faces. In addition, as part of its review of the Company's strategic plans, the Board reviews the operational and financial risks, political and regulatory risks, and employment and labor risks of its global business operations. The independent members of the Board also discuss Company oversight and significant risks in executive session.

Each Board committee is also responsible for reviewing the Company's risk exposure with respect to the committee's areas of responsibility, discussing such risks with Company management, and reporting significant risks to the Board. The Compensation Committee particularly reviews risks related to the Company's compensation policies and practices, and the Audit Committee focuses on significant risks associated with financial exposures.

Leadership Structure of the Board of Directors

Simon Raab, one of the Company's founders and its past Chief Executive Officer, currently serves as Chairman of the Board and is an independent director. The independent members of the Board have elected Stephen Cole, an independent director, to serve as the Lead Director. Jay W. Freeland, the Company's current Chief Executive Officer, also serves as a director.

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The Chairman of the Board and the Chief Executive Officer set the agenda for Board meetings with input from the Lead Director. Board materials related to agenda items are provided to Board members sufficiently in advance of Board meetings to allow the directors to prepare for discussion of the items at the meeting. In addition, executive sessions, or meetings of independent directors, are held at least quarterly for a discussion of relevant subjects. The Lead Director presides over and prepares the agenda for executive sessions of the independent directors; provides input to the schedule of Board meetings; facilitates information flow and communication between the independent directors and Company management and the Chairman of the Board;

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coordinates the activities of the other independent directors; together with the Governance and Nominating Committee, provides advice to the Board and Company management with respect to corporate governance and recommends to the Board membership of Board committees; recommends to the Chairman of the Board the retention of Board consultants; together with the Compensation Committee and the Board, evaluates the performance of the Chief Executive Officer; and performs such other duties and responsibilities as the Board of Directors from time to time determines.

We believe that our current Board structure appropriately ensures that an independent director serves in a Board leadership position, acting as a liaison between the Board and Company management and allowing the independent directors to effectively oversee Company management and key issues related to strategy, risk and integrity. The current Board structure also permits the independent directors to discuss and address risk management with Company management in Board meetings, as well as separate from management in executive session.

Director Independence

We are required to comply with the listing standards, including the corporate governance rules, of the NASDAQ Stock Market (NASDAQ). NASDAQ rules require the Board of Directors to be comprised of a majority of independent directors, as that term is defined by the NASDAQ Marketplace Rules.

The Board of Directors has affirmatively determined that Lynn Brubaker, John Caldwell, Stephen Cole, John Donofrio, Simon Raab, and Marvin Sambur are independent directors, as defined by the NASDAQ Marketplace Rules. In addition, Andre Julien, who did not stand for re-election to the Board of Directors at the 2011 Annual Meeting of Shareholders, was also independent under the NASDAQ Marketplace Rules. The Board of Directors has determined that Mr. Freeland is the only director who is not independent, because he is the President and Chief Executive Officer of the Company.

Board Meetings and Committees

The Board of Directors held seven meetings during 2011. All of our directors attended at least 75% of the applicable meetings of the Board and of the Committees on which they served during 2011, with the exception of Andre Julien, who served on our Board of Directors until May 2011. In addition, the independent directors met in executive session without the presence of management on the occasion of each full Board meeting in 2011. While the Company has not adopted a formal policy regarding Board attendance at annual shareholder meetings, we encourage each of our Board members to attend the annual shareholder meetings in person, and all of the Company's current directors attended the 2011 Annual Meeting of Shareholders in person. We also expect that each of our directors will attend the 2012 annual meeting of shareholders in person.

The Board of Directors has four standing committees: an Audit Committee, an Operational Audit Committee, a Compensation Committee, and a Governance and Nominating Committee.

The table below shows current membership for each of the standing Board committees:

Audit	Operational Audit	Compensation	Governance and Nominating
Committee	Committee	Committee	Committee
Lynn Brubaker	Lynn Brubaker	John Caldwell	John Caldwell
John Caldwell*	John Caldwell*	Stephen Cole*	Stephen Cole
Stephen Cole	Marvin Sambur	John Donofrio	John Donofrio*
John Donofrio		Marvin Sambur	Marvin Sambur

* Committee Chairman

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Audit Committee

The Audit Committee held four meetings during 2011. In addition to its formal meetings, members of the Audit Committee met in executive session, without the presence of management, at all quarterly meetings during 2011 and separately with the Company's external and internal auditors.

