



U.S. Department of Justice

Criminal Division

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June 3, 2008

Gregory S. Bruch, Esq.  
Willkie Farr & Gallagher LLP  
1875 K Street, N.W.  
Washington, D.C. 20006-1238

**Re: Faro Technologies, Inc.**

Dear Mr. Bruch:

On the understandings specified below, the United States Department of Justice, Criminal Division, Fraud Section ("this Office" or "the Department") will not criminally prosecute Faro Technologies, Inc. and its subsidiaries and affiliates (collectively, "FARO") for any crimes (except for criminal tax violations, as to which this Office cannot and does not make any agreement) related to the making and agreement to make improper payments, denominated as "referral fees," by FARO's employees and agents to employees of Chinese state-owned or controlled entities in 2004 and 2005 in order to assist in obtaining and retaining business with government entities, and FARO's accounting and record-keeping associated with these improper payments, all as described in Appendix A to this letter, which is incorporated by reference herein. The Department enters into this Agreement based, in part, on the following factors: (a) FARO's timely, voluntary and complete disclosure of the events described in Appendix A; (b) FARO's thorough, real-time cooperation with the Department and the Securities and Exchange Commission; and (c) the remedial efforts undertaken and to be undertaken by FARO.

It is understood that FARO admits, accepts, and acknowledges responsibility for the conduct set forth in Appendix A and agrees not to make any public statement contradicting Appendix A.

If FARO fully complies with the understandings specified in this agreement, including all Appendices hereto (the "Agreement"), no information given by or on behalf of FARO at the request of this Office (or any other information directly or indirectly derived therefrom) will be used against FARO in any criminal tax prosecution. This Agreement does not provide any protection against prosecution for any crimes except as set forth above, and applies only to FARO and not to any other entities or individuals except as set forth in this Agreement. FARO expressly understands that the protections provided to FARO shall not apply to any acquirer or

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successor entities unless and until such acquirer or successor formally adopts and executes this Agreement.

This Agreement shall have a term of two (2) years from the date of this Agreement, except as specifically provided in the following paragraph. It is understood that for the two (2) year term of the Agreement, FARO shall: (a) commit no federal felony offenses; (b) truthfully and completely disclose information with respect to the activities of FARO, its officers and employees, and others concerning all matters about which this Office inquires of it, which information can be used for any purpose, except as otherwise limited in this Agreement; and (c) bring to this Office's attention all criminal conduct by, or criminal investigations of, FARO or any of its senior managerial employees, that comes to the attention of FARO or its senior management, as well as any administrative proceeding or civil action brought by any governmental authority that alleges fraud by or against FARO.

Until the date upon which all investigations and prosecutions arising out of the conduct described in this Agreement are concluded, whether or not they are concluded within the two (2) year term specified in the preceding paragraph, FARO shall: (a) cooperate fully with this Office, the Federal Bureau of Investigation, the Securities and Exchange Commission, and any other law enforcement agency designated by this Office, in connection with any investigation related to the matters described in Appendix A; (b) assist this Office in any investigation or prosecution arising out of the conduct described in this Agreement by providing logistical and technical support for any meeting, interview, grand jury proceeding, or any trial or other court proceeding; (c) use its best efforts to secure the attendance and truthful statements or testimony of any officer, agent or employee at any meeting or interview or before the grand jury or at any trial or other court proceeding; and (d) provide this Office, upon request, all non-privileged information, documents, records, or other tangible evidence about which this Office or any designated law enforcement agency inquires.<sup>1</sup>

It is understood that any assistance FARO may provide to federal criminal investigators shall be pursuant to the specific instructions and control of this Office and designated investigators.

It is understood that FARO shall adopt a set of internal controls, including a compliance code and compliance standards and procedures, as set forth in Appendix B. In addition, FARO shall retain and pay for an independent corporate monitor as described in Appendix C.

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<sup>1</sup> The Department reserves the right to request information, documents, records or other tangible evidence that may be subject to a claim of attorney client and/or attorney work product privilege. Similarly, FARO reserves the right to refuse to provide such information, documents, records or other tangible evidence based upon the assertion of a valid claim of privilege.