The Audit Committee is currently comprised of four members, Lynn Brubaker, John Caldwell, Stephen Cole and John Donofrio, each of whom the Board has determined are independent as defined in Rule 10A-3 of the Exchange Act of 1934, as amended (the Exchange Act) and the NASDAQ rules, including rules specifically governing audit committee members. The Board also has determined that Messrs. Caldwell and Cole are audit committee financial experts as defined under Item 407(d)(5) of Regulation S-K.

The Audit Committee acts under the terms of a written charter that is available on the Company's website at www.faro.com, by first clicking Investors and then Leadership. The Audit Committee's responsibilities, discussed in detail in the charter, include, among other duties, the responsibility to:

Provide oversight regarding the Company's accounting and financial reporting process, system of internal control, external and internal audit process, and the Company's process for monitoring compliance with laws and regulations;

Review the independence and qualifications of the Company's independent public accountants and the Company's financial policies, control procedures and accounting staff;

Appoint and retain the Company's independent public accountants;

Review and approve the Company's financial statements and other regulatory filings; and

Review transactions between the Company and any officer or director or any entity in which an officer or director of the Company has a material interest.

Operational Audit Committee

The Operational Audit Committee met four times in 2011 and is currently composed of three members, Lynn Brubaker, John Caldwell and Marvin Sambur. The Operational Audit Committee acts under the terms of a written charter that is available on the Company's website at www.faro.com, by first clicking Investors and then Leadership. As discussed in its charter, the Operational Audit Committee is responsible for reviewing the Company's operational performance against predetermined metrics. The Operational Audit Committee also meets with executives and department directors to review progress against operational goals and reports to the Board of Directors.

Compensation Committee

The Compensation Committee held three meetings during 2011. In addition to its formal meetings, the Chairman and other members of the Compensation Committee met frequently throughout 2011 and in the first quarter of 2012 among themselves without the presence of management, as well as with the Compensation Committee's advisors, the Chairman of the Board, and the Chief Executive Officer, to set executive compensation for 2011 and 2012, to evaluate the performance of all officers at the Vice President level and above, to make bonus and equity incentive award determinations in respect of individual and Company performance objectives and results, and to discuss and decide other compensation and employment matters, including specific review of the performance of the CEO and his compensation.

The Compensation Committee currently consists of four members, John Caldwell, Stephen Cole, John Donofrio, and Marvin Sambur, each of whom qualifies as independent for Compensation Committee membership, as defined in the NASDAQ rules, Rule 16b-3 of the Exchange Act, and Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code).

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The Compensation Committee acts under the terms of a written charter that is available on the Company's website at www.faro.com, by first clicking Investors and then Leadership. As discussed in its charter, the Compensation Committee recommends to the full Board for approval, the Company's executive compensation policies and programs and endeavors to ensure they are aligned and implemented in accordance with the Company's overall strategy, including enhancement of shareholder value. Although the Compensation Committee sets the CEO's compensation independently, it works with the Chairman of the Board and the Chief Executive Officer in evaluating the performance of all other officers at the Vice President level and above and in reviewing and approving annually all compensation programs and awards (including setting the base compensation for the upcoming year and approving bonus and equity incentive awards) for all officers at the Vice President level and above. The Compensation Committee maintains final authority in the determination of individual executive compensation packages to ensure compliance with the Company's compensation policy objectives.

The Compensation Committee also reviews, and recommends to the full Board for its review and approval, the cash and equity compensation for non-employee directors, the Chairman of the Board, the Lead Director, and Board committee chairs. In addition, the Compensation Committee:

Oversees the Company's option and equity incentive plans, including reviewing and approving equity grants to officers at the Vice President level and above, as well as approving the total amount of equity grants below the Vice President level and related parameters of such grants;

Oversees the Company's management succession plan, including succession for the Chief Executive Officer position;

Advises on selection of certain executive officer positions with the Company;

Establishes the terms of all executive severance and change in control benefits;

Reviews and discusses with management the Compensation Discussion and Analysis that is included in the Company's proxy statement for its annual meeting of shareholders; and