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It is understood that FARO agrees to pay a monetary penalty of \$1,100,000. FARO must pay this sum to the United States within ten (10) days of executing this Agreement. FARO agrees that no tax deduction will be sought in connection with this payment.

It is understood that, should this Office determine that FARO has committed any federal felony offense during the term of this Agreement, has given false, incomplete, or misleading testimony or information, or has otherwise violated any provision of this Agreement, FARO shall thereafter be subject to prosecution for any federal violation of which this Office has knowledge, including perjury and obstruction of justice. Any such prosecution that is not time-barred by the applicable statute of limitations on the date of the signing of this Agreement may be commenced against FARO, notwithstanding the expiration of the statute of limitations between the signing of this Agreement and the expiration of the term of the Agreement plus one year. Thus, by signing this Agreement, FARO agrees that the statute of limitations with respect to any prosecution that is not time-barred on the date of this Agreement shall be tolled for the term of the Agreement plus one year.

It is understood that, if it is determined that FARO has committed any federal felony offense after signing this Agreement, has given false, incomplete, or misleading testimony or information, or has otherwise violated any provision of this Agreement: (a) all statements and admissions made by FARO to this Office or other designated law enforcement agents, including Appendix A hereto, and any testimony given by FARO before a grand jury or other tribunal, whether prior or subsequent to the signing of this Agreement, and any leads derived from such statements or testimony shall be admissible in evidence in any criminal proceeding brought against FARO; and (b) FARO shall assert no claim under the United States Constitution, any statute, Rule 410 of the Federal Rules of Evidence, or any other federal rule that such statements or any leads therefrom should be suppressed. By signing this Agreement, FARO waives all rights in the foregoing respects.

It is further understood that this Agreement does not bind any federal, state or local prosecuting authority other than this Office. This Office will, however, bring the cooperation of FARO to the attention of other prosecuting and investigative authorities, if requested by FARO.

It is further understood that FARO and this Office may disclose this Agreement to the public.


With respect to this matter, from the date of this Agreement forward, this Agreement supersedes all prior, if any, understandings, promises and/or conditions between this Office and FARO. No additional promises, agreements, and conditions have been entered into other than

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those set forth in this letter and none will be entered into unless in writing and signed by all parties.

Very truly yours,

STEVEN A. TYRRELL  
Chief, Fraud Section

By:   
Mark F. Mendelsohn  
Deputy Chief, Fraud Section

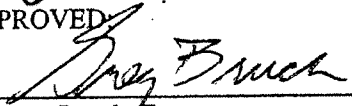
AGREED AND CONSENTED TO:

FARO Advisors, Inc.

By: 

General Counsel  
President & CEO

APPROVED:

  
Gregory Bruch, Esq.  
Willkie Farr & Gallagher LLP  
Attorney for Faro Technologies, Inc.

6/4/08  
Date

6/4/08  
Date

## **APPENDIX A**

### **STATEMENT OF FACTS**

This Statement of Facts is incorporated by reference as part of the Agreement, dated June 3, 2008, between the United States Department of Justice, Criminal Division, Fraud Section (“this Office” or “the Department”) and Faro Technologies, Inc. and its subsidiaries and affiliates (collectively, “FARO”).

#### **I. Background**

1. At all times relevant to the facts described herein, FARO was a Florida corporation whose shares traded publicly on the NASDAQ. As such, FARO was and is an “issuer” as that term is used in the Foreign Corrupt Practices Act (“FCPA”), 15 U.S.C. §§ 78m(b)(2). FARO was headquartered in Lake Mary, Florida, and maintained offices in Europe and Asia, including in China.

2. FARO developed and marketed portable computerized measurement devices and software to perform three-dimensional inspections of parts, assemblies and machines for the manufacturing sector generally, and the automotive, aerospace, and consumer goods industries in particular.

#### **II. Improper Payments In China**

3. In early 2003, FARO’s management decided to transition from selling FARO’s products in China through distributors to selling its products directly. Toward that end, in 2003, FARO established FARO China as a wholly-owned subsidiary based in Shanghai.

4. In order to help establish FARO China, FARO management sought the assistance of FARO’s then regional sales manager for the Asia-Pacific region (“Employee A”), a citizen of the United States. Employee A recommended hiring a particular individual (“Employee B”) to

be the new country manager for FARO China. Employee B was a Chinese citizen who had previously sold FARO products in China on behalf of one of FARO's distributors.

5. In May 2003, FARO, with the assistance of Employee A, hired Employee B to lead the newly-established FARO China office in Shanghai. In that position, Employee B oversaw all sales of FARO products to Chinese customers. Employee B reported to Employee A, who supervised FARO sales in the Asia-Pacific region.

6. During negotiations of Employee B's initial employment contract with FARO in May 2003, Employee B asked Employee A and other FARO officers and managers by email whether he could "do business the Chinese way." Employee A explained to FARO's management that this meant making payments and providing things of value to employees of FARO's private and state-owned customers in China in exchange for obtaining or retaining business.

7. In response to Employee B's inquiry and explanation regarding "do[ing] business the Chinese way," FARO managers sought the advice of the company's outside lawyer in China and were advised that making payments to government officials or employees in order to obtain or retain business violated Chinese law.

8. After receiving this legal advice from FARO's Chinese counsel, FARO management orally told Employees A and B not to make any such payments. FARO then proceeded to hire Employee B to lead the FARO China office.

9. On several occasions in 2004 and 2005, Employee A authorized Employee B and others to make corrupt payments, termed "referral fees" within FARO, to employees of state-owned or controlled entities in China in order to assist in obtaining and retaining business for

FARO.

10. In an April 8, 2004 email, Employee A told Employee B and other FARO China personnel that the paperwork concerning a specific order should be altered so that the term “customer referral fee” appeared only as “referral fee” when describing a payment to an employee of a government customer. In the email, Employee A explained that this deception was necessary because American executives of a particular U.S. telecommunications company were being investigated as a result of paying “bribery to their customers,” and that he did not “want to end up in jail.” In the email, Employee A went on to state, “Actually, I wish we didn’t have to pay this bribery. While in Beijing I saw in the news in CCTV that the Chinese government will start enforcing the laws against bribery too. Be careful!!!”

11. In other emails, Employee B asked for and received permission from Employee A to make corrupt payments to employees of government-owned or controlled businesses in China to assist in obtaining and retaining business. For example, in a November 5, 2004 email to Employee A, Employee B explained that these payments were required in order to maintain good relations with customers in China. In the email, Employee B stated that taking clients to dinner or on travel was not enough to promote a good relationship with the supplier, in this case FARO. Instead, these government employees wanted cash in order to “cooperate with [FARO] and help [FARO] get the order.” Employee B went on to explain that if FARO could not meet the customers’ requirement for payments, FARO would “lose the order.”

12. Employee A responded to Employee B via email that he understood this was how business was conducted in China. Employee A further stated that the 20% - 30% “referral fee” Employee B was requesting was “a lot of money in China” and that such a large amount may

attract attention, which would get them “in trouble” some day. Regardless, Employee A told Employee B that Employee B could make corrupt payments when he “really needed to do it” and to “be careful.”

13. In early 2005, Employee A and Employee B decided to make improper payments to government officials in China via an agent, Company 1. Employees A and B discussed this decision in a February 16, 2005 email, in which Employee A agreed that Employee B could funnel payments to government customer employees through an intermediary in order to “avoid exposure.” Just prior to that email, in January 2005, FARO China entered into a bogus services contract with Company 1. Company 1 had no legitimate business purpose and provided no legitimate services to FARO. Despite this, in 2005, FARO China began receiving and paying invoices from Company 1 that referred to sales of devices and software to end users that were government-owned or controlled customers of FARO.

14. Salespeople for FARO China negotiated the amount of the kickback over the telephone with the intended recipient, who was typically the government employee who made purchasing decisions for the state-owned or controlled entity. The FARO employee then called a representative at Company 1 and provided instructions about payment of the kickback. Company 1 aggregated the kickbacks it paid on behalf of FARO and sent regular invoices to FARO based on its fabricated services contract, which FARO paid.

15. Internal FARO China deal documents, called profit lists, which reflected the price of the contract, the costs of manufacture and other items to determine FARO’s profit for each contract, contained line items for the payment of “referral fees” or kickbacks to employees of state-owned customers. These kickbacks typically amounted to approximately 10%-15% of the

contract price. For example:

a. A 2005 profit list for Purchase Order CH2005-VW34 for a purchase by Shanghai Turbine Generator Co., Ltd., a Chinese government entity, shows a contract value of \$148,700 and an anticipated referral fee of \$14,800, or approximately 10% of the contract value.

b. A 2005 profit list for Purchase Order Ch-2005-VW50(SW) for a purchase by Jiangxi Changhe Auto Co., Ltd. Hefel Plant, a Chinese government entity, shows a contract value of \$53,086 and a referral fee of \$8,000, or approximately 15% of the contract value.

16. In 2004 and 2005, FARO paid referral fees to obtain or retain contracts with state-owned or controlled entities in China with a total value of approximately \$4,944,234 that generated more than \$1.4 million in profit. To obtain or retain the contracts, FARO promised to pay approximately \$533,163 in referral fees to employees of government owned or controlled entities and actually paid approximately \$444,492 in fees.

17. Accordingly, there is competent and credible evidence that, in and around 2004 and 2005, FARO, through the willful conduct of Employee A and Employee B, made use of the mails and other means and instrumentalities of interstate commerce (namely, email and/or telephone transmissions) corruptly in furtherance of offers and promises to pay or provide, and payment or provision of, money or things of value to Chinese government officials (“the Officials”) for the purpose of (a) influencing an act or decision of the Officials in their official capacities, (b) inducing the Officials to do or omit to do an act in violation of the lawful duties of the Officials, (c) securing an improper advantage, and (d) inducing the Officials to use their influence with the government of China or instrumentalities thereof to affect or influence an act or decision of the government of China or instrumentalities thereof, all in order to assist FARO

in obtaining or retaining business.

### **III. Inaccurate Books and Records**

18. As an “issuer” within the meaning of the FCPA, FARO was and is required, among other things, to make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the issuer.

19. When FARO recorded the improper payments to the employees of Chinese government owned or controlled entities described above in its books and records, it inaccurately described the payments as referral fees, rather than bribes.

20. Approximately \$238,000 in corrupt payments to employees of state-owned or controlled entities in China were inaccurately recorded in FARO’s books and records as “referral fees” in 2004 and 2005. As a result, there is competent and credible evidence that, during this period, FARO failed to devise and maintain a system of books, records, and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the issuer.

### **IV. Lack of Internal Controls**

21. As an “issuer” within the meaning of the FCPA, FARO was and is required, among other things, to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions are executed in accordance with the authorization of FARO’s management. With respect to the activities described above, FARO failed to do so.

22. From approximately May 2003, through and including at least February 2006, FARO was engaged in, among other business, the China transactions described above.

Nevertheless, during this period: (a) FARO did not address the FCPA specifically, or the topic of foreign bribery generally, in its code of business conduct; (b) FARO offered no FCPA training of any kind to its employees, including salespeople and managers in China and other countries where there is an increased risk of improper payments; and (c) FARO had no in-house counsel or other in-house personnel charged with monitoring compliance with the FCPA and other applicable anti-corruption laws.

23. In addition, FARO did not, as a matter of company policy, specifically require its personnel in charge of overseas sales to comply with the FCPA and other applicable anti-corruption laws and refrain from paying bribes, nor did it require those employees to certify that they had complied and would comply with the FCPA and other anti-corruption laws, refrain from paying bribes, and follow the company's code of business conduct.

24. Finally, FARO China entered into a contract with an agent, Company 1, without performing due diligence of any kind. FARO did not require Company 1 to agree to comply with the FCPA and other applicable anti-corruption laws. Payments were made by FARO to Company 1 without any oversight to ensure that those payments were not being used to pay bribes to Chinese government officials or employees in exchange for awarding business to FARO.

25. As a result, there is competent and credible evidence that, during this period, FARO failed to devise and maintain a system of internal controls with respect to foreign sales activities sufficient to assure compliance with the FCPA and, to that extent, to provide reasonable assurances that FARO's transactions, including the China transactions, were executed in accordance with the authorization of FARO's management. In addition, there is competent

and credible evidence that FARO had no effective FCPA compliance program and practiced no due diligence regarding the retention of its agents.

## APPENDIX B

In order to address deficiencies in its internal controls, policies and procedures regarding compliance with the Foreign Corrupt Practices Act (“FCPA”), 15 U.S.C. §§ 78dd-1, *et seq.*, and other applicable anti-corruption laws, Faro Technologies, Inc. and its subsidiaries and affiliates (collectively, “FARO”) agree to conduct, in a manner consistent with this Agreement, a review of their existing internal controls, policies and procedures.

Where necessary and appropriate, FARO further agrees to adopt new or to modify existing internal controls, policies and procedures in order to ensure that it maintains: (a) a system of internal accounting controls designed to ensure that FARO makes and keeps fair and accurate books, records and accounts; and (b) a rigorous anti-corruption compliance code, standards, and procedures designed to detect and deter violations of the FCPA and other applicable anti-corruption laws. At a minimum, this should include, but ought not be limited to, the following elements:

1. A clearly articulated corporate policy against violations of the FCPA and other applicable anti-corruption laws;
2. A system of financial and accounting procedures, including a system of internal accounting controls, designed to ensure the maintenance of fair and accurate books, records and accounts;
3. Promulgation of a compliance code, standards and procedures designed to reduce the prospect of violations of the FCPA, other applicable anti-corruption laws, and FARO’s compliance code. These standards and procedures should apply to all directors, officers, and employees and, where necessary and appropriate, outside parties acting on behalf of FARO in a

foreign jurisdiction, including agents, consultants, representatives, distributors, teaming partners, and joint venture partners (collectively referred to as “agents and business partners”);

4. The assignment of responsibility to one or more senior corporate officials of FARO for the implementation and oversight of compliance with policies, standards and procedures regarding the FCPA and other applicable anti-corruption laws. Such corporate official(s) shall have the authority to report matters directly to FARO’s Audit Committee of the Board of Directors;

5. Mechanisms designed to ensure that FARO’s policies, standards and procedures regarding the FCPA and other applicable anti-corruption laws are effectively communicated to all directors, officers, employees and, where necessary and appropriate, agents and business partners. This should include: (a) periodic training for all directors, officers, employees, agents and business partners; and (b) annual certifications by all directors, officers, employees, agents and business partners, certifying compliance therewith;

6. An effective system for reporting suspected criminal conduct and/or violations of the compliance policies, standards, and procedures regarding the FCPA and other applicable anti-corruption laws for directors, officers, employees, agents and business partners;

7. Appropriate disciplinary procedures to address, among other things, violations of the FCPA, other applicable anti-corruption laws, and FARO’s compliance code, standards and procedures by FARO directors, officers and employees;

8. Appropriate due diligence requirements pertaining to the retention and oversight of agents and business partners; and

9. Standard provisions in agreements, contracts, and renewals thereof with all agents and business partners that are designed to prevent violations of the FCPA and other applicable anti-corruption laws, which may, depending upon the circumstances, include: (a) anti-corruption representations and undertakings relating to compliance with the FCPA and other applicable anti-corruption laws; (b) rights to conduct audits of the books and records of the agent or business partner to ensure compliance with the foregoing; and (c) rights to terminate an agent or business partner as a result of any breach of anti-corruption laws and regulations or representations or representations and undertakings related to such matters.

## APPENDIX C

1. Within sixty (60) calendar days of the execution of this Agreement, Faro Technologies, Inc. and its subsidiaries and affiliates (collectively, "FARO") agrees to engage an independent corporate monitor (the "Monitor") for a period of two (2) years to monitor the Company's compliance program with respect to the Foreign Corrupt Practices Act ("FCPA"), 15 U.S.C. §§ 78dd-1, *et seq.*, and other relevant anti-corruption laws. Within thirty (30) calendar days after the signing of this Agreement, and after consultation with the Department, FARO will propose to the Department a candidate to serve as the Monitor. The Monitor shall have, at a minimum, the following qualities:

(a) demonstrated expertise with respect to the FCPA, including experience counseling on FCPA issues;

(b) experience designing and/or reviewing corporate compliance policies, procedures and internal controls, including FCPA-specific policies, procedures and internal controls;

(c) the ability to access and deploy resources as necessary to discharge the Monitor's duties as described in the Agreement; and

(d) sufficient independence from FARO to ensure effective and impartial performance of the Monitor's duties as described in the Agreement.

2. The Department retains the right, in its sole discretion, to accept or reject any Monitor proposed by FARO pursuant to the Agreement. In the event the Department rejects a proposed monitor, FARO shall propose another candidate within ten (10) calendar days after receiving notice of the rejection. This process shall continue until a Monitor acceptable to all

parties is chosen. The Monitor's term shall be two (2) years from the date on which this Agreement was signed, subject to extension as described in the Agreement. The Monitor's duties and authority, and the obligations of FARO with respect to the Monitor and the Department, are set forth below.

3. The Monitor will review and evaluate the effectiveness of FARO's internal controls, record-keeping, and financial reporting policies and procedures as they relate to FARO's compliance with the books and records, internal accounting controls, and anti-bribery provisions of the FCPA, and other applicable anti-corruption laws. This review and evaluation shall include an assessment of those policies and procedures as actually implemented. The retention agreement between FARO and the Monitor will reference this Agreement and include this Agreement as an attachment so the Monitor is fully apprised of his or her duties and responsibilities.

4. FARO shall cooperate fully with the Monitor and the Monitor shall have the authority to take such reasonable steps, in his or her view, as may be necessary to be fully informed about the operations of FARO within the scope of his or her responsibilities under this Agreement. To that end, FARO shall provide the Monitor with access to all information, documents, records, facilities and/or employees that fall within the scope of responsibilities of the Monitor under this Agreement. Any such disclosure to the Monitor retained by FARO concerning corrupt payments, related books and records and internal controls, shall not relieve FARO of its obligation to truthfully disclose such matters to the Department.

(a) The parties agree that no attorney-client relationship shall be formed between FARO and the Monitor.

(b) In the event that FARO seeks to withhold from the Monitor access to information, documents, records, facilities and/or employees of FARO which may be subject to a claim of attorney-client privilege or to the attorney work-product doctrine, FARO shall promptly provide written notice of this determination to the Monitor and the Department. Such notice shall include a general description of the nature of the information, documents, records, facilities and/or employees that are being withheld, as well as the basis for the claim. The Department may then consider whether to make a further request for access to such information, documents, records, facilities and/or employees.

(c) Except as provided herein, FARO shall not withhold from the Monitor any information, documents, records, facilities and/or employees on the basis of an attorney client privilege or work product claim.

5. FARO agrees that:

(a) The Monitor shall assess whether FARO's policies and procedures are reasonably designed to detect and prevent violations of the FCPA and other applicable anticorruption laws.

(b) The Monitor shall supervise FARO's compliance with this Agreement.

(c) The Monitor shall oversee FARO's implementation of and adherence to policies and procedures relating to FCPA compliance (the "Policies and Procedures"), including the minimum policies and procedures set forth in Appendix B.

(d) The Monitor shall ensure that the Policies and Procedures are appropriately designed to accomplish their goals.

(e) During the two (2) year term, the Monitor shall conduct an initial review and prepare an initial report, followed by two follow-up reviews and reports as described below:

(i) With respect to each of the three (3) reviews (one initial review and two follow-up reviews), after initial consultations with FARO and the Department, the Monitor shall prepare a written work plan for each of the reviews, which shall be submitted in advance to FARO and the Department for comment. In order to conduct an effective initial review and to fully understand any existing deficiencies in controls, policies and procedures related to the FCPA and other applicable anti-corruption laws, the Monitor's initial work plan shall include such steps as are necessary to develop an understanding of the facts and circumstances surrounding any violation that may have occurred. Any disputes between FARO and the Monitor with respect to the work plan shall be decided by the Department in its sole discretion.

(ii) In connection with the initial review, the Monitor shall issue a written report within one hundred twenty (120) calendar days of his or her retention setting forth the Monitor's assessment and making recommendations reasonably designed to improve the policies and procedures of FARO for ensuring compliance with the FCPA and other applicable anti-corruption laws. The Monitor shall provide the report to the Board of Directors of FARO and contemporaneously transmit copies to Mark F. Mendelsohn, (or his successor), Deputy Chief, Fraud Section, Criminal Division, U.S. Department of Justice, 10<sup>th</sup> and Constitution Ave., N.W., Bond Building, Fourth Floor, Washington, D.C. 20530. The Monitor may extend the time period for issuance of the report with prior written approval of the Department.

(iii) Within sixty (60) calendar days after receiving the Monitor's report, FARO shall adopt the recommendations set forth in the report; provided, however, that within thirty (30) calendar days after receiving the report, FARO shall advise the Monitor and the Department in writing of any recommendations that FARO considers unduly burdensome, impractical, costly or otherwise inadvisable. With respect to any recommendation that FARO considers unduly burdensome, impractical, costly or otherwise inadvisable, FARO need not adopt that recommendation; instead, FARO may propose in writing an alternative policy, procedure or system designed to achieve the same objective or purpose. As to any recommendation on which FARO and the Monitor ultimately do not agree, the views of FARO and the Monitor shall promptly be brought to the attention of the Department. The Department may consider the Monitor's recommendation and the Company's reasons for not adopting the recommendation in determining whether FARO has fully complied with its obligations under this Agreement.

(iv) The Monitor shall undertake two follow-up reviews to further monitor and assess whether the policies and procedures of FARO are reasonably designed to detect and prevent violations of the FCPA, U.S. commercial bribery laws, and foreign bribery laws.

(v) Within sixty (60) calendar days of initiating each follow-up review, the Monitor shall: (A) complete the review; (B) certify whether the anti-bribery compliance program of FARO, including its policies and procedures, is appropriately designed and implemented to ensure compliance with the FCPA and other applicable anti-corruption laws; and (C) report on the Monitor's findings in the same fashion as with respect to the initial review.

(vi) The first follow-up review and report shall be completed by one year after the initial review. The second follow-up review and report shall be completed by six months after the first follow-up review.

(vii) The Monitor may extend the time period for submission of the follow-up reports with prior written approval of the Department.

6. FARO agrees that the Monitor may disclose its reports to the Securities and Exchange Commission (“SEC”) and, as directed by the Department, to any other federal, state or foreign law enforcement or regulatory agency in furtherance of an investigation of any matters related to the subject matters set forth in Appendix A and any matters relating to any other transaction that has been or is discovered by, or brought to the attention of, the Department or the SEC in connection with the Department’s investigation of those matters. FARO further agrees that the two (2) year term for the Monitor may be extended by up to an additional six (6) month term during the pendency of this Agreement if the Department determines, in its sole discretion, that FARO has not successfully satisfied its obligations under this Agreement.

7. In undertaking the assessments and reviews described in this Appendix, the Monitor shall formulate conclusions based on, among other things: (a) inspection of documents, including all the policies and procedures relating to the anti-bribery compliance program of FARO and all its affiliates and subsidiaries; (b) onsite observation of the systems and procedures of FARO, including its internal controls and its record keeping and internal audit procedures; (c) meetings with and interviews of employees, officers, and directors of FARO and all its affiliates and subsidiaries, and any other relevant persons; and (d) analyses, studies and testing of the anti-corruption compliance program of FARO and all its affiliates and subsidiaries.

8. The charge of the Monitor, as described above, is to review the internal controls, policies and procedures of FARO and all its affiliates and subsidiaries related to compliance with the FCPA and other applicable anti-corruption laws. Should the Monitor during the course of his or her engagement discover that questionable or corrupt payments or questionable or corrupt transfers of property or interests may have been offered, promised, paid, or authorized by any FARO entity or person, or any entity or person working directly or indirectly for FARO, or that related false books and records have been created or maintained, the Monitor shall promptly report such information to FARO for further investigation, unless the Monitor believes, in the exercise of his or her discretion, that such disclosure should be made directly to the Department. If the Monitor refers the matter only to FARO, FARO shall promptly report the same to the Department. If FARO fails to make such disclosure within ten (10) calendar days of the report of such payments to FARO, the Monitor shall independently disclose his or her findings to the Department at the address listed above in Paragraph 3(e)(ii). Further, in the event that FARO, or any entity or person working directly or indirectly for FARO, refuses to provide information necessary for the performance of the Monitor's responsibilities, the Monitor shall promptly disclose that fact to the Department. FARO shall not take any direct or indirect action to retaliate against the Monitor for any such disclosures or for any other reason. The Monitor may report other criminal or regulatory violations discovered in the course of performing its duties, in the same manner as described above.